



## SUMMARY KEY FIGURES

		1.1.–31.12. 2016	1.1.–31.12. 2015	Change absolute
<b>Key operating figures<sup>1</sup></b>				
Total vessels (as at 31 December)		166	177	-11
Aggregate capacity of vessels	TTEU	963	966	-3
Aggregate capacity of containers	TTEU	1,576	1,564	12
Freight rate (average for the year)	USD/TEU	1,036	1,225	-189
Transport volume	TTEU	7,599	7,401	198
Revenue	million EUR	7,734	8,842	-1,108
EBITDA	million EUR	607.4	831.0	-223.6
EBIT	million EUR	126.4	366.4	-240.0
Group profit/loss	million EUR	-93.1	113.9	-207.0
Earnings per share	EUR	-0.82	1.04	-1.86
Cash flow from operating activities	million EUR	417	572	-155
<b>Key return figures<sup>1</sup></b>				
EBITDA margin (EBITDA/revenue)	%	7.9	9.4	-1.5 ppt
EBIT margin (EBIT/revenue)	%	1.6	4.1	-2.5 ppt
ROIC (return on invested capital) <sup>2</sup>	%	1.3	4.1	-2.8 ppt
<b>Key balance sheet figures as at 31 December<sup>1</sup></b>				
Balance sheet total	million EUR	11,331	11,079	252
Equity	million EUR	5,058	5,046	12
Equity ratio (equity/balance sheet total)	%	44.6	45.5	-0.9 ppt
Borrowed capital	million EUR	6,273	6,033	240
<b>Key financial figures as at 31 December<sup>1</sup></b>				
Financial debt	million EUR	4,181	3,907	274
Cash and cash equivalents	million EUR	570	574	-4

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

<sup>2</sup> The return on invested capital (ROIC) is calculated as the ratio of net operating profit after taxes (NOPAT) to invested capital (assets excluding cash and cash equivalents less liabilities excluding financial debt). This key operating figure is calculated in US dollars.

**Disclaimer:** This annual report contains statements concerning future developments at Hapag-Lloyd. Due to market fluctuations, the development of the competitive situation, world market prices for commodities, and changes in exchange rates and the economic environment, the actual results may differ considerably from these forecasts. Hapag-Lloyd neither intends nor undertakes to update forward-looking statements to adjust them for events or developments which occur after the date of this report. Data for United Arab Shipping Company (UASC) is included under the condition of a successful closing of the merger with Hapag-Lloyd in 2017.

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

**This annual report was published on 24 March 2017.**

# WE MOVE THE WORLD

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

**Main developments:**

- The merger of Hapag-Lloyd and UASC is expected to take place in the first few months of 2017
- 3% increase in transport volume in 2016 in spite of continuing muted global economic growth
- Intense competition and overcapacities cause a decline in the average freight rate of around 15% compared to previous year; slight recovery in average freight rate in second half of 2016
- Lower bunker consumption and bunker prices as well as the realisation of cost savings and synergy programmes improve cost positions
- Clearly positive EBITDA in 2016, at EUR 607.4 million
- Positive EBIT of EUR 126.4 million in 2016
- Liquidity reserve totals EUR 759.6 million.

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## LADIES AND GENTLEMEN,

In the last financial year, consolidation within the container shipping industry reached a temporary climax. The two Chinese shipping companies COSCO and CSCL merged at the start of the year. In July 2016, the French shipping company CMA CGM took over NOL, a container liner shipping company in Singapore. In addition, the three Japanese shipping companies “K” Line, MOL and NYK announced their intention to merge in 2018. And finally, in December 2016, the global market leader, Maersk, announced the takeover of Hamburg Süd.

Hapag-Lloyd had already recognised this trend at an early stage and acted accordingly. Following the successful takeover of CP Ships in 2005, it was not until the end of 2014 that we acquired the container liner business of the Chilean shipping company CSAV. This transaction has since proven to be the right strategic decision. As a result, Hapag-Lloyd has not just become a frontrunner among the largest liner shipping companies in the world, but it has also become one of the market leaders in the attractive North–South trades – in addition to its already strong position in the North Atlantic.

In July 2016, we signed another business combination agreement, this time with United Arab Shipping Company S.A.G. (UASC). After completion of the transaction, Hapag-Lloyd will be the world’s fifth-largest container liner shipping company with a transport capacity of around 1.5 million TEU. The merger between Hapag-Lloyd and UASC will significantly improve the Company’s market presence in the attractive Middle East trade and further strengthen Hapag-Lloyd’s already good position in almost all trades. The addition of UASC’s ships to the existing fleet of Hapag-Lloyd AG means that the joint company will have an efficient and young fleet with a low level of investment needed. It will already be possible to achieve significant cost savings in the current financial year. Overall, an annual synergy potential of at least USD 435 million is expected from 2019 onwards.

Hapag-Lloyd will also emerge from this merger with a stronger shareholder structure. CSAV, HGV (City of Hamburg) and Kühne Maritime will continue to be Hapag-Lloyd’s anchor shareholders. The existing majority shareholders of UASC – Qatar Holding LLC (QH) and the Public Investment Fund of the Kingdom of Saudi Arabia (PIF) – will become new core shareholders of Hapag-Lloyd, with stakes of 14% (QH) and 10% (PIF). As a result, Hapag-Lloyd will have strategically focused core shareholders as well as strong and experienced capital market investors.

Overall, the 2016 financial year was characterised by a challenging industry environment, intense competition, persisting overcapacities and subdued global economic growth of just 3.1%. The continuing intense competition and significant fall in bunker prices led to a further sharp decrease in freight rates, which could only be partly offset by synergy effects, lower bunker



Rolf Habben Jansen  
(Chairman of the  
Executive Board)

expenses and additional cost savings. Despite the difficult market and competitive situation, Hapag-Lloyd was able to perform relatively well by comparison with its competitors and generate a positive operating result. Compared with the other globally operating container shipping companies, we are clearly among the frontrunners in our industry.

Our focus is on the future: based on our strategic planning for the coming years, we will increase our profitability further by utilising all of the available synergies – such as from the merger with UASC – make additional consistent and sustainable improvements to our cost structures, expand our transported volume further and continuously optimise the quality of our revenue. We also expect to generate considerable potential from our THE Alliance, which was established in May 2016 and will begin operating on 1 April 2017. In addition to Hapag-Lloyd, the members of this alliance are the Japanese shipping companies “K” Line, MOL and NYK, and the Taiwanese shipping company Yang Ming.

The signs of a recovery are good. For the current 2017 financial year, the International Monetary Fund (IMF) expects global growth to increase by 3.4%. The IMF predicts that the volume of global trade – a key factor in the demand for container transport services – will grow by 3.8%. Based on these forecasts, global container shipping volumes could again increase roughly in line with the forecast rate of growth for global trade in 2017. There is no doubt that these positive trends will also benefit Hapag-Lloyd. As a result, we are aiming for earnings in the 2017 financial year that are substantially higher than our earnings in the 2016 financial year.

I would like to sincerely thank all of our partners. First and foremost, I wish to thank our three anchor shareholders, CSAV, HGV and Kühne Maritime, for their outstanding and passionate commitment to our Company. Their trust in what we do – along with the trust placed in us by our other 3,000 shareholders – is both an obligation and a motivation for us.

My sincere gratitude also goes to our 20,000 customers worldwide, who entrust their valuable cargo to us day in and day out. I would especially like to thank our employees on all five continents. The volatility within the industry and our diverse range of projects made 2016 a very challenging year. Without our motivated and highly dedicated employees, we would never have been able to overcome these manifold challenges as successfully as we did.

2017 will present us with new challenges: the merger with UASC and the launch of THE Alliance will significantly alter our Company. The foundations for our continued success have been laid. On behalf of all of Hapag-Lloyd's employees, I thank you for your support and your trust in the performance of Hapag-Lloyd. I assure you that we will all continue to work hard to ensure that this trust you have placed in us is justified.

Kind regards,



Rolf Habben Jansen  
(Chairman of the Executive Board)

Hamburg, 8 March 2017



# THE EXECUTIVE BOARD OF HAPAG-LLOYD AG



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

## REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In the 2016 financial year, the Supervisory Board properly and conscientiously performed all of the tasks for which it is responsible in accordance with the applicable laws, articles of association and rules of procedure. The Supervisory Board monitored the Executive Board as it managed the Company and diligently advised it on a regular basis. Its main priority at all times was to protect the interests of Hapag-Lloyd AG, the primary operating unit responsible for the Group's performance.

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

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

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

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



Michael Behrendt  
(Chairman of the  
Supervisory Board)

In the 2016 financial year, decisions were made by the Supervisory Board, and under certain circumstances also by individual committees, on transactions requiring approval after they were examined in detail and discussed with the Executive Board. The catalogue of transactions for which the Executive Board requires the consent of the Supervisory Board is based on article 7 of the articles of association of Hapag-Lloyd AG and the rules of procedure for the Executive Board and the Supervisory Board.

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

The Supervisory Board met eight times in the reporting period. These meetings were held on 23 March 2016, 15 April 2016, 24 May 2016, 16 June 2016, 26 August 2016 (two meetings), 29 September 2016 and 16 November 2016. All members of the Supervisory Board attended more than half of the meetings as well as the meetings of the committees which they were part of. The average attendance rate was as follows:

- Meetings of the Supervisory Board: 88%
- Meetings of the Presidential and Personnel Committee: 88%
- Meetings of the Audit and Financial Committee: 91%

The Nomination Committee did not meet in the reporting period. However, it proposed the appointment of the shareholder representatives on the Supervisory Board, to be elected at the 2016 Annual General Meeting, by means of a circular resolution on 12 April 2016.

The Mediation Committee did not meet in the reporting period.

### Attendance of the Supervisory Board members in the 2016 financial year

Meeting	Meetings by the Supervisory Board								Meetings by the Presidential and Personnel Committee				Meetings by the Audit and Finance Committee				
	23.03.2016	15.04.2016	24.05.2016	16.06.2016	26.08.2016 I	26.08.2016 II	29.09.2016	16.11.2016	23.03.2016	16.06.2016	29.09.2016	16.11.2016	22.03.2016	12.05.2016	17.07.2016	09.08.2016	14.11.2016
Name																	
Bahn	✓	✓	○	○	✓												
Baier	✓	✓	○	✓	✓								✓	○	✓	✓	
Behle						✓	✓	✓			✓	✓					
Behrendt	✓	✓	✓	✓	✓	✓	○	✓	✓	✓	○	✓					
Biesold	✓	✓	✓	✓	✓				✓	✓							
Bringe	○	✓	✓	✓	✓				○	✓			✓	✓	✓	✓	
Commerell	✓	✓	✓	✓	✓												
Diekamp	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Gehrt						✓	✓	✓									
Gernandt	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	○	✓	✓	✓
Hasbún	✓	✓	○	✓	✓	✓	✓	✓					✓	✓	✓	✓	○
Klemmt-Nissen	○	✓	✓	✓	○	✓	✓	✓	✓	✓	✓	✓					✓
Lipinski	✓	✓	✓	✓	✓	✓	✓	○	✓	✓	✓	○	✓	✓	✓	✓	○
Nieswand						✓	✓	✓			✓	✓					
Pérez	✓	✓	○	✓	✓	✓	○	✓	✓	✓	○	✓					
Schroeter						✓	✓	✓									✓
Zimmermann						✓	○	✓									✓

✓ Meeting attendance

○ Did not attend the meeting

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

### Supervisory Board meeting on 23 March 2016

In its meeting on 23 March 2016, the Supervisory Board focused primarily on the annual financial statements. Following its own review, it approved the annual financial statements and management report as well as the consolidated financial statements and Group management report. The Supervisory Board also noted and approved the Executive Board's report on the 2015 financial year and discussed the current business. Furthermore, the meeting dealt with the report by the Chief Commercial Officer, Mr Thorsten Haeser, who took charge of the Company's global sales activities on 1 October 2015, and approval for a change to the articles of association of the Präsident Achelis-Elisabeth Wiegand foundation, a charitable support organisation for which Hapag-Lloyd AG is responsible.

**Supervisory Board meetings on 15 April 2016 and 24 May 2016**

In the meetings on 15 April 2016 and 24 May 2016, the Supervisory Board concentrated on preparations for the Annual General Meeting. In its meeting on 15 April 2016, the Supervisory Board decided to follow the recommendation of the Audit and Financial Committee regarding its proposal for the selection of the external auditors of the annual and consolidated financial statements. The Supervisory Board also approved the Executive Board remuneration system, followed the recommendation of the Nomination Committee regarding its election proposal for the shareholder representatives on the Supervisory Board and decided to propose a change to the articles of association concerning the Supervisory Board's remuneration. In its meeting on 24 May 2016, the Supervisory Board approved the postponement of the Annual General Meeting, originally scheduled for 1 June 2016. This was due to the ongoing discussions at the time between Hapag-Lloyd AG and UASC about a possible merger of their container shipping activities. If the discussions proved successful, this would have involved making potential changes to the agenda, which would not have been possible due to statutory regulations and deadlines.

**Supervisory Board meeting on 16 June 2016**

In the meeting on 16 June 2016, the focus was on the planned signing of a business combination agreement (BCA) with UASC for the merger of the two companies. The Supervisory Board received detailed information from external experts on this matter.

The Supervisory Board approved the signing of the BCA with UASC on 28 June 2016 by passing a circular resolution.

The Supervisory Board also passed a circular resolution on 30 June 2016 to amend the rules of procedure for the Executive Board regarding transactions that require approval. On 19 July 2016, it approved the agenda for the Company's Annual General Meeting now scheduled for 26 August 2016 as well as its resolution proposals for the agenda items.

**Supervisory Board meetings on 26 August 2016**

Before the Annual General Meeting took place, the Supervisory Board obtained information about the current business. The meeting also focused on the forecast for the second half of the year as well as the upcoming measures for ship financing and the extension of a credit facility. Finally, the Supervisory Board prepared for the Company's Annual General Meeting, which took place after the meeting. The Chairman of the Supervisory Board also thanked the Supervisory Board members retiring from their positions on that day for their great commitment and support.

In its constituent meeting after the Annual General Meeting, the Supervisory Board elected its Deputy Chairman and the members of the committees, some of which involved new appointments.

#### **Supervisory Board meeting on 29 September 2016**

In its meeting on 29 September 2016, the Supervisory Board took stock of the Executive Board's report on the current business and discussed the report with the Executive Board. The remainder of the meeting centred on financing strategies and the current status of the integration preparations for the planned merger with UASC.

#### **Supervisory Board meeting on 16 November 2016**

The focus of this meeting was on discussing the current business position and current status of the integration preparations as well as the 2017 annual budget, including Hapag-Lloyd AG's business plan (stand-alone). The Executive Board gave a precise account of the corresponding planning and went into detail on the underlying assumptions. On the recommendation of the Audit and Financial Committee, the Supervisory Board approved the Executive Board's planning, provided that an updated annual budget for 2017 will be presented in a timely manner to replace Hapag-Lloyd AG's 2017 annual budget (stand-alone) as soon as the closing of the merger with UASC is completed. The Supervisory Board also approved the issuing of a high-yield corporate bond following the recommendation of the Audit and Financial Committee.

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

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

**Presidential and Personnel Committee:** Michael Behrendt (Chairman), Christine Behle (from 26 August 2016), Karl-Heinz Biesold (until 26 August 2016), Oliver Bringe (until 26 August 2016), Jutta Diekamp, Karl Gernandt, Dr Rainer Klemmt-Nissen, Arnold Lipinski, Sabine Nieswand (from 26 August 2016), Francisco Pérez Mackenna.

**Audit and Financial Committee:** Karl Gernandt (Chairman), Horst Baier (until 26 August 2016), Oliver Bringe (until 26 August 2016), Jutta Diekamp (until 26 August 2016), Oscar Hasbún Martínez, Dr Rainer Klemmt-Nissen (from 26 August 2016), Arnold Lipinski, Klaus Schroeter (from 26 August 2016), Uwe Zimmermann (from 26 August 2016).

**Mediation Committee:** Michael Behrendt (Chairman), Christine Behle (from 26 August 2016), Karl-Heinz Biesold (until 26 August 2016), Jutta Diekamp, Francisco Pérez Mackenna.

**Nomination Committee as per Section 27 (3) of the German Co-Determination Act (MitbestG):** Michael Behrendt (Chairman), Karl Gernandt, Dr Rainer Klemmt-Nissen, Francisco Pérez Mackenna.

The responsibilities assigned to these committees are described in detail in the joint Corporate Governance Report of the Executive Board and the Supervisory Board (Corporate Governance Report) on page 22.

The **Presidential and Personnel Committee** met four times in 2016, on 23 March 2016, 16 June 2016, 29 September 2016 and 16 November 2016. In each case, it prepared the meeting of the Supervisory Board that took place on the same day.

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

In the first meeting of the year on 22 March 2016, the discussions centred on issues relating to the annual financial statements, including the external auditors' report on the annual and consolidated financial statements for the 2015 financial year (see also "Annual and consolidated financial statements 2016"). The dependency report and the proposal for the selection of the external auditors were discussed, and a corresponding proposal to the Supervisory Board was passed (see also "Review of the report by the Executive Board on relationships with affiliated companies").

The second meeting on 12 May 2016 was dominated by a discussion on the Group interim financial report for the first quarter and the forecast for the second quarter, the internal control and risk management system (ICS) and the Group's risk situation, and the report by the Compliance Officer.

The focus of the meeting on 17 July 2016 was on the preliminary insights into the forecast for the second half of the year.

In the fourth meeting on 9 August 2016, the discussion centred on the Group interim financial report for the first half of the year and the forecast for the second half. The Audit and Financial Committee decided to recommend that the Supervisory Board should approve the upcoming measures for ship financing and the extension of a credit facility. The Audit and Financial Committee also discussed the strategy for concluding hedging transactions and the report by the Corporate Audit department. It then discussed the report on the new regulatory requirements for audits and for the Audit and Financial Committee.

In the fifth meeting on 14 November 2016, the focus was on the presented 2017 annual budget, including Hapag-Lloyd AG's business plan (stand-alone). The committee discussed the targets and measures with the Executive Board in detail. It decided to recommend that the Supervisory Board approve the Executive Board's planning, provided that an updated annual budget for 2017 be presented in a timely manner to replace Hapag-Lloyd AG's 2017 annual budget (stand-alone) conditional to the completion of the merger with UASC. The interim Group report for the third quarter was also discussed, as were the audit focal points in the external audit. In addition, the Audit and Financial Committee had an in-depth discussion on the issuing of a corporate high-yield bond and decided to recommend that the Supervisory Board approve this measure.

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

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

Four employee representatives (Christine Behle, Sabine Nieswand, Klaus Schroeter and Uwe Zimmermann) were newly elected to the Supervisory Board in accordance with the provisions of the German Co-Determination Act (MitbestG) and began their term in office at the end of the Annual General Meeting on 26 August 2016. At the same time, Andreas Bahn, Karl-Heinz Biesold, Oliver Bringe and Renate Commerell stepped down from their positions. Horst Baier did not seek re-election as the shareholder representative, and the Annual General Meeting elected Nicola Gehrt to replace him on the Supervisory Board. In addition, Karl Gernandt and Dr Rainer Klemmt-Nissen were re-elected for another term in office as members of the Supervisory Board. Each of the election proposals were based on the corresponding recommendation of the Nomination Committee.

There were no personnel changes on the Executive Board in the 2016 financial year.

**Corporate governance**

The Supervisory Board is committed to the principles of good corporate governance and maintained a continuous focus on these principles in the 2016 financial year. One key element of this is recognition of the provisions of the German Corporate Governance Code (GCGC) as amended on 5 May 2015. This does not preclude a deviation from the recommendations of the code in certain justified cases. As a listed company, Hapag-Lloyd AG is required to issue a statement in accordance with Section 161 of the German Stock Corporation Act (AktG) indicating the extent to which it has complied and is complying with the recommendations of the GCGC or which recommendations it has not followed or is not following, and to provide reasons for deviating from recommendations (statement of compliance). In December 2016, the Executive Board and Supervisory Board issued a statement of compliance, which is available on the Company's website. Further details on corporate governance can be found in the joint Corporate Governance Report of the Executive Board and the Supervisory Board (Corporate Governance Report) on page 22.

The Supervisory Board members of Hapag-Lloyd AG are required to disclose any conflicts of interest to the Supervisory Board, in particular those which may occur as a result of providing advisory or consulting services to customers, suppliers, lenders or other third parties or holding positions on their corporate bodies. In line with the GCGC's recommendation, the Supervisory Board will outline any conflicts of interests that occurred and how they were dealt with in its report to the Annual General Meeting. There were no indications of actual or potential conflicts of interest in the 2016 financial year.

**Audit of the 2016 annual and consolidated financial statements**

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

KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg, audited the annual financial statements as at 31 December 2016 and the management report prepared by the Executive Board in accordance with the provisions of the German Commercial Code (HGB) as well as the consolidated financial statements and the Group management report prepared in accordance with Section 315a HGB on the basis of the International Financial Reporting Standards (IFRS), as applicable in the European Union, and issued each of them with an unqualified auditor's opinion.



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

The audit assignment for the annual financial statements of the Company and the Group was awarded by the Chairman of the Supervisory Board's Audit and Financial Committee in accordance with the resolution of the Annual General Meeting on 26 August 2016.

The documents relating to the annual and consolidated financial statements and the appropriation of profits were examined and discussed at length at the meeting of the Audit and Financial Committee on 23 March 2017 in preparation for the audit and the handling of these documents by the Supervisory Board in the presence of the external auditors, who gave an account of the results of their audit, and the Executive Board; this included questions to the external auditors regarding the manner and scope of the audit as well as the audit result. As a result, the Audit and Financial Committee was convinced of the correctness of the audit and the audit report. In particular, it was also satisfied that the audit report – as well as the audit performed by the external auditors themselves – complied with all legal requirements. Within this context, the external auditors also confirmed to the Audit and Financial Committee that no circumstances existed which might raise concerns about their impartiality. Furthermore, the Audit and Financial Committee obtained a report from the external auditors on their cooperation with the Corporate Audit department and other areas involved in risk management as well as on the effectiveness of the internal control and risk management system (ICS) as it relates to accounting. The external auditors stated that the Executive Board had taken the measures required under Section 91 (2) of the German Stock Corporation Act (AktG) regarding the establishment of a risk early-warning system in a suitable form and that the risk early-warning system was suitable for identifying at an early stage any developments that would endanger the existence of the Company. The external auditors did not identify any significant weaknesses. The Audit and Financial Committee agrees with this assessment. The Audit and Financial Committee made a recommendation to the Supervisory Board to acknowledge and agree to the result of the audit performed by the external auditors, and since, based on its own examination, it had no objections to the documents submitted by the Executive Board consisting of financial statements of the parent company and consolidated financial statements as well as management report of the parent company and management report of the Group, to approve the annual financial statements and the management report as well as the consolidated financial statements and the Group management report.

The aforementioned financial statement documents, the Executive Board's proposal on the appropriation of profits and the audit reports of the external auditors were provided to all members of the Supervisory Board in time to prepare for the Supervisory Board's meeting on 24 March 2017.

In its meeting on 24 March 2017, the Supervisory Board discussed the results of the audit performed by the external auditors and the recommendation of the Audit and Financial Committee and conducted its own in-depth review of them after the Executive Board had explained the documents submitted. This meeting was also attended by the external auditors, who reported on the main results of their audit and answered questions from the Supervisory Board about the manner and scope of the audit and the audit results. The discussion focused in particular on the risk early-warning system. The Supervisory Board agrees with the Audit and Financial Committee on the effectiveness of this system. It also obtained a report from the Audit and Financial Committee on its monitoring of the external auditors' independence, taking into account the non-audit services provided, and its assessment that the external auditors continue to have the necessary independence. As part of its implementation of the German Audit Reform Act (AReG), and in particular the resulting increase in monitoring duties with regard to the independence of the external auditors, the Supervisory Board adopted a corresponding guideline for the approval of non-audit services provided by the external auditors. This came into force on 1 January 2017.

The Supervisory Board was satisfied that the external auditors had correctly performed the audit and that both the audit and the audit reports complied with the legal requirements. Following its own thorough review of the annual financial statements and management report as well as the consolidated financial statements and Group management report (including the declaration on corporate governance), the Supervisory Board declares that it has no objections to the annual financial statements and consolidated financial statements or the management report and Group management report. Following the recommendation of the Audit and Financial Committee, the Supervisory Board acknowledged and agreed with the external auditors' findings. The Supervisory Board therefore approved the annual financial statements and the consolidated financial statements in its meeting on 24 March 2017. The annual financial statements of Hapag-Lloyd AG have thereby been adopted. The Supervisory Board agrees with Executive Board's assessment of the state of the Company and the Group as expressed in the management report and the Group management report. The Supervisory Board discussed the Executive Board's proposal on the appropriation of profits, in particular from the perspective of the dividend policy, the effects on liquidity and the shareholders' interests; this also included an explanation from the Executive Board and a discussion with the external auditors. The Supervisory Board concurred with the Executive Board's proposal on the appropriation of profits on the 31 March 2017.

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

The Executive Board submitted its report on relationships with affiliated companies in the 2016 financial year (dependency report) to the Supervisory Board in a timely manner.

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

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

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

The audit report of the external auditors was also submitted to the Supervisory Board. The dependency report and the corresponding audit report were sent to all members of the Supervisory Board in a timely manner to enable them to prepare for the discussions in the Supervisory Board meeting on 24 March 2017.

In preparation for the Supervisory Board's review and decision-making process, the Audit and Financial Committee assessed the aforementioned documents in detail. The members of the Executive Board explained the dependency report to the Audit and Financial Committee in detail in its meeting on 23 March 2017. They also answered questions from committee members. The meeting was also attended by the external auditors, who reported on their audit, in particular their audit focal points and the main results of their audit, and explained their audit report. The members of the Audit and Financial Committee took note of the audit report and the auditor's opinion, critically examined them, and discussed these documents as well as the audit itself with the external auditors. This included questions about the manner and scope of the audit and the audit results. Consequently, the Audit and Financial Committee was able to satisfy itself of the correctness of the audit and the audit report. In particular, it was satisfied that the audit report – as well as the audit performed by the external auditors themselves – complied with all legal requirements. The Audit and Financial Committee made a recommendation to the Supervisory Board to approve the result of the audit performed by the external auditors, and since it has no objections to the Executive Board's statement on the dependency report, to decide on a corresponding assessment.

The Supervisory Board performed the final review in its meeting on 24 March 2017, taking into consideration the resolution and recommendation of the Audit and Financial Committee as well as the audit report of the external auditors. The Executive Board explained the dependency report in this meeting and answered questions from Supervisory Board members. The external auditors also attended this meeting, reported on their audit of the dependency report and their main audit results, explained their audit report, and answered questions from Supervisory Board members, in particular regarding the manner and scope of the dependency report audit and the audit results. Based on this, the Supervisory Board reviewed the legal transactions detailed in the report on the relationships with affiliates to determine whether the payments made by the Company were not unreasonably high in consideration of the circumstances that were known at the time they were made or whether disadvantages had been offset. To enable this, the Supervisory Board obtained an explanation of the most important legal transactions, which formed the basis for the payments made by the Company and the services received in return. In doing so, and on the basis of the report provided by the Audit and Financial Committee, the Supervisory Board was convinced of the correctness of the dependency report audit and the audit report. In particular, it was satisfied that the audit report – as well as the audit performed by the external auditors themselves – complied with all legal requirements. The Supervisory Board reviewed the dependency report with regard to its accuracy in particular and also verified that the affiliates were identified with the necessary diligence and that all precautions necessary for recording legal transactions and measures which are subject to reporting requirements were taken. This review did not identify any reasons for objections to the dependency report. Following the recommendation of the Audit and Financial Committee, the Supervisory Board Agreed with the result of the dependency report audit by the external auditors. Based on the final results of the Supervisory Board's own review of the dependency report, there are no objections to the Executive Board's statement on the dependency report.

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

**Acknowledgement**

We would like to express our sincere gratitude to the Executive Board and the employees of the Hapag-Lloyd Group for their great personal commitment and their role in the changes achieved.

**Adoption of the report**

The Supervisory Board adopted the report of the Supervisory Board according to Section 171 (2) AktG by a resolution on 31 March 2017.

Hamburg, 31 March 2017

For the Supervisory Board



Michael Behrendt  
(Chairman of the Supervisory Board)

# CORPORATE GOVERNANCE

## PRINCIPLES OF CORPORATE GOVERNANCE AND CORPORATE STRUCTURE

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

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

Hapag-Lloyd AG is a listed public limited company in accordance with German law. For Hapag-Lloyd, the starting point for ensuring responsible management and control of the Company that is geared towards sustainable appreciation is, in addition to compliance with the applicable laws, a commitment to the German Corporate Governance Code (GCGC) as amended on 5 May 2015. In addition to the most important laws governing the management and monitoring of German publicly traded companies, the Code, which was ratified by the "Government Commission for the German Corporate Governance Code" contains nationally and internationally accepted standards for good and responsible corporate governance in the form of recommendations and suggestions.

The Executive Board and Supervisory Board of Hapag-Lloyd AG have given a great deal of attention to the corporate governance system of the Company and the recommendations and suggestions of the Code. They are committed to responsible corporate governance and identify with the objectives of the GCGC. According to the preamble of the GCGC, in the interests of good corporate management and an active corporate governance culture, this does not preclude non-compliance with individual provisions of the Code if the deviations are justified due to the specifics of the Company.

## INFORMATION ON CORPORATE MANAGEMENT AND CORPORATE GOVERNANCE

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

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

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

The Executive Board and the Supervisory Board of Hapag-Lloyd Aktiengesellschaft hereby state that the Company has followed the recommendations of the “Government Commission for the German Corporate Governance Code” as amended on 5 May 2015 and published in the official part of the German Federal Gazette on 12 June 2015 and will continue to do so with the following exception:

Section 5.3.2 clause 3 GCGC includes the recommendation that the Chairman of the Audit and Financial Committee should be independent. At this time, Mr Karl Gernandt is the Chair of the Audit and Financial Committee. Mr Gernandt is also a managing director for a shareholder who holds a significant interest in Hapag-Lloyd AG. Therefore, Mr Gernandt cannot be considered as independent within the meaning of Section 5.3.2 clause 3 GCGC. In the opinion of the Supervisory Board, it is in the urgent interest of the Company and all its shareholders that Mr Gernandt continue to exercise his office as the Chair of the Audit and Financial Committee because Mr Gernandt is well suited to the role of Chair of the Audit and Financial Committee. There is no doubt that he exercises his office in an independent manner.

Hamburg, 16 December 2016

Executive Board and Supervisory Board

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

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

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

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

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

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

#### **Corporate governance**

With one exception, the Company follows the recommendations of the German Corporate Governance Code (see above).

#### **Compliance**

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

#### **Code of Ethics**

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

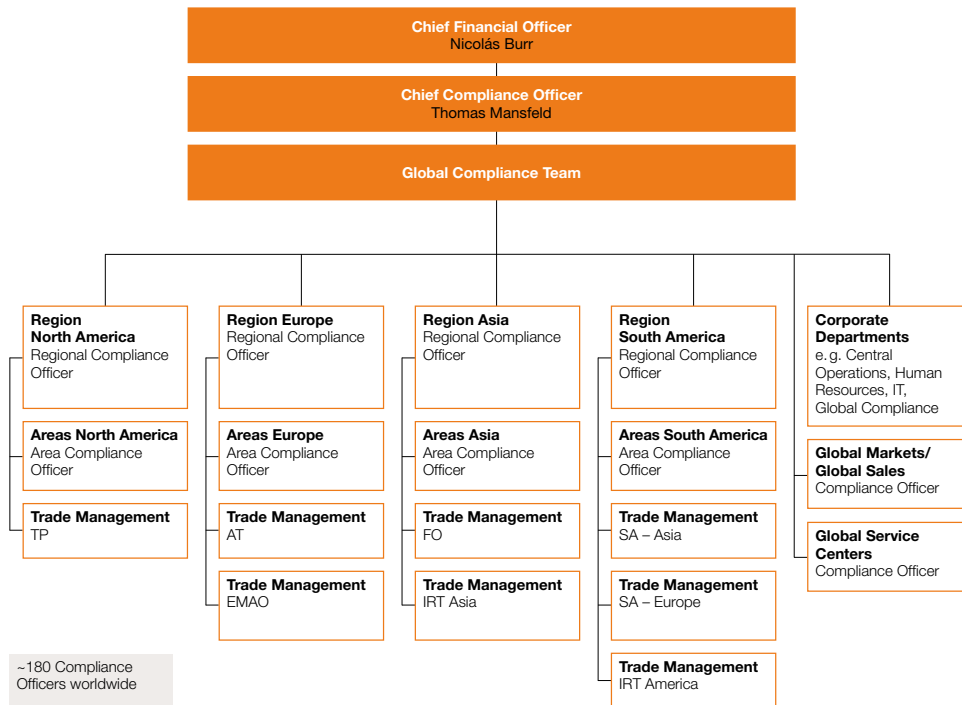


### Compliance organisation

The compliance programme of Hapag-Lloyd AG primarily consists of anti-competition and antitrust law, combating corruption, and compliance with embargoes and sanctions.

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

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



### Corporate responsibility

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

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

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

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

### **Transparency**

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

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

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

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

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

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

### **Executive Board and Supervisory Board**

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

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

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

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

As at 31 December 2016, the members of the Executive Board were Rolf Habben Jansen (Chief Executive Officer), Nicolás Burr, Anthony James Firmin and Thorsten Haeser. None of the members of the Executive Board have a remaining term exceeding three years.

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

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

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

Executive Board members are subject to a comprehensive non-compete agreement while working for the Company. They may only enter into other commitments, in particular positions on supervisory boards at companies that are not associated companies of Hapag-Lloyd AG, with the approval of the Chairman of the Supervisory Board. If they do accept such offices with the approval of the Chairman of the Supervisory Board, the Executive Board member in

question performs the role in a personal capacity – adhering to their strict obligation of confidentiality and the strict separation of their activities as a member of the Company's Executive Board. Each Executive Board member is required to immediately disclose any conflict of interest to the Chairman of the Supervisory Board and to inform the other Executive Board members as well.

No conflicts of interest arose among members of the Executive Board of Hapag-Lloyd AG in the 2016 financial year.

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

#### Members of the Executive Board of Hapag-Lloyd AG (31 December 2016):

<b>Rolf Habben Jansen</b> Born in 1966	<b>Member of the Executive Board / CEO</b>
First appointment:	Member of the Executive Board of Hapag-Lloyd AG since 2014 Chief Executive Officer of Hapag-Lloyd AG since 2014
Current appointment:	Until 31 March 2019
<b>Nicolás Burr</b> Born in 1975	<b>Member of the Executive Board / CFO</b>
First appointment:	Member of the Executive Board of Hapag-Lloyd AG since 2015
Current appointment:	Until 28 February 2018
<b>Anthony James Firmin</b> Born in 1953	<b>Member of the Executive Board / COO</b>
First appointment:	Member of the Executive Board of Hapag-Lloyd AG since 2014
Current appointment:	Until 30 June 2017
<b>Thorsten Haeser</b> Born in 1968	<b>Member of the Executive Board / CCO</b>
First appointment:	Member of the Executive Board of Hapag-Lloyd AG since 2015
Current appointment:	Until 30 September 2018

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

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

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

- the approval of the business plan and annual budget;
- investments of over EUR 100,000,000.00, unless already included in the annual budget;
- access to assets with a value of more than EUR 75,000,000.00, unless already included in the annual budget;
- legal transactions between the Company or a subsidiary of the Company and an affiliated company within the meaning of Section 15 ff. of the German Stock Corporation Act (AktG), insofar as these are not part of regular business operations or are not conducted at arm's length;
- borrowing outside of the annual budget with an amount of more than EUR 75,000,000.00;
- acceptance of sureties, guarantees or similar liabilities as well as the provision of collateral, in each case for third-party liabilities outside of regular business operations, if the value in individual cases exceeds EUR 2,000,000.00;
- conclusion, amendment or termination of contracts with businesses within the meaning of Sections 291 ff. of the German Stock Corporation Act (AktG) in which the Company has an investment.

The Supervisory Board currently consists of 12 members. The Annual General Meeting on 26 August 2016 passed a resolution to increase the size of the Supervisory Board to 16 members, on the condition that the execution of the capital increase from Authorised Share Capital 2016 is registered.

The Supervisory Board is subject to the German Co-Determination Act (MitbestG). Under the Act, the six current representatives of the shareholders are elected by the Annual General Meeting – whereby the Supervisory Board proposes candidates following preparatory work by the Nomination Committee – and the six current representatives of the employees are elected in accordance with the provisions of the German Co-Determination Act (MitbestG). When selecting the candidates for the Supervisory Board, their expertise, capabilities, and professional experience relating to the tasks to be performed are taken into consideration, as is the diversity of the Board's composition. Supervisory Board members should not hold positions on the corporate bodies of the Company's significant competitors or provide them with advisory or consulting services. At least one independent member must have accounting or auditing expertise. Each member of the Supervisory Board must ensure that they have enough time to perform their Supervisory Board role. Supervisory Board members who are simultaneously a member of the executive board of a listed public limited company cannot hold more than three supervisory board positions at listed companies outside the Group or on supervising bodies at companies with similar requirements.

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

Any consulting agreements or other service agreements between a Supervisory Board member and the Company require the approval of the Supervisory Board. There were no such agreements or conflicts of interest among Supervisory Board members of Hapag-Lloyd AG in the 2016 financial year. The Supervisory Board has issued rules of procedure that also govern the formation and responsibilities of the committees. Four ordinary Supervisory Board meetings are held in every calendar year. In addition, Supervisory Board meetings may be convened as needed and/or resolutions passed by the Supervisory Board outside of meetings. If voting on the Supervisory Board is tied and a second vote results in another tie, the Chairman of the Supervisory Board has the casting vote.

