ANNUAL REPORT 2018

Hapag-Lloyd

SUMMARY OF KEY FIGURES

		1.1. – 31.12. 2018	1.1. – 31.12. 2017	Change absolute
Key operating figures[1]				
Totel vessels (as at 31 December)		227	219	8
Aggregate capacity of vessels	TTEU	1,643	1,573	70
Aggregate capacity of containers	TTEU	2,559	2,349	210
Freight rate (average for the quarter)[2]	USD / TEU	1,044	1,060	–16
Transport volume	TTEU	11,874	9,803	2,071
Revenue	million EUR	11,515	9,973	1,542
EBITDA[3]	million EUR	1,138.1	1,055.0	83.1
EBIT[3]	million EUR	443.0	411.4	31.6
Group profit / loss[3]	million EUR	46.0	32.6	13.4
Earnings per share[3]	EUR	0.21	0.19	0.02
Cash flow from operating activities	million EUR	1,073	894	179
Key return figures[1]				
EBITDA margin (EBITDA / revenue)[2]	%	9.9	10.6	–0.7 ppt
EBIT margin (EBIT / revenue)[2]	%	3.8	4.1	–0.3 ppt
ROIC (Return on Invested Capital)[4]	%	3.7	3.1	0.6 ppt
Key balance sheet figures as at 31 December[1]				
Balance sheet total	million EUR	15,301	14,828	473
Equity	million EUR	6,259	6,058	201
Equity ratio (equity / balance sheet total)	%	40.9	40.9	0 ppt
Borrowed capital	million EUR	9,042	8,770	272
Key financial figures as at 31 December[1]				
Financial debt	million EUR	6,018	6,336	–318
Cash and cash equivalents	million EUR	657	605	52

1 The key operating figures and key return figures refer to the respective reporting period.

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

3 Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. As a result, transport costs decreased by EUR 0.5 million in the financial year 2017.

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

This report was published on 22 March 2019.

STRATEGY 2023 – NUMBER ONE FOR QUALITY

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

FOLLOWING A PERIOD OF CONSOLIDATION IN THE CONTAINER SHIPPING INDUSTRY, HAPAG-LLOYD IS FOCUSING ON QUALITY WITH ITS NEW MID-TERM "STRATEGY 2023".

Main developments in the 2018 financial year:

- New mid-term "Strategy 2023" launched on 21 November 2018
- Strong competitive position following the successful integration of the UASC Group
- Synergy target of USD 435 million achieved ahead of time by end of 2018
- Transport volume grew strongly by 21.1% in 2018, primarily as a result of the integration of UASC. On a pro forma basis [1], the transport volume would have increased by 5.9% compared to the previous year
- The average freight rate in 2018 of 1,044 USD / TEU was 1.5% below the previous year's level (2017: 1,060 USD / TEU) [2], due to the integration of UASC. On a pro forma basis [1], the average freight rate would have increased by 2.1% compared to the previous year
- The significant rise of 103 USD per tonne in the average bunker prices [3] contributed substantially to a year-on-year increase of 43.1% in expenses for raw materials and supplies
- At 13.2%, transport expenses (excl. bunker costs) [4] increased at a lower rate than the increase in transport volume (21.1%)
- Clear increase in EBITDA to EUR 1,138.1 million (2017: EUR 1,055.0 million) and EBIT to EUR 443.0 million (2017: EUR 411.4 million) in 2018
- Good operating cash flow of EUR 1,072.9 million and a substantially decreased Net Debt by EUR 327.3 million to EUR 5,354.4 million as at 31 December 2018 (31 December 2017: EUR 5,681.7 million)

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

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

[3] Weighted average MFO and MDO

[4] Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. This reduced transport expenses EUR 0.5 million in FY 2018.

CONTENTS

LADIES AND GENTLEMEN,

The market environment in the financial year 2018 was certainly not easy for liner shipping companies: In the first half of the year, freight rates were initially below the original expectations due to new deliveries of container ships and strong price competition in some trades. At the same time, we had to contend with significantly higher bunker prices and increased costs over the course of the year. In the second half of the year, however, these effects were partially offset by higher global transport volumes, increasingly better freight rates and savings on the cost side. All in all, Hapag-Lloyd achieved an increase in earnings before interest and taxes (EBIT) compared to the previous year, and also posted a higher positive group net result.

The world's 10 largest liner shipping companies now account for more than 80% of global transport volumes. Hapag-Lloyd has significantly strengthened its market position over the last few years and in terms of transport capacity we have more than doubled in size since 2014. However, further consolidation in the sector is less attractive due to decreasing incremental scale benefits. As a result, the likelihood of further consolidation amongst the largest players in the industry is low, meaning that the industry has reached a turning point. We are convinced that size is not the name of the game anymore, but strict customer orientation. Therefore, in 2018, we dealt very intensively with our future and developed a new strategy. At the core of the "Strategy 2023", Hapag-Lloyd will firstly focus on significantly improving quality for its customers, secondly on selective global growth and thirdly becoming profitable throughout the cycle.

To that end, we aim to maintain our competitiveness on the cost side and we plan to achieve further savings of between USD 350 million and USD 400 million annually from the year 2021. Key cost initiatives will centre on network optimisations, terminal partnerships, and further improvements in the procurement and management of equipment. However, it is about more than just this: We firmly believe that our customers are prepared to pay for added value and that our industry needs to change. It is about being commercially effective through even greater differentiation in the market and creating added value for our customers through unparalleled reliability and service quality. This lies at the heart of our Strategy 2023, and our goal is to be no less than number one for quality.

Rolf Habben Jansen
(Chairman of the
Executive Board)

In November, we set out on an exciting journey towards an ambitious objective that will not be achieved overnight. Over the coming years, we will continuously optimise Hapag-Lloyd, make it more dynamic and increase its level of digitalisation and automation. We will achieve this, for example, by increasing online sales via our Web Channel to 15% of our total volume by 2023. By the end of 2018, we were already processing almost 15,000 TEU per week via this channel, representing around 6% of our total volume.

Geopolitical risks, such as the trade restrictions between the US and China, will continue to exist in 2019. We analyze such protectionist tendencies and their effects on world trade very thoroughly. Here it is important to anticipate appropriate adjustments to changed market conditions or new macroeconomic developments at an early stage and to implement them as quickly as possible. The associated subdued economic expectations were also reflected in our share price, especially at the end of the year.

In addition, more stringent environmental regulation and the cost of low-sulphur fuel continue to be a challenge. When the International Maritime Organisation's stricter policy (IMO 2020) comes into force on 1 January 2020, the cap on the sulphur content of ship fuel will be reduced from 3.5% to 0.5%. This new regulation will improve the shipping industry's environmental footprint, which we very much welcome. However, it is also clear that this will involve increased costs for the shipping sector: Based on a price spread of approximately USD 250 per tonne for low-sulphur fuel, we expect Hapag-Lloyd to incur additional costs of around USD 1 billion annually from 2020 on. We will not be able to bear these additional costs alone. We have therefore developed our marine fuel recovery (MFR) mechanism, which is to be rolled out this year. It will replace all existing fuel surcharges and ensure that the calculation of fuel costs is logical, transparent and easy to understand. It is not just us who see it this way, our customers are on the same page.

While our business is and will remain cyclical, market conditions have gradually improved for liner shipping companies over the last few years. Our course for the next few years is set and our goals for 2019 are clear: We will further reduce our debt, continue to implement our "Strategy 2023" and create genuine added value for our customers and for our shareholders through unrivalled quality.

Our dedicated employees at sea and on land work with enormous professionalism and passion each and every day to make our goals a reality.

I would like to sincerely thank you for your confidence over the last financial year and hope that you continue to support us in 2019.

Kind regards,

Rolf Habben Jansen
(Chairman of the Executive Board)

Hamburg, 18 March 2019

The Executive Board of Hapag-Lloyd AG (from left to right):
Nicolás Burr, Anthony J. Firmin, Joachim Schlotfeldt,
Rolf Habben Jansen (Chairman of the Executive Board)

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

In the 2018 financial year, the Supervisory Board of Hapag-Lloyd AG 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 reports and discussions focused on corporate planning, the refinancing of ship loans and, in particular, Strategy 2023.

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 Chief Executive Officer. 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.

In the 2018 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 Section 7 of the articles of association of Hapag-Lloyd AG and the rules of procedure for the Executive Board and the Supervisory Board.

«

Michael Behrendt
(Chairman of the
Supervisory Board)

Meetings of the Supervisory Board and matters addressed

The Supervisory Board met 6 times in the reporting period. These meetings were held on 28 March 2018, 9 May 2018, 10 July 2018 (2 meetings), 27 September 2018 and 6 / 7 November 2018. 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: 99%
- Meetings of the Presidential and Personnel Committee: 97%
- Meetings of the Audit and Financial Committee: 94%

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

Attendance of the Supervisory Board members in the 2018 financial year

Meeting	Meetings by the Supervisory Board						Meetings by the Presidential and Personnel Committee				Meetings by the Audit and Financial Committee			
Name	28.3.2018	9.5.2018	10.7.2018 I	10.7.2018 II	27.9.2018	6. / 7.11.2018	28.3.2018	09.5.2018	27.9.2018	7.11.2018	27.3.2018	9.5.2018	9.8.2018	6.11.2018
Alnowaiser	○	✓	✓	✓	✓	✓						✓	✓	✓
Al-Thani	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Behle	✓	✓	✓	✓	✓		✓	✓	✓					
Behrendt	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Diekamp	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Gehrt	✓	✓	✓	✓	✓	✓								
Gernandt	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	○	✓
Hasbún	✓	✓	✓	✓	✓	✓					✓	✓	✓	✓
Klemmt-Nissen	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Kramer	✓	✓	✓	✓	✓	✓								
Kröger	✓	✓	✓	✓	✓	✓					✓	✓	✓	✓
Lipinski	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Nieswand	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Pérez	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Schroeter	✓	✓	✓	✓	✓	✓					✓	✓	✓	✓
Schwiegers-hausen-Güth						✓								
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

The Supervisory Board adopted both a competence profile for the Supervisory Board and a diversity concept for the Supervisory Board and Executive Board on 7 March 2018 by means of resolutions passed outside of meetings. In relation to this, the targets for the composition of the Supervisory Board were also renewed and adopted.

Supervisory Board meeting on 28 March 2018

At the start of its meeting on 28 March 2018, the Supervisory Board elected Mr Turqi Alnowaiser as a new member of its Audit and Financial Committee. In addition, the Company's employment contract with Executive Board member and CCO Thorsten Haeser was terminated, and Mr Joachim Schlotfeldt was appointed as a new Executive Board member for the newly created position of Chief Personnel and Global Procurement Officer (CPO) and as

Labour Director. The Supervisory Board then 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 for the 2017 financial year. The Supervisory Board also conducted a review of the non-financial report prepared in accordance with Sections 289 b (3) and 315 b (3) of the German Commercial Code (HGB) for the first time. It adopted this report and then discussed the current business. Finally, the Supervisory Board discussed in detail the analysis process to underpin Hapag-Lloyd's Strategy 2023.

Supervisory Board meeting on 9 May 2018

At the start of the meeting, the Supervisory Board decided to extend the employment contract of CEO Rolf Habben Jansen by 5 years at otherwise unchanged contractual conditions. The Supervisory Board then approved the agenda for the Company's Annual General Meeting on 10 July 2018 and adopted its resolution proposals for the agenda items. In particular, 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. It also decided to propose to the Annual General Meeting that Mr Turqi Alnowaiser be elected to the Supervisory Board as a shareholder representative. Furthermore, the Supervisory Board decided to propose to the Annual General Meeting that a dividend be paid. In addition to the report on the current business, the Supervisory Board discussed the planned refinancing of ship loans and obtained information about the implications of the new environmental regulations on ship emissions (MARPOL regulations), which come into effect at the start of 2020.

Supervisory Board meetings on 10 July 2018

Before the Annual General Meeting took place, the Supervisory Board obtained information from the Executive Board about the current business and discussed this with the Executive Board. The discussions focused on the forecast results for the first and second quarters of 2018. The Supervisory Board also obtained an overview of the current status of the process relating to Hapag-Lloyd's Strategy 2023 and the measures planned. Finally, it focused on preparations for the Company's Annual General Meeting, which took place afterwards.

At the Supervisory Board meeting after the Annual General Meeting, the Supervisory Board welcomed its newly elected member and made a decision to modify the rules of procedure for the Supervisory Board. Elections to the committees were subsequently held, and changes to the Declaration of Conformity in relation to the German Corporate Governance Code were adopted.

Supervisory Board meeting on 27 September 2018

In its meeting on 27 September 2018, the Supervisory Board took stock of the Executive Board's report on the current business. In relation to this, the Executive Board reported in particular on Hapag-Lloyd's Strategy 2023 and how it would be communicated and implemented. The remaining discussions focused on the ongoing project to enhance procurement and supplier management as well as on the second forecast for 2018.

Supervisory Board meeting on 6 / 7 November 2018
At the beginning of the meeting, the Supervisory Board welcomed Ms Schwiegershausen-Güth, after she had been appointed by the District Court of Hamburg as new member of the Supervisory Board with effect from 26 October 2018 following the resignation of Ms Behle. In the course of the meeting, and thus as the successor to Ms Behle, the Supervisory Board elected Mr Schroeter as the first Deputy Chairman of the Supervisory Board. This meeting also focused on discussions about the current business and the annual budget for 2019, including Hapag-Lloyd AG's business plan. 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. The Supervisory Board also discussed the expected effects of the new financial reporting standard IFRS 16. Finally, in line with a recommendation by the Presidential and Personnel Committee, an adjustment to the annual variable remuneration of Executive Board members was adopted that takes account of the increased size of the Company.

The Supervisory Board passed a resolution outside of a meeting on 17 December 2018 to approve the appointment of Dr Maximilian Rothkopf as a new Executive Board member with effect from 1 May 2019 and as a successor to Anthony J. Firmin, who will step down in summer 2019.

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), Sheikh Ali bin Jassim Al-Thani, Christine Behle (until 30 September 2018), Jutta Diekamp, Karl Gernandt, Dr Rainer Klemmt-Nissen, Arnold Lipinski, Sabine Nieswand, José Francisco Pérez Mackenna, Klaus Schroeter (from 6 November 2018), Uwe Zimmermann.

Audit and Financial Committee: Karl Gernandt (Chairman until 10 July 2018), Oscar Hasbún Martínez (Chairman from 10 July 2018), Turqi Alnowaiser (from 28 March 2018), Dr Rainer Klemmt-Nissen, Annabell Kröger, Arnold Lipinski, Klaus Schroeter, Uwe Zimmermann.

Mediation Committee pursuant to Section 27 (3) of the German Co-Determination Act (MitbestG): Michael Behrendt (Chairman), Christine Behle (until 30 September 2018), Jutta Diekamp, José Francisco Pérez Mackenna, Klaus Schroeter (from 6 November 2018).

Nomination Committee: Michael Behrendt (Chairman), Sheikh Ali bin Jassim Al-Thani, Karl Gernandt, Dr Rainer Klemmt-Nissen, José 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 32 ff.

The **Presidential and Personnel Committee** met four times in 2018, on 28 March 2018, 9 May 2018, 27 September 2018 and 6 November 2018. Besides discussing the preparations for the Supervisory Board's plenary session on 28 March 2018, the Presidential and Personnel Committee dealt on the same day with the termination of an Executive Board contract along with the appointment of a new Executive Board member. On 9 May 2018, the committee dealt with the extension of the CEO's contract and on 6 November 2018 with the adjustment to Executive Board remuneration.

The **Audit and Financial Committee** convened 4 meetings in the last financial year.