The Supervisory Board has set the following objectives for its composition, which are taken into account when proposing resolutions to the Annual General Meeting as part of the regular Supervisory Board elections and the election of a new Supervisory Board member:

- At least two members should have in-depth knowledge and experience of regions in which the Hapag-Lloyd Group conducts a substantial volume of business, due to their background or professional experience with an international dimension.
- At least two members of the Supervisory Board should have special knowledge and experience of the shipping industry.
- At least two members of the Supervisory Board should have experience in managing or monitoring a major company.
- The members of the Supervisory Board should in general not be older than the age of 70 at the time of their election.

The current composition of the Supervisory Board fulfils all legal objectives. The Supervisory Board and its Nomination Committee will ensure that the objectives continue to be fulfilled.

**Members of the Supervisory Board of Hapag-Lloyd AG (31 December 2016):****Michael Behrendt**

(Chairman of the Supervisory Board)

**Christine Behle**

(since 26 August 2016)

Member of the Federal Executive Board,  
Head of Transport  
ver.di – Vereinte Dienstleistungsgewerkschaft  
(First Deputy Chairwoman of the  
Supervisory Board, since 26 August 2016)

**Oscar Eduardo Hasbún Martínez**

Chairman of the Board  
Compañía Sud Americana de Vapores S.A.,  
Santiago de Chile  
(Second Deputy Chairman of the  
Supervisory Board, since 26 August 2016)

**Nicola Gehrt**

(since 26 August 2016)

Head of Investor Relations TUI Group  
TUI AG, Hannover

**Jutta Diekamp**

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

**Karl Gernandt**

President of the Administrative Board  
Kühne Holding AG, Schindellegi,  
Switzerland  
(until 26 August 2016: Second Deputy  
Chairman of the Supervisory Board)

**Dr Rainer Klemmt-Nissen**

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

**Arnold Lipinski**

HR Manager for Shipping Operations  
Hapag-Lloyd AG, Hamburg

**Sabine Nieswand**

(since 26 August 2016)

Chairwoman of the Works Council  
Hapag-Lloyd AG, Hamburg

**Francisco Pérez Mackenna**

Managing Director  
Quiñenco S.A., Las Condes

**Klaus Schroeter**

(since 26 August 2016)

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

**Uwe Zimmermann**

(since 26 August 2016)

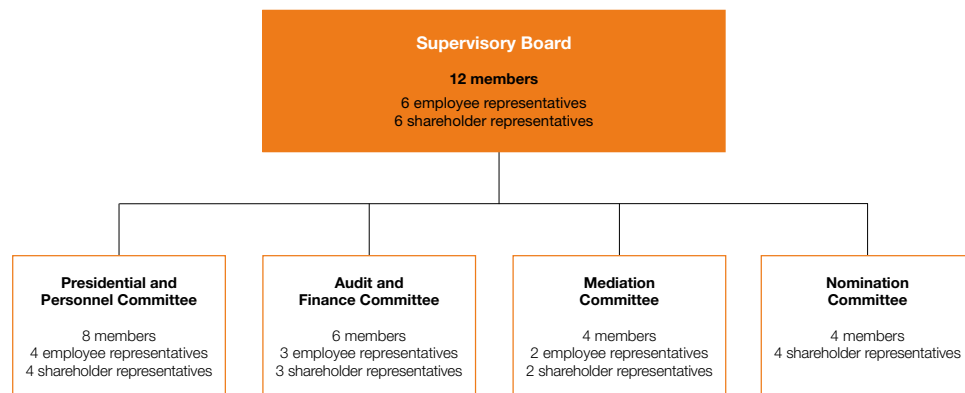
Commercial Clerk  
Hapag-Lloyd AG, Düsseldorf

### Supervisory Board committees

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

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

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



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

#### Members:

Michael Behrendt (Chairman), Christine Behle, Jutta Diekamp, Karl Gernandt, Dr Rainer Klemmt-Nissen, Arnold Lipinski, Francisco Pérez Mackenna, Sabine Nieswand

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



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

**Members:**

Karl Gernandt (Chairman), Dr Rainer Klemmt-Nissen, Arnold Lipinski, Oscar Hasbún Martínez, Klaus Schroeter, Uwe Zimmermann

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

**Members:**

Michael Behrendt (Chairman), Karl Gernandt, Dr Rainer Klemmt-Nissen, Francisco Pérez Mackenna

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

**Members:**

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

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

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

In accordance with the Market Abuse Regulation (MAR) (Article 19 MAR), persons who perform management functions, in other words the members of executive boards and supervisory boards, as well as persons closely related to them (including spouses, registered partners and dependent children) are required to report any transactions of their own involving the shares of Hapag-Lloyd AG, or any related financial instruments of Hapag-Lloyd AG, to the German Federal Financial Supervisory Authority (BaFin) if the total amount of the transactions of an executive board member or supervisory board member and persons closely related to them reaches or exceeds EUR 5,000 in the calendar year. The transactions reported have been published on the website of Hapag-Lloyd AG at <https://www.hapag-lloyd.com/en/ir/corporate-governance/directors-dealings.html>.

As at the reporting date, the total volume of shares in Hapag-Lloyd AG and related financial

instruments held by all members of the Executive Board and Supervisory Board was less than 1% of issued shares.

### Executive Board and Supervisory Board remuneration

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

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

### Shareholders

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

As at 31 December 2016, the shareholders of Hapag-Lloyd AG were:

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
<b>Total</b>	<b>100.0</b>

### Accounting and auditing

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

At the proposal of the Supervisory Board, the Annual General Meeting on 26 August 2016 selected KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg (KPMG), as the external auditors of the annual and consolidated financial statements as well as the respective management reports of Hapag-Lloyd AG for the 2016 financial year. The Supervisory Board had previously verified the independence of the external auditors. The signatory auditors of the annual and consolidated financial statements of Hapag-Lloyd AG are Hartmut Heckert (since the 2010 financial year) and Markus Lippmann (since the 2015 financial year). The audits covered the risk early-warning system in addition to the accounting system.

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

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

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

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

As a listed company which is also subject to the German Co-Determination Act (MitbestG), a fixed gender quota applies to the Supervisory Board of Hapag-Lloyd AG and must be observed for new appointments from 1 January 2016. This means that the Supervisory Board must consist of at least 30% women and at least 30% men. As at 31 December 2016, there were four women on the Supervisory Board of Hapag-Lloyd AG. This means that 33% of the Supervisory Board members on the reporting date were women. The statutory requirements have thus been fulfilled.

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

The German Law for the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector also requires that targets be set for the percentage of women on the Executive Board and at the two management levels below the Executive Board as well as deadlines for achieving this. The initial deadlines to be set for achieving the targets may not be later than 30 June 2017.

Consequently, the Supervisory Board has set a target of 0% for the percentage of women on the Executive Board and a deadline of 30 June 2017 for achieving this. This means that the current situation will not change as no new appointments by that time are expected at present.

The Executive Board of Hapag-Lloyd AG has set a target of 0% for the percentage of women at the first management level below the Executive Board in the period until 30 June 2017 and 14% at the second management level in the period until 30 June 2017. This corresponds to the current situation in each case and takes into account the succession planning within this period for both management levels.

**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 – Member of the Supervisory Board

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 Finanzfonds AöR – Institutional Authorities Assembly Member

**Francisco Pérez Mackenna**

Compañía 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 Hasbún Martínez**

Sudamericana Agencias Aéreas y Marítimas S.A. – Supervisory Board Member

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



# THOSE WHO MAKE THE LONG VOYAGE

The men and women out at sea are the backbone of Hapag-Lloyd. Some 2,000 sailors work on board the ships owned by the liner shipping company today. And many more – regular crew members, officers and captains – sail on its chartered ships. The archivist could only guess the total number of people who have trained under the Hapag-Lloyd flag in the past. Certainly several thousand, in a history that stretches back to 1847 when HAPAG was founded.

While all positions on a ship are important, one in particular stands out – that of the captain. They are responsible for the crew, ship and cargo, for human lives and for assets that can easily be worth billions of euro. “Master next God” was the reverential name given to captains in the past. On modern ships today, it is more about team work than godlike hierarchy.

Seafaring has significantly changed over the centuries. From sailing ships to steamers to modern container giants. From the days of bulk cargo, when each sack of coffee was loaded on board individually, to computer-controlled logistics with thousands of containers on board. The founders of the Hamburg shipping company could never have imagined that 400-metre-long ships would one day sail up the Elbe. Instead of using nautical charts and “dead reckoning”, officers travel the oceans today with the aid of navigation satellite systems. Yet, as much as technology and nautical challenges have changed, the captain’s duties remain extremely varied and complex today, as they were in times gone by.

“One thing you should never lose, no matter how big the ships are, is respect for the sea,” says Dutchman Pieter van Sijll. No sailor underestimates the strength and power of the sea. Captain van Sijll is among four men on the bridge, four of more than one hundred captains at Hapag-Lloyd, whose stories we want to tell here – representative of all sailors working in the service of Hapag-Lloyd.

Captain Peter Plein was born in 1953 in Mainz. He joined Hapag-Lloyd in 1973 and is still with the Company today, sailing mainly on the Asia service. Peter Plein lives in Hannover.

# A YEARNING FOR TRAVEL FROM GRANDPA

There isn't much that can unnerve me anymore. I have been with Hapag-Lloyd since 1 June 1973, the first day of my working life. Working on a ship was a somewhat unusual path for me, since nobody in my family had anything to do with the sea before then. Perhaps I inherited my yearning for travel and desire for adventure from my grandfather, who went to Cameroon in 1905 to set up the postal service there. Or perhaps from my childhood, when I used to see barges passing by on the Rhine. In any case, I knew I wanted to become a sailor after a holiday trip on a coaster.

I have been sailing as a captain since 1 September 1997, and I went through some tough training to get there. Anyone who enthuses about the good old days before containers – the adventures and the romanticism – shouldn't forget about the tough working conditions. There have been a lot of improvements since then, in terms of how people are managed and treated. The principle of team work applies on board today, and for me as captain, it is important to have a good, constructive climate. The hierarchies are still clear, though.

Even after all these years, I love my job. However, the amount of paperwork continuously grows. The radio operator used to send a short telex for the ship's departure and one for its arrival. Today, there's the computer, the internet, emails. You would think it would make things easier, but it's the opposite. The amount of data that a captain has to manage is a daily burden.







**Captain Kazimierz Mieczysław Laciak**, born in 1957, attended the nautical academy in Gdynia and has been going to sea since 1981. Since 2006, Captain Laciak has been working for Southern Shipmanagement Valparaiso. Kazimierz Laciak is married and has a daughter.

# IN THE PORT STORM OF MONTEVIDEO

It is important for a captain to be able to rely on his instincts and experience at a critical moment. That was the case in October 2016 in Montevideo, Uruguay. After we had entered the port on board the “Tubul” in the early hours of the morning, the wind continued to pick up and developed into a full-blown storm. Our freighter, fully loaded with containers, was pulled away from the pier. I had already deployed all the available ropes: eight at the front, eleven at the back, so 19 ropes in total. Every single bollard on the pier was being used.

But the wind did not abate. At 4 p. m., I decided to call a tug for help, and then a second one a little while later. They pulled the “Tubul” against the pier. The storm would simply not let up. Afterwards, I learned that it was the most violent one in more than thirty years.

I stayed awake the whole night. Would the ropes be able to withstand the extreme force of the wind?

The storm only began to abate at around 6.30 a. m. Finally – after 24 hours on the bridge without a break – we were able to discharge the tugs.

You could buy a small house with the money that the safety operation cost.

At headquarters, nobody questioned my actions. That’s one of the things I value about my shipping company: “safety first” and responsibility are not just buzzwords. They are put into practice.

**Captain Peter van Sijll**, born in 1970, grew up in Gelderland. He has been a captain on long voyages since 2001 and joined Hapag-Lloyd in 2008 after holding various other positions. He is captain of the "Shanghai Express". Peter van Sijll lives in Zutphen, the Netherlands.

# RESPECT FOR THE SEA

I could never imagine myself working in an office; I wouldn't have been happy there. As a small boy, I often went on holidays with my parents to the island of Terschelling, where I would see the ships sailing by. Perhaps that's where my yearning for travel comes from. I like being on the move, and I love being in control of a big ship. What I mean by that is looking after the engine and the materials and still maintaining a good atmosphere among the crew.

When a large container freighter operates like an engine, in which all the parts are interconnected, and you can still enjoy yourself on top of that – then I'm happy. I sometimes say rather casually: Anyone can sail a ship nowadays. But not everyone can sail a ship in such a way that it remains in good shape over the years. I don't want my people to simply complete all their tasks. I also want them to really understand why these tasks are important.

I have got to know other shipping companies during my career and, as a result, I can appreciate Hapag-Lloyd for what it is. We have well-maintained, solid, strong ships. The technical support from headquarters is second to none. And if there is a problem with the authorities, you are not left on your own. Sometimes, tradition can be a weakness for a company, if old structures slow down fast decision-making. Sometimes, however, it is also a strength, as you don't change proven methods lightly. Out at sea, nature tells us sailors what's what, and nothing has changed in this regard in modern times.

Respect is an important aspect of our work.





**Captain Peter Rößler** was born in 1970 in Leipzig and travelled across the Baltic Sea on a training ship at the young age of 15. In 2016, he was the captain who steered the newly built "Valparaiso Express" through the Panama Canal, the biggest ship to do so. Rößler is married with three children and lives in Oldenburg, Lower Saxony.

# AND SOMETIMES NO SHORE LEAVE

For any captain, calling at an American port is always a unique experience. And I don't just mean the view of San Francisco or New York. Since the 9/11 terrorist attacks, the authorities are very exact and the amount of bureaucracy is enormous. The ship must be registered with the US Coast Guard at least 96 hours before it arrives. All the details about the ship, cargo and crew must be submitted without any errors; even the smallest typo will not be accepted and can be penalised with a fine. In the worst case, the ship may be prohibited from entering the port. It is not unusual either for the US Coast Guard to stop a freighter outside the port, and sometimes the officials are not exactly courteous when dealing with the crew. If the ship is docked at the pier, officials from the immigration authorities also come aboard first, as well as the agent – for a face-to-face inspection. All crew members must present themselves individually and answer questions. On more than one occasion, I have seen a crew member being denied permission to go ashore because officials didn't like the answers given. Once, a sailor complained about this treatment. The result: the entire crew of the ship was prohibited from going ashore – and on top of that, it applied to all ports on the US east coast. Despite the many adversities in our daily life on board, the job of captain is one of the greatest in the world.

# BETTER UNITED

Back in 2014, Hapag-Lloyd emerged as one of the frontrunners in a wave of consolidation within the industry. The merger with the Chilean container shipping company Compañía Sud Americana de Vapores (CSAV) took place in December 2014. The takeover of United Arab Shipping Company (UASC) is a further step in strengthening the Group's market presence as one of the world's leading liner shipping companies.



# AT A GLANCE

**15 July 2016**

Hapag-Lloyd and UASC signed an agreement on the merger of their container shipping activities (business combination agreement)

**2017**

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

**HAMBURG** 

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

**2,300,000 TEU**

of container transport capacity is available to customers for the transportation of cargo



**6,3** years is the average age of the entire ship fleet



**225**

container ships are operated by Hapag-Lloyd and UASC together – a modern, efficient fleet

**1.5 million TEU**



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

**6,900 TEU**

is the average size of Hapag-Lloyd's new fleet, including UASC



**435 million USD**

in synergies are expected annually from 2019

## THE Alliance

The ships of Hapag-Lloyd and UASC operate together in this strong new alliance

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

Hapag-Lloyd 45%

K-Line + MOL + NYK 39%

Yang Ming 16%

# BIGGER, STRONGER, BETTER, MORE EFFICIENT

## Benefits of the merger

### STRENGTHENED MARKET POSITION



The merger between Hapag-Lloyd and UASC strengthens the Group's market position as one of the world's leading container shipping companies in an industry which is continuing to consolidate.

### WELL- BALANCED TRADES



UASC and Hapag-Lloyd are an excellent fit. The combined company has a globally diversified network across all the main trades. Its presence on the most important East-West trade in container shipping is stronger. In addition, Hapag-Lloyd will in future be one of the market leaders in the attractive Middle East sub-trade.

### LARGE, YOUNG FLEET



Together, Hapag-Lloyd and UASC operate a young and very efficient fleet with an average age of just 6.3 years. As a result, no investments in new ships will be needed over the coming years.

### STRONG PARTNER- SHIPS



Hapag-Lloyd has a long-standing tradition with alliances and, together with UASC, has a strong position in the new THE Alliance. It is also backed by strong core shareholders and capital market investors.

### SIGNIFICANT SYNERGY EFFECTS



The merging of service networks, optimal use of ships and amalgamation of sales and administrative areas creates significant synergies. Around a third of the expected USD 435 million in synergies should be achieved in 2017.

## STRENGTHENED MARKET POSITION

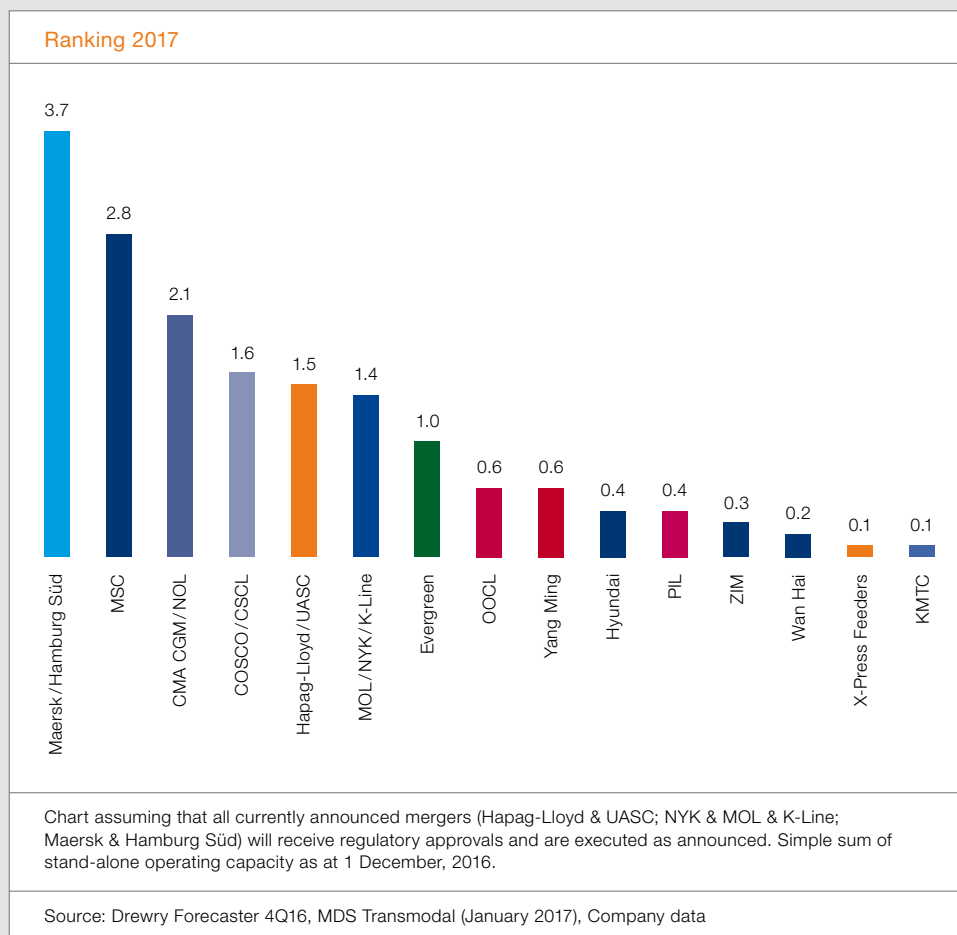


The pace of consolidation among container shipping companies has increased. The merger between Hapag-Lloyd and CSAV in December 2014 marked the beginning of this. At the start of 2016, the two Chinese shipping companies COSCO and CSCL merged.

In July 2016, the French shipping company CMA CGM took over the container liner shipping company Neptune Orient Lines (NOL), Singapore. In December 2016, Maersk announced the takeover of Hamburg Süd. Three Japanese shipping companies intend to merge in 2018.

Hapag-Lloyd's takeover of UASC bolsters its competitive position in a container shipping industry which is continuing to consolidate.

Market share of the TOP 15 carriers by transport capacity in million TEU





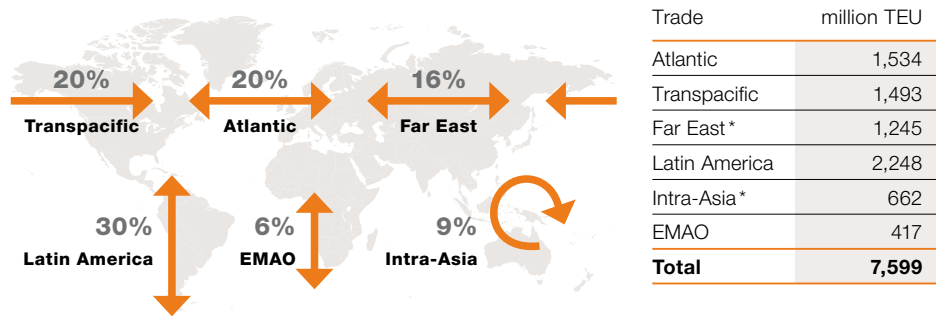
## WELL-BALANCED TRADES

The trades and service networks of Hapag-Lloyd and UASC complement each other perfectly:

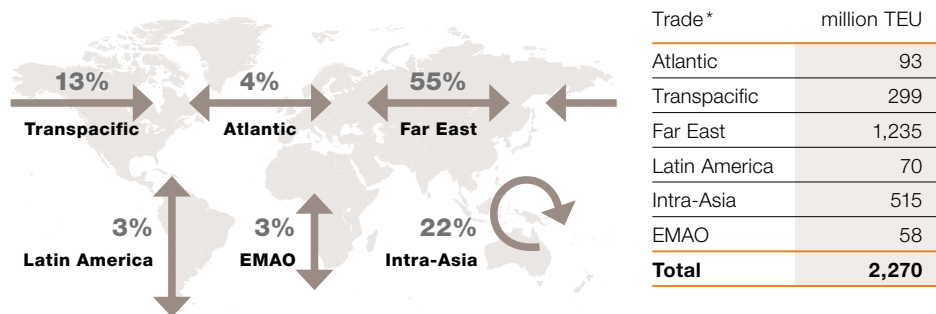
- Hapag-Lloyd’s takeover of UASC strengthens its market position in the Far East trade – including the attractive Middle East sub-trade.
- Its container transport volume in the world’s biggest trade, Intra-Asia, will double.
- UASC enhances Hapag-Lloyd’s presence in the Transpacific, Atlantic and Latin America trades.
- Hapag-Lloyd already has a very good market position in all the main East–West and North–South trades. The merger with UASC strengthens this position.
- Hapag-Lloyd is also the only global container shipping company to have a very balanced presence on all the main East–West and North–South routes.

### Balanced global trade portfolio

Transport volume by trade, 2016 – Hapag Lloyd



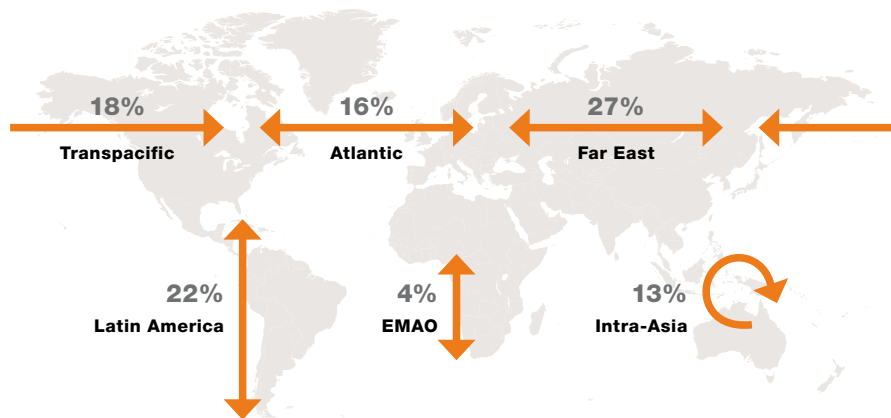
Transport volume by trade, 2016 (indicative) – UASC



\* Allocation of UASC volume (9M 2016) according to Hapag-Lloyd trade definition

# LEADING POSITION IN ALL TRADES

Transport volume by trade, 2016 (indicative) – combined entity



Trade*	million TEU
Atlantic	1,627
Transpacific	1,792
Far East	2,480
Latin America	2,318
Intra-Asia	1,177
EMAO	475
<b>Total</b>	<b>9,869</b>

\* Allocation of UASC volume (9M 2016) according to Hapag-Lloyd

Source: Hapag-Lloyd, Company data



## LARGE, YOUNG FLEET

In recent years, Hapag-Lloyd and UASC have both made investments in expanding and improving their respective ship fleets. These targeted investments complement each other very well. Hapag-Lloyd's investments in 9,300-TEU and 10,500-TEU ships have improved the efficiency of its fleet.

UASC's large vessels are ideal for its Far East service within the THE Alliance. Together, Hapag-Lloyd and UASC have a very young fleet. The average age is 6.3 years and the average size is 6,900 TEU. This makes the fleet one of the youngest and most efficient among all container liner shipping companies. The merger essentially removes the need for future large-scale investments in fleet expansion.

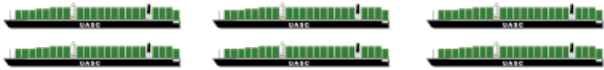
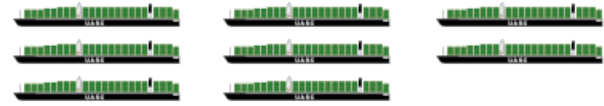

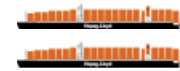
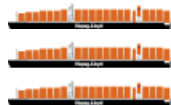
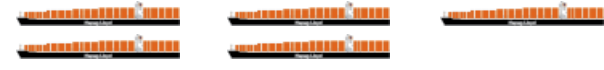

Thanks to a very modern and efficient fleet, the amount of investment needed over the coming years will be low. Hapag-Lloyd will therefore focus on generating a high level of free cash flows and quickly reducing its debt.

### Access to young and fuel-efficient fleet with large share of ULCVs



# MORE EFFICIENT FLEET WITH NO INVESTMENT NEEDED

## Ship deliveries 2015–2017

Vessel	2016	2017e
<b>19,000-TEU-vessels</b>		
	6	–
<b>15,000-TEU-vessels</b>		
	8	
<b>10,500-TEU-vessels</b>		
	2	
<b>9,300-TEU-vessels</b>		
	5	–
<b>3,500-TEU-vessels</b>		
	2	–
<b>Total</b>	<b>23</b>	<b>5</b>

■ Hapag-Lloyd    ■ UASC



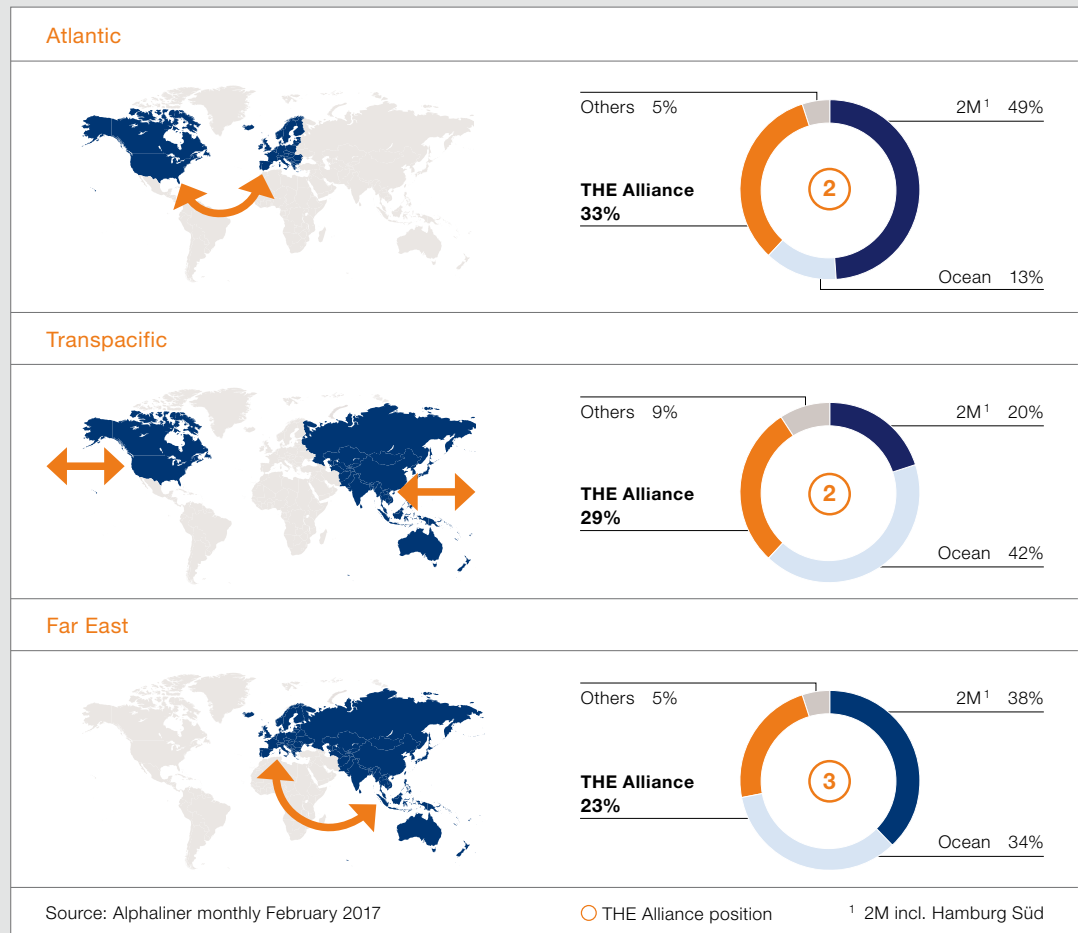
## STRONG PARTNER IN THE ALLIANCE

The THE Alliance is being established for a period of five years and will commence its activities on 1 April 2017. The alliance provides extensive port coverage, efficient ships and rapid transit times. The 244 or so ships used in the THE Alliance operate on all the main East–West routes. An extensive network of 32 services connects 75 key ports.

Together, Hapag-Lloyd and UASC account for 45% of the shipping capacities in the new THE Alliance. The three Japanese partner shipping companies represent 39% of the shipping capacities, while the Taiwanese liner shipping company Yang Ming accounts for 16%. The ships used in the THE Alliance have a transport capacity of around 3.5 million TEU. This corresponds to approximately 17% of the global transport capacity in the container shipping industry.

The members of the THE Alliance have a relatively equal presence in all the main East–West trades and are among the leading operators in all trades.

### THE Alliance – competitive on all trades





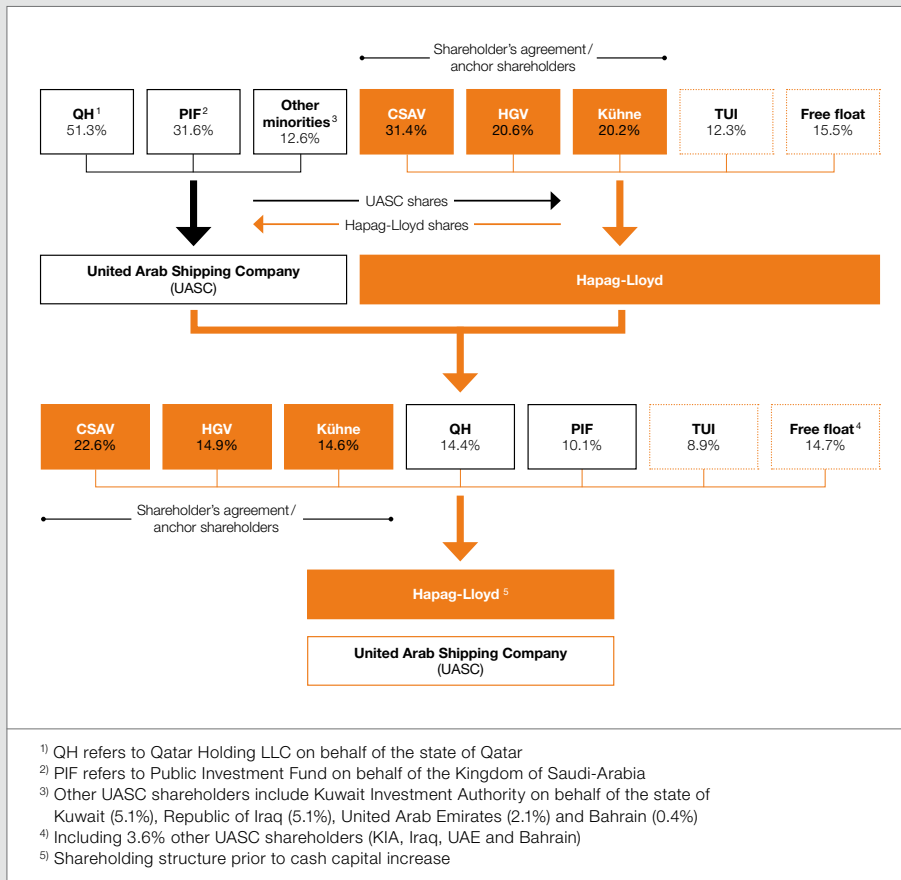
## STRONG ANCHOR SHAREHOLDERS

The continuing wave of consolidation and strengthening of the Group's market position are actively supported by the Group's base of core shareholders who have an affinity with shipping. The business activities of Hapag-Lloyd and United Arab Shipping Company will be merged by means of a non-cash capital increase. UASC's shareholders will receive 28% of Hapag-Lloyd's share capital for the incorporation of UASC into the Hapag-Lloyd Group.

In addition to the three existing anchor shareholders, UASC's two major shareholders, Qatar Holding and Public Investment Fund of Saudi Arabia, will become new core shareholders in Hapag-Lloyd.

Along with its capital market investors, Hapag-Lloyd will therefore have five strategically oriented core shareholders. The core shareholders will support the planned capital increase with a volume of USD 400 million.

### Transaction overview



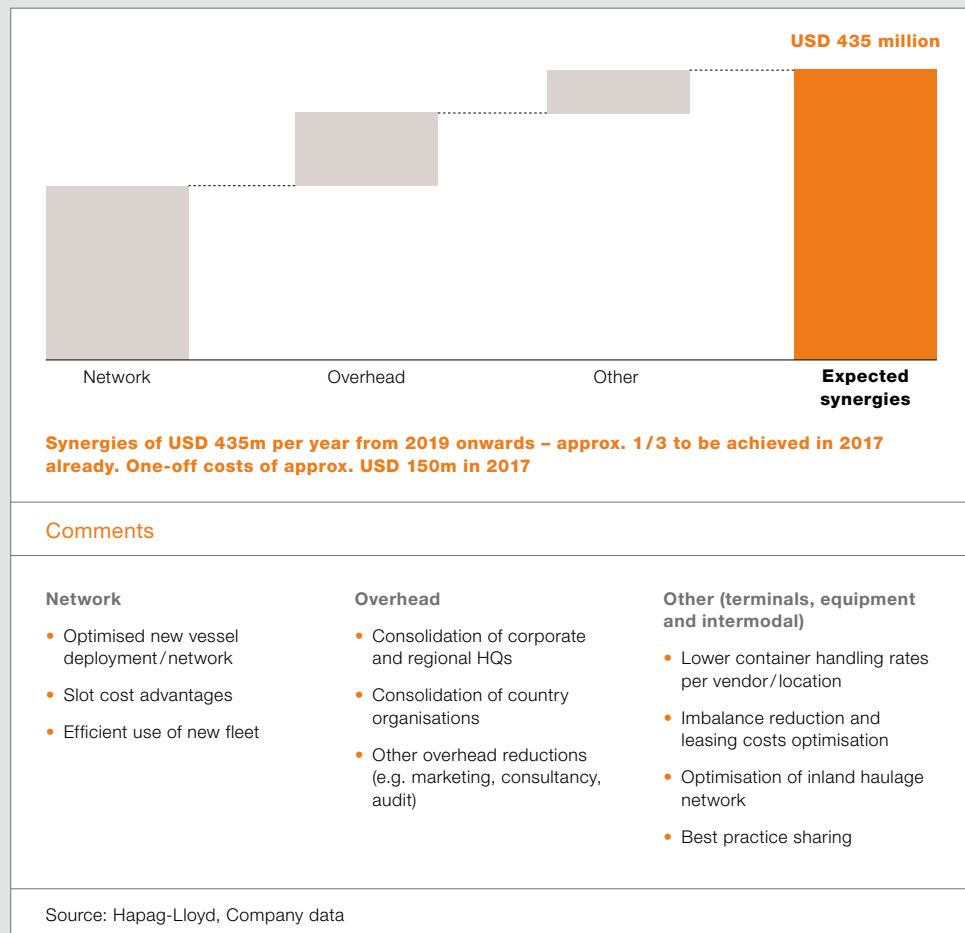


## SIGNIFICANT SYNERGY EFFECTS

The merger between UASC and Hapag-Lloyd is expected to deliver annual synergies of USD 435 million from 2019. Most of these efficiency gains will come from the merging of service networks. The amalgamation of sales and administrative functions will also lead to extensive cost savings.

It is expected that around a third of the targeted synergies will be realised in 2017. This should happen primarily as a result of the optimal use of the joint fleet as part of the THE Alliance, the respective trades and the operation of a standardised IT structure.