In the meeting on 27 March 2018, 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 2017 financial year (see also "Annual and consolidated financial statements 2017"). 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 Audit and Financial Committee also conducted a review of the non-financial report prepared in accordance with Sections 289 b (3) and 315 b (3) of the German Commercial Code (HGB) for the first time.

The second meeting on 9 May 2018 was dominated by a discussion on the 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, as well as a planned refinancing of ship loans.

In the meeting on 9 August 2018, the discussion centred on the half-year financial report and the forecast for the second half. The Audit and Financial Committee also dealt with the report by the Corporate Audit department.

In the fourth meeting on 6 November 2018, the focus was on the presented 2019 annual budget, including Hapag-Lloyd AG's business plan. The committee discussed the targets and measures with the Executive Board in detail and decided to recommend that the Supervisory Board approve the Executive Board's planning. The financial report for the third quarter was also discussed, as were the audit focal points in the external audit. In addition, the committee focused on the expected effects of the new financial reporting standard IFRS 16 and on the report regarding the Group's hedging transactions.

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

Personnel changes in the Supervisory Board and the Executive Board
On 23 February 2018, Hamburg district court appointed Mr Turqi Alnowaiser as a new member of the shareholder representatives on the Supervisory Board until the Annual General Meeting in 2018. Mr Turqi Alnowaiser was elected to the Supervisory Board at the AGM on 10 July 2018.

Ms Christine Behle stepped down from her position on the Supervisory Board for personal reasons with effect from 30 September 2018. Hamburg district court appointed Ms Maya Schwiegershausen-Güth as her successor with effect from 26 October 2018.

Mr Joachim Kramer as an employee representative on the Supervisory Board left the company for reasons of age on 28 February 2019. The Hamburg District Court appointed Mr Felix Albrecht effective 11 March 2019, as the new representative of the Supervisory Board's employees.

Up until his departure by mutual consent on 31 March 2018, Mr Thorsten Haeser was a member of the Executive Board. As part of the reallocation of Executive Board responsibilities, the scope of responsibilities of the Chief Commercial Officer was transferred to the Chief Executive Officer. Mr Joachim Schlotfeldt was appointed as new member of the Executive Board as of 1 April 2018, who is inter alia responsible as labour director for the newly created division of Chief Personnel and Global Procurement.

According to a resolution of the Supervisory Board of 17 December 2018, Dr Maximilian Rothkopf was appointed as a new Executive Board member with effect from 1 May 2019. Dr Rothkopf will become new COO and succeed Anthony J. Firmin, who will retire on 30 June 2019.

Corporate governance
The Supervisory Board is committed to the principles of good corporate governance and maintained a continuous focus on these principles in the 2018 financial year. One key element of this is the recognition of the provisions of the German Corporate Governance Code (GCGC) as amended on 7 February 2017 (since the announcement on 24 April 2017 and in the corrected version on 19 May 2017). 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 (Declaration of Conformity). In July 2018, the Executive Board and Supervisory Board issued a Declaration of Conformity, 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 20.

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 interest 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 2018 financial year.

Audit of the 2018 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 2018 and 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 315e 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 engagement 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 10 July 2018.

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 20 March 2019 in preparation for the audit and the handling of these documents by the Supervisory Board and by the external auditors, who gave an account of the results of their audit, and in the presence of 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 would lead to concerns about their impartiality. Furthermore, the Audit and Financial Committee obtained a report from the external auditors on the audit of the risk early-warning system. 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 Audit and Financial Committee agrees with this assessment. The Audit and Financial Committee made a recommendation to the

Supervisory Board to acknowledge and approve the result of the audit performed by the external auditors, and since it had no objections of its own to the documents for the annual financial statements and consolidated financial statements along with the management report and Group management report submitted by the Executive Board, to approve the annual financial statements and management report as well as the consolidated financial statements and 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 21 March 2019.

In its meeting on 21 March 2019, 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 also included the risk early-warning system. The Supervisory Board agrees with the Audit and Financial Committee's understanding of 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. The Supervisory Board fully observed its increased monitoring duties, in particular with regard to the independence of the external auditors, using its corresponding guideline for the approval of non-audit services provided by the external auditors.

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 21 March 2019. The annual financial statements of Hapag-Lloyd AG have thereby been adopted. The Supervisory Board agrees with the Executive Board's assessment of the state of the Company and the Group as expressed in the management report and Group management report. The Supervisory Board discussed the Executive Board's proposal on the appropriation of profits, which includes a dividend of EUR 0.15 per share entitled to dividends, from the perspectives of the dividend policy and the shareholders' interests. The remaining retained earnings of EUR 208.8 million will be carried forward to new account. The Supervisory Board concurred with the Executive Board's proposal on the appropriation of profits on 21 March 2019.

Review of the Executive Board report on relationships with affiliates

The Executive Board submitted its report on relationships with affiliated companies in the 2018 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 21 March 2019.

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 20 March 2019. 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 21 March 2019, 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.

Audit of the non-financial report 2018

The Executive Board submitted the separate non-financial report of Hapag-Lloyd AG to the members of the Supervisory Board in good time for them to prepare their own audit. The Supervisory Board commissioned an external audit of the content of the non-financial report within the context of obtaining limited assurance. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt, performed an external audit of the content of the non-financial report in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) within the context of providing limited assurance and issued an unqualified auditor's opinion. After conducting its own independent review of the non-financial report 2018, the Supervisory Board raised no objections.

In its meeting on 21 March 2019, the Supervisory Board addressed the result of the audit of the non-financial report and conducted its own in-depth review of it after the Executive Board had explained the documents submitted and in the presence of the auditors, who gave an account of the results of their audit. Consequently, the Supervisory Board was able to satisfy itself of the correctness of the audit and the audit report. It thus acknowledged and agreed with the auditors' findings and adopted the non-financial report in its meeting on 21 March 2019.

At the same meeting, the Supervisory Board also awarded the audit engagement for the non-financial report for the current financial year to an external auditor.

Acknowledgement

The Supervisory Board would like to sincerely thank the employees and the Executive Board of the Hapag-Lloyd Group for their great personal dedication and their successful work in the last financial year.

Adoption of the report

The Supervisory Board adopted this report by a resolution on 21 March 2019 in accordance with Section 171 (2) AktG.

Hamburg, 21 March 2019

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 corporation 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).

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. The Executive Board and Supervisory Board 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

Declaration of Conformity 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", 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 declare that the Company has, since its last declaration of conformity of 27 September 2017 complied with the recommendations of the German Corporate Governance Code Commission in the version of 7 February 2017 published in the official section of the Federal Gazette (Bundesanzeiger) on 24 April 2017 with the following exception:

No. 5.3.2 sentence 5 of the German Corporate Governance Code in the version of 7 February 2017 (published on 24 April 2017 and published in its corrected version on 19 May 2017, GCGC) provides, inter alia, the recommendation that the chairman of the Audit and Financial Committee shall be independent. Currently, Oscar Hasbún Martínez is the chairman of the Audit and Financial Committee. Mr Hasbún Martínez is at the same time CEO of a direct main shareholder of Hapag-Lloyd AG. Therefore, within the meaning of no. 5.3.2 sentence 5 GCGC, Mr Hasbún Martínez lacks the required independence. To the conviction of the Supervisory Board, the exercise of the office as chairman of the Audit and Financial Committee by Mr Hasbún Martínez is in the best interest of the Company and its entire shareholders, since Mr Hasbún Martínez is perfectly suited as chairman of the Audit and Financial Committee. It is not doubtful that he in fact serves independently.

Hamburg, 10 July 2018
Executive Board and Supervisory Board
Hapag-Lloyd Aktiengesellschaft

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 the good and sustainable development of the Company as well.

In 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 and defines the basic values of the Company. 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, economic viability, and the health and safety 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

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

Information on relevant corporate management practices

Corporate governance

Apart from the exception mentioned and justified in the Declaration of Conformity, 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. Any internal or external violations of applicable law are strictly opposed and are not tolerated in any way. Hapag-Lloyd will not accept any such legal violations under any circumstances but will legally pursue them. Hapag-Lloyd has a Code of Ethics which clearly spells out the respective conduct instructions (see above and below).

To prevent breaches of compliance, the Executive Board has implemented a range of measures as part of the compliance management system. These include mandatory compliance training, which every employee worldwide must complete, as well as a whistle-blower system, which allows violations to be reported anonymously.

The compliance programme of Hapag-Lloyd AG, the implementation of which is seen to by the compliance organisation, primarily consists of anti-competition and antitrust law, combating corruption, and compliance with embargoes and sanctions.

Compliance organisation

The central Global Compliance team, 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.

Compliance organisation

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).

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 its own 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 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 announcements, 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 GCGC (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 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 4 members. One member, Mr Rolf Habben Jansen, was appointed Chief Executive Officer. The Chief Executive Officer 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 cooperatively and continually update each other about important measures and events in their business areas. In general, the Executive Board 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 2018, the members of the Executive Board were Rolf Habben Jansen (Chief Executive Officer), Nicolás Burr, Anthony J. Firmin and Joachim Schlotfeldt.

Members of the Executive Board of Hapag-Lloyd AG (31 December 2018):

Rolf Habben Jansen Born in 1966	**Member of the Executive Board / CEO**
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 2024

Nicolás Burr Born in 1975	**Member of the Executive Board / CFO**
First appointment:	Member of the Executive Board of Hapag-Lloyd AG since 2015
Current appointment:	Until 29 February 2020

Anthony J. Firmin Born in 1953	**Member of the Executive Board / COO**
First appointment:	Member of the Executive Board of Hapag-Lloyd AG since 2014
Current appointment:	Until 30 June 2019

Joachim Schlotfeldt Born in 1954	**Member of the Executive Board / CPO**
First appointment:	Member of the Executive Board of Hapag-Lloyd AG since 2018
Current appointment:	Until 31 March 2021

Up until his departure by mutual consent on 31 March 2018, Mr Thorsten Haeser was a member of the Executive Board. As part of the reallocation of Executive Board responsibilities, the scope of responsibilities of the Chief Commercial Officer was transferred to the Chief Executive Officer. Mr Joachim Schlotfeldt was appointed as new member of the Executive Board as of 1 April 2018, who is inter alia responsible as labour director for the newly created division of Chief Personnel and Global Procurement.

According to a resolution of the Supervisory Board of 17 December 2018, Dr Maximilian Rothkopf was appointed as a new Executive Board member with effect from 1 May 2019. Dr Rothkopf will become new COO and succeed Mr Anthony J. Firmin, who will retire on 30 June 2019.

The Supervisory Board works with the Executive Board to ensure that there is long-term succession planning for the Executive Board. When examining candidates for an Executive Board position, the Supervisory Board believes that the key suitability criteria are the candidates' specialist qualifications for the position in question, leadership qualities, previous performance and knowledge of the Company's business model. The Supervisory Board has adopted a diversity concept for the composition of the Executive Board that takes account of the recommendations of the German Corporate Governance Code and ensures that diversity is taken into consideration with regard to the composition of the Executive Board. Due to the large number of tasks and changes as part of the merger with United Arab Shipping Company Limited, the Supervisory Board passed the conclusive resolution on the diversity concept for the Executive Board on 7 March 2018.

The diversity concept for the Executive Board comprises the following components:

- The target set by the Supervisory Board for the percentage of women on the Executive Board in accordance with Section 111 (5) of the German Stock Corporation Act (AktG);
- Appointments as a member of the Executive Board should end one year after the member's 65th birthday as a rule, however this age will increase in line with changes to the regulatory age limit in the statutory retirement pension system, and the Supervisory Board reserves the right to make exceptions in individual cases;
- Executive Board members should have long-standing managerial experience and, if possible, experience from a range of different professions;
- At least two Executive Board members should have international managerial experience;
- The Executive Board as a whole should have long-standing experience in the areas of finance and human resource management.

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 prepared 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 2018 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.

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, an excess of 10% of the damages up to 1.5 times the fixed annual remuneration of the Supervisory Board member is provided for.

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 million, unless already included in the annual budget;
- Access to assets with a value of more than EUR 75 million, 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 million;
- 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 million;
- 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 16 members.

The Supervisory Board is subject to the German Co-Determination Act (MitbestG). Accordingly, the eight representatives of the shareholders are generally elected by the Annual General Meeting and the eight representatives of the employees are elected in accordance with the provisions of the German Co-Determination Act (MitbestG). As at the reporting date, 3 employee representatives were court-appointed. One of these court-appointed Supervisory Board members left the Company on 28 February 2019 on grounds of age, and therefore a new employee representative was appointed by the court after the reporting date.

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 interest 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 2018 financial year. The Supervisory Board has issued rules of procedure that also govern the formation and responsibilities of the committees. Two ordinary Supervisory Board meetings are held in every calendar half-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.

Composition goals and diversity concept for the Supervisory Board
The composition of the Supervisory Board must ensure that the body as a whole has the necessary knowledge, abilities and specialist experience to perform its roles properly. Each member of the Supervisory Board must ensure that they have enough time to perform their Supervisory Board role.

The Supervisory Board has set itself goals for its composition and drawn up a competence profile for the body. Together with the statutory gender quota, these composition goals form the diversity concept, which ensures that the body has a diverse composition. When proposing resolutions to the Annual General Meeting for regular Supervisory Board elections and the election of a new Supervisory Board member, the composition goals and the diversity concept must be taken into consideration:

The revised composition goals and the diversity concept were conclusively passed by the Supervisory Board on 7 March 2018.

Goals for the composition of the Supervisory Board
The Supervisory Board has set the following goals for its composition:

- At least one seat on the Supervisory Board on the shareholder side for one person who does not have any potential conflicts of interest and is independent within the meaning of Section 5.4.2 GCGC;
- The Supervisory Board should not have more than 2 former members of the Executive Board in accordance with Section 5.4.2 GCGC;
- In general, persons who have reached the age of 70 or who have been on the Supervisory Board of the Company for more than 20 years at the time of the election should not be considered for nomination.

Competence profile for the Supervisory Board

The Supervisory Board has drawn up the following competence profile for itself:

- At least two Supervisory Board seats for individuals with in-depth knowledge and / or experience of regions outside of Germany in which the Hapag-Lloyd Group conducts a substantial volume of business, due to their background or professional experience with an international relevance;
- At least 1 Supervisory Board seat for an individual who has expert knowledge within the fields of accounting or auditing and is thus regarded as a financial expert in accordance with Section 100 (5) of the German Stock Corporation Act (AktG);
- At least 2 Supervisory Board seats for individuals with in-depth knowledge of and experience in the fields of risk management and controlling;
- At least 2 Supervisory Board seats for individuals with shipping sector knowledge;
- At least 2 Supervisory Board seats for individuals with experience in managing or controlling a major company;
- At least 2 Supervisory Board seats for individuals with particular knowledge in the fields of corporate governance and compliance;
- At least 2 Supervisory Board seats for individuals with particular knowledge of human resources;
- At least 1 Supervisory Board seat for an individual with particular knowledge of information technology or digitalisation.

Diversity concept for the Supervisory Board

The diversity concept for the Supervisory Board comprises the following components:

- Goals for the composition of the Supervisory Board
- Competence profile for the Supervisory Board
- The gender quota of 30%, which is already legally required for the composition of the Supervisory Board of Hapag-Lloyd AG in accordance with Section 96 (2) of the German Stock Corporation Act (AktG) and must be complied with accordingly.

As per a self-assessment by the Supervisory Board, it conformed with these goals for its composition on the reporting date of 31 December 2018. In particular, the Supervisory Board fulfilled the goal requiring that at least one representative on the shareholder side be independent within the meaning of GCGC on the reporting date. In this regard, the Supervisory Board member Ms Gehrt was classified as independent. The Supervisory Board and its Nomination Committee will ensure that the objective continues to be fulfilled.