Synergy potential, full run-rate in USD million



# SUBSTANTIAL VALUE CREATION THROUGH SIGNI- FICANT SYNERGIES

## **CLEARLY DEFINED FINANCIAL POLICY**

- Profitability going forward supported by improved fleet ownership structure and synergy realisation
- No new vessel investments planned in years ahead – maximise free cash flow
- Clear target to significantly deleverage over time
- Maintain an adequate liquidity reserve for the combined entity
- Cash capital increase backstopped by certain key shareholders\*

\* 50% backstopped by QH and PIF, 50% backstopped by CSAV and Kühne

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## BASIC PRINCIPLES OF THE GROUP

### GROUP STRUCTURE AND SHAREHOLDERS

Together with its subsidiaries, Hapag-Lloyd AG (hereinafter referred to as “the Hapag-Lloyd Group”, “Hapag-Lloyd” or “the Group”) is Germany’s largest 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 of the Hapag-Lloyd Group, Hapag-Lloyd AG, is also the largest single operating company within the Group. Hapag-Lloyd AG has the following key branch offices active in the areas of sales and operations: Hapag-Lloyd Rotterdam (Rotterdam, Netherlands), Hapag-Lloyd Antwerpen (Antwerp, Belgium) and Hapag-Lloyd Denmark (Holte, Denmark).

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 consolidated financial statements and Group management report, 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
<b>Total</b>	<b>100.0</b>

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

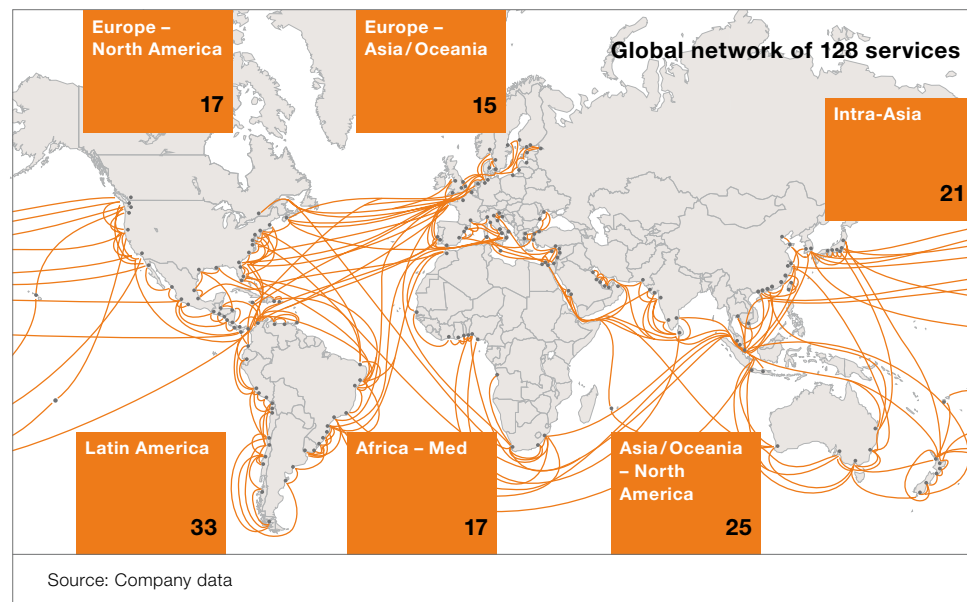
As of the end of the Annual General Meeting on 26 August 2016, the term of the following four employee representatives on the Supervisory Board started: Ms Christine Behle, Ms Sabine Nieswand, Mr Klaus Schroeter and Mr Uwe Zimmermann. The following four employee representatives left the Supervisory Board: 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. As at 31 December 2016, the Hapag-Lloyd Group had a total of 166 ships, a transport capacity of around one million TEU and a global network of 128 services.

The Hapag-Lloyd Group 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. The Group's core business is the shipping of containers by sea, but also encompasses transport services from door to door.

### Network of Hapag-Lloyd services



As at 31 December 2016, the Hapag-Lloyd Group had 166 container ships (previous year: 177), 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.

### GROUP OBJECTIVES AND STRATEGY

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

In terms of increasing its transport volume, Hapag-Lloyd achieved growth of more than 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 implementation 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.

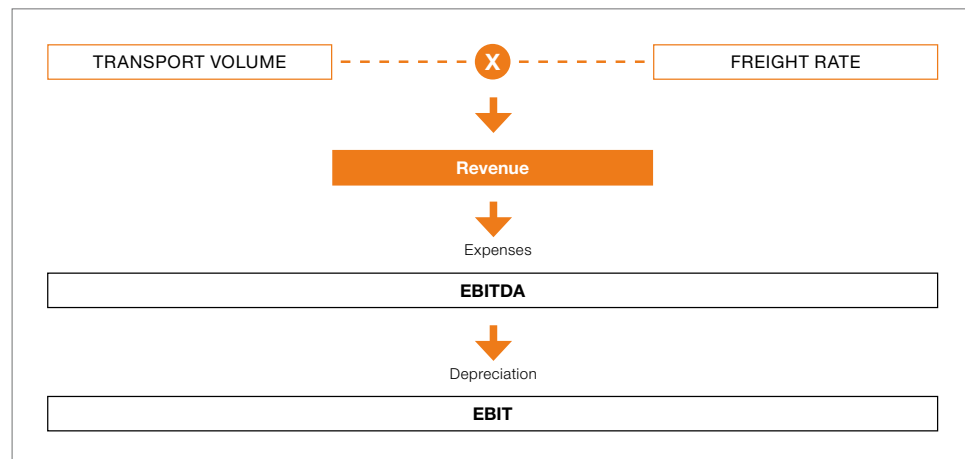
Despite the significant improvement in cost structures, the original targets of recording a sustainable EBITDA margin of 11 – 12% from 2017 and generating a return on invested capital [ROIC] which equals the weighted average cost of capital in 2017 cannot be met from today's perspective. The reasons 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
<b>Assets</b>	<b>10,760.7</b>	<b>10,505.4</b>	<b>11,363.3</b>	<b>11,443.5</b>
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
<b>Liabilities</b>	<b>2,091.8</b>	<b>2,125.6</b>	<b>2,208.8</b>	<b>2,315.4</b>
<b>Invested Capital</b>	<b>8,668.9</b>	<b>8,379.8</b>	<b>9,154.5</b>	<b>9,128.1</b>
EBIT	126.4	366.4	139.7	406.7
Tax	19.7	25.2	21.8	28.0
<b>Net Operating Profit after Tax (NOPAT)</b>	<b>106.7</b>	<b>341.2</b>	<b>117.9</b>	<b>378.7</b>
<b>Return on Invested Capital (ROIC)</b>			<b>1.3%</b>	<b>4.1%</b>

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 98.

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 (2015: 8.2%). For information about the calculation of the average cost of capital, please refer to the disclosures in the Notes to the consolidated statement of financial position in the Notes to the consolidated financial statements (page 191).

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

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

### **Securing liquidity**

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

Hapag-Lloyd secures its liquidity reserve by means of cash, cash equivalents and syndicated credit facilities. As at 31 December 2016, there was a liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) totalling EUR 759.6 million (previous year: EUR 962.4 million). As part of the Group-wide provision of finance, the liquidity surpluses of individual Group companies are pooled at Hapag-Lloyd AG. Arrangements with the banks to provide lines of credit are based on a rolling liquidity plan.

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

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

**Limiting financial risks**

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

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

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

**Strengthening the equity base**

At the balance sheet date, equity came to approximately EUR 5,058.4 million (previous year: EUR 5,046.2 million). The decision to retain most of the future profits should strengthen Hapag-Lloyd's equity base.

**Reducing gearing**

Gearing was 71.0% in the 2016 financial year (2015: 66.1%). The planned takeover of UASC's business activities will lead to a significant rise in Hapag-Lloyd's level of debt in the 2017 financial year. The Company aims to reduce its leverage quickly in the coming years by decreasing investment and generating a high level of free cash flows.

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

Hapag-Lloyd AG's retained earnings under German commercial law form the basis for determining the distribution of dividends. Under German law, the Annual General Meeting decides how the retained earnings are to be used. In general, Hapag-Lloyd aims to pay a dividend of 20% to 30% of its consolidated profit for the year if this is compliant with the framework of German commercial law and the restrictions in certain financing arrangements.

## 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's fleet 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.

### 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	166	177	191	151	144	149
thereof						
Own vessels	72	68	77	57	59	58
Leased vessels	3	3	5	7	7	9
Chartered vessels	91	106	109	87	78	82
Aggregate capacity of vessels (TTEU)	963	966	1,009	729	670	679
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 from 2014 onwards relate to Hapag-Lloyd's fleet, including the container activities acquired from CSAV. The figures up to 2013 relate to Hapag-Lloyd only and do not include CSAV's container shipping activities.

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.

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**

TTEU	2016	2015
<b>Transatlantic</b>		
Europe – North America	4,000	4,000
North America – Europe	2,400	2,400
<b>Far East</b>		
Asia – Europe	14,200	13,900
Europe – Asia	6,400	6,400
<b>Transpacific</b>		
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 <sup>1</sup>**

	Hapag-Lloyd AG	Industry average
Transpacific	6.2	5.1
Atlantic	6.2	6.0
Europe – Far East	7.6	4.5

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

Source: 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.

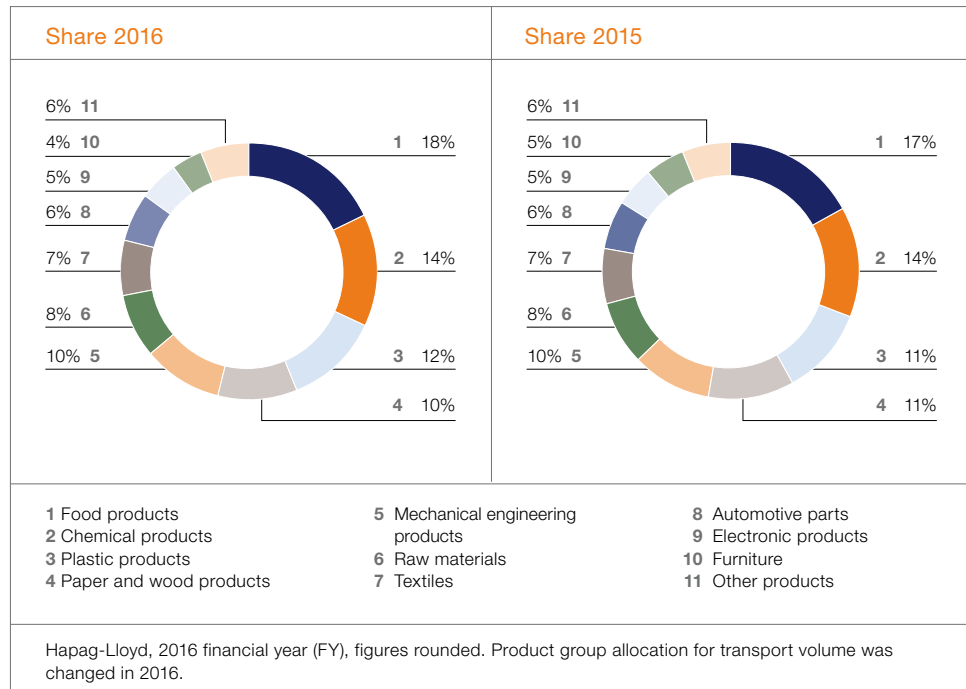
**Customers and customer orientation**

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 shipping 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**



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 6.3% 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 tons	2016	2015
MFO (High sulphur)	2,644,788	2,837,426
MDO, MFO (Low sulphur)	496,251	513,536
<b>Total bunker consumption</b>	<b>3,141,039</b>	<b>3,350,962</b>

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

### EMPLOYEES

The Hapag-Lloyd Group employed 9,413 people as at 31 December 2016 (previous year: 9,417 people). 1,389 people were employed in the marine division as at 31 December 2016 (previous year: 1,519). The number of shore-based staff increased by 126, from 7,898 (including apprentices) in the previous year to 8,024 employees. 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. As in the previous year, male and female employees each account for around 50% of the shore-based headcount. As in the previous year, the average period of employment for shore-based staff is ten years.

At the end of the reporting period, full-time equivalent employees at the Group totalled 9,229 (previous year: 9,214).

As at 31 December 2016, the proportion of women in management positions was around 12%.

**Number of employees \***

	<b>31.12.2016</b>	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011
Marine personnel	1,295	1,411	1,408	1,254	1,245	1,198
Shore-based personnel	7,895	7,771	8,901	5,553	5,505	5,465
Apprentices	223	235	214	194	200	210
<b>Total</b>	<b>9,413</b>	<b>9,417</b>	<b>10,523</b>	<b>7,001</b>	<b>6,950</b>	<b>6,873</b>

\* The figures from 2014 onwards relate to Hapag-Lloyd, including CSAV's container shipping activities. Presentation for 2014 adjusted.

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 nations 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 129 apprentices in shore-based positions and 94 at sea (previous year: 127 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 Group management report of Hapag-Lloyd AG and describes the basic features of the remuneration system for the Executive Board and Supervisory Board members and the amount and structure of individual remuneration. The report adheres to the requirements of the German Corporate Governance Code (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	–
<b>Total</b>	<b>125,216</b>		<b>2,200,000</b>	<b>898,616</b>	<b>–</b>

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

### 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	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
<b>Total</b>	<b>112,586</b>		<b>2,200,000</b>	<b>506,739</b>	<b>555,566</b>

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

\* 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 IFRS

EUR	Present value	Service cost
<b>Rolf Habben Jansen</b> (Chairman of the Executive Board)		
<b>2016</b>	<b>4,323</b>	<b>1,986</b>
2015	2,904	0
<b>Nicolás Burr</b> (Member of the Executive Board since 1 March 2015)		
<b>2016</b>	<b>1,448</b>	<b>912</b>
2015	667	0
<b>Anthony James Firmin</b>		
<b>2016</b>	<b>2,065,189</b>	<b>231,972</b>
2015	1,595,861	211,830
<b>Thorsten Haeser</b> (Member of the Executive Board since 1 October 2015)		
<b>2016</b>	<b>1,547</b>	<b>1,654</b>
2015	403	0
<b>Total 2016</b>	<b>2,072,507</b>	<b>236,524</b>
<b>Total 2015</b>	<b>1,599,835</b>	<b>211,830</b>

### 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	<b>Rolf Habben Jansen</b> (Chairman of the Executive Board)			
	2015	2016	2016 (min.)	2016 (max.)
EUR				
Fixed salary	750,000	750,000	750,000	750,000
Fringe benefits	172,041	172,238	172,238	172,238
<b>Total</b>	<b>922,041</b>	<b>922,238</b>	<b>922,238</b>	<b>922,238</b>
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
<b>Total</b>	<b>1,081,274</b>	<b>826,400</b>	<b>0</b>	<b>1,650,000</b>
Service cost	0	1,986	1,986	1,986
<b>Total remuneration</b>	<b>2,003,315</b>	<b>1,750,624</b>	<b>924,224</b>	<b>2,574,224</b>

\* Fringe benefits for the previous year adjusted.

#### Amounts paid for the financial year:

Remuneration disbursed	<b>Rolf Habben Jansen</b> (Chairman of the Executive Board)	
	2016	2015
EUR		
Fixed salary	750,000	750,000
Fringe benefits	172,238	172,041
<b>Total</b>	<b>922,238</b>	<b>922,041</b>
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
<b>Total</b>	<b>126,400</b>	<b>381,274</b>
Service cost	1,986	0
<b>Total remuneration</b>	<b>1,050,624</b>	<b>1,303,315</b>

\* 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 IFRS for current pensions and entitlements to pensions for former Executive Board members and their surviving dependants totalled EUR 24,930,043 in the 2016 financial year (previous year: EUR 22,233,900).



**Nicolás Burr**  
(Member of the Executive Board  
since 1 March 2015)

2015 *	2016	2016 (min.)	2016 (max.)
375,000	450,000	450,000	450,000
327,103	393,302	393,302	393,302
<b>702,103</b>	<b>843,302</b>	<b>843,302</b>	<b>843,302</b>
300,000	200,000	200,000	400,000
500,000	500,000	0	750,000
500,000	0	–	–
0	500,000	0	750,000
<b>800,000</b>	<b>700,000</b>	<b>200,000</b>	<b>1,150,000</b>
0	912	912	912
<b>1,502,103</b>	<b>1,544,214</b>	<b>1,044,214</b>	<b>1,944,214</b>

**Anthony James Firmin**

2015	2016	2016 (min.)	2016 (max.)
441,667	450,000	450,000	450,000
21,641	22,086	22,086	22,086
<b>463,308</b>	<b>472,086</b>	<b>472,086</b>	<b>472,086</b>
220,206	82,160	0	400,000
500,000	500,000	0	750,000
500,000	0	–	–
0	500,000	0	750,000
<b>720,206</b>	<b>582,160</b>	<b>0</b>	<b>1,150,000</b>
211,830	231,972	231,972	231,972
<b>1,395,344</b>	<b>1,286,218</b>	<b>704,058</b>	<b>1,854,058</b>

**Thorsten Haeser**  
(Member of the Executive Board  
since 1 October 2015)

2015	2016	2016 (min.)	2016 (max.)
112,500	450,000	450,000	450,000
37,891	107,770	107,770	107,770
<b>150,391</b>	<b>557,770</b>	<b>557,770</b>	<b>557,770</b>
75,000	245,540	225,000	400,000
500,000	500,000	0	750,000
500,000	0	–	–
0	500,000	0	750,000
<b>575,000</b>	<b>745,540</b>	<b>225,000</b>	<b>1,150,000</b>
0	1,654	1,654	1,654
<b>725,391</b>	<b>1,304,964</b>	<b>784,424</b>	<b>1,709,424</b>

**Nicolás Burr**  
(Member of the Executive Board  
since 1 March 2015)

2016	2015 *
450,000	375,000
393,302	327,103
<b>843,302</b>	<b>702,103</b>
200,000	300,000
0	0
0	0
0	–
0	0
<b>200,000</b>	<b>300,000</b>
912	0
<b>1,044,214</b>	<b>1,002,103</b>

**Anthony James Firmin**

2016	2015
450,000	441,667
22,086	21,641
<b>472,086</b>	<b>463,308</b>
82,160	220,206
0	0
0	0
0	–
0	0
<b>82,160</b>	<b>220,206</b>
231,972	211,830
<b>786,218</b>	<b>895,344</b>

**Thorsten Haeser**  
(Member of the Executive Board  
since 1 October 2015)

2016	2015
450,000	112,500
107,770	37,891
<b>557,770</b>	<b>150,391</b>
245,540	75,000
0	0
0	0
0	–
0	0
<b>245,540</b>	<b>75,000</b>
1,654	0
<b>804,964</b>	<b>225,391</b>

### 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:

EUR	Fixed remuneration		Remuneration for committee service		Meeting allowance		Total	
	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 Germandt	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	./.
<b>Total</b>	<b>737,498</b>	<b>700,000</b>	<b>164,169</b>	<b>160,000</b>	<b>33,300</b>	<b>32,400</b>	<b>934,967</b>	<b>892,400</b>

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 315 (5) in combination with Section 289a (5) 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, <https://www.hapag-lloyd.com/en/home.html>, at <https://www.hapag-lloyd.com/en/ir/corporate-governance/compliance-statement.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 marginally 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 %	2018e	2017e	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**



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
<b>Net capacity growth</b>	<b>0.4</b>	<b>0.8</b>	<b>1.0</b>

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.

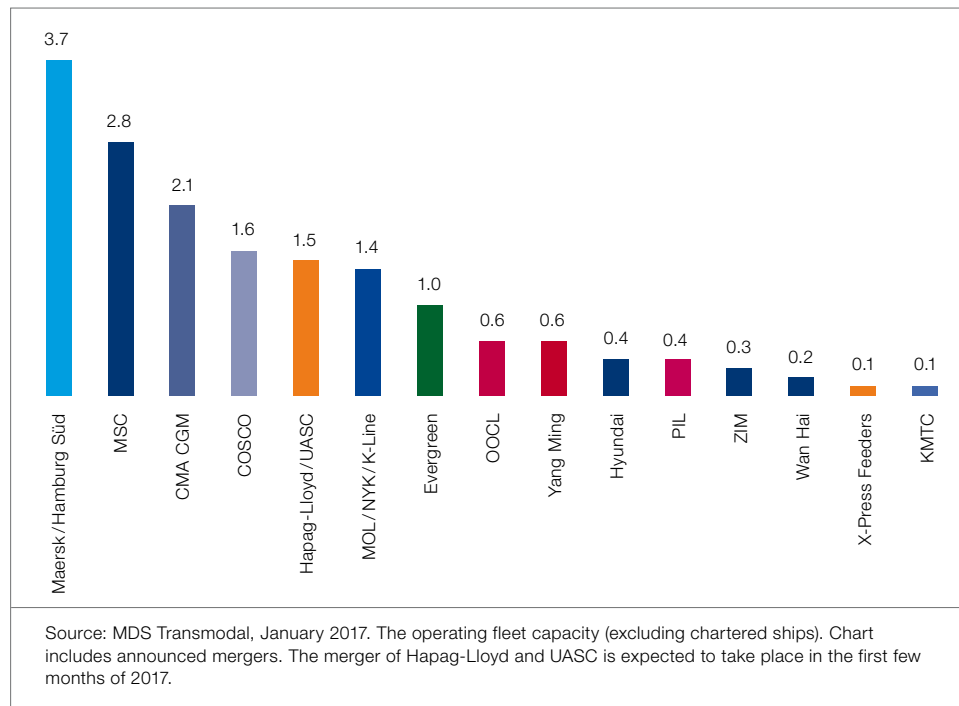
According to the sector information service Drewry (Container Forecaster Q4 2016), container ships with an aggregate transport capacity of around 650,000 TEU were scrapped in 2016 (previous year: 193,000 TEU). Scrapping therefore reached a new record level in 2016 (previous record level in 2013: 444,000 TEU). A 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)



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
<b>THE Alliance</b>	in %	<b>23</b>	<b>29</b>	<b>33</b>
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 over-supply 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 30.6.2015
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 66 were thereby all achieved in 2016.

## EARNINGS, FINANCIAL AND NET ASSET POSITION

### GROUP EARNINGS POSITION

The 2016 financial year at the Hapag-Lloyd Group was characterised by a challenging industry environment and subdued global economic growth. The global economy grew by just 3.1% in 2016, falling short of the IMF's original forecast of 3.4% (January 2016). Sustained intense competitive pressure in the container shipping industry as well as significantly reduced average bunker prices compared to the prior year led to a further significant decline in freight rates in 2016. By contrast, synergy effects and cost savings as well as a lower average bunker consumption price year-on-year had a positive effect on the earnings position. However, these factors were unable to compensate for the sharp drop in the average freight rate. At USD 1.10/EUR, the average US dollar/euro exchange rate was almost the same as in the prior year period (USD 1.11 /EUR). The Group generated a net result of EUR –93.1 million in the 2016 financial year (previous year: EUR 113.9 million).

#### Consolidated income statement

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Revenue	7,734.2	8,841.8
Other operating income	97.1	193.7
Transport expenses	6,364.0	7,258.5
Personnel expenses	496.1	484.4
Depreciation, amortisation and impairment	481.0	464.6
Other operating expenses	386.2	517.7
<b>Operating result</b>	<b>104.0</b>	<b>310.3</b>
Share of profit of equity-accounted investees	27.1	28.5
Other financial result	–4.7	27.6
<b>Earnings before interest and taxes (EBIT)</b>	<b>126.4</b>	<b>366.4</b>
Interest result	–199.8	–227.3
Income taxes	19.7	25.2
<b>Group profit/loss</b>	<b>–93.1</b>	<b>113.9</b>
thereof profit/loss attributable to shareholders of Hapag-Lloyd AG	–96.6	111.6
thereof profit/loss attributable to non-controlling interests	3.5	2.3
Basic earnings per share (in EUR)	–0.82	1.04
<b>EBITDA</b>	<b>607.4</b>	<b>831.0</b>
<b>EBITDA margin (%)</b>	<b>7.9</b>	<b>9.4</b>
<b>EBIT</b>	<b>126.4</b>	<b>366.4</b>
<b>EBIT margin</b>	<b>1.6</b>	<b>4.1</b>

The average freight rate in the 2016 financial year was USD 1,036/TEU, which was USD 189/TEU (15.4%) down on the prior year period (USD 1,225/TEU). The main reasons for the decline were the persistently difficult market environment, with pressure on freight rates continuing, and the year-on-year fall in the bunker consumption price. Freight rates could not be increased as announced as a result of the continued intense competition caused by over-capacities 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	1,338	1,504
Transpacific	1,222	1,599
Far East	765	942
Latin America	1,001	1,111
Intra-Asia	538	655
EMAO (Europe–Mediterranean–Africa–Oceania)	1,052	1,210
<b>Total (weighted average)</b>	<b>1,036</b>	<b>1,225</b>

The transport volume rose year-on-year by 2.7% from 7,401 TTEU to 7,599 TTEU in the 2016 financial year, in particular in the Transpacific and Intra-Asia trades.

#### Transport volume per trade

TTEU	1.1.–31.12. 2016	1.1.–31.12. 2015
Atlantic	1,534	1,541
Transpacific	1,493	1,390
Far East	1,245	1,283
Latin America	2,248	2,247
Intra-Asia	662	573
EMAO (Europe–Mediterranean–Africa–Oceania)	417	367
<b>Total</b>	<b>7,599</b>	<b>7,401</b>

Revenue decreased overall by EUR 1,107.6 million to EUR 7,734.2 million in the 2016 financial year (prior year period: EUR 8,841.8 million) as a result of the significant fall in rates in all trades.

**Revenue per trade**

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Atlantic	1,857.2	2,088.0
Transpacific	1,651.7	2,002.2
Far East	861.9	1,088.0
Latin America	2,035.9	2,249.7
Intra-Asia	322.4	338.4
EMAO (Europe-Mediterranean-Africa-Oceania)	397.2	400.0
Revenue not assigned to trades	607.9	675.5
<b>Total</b>	<b>7,734.2</b>	<b>8,841.8</b>

Transport expenses in the 2016 financial year dropped by 12.3% year-on-year to EUR 6,364.0 million (prior year period: EUR 7,258.5 million). Within transport expenses, expenses for raw materials, supplies and purchased goods, in particular bunker, decreased by 35.6% to EUR 687.9 million. The reason for this, alongside the reduced average bunker consumption price, was, in particular, a decrease in bunker consumption in 2016 of 6.3% 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 average bunker consumption price was USD 210 per tonne, which was USD 102 below the price of the prior year period (312 USD per tonne).

The cost of purchased services was also down by EUR 514.5 million (–8.3%) year-on-year, despite a slight increase in the transport volume. This was due to the realisation of synergy effects which resulted 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, the chartering, leases and container rentals decreased due to a falling level of charter rates as well as a reduced use of mid- and long-term charter vessels.

**Transport expenses \***

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Expenses for raw materials, supplies and purchase goods	687.9	1,067.9
Cost of purchased services	5,676.1	6,190.6
thereof		
Port, canal and terminal costs	2,651.7	2,717.2
Container transport costs	1,899.1	2,148.4
Chartering, leases and container rentals	934.9	1,168.6
Maintenance/repair/other	190.4	156.4
<b>Total</b>	<b>6,364.0</b>	<b>7,258.5</b>

\* Within the cost of purchased services, there has been a reclassification between port, canal and terminal costs and chartering, leases and container rentals for 2016. The prior year periods were adjusted accordingly.

The gross profit margin (ratio of revenue less transport expenses to revenue) in the 2016 financial year came to 17.7% (prior year period: 17.9%).

Other operating income fell by EUR 96.6 million to EUR 97.1 million (prior year period: EUR 193.7 million). The main reason for this was lower exchange rate gains in the amount of EUR 21.8 million compared to the prior year period (EUR 94.7 million), which were offset by a corresponding reduction in exchange rate losses in other operating expenses.

Personnel expenses increased by 2.4% to EUR 496.1 million in the financial year (previous year: EUR 484.4 million). This was primarily due to the previous year's release of the provision for restructuring, and exchange rate gains from the revaluation of pension provisions. Both effects significantly reduced the prior year personnel expenses. The Group employed an annual average of 9,384 people (previous year: 9,945 people). The personnel expenses ratio increased compared to the previous year from 5.5% to 6.4%.

#### Development of personnel expenses

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Personnel expenses	496.1	484.4
Revenue	7,734.2	8,841.8
<b>Personnel expenses ratio</b>	<b>6.4%</b>	<b>5.5%</b>

Depreciation and amortisation rose by 3.5% year-on-year to EUR 481.0 million (prior year period: EUR 464.6 million). The increase in depreciation and amortisation compared with the previous year resulted mainly from the newly acquired ships and containers in the 2016 financial year.

Other operating expenses fell by 25.4% year-on-year to EUR 386.2 million (prior year period: EUR 517.7 million). The main reason for this was significantly lower exchange rate losses (EUR –79.2 million), which were offset by a corresponding reduction in exchange rate gains in other operating income.

The currency effects within other operating income and expenses totalling EUR 21.0 million had a negative impact on EBIT (prior year period: net exchange rate loss of EUR 27.3 million).

The profits of equity-accounted investees came to EUR 27.1 million (previous year: EUR 28.5 million).

The Group's EBIT amounted to EUR 126.4 million in the reporting period. This was well below the corresponding figure in the prior year period of EUR 366.4 million and, after taking into account depreciation and amortisation of EUR 481.0 million, the Group's EBITDA came to EUR 607.4 million (previous year: EUR 831.0 million).

**EBIT margin**

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Revenue	7,734.2	8,841.8
EBIT	126.4	366.4
EBITDA	607.4	831.0
<b>EBIT margin</b>	<b>1.6%</b>	<b>4.1%</b>
<b>EBITDA margin</b>	<b>7.9%</b>	<b>9.4%</b>

The EBITDA margin of 7.9% was lower than in the previous year (9.4%). The EBIT margin was 1.6% (previous year: 4.1%).

An interest result of EUR –199.8 million was reported for the 2016 financial year (previous year: EUR –227.3 million). The change compared to the prior year was primarily due to the change in the fair value of embedded derivatives from issued bonds (2016: income of EUR 14.6 million; previous year: expense of EUR 5.3 million), interest reduction initiatives and higher capitalization of interest expenses.

The Group net result of EUR –93.1 million was significantly lower than in the prior year period (EUR +113.9 million). Basic earnings per share came to EUR –0.82.

**GROUP FINANCIAL POSITION****Principles and objectives of financial management**

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

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

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

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

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

### Issuer ratings

Rating/Outlook	31.12.2016	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 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

The Group covers its 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 implementing and restructuring ship and container financing as part of the planned investing activity.

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

### Financing and investing activities

The Group executed the following major financing activities in the 2016 financial year:

In order to secure long-term financing, Hapag-Lloyd signed a loan agreement with a seven-year term on 8 April 2016 for USD 57.4 million (EUR 54.4 million) for the two 3,500-TEU ships that were acquired from the Dutch shipping company, NileDutch, in the first quarter of 2016 and in April 2016 respectively. Additionally, in the fourth quarter of 2016, Hapag-Lloyd also put two ships into operation with a transport capacity of 10,500 TEU, for which loans of USD 149.0 million (EUR 141.1 million) were drawn down.

Furthermore, containers held by the Company were sold in 2016 to a group of investors on the basis of a Japanese operating lease contract and were then leased 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 USD 50.9 million (EUR 48.2 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, these contracts were reclassified as finance lease contracts and recognised as financial debt in the amount of USD 10.2 million (EUR 9.6 million).

In addition to financing for ship investments, Hapag-Lloyd obtained new fleet financing of USD 396.0 million (EUR 375.0 million) on 20 December 2016 which was used to pay off and optimise existing loans for ships in the amount of USD 298.2 million (EUR 282.4 million).

The current ABS programme was extended by drawing down a further USD 60.0 million (EUR 56.8 million).

On 23 August 2016, Hapag-Lloyd AG signed an agreement to refinance and also increase a real estate loan from EUR 54.4 million to EUR 85.0 million.

The main basis for the investments in newly constructed containers in the 2016 financial year were the credit facility obtained in the previous year for USD 135.0 million (EUR 127.8 million) as well as a lease agreement with a volume of USD 38.8 million (EUR 36.8 million).

A credit line amounting to USD 125.0 million (EUR 118.4 million) granted in the previous year in connection with the IPO was fully utilised as at the balance sheet date. In addition, there were free credit lines totalling EUR 189.4 million which had not been utilised as at 31 December 2016.

Covenant clauses of a type customary on the market have been arranged for existing financing. These clauses primarily relate to certain equity and liquidity indicators of the Group. As at 31 December 2016, these covenants were fulfilled for the existing financing. Based on current planning, the Executive Board expects that these covenants will also be adhered to during the subsequent period. In addition, set loan-to-value ratios are in place for individual loans collateralised by property, plant and equipment. The under-collateralisation in the loan-to-value ratios which result from the current development in market prices for used vessels, in the amount of USD 62.2 million (EUR 58.9 million) and which can be demanded by the financing bank with a payment deadline of four weeks, were reclassified to short-term financial debt as at the balance sheet date.



**Net debt****Financial solidity**

million EUR	2016	2015
Financial debt	4,180.7	3,907.3
Cash & cash equivalents	570.2	573.3
Restricted cash (other assets)	18.7	0.0
<b>Net debt</b>	<b>3,591.8</b>	<b>3,333.6</b>
EBITDA	607.4	831.0
Gearing (%)*	<b>71.0</b>	<b>66.1</b>
Unused credit lines	189.4	388.7
<b>Equity ratio (%)</b>	<b>44.6</b>	<b>45.5</b>

\* Ratio net debt to equity

The Group's net debt as at 31 December 2016 increased compared to the previous year from EUR 3,333.6 million to EUR 3,591.8 million. The main reason for this was the increase in financial debt resulting from the financing of the investments made in ships and containers. The calculation of net debt includes restricted cash in the amount of EUR 18.7 million, which is held in trust as security for existing financial debt, and due to its maturity, reported under other assets. Gearing (net debt/equity) increased to 71.0% (previous year: 66.1%).

**Liquidity analysis**

The Hapag-Lloyd Group's solvency was fully guaranteed at all times in the last financial year by cash inflows from operating activities, a portfolio of cash and cash equivalents, and syndicated credit facilities. The Company had a liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) totalling EUR 759.6 million (previous year: EUR 962.4 million).

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

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
<b>EBITDA</b>	<b>607.4</b>	<b>831.0</b>
Changes in working capital	-162.6	-180.2
Other effects	-27.6	-78.7
Cash flow from operating activities	417.2	572.1
Cash flow from investment activities	-318.4	-606.5
<b>Free cash flow</b>	<b>98.8</b>	<b>-34.4</b>
Cash flow from financing activities	-119.4	-177.1
<b>Changes in cash and cash equivalents</b>	<b>-20.6</b>	<b>-211.5</b>

**Cash flow from operating activities**

The Hapag-Lloyd Group's cash flow from operating activities for the past year came to EUR 417.2 million, which was EUR 154.9 million, or 27.1%, lower than in the previous year. Starting with EBITDA of EUR 607.4 million, the adjustment of earnings for non-cash income and expenses recognised through profit or loss as well as changes in working capital led to a reduction in the cash flow from operating activities.

### Cash flow from investing activities

The cash outflow from investing activities totalled EUR 318.4 million (previous year: EUR 606.5 million). This mainly consisted of payments for investments in ships and containers totalling EUR 341.1 million (previous year: EUR 724.3 million). Dividend payments received of EUR 28.8 million (previous year: EUR 38.9 million) had an offsetting effect. Additionally, non-cash investments in new and leased containers in the amount of EUR 52.4 million were made (previous year: EUR 124.0 million). After deducting the net cash outflows from investing activities, there was a positive free cash flow of EUR 98.8 million in the 2016 financial year (previous year: negative free cash flow of EUR –34.4 million).

### Cash flow from financing activities

The net impact of the Company's financing activities in the 2016 financial year was an outflow of net cash of EUR 119.4 million (prior year period: cash outflow of EUR 177.1 million). New borrowing of EUR 966.0 million (previous year: EUR 575.3 million) related primarily to payments for ship financing in the amount of EUR 545.2 million and further financing of EUR 420.8 million. Cash inflows from new borrowing were offset by interest and capital repayments of EUR 1,049.7 million (previous year: EUR 961.9 million). Payments of EUR 11.3 million were also made for foreign currency hedging for financial debt.

### Changes in cash and cash equivalents

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
<b>Cash and cash equivalents at beginning of period</b>	<b>573.7</b>	<b>711.4</b>
Changes due to exchange rate fluctuations	17.1	73.8
Net changes	–20.6	–211.5
<b>Cash and cash equivalents at end of period</b>	<b>570.2</b>	<b>573.7</b>

The cash and cash equivalents of EUR 570.2 million were virtually unchanged compared to the previous year (prior year period: EUR 573.7 million). The change within the financial year 2016 resulted from a cash outflow of EUR 20.6 million and exchange-rate-related increases in the value of cash and cash equivalents of EUR 17.1 million. The cash and cash equivalents dealt with in the statement of cash flows correspond to the balance sheet item “Cash and cash equivalents”. As at 31 December 2016, there were also unutilised, free credit facilities of EUR 189.4 million as well as cash and cash equivalents managed in trust, as security for existing financial debt, of EUR 18.7 million, whose availability is restricted and which were recognised in other assets.

### Capital expenditure

Capital expenditure came to EUR 392.2 million in the 2016 financial year (previous year: EUR 833.5 million) and related, in particular, to investments in ships and containers. In the financial year, two newly constructed ships with a capacity of 10,500 TEU each were delivered to Hapag-Lloyd, while two ships with a capacity of 3,500 TEU were purchased. Further investments were also made in containers. The development of fixed assets is discussed in the “Group net asset position” section of the Group management report. For further details, see the note “(12) Property, plant and equipment” in the Notes to the consolidated financial statements.

### Off-balance-sheet obligations

Purchase commitments decreased year-on-year, from EUR 350.1 million to EUR 151.7 million. The reason for this was the delivery of two 10,500-TEU ships. The remaining three 10,500-TEU-class ships in the order book will be delivered in the first half of 2017. No new orders were placed in the 2016 financial year.

In the course of its normal business activities, Hapag-Lloyd 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. These agreements give rise to future payment obligations in the amount of EUR 1,025.8 million (previous year: EUR 1,300.8 million). Details of the operating rental, lease and charter agreements and the structure of the remaining terms of financial obligations can be found in the "(32) Leases" section in the Notes to the consolidated financial statements.

## GROUP NET ASSET POSITION

### Changes in the net asset structure

million EUR	31.12.2016	31.12.2015
<b>Assets</b>		
Non-current assets	9,722.9	9,514.1
of which fixed assets	9,643.3	9,457.3
Current assets	1,608.0	1,565.0
of which cash and cash equivalents	570.2	573.7
<b>Total assets</b>	<b>11,330.9</b>	<b>11,079.1</b>
<b>Equity and liabilities</b>		
Equity	5,058.4	5,046.2
Borrowed capital	6,272.5	6,032.9
of which non-current liabilities	3,633.2	3,633.8
of which current liabilities	2,639.3	2,399.1
of which financial debt	4,180.7	3,907.3
of which non-current financial debt	3,265.5	3,297.2
of which current financial debt	915.2	610.1
<b>Total equity and liabilities</b>	<b>11,330.9</b>	<b>11,079.1</b>
Net debt	3,591.8	3,333.6
Equity ratio (in %)	44.6	45.5

As at 31 December 2016, the consolidated total assets increased by EUR 251.8 million to EUR 11,330.9 million, whereby non-current assets grew by EUR 208.8 million and current assets rose by EUR 43.0 million. The strengthening of the US-Dollar against the euro led to a significant increase in assets and liabilities. The US dollar/euro exchange rate was quoted at USD 1.06/EUR on 31 December 2016 (31 December 2015: USD 1.09/EUR).

Within non-current assets, fixed assets increased mainly as a result of the additions to the ships (EUR 255.9 million) and containers (EUR 58.8 million) in the financial year. Exchange rate effects of EUR 280.7 million also caused property, plant and equipment to increase significantly. Depreciation in the amount of EUR 481.0 million reduced the carrying amount of fixed assets.

The reasons for the increase in current assets to EUR 1,608.0 million (previous year: EUR 1,565.0 million) include an essentially price-related rise in bunker stock of EUR 30.4 million to EUR 124.5 million, which mainly resulted from higher bunker prices at year-end compared to the beginning of the year.

Cash and cash equivalents were almost unchanged year-on-year at EUR 570.2 million (previous year: EUR 573.7 million).

Equity (including non-controlling interests) rose by EUR 12.2 million to EUR 5,058.4 million. In particular, positive effects from the unrealised gains and losses from foreign currency translation recognised in other comprehensive income amounting to EUR 156.5 million resulted in an increase in equity. The Group loss of EUR –93.1 million and the change in the reserve for the remeasurement of defined benefit pension plans (EUR –43.7 million) led to a decline in equity. The equity ratio remained solid as in the previous year at around 45%.

The Group's borrowed capital rose year-on-year by EUR 239.6 million to EUR 6,272.5 million. This increase includes a EUR 273.4 million net rise in financial debt relating, in particular, to cash inflows from financing, exchange rate changes (EUR +104.8 million) and offsetting capital repayments.

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

## 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 takeover 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.

## 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 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.

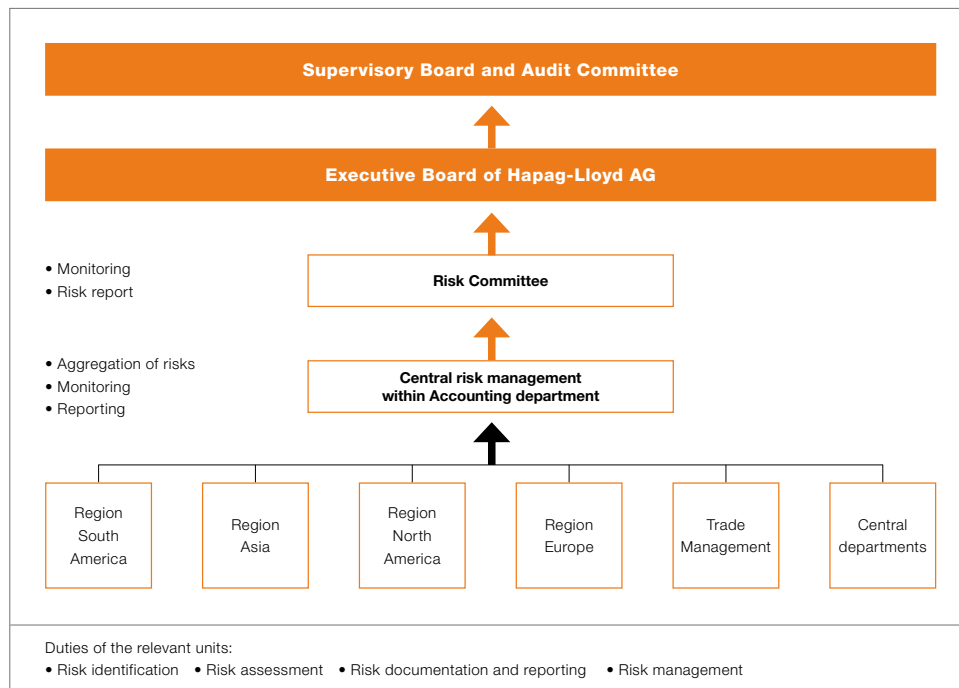
Within the context of the decentralised structure of risk management, risk managers are appointed across the Group and are responsible for continuously identifying, assessing, managing and monitoring operational and financial risks in the various regions and central departments (e.g. Treasury & Finance).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

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 130. 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 8.2% 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 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.

**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 classified in total 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.

#### **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 as at 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.

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 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 or other intangible assets**

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 implement 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 (page 240) in the annual report 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 179ff. 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 a 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 19.7 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 synergies from the originally initiated efficiency and cost saving projects 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 financial 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.

#### 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

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## CONSOLIDATED INCOME STATEMENT

of Hapag-Lloyd AG for the period 1 January to 31 December 2016

million EUR	Notes	1.1.–31.12. 2016	1.1.–31.12. 2015
Revenue	(1)	7,734.2	8,841.8
Other operating income	(2)	97.1	193.7
Transport expenses	(3)	6,364.0	7,258.5
Personnel expenses	(4)	496.1	484.4
Depreciation, amortisation and impairment	(5)	481.0	464.6
Other operating expenses	(6)	386.2	517.7
<b>Operating result</b>		<b>104.0</b>	<b>310.3</b>
Share of profit of equity-accounted investees	(14)	27.1	28.5
Other financial result	(7)	-4.7	27.6
<b>Earnings before interest and taxes (EBIT)</b>		<b>126.4</b>	<b>366.4</b>
Interest income	(8)	5.7	5.6
Interest expenses	(8)	205.5	232.9
<b>Earnings before income taxes</b>		<b>-73.4</b>	<b>139.1</b>
Income taxes	(9)	19.7	25.2
<b>Group profit/loss</b>		<b>-93.1</b>	<b>113.9</b>
thereof attributable to shareholders of Hapag-Lloyd AG		-96.6	111.6
thereof attributable to non-controlling interests	(22)	3.5	2.3
<b>Basic/diluted earnings per share (in EUR)</b>	(10)	<b>-0.82</b>	<b>1.04</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

of Hapag-Lloyd AG for the period 1 January to 31 December 2016

million EUR	Notes	1.1.–31.12. 2016	1.1.–31.12. 2015
<b>Group profit/loss</b>		<b>-93.1</b>	<b>113.9</b>
<b>Items which will not be reclassified to profit and loss:</b>		<b>-43.7</b>	<b>29.6</b>
Remeasurements from defined benefit plans after tax	(21)	-43.7	29.6
Remeasurements from defined benefit plans before tax		-45.3	30.8
Tax effect		1.6	-1.2
<b>Items which may be reclassified to profit and loss:</b>		<b>160.7</b>	<b>454.3</b>
Cash flow hedges (no tax effect)	(21)	4.2	1.2
Effective share of the changes in fair value		-17.7	-21.8
Reclassification to profit or loss		21.9	23.0
Currency translation (no tax effect)	(21)	156.5	453.1
<b>Other comprehensive income after tax</b>		<b>117.0</b>	<b>483.9</b>
<b>Total comprehensive income</b>		<b>23.9</b>	<b>597.8</b>
thereof attributable to shareholders of Hapag-Lloyd AG		20.4	595.0
thereof attributable to non-controlling interests	(22)	3.5	2.8

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

of Hapag-Lloyd AG as at 31 December 2016

### ASSETS

million EUR	Notes	31.12.2016	31.12.2015
Goodwill	(11)	1,661.6	1,610.8
Other intangible assets	(11)	1,340.4	1,376.3
Property, plant and equipment	(12)	6,315.6	6,143.6
Investments in equity-accounted investees	(14)	325.7	326.6
Other assets	(15)	27.0	22.5
Derivative financial instruments	(16)	24.1	10.7
Receivables from income taxes	(9)	3.3	–
Deferred tax assets	(9)	25.2	23.6
<b>Non-current assets</b>		<b>9,722.9</b>	<b>9,514.1</b>
Inventories	(17)	124.5	94.1
Trade accounts receivable	(15)	677.6	716.1
Other assets	(15)	197.5	148.5
Derivative financial instruments	(16)	13.5	0.7
Income tax receivables	(9)	24.7	31.9
Cash and cash equivalents	(18)	570.2	573.7
<b>Current assets</b>		<b>1,608.0</b>	<b>1,565.0</b>
<b>Total assets</b>		<b>11,330.9</b>	<b>11,079.1</b>

## EQUITY AND LIABILITIES

million EUR	Notes	31.12.2016	31.12.2015
Subscribed capital	(19)	118.1	118.1
Capital reserves	(19)	1,061.8	1,263.2
Retained earnings	(20)	3,152.9	3,052.3
Cumulative other equity	(21)	721.8	604.8
<b>Equity attributable to shareholders of Hapag-Lloyd AG</b>		<b>5,054.6</b>	<b>5,038.4</b>
Non-controlling interests	(22)	3.8	7.8
<b>Equity</b>		<b>5,058.4</b>	<b>5,046.2</b>
Provisions for pensions and similar obligations	(23)	238.0	186.2
Other provisions	(24)	114.0	144.2
Financial debt	(25)	3,265.5	3,297.2
Other liabilities	(26)	12.1	4.7
Derivative financial instruments	(27)	1.8	–
Deferred tax liabilities	(9)	1.8	1.5
<b>Non-current liabilities</b>		<b>3,633.2</b>	<b>3,633.8</b>
Provisions for pensions and similar obligations	(23)	6.6	5.6
Other provisions	(24)	211.2	285.9
Income tax liabilities	(9)	17.6	22.9
Financial debt	(25)	915.2	610.1
Trade accounts payable	(26)	1,281.6	1,293.8
Other liabilities	(26)	167.8	158.5
Derivative financial instruments	(27)	39.3	22.3
<b>Current liabilities</b>		<b>2,639.3</b>	<b>2,399.1</b>
<b>Total equity and liabilities</b>		<b>11,330.9</b>	<b>11,079.1</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

of Hapag-Lloyd AG for the period 1 January to 31 December 2016

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Group profit/loss	-93.1	113.9
Income tax expenses (+)/income (-)	19.7	25.2
Interest result	199.8	227.3
Depreciation, amortisation and impairment (+)/write-backs (-)	481.0	464.6
Impairment (+)/write-backs (-) of financial assets	0.6	-
Other non-cash expenses (+)/income (-)	-7.6	-87.8
Profit (-)/loss (+) from hedges for financial debt	11.3	47.9
Profit (-)/loss (+) from disposals of non-current assets and assets held for sale	2.8	-11.0
Income (-) expenses (+) from equity-accounted investees and dividends	-27.2	-28.6
Increase (-)/decrease (+) in inventories	-26.2	74.2
Increase (-)/decrease (+) in receivables and other assets	20.1	69.0
Increase (+)/decrease (-) in provisions	-109.6	-224.7
Increase (+)/decrease (-) in liabilities (excl. financial debt)	-46.9	-98.7
Payments for income taxes	-9.1	-0.8
Payments received (+) for interest	1.6	1.6
<b>Cash inflow (+)/outflow (-) from operating activities</b>	<b>417.2</b>	<b>572.1</b>
Payments received from disposals of property, plant and equipment and intangible assets	6.5	4.0
Payments received from the disposal of other investments	-	0.3
Payments from dividends	28.8	38.9
Payments received from the disposal of assets held for sale	-	74.9
Payments made for investments in property, plant and equipment and intangible assets	-353.7	-724.3
Payments made for investments in other investments	-	-0.3
<b>Cash inflow (+)/outflow (-) from investing activities</b>	<b>-318.4</b>	<b>-606.5</b>

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Payments received from capital increases	–	264.5
Payments made for capital increases	–	–5.0
Payments made from changes in ownership interests in subsidiaries	–0.3	–
Payments made for dividends	–6.3	–2.1
Payments received from raising financial debt	966.0	575.3
Payments made for the redemption of financial debt	–859.8	–748.6
Payments made for interest	–189.9	–213.3
Payments received (+) and made (–) from hedges for financial debt	–11.2	–47.9
Change in restricted cash	–17.9	–
<b>Cash inflow (+)/outflow (–) from financing activities</b>	<b>–119.4</b>	<b>–177.1</b>
<b>Net change in cash and cash equivalents</b>	<b>–20.6</b>	<b>–211.5</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>573.7</b>	<b>711.4</b>
Change in cash and cash equivalents due to exchange rate fluctuations	17.1	73.8
Net change in cash and cash equivalents	–20.6	–211.5
<b>Cash and cash equivalents at the end of period</b>	<b>570.2</b>	<b>573.7</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of Hapag-Lloyd AG for the period 1 January to 31 December 2016

million EUR	Equity attributable to shareholders		
	Subscribed capital	Capital reserves	Retained earnings
Notes	(19)	(19)	(20)
<b>As per 1.1.2015</b>	<b>104.9</b>	<b>1,651.9</b>	<b>2,286.1</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>111.6</b>
thereof			
Group profit/loss	-	-	111.6
Other comprehensive income	-	-	-
<b>Transactions with shareholders</b>	<b>13.2</b>	<b>-388.7</b>	<b>654.8</b>
thereof			
Capital increase initial public offering	13.2	251.3	-
Transaction cost initial public offering	-	-4.3	-
Transfer from capital reserves	-	-635.7	635.7
Business combination	-	-	19.1
Distribution to non-controlling interests	-	-	-
<b>Deconsolidation</b>	<b>-</b>	<b>-</b>	<b>-0.2</b>
<b>As per 31.12.2015</b>	<b>118.1</b>	<b>1,263.2</b>	<b>3,052.3</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-96.6</b>
thereof			
Group profit/loss	-	-	-96.6
Other comprehensive income	-	-	-
<b>Transactions with shareholders</b>	<b>-</b>	<b>-201.4</b>	<b>201.4</b>
thereof			
Transfer from capital reserves	-	-201.4	201.4
Acquisition of shares from non-controlling interests	-	-	-
Distribution to non-controlling interests	-	-	-
<b>Deconsolidation</b>	<b>-</b>	<b>-</b>	<b>-4.2</b>
<b>As per 31.12.2016</b>	<b>118.1</b>	<b>1,061.8</b>	<b>3,152.9</b>



of Hapag-Lloyd AG

Remeasure- ments from defined benefit plans	Reserve for cash flow hedges	Translation reserve	Cumulative other equity	<b>Total</b>	Non- controlling interests	<b>Total equity</b>
				(21)		(22)
<b>-104.8</b>	-	<b>226.2</b>	<b>121.4</b>	<b>4,164.3</b>	<b>5.3</b>	<b>4,169.6</b>
<b>29.6</b>	<b>1.2</b>	<b>452.6</b>	<b>483.4</b>	<b>595.0</b>	<b>2.8</b>	<b>597.8</b>
-	-	-	-	111.6	2.3	113.9
29.6	1.2	452.6	483.4	483.4	0.5	483.9
-	-	-	-	<b>279.3</b>	<b>-0.3</b>	<b>279.0</b>
-	-	-	-	264.5	-	264.5
-	-	-	-	-4.3	-	-4.3
-	-	-	-	-	-	-
-	-	-	-	19.1	3.6	22.7
-	-	-	-	-	-3.9	-3.9
-	-	-	-	<b>-0.2</b>	-	<b>-0.2</b>
<b>-75.2</b>	<b>1.2</b>	<b>678.8</b>	<b>604.8</b>	<b>5,038.4</b>	<b>7.8</b>	<b>5,046.2</b>
<b>-43.7</b>	<b>4.2</b>	<b>156.5</b>	<b>117.0</b>	<b>20.4</b>	<b>3.5</b>	<b>23.9</b>
-	-	-	-	-96.6	3.5	-93.1
-43.7	4.2	156.5	117.0	117.0	-	117.0
-	-	-	-	-	<b>-6.6</b>	<b>-6.6</b>
-	-	-	-	-	-	-
-	-	-	-	-	-0.3	-0.3
-	-	-	-	-	-6.3	-6.3
-	-	-	-	<b>-4.2</b>	<b>-0.9</b>	<b>-5.1</b>
<b>-118.9</b>	<b>5.4</b>	<b>835.3</b>	<b>721.8</b>	<b>5,054.6</b>	<b>3.8</b>	<b>5,058.4</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FUNDAMENTAL ACCOUNTING PRINCIPLES

### General information

Hapag-Lloyd Aktiengesellschaft (Hapag-Lloyd AG), domiciled in Hamburg, Germany, is registered in commercial register B of the district court in Hamburg under number HRB 97937. It is the parent company of the Hapag-Lloyd Group and a listed public limited company in accordance with German law. The Company's shares are traded on the Frankfurt and Hamburg Stock Exchanges. Hapag-Lloyd is an international group whose primary purpose is to provide ocean container liner shipping activities, logistical services and all other associated business operations and services.

The consolidated financial statements are reported and published in euros (EUR). All amounts recognised for the financial year are reported in million euros (EUR million) unless otherwise stated.

The consolidated financial statements are for the financial year from 1 January to 31 December 2016 and are due to be examined and approved by the Supervisory Board on 24 March 2017.

### Accounting principles

The consolidated financial statements of Hapag-Lloyd AG were prepared in accordance with the International Financial Reporting Standards (IFRS) laid out by the International Accounting Standards Board (IASB), including the interpretations of the IFRS Interpretations Committee (IFRIC), as they are to be applied in the European Union (EU). The German commercial law provisions pursuant to Section 315a (1) of the German Commercial Code (HGB) were also incorporated.

### New accounting standards

The following changes to existing standards published by the IASB, which have already been endorsed, had to be applied for the first time in the 2016 financial year. Their first-time application did not have a significant effect on the net asset, financial and earnings position of the Hapag-Lloyd Group or on the disclosures made in the Notes to the financial statements.

- Amendment to IAS 1: *Disclosures in the Notes to the Financial Statements*
- Amendment to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendment to IAS 16 and IAS 41: *Bearer Plants*
- Amendment to IAS 27: *Equity Method in Separate Financial Statements*
- Amendments to IFRS 10, IFRS 12 and IAS 28: *Investment Entities: Applying the Consolidation Exception*
- Amendment to IFRS 11: *Accounting for Acquisitions of Interests in Joint Operations*
- *Annual Improvements to IFRS (2012–2014)*

The following standards and interpretations that were adopted and amended by the IASB at the time these consolidated financial statements were prepared were not yet mandatory in the 2016 financial year:

Standard/Interpretation		Mandatory application as per	Adopted by EU Commission
IFRS 9	Financial Instruments	1.1.2018	yes
IFRS 15	Revenue from Contracts with Customers	1.1.2018	yes
IAS 7	Amendments to IAS 7: Disclosure Initiative	1.1.2017	no
IAS 12	Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	1.1.2017	no
IAS 40	Amendments to IAS 40: Transfers of Investment Property	1.1.2018	no
IFRS 2	Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1.1.2018	no
IFRS 4	Amendments to IFRS 4: Applying IFRS 9 with IFRS 4	1.1.2018	no
IFRS 10 IAS 28	Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	postponed	no
IFRS 15	Amendments to IFRS 15: Clarifications	1.1.2018	no
IFRS 16	Leases	1.1.2019	no
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1.1.2018	no
Various	Annual Improvements to IFRS (2014–2016)	1.1.2017/ 1.1.2018	no

These are regulations which will not be mandatory until the 2017 financial year or later. The Company does not plan to adopt any of them early. Unless stated otherwise, the effects are currently being reviewed.

## EU endorsement has been given

### IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board published the final version of IFRS 9 Financial Instruments. IFRS 9 becomes mandatory in the first reporting period of a financial year beginning on or after 1 January 2018. The standard may be applied before then. The Group currently intends to apply IFRS 9 for the first time as at 1 January 2018.

The new standard requires the Group to adapt its financial reporting processes and internal controls in relation to the presentation of financial instruments. These adaptations have not yet been completed. However, the Group has conducted a preliminary assessment of the possible effects of applying IFRS 9, based on its accounting items as at 31 December 2016 and the hedging relationships determined in accordance with IAS 39 in 2016.

i. Classification – financial assets

IFRS 9 contains a new method for the classification and measurement of financial assets that reflects the business model within which the assets are held and the characteristics of their cash flows.

IFRS 9 contains three important measurement categories for financial assets: measured at amortised cost, measured at fair value with changes in value recognised through profit or loss (FVTPL) and measured at fair value with changes in value recognised through other comprehensive income (FVOCI).

Under IFRS 9, derivatives which are embedded in contracts, whereby the underlying is a financial asset within the scope of application of the standard, are never recognised separately. Instead, the hybrid financial asset is assessed as a whole with regard to categorisation.

Based on its preliminary assessment, the Hapag-Lloyd Group does not believe that the new categorisation requirements, insofar as they would have been applied as at 31 December 2016, would have significant effects on the recognition of its trade accounts receivable, cash and cash equivalents, and other financial assets. As at 31 December 2016, Hapag-Lloyd had available-for-sale financial assets with a fair value of EUR 0.8 million. These include fixed-interest bonds in the amount of EUR 0.3 million, which will be categorised in future as FVTPL due to their cash flow characteristics. As a result of this, all changes in their fair value will be recognised through profit or loss, which will increase the volatility of the Group profit or loss. In addition, the available-for-sale financial assets include investments which are held for long-term strategic reasons. If these equity instruments continue to be held for the same reason when IFRS 9 is applied for the first time, Hapag-Lloyd can choose whether to classify them as FVOCI or FVTPL. So far, it has not made a decision in this regard. In the case of the former, all changes in fair value will be recognised through other comprehensive income, no impairment losses will be recognised through profit or loss and, when the instruments are disposed of, no gains or losses will be reclassified as profit or loss. In both cases, it is possible to recognise the instruments at their cost of acquisition as a best estimate of their fair value. As a result, there would be no changes in their recognised value as at 31 December 2016.

ii. Impairment

IFRS 9 replaces the “losses incurred” model of IAS 39 with a future-based “expected credit losses” model. The measurement of expected credit losses requires discretionary decisions.

The new impairment model should be applied to financial assets which are measured at amortised cost or at FVOCI – with the exception of equity securities held as financial investments – as well as to contractual assets in accordance with IFRS 15.

Under IFRS 9, loss allowances are measured based on one of the following methods:

- 12-month expected credit losses: these refer to expected credit losses as a result of possible default events within the twelve months following the reporting date.
- Lifetime expected credit losses: these refer to expected credit losses as a result of all possible default events during the expected lifetime of a financial instrument.

The measurement method of lifetime expected credit losses should be applied if the credit risk of a financial asset on the reporting date has increased significantly since initial recognition; otherwise, the measurement method of 12-month expected credit losses should be applied. A company can establish that the credit risk of a financial asset has not increased significantly if the asset exhibits a low credit risk on the reporting date. However, the measurement method of lifetime expected credit losses should always be applied to trade accounts receivable and to contractual assets which do not have a significant financing component.

The simplified impairment method for trade accounts receivable is primarily used by the Hapag-Lloyd Group. This is not expected to have any significant effects on the impairment losses of trade accounts receivable. With regard to other financial assets, for which the general impairment method will be applicable, the new impairment model will lead to an increase in loss allowances that is also not regarded as significant based on the provisional evaluation.

### iii. Classification – financial liabilities

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

Under IAS 39, however, all changes in the fair value of liabilities which have been specified as measured at fair value through profit or loss are recognised through profit or loss. By contrast, these changes in fair value will generally be presented as follows under IFRS 9:

- The change in fair value which is attributable to changes in the credit risk of the liability will be presented in other comprehensive income.
- The remaining change in fair value will be presented in profit or loss.

Hapag-Lloyd did not specify any financial liabilities as measured at fair value through profit or loss and does not intend to do so at this time. The preliminary assessment by the Group did not therefore identify any significant effects of applying the requirements of IFRS 9 with regard to the categorisation of financial liabilities as at 31 December 2016.

iv. Hedge accounting

When IFRS 9 is applied for the first time, the Group can choose to continue applying the requirements for hedge accounting of IAS 39 instead of the requirements of IFRS 9. At present, Hapag-Lloyd intends to apply the new requirements of IFRS 9.

Under IFRS 9, Hapag-Lloyd must ensure that its accounting for hedging relationships is in line with the objectives and strategy of the Group risk management system and that a more qualitative and future-based method is applied when assessing the effectiveness of hedging transactions. IFRS 9 also introduces new requirements with regard to the new weighting of hedging relationships and prohibits the voluntary termination of hedge accounting. Under the new model, it is possible that more risk management strategies – in particular those which include a risk hedging component (with the exception of foreign currency risk) of a non-financial item – will fulfil the requirements for hedge accounting. The Hapag-Lloyd Group does not currently hedge risk components of this type.

The preliminary assessment by the Group indicates that the types of accounting for hedging relationships which the Group currently has should fulfil the requirements of IFRS 9 if the Group makes certain intended changes to its internal documentation and monitoring procedures.

IFRS 9 also includes new requirements for the recognition of hedging costs if only the intrinsic value or cash component is designated. Under IAS 39, changes in the value of the non-designated time values, i.e. of the forward component, are recognised directly through profit or loss. When applying IFRS 9, the change in fair value must be recognised through other comprehensive income in this case, in a separate reserve for hedging costs. The change in the interest component and in the foreign currency basis spread can be recognised through other comprehensive income.

The Hapag-Lloyd Group uses bunker options to hedge against fuel price risks, whereby only the intrinsic value is included in the hedging relationship. The resulting changes in fair value of EUR 4.6 million were therefore recognised immediately through profit or loss in the current financial statements under IAS 39. Under IFRS 9, these measurement gains would be recognised through other comprehensive income, as a result of which there would be lower measurement fluctuations in the income statement for the same amount.

Hapag-Lloyd also uses currency forward contracts to hedge against fluctuations in cash flows in relation to changes in foreign exchange rates for certain financial debt. Here, all price components are currently designated as the hedging instrument of the cash flow hedging relationship (forward-to-forward method). In order to obtain a similar accounting result, Hapag-Lloyd will switch to the spot-to-spot method when it applies IFRS 9 for the first time. As a result, only the cash component will be designated as the hedging instrument in the future. There will be no significant accounting effects with hedging transactions of this type.

At present, the cumulative amounts in the cash flow hedge reserve for all cash flow hedges are reclassified as reclassification amounts in profit or loss, and this is done in the same period in which the respective underlying transactions affect profit or loss. Under IFRS 9, however, the option to reclassify is no longer available when hedging non-financial assets. This means that, when recognising inventories, the cumulative amounts in the cash flow hedge reserve and in the hedging cost reserve will in future have to be recognised as an adjustment to the cost of acquisition of the inventories (basis adjustment). However, the Hapag-Lloyd Group does not expect this to have any significant effects overall.

#### v. Transition

Changes to financial reporting methods resulting from the application of IFRS 9 will generally be applied retroactively with the exception of the following cases:

- Hapag-Lloyd intends to make use of the option not to restate comparative information for previous periods with regard to changes in categorisation and measurement (including impairment). Differences between the carrying amounts of financial assets and financial liabilities resulting from the application of IFRS 9 will generally be recognised in retained earnings and other reserves as at 1 January 2018.
- New requirements for hedge accounting should generally be applied prospectively. However, the recognition of time values of options must be restated retroactively. By contrast, when it comes to the expected change in financial reporting for the forward component and the foreign currency basis spread, the Group has the option of applying this retroactively. Hapag-Lloyd will not make use of this option.
- The following assessments should be made on the basis of the facts and circumstances that exist at the time of initial application:
  - Specification of the business model within which a financial asset is held.
  - Specification and revocation of earlier specifications with regard to certain financial assets and financial liabilities which are measured as FVTPL.
  - Specification of certain dividend securities which are held as financial investments and not held for trading purposes as FVOCI.

#### **IFRS 15 Revenue from Contracts with Customers**

The IASB published IFRS 15 *Revenue from Contracts with Customers* in May 2014 and *Clarifications to IFRS 15: Revenue from Contracts with Customers* in April 2016. However, the latter have not yet been adopted by the EU into European law. With IFRS 15, the rules on recognising revenue contained in various standards and interpretations were combined. At the same time, uniform basic principles were defined that are applicable to all sectors and to all types of revenue transaction. A five-step model will henceforth apply to assessing the amount of revenue to be recognised and at which time or over which period it is to be recognised. The standard also contains a range of additional rules regarding detailed issues such as presenting contract fees and contract amendments.

IFRS 15 becomes mandatory in financial years beginning on or after 1 January 2018. The standard may be applied before then, although the Hapag-Lloyd Group does not intend to do so. The Group will therefore apply IFRS 15 for the first time to its consolidated financial statements as at 31 December 2018.

As part of the IFRS 15 implementation project, the Hapag-Lloyd Group's main revenue streams have initially been analysed.

Within the revenue from contracts with customers, the most important sources of revenue for the Hapag-Lloyd Group are sea freight, inland container transport and terminal handling charges, which account for 92.7% at 31 December 2016 (previous year: 93.4%). As part of the analysis of this revenue stream, the Group identified one service commitment per shipment, which is rendered on a period-related basis, i.e. for the duration of transport. The analysis also showed that combining several shipments on a single ship journey produces essentially the same results with regard to the amount of revenue recognised and when it is recognised as are produced when the revenue is recognised on the basis of the single shipment. Since revenue from sea freight, inland container transport and terminal handling charges is already recognised and categorised on a period-related basis and in line with the end-of-journey principle, the initial application of IFRS 15 by the Hapag-Lloyd Group is not expected to have any significant effects with regard to the amount of revenue recognised and when it is recognised.

With regard to the other revenue streams, the analyses also found that the initial application of IFRS 15 is not expected to have any significant effects on the amount of revenue and when it is recognised.

### **EU endorsement still pending**

#### **IFRS 16 Leases**

In January 2016, the IASB published extensive new regulations governing the recognition of leases in IFRS 16 Leases. The new standard aims to ensure that all leases and associated contractual rights and obligations are recognised in the lessee's statement of financial position. The previously required distinction between finance and operating leases will no longer apply to the lessee in future. Simplified reporting methods are in place for short-term leases and leased assets with a low value. With regard to the recognition of leases by the lessor, IFRS 16 specifies regulations which are similar to the currently applicable IAS 17. This stipulates that lease contracts will continue to be classified as either finance leases or operating leases. For classification in accordance with IFRS 16, the criteria of IAS 17 have been adopted.

IFRS 16 replaces the existing guidelines on leases, including IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*.



Subject to its adoption into EU law, the standard becomes mandatory in the first reporting period of a financial year beginning on or after 1 January 2019. The standard may be applied before then if IFRS 15 *Revenue from Contracts with Customers* is also applied at the same time. However, the Hapag-Lloyd Group does not intend to do so at present.

The Hapag-Lloyd Group has begun an initial assessment of the possible effects of applying IFRS 16 to its consolidated financial statements. Without being able to provide specific quantitative details at present, the Hapag-Lloyd Group's assets and liabilities are expected to increase significantly when IFRS 16 is applied for the first time due to the recognition of existing operating leases for ships and containers, thereby reducing the equity ratio accordingly.

#### **Amendments to other standards**

The purpose of the amendments to IAS 7 is to require a company to provide disclosures that enable users of financial statements to assess changes in liabilities whose cash flow is shown in the statement of cash flows under cash flow from financing activities. This also includes the financial assets which exist in connection with this. In order to comply with the additional disclosure obligations, the Group intends to present a reconciliation statement between the opening and closing amounts for liabilities which exhibit any changes in connection with financing activities.

The amendments to IAS 12 serve in particular to clarify the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value. Hapag-Lloyd currently does not expect there to be any significant effects on the consolidated financial statements.

The amendments to IFRS 2 relate to the recognition of share-based payments settled in cash, which includes calculating the fair value of the obligations resulting from share-based payments. In addition, clarification is provided regarding the classification of share-based payments which envisage a net settlement for taxes that are being retained as well as regarding recognition in the event of a change in the classification of the payments from "settled in cash" to "settled with equity instruments". The Group is currently assessing what the potential effects of the amendment on its consolidated financial statements could be.

With the amendments to IAS 28 *Investments in Associates and Joint Ventures* and IFRS 10 *Consolidated Financial Statements*, the total gain or loss on a sale or contribution of assets between an investor and its associate or joint venture shall only be recognised if the assets sold or contributed represent a business within the meaning of IFRS 3, irrespective of whether the transaction is designed as a share deal or asset deal. However, if the assets do not constitute a business, the gain/loss should only be recognised pro rata. The first-time adoption date for the amended standard has been postponed indefinitely.

IFRIC 22 provides clarification on IAS 21 *Effects of Changes in Foreign Exchange Rates*. The interpretation aims to specify the date on which the foreign exchange rate should be calculated for translating transactions in foreign currencies including prepayments received and payments on account. The initial recognition of the asset or liability resulting from the advance payment determines the translation rate for the asset, income or expense in question. The Group is currently assessing what the potential effects of the amendment on its consolidated financial statements could be.

### **Consolidation principles and methods**

All significant subsidiaries, joint ventures and associated companies are included in the consolidated financial statements of Hapag-Lloyd AG.

### **Subsidiaries**

Subsidiaries are all companies that are subject to direct or indirect control by Hapag-Lloyd AG. Control exists if Hapag-Lloyd AG has the power to make decisions due to voting rights or other rights and is exposed to positive or negative variable returns from the subsidiary and can influence these returns through its power to make decisions. Subsidiaries are fully consolidated from the time at which control over the subsidiary is acquired. If control over the subsidiary is lost, the company is deconsolidated.

Capital consolidation is carried out using the acquisition method. When the acquisition method is applied, the acquisition costs of the acquired shares are compared with the proportionate fair value of the acquired assets, debts and contingent liabilities of the subsidiary as at the acquisition date. Any positive difference is recognised as goodwill and is recorded as an asset. Any negative difference is recognised through profit or loss once the carrying amounts of the assets and liabilities have been reviewed again. The option to capitalise the proportionate goodwill on non-controlling interests is not applied. Transaction costs incurred in connection with a business combination are recognised as expenses.

Any resulting goodwill is examined for impairment at least once a year at the end of the planning process or, if there are any indications of a possible impairment in value in the subsequent periods, is examined for its recoverable amount and, in the event of impairment, is written down to the lower recoverable amount (impairment test). Any impairments of this kind are recognised separately in the consolidated income statement as impairment of goodwill.

The individual financial statements of Hapag-Lloyd AG and its subsidiaries, which were prepared using the standard Group accounting and measurement principles, with the statements of the key companies being reviewed by external auditors, were included in the preparation of the consolidated financial statements.

Intercompany receivables and liabilities, as well as expenses and income, are eliminated during the process of consolidation. Intercompany profits and losses are eliminated insofar as they are not of minor significance for the Group. Deferred taxes are reported for consolidation measures with an impact on income taxes.

The share of Group profit and of subsidiaries' equity which is attributable to non-controlling interests is reported separately in the consolidated income statement, in the consolidated statement of comprehensive income and within Group equity. When non-controlling interests are acquired, the difference between the acquisition cost of these shares and the non-controlling interests previously reported in the Group's equity for these shares is recognised directly in equity. When shares are sold to other shareholders without any loss of control, any difference between the realisable value and the proportion of net assets attributable to other shareholders is recognised directly in equity under the item "Retained earnings".

If a subsidiary is sold, the difference between the proceeds from the sale and the net assets recorded in the balance sheet, including currency translation differences which had previously been recorded in cumulative other equity, is recognised at the disposal date in the consolidated income statement.

#### **Joint arrangements**

If the Hapag-Lloyd Group jointly controls a company together with other parties, an assessment is made as to whether this is a joint operation or a joint venture. A joint operation exists if the jointly controlling parties have direct rights to assets and direct obligations for liabilities. In a joint venture, the jointly controlling parties only have rights to the equity. This right is disclosed in the consolidated financial statements using the equity method.

The joint arrangements within the Hapag-Lloyd Group are currently joint ventures only.

#### **Associated companies and joint ventures**

Companies in which the Hapag-Lloyd Group is able to exert a significant influence over the business and financial policy (associated companies) or which are jointly controlled with other parties (joint ventures) are included in the consolidated financial statements from their acquisition date using the equity method. The acquisition date constitutes the point in time from which it becomes possible to exert significant influence or exercise joint control.

A positive difference between the cost of acquisition of the acquired shares and the proportionate fair value of the acquired assets, liabilities and contingent liabilities at the time of acquisition is included as goodwill in the carrying amount of the associated company or joint venture.