Members of the Supervisory Board of Hapag-Lloyd AG:

Michael Behrendt
(Chairman of the Supervisory Board)

Christine Behle (until 30 September 2018)
Member of the Federal Executive Board,
Head of Transport
ver.di – Vereinte Dienstleistungs-
gewerkschaft, Berlin
(First Deputy Chairwoman of the Supervisory
Board until 30 September 2018)

Klaus Schroeter
Union secretary, Federal Division for Transport
(Collective agreement coordination, Division
public busses and railway transport),
ver.di – Vereinte Dienstleistungsgewerkschaft,
Berlin
(First Deputy Chairman of the Supervisory
Board since 6 November 2018)

Oscar Eduardo Hasbún Martínez
Chief Executive Officer
Compañía Sud Americana de Vapores S. A.,
Santiago de Chile, Chile
(Second Deputy Chairman of the Supervisory
Board until 10 July 2018)

Karl Gernandt
Chairman of the Board of Directors
Kühne Holding AG, Schindellegi, Switzerland
(Second Deputy Chairman of the Supervisory
Board since 10 July 2018)

Felix Albrecht (since 11 March 2019)
Marine Works Council
Hapag-Lloyd AG, Hamburg

H. E. Sheikh Ali bin Jassim Al-Thani
Advisor to the CEO
Qatar Investment Authority, Qatar

Turqi Alnowaiser (since 23 February 2018)
Head of International Investments
Public Investment Fund, Saudi Arabia

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

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

Dr Rainer Klemmt-Nissen
Managing Director
HGV Hamburger Gesellschaft für Vermögens-
und Beteiligungsmanagement mbH, Hamburg
(until 31 August 2018)

Joachim Kramer (until 28 February 2019)
Marine Works Council
Hapag-Lloyd AG, Hamburg

Annabell Kröger
Commercial Clerk
Hapag-Lloyd AG, Hamburg

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

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

José Francisco Pérez Mackenna
Chief Executive Officer
Quiñenco S. A., Santiago de Chile, Chile

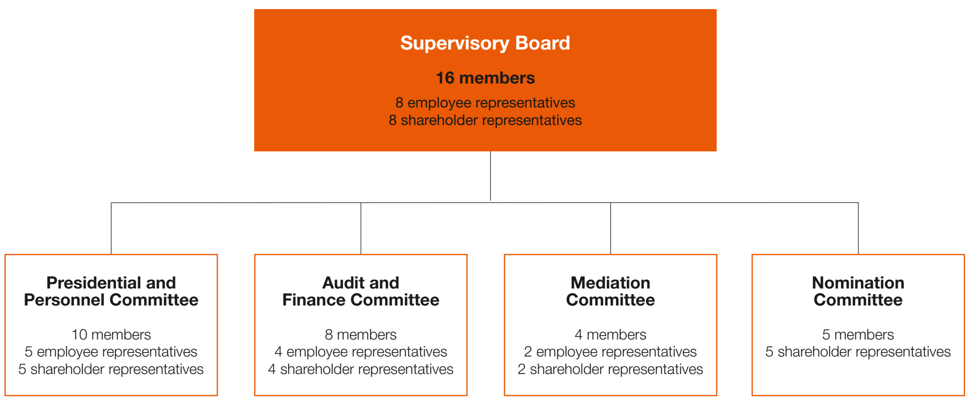
Maya Schwiegershausen-Güth
(since 26 October 2018)
Head of treaty office of the ITF “flag of
convenience” campaign
Federal department of maritime economy
ver.di Bundesverwaltung, Berlin

Uwe Zimmermann
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 established a Presidential and Personnel Committee, an Audit and Financial Committee, a Nomination Committee and a Mediation Committee in accordance with Section 27 (3) of the German Co-Determination Act (MitbestG) as permanent committees.

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), Sheikh Ali bin Jassim Al-Thani, Christine Behle (until 30 September 2018), Jutta Diekamp, Karl Gernandt, Dr Rainer Klemmt-Nissen, Arnold Lipinski, Sabine Nieswand, José Francisco Pérez Mackenna, Klaus Schroeter (since 6 November 2018), Uwe Zimmermann

(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 submits a substantiated recommendation to the Supervisory Board for the selection of the external auditors at the Annual General Meeting and handles the awarding of the audit engagement to the external auditors and the fee agreement. 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 and the internal auditing system.

Members:
Oscar Eduardo Hasbún Martínez (Chairman since 10 July 2018), Karl Gernandt (Chairman until 10 July 2018), Turqi Alnowaiser (since 28 March 2018), Dr Rainer Klemmt-Nissen, Annabell Kröger, Arnold Lipinski, 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), Sheikh Ali bin Jassim Al-Thani, Karl Gernandt, Dr Rainer Klemmt-Nissen, José 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 (until 30 September 2018), Jutta Diekamp, José Francisco Pérez Mackenna, Klaus Schroeter (since 6 November 2018)

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 to Hapag-Lloyd AG, and 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 5,000.00 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/managers-transactions.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. 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 2018, the shareholders of Hapag-Lloyd AG were:

in %	2018
CSAV Germany Container Holding GmbH	25.8
Kühne Holding AG and Kühne Maritime GmbH	25.0
Qatar Holding Germany GmbH	14.5
HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH	13.9
Public Investment Fund of the Kingdom of Saudi Arabia	10.2
Free float	10.6
Total	**100.0**

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 315e (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 10 July 2018 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 2018 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 Niels Madsen (since the 2017 financial year) and Dr Victoria Röhricht (since the 2018 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 in force. Its provisions apply 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 2018, there were 5 women on the Supervisory Board of Hapag-Lloyd AG. This means that 31% of the Supervisory Board members were women as at the reporting date. 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 deadline to be set for achieving the target could not be later than 30 June 2017. The Supervisory Board set a target of 0% for the Executive Board for the period until 30 June 2017 and maintained the status quo at the time. No women had been appointed as Executive Board members as at the reporting date of 30 June 2017. For the period until 30 June 2022, the Supervisory Board has decided on a target of 20% for the Executive Board.

For the first two management levels below the Executive Board, the Executive Board at that time set targets of 0% for the first management level and 14% for the second management level, taking succession planning into consideration, and also specified 30 June 2017 as the deadline for reaching these targets. As at the reporting date of 30 June 2017, the percentage of women at the first management level was 0% and at the second management level it was 14%.

For the period until 30 June 2022, the Executive Board of Hapag-Lloyd AG has set a target of 5% for the percentage of women at the first management level and 15% at the second management level.

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

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

Anthony J. Firmin
HHLA Container 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. – Deputy Chairman

Thorsten Haeser (until 31 March 2018)
REVIDERM AG – Supervisory Board Member

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

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

Turqi Alnowaiser
Noon Investment – Supervisory Board Member
Saudi Information Technology Company (SITCO) – Supervisory Board Member

Christine Behle (until 30 September 2018)
Deutsche Lufthansa AG – Deputy Chairwoman of the Supervisory Board
Bremer Lagerhaus-Gesellschaft – Aktiengesellschaft von 1877 – Deputy Chairwoman of the Supervisory Board
Bochum-Gelsenkirchener Straßenbahnen Aktiengesellschaften / Bochum Gelsenkirchener Bahngesellschaft mbH – Supervisory Board Member (since 31 August 2018)
Dortmunder Stadtwerke AG / Dortmunder Stadtwerke Holding GmbH – Supervisory Board Member (since July 2018)

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 Energy Solutions SE – Supervisory Board Member
MAN Truck & Bus AG – Supervisory Board Member
Renk AG – Supervisory Board Member

Nicola Gehrt
TUI Deutschland GmbH – Supervisory Board Member

Karl Gernandt
Kühne + Nagel International AG – Deputy Chairman of the Board of Directors
Kühne Holding AG – President / Chairman of the Board of Directors
Kühne + Nagel (AG & Co.) KG – Chairman of the Supervisory Board
Kühne & Nagel A.G, Luxembourg – Chairman of the Supervisory Board
Kühne Invest AG, Switzerland – Member of the Board of Directors
Kühne Holding (Management) AG – Chairman of the Board of Directors
Kühne Logistics University – Chairman of the Supervisory Board
Kühne Real Estate AG – Chairman of the Board of Directors
LogIndex AG – Member of the Board of Directors
VTG Aktiengesellschaft – Supervisory Board Member
HSV Fußball AG – Supervisory Board Member (until 6 February 2018)

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

Dr Rainer Klemmt-Nissen
Hamburger Hochbahn AG – Supervisory Board Member (until July 2018)
HSH Nordbank AG – Supervisory Board Member (until December 2018)
HSH Beteiligungsmanagement GmbH – Supervisory Board Member (until 22 January 2019)
Vattenfall Wärme Hamburg GmbH – Supervisory Board Member (until July 2018)
HMC Hamburg Messe und Congress GmbH – Supervisory Board Member (until July 2018)
HSH Finanzfonds AöR – Member of the Guarantor Assembly (until September 2018)

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

Maya Schwiegershausen-Güth
HHLA Hamburger Hafen und Logistik AG – Supervisory Board Member

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

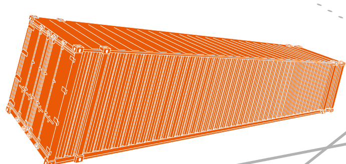
1847
FOUNDING
of Hamburg-Amerikanische Packetfahrt-Actien-Gesellschaft (Hapag)

1970
MERGER
of Hapag and NDL to Hapag-Lloyd

2015
CSAV SYNERGIES
exceeded expectations

1857
FOUNDING
of Norddeutscher Lloyd (NDL)

2009
RESTRUCTURING
in the course of the global economic crisis



2009
TAKEOVER
by Albert Ballin Consortium

Being strong

Hapag-Lloyd has been holding its own in a fast-paced market for over 170 years. As an active driver of consolidation in the container shipping industry, Hapag-Lloyd is now larger and stronger than ever and much more diverse. With 12,800 people from 100 nations as well as a modern and efficient fleet of more than 220 ships, we are there for our customers in all key regions of the world.

2005
MERGER
with CP Ships

2014
MERGER
with CSAV kicked off the latest wave of sector consollidation

2018
UASC SYNERGIES
achieved ahead of time

2015
Sucessful **IPO** in challenging stock market enviroment

2017
MERGER
with UASC

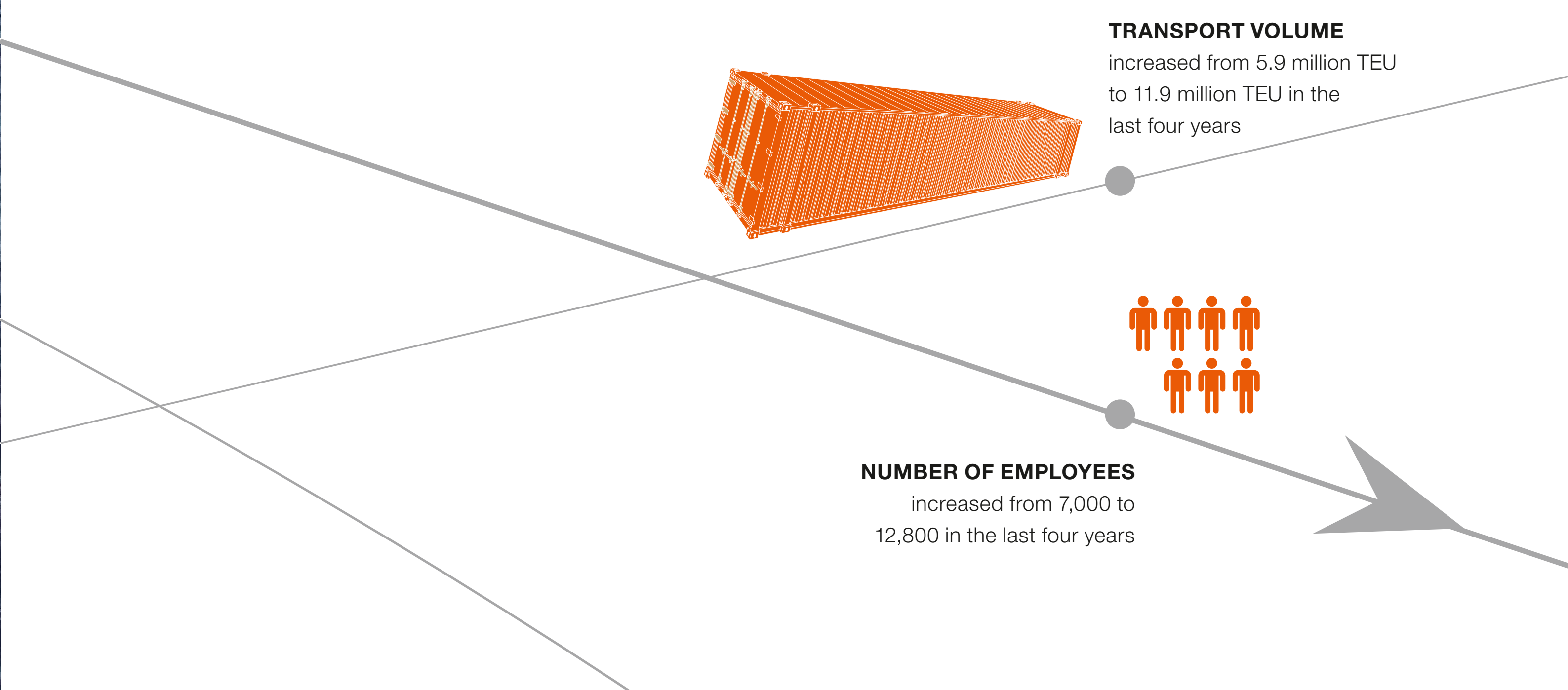
2017
Sucessful **CASH CAPITAL INCREASE**
of USD 413m.

2018
First time **DIVIDEND**
since the IPO


Hapag-Lloyd

Being adaptable

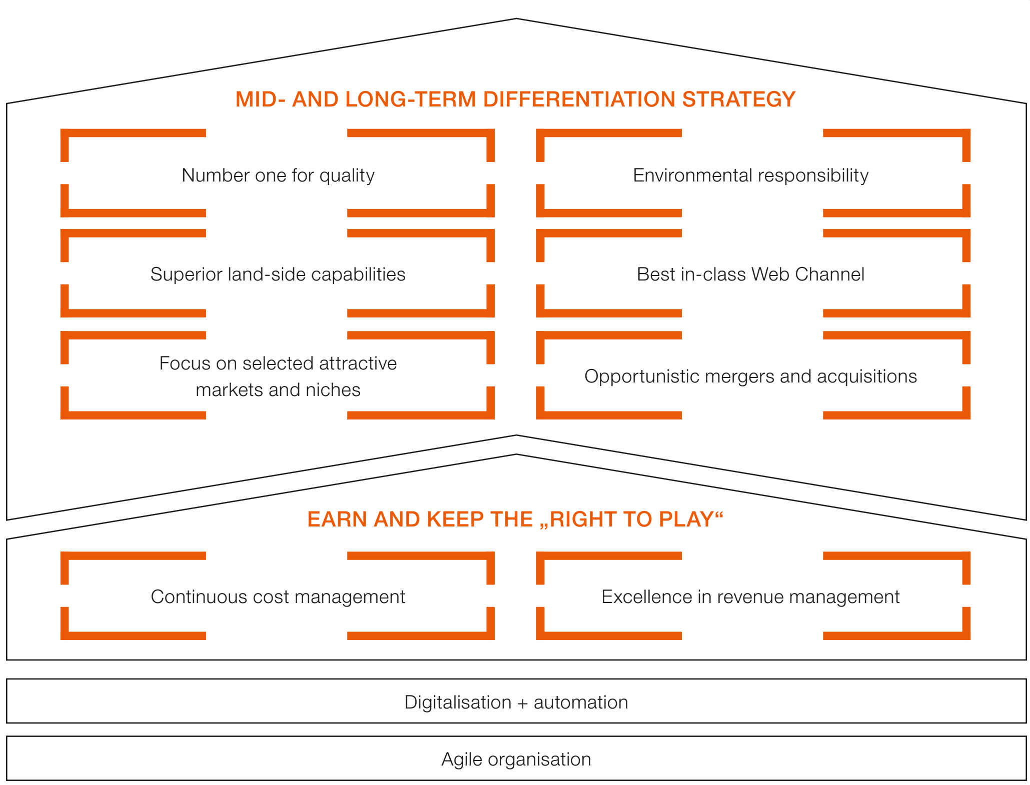
The world's ten largest liner shipping companies now account for more than 80 % of the global transport volume. By merging with CSAV and UASC, we have doubled our transport capacity since 2014 and now rank among the top 5 liner shipping companies in the world. At the same time, further consolidation within the industry is less likely due to decreasing incremental scale benefits – and the industry has consequently come to a turning point. Today, success isn't just about size. It's about strict customer orientation and standing out from the competition.