The Hapag-Lloyd Group's share of the result for the period or other income from associated companies or joint ventures is reported in the consolidated income statement or in the Group's other comprehensive income. The cumulative changes since the acquisition date increase or decrease the carrying amount of the associated company or joint venture. Proportional losses that exceed the investment carrying amount of the associated company or joint venture are not recognised.

If the carrying amount exceeds the recoverable amount of an investment in an associated company or joint venture, the carrying amount of the investment is written down to the recoverable amount. Impairments of the carrying amount are recognised in the share of the profit of equity-accounted investees in the consolidated income statement.

If it is no longer possible to exert significant influence or joint control due to the sale of shares, the difference between the proceeds from the sale and the net assets recorded in the balance sheet, including currency translation differences which had previously been recorded in other comprehensive income, is recognised at the disposal date in the consolidated income statement.

### Group of consolidated companies

In addition to Hapag-Lloyd AG, a total of 82 (previous year: 107) companies are included in the group of consolidated companies:

	Fully consolidated		Equity method		Total
	domestic	foreign	domestic	foreign	
31.12.2015	6	97	1	3	107
Disposals	1	24	0	0	25
<b>31.12.2016</b>	<b>5</b>	<b>73</b>	<b>1</b>	<b>3</b>	<b>82</b>

In the 2016 financial year, subsidiaries which had been added to the Company as part of the integration of CSAV's container shipping business were combined with each other at the level of the respective countries. This was achieved through business transfers and subsequent liquidation as well as through mergers between the subsidiaries. As a result, the group of consolidated companies decreased by six companies due to liquidations and by a further five companies due to mergers between subsidiaries in the 2016 financial year. In addition, 14 subsidiaries were removed from the group of consolidated companies as they were of minor overall importance to the Group's net asset, financial and earnings position.

### Liquidations

CSAV Agency LLC i.L.	Wilmington
CSAV Agencies (Malaysia) Sdn Bhd. i.L.	Kuala Lumpur
Hapag-Lloyd (South East Asia) Sdn. Bhd i.L.	Kuala Lumpur
CSAV Holding Europe S.L. i.L.	Barcelona
CSAV Shipping LLC i.L.	Dubai
Bureo Shipping Co. S.A.	Majuro

## Mergers

Merged company	Receiving company
CSAV Agency Ltd., Montreal	Hapag-Lloyd (Canada) Inc., Montreal
CSAV Group (India) Private Ltd., Gurgaon	Hapag-Lloyd Global Services Pvt. Ltd., Thane
CSAV Group Agencies (India) Private Ltd., Mumbai	Hapag-Lloyd India Private Ltd., Mumbai
Prestadora de servicios integrados de personal de S.A. de C.V., Mexico City	Agencias Grupo CSAV (Mexico) S.A. de C.V., Mexico City / Hapag-Lloyd Schiffvermietungs-gesellschaft mbH, Hamburg
Third CSAV Ships Germany GmbH, Hamburg	Hapag-Lloyd AG, Hamburg

## Deconsolidation due to immateriality

CSAV Denizcilik Acentasi A.S.	Istanbul
CSAV Group Agencies South Africa (Pty) Ltd.	Durban
CSAV Group Agency Colombia Ltda i.L.	Bogota
Libra Agency (Argentina) S.A.	Buenos Aires
CSBC Hull 898 Ltd.	Douglas
Hull 1794 Co. Ltd.	Majuro
Hull 1800 Co. Ltd.	Majuro
Hull 2082 Co. Ltd.	Majuro
Hull 2083 Co. Ltd.	Majuro
Hull 2084 Co. Ltd.	Majuro
Hull 2085 Co. Ltd.	Majuro
Hull 2086 Co. Ltd.	Majuro
Hull 2087 Co. Ltd.	Majuro
Hull 2088 Co. Ltd.	Majuro

Hapag-Lloyd AG holds 49.9% of the shares in Hapag-Lloyd (Thailand) Ltd., Bangkok, and 49.0% of the shares in Hapag-Lloyd Middle East Shipping LLC (formerly Hapag-Lloyd Agency LLC), Dubai. As Hapag-Lloyd AG has majority voting rights in both of these companies, it exerts full control over them and they are therefore fully consolidated.

Hapag-Lloyd AG holds 48.95% of the voting shares in the fully consolidated CSAV Austral SpA, Valparaíso. Hapag-Lloyd AG also holds 100% of the shares entitled to dividend payments. As such, beneficial ownership is exclusively within the Hapag-Lloyd Group. Hapag-Lloyd AG accounts for the majority of the members of the decision-making body.

For details of non-controlling interests, please refer to Note (13).

In the reporting year, 22 fully consolidated companies and one equity-accounted investee had a financial year that differed from that of the Group. The values carried forward as at 31 December are used for purposes relating to inclusion in the consolidated financial statements. All other companies have financial years that correspond with Hapag-Lloyd AG.

Three domestic and 23 foreign subsidiaries of overall minor significance for the Group's net asset, financial and earnings position are not included in the consolidated financial statements. The shares are recognised as other assets.

A complete list of the subsidiaries and associated companies in the Hapag-Lloyd Group is provided in Note (40).

### Currency translation

The annual financial statements of companies are prepared in the respective functional currency. The respective functional currency of a company corresponds to the currency of the primary economic environment in which the company operates. The functional currency of Hapag-Lloyd AG and the majority of its subsidiaries is the US dollar. The reporting currency of Hapag-Lloyd AG is, however, the euro.

For purposes relating to their inclusion in the consolidated financial statements of Hapag-Lloyd AG, the assets and liabilities of the Hapag-Lloyd Group are translated into euros at the exchange rate applicable as at the balance sheet date (closing rate). The cash flows listed in the consolidated statement of cash flows and the expenses, income and result shown in the consolidated income statement are translated at the average exchange rate for the reporting period. The resulting differences are recognised in other comprehensive income.

Transactions in foreign currency are recorded at the applicable exchange rate as at the date of the transaction. As at the balance sheet date, monetary items are translated at the closing rate at year-end, while non-monetary items are translated at the historical rate. Any differences arising during translation are recognised through profit or loss. Exceptions are changes of fair value of derivative financial instruments that are designated as qualified cash flow hedges. These must be recorded as part of other comprehensive income.

Gains and losses due to exchange rates are shown in the position which caused the currency effects. For example, gains and losses due to exchange rates that are in connection with transport services are recorded in both revenue and transport expenses. Other gains and losses due to exchange rates are shown in other operating income or other operating expenses as well as in personnel expenses and income taxes.

### Exchange rates of significant currencies

per EUR	Closing rate		Average rate	
	31.12.2016	31.12.2015	2016	2015
US dollar	1.05600	1.08930	1.10490	1.11000
Canadian dollar	1.42280	1.51301	1.46831	1.41935
Brazilian real	3.44131	4.25325	3.86622	3.69701
Indian rupee	71.16050	72.54400	74.28232	71.20931
British pound sterling	0.85840	0.73510	0.81868	0.72647
Chinese renminbi	7.32547	7.07348	7.34561	6.97574
Australian dollar	1.46160	1.48970	1.48917	1.47811
Japanese yen	123.49400	131.12940	120.52139	134.34097
Mexican peso	21.82269	18.74548	20.65652	17.61828

### Accounting and measurement

The annual financial statements of the subsidiaries included in the Group are prepared in accordance with consistent accounting and measurement principles. The amounts stated in the consolidated financial statements are determined by the commercial presentation of the earnings, financial and net assets position as set out in the rules of the IASB.

### Goodwill

Goodwill is not amortised, but is tested for impairment once a year. For detailed information about the impairment test, see the section “Impairment testing”.

### Other intangible assets

Acquired intangible assets such as advantageous contracts, customer base and/or trademark rights are capitalised at their fair value as at the acquisition date. Other intangible assets are capitalised at cost.

If intangible assets can be used for a limited period only, they are amortised regularly over their expected useful lives. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment on an annual basis, as is the case with goodwill. In addition, impairment tests are conducted if there are any indications of a potential loss in value of the assets.

For detailed information about the impairment test, see the section “Impairment testing”.

The anticipated useful lives of the intangible assets are as follows:

	Useful life in years
Customer base	22–30
“Hapag-Lloyd” brand	unlimited
“CSAV” brand	20
Charter and lease agreements	5–10
Transport and supply contracts	2–5
Computer software	5–8
Other	3

In the past, the global container liner service was exclusively operated under the acquired brand “Hapag-Lloyd”, which, due to national and international declaration and registration, is subject to indefinite legal protection. The indefinite useful life is the result of the brand recognition already being maintained by international operations, meaning that additional measures or investments for the conservation of the value of the brand are not necessary. With the incorporation of CSAV’s global container shipping activities in the 2014 financial year, the right to also use the “CSAV” brand was acquired. This will continue to be used in particular for some South America services.

For intangible assets with finite useful lives, their useful life is examined at least at the end of every financial year. For intangible assets with indefinite useful lives, an annual check is carried out as to whether the assessment of an indefinite useful life can be maintained. Any changes in the anticipated useful life are treated prospectively as changes in estimates.

### Property, plant and equipment

Property, plant and equipment are measured at depreciated cost of acquisition or production. The cost of acquisition comprises all costs incurred to purchase an asset and bring it to working condition. The cost of production is determined on the basis of direct costs and appropriate allocations of overheads.

Borrowing costs as defined by IAS 23 which are directly associated with the acquisition, construction or production of qualifying assets are included in the cost of acquisition or production until the assets in question are ready for their intended use.

Use-related depreciation using the straight-line method is based on the following useful economic lives, which are the same as in the previous year:

	Useful life in years
Buildings	40
Vessels	25
Containers, chassis	13
Other equipment	3–10

Dry dock work carried out to obtain an operating licence (vessel classification costs) is depreciated as a separate component over a period of five years. Furthermore, the level of depreciation is determined by the residual values expected at the end of the useful economic life of an asset. The residual value of container ships is based on their scrap value.

Useful economic lives and assumed residual values are both reviewed on an annual basis during the preparation of the financial statements. Impairment tests are conducted if there are any indications of a potential loss in value of the assets.

For detailed information about the impairment test, see the section “Impairment testing”.



**Leases**

A lease is the term given to all arrangements that transfer the right of use of specified assets in return for payment. This includes rental agreements for buildings and containers as well as charter agreements for ships. On the basis of the commercial opportunities and risks inherent in a leased item, it is assessed whether beneficial ownership of the leased item is attributable to the lessee or the lessor.

**Finance lease**

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

At the same time, a lease obligation is entered which is equivalent to the carrying amount of the leased asset upon recognition. Each leasing rate is divided into an interest portion and a repayment element. The interest portion is recognised as an expense in the consolidated income statement; the repayment element reduces the lease obligation recognised.

**Operating lease**

Rental expenses from operating lease contracts are recorded through the consolidated income statement using the straight-line method over the term of the respective contracts.

If the Group acts as lessor in the context of operating leases, the respective leasing object is still recorded and depreciated in the consolidated financial statements. Lease income from operating leases is recorded in revenue or other operating income using the straight-line method over the term of the respective contracts.

Profits or losses from sale-and-leaseback transactions that result in operating lease contracts are recognised immediately if the transactions were effected at market values. If a loss is offset by future lease instalments being below the market price, this loss is deferred and amortised over the term of the lease agreement. If the agreed sales price exceeds the fair value, the profit from the difference between these two values is also deferred and amortised.

**Impairment testing**

Intangible assets with finite useful lives and property, plant and equipment are tested regularly for impairment if there are any indications of a possible loss in value. This test compares the recoverable amount of the asset in question with its carrying amount. If an asset's carrying amount exceeds its recoverable amount, an impairment is recognised.

If no recoverable amount can be ascertained for an individual asset, this value is determined for the smallest identifiable group of assets to which the asset in question can be attributed and which is capable of achieving cash inflows (cash-generating unit, CGU) largely independently of other assets.

Container shipping in its entirety is defined as a cash-generating unit in the Group, as it is not possible to allocate the operating cash flows to individual assets due to the complexity of the transport business (see Notes in the “Segment reporting” section).

Intangible assets with indefinite useful lives are tested for impairment if circumstances require, but at least annually at the end of the financial year. This applies to the Hapag-Lloyd brand, for which the recoverable amount at fair value was determined at the level of the container shipping CGU.

Goodwill is tested for impairment at least once a year. Impairment testing is also conducted if events or circumstances occur that indicate that it may no longer be possible to recover the carrying amount. Goodwill is tested for impairment at the level of the cash-generating unit “container shipping”.

An impairment loss is recognised if the recoverable amount is lower than the cash-generating unit’s carrying amount. If a need for impairment has been ascertained, the goodwill is impaired first. Any need for impairment over and above this is spread in proportion to the carrying amount over the remaining non-current assets.

If, following an impairment recognised in previous years, the asset or cash-generating unit has a higher recoverable amount at some later date, a reversal of the impairment to no higher than the amortised cost is carried out. No reversals of impairment of goodwill are carried out as they are not permitted under IAS 36.

The recoverable amount is the higher of the fair value less costs of disposal and the value in use of the cash-generating unit. If one of these amounts is greater than the carrying amount, it is not necessary to calculate both values.

The fair value is the price that independent market participants would pay at the balance sheet date under normal market conditions if the asset or cash-generating unit were sold. The value in use is ascertained by discounting the cash flows anticipated from future operational use.

The recoverable amount for the impairment of goodwill is calculated on the basis of the value in use. This was calculated on the basis of a discounted cash flow method.

The future expected cash flows from Hapag-Lloyd’s management planning, which has been approved by the Supervisory Board, are taken as the calculation basis. This planning includes various strategic synergy, cost-saving and efficiency-boosting measures and projects that aim to sustainably strengthen the Group’s EBITDA margin.

The cash flow forecasts contain specific estimates for five years and a perpetual rate of growth thereafter. The central planning assumptions for container shipping are the future development of transport volumes and freight rates as well as bunker prices and exchange rates. These are dependent on a number of macroeconomic factors, in particular the trends in gross domestic product and global trade. For that reason, the assessments of external economic and market research institutes regarding the future development of global container shipping are obtained while the plans are being prepared and are adjusted and supplemented with experiences and assessments of the Group's own competitive position on its various trades.

The long-term growth rate was ascertained on the basis of the forecast for long-term annual average industry developments.

The budgeted after-tax cash flows are discounted using the weighted average cost of capital after income taxes. This is calculated on the basis of capital-market-oriented models as a weighted average of the costs of equity and borrowed capital. Due to tonnage tax regulations, the pre-tax weighted average cost of capital corresponds to the weighted average cost of capital after income taxes.

### **Financial instruments**

Financial instruments are contractually agreed rights or obligations that will lead to an inflow or outflow of financial assets or the issue of equity rights. They also encompass derivative rights or obligations derived from primary financial instruments.

In accordance with IAS 39, financial instruments are broken down into financial assets or liabilities measured at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments and other liabilities. The valuation category of financial assets or liabilities measured at fair value through profit or loss is subdivided into the categories "held for trading" and "fair value option".

Derivative financial instruments that are not part of an effective hedging relationship as set out in IAS 39 (hedge accounting) are classified as "held for trading". The Group also holds financial assets in the "loans and receivables" and "available-for-sale financial assets" categories. By contrast, there are no held-to-maturity investments in these financial statements. Primary liabilities only exist in the category of financial liabilities measured at amortised cost.

Non-derivative host contracts are analysed to determine the existence of embedded derivatives. Embedded derivatives are to be recognised separately from the host contract as an independent financial instrument if the two components demonstrate different economic properties which are not closely linked to each other. Embedded derivatives are likewise classified as “held for trading”.

Financial assets and financial liabilities that fall within the scope of IAS 39 can be irrecoverably assigned to the subcategory “fair value option” under certain circumstances. Neither for financial assets nor for financial liabilities was the fair value option used.

In the 2016 financial year, as in the previous financial year, there were no reclassifications within the individual classification categories.

### **Primary financial assets**

Financial assets are recognised at their value as at the trading date, i.e. the date on which the Group commits to buying the asset. Primary financial assets are classified as loans and receivables or as available-for-sale financial assets when recognised for the first time. Loans and receivables as well as available-for-sale financial assets are initially recognised at fair value plus directly attributable transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable contractual payments which are not listed on an active market. They are shown in the statement of financial position under trade accounts receivable and other assets, and are classified as current assets if they mature within twelve months of the balance sheet date.

As part of subsequent measurements, loans and receivables are measured at amortised cost using the effective interest method. Impairments are recognised for identifiable individual risks. Where default of a certain proportion of the receivables portfolio is probable, impairments are recognised to the extent that the carrying amount of a financial asset exceeds its recoverable amount. Indications for identifiable individual risks include, for example, a material deterioration in creditworthiness, considerable default as well as a high probability of insolvency and the corresponding inability of the customer to repay debt. If the reasons for impairment cease to exist, write-backs are recorded, albeit not in excess of the amortised costs. Impairments and impairment reversals are recorded in other operating expenses and income.

Impairments of trade accounts receivable are, in part, recorded using an impairment account. The decision to record impairment either by using an impairment account or by directly reducing the trade receivable depends on the degree of reliability of the risk evaluation. Concrete losses lead to a write-off of the respective asset.

Available-for-sale financial assets are non-derivative financial assets which are either explicitly allocated to this category individually or are unable to be allocated to any other category of financial assets. In the Hapag-Lloyd Group, these consist of securities and shares in companies. They are allocated to non-current assets unless the management intends to sell them within twelve months of the balance sheet date.

Available-for-sale financial assets are measured at fair value after their initial measurement. Changes in fair values are recorded under other comprehensive income until the disposal of the assets. A long-term reduction in fair value gives rise to impairments recognised in profit or loss. In the event of a subsequent write-back of the impairment recorded in profit or loss, the impairment is not reversed but is posted against other comprehensive income. If no listed market price on an active market is available for shares held and other methods to determine an objective market value are not applicable, the shares are measured at cost.

Assets are no longer recognised as at the date when all the risks and opportunities associated with their ownership are transferred or cease.

### **Cash and cash equivalents**

Cash and cash equivalents encompass cash in hand, bank balances and other financial investments that can be converted into defined cash amounts at any time and are only subject to minor changes in value. Fully utilised overdraft facilities are not netted but shown as liabilities to banks under current financial debt.

### **Primary financial liabilities**

The initial recognition of a primary financial liability is carried out at fair value, taking account of directly allocable transaction costs. In subsequent measurements, primary financial liabilities are measured at amortised cost using the effective interest method.

Primary financial liabilities are written off if contractual obligations have been settled, annulled or expired. If a review of changes in contractual conditions using quantitative and qualitative criteria leads to the assessment that both contracts are substantially the same, the old liability continues to exist with the new conditions.

### **Derivative financial instruments and hedge accounting**

Derivative financial instruments are initially measured at their fair values on the day the agreement was concluded. Subsequent measurement is also carried out at the fair value applicable on the respective balance sheet date. The method used to record gains and losses depends on whether the derivative financial instrument is classified as a hedge and on the type of hedging relationship.

Derivative financial instruments are classified either as fair value hedges of assets or liabilities, or as cash flow hedges to hedge against the risks of future cash flows from recorded assets and liabilities or highly probable future transactions.

Upon conclusion of the transaction in accordance with IAS 39, the hedging relationships between the hedging instrument and the underlying transaction and between the risk management goal and the underlying strategy are documented. In addition, an assessment is made and documented both at the beginning of the hedging relationship and on a continual basis as to whether the derivatives used in the hedging relationship compensate for the changes in the fair values or cash flows of the underlying transactions in a highly effective manner. Derivative financial instruments are recorded as current or non-current financial assets or liabilities according to their remaining terms.

The effective proportion of changes in the fair value of derivatives which are designated as cash flow hedges is recognised in other comprehensive income. The ineffective proportion of such changes in fair value is recognised immediately in profit or loss. Hedge accounting by means of options records the changes in fair value directly in profit or loss because they are excluded from the hedging relationship. Amounts recorded in other comprehensive income are reclassified to the consolidated income statement and recognised as income or expenses in the period in which the hedged underlying transaction is recognised in profit or loss. In the case of hedging relationships based on currency forward contracts, the entire effective market value change in the hedging transaction is initially recorded under other comprehensive income. In the next step, the spot component is reclassified from other comprehensive income to the consolidated income statement and is recognised through profit or loss in line with the change in the value of the underlying transaction. The forward component is recognised through profit or loss on a pro rata basis over the term of the hedging relationship.

If a hedge expires, is sold or no longer meets the criteria for hedge accounting, the cumulative gain or loss remains in other comprehensive income and is not recognised through profit or loss in the consolidated income statement until the underlying transaction occurs. If the future transaction is no longer expected to occur, the cumulative gains or losses recognised outside the consolidated income statement must immediately be recognised through profit or loss.

Changes in the fair values of derivative financial instruments not meeting the criteria for hedge accounting, including embedded derivatives, are recognised directly through profit or loss in the consolidated income statement.

**Inventories**

Inventories are measured at the lower of cost of acquisition or net realisable value. The measurement method applied to similar inventory items is the weighted average cost formula. The net realisable value is the estimated selling price in the ordinary course of business.

Inventories mainly comprise fuel and lubricants.

**Pensions and similar obligations**

The valuation of defined benefit plans from pension obligations and other post-employment benefits (e.g. health care benefits) is carried out in accordance with IAS 19 *Employee Benefits* using the projected unit credit method. The defined benefit obligation (DBO) is calculated annually by an independent actuarial expert. The present value of the DBO is calculated by discounting the expected future outflows at the interest rate of first-rate corporate bonds. The corporate bonds are issued in the currency of the payment to be made and have matching maturities with the pension obligations.

Differences between the assumptions made and the actual developments, as well as changes in the actuarial assumptions for the valuation of defined benefit pension plans and similar obligations, lead to actuarial gains and losses. As with the difference between calculated interest income and the actual return on plan assets, these are reported in full in other comprehensive income, i.e. not in the consolidated income statement.

If the benefits accruing from a plan are changed or cut, both the part of the change in benefits which relates to previous periods (past service cost) and the gains or losses arising from the plan cuts are immediately recognised through profit or loss. Gains or losses arising from a defined benefit plan being cut or paid out are recognised at the time at which the cut or payment is made.

If individual benefit obligations are financed using external assets (e.g. through qualified insurance policies), provisions for pension benefits and similar obligations which match the present value of defined benefit obligations on the balance sheet date are recorded after deducting the fair value of the plan assets.

A negative net pension obligation resulting from advance payments for future contributions is included as an asset only insofar as it leads to a reimbursement from the plan or a reduction in future contributions.

With defined benefit contribution plans, the Group makes contributions to statutory or private pension insurance plans on the basis of a legal, contractual or voluntary obligation. The Group does not have any further payment obligations on top of the payment of the contributions. The contributions are recorded as personnel expenses when they fall due.

**Other provisions**

Provisions are recognised for all legal or factual obligations resulting from a past event and impending losses from pending transactions insofar as their utilisation is probable and their amount and date can be reliably determined. Provisions are recorded at the best commercial estimate of their repayable amount and take account of cost and price increases. The present value is assessed for provisions with terms exceeding one year. Over the course of time, the provisions are adjusted on the basis of new knowledge gained.

Provision reversals are generally recorded in the same consolidated income statement position that was originally used for the expense. Exceptions to this rule are significant reversals, which are recorded as other operating income.

If there are many similar obligations, the probability of utilisation is determined on the basis of this group of obligations. A provision is also recognised even if the probability of a charge is low in relation to an individual obligation contained within this group.

Provisions for guarantee, warranty and liability risks are created on the basis of existing or estimated future damages. Provisions for restructuring measures are created if a detailed formal restructuring plan was prepared and a justified expectation existed among the affected parties.

**Share-based payment**

The share-based payment plans used by the Group are payment plans which are settled in cash. The debt incurred by the Group as a result is recognised in expenses at fair value at the time when the service is rendered by the eligible party. Until the debt is settled, the fair value of the debt is remeasured at every balance sheet date. Any changes in the fair value are recognised in profit or loss.

**Realisation of income and expenses**

Revenue and other operating income are realised when the transport services have been rendered, i.e. the risks have been transferred to the customer. Revenue is therefore recognised using the percentage of completion method as per IAS 18.20. The percentage of completion/transport progress is determined on the basis of the ratio of expenses incurred to expected total expenses.

The revenue amount is measured by the fair value of the consideration received or to which there will be an entitlement. Revenue is recognised net of value added tax and reductions in earnings. Other operating income and other revenue are generally recorded upon delivery of the assets or upon transfer of their ownership or risk.

Operating expenses are recognised in profit or loss when the service has been utilised or at the time of its occurrence.



Please refer to Note (28) for the recording of gains and losses from derivative financial instruments used in hedges.

Dividends from non-equity-accounted investees are recorded when the legal claim to them has arisen.

Interest income and expenses are recognised pro rata using the effective interest method.

### **Earnings per share**

Basic earnings per share is the quotient of the Group net result attributable to the shareholders of Hapag-Lloyd AG and the weighted average of the number of shares in circulation during the financial year. The diluted earnings per share were equal to the basic earnings per share in the 2016 financial year and in the previous year.

### **Taxes**

As a liner shipping company, Hapag-Lloyd AG, the largest company in the Hapag-Lloyd Group, has opted for taxation in accordance with tonnage. Tax liability for tonnage taxation is not calculated using the actual profits, but rather depends on the net tonnage and the operating days of the Company's ship fleet. Current income taxes for the reporting period and for previous periods are measured as the amount at which their payment to or rebate from the tax authority is anticipated. They are ascertained on the basis of the Company's tax rates as at the balance sheet date. Income tax provisions are netted against the corresponding tax rebate claims if they apply in the same fiscal territory and are of the same type and maturity.

Deferred taxes are recognised using the balance sheet liability method in accordance with IAS 12. They result from temporary differences between the recognised amounts of assets and liabilities in the consolidated statement of financial position and those in the tax balance sheet.

Expected tax savings from temporary differences or from the use of tax loss carry-forwards are capitalised if they are estimated to be recoverable in the future. In their valuation, time limitations on the loss carry-forwards are taken into account accordingly. In order to evaluate whether deferred tax assets from tax loss carry-forwards can be used, i.e. recovered, the tax-related budget of the Group is consulted. The tax-related budget is based on the medium-term budget for 2017 to 2021, which has been extended to ten years for tax purposes.

Deferred taxes are charged or credited directly to other comprehensive income if the tax relates to items likewise recognised directly in other comprehensive income.

Their valuation takes account of the respective national income tax rates prevailing when the differences are recognised.

Deferred tax claims (tax assets) and deferred tax debts (tax liabilities) are netted insofar as the Company has the right to net current income tax assets and liabilities against each other and if the deferred tax assets and liabilities relate to current income taxes.

**Fair value**

A number of accounting and valuation methods require that the fair value of both financial and non-financial assets and liabilities be determined. The fair value is the price that independent market participants would pay on the relevant day under normal market conditions if the asset were sold or the liability were transferred.

Fair value is measured using a three-level hierarchy based on the valuation parameters used.

Level 1:

Unchanged adoption of listed prices on active markets for identical assets or liabilities.

Level 2:

Use of valuation parameters whose prices are not the listed prices referred to in level 1, but which can be observed either directly or indirectly for the asset or liability in question.

Level 3:

Use of factors not based on observable market data for the measurement of the asset or liability (non-observable valuation parameters).

Every fair value measurement is set at the lowest level of the hierarchy based on the valuation parameter, provided that the valuation parameter is essential. If the method of determining the fair value of assets or liabilities to be measured on a regular basis changes, resulting in the need to assign them to a different hierarchy level, such reclassification is performed at the end of the reporting period.

Additional explanations of fair values can be found in Note (28) "Financial instruments".

**Discretionary decisions, estimates and assessments****Discretionary decisions when applying accounting and measurement principles**

The preparation of consolidated financial statements in accordance with IFRS requires discretionary decisions. All discretionary decisions are continuously re-evaluated and are based on historic experiences and expectations regarding future events which seem reasonable under the existing conditions. This specifically applies to the following cases:

**Classification of leases**

During the classification of leases, discretionary decisions are made regarding the assignment of beneficial ownership to either the lessor or the lessee. Regarding the approach, we refer to the presentation concerning the recognition and measurement of leases; regarding the amounts, see Note (32) "Leases".

**Fair value hierarchy**

In a number of cases, the valuation parameters used to determine the fair value of an asset or liability can be assigned to various levels of the fair value hierarchy. In such cases, fair value measurement as a whole is assigned to the same hierarchy level as the valuation parameter of the lowest level that is of significance to the measurement in its entirety. The evaluation of the significance of a specific valuation parameter for measurement as a whole requires a discretionary decision in which the characteristic factors relating to the asset or liability are to be taken into consideration. See the section “Impairment testing” and Note (28) “Financial instruments” on the approach taken.

**Management estimates and assessments**

In the consolidated financial statements, a certain number of estimates and assessments are made in order to determine the assets and liabilities shown in the statement of financial position, the disclosures of contingent claims and liabilities as at the reporting date, and the recognised income and expenses for the reporting period.

**Intangible assets and property, plant and equipment**

Useful lives and residual values for intangible assets and property, plant and equipment are estimated on the basis of past experience. The management regularly reviews the estimates for individual assets or groups of assets with similar characteristics based on changes in the quality of maintenance programmes, amended environmental requirements and technical developments. In the case of significant changes it adjusts the useful lives and residual values.

The estimation of residual values of container ships is affected by uncertainties and fluctuations due to the long useful lives of ships, the uncertainties regarding future economic developments and the future price of steel, which is a significant parameter for determining the residual values of container ships. As a rule, the residual value of a container ship or a class of container ships is determined by its scrap value. The scrap value is calculated on the basis of a container ship's empty weight and the average price of steel. Adjustments are made to the residual value of a container ship based on its longevity if it is expected that (long-term) market fluctuations will exist until the end of the ship's useful operating life.

Verification of the realisable values of intangible assets and property, plant and equipment also requires assumptions and estimates to be made regarding future cash flows, anticipated growth rates, exchange rates and discount rates. All material parameters are therefore at the discretion of the management regarding the future development, particularly in terms of the global economy. They involve the uncertainty of all forecasting activity. The assumptions made for this purpose can be subject to alterations which could lead to impairments in value in future periods. Regarding the approach, we refer to the presentation concerning impairment testing; regarding the amounts, see Notes (11) and (12).

**Allowance for doubtful receivables**

The allowance for doubtful receivables largely comprises estimates and valuations of both individual receivables and groups of receivables that are based on the respective creditworthiness of the customer, current economic trends and analysis of maturity structures and historical defaults. For further explanations, we refer to Note (15).

**Deferred tax assets on loss carry-forwards**

The amount of deferred taxes recognised on loss carry-forwards in the Group is dependent primarily on the estimation of the future usability of the tax loss carry-forwards. In this respect, the amount of the deferred tax assets depends on the budgeting of future tax results. As a result of discrepancies between planned and actual developments, these amounts may need to be adjusted in future periods. Further explanations of deferred taxes are given in Note (9).

**Provisions**

The valuation of provisions for pensions and similar obligations is based on, among other things, assumptions regarding discount rates, anticipated future increases in salaries and pensions, and mortality tables. These assumptions can diverge from the actual figures as a result of changes in the economic conditions or the market situation as well as mortality rates. For detailed explanations, see Note (23).

The other provisions are naturally subject to a high level of estimation uncertainty with regard to the amount of the obligations or the time of their occurrence. The Company must sometimes use empirical values as the basis for making assumptions regarding the likelihood of occurrence of the obligation or future developments, e.g. the costs to be estimated for the valuation of obligations. These can be subject to estimation uncertainties, particularly in the case of non-current provisions.

Provisions are made within the Group if losses from pending transactions are imminent, a loss is probable and the loss can be reliably estimated. Due to the uncertainties associated with this valuation, the actual losses can deviate from the original estimates and the respective provision amount. For provisions for guarantee, warranty and liability risks, there is particular uncertainty concerning the estimate of future damages.

For detailed explanations, see Note (24).

**Discount rates**

The valuation of non-current receivables and liabilities, either non-interest-bearing or with interest rates not in line with the market, and of non-current other provisions, depends primarily on the choice and development of discount rates.

**Risks and uncertainties**

Influencing factors which can result in deviations from expectations comprise not only macro-economic factors such as exchange rates, interest rates and bunker prices, but also the future development of container shipping.

## SEGMENT REPORTING

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

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

### Transport volume per trade

	1.1.–31.12. 2016	1.1.–31.12. 2015
TTEU		
Atlantic	1,534	1,541
Transpacific	1,493	1,390
Far East	1,245	1,283
Latin America	2,248	2,247
Intra-Asia	662	573
EMAO (Europe – Mediterranean – Africa – Oceania)	417	367
<b>Total</b>	<b>7,599</b>	<b>7,401</b>

### Freight rates per trade

	1.1.–31.12. 2016	1.1.–31.12. 2015
USD/TEU		
Atlantic	1,338	1,504
Transpacific	1,222	1,599
Far East	765	942
Latin America	1,001	1,111
Intra-Asia	538	655
EMAO (Europe – Mediterranean – Africa – Oceania)	1,052	1,210
<b>Total (weighted average)</b>	<b>1,036</b>	<b>1,225</b>

**Revenue per trade**

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Atlantic	1,857.2	2,088.0
Transpacific	1,651.7	2,002.2
Far East	861.9	1,088.0
Latin America	2,035.9	2,249.7
Intra-Asia	322.4	338.4
EMAO (Europe–Mediterranean–Africa–Oceania)	397.2	400.0
Revenue not assigned to trades	607.9	675.5
<b>Total</b>	<b>7,734.2</b>	<b>8,841.8</b>

Operating earnings before interest, taxes, depreciation and amortisation (EBITDA) were calculated on the basis of the Group's earnings before interest and taxes (EBIT) as presented in the following table. Earnings before taxes (EBT) and the profits of the segment's equity-accounted investees corresponded to those of the Group (see Note [14]).

**EBITDA**

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
<b>Earnings before interest, taxes, depreciation and amortisation (EBITDA)</b>	<b>607.4</b>	<b>831.0</b>
Depreciation and amortisation	–481.0	–464.6
<b>EBIT</b>	<b>126.4</b>	<b>366.4</b>
<b>Earnings before income taxes (EBT)</b>	<b>–73.4</b>	<b>139.1</b>
<b>Share of profit of equity-accounted investees</b>	<b>27.1</b>	<b>28.5</b>

**Non-current assets**

million EUR	2016	2015
Goodwill	1,661.6	1,610.8
Other intangible assets	1,340.4	1,376.3
Property, plant and equipment	6,315.6	6,143.6
Investments in equity-accounted investees	325.7	326.6
<b>Total</b>	<b>9,643.3</b>	<b>9,457.3</b>
thereof domestic	9,403.2	9,208.0
thereof foreign	240.1	249.3
<b>Total</b>	<b>9,643.3</b>	<b>9,457.3</b>

When assessing the cash-generating unit (CGU), non-current assets cannot be broken down by region due to their shared use. As a result, these have primarily been assigned to the parent company in Germany.

There was no dependency on individual customers in the 2016 financial year.

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

### 1. Revenue

Revenue in the amount of EUR 7,734.2 million (previous year: EUR 8,841.8 million) was primarily generated from the rendering of transport services amounting to EUR 7,628.2 million (previous year: EUR 8,750.2 million).

### 2. Other operating income

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Exchange rate gains	21.8	94.7
Income from the reversal of provisions	20.4	27.6
Subsidies and grants	13.6	14.7
Income from write-backs	10.9	0.0
Income from the disposal of assets	1.9	13.5
Other income	28.5	43.2
<b>Total</b>	<b>97.1</b>	<b>193.7</b>

The exchange rate gains from currency items were mainly attributable to exchange rate fluctuations between the origination date and the payment date of assets and liabilities, and to the measurement of financial assets and financial liabilities. In the previous year, there were also exchange rate gains from the measurement of currency forward contracts and the realisation of currency options and currency forward contracts.

Income from the release of provisions mainly includes releases of provisions for guarantee, warranty and liability risks, insurance premiums and restructuring. In the previous year, the income from the release of provisions included the release of restructuring provisions in the amount of EUR 26.6 million.

Income from write-backs essentially consists of write-backs on receivables.

Miscellaneous operating income comprises items that cannot be allocated to any of the items mentioned above, including income from cost transfers and rental and lease income.

### 3. Transport expenses\*

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Expenses for raw materials, supplies and purchased goods	687.9	1,067.9
Cost of purchased services	5,676.1	6,190.6
thereof		
Port, canal and terminal costs	2,651.7	2,717.2
Container transport costs	1,899.1	2,148.4
Chartering, leases and container rentals	934.9	1,168.6
Maintenance/repair/other	190.4	156.4
<b>Total</b>	<b>6,364.0</b>	<b>7,258.5</b>

\* Within the cost of purchased services, there has been a reclassification between port, canal and terminal costs and chartering, leases and container rentals for the financial year 2016. The prior year periods were adjusted accordingly.

The cost of raw materials, supplies and purchased goods refers in particular to fuel expenses and effects from fuel hedging instruments.

#### 4. Personnel expenses

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Wages and salaries	403.8	401.0
Social security costs, pension costs and other benefits	92.3	83.4
<b>Total</b>	<b>496.1</b>	<b>484.4</b>

Pension costs include, among other things, expenses for defined benefit and defined contribution pension obligations. A detailed presentation of pension commitments is provided in Note (23).

In the previous year, personnel expenses included the release of restructuring provisions in the amount of EUR 22.8 million.

#### Employees

The average number of employees was as follows:

	1.1.–31.12. 2016	1.1.–31.12. 2015
Marine personnel	1,387	1,420
Shore-based personnel	7,789	8,307
Apprentices	208	218
<b>Total</b>	<b>9,384</b>	<b>9,945</b>

#### 5. Depreciation and amortisation

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Scheduled amortisation/depreciation	481.0	464.6
Amortisation of intangible assets	78.5	79.8
Depreciation of property, plant and equipment	402.5	384.8
<b>Total</b>	<b>481.0</b>	<b>464.6</b>

The amortisation of intangible assets largely concerned amortisation of the customer base. The depreciation of property, plant and equipment was largely accounted for by ocean-going vessels and containers. A breakdown of depreciation and amortisation can be found in the Notes to the respective balance sheet item.



## 6. Other operating expenses

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
EDP costs	92.5	95.3
Commissions	49.9	76.2
Exchange rate losses	42.8	122.0
Other taxes	38.8	38.1
Expenses for charges, fees, consultancy and other professional services	30.2	24.5
Rental and lease expenses	28.5	34.0
Other social security expenses	23.1	25.7
Car and travel expenses	14.7	15.3
Administrative expenses	13.5	18.6
Bank charges	8.4	8.8
Miscellaneous operating expenses	43.8	59.2
<b>Total</b>	<b>386.2</b>	<b>517.7</b>

The exchange rate losses from currency items were mainly attributable to exchange rate fluctuations between the origination date and the payment date of assets and liabilities, and to the measurement of financial assets, liabilities and currency forward contracts as at the balance sheet date. In the previous year, there were also exchange rate losses from currency options.

Miscellaneous operating expenses comprise items that cannot be allocated to any of the items mentioned above, including expenses from insurance payments, maintenance and repair costs and audit fees.

## 7. Other financial result

The other financial result of EUR –4.7 million (previous year: EUR 27.6 million) primarily comprised losses from disposals of subsidiaries from the group of consolidated companies.

## 8. Interest result

The interest result was as follows:

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Interest income	5.7	5.6
Interest income from fund assets for the financing of pensions and similar obligations	4.0	3.9
Other interest and similar income	1.7	1.7
Interest expenses	220.1	227.6
Interest expenses from the valuation of pensions and similar obligations	9.0	8.5
Other interest and similar expenses	211.1	219.1
Interest expenses from the change in fair value of embedded derivatives	14.6	–5.3
<b>Total</b>	<b>–199.8</b>	<b>–227.3</b>

As in the previous year, other interest and similar income mainly comprises income from interest-bearing bank accounts. Other interest and similar expenses mainly comprises interest for bonds and loans as well as interest from finance leases and other financial debt.

## 9. Income taxes

The taxes on income and earnings actually paid or owed in the individual countries are disclosed as income taxes. For domestic companies subject to corporate income tax, as in the previous year, a corporate income tax rate of 15.0% and the solidarity surcharge of 5.5% on corporate income tax apply. Additionally, these companies are subject to trade earnings tax, which for the years 2016 and 2015 is at 16.5% for the Group, corresponding to the specific applicable municipal assessment rate. The combined income tax rate for domestic companies is therefore 32.3%. Furthermore, comparable actual income taxes are disclosed for foreign subsidiaries. The tax rates within the Group lay between 12.5% and 40.0% in 2016 (previous year: between 12.5% and 39.0%).

In addition, deferred taxes are recognised in this item for temporary differences in carrying amounts between the statement of financial position prepared in accordance with IFRS and the tax balance sheet, as well as on consolidation measures and, where applicable, realisable loss carry-forwards in accordance with IAS 12 *Income taxes*.

Income taxes were as follows:

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Actual income taxes	18.7	20.6
thereof domestic	6.2	2.4
thereof foreign	12.5	18.2
Deferred tax income/expenses	1.0	4.6
thereof from temporary differences	1.1	-6.2
thereof from loss carry-forwards	-0.1	10.8
<b>Total</b>	<b>19.7</b>	<b>25.2</b>

Prior-period tax expenses in the amount of EUR 0.9 million are included in the actual income taxes (previous year: income of EUR 2.4 million).

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 fall 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%.

For foreign-based companies, the tax rates of the country in question were used to calculate the deferred taxes. The income tax rates which were applied to foreign-based companies for the 2016 financial year ranged from 16.5% to 35.0% (previous year: 16.5% to 39.0%).

The following table shows a reconciliation statement from the expected to the reported income tax expense. In order to ascertain the expected tax expense, the statutory income tax rate of 32.3% prevailing for Hapag-Lloyd AG in the financial year is multiplied by the pre-tax profit, as the bulk of the Group profit was generated by Hapag-Lloyd AG.

**Tax reconciliation**

million EUR	1.1.–31.12. 2016	1.1.–31.12. 2015
Earnings before income taxes	-73.4	139.1
<b>Expected income tax expense (+)/income (-) (tax rate 32.3%)</b>	<b>-23.7</b>	<b>44.9</b>
Difference between the actual tax rates and the expected tax rates	-5.2	1.2
Effects of income not subject to income tax	62.1	-42.5
Non-deductible expenses and trade tax additions and reductions	0.4	28.7
Effects from changes in unrecognised deferred taxes	-9.2	-1.9
Effective tax expenses and income relating to other periods	0.9	-3.8
Tax effect from equity-accounted investees	-8.8	-7.9
Exchange rate differences	2.3	5.2
Other differences	0.9	1.3
<b>Reported income tax expense (+)/income (-)</b>	<b>19.7</b>	<b>25.2</b>

Effects due to deviating tax rates for domestic and foreign taxes from the income tax rate of Hapag-Lloyd AG are disclosed in the above reconciliation statement under the difference between the actual tax rates and the expected tax rates.

The effects from income not subject to income tax primarily comprise the effects from tonnage tax.

The position effects from changes in unrecognised deferred taxes primarily includes income in the amount of EUR 8.2 million allocable to adjustments to the recognition of corporate income tax loss carry-forwards both at home and abroad (previous year: EUR 2.8 million). Of this income, EUR 6.8 million (previous year: EUR 1.9 million) relates to the reduction of actual income taxes due to the utilisation of previously unrecognised tax losses. Furthermore, among other things, income in the amount of EUR 3.5 million is allocable to the non-recognition of deferred taxes on tax interest carried forward (previous year: EUR 0.4 million). Of this income, EUR 3.2 million (previous year: EUR 0.0 million) relates to the reduction of actual income taxes due to the utilisation of previously unrecognised tax interest carried forward.

Deferred tax assets and deferred tax liabilities result from temporary differences and tax loss carry-forwards as follows:

million EUR	31.12.2016		31.12.2015	
	Asset	Liability	Asset	Liability
Recognition and measurement differences for property, plant and equipment and non-current assets	2.0	1.2	2.8	2.7
Recognition differences for receivables and other assets	1.2	0.0	3.4	0.2
Measurement of pension provisions	6.3	0.1	4.7	0.1
Recognition and measurement differences for other provisions	3.8	0.0	4.2	0.4
Other transactions	4.0	0.9	3.6	1.1
Capitalised tax savings from recoverable loss carry-forwards	8.3	-	7.9	-
Netting of deferred tax assets and liabilities	-0.4	-0.4	-3.0	-3.0
<b>Balance sheet recognition</b>	<b>25.2</b>	<b>1.8</b>	<b>23.6</b>	<b>1.5</b>

The change in deferred taxes in the statement of financial position is recognised as follows:

million EUR	As per 1.1.2015	Recognised as taxes in the income statement	Recognised in other comprehen- sive income	Recognised as an exchange rate diffe- rence	As per 31.12.2015
Recognition and measurement differences for property, plant and equipment and other non-current assets	-3.8	4.7	-	-0.8	0.1
Recognition differences for receivables and other assets	0.6	1.9	-	0.7	3.2
Measurement of pension provisions	5.9	-	-1.2	-0.1	4.6
thereof recognised directly in equity	5.5	-	-1.2	-	4.3
Recognition and measurement differences for other provisions	1.9	1.9	-	-	3.8
Other transactions	4.7	-2.3	-	0.1	2.5
Capitalised tax savings from recoverable loss carry-forwards	17.1	-10.8	-	1.6	7.9
<b>Balance sheet recognition</b>	<b>26.4</b>	<b>-4.6</b>	<b>-1.2</b>	<b>1.5</b>	<b>22.1</b>

million EUR	As per 1.1.2016	Recognised as taxes in the income statement	Recognised in other comprehen- sive income	Recognised as an exchange rate diffe- rence	As per 31.12.2016
Recognition and measurement differences for property, plant and equipment and other non-current assets	0.1	0.7	-	-	0.8
Recognition differences for receivables and other assets	3.2	-2.0	-	-	1.2
Measurement of pension provisions	4.6	-0.2	1.6	0.2	6.2
thereof recognised directly in equity	4.3	-	1.6	-	5.9
Recognition and measurement differences for other provisions	3.8	-0.1	-	0.1	3.8
Other transactions	2.5	0.5	-	0.1	3.1
Capitalised tax savings from recoverable loss carry-forwards	7.9	0.1	-	0.3	8.3
<b>Balance sheet recognition</b>	<b>22.1</b>	<b>-1.0</b>	<b>1.6</b>	<b>0.7</b>	<b>23.4</b>

Deferred tax liabilities of EUR 0.3 million (previous year: EUR 0.3 million) were recognised for temporary differences between the net assets and the carrying amount of subsidiaries for tax purposes, whereby the reversal of the temporary differences is likely in the foreseeable future.

No deferred tax liabilities were recognised for the remaining taxable differences between the net assets and the carrying amount of subsidiaries for tax purposes amounting to EUR 25.0 million (previous year: EUR 25.2 million), as Hapag-Lloyd is able to steer how the temporary differences are reversed over time and no reversal of the temporary differences is likely in the near future.

Deferred tax assets and liabilities are classified as non-current in the statement of financial position in accordance with IAS 1, irrespective of their expected realisation date.

Deferred tax assets are recognised for temporary differences and tax loss carry-forwards if their realisation seems certain in the near future. The loss carry-forwards not recognised relate primarily to foreign subsidiaries that are not covered by tonnage taxation. The amounts of unutilised tax losses and the capacity to carry forward the tax losses for which no deferred tax assets were recognised are as follows:

million EUR	31.12.2016	31.12.2015
<b>Loss carry-forwards for which deferred tax assets were recognised</b>	<b>38.0</b>	<b>39.0</b>
<b>Loss carry-forwards for which no deferred tax assets were recognised</b>	<b>1,496.0</b>	<b>1,352.9</b>
thereof loss carry-forwards forfeitable in more than 5 years	1.2	1.1
Non-forfeitable loss carry-forwards	1,494.8	1,351.8
thereof interest carry-forwards	17.5	33.9
<b>Total of unutilised loss carry-forwards</b>	<b>1,534.0</b>	<b>1,391.9</b>

## 10. Earnings per share

	1.1.–31.12. 2016	1.1.–31.12. 2015
Profit/loss attributable to shareholders in million EUR	–96.6	111.6
Weighted average number of shares	118.1	106.9
<b>Basic earnings per share in EUR</b>	<b>–0.82</b>	<b>1.04</b>

Basic earnings per share is the quotient of the Group net result attributable to the shareholders of Hapag-Lloyd AG and the weighted average of the number of shares in circulation during the financial year.

The number of shares remained unchanged throughout the entire 2016 financial year. The average number of shares in the previous year was derived from the number of shares outstanding at the start of the year (104,882,240 shares) and the pro rata number of shares issued on 6 November 2015 as part of the IPO (13,228,677 shares). There were no dilutive effects in the 2016 financial year or in the previous year.

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## 11. Intangible assets

million EUR	Goodwill	Cus- tomer base	Advan- tageous contracts	Brand	Software	Other	Total
<b>Historical cost</b>							
As per 1.1.2015	1,372.7	1,065.8	157.9	240.8	103.3	4.4	2,944.9
Additions	79.0	–	–	–	2.4	–	81.4
Disposals	–	–	–	–	0.2	–	0.2
Transfers	–	–	–18.2	–	–	–	–18.2
Exchange rate differences	159.1	123.4	18.0	27.9	11.9	0.4	340.7
<b>As per 31.12.2015</b>	<b>1,610.8</b>	<b>1,189.2</b>	<b>157.7</b>	<b>268.7</b>	<b>117.4</b>	<b>4.8</b>	<b>3,348.6</b>
<b>Accumulated amortisation</b>							
As per 1.1.2015	–	88.9	103.0	0.1	70.2	0.3	262.5
Additions	–	43.0	19.2	1.8	15.8	–	79.8
Disposals	–	–	–	–	0.1	–	0.1
Transfers	–	–	–12.3	–	–	–	–12.3
Exchange rate differences	–	11.1	12.1	0.1	8.3	–	31.6
<b>As per 31.12.2015</b>	<b>–</b>	<b>143.0</b>	<b>122.0</b>	<b>2.0</b>	<b>94.2</b>	<b>0.3</b>	<b>361.5</b>
<b>Carrying amounts 31.12.2015</b>	<b>1,610.8</b>	<b>1,046.2</b>	<b>35.7</b>	<b>266.7</b>	<b>23.2</b>	<b>4.5</b>	<b>2,987.1</b>
<b>Historical cost</b>							
As per 1.1.2016	1,610.8	1,189.2	157.7	268.7	117.4	4.8	3,348.6
Additions	–	–	–	–	2.7	–	2.7
Disposals	–	–	–	–	–	–	–
Transfers	–	–	–	–	0.1	–	0.1
Exchange rate differences	50.8	37.5	5.0	8.5	3.8	0.1	105.7
<b>As per 31.12.2016</b>	<b>1,661.6</b>	<b>1,226.7</b>	<b>162.7</b>	<b>277.2</b>	<b>124.0</b>	<b>4.9</b>	<b>3,457.1</b>
<b>Accumulated amortisation</b>							
As per 1.1.2016	–	143.0	122.0	2.0	94.2	0.3	361.5
Additions	–	43.2	17.8	1.9	15.6	–	78.5
Disposals	–	–	–	–	–	–	–
Transfers	–	–	–	–	–	–	–
Exchange rate differences	–	6.5	4.7	0.2	3.7	–	15.1
<b>As per 31.12.2016</b>	<b>–</b>	<b>192.7</b>	<b>144.5</b>	<b>4.1</b>	<b>113.5</b>	<b>0.3</b>	<b>455.1</b>
<b>Carrying amounts 31.12.2016</b>	<b>1,661.6</b>	<b>1,034.0</b>	<b>18.2</b>	<b>273.1</b>	<b>10.5</b>	<b>4.6</b>	<b>3,002.0</b>

Intangible assets not subject to amortisation comprise goodwill in the amount of EUR 1,661.6 million (previous year: EUR 1,610.8 million) and the Hapag-Lloyd brand in the amount of EUR 238.5 million (previous year: EUR 231.3 million).

In order to assess the goodwill for impairment, an impairment test was carried out for the entire cash-generating unit “container shipping” at the end of the 2016 financial year, as was the case in the previous year.

Based on the assessment of IHS Global Insight and on the available capacities, Hapag-Lloyd is aiming to increase its transport volume equal to the market growth. At the time of planning, IHS Global Insight expected an increase in global container traffic of 3.8% in 2017 and of between 4.8% and 5.3% for the subsequent years. It is also predicted that freight rates will record a moderate rise within the scope of the typical seasonal fluctuations and offset an increase in transport expenses during the planning period. The USD/EUR exchange rate for all five budget years has been kept constant.

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%). In order to extrapolate the plans beyond the planning period, a growth reduction of 1.0% was taken into consideration (previous year: 1.0%). As such, the weighted average cost of capital for the subsequent period is 7.2% (previous year: 7.2%).

As part of the impairment test performed, the respective results were verified using a sensitivity analysis. Various capitalisation rates were used for this. There was no need for impairment for capitalisation costs of up to 8.9%. In addition, to take account of the volatility of the value-driving factors (transport volumes, freight rates, bunker prices and the USD/EUR exchange rate) a sensitivity analysis as to the anticipated surplus (free cash flow) in the period thereafter was performed in the context of a cash flow determination. A decrease in the free cash flow of up to 14.0% in the period thereafter and an unchanged cost of capital did not result in a need for impairment. After consideration of new findings up until the completion of the consolidated financial statements on 8 March 2017, no significant changes in the previous estimates regarding future development were necessary.

At the balance sheet date, the value in use exceeded the carrying amount on the basis of the plans and the sensitivity analyses, with the result that no impairment needed to be recognised at the level of the cash-generating unit.

For the Hapag-Lloyd brand, the recoverable amount at fair value was determined at the level of the container shipping CGU. As in the previous year, a need for impairment was not ascertained in the current financial year.

As part of the business combinations, existing contracts were identified as being advantageous if their contractual terms had a positive market value compared with the market conditions at the time of acquisition of the companies. This particularly included charter and lease contracts and transport and delivery contracts.

As in the previous year, no development costs were capitalised. The costs for the maintenance of software, which cannot be capitalised, amounted to EUR 6.8 million (previous year: EUR 5.4 million) and were recognised as expenses.

**12. Property, plant and equipment**

million EUR	Vessels	Containers, chassis	Other equipment	Payments on account and assets under con- struction	<b>Total</b>
<b>Historical cost</b>					
As per 1.1.2015	5,102.7	1,031.1	169.1	78.2	6,381.1
Additions	338.5	250.9	14.5	149.6	753.5
Disposals	54.4	2.3	3.1	–	59.8
Transfers	102.6	–	–	–84.4	18.2
Exchange rate differences	597.7	123.9	8.6	10.3	740.5
<b>As per 31.12.2015</b>	<b>6,087.1</b>	<b>1,403.6</b>	<b>189.1</b>	<b>153.7</b>	<b>7,833.5</b>
<b>Accumulated depreciation</b>					
As per 1.1.2015	917.0	246.4	41.7	–	1,205.1
Additions	269.3	103.8	11.7	–	384.8
Disposals	54.4	–	2.2	–	56.6
Transfers	12.3	–	–	–	12.3
Exchange rate differences	110.4	30.2	3.7	–	144.3
<b>As per 31.12.2015</b>	<b>1,254.6</b>	<b>380.4</b>	<b>54.9</b>	<b>–</b>	<b>1,689.9</b>
<b>Carrying amounts 31.12.2015</b>	<b>4,832.5</b>	<b>1,023.2</b>	<b>134.2</b>	<b>153.7</b>	<b>6,143.6</b>
<b>Historical cost</b>					
As per 1.1.2016	6,087.1	1,403.6	189.1	153.7	7,833.5
Additions	255.9	58.8	9.9	65.0	389.6
Disposals	16.0	4.5	3.2	–	23.7
Transfers	62.9	–	0.1	–62.9	0.1
Exchange rate differences	205.8	46.8	3.1	5.0	260.7
<b>As per 31.12.2016</b>	<b>6,595.7</b>	<b>1,504.7</b>	<b>199.0</b>	<b>160.8</b>	<b>8,460.2</b>
<b>Accumulated depreciation</b>					
As per 1.1.2016	1,254.6	380.4	54.9	–	1,689.9
Additions	279.7	109.9	12.9	–	402.5
Disposals	14.9	0.9	2.8	–	18.6
Transfers	–	–	0.1	–	0.1
Exchange rate differences	51.8	17.0	1.9	–	70.7
<b>As per 31.12.2016</b>	<b>1,571.2</b>	<b>506.4</b>	<b>67.0</b>	<b>–</b>	<b>2,144.6</b>
<b>Carrying amounts 31.12.2016</b>	<b>5,024.5</b>	<b>998.3</b>	<b>132.0</b>	<b>160.8</b>	<b>6,315.6</b>

The carrying amount of the property, plant and equipment subject to restrictions of ownership was EUR 5,675.1 million as at the balance sheet date (previous year: EUR 5,567.2 million).

These restrictions of ownership mainly pertain to ship mortgages from existing financing contracts for ships as well as property. Additional collateral exists with containers transferred by way of security.



As in the previous year, there was no capitalisation of directly attributable borrowing costs in the 2016 financial year. The capitalisation of borrowing costs relating to general external financing came to EUR 13.2 million (previous year: EUR 4.9 million). The weighted average borrowing costs for the general raising of borrowed funds (cost of debt) amounted to 6.62% p. a. for the 2016 financial year (previous year: 6.83% p. a.).

### 13. Subsidiaries with non-controlling interests

The following companies within the Hapag-Lloyd Group had non-controlling interests as at the balance sheet date:

Name of the company	Registered office	Proportion of ownership interest (in %)		Proportion of voting rights held (in %)	
		2016	2015	2016	2015
CSAV Austral SpA	Valparaíso	51.00	50.01	51.05	50.06
Florida Vessel Management LLC	Wilmington	25.00	25.00	25.00	25.00
Hapag-Lloyd Middle East Shipping LLC	Dubai	51.00	51.00	0.00	49.00
Hapag-Lloyd Grundstücksholding GmbH	Hamburg	5.10	5.10	5.10	5.10
Hapag-Lloyd (Peru) S.A.C.	Lima	40.00	40.00	40.00	40.00
Hapag-Lloyd Spain S.L.	Barcelona	10.00	10.00	10.00	10.00
Hapag-Lloyd (Thailand) Ltd.	Bangkok	50.10	50.10	0.00	0.00

The non-controlling interests within the Hapag-Lloyd Group are not material from a quantitative and qualitative perspective.

### 14. Equity-accounted investees

The following companies were incorporated into the Hapag-Lloyd Group using the equity method as at 31 December 2016.

Name of the company	Registered office	Proportion of ownership in the Group (in %)	
		31.12.2016	31.12.2015
<b>Joint venture</b>			
Hapag-Lloyd Denizasiri Nakliyat A.S.*	Izmir	50.00	50.00
Consorcio Naviero Peruano S.A.*	San Isidro	47.93	47.93
<b>Associated companies</b>			
Hapag-Lloyd Lanka (Pvt) Ltd*	Colombo	40.00	40.00
HHLA Container Terminal Altenwerder GmbH**	Hamburg	25.10	25.10

\* Ship agents and local shipping companies

\*\* Container terminal

Proportionate losses for equity-accounted associated companies of EUR –1.0 million in the financial year were not taken into consideration (previous year: EUR 0.0 million). No impairment losses are included in the proportionate equity result.

HHLA Container Terminal Altenwerder GmbH provides terminal services for the Hapag-Lloyd Group. Financial information for this main equity-accounted investee reported in the statement of financial position (on a 100% basis and therefore not adjusted to the percentage held) is contained in the following table.

million EUR	HHLA Container Terminal Altenwerder GmbH	
	2016	2015
<b>Balance sheet</b>		
Current assets	131.8	120.9
Non-current assets	72.3	84.1
Current liabilities	84.7	83.1
Non-current liabilities	39.0	41.5
<b>Statement of comprehensive income</b>		
Revenues	239.1	227.9
Annual result	62.8	60.5
Dividend payments to Hapag-Lloyd Group	-21.6	-30.3

The recognised share of equity-accounted investees developed as follows:

million EUR	HHLA Container Terminal Altenwerder GmbH		Non-material associated companies		Non-material joint ventures	
	2016	2015	2016	2015	2016	2015
<b>Participation 1.1.</b>	<b>318.6</b>	<b>327.3</b>	<b>0.4</b>	<b>0.3</b>	<b>7.6</b>	59.4
Disposals	-	-	-	-	-	56.7
Pro-rata share at earnings after taxes	22.6	21.6	0.2	0.4	4.2	7.3
Dividend payments	-21.6	-30.3	-0.3	-0.3	-6.0	-9.0
Changes not effecting income	-	-	-	-	-	-0.1
Exchange rate differences	-	-	0.0	0.0	0.0	6.7
<b>Participation 31.12.</b>	<b>319.6</b>	<b>318.6</b>	<b>0.3</b>	<b>0.4</b>	<b>5.8</b>	<b>7.6</b>

In the previous year, the Group acquired 100% of the agency business of the then equity-accounted investee Consorcio Naviero Peruano S.A., San Isidro (CNP). The agency business was initially hived off from CNP and was incorporated into Hapag-Lloyd (Peru) S.A.C., Lima, in return for new shares. As a result, the hived-off shares were presented as a partial disposal of the equity-accounted investee. Due to its low productive value, the remaining local liner business was recognised with an equity carrying amount of USD 1.

**15. Trade accounts receivable and other assets**

million EUR	31.12.2016		31.12.2015	
	Total	Remaining term more than a year	Total	Remaining term more than a year
<b>Financial assets</b>				
Trade accounts receivable	677.6	–	716.1	–
from third parties	677.5	–	714.5	–
from affiliated non-consolidated companies	0.1	–	1.6	–
Other assets	126.2	14.2	77.8	3.1
Receivables relating to offset or advanced payments	68.1	–	47.2	0.0
Other assets	57.3	13.4	29.8	2.3
Available-for-sale financial assets	0.8	0.8	0.8	0.8
<b>Total</b>	<b>803.8</b>	<b>14.2</b>	<b>793.9</b>	<b>3.1</b>
<b>Non-financial assets</b>				
Other assets	98.3	12.8	93.2	19.4
Claims arising from the refund of other taxes	61.7	0.3	51.2	2.5
Other assets	9.1	1.1	10.8	0.9
Capitalised transaction costs	11.7	10.3	16.8	15.1
Prepaid expenses	15.8	1.1	14.4	0.9
<b>Total</b>	<b>98.3</b>	<b>12.8</b>	<b>93.2</b>	<b>19.4</b>

As at 31 December 2016, in relation to ship financing there were assignments on earnings of a type customary on the market for trade accounts receivable resulting from revenue.

In addition to this, trade accounts receivable were pledged as part of the programme to securitise receivables.

Other assets include restricted cash in the amount of EUR 18.7 million (previous year: EUR 0.0 million), which serves as security for existing financial debts.

If no prices listed on an active market are available and the fair value cannot be determined reliably, the available-for-sale financial assets are measured at cost. In the 2016 financial year, as in the previous year, no impairment was recognised in the “available-for-sale financial assets” category.

### Credit risks

The following table provides information about the credit risks contained in trade accounts receivable and other assets:

million EUR	Carrying amounts of financial instruments	Thereof neither overdue nor impaired	Thereof not impaired and overdue in the following periods				
			less than 30 days	between 31 and 60 days	between 61 and 90 days	between 91 and 180 days	more than 180 days
<b>31.12.2015</b>							
Trade accounts receivable	716.1	489.9	122.9	21.8	4.6	8.5	68.4
Other assets	77.8	77.8	–	–	–	–	–
<b>Total</b>	<b>793.9</b>	<b>567.7</b>	<b>122.9</b>	<b>21.8</b>	<b>4.6</b>	<b>8.5</b>	<b>68.4</b>
<b>31.12.2016</b>							
Trade accounts receivable	677.6	508.7	133.6	17.2	7.5	6.1	4.5
Other assets	126.2	126.2	–	–	–	–	–
<b>Total</b>	<b>803.8</b>	<b>634.9</b>	<b>133.6</b>	<b>17.2</b>	<b>7.5</b>	<b>6.1</b>	<b>4.5</b>

With regard to the portfolio of trade accounts receivable and other assets which are neither impaired nor defaulted, there are no indications as at the balance sheet date that the respective debtors will not honour their obligations to pay.

### Impairment allowances

The impairment allowances on trade accounts receivable and other assets developed as follows:

million EUR	2016	2015
<b>Impairment allowances as of 1.1.</b>	<b>52.7</b>	<b>33.1</b>
Additions	23.1	25.3
Utilisation	9.8	1.0
Release	17.6	7.3
Disposal from deconsolidation	0.6	–
Exchange rate differences	–1.4	–2.6
<b>Impairment allowed as of 1.1.</b>	<b>49.2</b>	<b>52.7</b>

In the financial year, there were minor cash inflows from trade accounts receivable that were already written off.

## 16. Derivative financial instruments

million EUR	31.12.2016		31.12.2015	
	Total	Remaining term more than 1 year	Total	Remaining term more than 1 year
Receivables from derivative financial instruments	37.6	24.1	11.4	10.7
thereof derivatives in hedge accounting	4.6	–	0.7	–
thereof derivatives not included in hedge accounting	33.0	24.1	10.7	10.7

Derivative financial instruments are shown at fair value (market value). They serve to hedge the future operating business. This item also contains embedded derivatives in the form of buy-back options for issued bonds. A detailed presentation of the derivative financial instruments is contained in the explanatory note on financial instruments (Note [28]).

## 17. Inventories

The inventories were as follows:

million EUR	31.12.2016	31.12.2015
Raw materials and supplies	122.0	92.2
Prepayments	2.5	1.9
<b>Total</b>	<b>124.5</b>	<b>94.1</b>

Raw materials, supplies and purchased goods primarily comprised fuel and lubricating oil. At EUR 118.3 million, they were up EUR 31.6 million on the previous year.

The carrying amount of inventories recognised at net realisable value comes to EUR 63.6 million (previous year: EUR 43.1 million).

Of the expenses for raw materials, supplies and purchased goods totalling EUR 687.9 million, EUR 632.7 million was recognised as fuel expenses in the reporting period (previous year: EUR 1,002.8 million).

Impairments of fuel inventories in the amount of EUR 0.2 million were recognised as expenses in the reporting period (previous year: EUR 15.5 million). No write-backs were recognised.

## 18. Cash and cash equivalents

million EUR	31.12.2016	31.12.2015
Securities	0.0	0.0
Cash at bank	565.9	568.4
Cash in hand and cheques	4.3	5.3
<b>Total</b>	<b>570.2</b>	<b>573.7</b>

The balances of a number of bank accounts belonging to the Hapag-Lloyd Group are only freely available once the redemption payments and interest obligation due have been settled. As at 31 December 2016, these accounts contained a total of EUR 12.7 million (previous year: EUR 19.1 million), of which EUR 12.7 million (previous year: EUR 18.1 million) is subject to a maturity of up to three months.

Due to local restrictions, the Hapag-Lloyd Group has limited access to cash and cash equivalents of EUR 3.9 million (previous year: EUR 13.2 million) at individual subsidiaries.

### **19. Subscribed capital and capital reserves**

As at 31 December 2016, Hapag-Lloyd AG's subscribed capital is divided into 118.1 million no-par registered shares with equal rights, as in the previous year.

#### **2015 capital increase**

The rise in subscribed capital in the previous year was due to 13.2 million new no-par registered shares being issued on the Frankfurt and Hamburg Stock Exchanges in return for a minimum price of EUR 1.00 per share, payable in cash. At the end of the subscription period, the issue price for the new shares was set at EUR 20.00 per share. The shares were issued to institutional and private investors from Germany and elsewhere in Europe. On 6 November 2015, the share became listed on the regulated market (Prime Standard) of the Frankfurt and Hamburg Stock Exchanges. The proceeds from the issue of the new shares totalled EUR 264.5 million gross. The new shareholders' contributions totalling EUR 251.3 million were allocated to the capital reserves. In connection with the IPO, transaction costs totalling EUR 4.3 million were deducted from the capital reserves.

#### **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, subject to the approval of the Supervisory Board, authorised to increase the Company's share capital by up to EUR 50.0 million in the period to 30 June 2018 by issuing up to 50 million new no-par registered shares in exchange for cash and/or contributions in kind (Authorised Share Capital 2016). The amendment to the articles of association was entered on 4 October 2016. The shareholders are generally granted a subscription right. However, the Executive Board is authorised to exclude the shareholders' subscription right with approval of the Supervisory Board for one or more capital increases within the authorised share capital.

The Executive Board's previous authorisation, 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.

### **20. Retained earnings**

Retained earnings essentially comprise earnings from the financial year and previous years as well as reclassifications from the capital reserves. In the previous financial years, a total of EUR 1,682.3 million was withdrawn from the capital reserves in the individual financial statements under German commercial law and reclassified accordingly in the consolidated financial statements as retained earnings.

### Use of retained earnings

In accordance with the German Stock Corporation Act (AktG), the Annual General Meeting passes resolutions regarding use of the retained earnings reported in the annual financial statements prepared on the basis of German commercial law. Taking into account a withdrawal of EUR 201.4 million (previous year: withdrawal of EUR 635.7 million) from the capital reserves and the retained earnings brought forward of EUR 108.4 million, the annual financial statements of Hapag-Lloyd AG reported retained earnings of EUR 108.4 million, which will be carried forward.

### 21. Cumulative other equity

Cumulative other equity comprises the reserve for remeasurements relating to defined benefit pension plans, the reserve for cash flow hedges and the translation reserve.

The item for remeasurements from defined benefit plans (2016: EUR –118.9 million; previous year: EUR –75.2 million) results from income and expenses from the remeasurement of pension obligations and plan assets recognised in other comprehensive income, among other things due to the change in actuarial and financial parameters in connection with the valuation of pension obligations and the associated fund assets.

The reserve for cash flow hedges contains changes in market value from hedging transactions that are recognised in other comprehensive income and amounted to EUR 5.4 million as at 31 December 2016 (previous year: EUR 1.2 million).

The differences from currency translation of EUR 156.5 million recognised in the year under review (previous year: EUR 452.6 million) were due to the translation of the financial statements of Hapag-Lloyd AG and its subsidiaries into the reporting currency. The translation reserve as at 31 December 2016 amounted to EUR 835.3 million (previous year: EUR 678.8 million).

### 22. Non-controlling interests

In the 2016 financial year, the Hapag-Lloyd Group acquired a further 50% of the shares in Southern Shipmanagement Co. S.A., Panama City, which means that it now holds 100% of the shares in Southern Shipmanagement Co. S.A., Panama City, and 100% of its subsidiary Southern Shipmanagement (Chile) Ltda., Valparaíso.

As part of the liquidation of CSAV Shipping LLC i.L., Dubai, the non-controlling interests of EUR 0.9 million were disposed of.

Non-controlling interests changed in the previous year, primarily due to the sale of 40% of the interests in Hapag-Lloyd (Peru) S.A.C., Lima, to Inversiones Piuranas S.A., Lima.

## 23. Provisions for pensions and similar obligations

### Defined benefit pension plans

Hapag-Lloyd AG maintains domestic and foreign defined benefit pension plans.

Provisions for domestic benefit obligations and similar obligations are primarily made due to benefit commitments for pensions, survivorship annuities and disability benefits. The amount of the benefit depends on which benefit group the employees belong to based on years of service, and therefore on the total number of years of service. The monthly pension payable corresponds to the balance of the benefit account of the employee when pension payments begin. The balance of the benefit account is zero when employment begins. It increases by the increment set for the benefit group for every year of eligible service. After the 25th year of service, the annual amount increases by a fifth of the increment applicable to the benefit group. There is no obligation for employees to participate in the pension plan by way of paying contributions.

Furthermore, there are individually agreed pension commitments with entitlements to pension, survivorship annuity and disability benefits, the amount of which is specified in the corresponding agreements. A small number of people also have the option of forgoing their bonuses in favour of a company pension.

Pension commitments are provided to former Executive Board members based on a separate defined benefit plan. These also include entitlements to pension, survivorship annuity and disability benefits, the amount of which is based on an individually specified percentage of the pensionable emoluments. In some cases, they are also secured by plan assets in the form of reinsurance policies. Active Executive Board members do not receive any commitments for a company pension, with one exception. For one Executive Board member, there is a commitment for pension, survivorship annuity and disability benefits, the amount of which is determined by a fixed amount. Retirement benefits are paid out in the form of monthly pension payments.

Foreign defined benefit pension plans relate primarily to plans in the United Kingdom, the Netherlands, Canada and Mexico. These likewise include entitlements to pension, survivorship annuity and disability benefits. The amount of the benefits corresponds to a defined percentage together with the eligible years of service and emoluments. The net income generated from the amounts paid in is also taken into account. Plan assets exist for these plans. Contributions to the foreign plans are paid by Hapag-Lloyd and its employees. In Mexico, the contributions are paid solely by the employer. Benefits abroad are usually paid out in the form of monthly pension payments. However, in Mexico employees have the option of choosing between ongoing pension payments and one-time payments.

The Company is exposed to a variety of risks associated with defined benefit pension plans. Aside from general actuarial and financial risks such as longevity risks and interest rate risks, the Company is exposed to currency risk and investment/capital market risk.



**Financing status of the pension plans**

million EUR	31.12.2016	31.12.2015
<b>Domestic defined benefit obligations</b>		
Net present value of defined benefit obligations	205.3	170.1
Less fair value of plan assets	10.6	10.8
<b>Deficit (net liabilities)</b>	<b>194.7</b>	<b>159.3</b>
<b>Foreign defined benefit obligations</b>		
Net present value of defined benefit obligations	158.1	141.6
Less fair value of plan assets	108.2	109.1
<b>Deficit (net liabilities)</b>	<b>49.9</b>	<b>32.5</b>

**Composition and management of plan assets**

The Group's plan assets are as follows:

million EUR	31.12.2016	31.12.2015
Equity instruments		
with quoted market price in an active market	24.1	25.3
without quoted market price in an active market	2.1	2.4
Government bonds		
with quoted market price in an active market	29.6	35.1
without quoted market price in an active market	–	–
Corporate bonds		
with quoted market price in an active market	26.0	26.2
without quoted market price in an active market	–	–
Other debt instruments		
Mortgage-backed securities		
with quoted market price in an active market	7.3	5.7
without quoted market price in an active market	–	–
(Other) asset-backed securities		
with quoted market price in an active market	2.6	3.5
without quoted market price in an active market	–	–
Derivatives		
with quoted market price in an active market	6.7	3.4
without quoted market price in an active market	–	–
Pension plan reinsurance	10.6	10.8
Real estate	1.7	1.2
Cash and cash equivalents	2.0	0.6
Other	6.1	5.7
<b>Fair value of plan assets</b>	<b>118.8</b>	<b>119.9</b>

The plan assets have been entrusted to independent external financial service providers for investment and management. The plan assets contain neither the Group's own financial instruments nor real estate used by the Group itself. All bonds in the plan assets had a rating of at least AA as at the balance sheet date.

Committees (trustees) exist in the United Kingdom, Canada and Mexico to manage the foreign plan assets; these consist of plan participants and representatives of Hapag-Lloyd management.