Being different

Customers expect more reliable supply chains, and our industry needs to change and invest sustainably. It is important to recognise and meet our customers' needs faster than our competitors do. We have developed our Strategy 2023 with this in mind, and we will focus on significantly improving quality for our customers, selective global growth and becoming profitable throughout the cycle.

At the core of the new Strategy is an enhanced differentiation in the market by offering unrivalled levels of reliability and service quality. For this reason, in addition to changing structures, systems, processes and operational procedures, Hapag-Lloyd will concentrate on offering an even better customer experience along the entire supply chain. With the successful implementation, we will be securing our future and laying the foundation for additional, organic growth.



THESE ARE THE MOST IMPORTANT ELEMENTS OF STRATEGY 2023

OUR STRATEGY 2023 HAS 3 OVERARCHING GOALS

BE PROFITABLE

throughout the cycle

NUMBER ONE FOR QUALITY

Deliver unparalleled quality, be customer-oriented and create value for Hapag-Lloyd

Focus on customer segments willing to pay for value

GLOBAL PLAYER

Reinforce strongholds

Expand in key growth markets

Global market share (excluding Intra-Asia) greater than 10 %

Being the quality leader

Our market analyses show that demonstrably high and consistent quality is important for more than half of all market participants. With our Strategy 2023, we have set a clear course for our medium-term future – and now we are at the start of this challenging journey. Our goal is to become nothing less than the number one for quality by setting the benchmarks in container shipping, defining quality standards and thereby creating outstanding added value for our customers. As a result, we will increasingly measure ourselves against the satisfaction of our customers in future. We will create a clearly designed core product for all our customers. And we intend to offer additional services to customers who are looking for added value and willing to pay for it, too.

PREMIUM PRODUCT

DIVERSIFIED
to target specific customer needs not addressed by base product

IMPROVED
service level for customers who value premium services, as clearly differentiated products with price premium

BASE PRODUCT

CONSISTENT
across customers of all sizes, contract type and industry

•

CLEARLY ARTICULATED
through quality promises

•

TRANSPARENT
with measured and communicated performance levels

•

CALIBRATED
slightly above market average

NETWORK

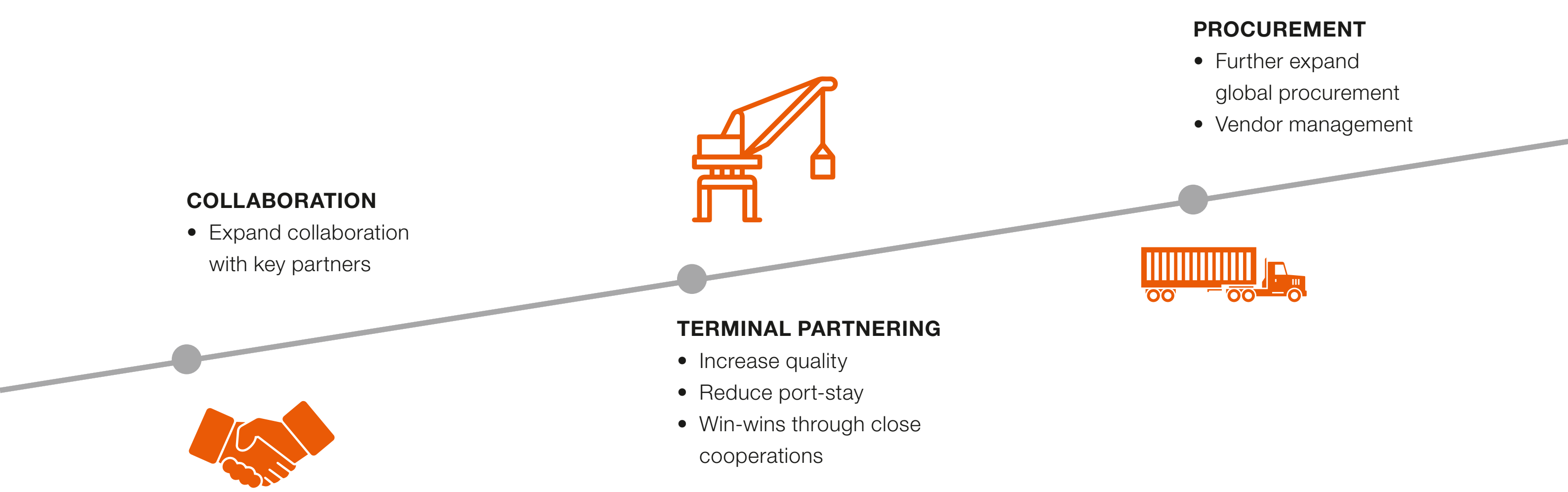
- Optimised profitability in our service portfolio

CONTAINER STEERING

- Improved equipment steering through newest data analysis and forecasting tools

Being cost-conscious

We intend to maintain our competitiveness on the cost side and to achieve additional annual savings of USD 350 to 400 million from the year 2021. For this reason, cost-cutting and efficiency-enhancement programs will continue to form the basis for our strategic initiatives. Several cost initiatives of our Strategy 2023 focus on network optimisation, terminal partnering and further improvements in procurement and container steering. Furthermore, an optimised revenue management will ensure that the most attractive cargo gets on board.



Being more digital

Digitalisation has played a major role at Hapag-Lloyd for a long time now, and our single operating system is unmatched in the entire industry. This gives us a very good starting position for implementing new technologies, platforms and digital customer experiences. One sign of our success is the fact that, already by the end of 2018, we processed almost 15,000 TEU per week via our Web Channel, which corresponds to approximately 6% of our total volume. We aim to increase online sales via this channel to 15% of the total volume by 2023.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22G1
SUPER HEAVY
pag-Lloyd

Being more agile

Our employees and efficient work processes are key factors in the successful implementation of our Strategy 2023. For this reason, we will introduce additional improvements aimed at making Hapag-Lloyd's organisation more agile, dynamic and analytically driven. We want to learn continuously, be bold and entrepreneurial, become more flexible in developing projects and be open to new partnerships. By doing so, we will be able to react to market changes even more quickly and get more benefit from market opportunities.

GROUP MANAGEMENT REPORT

BASIC PRINCIPLES OF THE GROUP

United Arab Shipping Company Ltd. (until 16 January 2017 S.A.G.) and its subsidiaries (subsequently referred to as UASC or the UASC Group) are included in the Hapag-Lloyd AG group of consolidated companies from the acquisition date of 24 May 2017. The inclusion of the UASC Group means that the figures for the 2018 financial year are only comparable with those of the previous year to a limited extent. The earnings development in the 2017 financial year is affected by one-off effects resulting from the presentation of the transaction in the financial statements.

OPERATING ACTIVITIES

The Hapag-Lloyd Group is Germany's largest container liner shipping company and is one of the world's leading container liner shipping companies in terms of global market coverage. The Group's core business is the shipping of containers by sea, but also encompasses transport services from door to door.

As at 31 December 2018, the Hapag-Lloyd Group had a total of 227 ships, with a transport capacity of around 1.6 million TEU and a global network of 119 services.

Network of Hapag-Lloyd services

Source: Company data

With a global sales network of 407 sales offices (previous year: 387) in 128 countries (previous year: 125), Hapag-Lloyd served around 30,200 customers in the 2018 financial year (previous year: around 32,400).

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

The Hapag-Lloyd Group's functional currency is the US dollar. The reporting currency of the individual and consolidated financial statements of Hapag-Lloyd is, however, the euro. Assets and liabilities recognised in the 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.

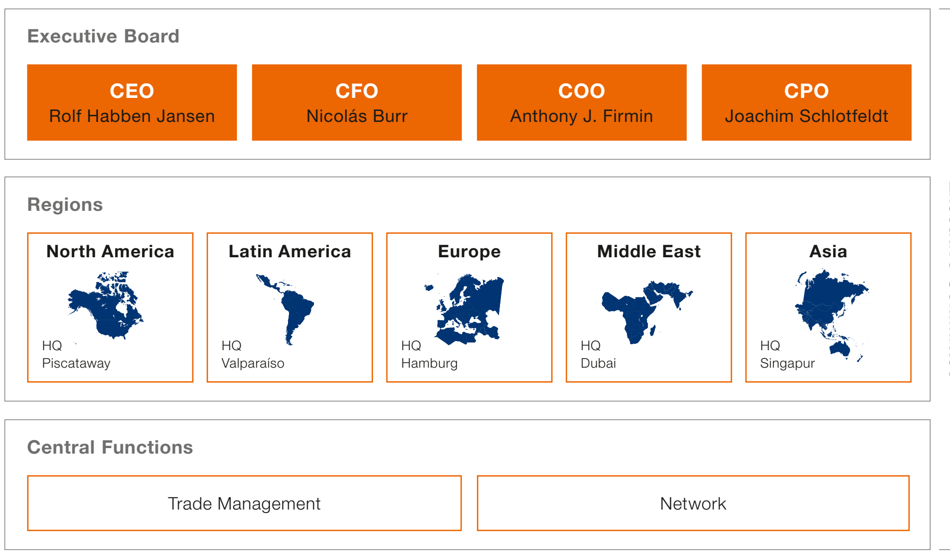
Legal framework

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

GROUP STRUCTURE AND SHAREHOLDERS

The controlling company of the Hapag-Lloyd Group, Hapag-Lloyd AG, is also the largest single operating company within the Group. Hapag-Lloyd AG has the following key branch offices active in the areas of sales and operations: Hapag-Lloyd Rotterdam (Rotterdam, Netherlands), Hapag-Lloyd Antwerpen (Antwerp, Belgium) and Hapag-Lloyd Denmark (Holte, Denmark).

In terms of operations, the Group structure of Hapag-Lloyd AG as at 31 December 2018 is as follows:



Shareholder structure of Hapag-Lloyd AG

Following the takeover of UASC on 24 May 2017 in the form of a capital increase in exchange for contributions in kind, UASC's former primary shareholders, Qatar Holding LLC on behalf of the Qatar Investment Authority (QIA) and Public Investment Fund Saudi Arabia (PIF), became additional major shareholders in Hapag-Lloyd AG, with initial stakes in its share capital of 14.4% (QIA) and 10.1% (PIF). The shares held by the other previous UASC shareholders (Kuwait, Iraq, United Arab Emirates and Bahrain) totalling around 3.4% of Hapag-Lloyd shares have been included in the free float since the acquisition date. CSAV Germany Container Holding GmbH (CSAV), Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH (HGV) and Kühne Maritime GmbH together with Kühne Holding AG (Kühne) continued to be Anchor Shareholders following the merger with UASC. During the second quarter of 2018, Kühne increased its share in Hapag-Lloyd to a total of 25.0%.

The five aforementioned major shareholders together held around 89.4% of the share capital of Hapag-Lloyd AG as at the balance sheet date. CSAV, HGV and Kühne Maritime GmbH have also agreed under a shareholders' agreement to exercise their voting rights from the shares in Hapag-Lloyd AG by issuing a common voting proxy, thereby making important decisions together. The shareholder structure of Hapag-Lloyd AG as at 31 December 2018 was as follows:

Voting rights as at 31 December 2018

in %	2018	2017
CSAV Germany Container Holding GmbH	25.8	25.5
Kühne Holding AG and Kühne Maritime GmbH	25.0	20.5
Qatar Holding Germany GmbH	14.5	14.5
HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH	13.9	13.9
The Public Investment Fund of the Kingdom of Saudi Arabia	10.2	10.2
Free float	10.6	15.4
Total	**100.0**	**100.0**

Personnel changes on the Supervisory Board and the Executive Board of Hapag-Lloyd AG

After Dr Nabeel Al-Almudi stepped down from his position as member of the supervisory board on 30 November 2017, Hamburg district court, On 23 February 2018, appointed Mr Turqi Alnowaiser as a new member of the shareholder representatives on the Supervisory Board until the next Annual General Meeting. Mr Turqi Alnowaiser was officially elected at the end of the AGM on 10 July 2018.

Ms Christine Behle stepped down from her position on the Supervisory Board for personal reasons with effect from 30 September 2018. The district court appointed Ms Maya Schwiegershausen-Güth as her successor with effect from 26 October 2018.

Mr Joachim Kramer as an employee representative on the Supervisory Board left the company for reasons of age on 28 February 2019. The Hamburg District Court appointed Mr Felix Albrecht effective 11 March 2019, as the new representative of the Supervisory Board's employees.

As part of the reallocation of Executive Board responsibilities, the scope of responsibilities of the Chief Commercial Officer was transferred to the Chief Executive Officer. Mr Joachim Schlotfeldt was appointed as new member of the Executive Board as of 1 April 2018, who is inter alia responsible as labour director for the newly created division of Chief Personnel and Global Procurement.

According to a resolution of the Supervisory Board of 17 December 2018 Dr Maximilian Rothkopf was appointed as a new Executive Board member with effect from 1 May 2019. Dr Rothkopf will become new COO and succeed Anthony J. Firmin, who will retire on 30 June 2019.

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.

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 the developments in transport volume, the key performance indicators EBITDA and EBIT as well as the return on invested capital (ROIC).

In terms of increasing its transport volume, Hapag-Lloyd has achieved growth of more than 100% over the past five years. This was due mainly to the takeover of CSAV's container shipping activities in December 2014 and to the merger with UASC in May 2017, but also to the rising global demand for container shipping services.

Despite the continuing very competitive industry environment, Hapag-Lloyd recorded an increase in its EBITDA and EBIT in the 2018 financial year. Earnings before interest, taxes, depreciation and amortisation (EBITDA) are calculated by adding the revenue, other operating income and the earnings of companies accounted for using the equity method generated within a period less transport expenses, personnel expenses and other operating expenses, not including amortisation of intangible assets and depreciation of property, plant and equipment. To calculate earnings before interest and taxes (EBIT), depreciation and amortisation are deducted from EBITDA.

Hapag-Lloyd achieved an EBITDA margin of 9.9% in the 2018 financial year. The margin was supported in particular by the achieved synergies, cost savings and efficiency improvements and a relatively balanced presence both in East–West and in North–South trades.

Development of key performance indicators

in %	**2018**	2017	2016	2015	2014
Transport volume (in TTEU)	11,874	9,803	7,599	7,401	5,907
EBITDA (in million EUR)	1,138	1,055	607	831	99
EBIT (in million EUR)	443	411	126	366	–383
EBITDA-margin (in % of revenue)	9.9	10.6	7.9	9.4	1.5
EBIT-margin (in % of revenue)	3.8	4.1	1.6	4.1	–5.6

Hapag-Lloyd intends to increase the transport volume in line with market growth. Hapag-Lloyd wants to further improve its operating result by means of additional cost savings and efficiency improvements, expected growth in volume and an improvement in revenue quality.