When plan assets are invested in these countries, legally independent financial service providers are called in to provide advice and support. They make a capital investment proposal to the respective committee, complete with risk and success scenarios. The committee is then responsible for taking the investment decision in close consultation with Hapag-Lloyd AG; their decisions tally with their respective investment strategy. The investment strategy first and foremost focuses on reducing the interest rate risk and on safeguarding liquidity and optimising returns. To this end, the anticipated pension payments, which will be incurred in a specific time frame, are aligned with the maturity of the capital investments. In the case of maturities from eight to twelve years, low-risk investment forms are chosen, e.g. fixed-interest or index-linked government and corporate bonds. For other obligations falling due beyond this, investments are made with a higher risk, but with a greater expected return.

In the Netherlands, an independent financial service provider is responsible both for managing the plan assets and for deciding how to invest them.

The financing conditions in the United Kingdom are set by the regulatory body for pensions together with the corresponding laws and regulations. Accordingly, a valuation is carried out in line with local regulations every three years, which usually leads to a greater obligation compared to measurement pursuant to IAS 19. Based on the most recent technical valuation, the defined benefit plan in the United Kingdom has a financing deficit. The Company and trustees have agreed on a plan to reduce the deficit, which includes additional annual payments for a limited period.

#### Development of the present value of defined benefit obligations

The present value of defined benefit obligations has developed as follows:

million EUR	2016	2015
<b>Net present value of defined benefit obligations as at 1.1.</b>	<b>311.7</b>	<b>332.6</b>
Current service cost	8.3	9.3
Interest expenses	9.0	8.5
Remeasurements:		
Gains (-)/losses (+) from changes in demographic assumptions	-0.7	-0.4
Gains (-)/losses (+) from changes in financial assumptions	53.9	-34.1
Gains (-)/losses (+) from changes due to experience	-1.2	-0.3
Past service cost	0.3	1.0
Contributions by plan participants	0.6	0.5
Benefits paid	-8.5	-8.1
Exchange rate differences	-10.0	2.7
<b>Net present value of defined benefit obligations as at 31.12.</b>	<b>363.4</b>	<b>311.7</b>

The weighted average maturity of defined benefit obligations was 20.4 years as at 31 December 2016 (previous year: 19.4 years).

### Development of the fair value of the plan assets

The fair value of the plan assets has developed as follows:

million EUR	2016	2015
<b>Fair value of plan assets as at 1.1.</b>	<b>119.9</b>	<b>117.9</b>
Interest income	4.0	3.9
Return and losses on plan assets (excluding interest income)	4.5	-3.2
Employer contributions	2.7	3.1
Contributions by plan participants	0.4	0.4
Benefits paid	-4.5	-4.5
Exchange rate differences	-8.2	2.3
<b>Fair value of plan assets as at 31.12.</b>	<b>118.8</b>	<b>119.9</b>

### Net pension expenses

Net pension expenses reported in the income statement for the period are as follows:

million EUR	31.12.2016	31.12.2015
Current service cost	8.3	9.3
Interest expenses	9.0	8.5
Interest income	-4.0	-3.9
(Negative [-]) past service cost	0.3	1.0
<b>Net pension expenses</b>	<b>13.6</b>	<b>14.9</b>

The expenses incurred in connection with pensions and similar obligations are contained in the following items in the consolidated income statement:

million EUR	31.12.2016	31.12.2015
Personnel expenses	8.6	10.3
Interest expenses (+)/interest income (-)	5.0	4.6
<b>Total</b>	<b>13.6</b>	<b>14.9</b>

### Actuarial assumptions

The valuation date for pension provisions and plan assets is generally 31 December. The valuation date for current net pension expenses is generally 1 January. The parameters established for the calculation of the pension provisions and the interest rate to determine interest income on plan assets to be reported in the income statement vary in accordance with the prevailing market conditions in the currency region in which the pension plan was set up.

The 2005 mortality tables devised by Heubeck served as the demographic basis for calculating the domestic pension provisions. The following significant financial and actuarial assumptions were also used:

percentage points	31.12.2016	31.12.2015
Discount factors	1.80	2.60
Expected rate of pension increases	1.80	1.80

Demographic assumptions based on locally generally applicable guidance tables were used to measure the significant foreign pension provisions. The following financial and actuarial assumptions were also used:

percentage points	31.12.2016	31.12.2015
Discount factors for pension obligations		
– United Kingdom	2.60	3.90
– Netherlands	1.80	2.60
– Canada	3.50	4.00
– Mexico	6.80	7.09
Expected rate of pension increases		
– United Kingdom	2.90	2.95
– Netherlands	2.00	2.00
– Canada	n/a	n/a
– Mexico	3.30	3.30

The discount factors for the pension plans are determined annually as at 31 December on the basis of first-rate corporate bonds with maturities and values matching those of the pension payments. An index based on corporate bonds with relatively short terms is used for this purpose. The resultant interest rate structure is extrapolated on the basis of the yield curves for almost risk-free bonds, taking account of an appropriate risk premium, and the discount rate is then determined in line with the duration of the obligation.

### Remeasurements

Remeasurements from defined benefit pension plans recognised in other comprehensive income amounted to EUR –45.3 million before tax as at 31 December 2016 for the 2016 financial year (previous year: EUR 30.8 million) and can be broken down as follows:

million EUR	31.12.2016	31.12.2015
Actuarial gains (+)/losses (–) from		
Changes in demographic assumptions	0.7	0.4
Changes in financial assumptions	–53.9	34.1
Changes from experience	1.2	0.4
Return on plan assets (excluding interest income)	4.5	–3.2
Exchange rate differences	2.2	–0.9
<b>Remeasurements</b>	<b>–45.3</b>	<b>30.8</b>

The cumulative amount of remeasurements recognised in other comprehensive income after taxes totalled EUR –118.9 million as at 31 December 2016 (previous year: EUR –75.2 million).

### Future contribution and pension payments

For 2017, the Group is planning to make contributions to pension plan assets amounting to EUR 2.8 million (2016: EUR 4.1 million). Payments for unfunded pension plans are anticipated in the amount of EUR 3.6 million in 2017 (2016: EUR 3.5 million).

### Sensitivity analysis

An increase or decrease in the significant actuarial assumptions would have the following effects on the present value of pension provisions as at 31 December 2016:

million EUR	Present value 31.12.2016	Present value 31.12.2015
Discount factor 0.8% points higher	-51.4	-41.5
Discount factor 0.8% points lower	42.8	51.7
Expected rate of pension increase 0.2% higher	8.0	6.4
Expected rate of pension increase 0.2% lower	-7.7	-6.1
Life expectancy 1 year longer	12.6	9.7

The sensitivity calculations are based on the average maturity of pension provisions determined as at 31 December 2016. In order to present the effects on the present value of pension provisions as at 31 December 2016 separately, the calculations for the key actuarial parameters were performed individually. Correlations between the effects and valuation assumptions were not considered either. Given that sensitivity analyses are based on the average duration of the anticipated pension provisions and, as a result, the expected payout date is not considered, they only provide approximate information and indications of trends.

### Defined contribution pension plans

At Hapag-Lloyd, the expenses for defined contribution pension plans relate predominantly to the contributions to the statutory retirement pension system. In the period from 1 January to 31 December 2016, expenses incurred in connection with defined contribution pension plans totalled EUR 23.9 million (previous year: EUR 21.7 million). This amount includes an expense of EUR 1.0 million in connection with a joint plan in the USA operated by several employers (previous year: EUR 0.9 million).

In the 2008 financial year, pension and medical benefit provisions in the USA were transferred, together with the corresponding plan assets, from the Company's own benefit plan to the joint plan of several employers. This plan is a defined benefit pension plan. As the joint plan does not provide sufficient and timely information regarding the development of the entitlement of employees of the Group or the Group's share in the plan assets, this plan has been recognised as a contribution plan since then.

Contributions are paid to finance the plan. These are determined on the basis of current service cost, the anticipated costs of the earned entitlement of active participants for the current year and the distribution of shortfalls. The total amount required is spread in an amount calculated per working hour which falls due per participant and paid working hour.

A total of 17 shipping companies participate in the plan. When joining the plan, the companies brought with them deficits of EUR 20.6 million (pensions) and EUR 57.7 million (medical care). Hapag-Lloyd's share amounted to a surplus of EUR 0.9 million (pensions) and a deficit of EUR 1.9 million (medical care). These initial surpluses and deficits are being equalised over a period of ten years by means of reduced contributions or additional contributions respectively. In this context, the Company reported a net liability of EUR 0.1 million as at 31 December 2016 (previous year: EUR 0.1 million).

Deficits which have arisen since the calculation of the initial deficits are spread over 15 years, which results in higher contributions. Deficits are calculated by deducting the market value of the plan assets from the cumulative obligations.

According to the most recent report (1 January 2016; previous year: 1 January 2015), the plan participants were as follows:

#### Plan participants (total)

	Medical care	Pensions	Medical care	Pensions
	2016		2015	
Active vested participants	571	537	558	525
Inactive vested participants	–	47	–	46
Beneficiaries	188	192	173	173
<b>Total</b>	<b>759</b>	<b>776</b>	<b>731</b>	<b>744</b>

#### Plan participants (Hapag-Lloyd)

	Medical care	Pensions	Medical care	Pensions
	2016		2015	
Active vested participants	41	41	43	41
Inactive vested participants	–	–	–	–
Beneficiaries	8	2	3	2
<b>Total</b>	<b>49</b>	<b>43</b>	<b>46</b>	<b>43</b>

In the event that a company wishes to leave the plan, they must pay a withdrawal liability. This withdrawal liability is calculated on the basis of the current proportionate deficit by taking into account only the non-forfeitable benefits less the market value of the plan assets. If a company leaves the plan without being able to pay the withdrawal liability, for instance in the event of insolvency, the deficit remains within the plan and must be covered by the other companies.

For 2017, payments to the plan are expected to amount to EUR 1.1 million (2016: EUR 1.0 million).

## 24. Other provisions

Other provisions developed as follows in the financial year and previous year:

million EUR	As per 1.1.2015	Reclassi- fication	Utilisation	Release	Addition	Exchange rate dif- ferences	As per 31.12. 2015
Risks from pending transactions and lawsuits	291.7	-6.1	146.5	1.6	1.0	31.0	169.5
Guarantee, warranty and liability risks	89.8	19.6	15.6	11.4	6.4	10.5	99.3
Personnel costs	41.5	0.3	25.7	2.4	58.1	2.3	74.1
Restructuring	89.7	-0.1	33.0	49.4	-	8.8	16.0
Insurance premiums	9.5	-	6.3	-	11.4	1.2	15.8
Provisions for other taxes	6.3	-4.4	2.5	-	2.6	0.4	2.4
Other provisions	63.9	-27.3	11.5	1.2	23.4	5.7	53.0
<b>Other provisions</b>	<b>592.4</b>	<b>-18.0</b>	<b>241.1</b>	<b>66.0</b>	<b>102.9</b>	<b>59.9</b>	<b>430.1</b>

million EUR	As per 1.1.2016	Reclassi- fication	Utilisation	Release	Addition	Exchange rate dif- ferences	As per 31.12. 2016
Risks from pending transactions and lawsuits	169.5	-	62.4	1.3	0.6	2.4	108.8
Guarantee, warranty and liability risks	99.3	-	21.3	10.0	10.7	2.2	80.9
Personnel costs	74.1	-	48.9	2.7	41.3	1.6	65.4
Insurance premiums	15.8	-	1.2	4.8	5.3	0.5	15.6
Provisions for other taxes	2.4	-	0.6	0.1	0.5	-	2.2
Restructuring	16.0	-	9.7	4.5	-	-0.1	1.7
Other provisions	53.0	-	17.8	1.7	15.8	1.3	50.6
<b>Other provisions</b>	<b>430.1</b>	<b>-</b>	<b>161.9</b>	<b>25.1</b>	<b>74.2</b>	<b>7.9</b>	<b>325.2</b>

The risks from pending transactions and lawsuits primarily relate to disadvantageous charter and lease agreements identified as part of purchase price allocations pursuant to IFRS 3. By comparison with the prevailing market conditions at the time of acquisition, these agreements have a negative market value and will be used up over the corresponding term of the underlying agreements. No new increases in the discounted amount were recorded here during the financial year due to the passage of time. The change in the remaining discounted non-current provisions is insignificant due to an adjusted discount rate.

Provisions for guarantee, warranty and liability risks relate primarily to maintenance obligations in connection with leased containers and to obligations to compensate for uninsured damage to cargo.

Provisions for personnel costs comprise provisions for leave not yet taken, bonuses not yet paid, severance compensation, anniversary payments and share-based payment agreements which are part of the Executive Board's variable remuneration. Details of the long-term incentive plans are outlined in section (34). Provisions for insurance premiums include outstanding premiums for general and business insurance policies entered into with insurers outside the Group. The provision for restructuring relates solely to CSAV's container shipping activities which were integrated into the Hapag-Lloyd Group in 2014.

Other provisions comprise items that cannot be allocated to any of the items already mentioned and include, in particular, provisions for country-specific risks and archiving provisions.

The maturities of the other provisions are as follows:

million EUR	31.12.2016				31.12.2015			
	Remaining terms				Remaining terms			
	Total	up to 1 year	1–5 years	more than 5 years	Total	up to 1 year	1–5 years	more than 5 years
Risks from pending transactions and lawsuits	108.8	52.0	55.0	1.8	169.5	72.3	86.6	10.6
Guarantee, warranty and liability risks	80.9	54.9	21.1	4.9	99.3	74.9	20.0	4.4
Personnel costs	65.4	50.6	7.2	7.6	74.1	60.5	7.4	6.2
Insurance premiums	15.6	15.6	–	–	15.8	15.8	–	–
Provisions for other taxes	2.2	2.2	–	–	2.4	2.4	–	–
Restructuring	1.7	1.7	–	–	16.0	14.8	1.2	–
Other provisions	50.6	34.2	9.4	7.0	53.0	45.2	2.2	5.6
<b>Other provisions</b>	<b>325.2</b>	<b>211.2</b>	<b>92.7</b>	<b>21.3</b>	<b>430.1</b>	<b>285.9</b>	<b>117.4</b>	<b>26.8</b>



**25. Financial debt**

million EUR	31.12.2016				31.12.2015			
	Remaining terms				Remaining terms			
	Total	up to 1 year	1–5 years	more than 5 years	Total	up to 1 year	1–5 years	more than 5 years
Liabilities to banks	3,050.1	711.3	1,600.0	738.8	2,786.2	540.6	1,440.8	804.8
Bonds	785.2	137.1	648.1	–	779.9	19.0	760.9	–
Liabilities from finance lease contracts	137.2	35.2	77.1	24.9	149.5	24.7	92.1	32.7
Other financial liabilities	208.2	31.6	152.9	23.7	191.7	25.8	114.8	51.1
<b>Total</b>	<b>4,180.7</b>	<b>915.2</b>	<b>2,478.1</b>	<b>787.4</b>	<b>3,907.3</b>	<b>610.1</b>	<b>2,408.6</b>	<b>888.6</b>

**Financial debt by currency exposure**

million EUR	31.12.2016	31.12.2015
Financial liabilities denoted in USD (excl. transaction costs)	3,394.0	3,167.0
Financial liabilities denoted in EUR (excl. transaction costs)	819.0	789.9
Interest payable	37.4	33.1
Accounting for transaction costs	–69.7	–82.7
<b>Total</b>	<b>4,180.7</b>	<b>3,907.3</b>

Financial debt includes liabilities to banks, bonds, liabilities from finance lease contracts and other financial debt.

**Liabilities to banks**

Liabilities to banks mainly comprise loans to finance the existing fleet of ships and containers.

In order to secure the long-term financing of the two 3,500-TEU ships that were acquired from Dutch shipping company, NileDutch, in the financial year, Hapag-Lloyd signed a loan agreement for USD 57.4 million (EUR 54.4 million) with a seven-year maturity term.

In the 2016 financial year, loans were taken out in connection with the delivery of two ship newbuilds (totalling EUR 141.1 million or USD 149.0 million as at 31 December 2016). In the previous year, loans were paid out in connection with the delivery of five ship newbuilds (totalling EUR 218.5 million or USD 238.0 million as at 31 December 2015).

In addition to financing for ship investments, Hapag-Lloyd obtained new fleet financing of USD 396.0 million (EUR 375.0 million) on 20 December 2016 which was used to pay off and optimise existing loans for ships in the amount of USD 298.2 million (EUR 284.4 million).

In addition, Hapag-Lloyd signed an agreement with the existing financial backer to refinance and also increase a real estate loan from around EUR 54.4 million at present to EUR 85.0 million.

The current ABS programme was utilised by drawing down a further EUR 56.8 million (USD 60.0 million) in the 2016 financial year.

Significant elements of the liabilities to banks are collateralised with ship mortgages. Additional collateral exists in the form of land charges in connection with the Ballindamm property and securitised trade accounts receivable amounting to EUR 301.4 million (previous year: EUR 234.8 million).

#### **Other financial debt**

In the 2016 financial year and in previous financial years, various sale and leaseback transactions were effected and investments were made in new containers. The economic substance of these transactions is credit financing secured by the assignment of containers as collateral. These transactions expire between 2017 and 2024. The classification of the contracts is in accordance with SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease, because the contracts include advantageous purchase options, such that there is sufficient certainty that the options will be exercised resulting in the transfer of the legal ownership of the containers back to Hapag-Lloyd AG. Part of these transactions is included in liabilities to banks. Two such transactions were concluded in the 2016 financial year. Overall, transactions of this kind resulted in liabilities to banks totalling EUR 187.3 million as at the reporting date (previous year: EUR 232.5 million) and other financial debt totalling EUR 207.5 million (previous year: EUR 190.8 million). Interest totalling EUR 19.3 million was recognised in interest expenses in the 2016 financial year (previous year: EUR 19.8 million).

#### **Credit facilities**

An unsecured credit line amounting to USD 125.0 million (EUR 118.4 million) was guaranteed by the Joint Global Coordinators in connection with the IPO in 2015. This was fully utilised as at 31 December 2016.

The credit facility to finance investments in containers of USD 135.0 million (EUR 127.8 million) was fully utilised at the balance sheet date.

Overall, Hapag-Lloyd had available credit facilities in the amount of EUR 189.4 million (previous year: EUR 388.7 million) at the balance sheet date. These free liquidity reserves have a maturity until October 2018.

**26. Trade accounts payable and other liabilities**

million EUR	31.12.2016				31.12.2015			
	Remaining terms				Remaining terms			
	Total	up to 1 year	1–5 years	more than 5 years	Total	up to 1 year	1–5 years	more than 5 years
<b>Financial liabilities</b>								
Trade accounts payable	1,281.6	1,281.6	–	–	1,293.8	1,293.8	–	–
thereof to third parties	1,281.6	1,281.6	–	–	1,292.5	1,292.5	–	–
thereof to investments	–	–	–	–	1.3	1.3	–	–
Other liabilities	50.8	42.2	8.4	0.2	42.9	41.6	1.1	0.2
Other liabilities	49.1	40.7	8.4	–	38.6	37.5	1.1	–
Other liabilities to employees	1.7	1.5	–	0.2	4.3	4.1	–	0.2
<b>Total</b>	<b>1,332.4</b>	<b>1,323.8</b>	<b>8.4</b>	<b>0.2</b>	<b>1,336.7</b>	<b>1,335.4</b>	<b>1.1</b>	<b>0.2</b>
<b>Non-financial liabilities</b>								
Other liabilities	129.1	125.6	3.4	0.1	120.3	116.9	3.2	0.2
Prepayments received	103.0	103.0	–	–	95.0	95.0	–	–
Other liabilities as part of social security	9.9	8.0	1.8	0.1	17.4	15.4	1.9	0.1
Other liabilities from other taxes	7.6	7.6	–	–	6.3	6.2	0.1	–
Other liabilities	8.6	7.0	1.6	0.0	1.6	0.3	1.2	0.1
<b>Total</b>	<b>129.1</b>	<b>125.6</b>	<b>3.4</b>	<b>0.1</b>	<b>120.3</b>	<b>116.9</b>	<b>3.2</b>	<b>0.2</b>

**27. Derivative financial instruments**

million EUR	31.12.2016		31.12.2015	
	Total	Remaining term more than 1 year	Total	Remaining term more than 1 year
Liabilities from derivative financial instruments	-41.1	-1.8	-22.3	-
thereof derivatives in hedge accounting	-41.1	-1.8	-22.3	-
thereof derivatives not included in hedge accounting	-	-	-	-

Liabilities from derivative financial instruments are solely the result of currency forward contracts. A detailed presentation of the derivative financial instruments is contained in the explanatory note on financial instruments (Note [28]).

**28. Financial instruments****Financial risks and risk management****Risk management principles**

The Hapag-Lloyd Group's global business activity exposes it to market risks. The market risks include, in particular, currency risk, fuel price risk and interest rate risk. The objective of financial risk management is to reduce market risks. For this purpose, selected derivative financial instruments are deployed at Hapag-Lloyd AG; these are used solely as an economic hedging measure and not for trading or other speculative purposes.

In addition to market risks, the Hapag-Lloyd Group is subject to liquidity risks and default risks, which involve the risk that the Group itself or one of its contractual partners cannot meet its contractually agreed payment obligations.

The basic features of financial risk management have been established and described in a financial management guideline approved by the Executive Board. The guideline stipulates areas of responsibility, describes the framework for action and the reporting function, and establishes the strict separation of trading and handling with binding force.

The derivative financial instruments used to limit market risks are acquired only through financial institutions with first-rate creditworthiness. The hedging strategy is approved by the Executive Board of Hapag-Lloyd AG. Implementation, reporting and ongoing financial risk management are the responsibility of the Treasury department.

#### Market risk

Market risk is defined as the risk that the fair values or future cash flows of a primary or derivative financial instrument fluctuate as a result of underlying risk factors.

The causes of the existing market price risks to which the Hapag-Lloyd Group is exposed lie particularly in the significant cash flows in foreign currencies at the level of Hapag-Lloyd AG, fuel consumption and interest rate risks that result from external financing.

In order to portray the market risks, IFRS 7 demands sensitivity analyses that show the effects of hypothetical changes in relevant risk variables on profit or loss for the period and equity. The hypothetical changes in these risk variables relate to the respective portfolio of primary and derivative financial instruments on the balance sheet date.

The analyses of the risk reduction activities outlined below and the amounts determined using sensitivity analyses constitute hypothetical and therefore risky and uncertain information. Due to unforeseeable developments on the global financial markets, actual events may deviate substantially from the information provided.

#### Currency risk

Currency risks are hedged if they influence the Hapag-Lloyd Group's cash flow. The objective of currency hedging is the fixing of cash flows based on hedging rates for preventing future disadvantageous fluctuations of the currency exchange rate.

The Hapag-Lloyd Group's functional currency is the US dollar. Currency risks mainly result from incoming or outgoing payments in currencies other than the US dollar and from financial debt taken on in euros. In addition to the euro, the Canadian dollar, Brazilian real, Indian rupee, British pound sterling, Chinese renminbi, Australian dollar, Japanese yen and Mexican peso are significant currencies.

If necessary, currency hedging transactions are conducted while taking account of internal guidelines. The Group hedges a portion of its operating cost exposure denominated in euros by using options on a twelve-month basis with the aim of limiting currency risks. The repayment of euro-denominated financial debt is also hedged up to as much as 100%. The risks are hedged by making use of derivative financial instruments in the form of currency forward contracts and instruments that have a natural hedging effect (e.g. euro money market investments).

The following sensitivity analysis contains the Hapag-Lloyd Group's currency risks in relation to primary and derivative financial instruments. It reflects the risk that arises in the event that the US dollar as the functional currency appreciates or depreciates by 10% against the major Group currencies (EUR, CAD, GBP) at the reporting date. The analysis is depicted on the basis of a posted foreign currency exposure of USD –734.2 million.

### Sensitivity analysis

million USD	31.12.2016		31.12.2015	
	Effect on earnings	Reserve for cash flow hedges (equity)	Effect on earnings	Reserve for cash flow hedges (equity)
<b>USD/EUR</b>				
+10%	7.2	0.2	-0.2	0.6
-10%	-7.2	-0.2	0.2	-0.6
<b>USD/CAD</b>				
+10%	-6.7	-	-3.3	-
-10%	6.7	-	3.3	-
<b>USD/GBP</b>				
+10%	0.7	-	4.3	-
-10%	-0.7	-	-4.3	-

Risks at the level of Hapag-Lloyd AG's consolidated financial statements arise from the translation of the group financial statements in US dollars into the reporting currency, the euro (translation risk). This risk has no impact on the Group's cash flow; instead, it is reflected in equity and is not currently hedged.

#### Fuel price risk

As a result of its operating activities, the Hapag-Lloyd Group is exposed to a market price risk for the procurement of bunker fuel.

The risk management's basic objective is securing up to 80% of the forecast bunker requirements. Derivative financial instruments in the form of commodity options are used to hedge against price fluctuations.

In order to portray the fuel price risks according to IFRS 7, a sensitivity analysis was performed, with an implied hypothetical market price change of +/-10%. The consequent effects on earnings and equity – resulting from the market price changes of the derivative financial instrument used – are shown in the following table.

million EUR	31.12.2016		31.12.2015	
	10%	-10%	10%	-10%
Reserve for cash flow hedges	4.1	-3.9	-	-
Earnings before income taxes	18.1	-5.2	0.0	0.0

#### Interest rate risk

The Hapag-Lloyd Group is exposed to interest rate risks affecting cash flow, particularly from financial debt based on variable interest rates. In order to minimise the interest rate risk, the Group strives to achieve a balanced combination of assets and liabilities with variable and fixed interest rates. Interest rate hedging instruments were not used in 2016. In addition, non-cash interest rate risks relating to the measurement of separately recognised embedded derivatives exist in the form of early buy-back options for issued bonds. Effects from the market valuation of these financial instruments are also reflected in the interest result.

In order to present the interest rate risks pursuant to IFRS 7, a sensitivity analysis was performed and used to determine the effects of hypothetical changes in market interest rates on interest income and expenses. The market interest rate as at 31 December 2016 was increased or decreased by +/-100 basis points. Taking into account the low interest rate level, hypothetical, negative changes in interest rates were only made up to nil. The determined effect on earnings relates to financial debt with a variable interest rate amounting to EUR 2,781.5 million that existed at the balance sheet date (previous year: EUR 2,553.8 million) and the market value of embedded derivatives totalling EUR 26.3 million (previous year: EUR 10.7 million). It is assumed that this exposure also constitutes a representative figure for the next financial year.

million EUR	31.12.2016		31.12.2015	
	+100 base points	-100 base points	+100 base points	-100 base points
Change in variable interest rate				
Earnings before income taxes	-30.5	28.7	-28.0	16.2

#### Credit risk

In addition to the market risks described above, the Hapag-Lloyd Group is exposed to default risks. Default risk constitutes the risk that a contracting partner will be unable to meet its contractual payment obligations. It refers to both the Hapag-Lloyd Group's operating activities and the counterparty risk vis-à-vis external banks.

Generally, a risk of this kind is minimised by the creditworthiness requirements which the respective contracting partners are required to fulfil. With regard to its operating activities, the Group has an established credit and receivables management system at area, regional and head office level which is based on internal guidelines. Payment periods for customers are determined and continuously monitored within the framework of a credit check. This process takes account of both internal data based on empirical values and external information on the respective customer's creditworthiness and rating. To provide protection against default risks, a credit insurance policy or bank guarantees are also used to hedge just over three quarters of the trade accounts receivable as at the balance sheet date.

The Hapag-Lloyd Group is not exposed to major default risk from an individual counterparty. The concentration of the default risk is limited due to the broad and heterogeneous customer base.

If there are discernible risks in the area of trade accounts receivable and other assets, these are taken into account by means of appropriate impairment allowances. For information regarding the age structure analysis for the trade accounts receivable and other assets, please refer to Note (15).

The portfolio of primary financial assets is reported in the statement of financial position. The carrying amounts of the financial assets correspond to the maximum default risk.

With regard to derivative financial instruments, all the counterparties must have a credit rating or, alternatively, a corresponding internal credit assessment determined according to clear specifications. The maximum risk corresponds to the sum total of the positive market values as at the balance sheet date, as this is the extent of the loss that would have to be borne.

Taking into account the positive and negative market values of the derivative financial instruments in the amount of EUR 11.3 million and EUR –41.1 million respectively, this results in the potential to offset financial assets and financial liabilities to the tune of EUR 2.8 million subject to the German Master Agreement for Financial Derivatives Transactions. The market values of embedded derivatives linked to the buy-back option of issued bonds totalling EUR 26.3 million were not taken into account here.

In addition to these, there are no further long-term financial obligations or loans with external contracting partners from which a potential default risk may arise.

#### Liquidity risk

Generally, liquidity risk constitutes the risk that a company will be unable to meet its obligations resulting from financial liabilities. Permanent solvency is ensured and refinancing costs are continuously optimised as part of central financial management.

To ensure solvency at all times, the liquidity requirements are determined by means of multi-year financial planning and a monthly rolling liquidity forecast and are managed centrally. Liquidity needs were covered by liquid funds and confirmed lines of credit at all times over the past financial year.

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

Further explanatory notes regarding the management of liquidity risks are included in the risk and opportunity report of the Group management report.

Current undiscounted contractually fixed cash flows from both primary financial liabilities (interest and redemption) and derivative financial instruments are as follows:



**Cash flows of financial instruments (31.12.2015)**

million EUR	2016	2017	Cash inflows and outflows 2018–2020	from 2021	<b>Total</b>
<b>Primary financial liabilities</b>					
Liabilities to banks <sup>1</sup>	-629.1	-410.9	-1,272.6	-867.4	-3,180.0
Bonds	-58.7	-175.7	-725.0	-	-959.4
Liabilities from finance leases	-33.4	-39.8	-73.0	-36.9	-183.1
Other financial liabilities (excl. operating leases)	-33.7	-34.9	-106.3	-53.0	-227.9
Trade accounts payable	-1,293.8	-	-	-	-1,293.8
Other liabilities	-41.6	-1.1	-	-0.2	-42.9
<b>Total primary financial liabilities</b>	<b>-2,090.3</b>	<b>-662.4</b>	<b>-2,176.9</b>	<b>-957.5</b>	<b>-5,887.1</b>
<b>Total derivative financial liabilities</b>	<b>-22.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-22.4</b>

<sup>1</sup> In relation to a contractually fixed loan for the financing of new ships, there is a further nominal amount of USD 372.4 million to be paid upon delivery of the ships. The loans have a term of twelve years starting with the delivery of the financed ships and are subject to an interest rate of USD LIBOR +1.71%.

**Cash flows of financial instruments (31.12.2016)**

million EUR	2017	2018	Cash inflows and outflows 2019–2021	from 2022	<b>Total</b>
<b>Primary financial liabilities</b>					
Liabilities to banks <sup>1</sup>	-774.0	-813.7	-1,073.8	-838.9	-3,500.4
Bonds	-148.8	-423.7	-228.7	-5.4	-886.6
Liabilities from finance leases	-43.2	-30.1	-63.7	-27.1	-164.1
Other financial liabilities (excl. operating leases)	-41.9	-41.9	-135.7	-25.4	-244.9
Trade accounts payable	-1,281.6	-	-	-	-1,281.6
Other liabilities	-42.1	-8.4	-	-0.2	-50.7
<b>Total primary financial liabilities</b>	<b>-2,331.6</b>	<b>-1,317.8</b>	<b>-1,561.9</b>	<b>-897.0</b>	<b>-6,108.3</b>
<b>Total derivative financial liabilities</b>	<b>-39.7</b>	<b>-1.9</b>	<b>-</b>	<b>-</b>	<b>-41.6</b>

<sup>1</sup> In relation to a contractually fixed loan for the financing of new ships, there is a further nominal amount of USD 223.5 million to be paid upon delivery of the ships. The loans have a term of twelve years starting with the delivery of the financed ships and are subject to an interest rate of USD LIBOR +1.71%.

It is not expected that the cash outflows in the maturity analysis will occur at points in time that differ significantly or in amounts that differ significantly.

All financial instruments for which payments had already been contractually agreed as at the reporting date of 31 December 2016 were included. Amounts in foreign currencies were translated at the spot rate as at the reporting date. In order to ascertain the variable interest payments arising from the financial instruments, the interest rates fixed on the balance sheet date were used for the following periods as well.

Cash outflows from derivative financial instruments include the undiscounted market values of the currency forward contracts used as at the balance sheet date.

### **Derivative financial instruments and hedges**

Derivative financial instruments are generally used to hedge existing or planned underlying transactions and serve to reduce foreign currency risks and fuel price risks which occur in day-to-day business activities in the context of investment and financial transactions.

Currency risks are currently hedged by means of currency forward contracts. Commodity options are used as hedges for fuel price risks.

Hedging relationships in accordance with IAS 39 (Hedge Accounting) were exclusively shown as cash flow hedges in the year under review. The hedged cash flows from the underlying transactions are expected to be recognised in profit or loss within a period of up to ten years, with early transactions sometimes possible for long-term underlying transactions. The corresponding hedging transactions have shorter maturities, up to 2018 at the latest. To ensure that the underlying transactions are fully hedged, subsequent hedging transactions are intended, insofar as the Company does not make use of the option to enter into an early transaction.

In the 2016 financial year, changes in the fair values of derivative financial instruments in hedging relationships resulted in gains and losses totalling EUR –17.7 million, which were recognised in other comprehensive income (previous year: EUR –21.8 million). These changes in value represent the effective share of the hedging relationship.

In the reporting period, gains and losses of EUR –21.9 million from other comprehensive income were reclassified and recognised through profit or loss (previous year: EUR –23.1 million). EUR –20.5 million (previous year: EUR –21.0 million) of this related to exchange rate hedging, which was recognised in other operating loss along with the exchange rate gains from the hedged underlying transactions. The respective interest portion from currency forward contracts in the amount of EUR –7.7 million (previous year: EUR –2.1 million) was recognised as interest expense. In addition, gains of EUR 6.3 million (previous year: EUR 0.0 million) relating to commodity hedges, the earnings contribution of which is shown in transport expenses, were reclassified and recognised through profit or loss in the past financial year.

All of the optional hedges to hedge currency risks from recognised foreign currency liabilities which were in an economic hedging relationship with the respective underlying transaction, but were not designated as a hedging relationship according to IAS 39, expired in the 2016 financial year. Derivative financial instruments were at no time used for speculative purposes.

The following table shows the nominal values of the derivative financial instruments:

million EUR	31.12.2016			31.12.2015		
	Remaining terms			Remaining terms		
	up to 1 year	more than 1 year	Total	up to 1 year	more than 1 year	Total
<b>Currency options</b>						
Asset	–	–	–	100.0	–	100.0
<b>Currency forward contracts</b>						
Liability	634.6	30.6	665.2	664.6	–	664.6
<b>Commodity options</b>						
Asset	204.5	–	204.5	211.6	–	211.6

The fair value determined for the derivative financial instruments is the price at which a contracting party would assume the rights and/or obligations of the other contracting party.

The market values of currency and commodity options are calculated using the Black&Scholes model or the modified Turnbull&Wakeman model and are based on the current exchange rates, commodity prices, currency and commodity price volatility, yield curves and forward prices. Currency forward contracts are measured on the basis of their market-traded forward price as at the reporting date.

An analysis of the underlying contracts conducted on the bonds issued by Hapag-Lloyd resulted in the identification of embedded derivatives in the form of early buy-back options. These are presented at their fair values as separate derivatives independently of the underlying contract and are classified as held for trading. The market value of the embedded derivatives is calculated using the Hull-White model together with a trinomial decision tree based on current market values.

The positive and/or negative fair values of derivative financial instruments are shown as follows:

million EUR	31.12.2016		31.12.2015	
	Positive market values	Negative market values	Positive market values	Negative market values
Hedging instruments acc. to IAS 39 (Hedge accounting)				
Currency options	–	–	–	–
Commodity options	4.6	–	0.7	–
Currency forward contracts	–	–41.1	–	–22.3
<b>Hedges</b>	<b>4.6</b>	<b>–41.1</b>	<b>0.7</b>	<b>–22.3</b>
Hedging instruments (Held for trading)				
Currency options	–	–	0.0	–
Commodity options	6.7	–	–	–
Currency forward contracts	–	–	–	–
Embedded derivatives	26.3	–	10.7	–
<b>Other derivative financial instruments</b>	<b>33.0</b>	<b>–</b>	<b>10.7</b>	<b>–</b>
<b>Total</b>	<b>37.6</b>	<b>–41.1</b>	<b>11.4</b>	<b>–22.3</b>

#### Financial instruments – additional disclosures, carrying amounts and fair values

The fair value of a financial instrument is the price that would be received for an asset or that would be paid for the transfer of a liability on the relevant day in the course of a normal transaction between market participants.

Where financial instruments are quoted in an active market, as with bond issues in particular, the fair value of the financial instrument corresponds to the respective price on the balance sheet date.

The carrying amounts of cash and cash equivalents, trade accounts receivable and significant portions of other assets, and trade accounts payable and other liabilities, are a suitable approximation of the fair values. The decision was taken not to report the fair value in these cases. The available-for-sale financial assets included in other assets are generally measured at fair value. If no reliable fair value is available, the assets are measured at cost.

For liabilities to banks and other non-current financial liabilities, the fair value is determined as the net present value of the future cash flows taking account of yield curves and the relevant credit spreads. Traded bonds are measured at the market price as at the balance sheet date.