The target of achieving transport volume growth equal to market growth was significantly exceeded in 2018 with an increase in the transport volume of 21.1%. This was largely due to the merger with UASC. On a pro forma basis [1], the transport volume rose by 5.9% in the reporting period, which was higher than the market growth rate of 4.0% (IHS Global Insight, January 2019).

In previous years, Hapag-Lloyd implemented extensive synergy, cost saving and efficiency programmes. The Company's most important programmes, CUATRO, OCTAVE I and II and Close the Cost Gap, had successfully been implemented by the end of the first quarter of 2017. This laid the foundations for generating annual synergies, efficiency improvements and cost savings of approximately USD 600 million as against the comparable cost base in the 2014 financial year, and assuming that external factors remain the same.

In addition to the efficiency-boosting and cost-cutting programmes implemented in previous years, the merger with UASC is another key strategical step towards strengthening Hapag-Lloyd's market position and competitiveness. It was planned that the synergies from the merger with UASC would contribute approximately USD 435 million per annum from the 2019 financial year onwards, whereas the Executive Board of Hapag-Lloyd AG expected to achieve approximately 90% of the synergies by the end of the financial year 2018. The synergies had already been achieved in full by 31 December 2018. Following the merger on 24 May 2017, the operational integration of the UASC Group was successfully completed by October 2017. A significant step in the operational integration was the incorporation of all UASC services into Hapag-Lloyd's existing IT system (voyage cut-over). One-off expenses of approximately USD 110 million were incurred up until 31 December 2018 from the transaction and implementation of the merger (thereof approximately USD 5 million in 2018). No further significant expenses are expected in relation to the integration of the UASC Group.

Despite what continued to be a very competitive industry environment and the increase in the balance sheet total resulting from the UASC integration, the return on invested capital (ROIC) came to 3.7% in 2018. The aim is to generate a return on invested capital at least equal to the weighted average cost of capital (WACC) across one economic cycle in the medium term. The weighted average cost of capital in the reporting period was 8.2% (previous year: 7.9%).

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

Strategy 2023

The Executive Board of Hapag-Lloyd AG first presented on the Group's new strategy ("Strategy 2023") in November 2018.

Starting position

The liner shipping industry is emerging from the longest downturn in its history. Since the 2008 financial crisis, the industry has been unable to return its cost of capital. Following a substantial number of mergers, the world's 10 biggest liner shipping companies now account for more than 80% of the global volume. This consolidation, as well as the use of ever larger ships, has led to a significant reduction in unit costs. However, Hapag-Lloyd believes that the benefits of further consolidation would only be relatively small. From Hapag-Lloyd's perspective, the likelihood of large mergers is therefore low. There would only be few potential synergies, greater integration risks and probably stricter controls and conditions from the competition authorities. Furthermore, the entire industry lacks the financial strength that would be needed to finance a cash acquisition. As a result, no further significant consolidation is likely. Given that the largest liner shipping companies are already very cost-competitive, the challenge for them now is to differentiate themselves commercially from one other. Measured by transport capacity, Hapag-Lloyd is the fifth-largest liner shipping company in the world. With one of the youngest and most efficient vessel fleet, Hapag-Lloyd is well positioned and well prepared to deal with the changes in the operating environment and the challenges to safeguard its future competitiveness.

A changed market environment requires a new strategic focus: Strategy 2023

The Executive Board of Hapag-Lloyd AG assumes that the future of the container shipping industry business, will no longer be solely determined by unit costs and economies of scale. Instead, it firmly believes that service quality and reliability will be decisive competitive factors and that customers are willing to pay for quality, service and greater reliability. With regard to reliability in particular, there is a need for action by the industry, and therefore by Hapag-Lloyd.

Hapag-Lloyd has developed its new strategy based on these premises. Successful implementation of the strategy will safeguard the future and provide the foundations for further organic growth.

The three core objectives of Strategy 2023 are:

- Becoming number one for quality
- Remain a global player
- Profitability throughout the entire economic cycle

The aim is to ensure that the company remains a global player, to make Hapag-Lloyd a leader in quality and to set standards in the industry for quality, reliability and service. Hapag-Lloyd considers leadership in quality as a basic requirement for maintaining or even improving margins and the future success in the market. Continuous process optimisation will contribute to this, brought about by a more agile organisation, digitalisation and automation.

The following unique selling points will differentiate us clearly from our competitors and form the core of our strategy:

Leadership in quality

Surveys commissioned by Hapag-Lloyd show that proven quality and reliability, such as punctual delivery, play a significant role for more than half of market participants. As part of its aim to set industry standards with regard to quality, Hapag-Lloyd has specified pledges on quality that are being implemented on a gradual basis. As a result, customer satisfaction will be one of our targets in future. A corresponding methodology for recording and measuring this indicator is currently under discussion and will be implemented and communicated during the coming quarters. In addition to a base product that includes clearly specified pledges on service and quality, we will offer customised premium products that meet specific customer requirements and cover additional services.

Agile organisation

A key factor for the success of Strategy 2023 is the development of Hapag-Lloyd's organisation towards increased agility. The aim is to make quicker and better commercial decisions with the help of data-based analysis tools. This will enable, amongst other things, a faster and more flexible response to market changes in supply and demand. Agility also requires the willingness to continuously learn. At the same time, agility means that Hapag-Lloyd must be more flexible in project development and be open to partnerships.

Digitalisation and automation

New technologies and automation are enabling a continuous improvement in internal processes and systems, thus reducing time-consuming manual administrative tasks. The resources freed up by this can be used to increase efficiency and make optimisations in other areas, such as improving cost control and enhancing revenue management.

Hapag-Lloyd believes that it is well equipped for the digitalisation and automation. Our "single operating system" is recognised within the industry and forms the backbone of our efficient operating process. This also means that Hapag-Lloyd is in a comparatively good starting position when it comes to implementing and taking advantage of new technologies, as was shown with the introduction of the Web Channel, for example.

Continuous cost and revenue management

The basis for the successful implementation of Strategy 2023 remains a consistent cost and revenue management. Hapag-Lloyd has already launched a number of projects to ensure that the company cost structure is competitive. In the area of revenue management, Hapag-Lloyd has identified the key areas in which optimisations can be made and initial measures have been started. Thanks to improved cost structures, Hapag-Lloyd expects to achieve an earnings contribution of USD 350 to 400 million annually by 2021. The cost structures will be continuously reviewed and adjusted. In terms of economies of scale, Hapag-Lloyd is already on par with substantially bigger competitors. At the same time, rigorous and consistent digitisation is a prerequisite for increasing service quality.

Summary of objectives and measurement of results

Hapag-Lloyd believes that the most recent major wave of consolidation within the industry is largely complete. The focus of Strategy 2023 is on becoming number one for quality and achieving profitable growth. The basis is continuous and consistent cost and revenue management as well as improving internal processes through greater agility and taking advantage of technological opportunities, such as digitisation and automation. Initial measures such as the Web Channel with Quick Quotes have already been implemented. The planning period for Strategy 2023 will run until the end of the year 2023. Although further implementation will take place in 2019, most of the measures and their effects on earnings will be visible in the subsequent years.

The current financial key performance indicators of the Hapag-Lloyd Group will remain the EBITDA and the EBIT. Hapag-Lloyd furthermore aims to be profitable throughout the entire economic cycle, i. e. to achieve a return on invested capital (ROIC) that is at least equal to the Company’s weighted average cost of capital (WACC). The reduction of debt remains a priority, and the Company’s target is to achieve a ratio of net debt to EBITDA of 3.0x or less by the end of 2023. Its target for the end of 2019 continues to be a ratio of net debt to EBITDA of 3.5x or less. Furthermore, Hapag-Lloyd is aiming for an equity ratio of over 45% and a liquidity reserve of around USD 1.1 billion.

In addition to the key financial indicators, the following new non-financial goals have been set:

Leadership in quality is to be measured using the Net Promoter Score (NPS). In addition, the Company intends to improve reliability, i. e. punctuality, by clearly defining its pledge on punctuality and to put in place the technical requirements for measuring and reporting punctuality on a standardised basis.

Hapag-Lloyd aims to increase the percentage of door-to-door business to over 40% by 2023. This cargo type requires additional services which Hapag-Lloyd offers customers and which enable it to generate higher revenue and a higher margin.

Hapag-Lloyd targets a global market share (worldwide excl. Intra-Asia) of more than 10%. To achieve this aim, Hapag-Lloyd wants to continue expanding in attractive growth markets and in the area of special container transports such as reefer. The company believes it already has a strength in this business and it wants to increase its market share in special transports also to around 10%.

The success of the digitisation strategy is to be measured by whether the volume of cargo booked via the Web Channel will reach 15% of total volume by 2023.

As a company with a tradition of environmental awareness, it is a matter of course that Hapag-Lloyd will comply with the stricter environmental requirements, such as IMO 2020, and that the company will implement the necessary technical and organisational changes with the greatest care and attention. With regard to the new regulations by the International Maritime Organization (IMO) coming into effect 2020 to reduce sulphur emissions, Hapag-Lloyd will predominantly use the low sulphur fuel. On 10 vessels, the company will install Exhaust Gas Cleaning Systems (EGCS) to filter the sulphur from the exhaust gases. In addition, an LNG-pilot will be conducted with one LNG ready ultra large container vessel (ULCV) being retrofitted to run on LNG.

The Strategy 2023, including the aforementioned targets and goals, will become more granular as the strategy implementation progresses. When necessary, the strategy will be adapted to a changing operating environment.

In the 2019 financial year our focus will be on:

- The Strategy 2023
- Achieving further cost savings, which are expected to reach USD 350 – 400 million p. a. by 2021
- Continue implementing measures to improve revenue quality
- Further developing Hapag-Lloyd’s partnership within THE Alliance
- Technical and organisational preparations for the IMO’s new exhaust gas standards

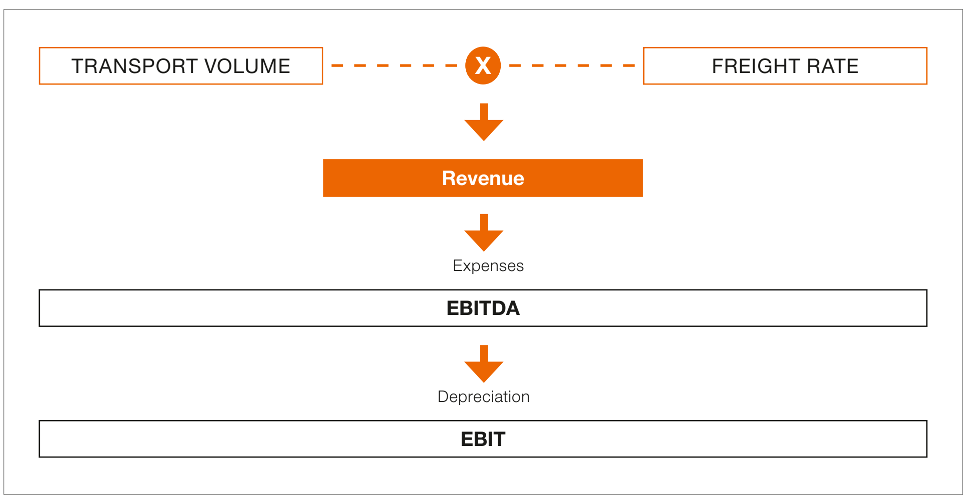
In the course of the financial year 2019, Hapag-Lloyd will report about the progress in target achievement.

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



The 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. It attempts to continuously reduce the proportion of less profitable cargo 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 EBITDA and EBIT values. 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, the Group hedges a portion of its cash outflows in euros using a rolling hedge with the aim of limiting currency risks in the consolidated financial statements.

Operating costs are also influenced by bunker price changes. The bunker price correlates with the development of crude oil prices and is subject to substantial fluctuations. Depending on the competitive situation, a proportion of the fluctuations can be compensated for via the freight rate in the form of bunker surcharges. However, the extent to which this can be implemented depends very much on the prevailing market situation.

Part of the Group's likely bunker fuel needs are hedged using options in order to lessen the risk of changes in the bunker price due to rising prices.

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

Calculation of return on invested capital on a Group basis

	million EUR		million USD	
	2018	2017	**2018**	2017
Non-current assets	12,845.0	12,633.5	14,709.1	15,146.1
Inventory	238.1	186.4	272.6	223.5
Accounts receivables	1,217.7	887.8	1,394.3	1,064.4
Other assets	343.4	515.2	393.3	617.7
Assets	**14,644.2**	**14,222.9**	**16,769.3**	**17,051.7**
Provisions	692.6	615.1	793.1	737.5
Accounts payable	1,774.1	1,559.8	2,031.6	1,870.1
Other liabilities	557.4	259.1	638.4	310.5
Liabilities	**3,024.1**	**2,434.0**	**3,463.1**	**2,918.1**
Invested Capital	**11,620.1**	**11,788.9**	**13,306.2**	**14,133.6**
EBIT	443.0	411.4	523.5	466.8
Taxes	31.8	24.1	37.7	27.3
Net Operating Profit after Tax (NOPAT)	**411.2**	**387.3**	**485.8**	**439.5**
Return on Invested Capital (ROIC)			**3.7 %**	**3.1 %**

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

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

The chart 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 Notes to the consolidated financial statements on page 184.

The return on invested capital (ROIC) in the 2018 financial year was 3.7%, following 3.1% in the 2017 financial year. The return on capital employed in 2018 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 reporting period (2017: 7.9%). 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 215).

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 2018, there was a liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) totalling EUR 1,133.0 million (previous year: EUR 1,059.5 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 during the reporting period. In addition, set loan-to-value ratios are in place for individual loans collateralised by property, plant and equipment. These ratios were also above the required levels at all times during the reporting period.

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 customers 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 will be partly limited using derivative interest rate hedging instruments.

Strengthening the equity base

At the balance sheet date, equity came to approximately EUR 6,259.3 million (previous year: EUR 6,058.3 million). The decision to retain some of the future profits should strengthen Hapag-Lloyd's equity base further.

Reducing gearing

Net gearing was 85.5% in the 2018 financial year (2017: 93.8%). The takeover of UASC's business activities led to an initial significant rise in Hapag-Lloyd's level of debt in the 2017 financial year. The development of net gearing in the reporting period shows that Hapag-Lloyd has already successfully implemented measures to reduce its debt. The Company aims to reduce its debt further by generating a high level of operating cash flow and by lowering investment.

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. Against the background of this positive business development, the Executive Board of Hapag-Lloyd proposes to the General Meeting 2018 the payment of a dividend of EUR 26.4 million, resp. 15 cents per share. In general, Hapag-Lloyd aims to pay a dividend of 20 – 30% of its consolidated profit for the year as part of commercial and financial options.

PRINCIPLES AND PERFORMANCE INDICATORS

IMPORTANT FINANCIAL PERFORMANCE INDICATORS

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

IMPORTANT NON-FINANCIAL PRINCIPLES

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

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

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

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

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

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

Another important factor in connection with the fleet's capacity utilisation is the turnaround frequency of the containers. Each container was transported on average 4.8 times in 2018 (previous year 4.8 times). The average number of deployments per container per year is calculated. The objective is to increase the turnaround frequency in order to boost productivity and keep the total number of containers required as low as possible. Hapag-Lloyd also makes beneficial use of modern IT systems to do this.

In the reporting period, the capacity utilisation of the container ship fleet (as measured by total TEU capacity on the dominant leg) rose by 0.4 percentage points to 93.0% (previous year: 92.6%)[1].