**Carrying amounts, assessed values and fair values by class and valuation category as at 31.12.2015**

million EUR	Classification category according to IAS 39	Carrying amount	Amount recognised in the balance sheet under IAS 39				Amount recognised in the balance sheet under IAS 17	Fair value of financial instruments
		31.12.2015	Amortised acquisition cost	Acquisition cost	Fair value with no effect on profit or loss	Fair value through profit and loss		
		Total						
<b>Assets</b>								
Other assets	LaR	77.0	77.0	–	–	–	–	77.0
	n. a.	93.2	–	–	–	–	–	–
	AfS	0.8	–	0.8	–	–	–	0.8
Derivative financial instruments								
Derivatives (Held for trading)	FAHfT	10.7	–	–	–	10.7	–	10.7
Hedges (Hedge accounting)	n. a.	0.7	–	–	0.7	–	–	0.7
Trade accounts receivable	LaR	716.1	716.1	–	–	–	–	716.1
Cash and cash equivalents	LaR	573.7	573.7	–	–	–	–	573.7
<b>Liabilities</b>								
Financial debt	FLAC	3,757.8	3,757.8	–	–	–	–	3,820.5
Liabilities from finance leases <sup>1</sup>	n. a.	149.5	–	–	–	–	149.5	158.0
Other liabilities	FLAC	42.9	42.9	–	–	–	–	42.9
	n. a.	120.3	–	–	–	–	–	–
Derivative financial liabilities								
Derivatives (Held for trading)	FLHfT	0.0	–	–	–	0.0	–	–
Hedges (Hedge accounting)	n. a.	22.3	–	–	22.3	–	–	22.3
Trade accounts payable	FLAC	1,293.8	1,293.8	–	–	–	–	1,293.8
<b>Thereof aggregated according to IAS 39 classification category</b>								
Loans and receivables (LaR)		1,366.8	1,366.8	–	–	–	–	–
Held-to-maturity investments (HtM)		–	–	–	–	–	–	–
Available-for-sale financial assets (AfS)		0.8	–	0.8	–	–	–	–
Financial assets held for trading (FAHfT)		10.7	–	–	–	10.7	–	–
Financial liabilities measured at amortised cost (FLAC)		5,094.5	5,094.5	–	–	–	–	–
Financial liabilities held for trading (FLHfT)		–	–	–	–	–	–	–

<sup>1</sup> Part of financial debt

**Carrying amounts, assessed values and fair values by class and valuation category as at 31.12.2016**

million EUR	Classification category according to IAS 39	Carrying amount	Amount recognised in the balance sheet under IAS 39				Amount recognised in the balance sheet under IAS 17	Fair value of financial instruments
		31.12.2016	Amortised acquisition cost	Acquisition cost	Fair value with no effect on profit or loss	Fair value through profit and loss		
		Total						
<b>Assets</b>								
Other assets	LaR	125.4	125.4	-	-	-	-	125.4
	n. a.	98.3	-	-	-	-	-	-
	AfS	0.8	-	0.8	-	-	-	0.8
Derivative financial instruments								
Derivatives (Held for trading)	FAHfT	33.0	-	-	-	33.0	-	33.0
Hedges (Hedge accounting)	n. a.	4.6	-	-	4.6	-	-	4.6
Trade accounts receivable	LaR	677.6	677.6	-	-	-	-	677.6
Cash and cash equivalents	LaR	570.2	570.2	-	-	-	-	570.2
<b>Liabilities</b>								
Financial debt	FLAC	4,043.5	4,043.5	-	-	-	-	4,082.2
Liabilities from finance leases <sup>1</sup>	n. a.	137.2	-	-	-	-	137.2	143.6
Other liabilities	FLAC	50.7	50.7	-	-	-	-	50.7
	n. a.	129.2	-	-	-	-	-	-
Derivative financial liabilities								
Derivatives (Held for trading)	FLHfT	-	-	-	-	-	-	-
Hedges (Hedge accounting)	n. a.	41.1	-	-	41.1	-	-	41.1
Trade accounts payable	FLAC	1,281.6	1,281.6	-	-	-	-	1,281.6
<b>Thereof aggregated according to IAS 39 classification category</b>								
Loans and receivables (LaR)		1,373.2	1,373.2	-	-	-	-	-
Held-to-maturity investments (HtM)		-	-	-	-	-	-	-
Available-for-sale financial assets (AfS)		0.8	-	0.8	-	-	-	-
Financial assets held for trading (FAHfT)		33.0	-	-	-	33.0	-	-
Financial liabilities measured at amortised cost (FLAC)		5,375.8	5,375.8	-	-	-	-	-
Financial liabilities held for trading (FLHfT)		-	-	-	-	-	-	-

<sup>1</sup>Part of financial debt

The financial instruments in the available-for-sale category which are included in other assets contain investments not listed on a stock exchange for which there are no market prices listed on an active market. The market values were not determined as these do not provide any additional information of value. The disposal of the investments is not planned at present.

The fair values are allocated to different levels of the fair value hierarchy based on the input factors used in the valuation methods. An explanation of the individual levels from 1 to 3 of the fair value hierarchy can be found in the chapter "Accounting and measurement principles" in the Notes to the consolidated financial statements. There were no transfers between levels 1 to 3 in the previous financial year.

The following table shows the classification of the financial instruments measured at fair value in the three levels of the fair value hierarchy. In addition to the fair value of the financial instruments that are recognised at fair value under IAS 39, the table also includes financial instruments that are recognised at amortised cost and whose fair value differs from this.

million EUR	Classification category according to IAS 39	31.12.2015			Total
		Level 1	Level 2	Level 3	
<b>Assets</b>					
Derivative financial instruments (Hedge accounting)	n. a.	–	0.7	–	0.7
Derivative financial instruments (Trading)	FLHfT	–	10.7	–	10.7
<b>Liabilities</b>					
Derivative financial instruments (Hedge accounting)	n. a.	–	22.3	–	22.3
Derivative financial instruments (Trading)	FLHfT	–	–	–	–
Financial debt	FLAC	853.5	2,967.0	–	3,820.5
Liabilities from financial leases <sup>1</sup>	n. a.	–	158.0	–	158.0

<sup>1</sup> Part of financial debt

million EUR	Classification category according to IAS 39	31.12.2016			Total
		Level 1	Level 2	Level 3	
<b>Assets</b>					
Derivative financial instruments (Hedge accounting)	n. a.	–	4.6	–	4.6
Derivative financial instruments (Trading)	FLHfT	–	33.0	–	33.0
<b>Liabilities</b>					
Derivative financial instruments (Hedge accounting)	n. a.	–	41.1	–	41.1
Derivative financial instruments (Trading)	FLHfT	–	–	–	–
Financial debt	FLAC	830.8	3,251.4	–	4,082.2
Liabilities from financial leases <sup>1</sup>	n. a.	–	143.6	–	143.6

<sup>1</sup> Part of financial debt

### Net earnings

The net earnings of the financial instruments by classification category pursuant to IAS 39 are as follows:

million EUR	31.12.2016			31.12.2015		
	From interest	Other net earnings	Net earnings	From interest	Other net earnings	Net earnings
Loans and receivables	-2.3	-40.2	-42.5	-1.4	-74.7	-76.1
Available-for-sale financial assets	0.0	-	0.0	0.0	-	0.0
Financial assets and liabilities held for trading	14.6	-4.5	10.1	-5.3	-25.4	-30.7
Financial liabilities measured at amortised cost	-181.7	23.9	-157.8	-195.1	103.5	-91.6
<b>Total</b>	<b>-169.4</b>	<b>-20.7</b>	<b>-190.2</b>	<b>-201.8</b>	<b>3.4</b>	<b>-198.4</b>

In addition to interest income and expenses from the liabilities to banks and other financial debt, the net earnings mainly comprise the foreign currency valuation of the EUR bonds issued by Hapag-Lloyd AG as well as the realised and unrealised result from derivative financial instruments that are not part of an effective hedging relationship as set out in IAS 39.

### Capital management

The Hapag-Lloyd Group strives to achieve an adequate financial profile in order to guarantee the continuation of the Company and its financial flexibility and independence. The goal of its capital management is to safeguard the capital base over the long term. It intends to achieve this with a healthy balance of financing requirements for the desired profitable growth.

In the course of the successful IPO, the return on invested capital (ROIC) was defined at Group level at the end of 2015 as an indicator of the performance within a period and will be calculated and managed as a performance indicator in the future. This performance indicator will be used at Group level as of the 2016 financial year with a view to earning the weighted average cost of capital starting in 2017. To facilitate comparison with other international shipping companies, the return on invested capital will be calculated and presented exclusively on the basis of the functional currency, the US dollar.

Covenant clauses that are customary in the market have been arranged for existing financing. They relate, in particular, to certain equity and liquidity key figures of the Group. As at 31 December 2016, these were adhered to for the valid covenant clauses within existing financing. Based on current planning, the Executive Board expects that the covenants will also be adhered to during the next period. Beside these, there are defined loan-to-value ratios for debts, which are secured with fixed assets, which relate to the market value of the asset serving as security. The shortfall of the loan-to-value ratios in the amount of USD 62.2 million (EUR 58.9 million) due to the current development of the market prices for used container ships, which could be requested by the financing bank with four weeks' notice, was reclassified to short-term financial debts as at the balance sheet date.



## OTHER NOTES

### 29. Government assistance

The Federal Maritime and Hydrographic Agency awarded training subsidies and subsidies for marine personnel totalling EUR 8.2 million in 2016 (previous year: EUR 9.1 million) according to the guideline for lowering indirect labour costs in the German marine industry; this amount is recorded as other operating income. Overall, the Group received assistance and subsidies of EUR 13.6 million in the reporting year (previous year: EUR 14.7 million).

### 30. Contingencies

Contingencies are contingent liabilities not accounted for in the statement of financial position which are recognised in accordance with their amounts repayable estimated as at the balance sheet date.

As at 31 December 2016, there were no guarantees or sureties which have to be disclosed.

### 31. Legal disputes

Hapag-Lloyd AG and several of its foreign subsidiaries are involved in legal proceedings. These encompass a range of topics, such as disputes with foreign tax authorities, claims asserted by departed employees and disputes arising from contractual relationships with customers, former agents and suppliers. It is regarded as unlikely that these proceedings will result in any noteworthy payment obligations. Consequently, no provisions for litigation risks are formed and no contingent liabilities are reported in the Notes in this context.

The EU Antitrust Policy, which was initiated in 2011, has been finalised following the ruling of the EU Commission on 7 July 2016 without the imposition of any penalties. With this ruling, the Commission has accepted the voluntary commitments put forward by the liner shipping companies, which provide for a new kind of announcement of rate increases. These came into force on 7 December 2016.

Authorities in two jurisdictions have launched official investigations into possible breaches of competition law. One investigation has already been suspended without financial penalty. A further investigation is expected to be suspended without the payment of an official penalty.

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 not classified as probable (previous year: EUR 124.0 million).

Naturally, the outcome of the legal disputes cannot be predicted with any certainty. Provisions for pending and imminent proceedings are formed if a payment obligation is probable and its amount can be determined reliably. It is possible that the outcome of individual proceedings for which no provisions were formed may result in payment obligations whose amounts could not have been foreseen with sufficient accuracy as at 31 December 2016. Such payment obligations will not have any significant influence on the Group's net asset, financial and earnings position.

### 32. Leases

#### Lessee – finance leases

The items leased on the basis of finance lease contracts are primarily ships and containers. The contracts have terms of up to nine years. The containers can continue to be used in line with the contracts once the term of a contract has expired. As at 31 December 2016, the ships recognised in connection with the finance lease contracts had a net carrying amount of EUR 100.4 million (previous year: EUR 106.4 million); the containers were recognised at EUR 81.2 million as at 31 December 2016 (previous year: EUR 82.0 million).

The future minimum lease payments and their present values are as follows:

million EUR	31.12.2016				31.12.2015			
	Remaining terms				Remaining terms			
	Total	up to 1 year	1–5 years	more than 5 years	Total	up to 1 year	1–5 years	more than 5 years
Future minimum lease payments	164.1	43.2	93.8	27.1	182.9	33.4	112.6	36.9
Interest portion	-26.9	-8.0	-16.7	-2.2	-33.4	-8.7	-20.5	-4.2
<b>Present value</b>	<b>137.2</b>	<b>35.2</b>	<b>77.1</b>	<b>24.9</b>	<b>149.5</b>	<b>24.7</b>	<b>92.1</b>	<b>32.7</b>

At the balance sheet date, there were no expectations of future income from non-cancellable subletting arrangements, nor were there any contingent rental payments.

#### Lessee – operating leases

The Group's obligations from operating lease contracts above all relate to charter and lease agreements for ships and containers, and rental agreements for business premises. The agreements have terms of between one year and 14 years, with the majority maturing after a term of up to five years. A number of the agreements include prolongation and purchase options. There is no obligation to repurchase them. Some of the rental agreements for business premises include contingent rental payments based on the consumer price index for Germany.

Charter agreements for ships are always structured as time charter contracts, i.e. in addition to the capital costs, the charterer bears part of the ship operating costs, which are reimbursed as part of the charter rate. In the existing charter agreements, these operating cost refunds account for around 50% of the charter expenses.

In the 2016 financial year, lease payments of EUR 997.1 million were posted to expenses (previous year: EUR 1,180.8 million), of which EUR 410.1 million were charter expenses (previous year: EUR 585.1 million). No contingent rental payments were posted to expenses in 2016 (previous year: EUR 0.3 million).

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

million EUR	31.12.2016				31.12.2015			
	Remaining terms				Remaining terms			
	Total	up to 1 year	1–5 years	more than 5 years	Total	up to 1 year	1–5 years	more than 5 years
Vessels and containers	682.7	303.5	362.6	16.6	1,035.7	521.1	470.9	43.7
Business premises	103.9	21.9	48.9	33.1	110.1	25.4	49.0	35.7
Other	239.2	58.3	180.9	–	155.0	56.0	99.0	–
<b>Total</b>	<b>1,025.8</b>	<b>383.7</b>	<b>592.4</b>	<b>49.7</b>	<b>1,300.8</b>	<b>602.5</b>	<b>618.9</b>	<b>79.4</b>

As at 31 December 2016, future minimum lease income from subletting arrangements relating to non-cancellable subletting arrangements totalled EUR 4.5 million (previous year: EUR 3.4 million).

#### Lessor – operating leases

Hapag-Lloyd acts as lessor in the context of operating lease contracts only to a very limited degree. The assets let within the scope of the operating lease contracts are essentially fully owned ships as well as slots on ships.

The following future minimum lease payments relate to non-cancellable operating lease contracts:

million EUR	31.12.2016				31.12.2015			
	Remaining terms				Remaining terms			
	Total	up to 1 year	1–5 years	more than 5 years	Total	up to 1 year	1–5 years	more than 5 years
Vessels	11.7	11.7	–	–	58.7	45.9	12.8	–
Business premises	0.7	0.2	0.5	–	1.1	0.3	0.8	0.0
<b>Total</b>	<b>12.4</b>	<b>11.9</b>	<b>0.5</b>	<b>0.0</b>	<b>59.8</b>	<b>46.2</b>	<b>13.6</b>	<b>0.0</b>

At the reporting date, the gross carrying amounts of the chartered ships totalled EUR 135.2 million (previous year: EUR 230.2 million). The accumulated depreciation amounted to EUR 12.0 million (previous year: EUR 35.9 million) and depreciation for the period amounted to EUR 5.3 million (previous year: EUR 8.5 million). No contingent rental payments were recorded through profit or loss in the 2016 financial year.

### 33. Other financial obligations

The Group's other financial obligations as at 31 December 2016 include a purchase obligation for investments in container ships amounting to EUR 151.7 million (previous year: EUR 350.1 million), which is due within one year.

### 34. Share-based payment

As part of the Company's IPO, long-term variable remuneration was introduced for Executive Board members in the form of virtual shares. Under the long-term incentive plan (LTIP), a specified euro amount (allocation amount) contractually agreed on an individual basis is allocated to each Executive Board member at the start of every calendar year, reflecting performance in the current and following three financial years (performance period).

This allocation amount is converted into virtual shares in the Company based on the average price of the Hapag-Lloyd AG share over the 60 trading days preceding the day on which the shares are granted. For the first tranche after the IPO in November 2015 ("IPO tranche"), the share price is calculated differently and is based on the average of the 20 trading days that follow the 30th trading day after the IPO. For the second tranche, which was granted on 4 January 2016, there was also a different calculation for the share price conversion. This share price was based on the average of 60 trading days, from the 30th trading day after the IPO.

The virtual shares are divided equally into performance share units and retention share units.

Entitlements under the long-term incentive plan take effect on a pro rata basis when the performance period ends. The retention share units automatically become non-forfeitable when the performance period expires. They therefore depend entirely on the Executive Board member's length of service.

The number of performance share units relevant for the payment is dependent on a performance factor. This factor is calculated by comparing the performance of the Hapag-Lloyd share (total shareholder return – TSR) with a specific, industry-based reference index – the DAXglobal Shipping index – over the four-year performance period. The number of performance share units can be a maximum of 1.5 times and a minimum of zero, as measured by a performance factor, when the performance period ends. If the performance factor is zero, all of the performance share units are forfeited.

When the performance period ends and the performance share units have been calculated, payments under the LTIP are automatically made. The number of non-forfeitable virtual shares is converted into a euro amount by multiplying the non-forfeitable virtual retention and performance shares by the relevant share price. This share price is equal to the average share price over the last 60 trading days before the performance period ends.

The amount calculated in this way is paid to the respective Executive Board member as a gross amount up to a specific, individually agreed limit on 31 March of the year following the end of the performance period.

In the event that an Executive Board member's activities cease, the performance period and the employment contract will end simultaneously, insofar as the employment contract is not terminated for cause attributable to the Executive Board member or by the Executive Board member without cause. In this case, all entitlements under the long-term incentive plan are forfeited.

The maturities of the other provisions are as follows:

million EUR	Virtual shares	Fair value million EUR
<b>As per 1.1.2015</b>	-	-
Virtual shares granted	112,586	2.2
Virtual shares exercised	-	-
Virtual shares forfeited	-	-
Measurement result	-	-
<b>As per 31.12.2015</b>	<b>112,586</b>	<b>2.2</b>
Virtual shares granted	125,216	2.2
Virtual shares exercised	-	-
Virtual shares forfeited	-	-
Measurement result	-29,723	-0.5
<b>As per 31.12.2016</b>	<b>208,079</b>	<b>3.9</b>

The measurement of the virtual shares at the time they are granted is based on the allocation amount.

In the reporting period, EUR 1.4 million was recognised for share-based payments through profit or loss. The provision for share-based payments amounted to EUR 2.0 million as at 31 December 2016 (previous year: EUR 0.6 million).

### 35. Utilisation of Section 264 (3) of the German Commercial Code (HGB)

The following corporate entities, which are affiliated consolidated subsidiaries of Hapag-Lloyd AG and for which the consolidated financial statements of Hapag-Lloyd AG are the exempting consolidated financial statements, utilise the exempting option provided by Section 264 (3) of the German Commercial Code (HGB):

- Hapag-Lloyd Grundstücksholding GmbH, Hamburg
- Hapag-Lloyd Schiffsvermietungsgesellschaft mbH, Hamburg
- Hamburg-Amerika Linie GmbH, Hamburg
- First CSAV Ships Germany GmbH, Hamburg
- Second CSAV Ships Germany GmbH, Hamburg

### 36. Services provided by the auditors of the consolidated financial statements

In the 2016 financial year, the following fees were paid to the external auditors KPMG AG Wirtschaftsprüfungsgesellschaft within the global KPMG network:

million EUR	1.1.–31.12.2016		1.1.–31.12.2015	
	Total	Domestic	Total	Domestic
Audit fees for annual audit	3.4	1.7	1.9	0.7
Audit fees for other assurance services	0.2	0.2	1.4	1.2
Audit fees for tax consultancy	0.7	0.4	0.3	0.1
Audit fees for other services	1.2	1.2	1.1	0.7
<b>Total</b>	<b>5.5</b>	<b>3.5</b>	<b>4.7</b>	<b>2.7</b>

### 37. Related party disclosures

In carrying out its ordinary business activities, Hapag-Lloyd AG maintains direct and indirect relationships with related parties as well as with its own subsidiaries included in the consolidated financial statements.

In the following disclosures on transactions with shareholders, the relationships with Kühne Holding AG as well as Kühne Maritime GmbH (Kühne) and CSAV Germany Container Holding GmbH (CSAV) and their respective related parties are outlined. With regard to HGV and its shareholder, the Free and Hanseatic City of Hamburg, as well as its Group companies, the Hapag-Lloyd Group applies the relief provisions of IAS 24 regarding government-related entities. This relates mainly to port and terminal services as well as inland transport services.

#### Shares

in %	2016	2015
CSAV Germany Container Holding GmbH	31.4	31.4
HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH	20.6	20.6
Kühne Holding AG/Kühne Maritime GmbH	20.2	20.2
TUI AG/TUI-Hapag Beteiligungs GmbH	12.3	12.3
Free float	15.5	15.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Transactions with related parties (excluding management in key positions):

million EUR	Delivered goods and services and other income recognised		Goods and services received and other expenses recognised	
	1.1.–31.12.2016	1.1.–31.12.2015	1.1.–31.12.2016	1.1.–31.12.2015
Shareholders	321.6	362.2	106.1	82.8
Associated companies	18.8	0.6	116.8	68.8
Other investments	–	8.8	–	2.3
<b>Total</b>	<b>340.4</b>	<b>371.6</b>	<b>222.9</b>	<b>153.9</b>

million EUR	Receivables		Liabilities	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Shareholders	43.5	122.9	10.2	286.1
Affiliated non-consolidated companies	–	–	0.2	0.2
Associated companies	14.6	3.7	13.9	5.2
Other investments	0.0	1.7	0.0	0.4
<b>Total</b>	<b>58.1</b>	<b>128.3</b>	<b>24.3</b>	<b>291.9</b>

The amounts arising from transactions with related parties contained in the above table result from services rendered (EUR 340.2 million; previous year: EUR 369.9 million) and other services (EUR 0.2 million; previous year: EUR 1.6 million). Interest income of EUR 0.1 million is still recognised for 2015.

Of the expenses shown above, EUR 221.5 million result from operating services (previous year: EUR 127.5 million) and EUR 1.4 million are from other services (previous year: EUR 13.1 million). In the previous year, interest expenses of EUR 13.3 million were also incurred.

#### Business combination agreement

On 15 July 2016, Hapag-Lloyd AG entered into a business combination agreement (BCA) with United Arab Shipping Company S.A.G. (“UASC”) and agreed that the Company would acquire UASC’s shares, whereby all of UASC’s shareholders would submit their shares in UASC to the Company by means of a contribution in kind.

Along with the BCA, Hapag-Lloyd and UASC also entered into a shareholders’ support agreement (SSA) with the anchor shareholders of Hapag-Lloyd, i. e. CSAV Germany Container Holding GmbH (CSAV), Kühne Maritime GmbH (Kühne) and HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement GmbH (HGV) (CSAV, Kühne and HGV together form the controlling HL shareholders), and the anchor shareholders of UASC, i. e. Qatar Holding LLC on behalf of the State of Qatar (QH) and the Public Investment Fund on behalf of the Kingdom of Saudi Arabia (PIF) (QH and PIF together form the controlling UASC shareholders). Together with the BCA, the SSA forms a unitary legal transaction which requires the controlling shareholders to fulfil their obligations to the merger parties in accordance with the BCA.

Implementation of the obligations of the controlling HL shareholders took place in part during the reporting period. Under a resolution approved at the Annual General Meeting on 26 August 2016, the articles of association were amended to increase the size of the Supervisory Board from twelve members at present to 16 and to adjust the authorised share capital. 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 50.0 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.

Alongside the transfer of UASC's shares to Hapag-Lloyd AG by means of a contribution in kind in return for the issuing of new Hapag-Lloyd shares from Authorised Share Capital, the controlling HL shareholders have also committed to carrying out a cash capital increase within six months of the completion of the merger for a euro amount equivalent to USD 400 million. In relation to this, the shareholders Kühne and CSAV have agreed to assume a backstop obligation.

In addition, the aforementioned shareholders have committed, under certain preconditions, to ensuring that the Company will be provided with a compensation amount in case that the minimum threshold for equity or minimum cash and cash equivalents are not reached and/or the maximum level for financial debt is exceeded.

### Remuneration of key management personnel

The remuneration of key management personnel in the Group to be disclosed under IAS 24 encompasses the remuneration paid to the current members of the Executive Board and Supervisory Board of Hapag-Lloyd AG. The basic features of the remuneration system and the amount of remuneration for the Executive Board and Supervisory Board are presented and explained in more detail in the remuneration report. The remuneration report is part of the Group management report.

The active members of the Executive Board and the Supervisory Board were remunerated as follows:

million EUR	Executive Board		Supervisory Board	
	2016	2015	2016	2015
Short-term benefits	3.5	4.3	1.4	1.2
Termination benefits	–	0.3	–	–
Post-employment benefits	0.2	0.4	–	–
Share-based benefits	1.4	0.6	–	–
<b>Total</b>	<b>5.1</b>	<b>5.6</b>	<b>1.4</b>	<b>1.2</b>

In the 2016 financial year, the employee representatives on the Supervisory Board received EUR 0.5 million (previous year: EUR 0.3 million) in emoluments as part of their employment contracts, in addition to their Supervisory Board emoluments. These are included in the remuneration for members of the Supervisory Board pursuant to IAS 24.

Additional disclosures concerning total remuneration pursuant to Section 315a of the German Commercial Code (HGB):

million EUR	Executive Board		Supervisory Board	
	2016	2015	2016	2015
Active board members	5.6	6.5	0.9	0.9
Former board members	0.9	1.0	–	–
<b>Total</b>	<b>6.5</b>	<b>7.5</b>	<b>0.9</b>	<b>0.9</b>

The active Executive Board members were granted 125,216 virtual shares in total in the financial year, with a fair value of EUR 2.2 million at the time they were granted.



A total of EUR 24.9 million was allocated to pension provisions for former Executive Board members as at 31 December 2016 (previous year: EUR 22.2 million).

As in the previous year, no loans or advance payments were granted to members of the Executive Board and Supervisory Board in the year under review.

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

The declaration required under Section 161 AktG was issued by the Executive Board and Supervisory Board in December 2016 and has been made permanently available to shareholders in the "Corporate Governance" section under "IR" of the Company's website, [www.hapag-lloyd.com](http://www.hapag-lloyd.com).

### **39. Significant transactions after the balance sheet date**

With the 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 relation to this, the last instalments for the construction work of EUR 96.0 million in total were paid to the shipyard. At the same time, a credit facility amounting to EUR 138.8 million was 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 for used 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 containers remain in the ownership of the Company and there are no effects on the result from the disposal of the containers.

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. Some of the proceeds from the issue will be used for the early repayment of the USD bond, which has an outstanding balance of USD 125.0 million. The original repayment date of the USD bond was 15 October 2017.

On 15 February 2017, a further EUR 200.0 million was added to the corporate bond issued in January, taking the total amount to EUR 450.0 million. The additional proceeds from the issue of EUR 204.8 million (issue price: 102.375%) will be used for the partial early repayment of the EUR bond due on 1 October 2018.

In the fourth quarter of 2016, shortfalls in the loan-to-value ratios in the amount of USD 62.2 million (EUR 58.9 million) were created, due to the current development of the market prices for used container ships. In the first quarter of 2017, Hapag-Lloyd was requested by the financing bank to pay a respective unplanned redemption payment. Current negotiations have led to a reduction of the unplanned redemption payments down to USD 41.0 million (EUR 38.8 million). Additional requests to pay unplanned redemption payments in the amount of USD 10.3 million (EUR 9.8 million) were received in the first quarter of 2017.

**40. List of holdings pursuant to Section 315a of the German Commercial Code (HGB)**

Name of the company	Registered office	Shareholding in %
<b>Affiliated consolidated companies</b>		
<b>Head Office</b>		
Hamburg-Amerika Linie GmbH	Hamburg	100.00
Hapag-Lloyd Grundstücksholding GmbH	Hamburg	94.90
Hapag-Lloyd Schiffsvermietungsgesellschaft mbH	Hamburg	100.00
First CSAV Ships Germany GmbH	Hamburg	100.00
Second CSAV Ships Germany GmbH	Hamburg	100.00
<b>Europe</b>		
Hapag-Lloyd Africa PTY Ltd.	Durban	100.00
Hapag-Lloyd (Austria) GmbH	Vienna	100.00
Oy Hapag-Lloyd Finland AB	Helsinki	100.00
Hapag-Lloyd (France) S.A.S.	Asnieres sur Seine	100.00
Hapag-Lloyd (Ireland) Ltd.	Dublin	100.00
Hapag-Lloyd (Italy) S.R.L.	Milan	100.00
Hapag-Lloyd Polska Sp.z.o.o.	Gdynia	100.00
Hapag-Lloyd Portugal LDA	Lisbon	100.00
Hapag-Lloyd (Schweiz) AG	Basel	100.00
Hapag-Lloyd Special Finance DAC	Dublin	100.00
Hapag-Lloyd (Sweden) AB	Gothenburg	100.00
Hapag-Lloyd Spain S.L.	Barcelona	90.00
Hapag-Lloyd (UK) Ltd.	Barking	100.00
Norasia Container Lines Ltd.	Valetta	100.00
CSAV UK & Ireland Limited i.L.	Liverpool	100.00
<b>Asia</b>		
Hapag-Lloyd Middle East Shipping LLC	Dubai	49.00 <sup>1</sup>
Hapag-Lloyd (Australia) Pty.Ltd.	Pyrmont	100.00
Hapag-Lloyd (China) Ltd.	Hong Kong	100.00
Hapag-Lloyd (China) Shipping Ltd.	Shanghai	100.00
Hapag-Lloyd Global Services Pvt.Ltd.	Thane	100.00
Hapag-Lloyd India Private Ltd.	Mumbai	100.00
Hapag-Lloyd (Japan) K.K.	Tokyo	100.00
Hapag-Lloyd (Korea) Ltd.	Seoul	100.00
Hapag-Lloyd (Malaysia) Sdn.Bhd.	Kuala Lumpur	100.00
Hapag-Lloyd (New Zealand) Ltd.	Auckland	100.00
Hapag-Lloyd Pte.Ltd.	Singapore	100.00
Hapag-Lloyd (Taiwan) Ltd.	Taipei	100.00
Hapag-Lloyd (Thailand) Ltd.	Bangkok	49.90
Hapag-Lloyd (Vietnam) Ltd.	Ho Chi Minh City	100.00
CSAV Group (China) Shipping Co. Ltd.	Shanghai	100.00
CSAV Group (Hong Kong) Ltd. i.L.	Hong Kong	100.00
CSAV Group Agencies (Hong Kong) Ltd. i.L.	Hong Kong	100.00

Name of the company	Registered office	Shareholding in %
<b>North America</b>		
Hapag-Lloyd (America) LLC	Wilmington	100.00
Hapag-Lloyd (Canada) Inc.	Montreal	100.00
Hapag-Lloyd Mexico S.A. de C.V.	Mexico City	100.00
Servicios Corporativos Portuarios S.A. de C.V.	Mexico City	100.00
Hapag-Lloyd USA LLC	Wilmington	100.00
Florida Vessel Management LLC	Wilmington	75.00
Agencias Grupo CSAV (Mexico) S.A. de C.V	Mexico City	100.00
<b>South America</b>		
Hapag-Lloyd Argentina S.R.L.	Buenos Aires	100.00
Hapag-Lloyd Colombia LTDA	Bogota	100.00
Hapag-Lloyd Costa Rica S.A.	San Jose	100.00
Hapag-Lloyd Guatemala S.A.	Guatemala City	100.00
Hapag-Lloyd (Peru) S.A.C.	Lima	60.00
Hapag-Lloyd Venezuela C.A.	Caracas	100.00
CSAV Austral SpA	Valparaiso	49.00
Hapag-Lloyd Chile SpA	Valparaiso	100.00
CSAV Group Agencies Uruguay S.A.	Montevideo	100.00
Servicios de Procesamiento Naviero S.R.L. i.L.	Montevideo	100.00
Invermar Management S.A	Panama City	100.00
Companhia Libra de Navegacao S.A.	São Paulo	100.00
Andes Operador Multimodal Ltda.	São Paulo	100.00
Corvina Maritime Holding S.A.	Panama City	100.00
Sea Lion Shipping Co. S.A.	Panama City	100.00
Southern Shipmanagement Co. S.A.	Panama City	100.00
Southern Shipmanagement (Chile) Ltda.	Valparaiso	100.00
Wellington Holding Group S.A.	Road Town	100.00
Compañía Libra de Navegación (Uruguay) S.A.	Montevideo	100.00
Inversiones CNP S.A.	Lima	100.00
Torksey S.A.	Montevideo	100.00
Lanco Investments Internacional Co. S.A.	Panama City	100.00
Rahue Investment Co. S.A.	Panama City	100.00
CNP Holding S.A.	Panama City	100.00
Norasia Alya S.A.	Panama City	100.00
<b>Other</b>		
CSAV Ships S.A.	Panama City	100.00
CSBC Hull 900 Ltd.	Douglas	100.00
Hull 1796 Co. Ltd.	Majuro	100.00
Hull 1798 Co. Ltd.	Majuro	100.00
Hull 1906 Co. Ltd.	Majuro	100.00
Hull 1975 Co. Ltd.	Majuro	100.00
Hull 1976 Co. Ltd.	Majuro	100.00
Malleco Shipping Co. S.A.	Panama City	100.00
Maule Shipping Co. S.A.	Panama City	100.00

Name of the company	Registered office	Shareholding in %
<b>Join venture</b>		
Hapag-Lloyd Denizasiri Nakliyat A.S.	Izmir	50.00
<b>Associated companies</b>		
Hapag-Lloyd Lanka (Pvt) Ltd.	Colombo	40.00
HHLA Container Terminal Altenwerder GmbH	Hamburg	25.10
<b>Affiliated non-consolidated companies</b>		
Hapag-Lloyd Container Ltd.	Barking	100.00
Hapag-Lloyd Container (No. 2) Ltd.	Barking	100.00
Hapag-Lloyd Container (No. 3) Ltd.	Barking	100.00
Hapag-Lloyd Ships Ltd.	Barking	100.00
Hapag-Lloyd Ships (No. 2) Ltd.	Barking	100.00
Brunswick Investment Co. Inc.	Nassau	100.00
CSAV Denizcilik Acentasi A.S.	Istanbul	100.00
CSAV Group Agencies South Africa (Pty) Ltd.	Durban	100.00
CSAV Group Agency Colombia Ltda. i.L.	Bogota	100.00
CSBC Hull 896 Ltd.	Douglas	100.00
CSBC Hull 898 Ltd.	Douglas	100.00
Hull 1794 Co. Ltd.	Majuro	100.00
Hull 1800 Co. Ltd.	Majuro	100.00
Hull 2082 Co. Ltd.	Majuro	100.00
Hull 2083 Co. Ltd.	Majuro	100.00
Hull 2084 Co. Ltd.	Majuro	100.00
Hull 2085 Co. Ltd.	Majuro	100.00
Hull 2086 Co. Ltd.	Majuro	100.00
Hull 2087 Co. Ltd.	Majuro	100.00
Hull 2088 Co. Ltd.	Majuro	100.00
Chacabuco Shipping Ltd.	Majuro	100.00
Palena Shipping Ltd.	Majuro	100.00
Libra Agency (Argentina) S.A.	Buenos Aires	100.00
Hamburg-Amerikanische Packetfahrt-Gesellschaft mbH	Hamburg	100.00
Norddeutscher Lloyd GmbH	Bremen	100.00
Zweite Hapag-Lloyd Schiffsvermietungsgesellschaft mbH	Hamburg	100.00

<sup>1</sup> An additional 51.00% are held by a trustee on behalf of the Hapag-Lloyd Group.

Hamburg, 8 March 2017

**Hapag-Lloyd AG**  
Executive Board



Rolf Habben Jansen



Nicolás Burr



Anthony J. Firmin



Thorsten Haeser

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

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

Hamburg, 8 March 2017

**Hapag-Lloyd AG**  
Executive Board



Rolf Habben Jansen



Nicolás Burr



Anthony J. Firmin



Thorsten Haeser

## SHARE TRANSACTIONS OF BOARD MEMBERS

Pursuant to Section 15a of the German Securities Trading Act (WpHG), the members of the Executive Board and Supervisory Board are required to disclose the acquisition and disposal of shares in the Company. This does not apply if the total value of the transactions per person is less than EUR 5,000 per calendar year.

There were no share transactions of board members that required disclosure in 2016. The corresponding notifications on directors' dealings at Hapag-Lloyd AG are available at <https://www.hapag-lloyd.com/de/ir/corporate-governance/directors-dealings.html#tabnav>

## 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, Hannover, 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% (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) WpHG, of which 3% or more are assigned.



The Luksburg Foundation in Vaduz, Lichtenstein, 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. in 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 in Santiago, Chile, notified us on 05/11/2015 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 71.56% (corresponding to 84,524,291 voting rights). 40.21% of the voting rights (corresponding to 47,491,548 voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through Kühne Maritime GmbH and HGV Hamburger Gesellschaft für Vermögens und Beteiligungsmanagement mbH. In accordance with Section 22 (1) (1) (1) WpHG, 31.35% of the voting rights (corresponding to 37,032,743 voting rights) are attributable to the Company through CSAV Germany Container Holding GmbH, Compañía Sud Americana de Vapores S.A. and Quiñenco S.A., of which 3% or more are assigned in each case.

Quiñenco S.A. in 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. in 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 in 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 06/11/2015 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 06/11/2015 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 in Hamburg, Germany, notified us on 06/11/2015 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.

## AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Hapag-Lloyd Aktiengesellschaft, Hamburg, comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the financial year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code [HGB] are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 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 financial position, financial performance and cash flows in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and group 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 consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315a (1) HGB, and give a true and fair view of the financial position, financial performance and cash flows of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Group'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)

## PRELIMINARY FINANCIAL CALENDAR

**12 MAY 2017**

Publication of interim report for first quarter of 2017

**10 AUGUST 2017**

Publication of interim report for second quarter/first six months of 2017

**14 NOVEMBER 2017**

Publication of interim report for third quarter/first nine months of 2017

# IMPRINT

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