Flexible fleet and capacity development

As at 31 December 2018, Hapag-Lloyd's fleet comprised a total of 227 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 as at 31 December 2018 was 1,643,371 TEU, which was an increase of 69,994 TEU (4.4%) on the previous year. Based on the TEU capacities, around 64% of the fleet was owned by the Group as at 31 December 2018 (previous year: approximately 68%). The merger with UASC in 2017 resulted in a significant increase of the average ship size as well as a reduction in the average age of the ships, which was 7.9 years (capacity-weighted) at the end of 2018 (previous year: 7.1 years). The average ship size within the Hapag-Lloyd Group fleet was 7240 TEU, which is 21% above the comparable average figure for the fifteen largest container liner shipping companies and about double the average ship size in the global fleet.

At the end of the reporting period, Hapag-Lloyd also owned or rented 1,554,423 containers with a capacity of 2,559,316 TEU for shipping cargo. Around 52% of containers (capacity-weighted) were owned by the Group as at 31 December 2018 (previous year: around 54%). With a fleet of around 97,000 reefer containers capable of transporting approximately 185,000 TEU, Hapag-Lloyd has a strong competitive position in the attractive market segment for refrigerated shipping. In order to benefit from the growing market opportunities, Hapag-Lloyd invested further in the expansion of its reefer fleet and in 2018 ordered another 11,100 reefer containers.

[1] In the reporting period the company redefined the classifications for Feeder / Mainliner. The figures for the previous year have been adjusted accordingly.

Structure of Hapag-Lloyd's container ship fleet

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Number of vessels	227	219	166	177	191
thereof					
Own vessels	95	102	72	68	77
Leased vessels	17	14	3	3	5
Chartered vessels	115	103	91	106	109
Aggregate capacity of vessels (TTEU)	1,643	1,573	963	966	1,009
Aggregate container capacity (TTEU)	2,559	2,349	1,576	1,564	1,619
Number of services	119	120	128	121	119

The data for 2017 relates to Hapag-Lloyd's fleet, including UASC. UASC Ltd. and its subsidiaries are included in Hapag-Lloyd AG's consolidated financial statements from the date control was transferred on 24 May 2017. The presented figures include the effects of the transaction from this date and can therefore only be compared to a limited extent. The figures from 2014 onwards relate to Hapag-Lloyd's fleet, including the container activities acquired from CSAV.

As at 31 December 2018, Hapag-Lloyd had chartered-in 3 ships mainly for the repositioning of empty containers. The transport capacity of these 3 ships was approximately 13,000 TEU in total. The ships are not deployed in a liner service and are therefore not included in the display of the fleet structure. There are no orders for newbuilds as at the balance sheet date. Since the merger, Hapag-Lloyd has had a very young and efficient fleet. As a result, it will not be necessary to invest in new ship systems in the short term. The existing fleet and cooperation with the partners in THE Alliance will make it possible to utilise the short-term expansion opportunities resulting from market growth and to realise economies of scale in ship operations. However, in order to remain competitive in the medium term, the Executive Board of Hapag-Lloyd AG believes that the Group will invest in new ship systems again at the appropriate time.

The efficiency of Hapag-Lloyd's container ship fleet is reflected in the bunker consumption data. Absolute bunker consumption rose as a result of the growth of the container ship fleet to a total of 4,403,896 tonnes. Bunker consumption per slot (as measured by the average annual container storage space) was 2.75 tonnes (previous year: 2.85 tonnes).

Bunker consumption

metric tons	2018	2017
MFO (High Sulphure)	3,841,488	3,416,770
MDO, MFO (Low Sulphure)	562,408	508,538
Total bunker consumption	**4,403,896**	**3,925,308**

Based on the total transport volume, the bunker consumption per TEU amounted to 0.37 tonnes (previous year: 0.40 tonnes per TEU).

Efficient transport services

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

Imbalances in the world's biggest trades

Cargo volume in TTEU	2018	2017
Transatlantic trade		
Europe – North America	3,289	3,162
North America – Europe	2,119	1,980
Far East trade		
Asia – Europe	15,857	15,474
Europe – Asia	7,430	7,598
Transpacific trade		
Asia – North America	20,307	19,158
North America – Asia	7,743	7,606

Source: Drewry Container Forecaster Q4 2018. Figures rounded

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

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

	Hapag-Lloyd AG	Industry average
Transpacific	4.6	3.8
Atlantic	6.6	6.4
Europe – Far East	5.0	4.7

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

Source: Drewry Container Forecaster Q4 2018; Hapag-Lloyd 2018; figures as per Drewry's definition of trades

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

Customers and customer orientation

With its new medium-term “Strategy 2023”, Hapag-Lloyd is aiming to differentiate itself further from its competitors in the container liner shipping industry as a quality service provider. The reliability and high quality that the customer experiences with Hapag-Lloyd services are at the very heart of Hapag-Lloyd’s market presence. Top clients are supported by the Global Account Management team in Hamburg and are visited by key account managers. This enables the Company to establish and maintain long-standing, sustainable customer relationships. The Key Account Programme also ensures that top regional clients receive particular care and attention. In doing so, Hapag-Lloyd focuses on achieving a high degree of customer satisfaction and on having a diversified portfolio of customers comprising both direct customers and shipping companies, with the latter ensuring a permanent regular supply of cargo volumes.

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

Contractual relationships of up to 12 months generally exist with direct customers. Direct customers allow Hapag-Lloyd to plan the required transport capacity better because of the framework agreements concluded with them. Hapag-Lloyd has a balanced customer base, as demonstrated by the fact that its 50 largest customers represent considerably less than 50% of its cargo volume. In total, transports were completed for approximately 30,200 customers in the 2018 financial year (previous year: approximately 32,400 customers).

With the successful launch of the Web Channel, Hapag-Lloyd established a new sales channel in the financial year 2018. After a pilot phase, the Web Channel was rolled out in August. Approximately 6% of Hapag-Lloyd´s transport volume was booked through the Web Channel in the fourth quarter of 2018.

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

Transport volume by product category in 2018

Product group	Share 2018 in %	Share 2017 in %
Food products	16	16
Chemical products	14	14
Plastic and rubber products	14	13
Paper and wood products	10	10
Mechanical engineering products	9	9
Raw materials	8	8
Textiles	8	8
Automotive parts	6	6
Electronic products	5	5
Furniture	5	5
Other products	5	6
Total	**100**	**100**

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

RESEARCH AND DEVELOPMENT

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

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

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

The security of Hapag-Lloyd AG's central IT systems is continuously monitored, managed and improved. In addition, Hapag-Lloyd maintains continuous contact with external security experts. To minimise potential future financial risks as a result of cyberattacks, the Company entered into service agreements with external partners in the 2017 financial year which came into effect in January 2018. The systems essential for ship operations are not connected to the IT system on land, which means that there is currently no risk of cyberattacks on ships. A separate security review is conducted for the security of the operating systems on our ships.

EMPLOYEES

The Hapag-Lloyd Group employed 12,765 persons as at 31 December 2018 (previous year: 12,567 persons). The increase was due to the expansion of the Quality Service Center. 2,077 people were employed in the marine division as at 31 December 2018 (previous year: 2,136). The number of shore-based staff increased by 2,257, from 10,431 in the previous year to 10,688 employees. The average tenure for shore-based staff is 9.5 years.

Number of employees [1]

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Marine personnel	1,970	2,007	1,295	1,411	1,408
Shore-based personnel	10,561	10,304	7,895	7,771	8,901
Apprentices	234	256	223	235	214
Total	**12,765**	**12,567**	**9,413**	**9,417**	**10,523**

[1] The figures from 2014 onwards relate to the Hapag-Lloyd Group, including CSAV´s container shipping activities .
The figures for 2017 include UASC.

There is a strong focus on vocational training and qualifications for both the shore-based and marine employees. Hapag-Lloyd attaches particular importance to extensive, high-quality training. The proportion of those offered jobs at the end of their training is generally between 80 and 90% (2018: 82%). As at 31 December 2018, Hapag-Lloyd employed a total of 127 apprentices in shore-based positions and 107 at sea (previous year: 127 shore-based and 129 at sea).

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. According to the International Monetary Fund (IMF, World Economic Outlook, January 2019), the global economy grew by 3.7% in 2018 (previous year: 3.8%). In its latest economic outlook, the IMF expects a global economic growth of 3.5% in 2019 and 3.6% in 2020.

Global economic growth was therefore slightly below the original prediction of 3.9% for 2018 (IMF, World Economic Outlook, January 2018). According to the IMF, the risk of a downturn in global growth increased during the year. This downward correction reflects lower than expected economic growth in industrialised countries in the first half of 2018. The first negative effects of the USA's trade dispute with its trading partners were also becoming evident. In addition, economic conditions deteriorated in some key developing and emerging markets, such as Brazil and Turkey, which were suffering not just as a result of domestic issues but also due to rising interest rates in the USA and the resulting outflow of capital.

According to the IMF, the volume of global trade, which is key to the demand for container shipping services, grew by 4.0% in 2018 (previous year: 5.3%) and is forecast to increase by 4.0% in both 2019 and 2020. This means that global trade outpaced the global economy in 2018 and is likely to do so again in 2019 and 2020. At the beginning of 2018, the IMF forecast growth in world trade volume of 4.6%. In the course of the year, the IMF initially raised its forecast and then lowered it twice during the year (April 2018: +0.5 percentage points; July 2018: –0.3 percentage points; October 2018: –0.6 percentage points) and a further time in January 2019 by –0.2 percentage points. Reasons were the deteriorating operating environment for international trade, mainly as a result of the USA's trade conflict with its trading partners, in particular China but also the EU. In addition, sector-specific factors such as new emission standards for the automobile industry led to a slight deceleration in global trade growth. Despite this clear drop in growth expectations, the predicted growth of 4.0% in both 2019 and 2020 is higher than the average level over the last 5 years (3.5%).

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

in %	2020e	2019e	2018e	2017	2016	2015	2014
Global economic growth	3.6	3.5	3.7	3.8	3.3	3.5	3.6
Industrialised countries	1.7	2.0	2.3	2.4	1.7	2.3	2.1
Developing and newly industrialised countries	4.9	4.5	4.6	4.7	4.4	4.3	4.7
World trading volume (goods and services)	4.0	4.0	4.0	5.3	2.2	2.8	3.8

Source: IMF, January 2019

SECTOR-SPECIFIC CONDITIONS

According to IHS Global Insight, the global cargo volume in 2018 was around 146 million TEU. This is a rise of 4.0% on the previous year (IHS Global Insight, January 2019). As a result, the growth rate was 0.9 percentage points below the increase of 4.9% originally forecast for 2018 (IHS Global Insight, November 2017). For 2019 IHS Global Insight is forecasting a rise of 4.7% and for 2020 an increase of 4.9% to around 161 million TEU.

Development of global container transport volume, 2014 – 2023 in million TEU

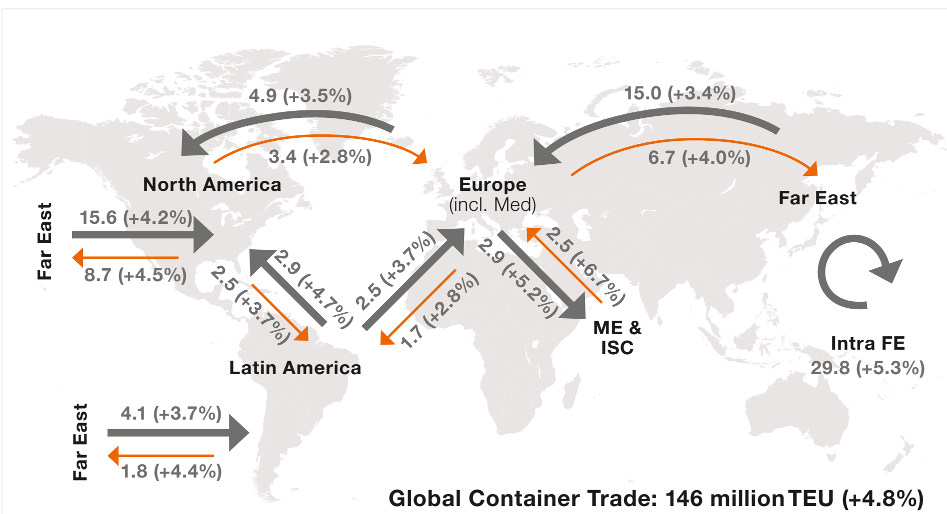
	2023e	2022e	2021e	2020e	2019e	2018e	2017	2016	2015	2014
million TEU	185	176	168	161	153	146	141	133	129	128
Growth rate in %	4.8	4.7	4.8	4.9	4.7	4.0	5.6	3.1	1.2	4.0

Source: IHS Global Insight, January 2019

Current forecasts put the expected compound annual growth rate (CAGR) for the period from 2019 to 2023 at 4.8%, compared with an average growth rate of around 3.6% between 2014 and 2018. Container shipping thus continues to be a growth industry.

According to IHS Global Insight, the anticipated growth will be spread relatively evenly across the individual trades, with the strongest growth expected in the Middle East and the Indian subcontinent trade.

Transport volume and growth rates for global container traffic per trade, (Volume 2018 in million TEU; in brackets: CAGR 2019 – 2023 in %)



Source: IHS Global Insight, January 2019

While the rate of global trade growth determines the demand for container shipping services, putting new vessels into service and scrapping inefficient, older ones are the most important factors influencing the supply of transport capacities. Supply has grown at a faster pace than demand in recent years as a result of new and particularly large container ships continually being put into service. Freight rates thus reached a record low in the second quarter of 2016. Despite the continuous increase in the supply of transport capacity, freight rates made a strong recovery from the lows recorded, due to the growing global demand for container transport services in 2018.

At the end of 2018, the aggregate capacity of the global container ship fleet was approximately 21.9 million TEU (Drewry Container Forecaster Q4 2018, December 2018), a rise of 5.4% on the previous year. Based on the container ships on order and planned deliveries, the globally available transport capacity should see an increase of around 0.5 million TEU in 2019 (+2.5%) (Drewry Container Forecaster Q4 2018, December 2018). This includes the expected delays of deliveries in 2019 and the expected scrapping. While the scrapping of old ships was at a very low level of approximately 100,000 TEU in 2018, scrapping is expected to increase to around 450,000 TEU in 2019. The idle fleet consisted of 179 ships with a capacity of around 0.6 million TEU at the end of 2018. The majority of the idle fleet comprised smaller ship sizes of up to 5,100 TEU.

The tonnage of the commissioned container ships of approximately 2.5 million TEU (MDS Transmodal, January 2019) is equivalent to around 11% of the present global container fleet's capacity (approximately 21.9 million TEU). It therefore remains well below the highest level seen to date, which was around 61% in 2007, and the average over the last 5 years (around 17%).

In 2018, orders were placed for the construction of 198 container ships with a transport capacity totalling approximately 1.2 million TEU (Clarksons Research, January 2019). This means that there was a significant increase in the number and capacity of newbuilds on order compared to the previous year with orders for 117 container ships with a capacity of 0.8 million TEU. While orders of newbuilds in 2016 and 2017 were below the average for the last 10 years (around 1 million TEU), the figure for 2018 means that there was a relative increase again in the number of new ships ordered to provide the capacity needed for the expected growth in demand and to replace older and inefficient ships. Measured in terms of the transport capacity of the newbuilds ordered, approximately 81% of the ships have a capacity of over 10,000 TEU (MDS Transmodal, January 2019).

60% of the new ship capacity was delivered in the first half of 2018. In total, 164 container ships with a capacity of 1.3 million TEU were put into service last year. 25 of the ships delivered were bigger than 20,000 TEU (MDS Transmodal, January 2019).

Expected development of global container fleet capacity

million TEU	2020	2019	2018	2017
Existing fleet (beginning of the year)	22.5	21.9	20.8	20.1
Planned deliveries	1.3	1.1	1.5	1.5
Scrappings	0.5	0.5	0.1	0.4
Postponed deliveries	0.1	0.1	0.3	0.4
Net capacity growth	**0.7**	**0.5**	**1.1**	**0.8**

Source: Drewry Container Forecaster Q4 2018. Figures rounded.

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

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

The height of fuel costs in the shipping industry is largely linked to the development of the crude oil price. This stood at USD 53.80 / barrel (Bloomberg) as at 31 December 2018 and was therefore around 20% lower than at the beginning of the year (29 December 2017: USD 66.87 / barrel). After the oil price reached its 2018 peak in October at 86.29 USD / barrel (Bloomberg), it recorded a significant decline and ended the year at a much lower level than anticipated at the beginning of the year.

Due to the regulations of the International Maritime Organization (IMO) to reduce sulphur dioxide emissions coming into effect in 2020, a large part of the world fleet will run on new low-sulphur fuel with a sulphur content of 0.5% (currently 3.5%). This new fuel, which is currently being developed by the refineries, has to be bunkered already in the fourth quarter of 2019 to ensure that the new emission requirements are met by 2020. It is currently expected that this new low sulphur bunker will be significantly more expensive than the fuel which is mainly used currently. According to current estimates, the price difference per ton could be around USD 250. Shipping companies will therefore face substantial additional costs beginning with the year-end 2019. These additional costs will have to be passed on to customers. Hapag-Lloyd, as well as all other large container lines, have already published new calculation methods for the fuel surcharges, which will be implemented over the course of the year 2019.

Consolidation of the industry and alliances in the container shipping market
In the past years the container shipping industry has gone through a phase of significant consolidation.

On 30 November 2017, the legal merger between Maersk Line A / S (Maersk) and Hamburg Südamerikanische Dampfschifffahrts-GesellschaftApS & Co KG (Hamburg Süd) took place.

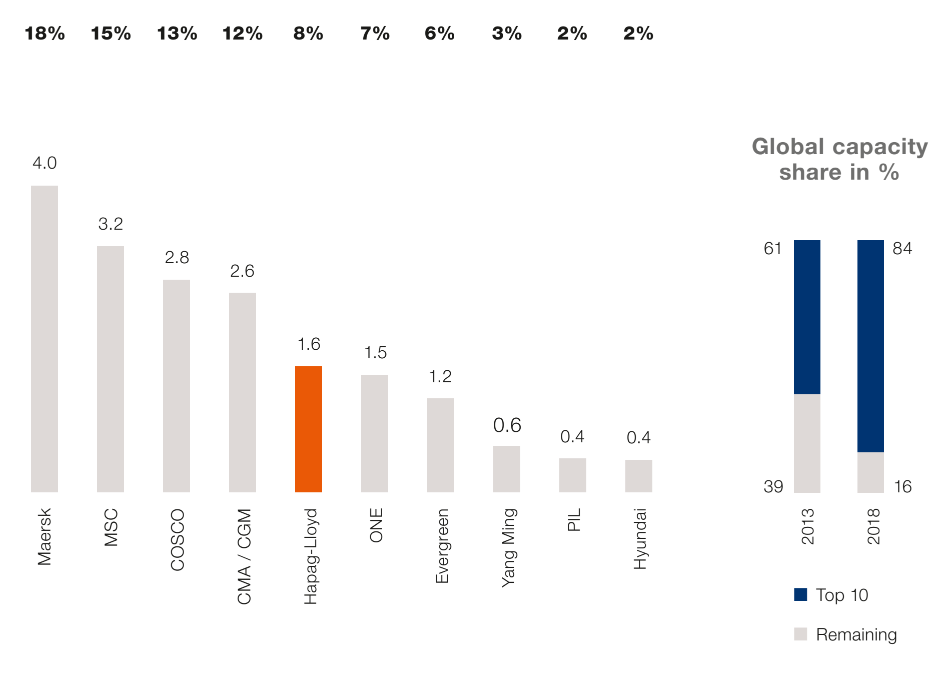
On 1 April 2018 the joint venture of the container shipping business of the 3 Japanese shipping companies Kawasaki Kisen Kaisha Ltd. (“K” Line), Mitsui O. S. K. Lines Ltd. (MOL) and Nippon Yusen Kabushiki Kaisha Ltd. (NYK) commenced operations as Ocean Network Express (ONE). The joint venture integrates the container shipping business (including the terminal business outside Japan) of the 3 companies. The company is headquartered in Singapore.

The takeover of Orient Overseas (International) Limited (OOIL), Hong Kong by the Chinese shipping company COSCO Shipping (China) (COSCO) was executed on 13 July 2018, following the approval by the majority of the shareholders of the take-over offer from COSCO dated 9 July 2018. Now that all further prerequisites for the takeover have been met, OOIL can remain listed on the stock exchange in Hong Kong. With total transport capacity of 2.8 million TEU, COSCO has therefore further strengthened its market position and is now the world’s third-largest container shipping company, just ahead of CMA CGM.

On 8 August 2017, 14 Korean liner shipping companies signed a memorandum of understanding, thereby founding the “Korean Shipping Partnership” (KSP). The initiative will be supported by the Korean government and the Korea Shipowners Association and led by HMM.

According to data from MDS Transmodal (January 2019), the 10 largest container liner shipping companies provide approximately 84% of the total capacity of the global fleet of container ships.

Fleet capacity and market share of the top container liner shipping companies in TTEU 2018 vs. 2013



Source: Drewry Container Forecaster Q4 2018; MDS Transmodal January 2018

Alliances are an essential part of the liner shipping industry as they enable a better utilisation of the vessels and provide the opportunity for the shipping companies to provide a more extensive service to customers. The following 3 alliances exist since the start of the second quarter of 2017. Measured in terms of capacity the largest alliance is the “2M Alliance” consisting of the two market leaders – Maersk (Denmark)and Mediterranean Shipping Company S. A. (Switzerland) (MSC). The “Ocean Alliance” consists of CMA CGM S. A. (France), including its subsidiary APL (Singapore), COSCO, including its subsidiary OOIL (Hong Kong) and Evergreen Marine Corp. Ltd. (Taiwan) (Evergreen) is the second biggest alliance. Hapag-Lloyd (Germany) operates THE Alliance in partnership with ONE (Singapore) and Yang Ming Marine Transport Corp. Ltd. (Taiwan) (Yang Ming). As at 31 December 2018, THE Alliance covered all East–West trades with 246 container ships and 30 services.

MSC, Maersk and Hyundai Merchant Marine Co., Ltd (Korea) (HMM) cooperate on the East-West trades on the basis of a slot-chartering agreement.

Since September 2018, ZIM Integrated Shipping Services Ltd (Israel) (ZIM) cooperates with the 2M Alliance on the route between Asia and the US east coast. The partners jointly operate 5 services, with the 2M Alliance partners Maersk and MSC providing 4 services and ZIM providing one. The partnership is based on slot swapping on all 5 services. In January 2019, ZIM and the 2M Alliance announced to extend their cooperation towards the Asia – East Mediterranean Sea and the Asia – North-West Pacific Coast America trade. Four joint services are expected be offered in these trades from March 2019 onwards.

THE Alliance members Hapag-Lloyd, ONE and Yang Ming have cooperated since December 2018 with CMA-CGM, COSCO and OOCL on the route between the Mediterranean Sea and the US east coast. The joint service, which has been available since December 2018, replaces the existing separate services offered by each of the companies and will provide customers with a more efficient and improved service using bigger ships.

In October 2018, the shipping companies Hapag-Lloyd and ONE entered into a bilateral agreement for a feeder network partnership. As part of the strategic partnership, the two companies will share the capacities of their existing feeder networks.

In January 2019, the Ocean Alliance members extended their cooperation ahead of time. The cooperation was initially planned to last 5 years and was extended to 10 years until 2027.

Capacity share of alliances in East–West trades

Alliance		Far East trade	Transpacific trade	Atlantic trade
2M	in %	40	25	50
Ocean Alliance	in %	36	42	11
THE Alliance	**in %**	**23**	**27**	**34**
Other	in %	1	6	5

Source: Alphaliner, December 2018

Report on the Hapag-Lloyd Group's development in 2018 compared with the forecast
The transport volume rose by 21.1% in the reporting period, driven mainly by the integration of UASC. As such, the forecast of a "clearly increasing" transport volume was met. As a result of the 5.4% increase, as expected, in the capacity of the container ship fleet in 2018, freight rates remained under pressure. Hapag-Lloyd's average freight rate was maintained at roughly the same level as in the previous year, decreasing slightly in 2018 to USD 1,044 / TEU (USD –16 / TEU). The development of the freight rate was therefore as expected. It should be noted that UASC had a structurally lower average freight rate than Hapag-Lloyd due to a different trade mix. This has impacted the development of Hapag-Lloyd Group's freight rate after the date of consolidation.

Based on developments in the first five months of the 2018 financial year and the expected further business performance, the Executive Board of Hapag-Lloyd AG decided on 29 June 2018 to adjust the original outlook for the Group's EBIT and EBITDA for the current 2018 financial year (previous outlook for both key indicators: clearly increasing). The reason for that was an unexpectedly significant and continuing increase in operating costs since the beginning of the year, especially with regard to fuel-related costs and charter rates, combined with a slower than expected recovery of freight rates. It was not possible to fully offset these developments through cost-saving measures that had already been initiated.

Against this background and the continuing uncertainty regarding the development of freight rates in the upcoming peak season, the revised outlook for the 2018 financial year now assumed an EBIT in a range between EUR 200 million and EUR 450 million (EBIT as at 31 December 2017: EUR 411.4 million) and an EBITDA in a range between EUR 900 million and EUR 1,150 million (EBITDA as at 31 December 2017: EUR 1,055.0 million).

The clear increase in the average bunker consumption price was more than offset by the rise in the transport volume and the synergies from the integration of UASC. The synergies achieved in 2018 as a result of the merger with UASC were above initial expectations. The forecasts for an EBIT in a range between EUR 200 million and EUR 450 million and an EBITDA in a range between EUR 900 million and EUR 1,150 million were therefore also achieved.

	Value 2018	Value 2017	Change	Forecast in the half-year financial report as at 30.6.2018	Forecast in the Group management report as at 31.12.2017
Transport volume (TTEU)	11,874	9,803	+21.1 %	Increasing clearly	Increasing clearly
Average bunker consumption price (MFO+MDO, USD / mt)	421	318	+103	Increasing clearly	Increasing clearly
Average freight rate Hapag-Lloyd (USD / TEU)	1,044	1,060	–1.5 %	On previous year´s level	On previous year´s level
EBITDA (million EUR)	1,138.1	1,055.0	+83.1	EUR 900 – 1,150 million	Increasing clearly
EBIT (million EUR)	443.0	411.4	+31.6	EUR 200 – 450 million	Increasing clearly

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

Development of strategic projects

The achievement of synergies from the integration with UASC was one area of focus in 2018. This achievement of synergies exceede the initial plan. It was anticipated that the synergies from the merger with UASC will contribute approximately USD 435 million per annum from the 2019 financial year onwards, whereas the Executive Board of Hapag-Lloyd AG expected to achieve approximately 90% of the synergies by the end of the financial year 2018. Át the time of the preparation of the Annual Report, Hapag-Lloyd already realized the full run rate of Synergies.

Notwithstanding the intense competitive environment, 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 has clearly strengthened its market position as a result of the merger with UASC. The Executive Board of Hapag-Lloyd is convinced that the implementation of Strategy 2023 will also make a key contribution towards ensuring that Hapag-Lloyd can defend this strong market position in the medium term as well. Business has developed in accordance with expectations in the first few weeks of 2019.

EARNINGS, FINANCIAL AND NET ASSET POSITION

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

GROUP EARNINGS POSITION

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

Global economic growth stood at 3.7% in 2018 (previous year: 3.8%), which was slightly below the IMF's original forecasts (+3.9% January 2018).

The average freight rate was lower than had been expected at the start of the year due to persistently strong competition and, in particular, due to developments in the first half of 2018. However, freight rate increases in the second half of the year played a part in an initial recovery. Nevertheless, the freight rate increases implemented in the second half of the year were unable to fully offset the significant year-on-year rise in the average bunker consumption price. Rising fuel costs combined with a weaker US dollar against the euro (2018: USD 1.18 / EUR; prior year period: USD 1.13 / EUR) had an adverse effect on the earnings position. However, the higher transport volume and the synergy effects resulting from the incorporation of the UASC-Group were able to offset these effects.

One-off income and expenses with a net total of EUR 8.0 million were recorded in the 2018 financial year (2017: EUR –30,5 million). These resulted primarily from the acquisition and integration of the UASC Group and the sale of a minority investment.

Overall, Hapag-Lloyd slightly improved its earnings before interest and taxes (EBIT) year-on-year to EUR 443.0 million in the 2018 financial year (prior year period EUR 411.4 million) and also slightly improved its profit after taxes to EUR 46.0 million (prior year period: EUR 32.6 million).

Consolidated income statement

million EUR	1.1. – 31.12.2018	1.1. – 31.12.2017 [1]
Revenue	11,515.1	9,973.4
Other operating income	115.1	133.0
Transport expenses	9,396.6	7,989.5
Personnel expenses	659.4	679.8
Depreciation, amortisation and impairment	695.1	643.6
Other operating expenses	479.5	439.1
Operating result	**399.6**	**354.4**
Share of profit of equity-accounted investees	30.7	38.1
Other financial result	12.7	18.9
Earnings before interest and taxes (EBIT)	**443.0**	**411.4**
Interest result	–365.2	–354.7
Income taxes	31.8	24.1
Group profit / loss	**46.0**	**32.6**
thereof profit / loss attributable to shareholders of Hapag-Lloyd AG	36.8	27.9
thereof profit / loss attributable to non-controlling interests	9.2	4.7
Basic / diluted earnings per share (in EUR)	0.21	0.19
EBITDA	**1,138.1**	**1,055.0**
EBITDA margin (%)	**9.9**	**10.6**
EBIT	**443.0**	**411.4**
EBIT margin (%)	**3.8**	**4.1**

[1] The figures for the FY 2017 include the UASC Group from the first-time consolidation date of 24 May 2017. Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. This increased the Group profit for FY 2017 by EUR 0.5 million.

The average freight rate in the 2018 financial year was USD 1,044 / TEU, which was USD 16 / TEU, or 1.5%, down on the prior year period (USD 1,060 / TEU with the UASC Group since 24 May 2017). Besides the inclusion of the UASC Group, which had a lower freight rate level overall, the main reason for the decline was the ongoing competitive market environment, with a high influx of new capacity, especially during the first half of the year.

Freight rate increases in the Atlantic, Transpacific, Latin America and EMAO trades had a positive effect on the average freight rate and consequently on the earnings in the reporting period. However, freight rate decreases in the Middle East, Intra-Asia and Far East trades had a counter effect.

On a comparable basis (if the UASC Group had been included from 1 January 2017), the average freight rate for the prior year period would have been USD 1,022 / TEU. This would have meant an increase of USD 22 / TEU, or 2.2%, in the average freight rate.

Freight rates per trade[1]

USD / TEU	1.1.–31.12.2018	1.1.–31.12.2017
Atlantic	1,336	1,302
Transpacific	1,271	1,241
Far East	908	947
Middle East	758	864
Intra-Asia	512	578
Latin America	1,128	1,082
EMAO (Europe, Mediterranean, Africa, Oceania)	1,103	1,069
Total (weighted average)	**1,044**	**1,060**

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

With the inclusion of the UASC Group, Hapag-Lloyd achieved a balanced positioning in all trades and was able to increase its transport volume by 2,071 TTEU to 11,874 TTEU (prior year period: 9,803 TTEU with the UASC Group since 24 May 2017), representing a rise of 21.1%. Almost all of the trades contributed to this positive performance.

On a comparable basis (if the UASC Group had been included from 1 January 2017), the transport volume (prior year period: 11,212 TTEU) in the 2018 financial year would have increased by 662 TTEU, or 5.9%.

Transport volume per trade

TTEU	1.1.–31.12.2018	1.1.–31.12.2017
Atlantic	1,856	1,696
Transpacific	1,961	1,709
Far East	2,086	1,504
Middle East	1,473	1,033
Intra-Asia	1,046	851
Latin America	2,774	2,466
EMAO (Europe, Mediterranean, Africa, Oceania)	678	544
Total	**11,874**	**9,803**

The Hapag-Lloyd Group's revenue rose by EUR 1,541.7 million to EUR 11,515.1 million in the 2018 financial year (prior year period: EUR 9,973.4 million with the UASC Group since 24 May 2017), representing an increase of 15.5%.

This was primarily due to the growth in transport volumes as a result of incorporating the UASC Group and to the generally positive development of volumes. The lower average freight rate and the significant weakening of the US dollar had the opposite effect. Adjusted for exchange rate movements, revenue would have risen by EUR 2,049.2 million (20.5%).

Revenue per trade [1]

million EUR	1.1.–31.12.2018	1.1.–31.12.2017
Atlantic	2,098.8	1,955.3
Transpacific	2,108.8	1,877.8
Far East	1,602.5	1,260.8
Middle East	944.8	790.2
Intra-Asia	452.8	435.2
Latin America	2,647.7	2,363.5
EMAO (Europe, Mediterranean, Africa, Oceania)	633.0	514.9
Revenue not assigned to trades	1,026.7	775.7
Total	**11,515.1**	**9,973.4**

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

Other operating income decreased by EUR 17.9 million to EUR 115.1 million in the 2018 financial year compared to the respective prior year period (EUR 133.0 million). The main reason for this was the profit of EUR 28.2 million in the 2017 financial year which resulted from the purchase price allocation in accordance with IFRS 3 as part of the acquisition of the UASC Group and which was recognised in earnings in the corresponding prior year period in 2017.

By contrast, there was additional income in 2018 from the disposal of non-current intangible assets and property, plant and equipment in the amount of EUR 14.4 million (prior year period: EUR 1.3 million).

In the 2018 financial year, transport expenses rose by EUR 1,407.1 million to EUR 9,396.6 million (prior year period: EUR 7,989.5 million). This represents an increase of 17.6% that is primarily due to the acquisition of the UASC Group and the related growth in transport volumes as well as increased bunker prices. The increase in the expenses for raw materials and supplies of EUR 510.5 million (43.1%) to EUR 1,694.1 million primarily results from the significantly higher bunker price in the current reporting period. In the reporting period, the average bunker consumption price for Hapag-Lloyd was USD 421 per tonne, up USD 103 per tonne on the figure of USD 318 per tonne for the prior year period.

The cost of purchased services in the 2018 financial year rose year-on-year by EUR 896.6 million (13.2%), which was a lower increase in percentage terms compared to revenue growth (15.5%). This increase is mainly due to the rise in transport volumes as a result of incorporating the UASC Group and to higher operating cost items. By contrast, synergy effects resulting from the integration of the UASC Group had a positive effect.

Transport expenses[1]

million EUR	1.1.–31.12.2018	1.1.–31.12.2017
Expenses for raw materials and supplies	1,694.1	1,183.6
Cost of purchased services	7,702.5	6,805.9
thereof:		
Port, canal and terminal costs	3,988.3	3,472.9
Chartering, leases and container rentals	1,038.6	836.2
Container transport costs	2,480.4	2,236.3
Maintenance / repair / other	195.2	260.5
Transport expenses	**9,396.6**	**7,989.5**

[1] The previous year's figures have been adjusted due to the retrospective application of the rules for designation of option contracts. This improved transport expenses in the FY 2017 by EUR 0.5 million.

The gross profit margin (ratio of revenue less transport expenses to revenue) for the 2018 financial year came to 18.4% (prior year period: 19.9%).

Personnel expenses fell by EUR 20.4 million to EUR 659.4 million in the 2018 financial year (prior year period: EUR 679.8 million). The main reason for this decline was the one-off expenses in the amount of EUR 40.9 million recorded in the previous year from the operational integration of the UASC Group's business activities. These expenses were not incurred in the current financial year. In addition, exchange rate gains at the balance sheet date resulting from the valuation of pension provisions in the amount of EUR 6.3 million (prior year period: exchange rate losses of EUR 15.2 million) had a positive effect.

The Group employed an annual average of 12,470 people (previous year: 11,505 people). The personnel expenses ratio decreased compared to the previous year from 6.8% to 5.7%.

Development of personnel expenses

million EUR	1.1.–31.12.2018	1.1.–31.12.2017
Personnel expenses	659.4	679.8
Revenue	11,515.1	9,973.4
Personnel expenses ratio %	**5.7**	**6.8**

In the 2018 financial year, depreciation and amortisation came to EUR 695.1 million (prior year period: EUR 643.6 million). The year-on-year increase of EUR 51.5 million (8.0%) in depreciation and amortisation was primarily due to the inclusion of the UASC Group for the full year as well as depreciation of the newly built ships acquired in 2017.

Other operating expenses came to EUR 479.5 million in 2018 (prior year period: EUR 439.1 million). The year-on-year increase of EUR 40.4 million is essentially the result of the inclusion of UASC group on full year basis, higher IT costs, higher commission costs and higher exchange rate losses.

In particular changes in the US dollar / euro exchange rate led to period-specific exchange rate gains and losses in the period under review. These were reflected in other operating income and other operating expenses. Netted, this resulted in an exchange rate loss of EUR –25.6 million in the 2018 financial year (prior year period: exchange rate gain of EUR 20.0 million).

The financial result consists of the earnings of equity-accounted investees totalling EUR 30.7 million (prior year period: EUR 38.1 million) and the other financial result amounting to EUR 12.7 million (prior year period: EUR 18.9 million). The other financial result includes EUR 12.9 million income from the sale of a minority investment.

Earnings before interest and taxes (EBIT) amounted to EUR 443.0 million in the 2018 financial year, up EUR 31.6 million on the corresponding figure in the prior year period (EUR 411.4 million). Earnings before interest, taxes, depreciation and amortisation (EBITDA) came in at EUR 1,138.1 million in the 2018 financial year (prior year period: EUR 1,055.0 million). The annualised return on invested capital (ROIC) for 2018 amounted to 3.7% (prior year period: 3.1%). Basic earnings per share in the 2018 financial year came to EUR 0.21 per share (prior year period: EUR 0.19 per share).

Key earnings figures

million EUR	2018	2017 [2]
Revenue	11,515.1	9,973.4
EBIT	443.0	411.4
EBITDA	1,138.1	1,055.0
EBIT margin (%)	3.8	4.1
EBITDA margin (%)	9.9	10.6
Basic Earnings Per Share (in EUR)	0.21	0.19
Return on Invested Capital (ROIC) annualised (%) [1]	3.7	3.1

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

[2] The key earnings figures have been adjusted for the prior year periods due to the retrospective application of the rules for the designation of option contracts.

The interest result for the 2018 financial year was EUR –365.2 million (prior year period: EUR –354.7 million). The slight rise in interest expenses was primarily due to the financial debt assumed as a result of incorporating the UASC Group as well as due to the increased USD interest level. Reductions in interest expenses resulting from the early redemption of high interest-bearing bonds during the prior year and other financial debt impacted the interest result positively. In the previous year's period, the redemption of bonds was associated with one-off effects totalling EUR –29.9 million as a result of redemption charges, the disposal of associated embedded derivatives and other associated transaction costs.

Overall, earnings after taxes came to EUR 46.0 million (previous year: EUR 32.6 million).

In 2018, income taxes increased by EUR 7.7 million to EUR 31.8 million due to first-time consolidation of companies previously accounted using the equity-method and the inclusion of the UASC group on a full year basis.

Earnings after taxes consist of the earnings attributable to shareholders of the parent company of EUR 36.8 million (prior year period: EUR 27.9 million) and the earnings attributable to non-controlling interests of EUR 9.2 million (prior year period: EUR 4.7 million).

The total Group net result of EUR 320.9 million (previous year: EUR –631.2 million) comprises earnings after taxes of EUR 36.8 million and other comprehensive income of EUR 274.9 million (prior year period: EUR –663.8 million). Other comprehensive income includes a result from hedging instruments in cash flow hedges of EUR 14.6 million (prior year period: EUR 5.6 million), other comprehensive income from currency translation of EUR 272.2 million (prior year period: EUR –669.0 million), cost of hedging activities of EUR –18.1 million (prior year period: EUR –0,5 million) and other comprehensive income from the remeasurement of defined-benefit pension plans of EUR 6.2 million (prior year period: EUR 0.1 million).

GROUP FINANCIAL POSITION

Principles and objectives of financial management

The Hapag-Lloyd Group's financial management is conducted on a centralised basis by Hapag-Lloyd AG and 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 (currencies, interest and bunker), 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. Hapag-Lloyd AG secures its short-term liquidity reserve by means of syndicated credit facilities and bilateral bank loans, as well as its portfolio of cash and cash equivalents. 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 operational financial transaction risks which result from the business operations of Hapag-Lloyd AG. In particular, these risks include bunker price change risk, currency risk and interest rate risk.

Changes in commodity prices have an impact on the Hapag-Lloyd Group, particularly with regard to the cost of procuring fuel such as bunker oil. Insofar as it is possible bunker price changes are passed on to the customer based on contractual agreements. Remaining price risks arising from fuel procurement are partly hedged using derivative hedging transactions.

The transactions of the Group companies are conducted mainly in US dollars. The euro (EUR), Indian rupee (INR), Brazilian real (BRL), Chinese renminbi (CNY), Canadian dollar (CAD), British pound sterling (GBP), Australian dollar (AUD), Japanese yen (JPY) and United Arab Emirates dirham (AED) are also significant currencies. Transactional risks also exist from the financial debt denominated in euros (particular issued bonds).

Derivative hedging transactions are entered into so as to hedge partially against euro exchange rate risks. 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.

The use of derivative hedging is strictly transaction-related; derivatives are not used for speculation purposes.

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	31.12.2018	31.12.2017
Standard & Poor's	B+ / Stable	B+ / Stable
Moody's	B2 / Stable	B2 / Stable

The rating agency Standard & Poor’s reaffirmed its issuer rating for Hapag-Lloyd AG, awarding the Company a rating of B+ with a stable outlook at balance sheet date. The rating agency Moody’s also maintained the corporate rating at B2 with a stable outlook.

On 18 February 2019 Moody’s increased their rating for Hapag-Lloyd AG to B1 with a stable outlook.

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 2018 financial year was on the financing of investments in containers and the implementation and restructuring of financing as part of efforts to optimise the existing capital structure and cost.

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 and investing activities in the 2018 reporting year:

Container

- During 2018 Hapag-Lloyd ordered new container equipment in the amount of USD 373.1 million (EUR 325.8 million). The main part of the ordered containers were delivered in the reporting year while the remaining containers should arrive in the first quarter of 2019.
- For the refinancing of these investments, Hapag-Lloyd entered into several sale and leaseback transactions in the second half of the year in a volume of USD 225.7 million (EUR 197.1 million). The newly acquired containers were sold to groups of investors on the basis of Japanese operating leases and leased back in the same moment for seven or eight years, with the option of repurchasing the equipment upon their respective maturity. The lease agreements are essentially a form of borrowing, secured by the assignment of containers and other rights as security.
- In September 2018, Hapag-Lloyd made an early and full repayment of container financing (finance lease) in the amount of USD 68.7 million (EUR 60.0 million). For the purpose of refinancing the early repayment, Hapag-Lloyd entered into a sale and lease back transaction in form of a Japanese operating lease in an amount of USD 77.8 million (EUR 67.9 million).
- In December 2018, container financing of USD 53.1 million (EUR 46.4 million) obtained in 2012 was repaid in full using cash in order to reduce current interest costs.

Vessels

- For the purpose of refinancing, three vessels owned by the company have been sold to a group of investors as of 30 July 2018 on the basis of Japanese operating leases and then leased back for up to 8.5 years, with the option of buying them back after 7.5 years. The economic substance of these transactions is credit financing secured by the assignment of the ship portfolio as collateral. The refinancing volume associated with these transactions totaled USD 240.0 million (EUR 209.6 million). The loan liabilities of USD 151.0 million (EUR 131.9 million) previously associated with the ships were repaid in full.
- The development of used-market prices for container ships resulted in deficits in the loan-to-value ratios, prompting Hapag-Lloyd to make early repayments of USD 10.0 million (EUR 8.7 million) in the reporting year at the request of lending banks.

Participations

- On 14 August 2018, Hapag-Lloyd AG acquired the business operations of its third-party agent in Egypt. The payment obligation arising from this acquisition was USD 11.7 million (EUR 10.2 million) at the time of the transaction, thereof the main component is fixed and long-term. There is also a variable purchase component which is dependent on the development of the agency's volumes.
- On 17 October 2018, shares in a minority investment held by Hapag-Lloyd were sold. This generated sales proceeds of USD 15.2 million (EUR 12.9 million).

A credit facility of USD 210.0 million (EUR 183.4 million) was utilised several times during the financial year. The amounts paid out from this facility were fully repaid again in 2018, with the result that this and other credit facilities were unutilised at the end of the year.

Covenant clauses of a type customary on the market have been arranged for existing financing from bonds or loans. These clauses primarily concern equity and liquidity at the Hapag-Lloyd Group level along with certain loan-to-value ratios for the financing of ship investments. As at 31 December 2018, all of the covenants were fulfilled. Based on current planning, the Executive Board expects that these covenants will also be adhered to during the subsequent period.

As of 1 January 2019 the new IFRS 16 standard on Leases have to be applied. The accounting of the right of use and the respective lease liabilities will lead to a balance sheet extension, and therefore to a reduction of the equity ratio. As a consequence, in the financing contracts the terms and conditions of a loan have been adjusted regarding the minimum equity ratio on group level (Financial covenants). Adjustments have been made to neutralise the impact of IFRS 16. The executive board expects that the application of IFRS 16 does not have an impact on the ability to meet the conditions with respect to the minimum equity ratio on group level.

Net debt

Financial solidity

million EUR	31.12.2018	31.12.2017
Financial debt	6,017.9	6,335.5
Cash and cash equivalents	657.1	604.9
Restricted cash (other assets)	6.4	48.9
Net debt	**5,354.4**	**5,681.7**
Gearing (%) [1]	85.5	93.8
Unused credit lines	**475.9**	**454.6**
Equity ratio (%)	**40.9**	**40.9**

[1] Ratio net debt to equity

The Group's net debt as at 31 December 2018 decreased by EUR 327.3 million compared to the previous year from EUR 5,681.7 million to EUR 5,354.4 million. The calculation of net debt includes restricted cash in the amount of EUR 6.4 million (previous year: EUR 48.9 million), which is held in trust as security for existing financial debt and due to its maturity is reported under other assets. Gearing (net debt / equity) decreased to 85.5% (31 December 2017: 93.8%).

The equity ratio as at 31 December 2018 was unchanged at 40.9% (31 December 2017: 40.9%).

Liquidity analysis

The Hapag-Lloyd Group's solvency was guaranteed at all times in the last financial year by cash inflows from operating activities, a portfolio of cash and cash equivalents, and bilateral and syndicated loan agreements with banks. The Company had a liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) totalling EUR 1,133.0 million (previous year: EUR 1,059.5 million). Notes regarding restrictions on cash and cash equivalents can be found in the "(17) Cash and cash equivalents" section in the Notes to the consolidated financial statements.

Statement of cash flows and capital expenditure

Condensed statement of cash flows

million EUR	1.1. – 31.12.2018	1.1. – 31.12.2017
EBITDA	**1,138.1**	**1,055.0**
Working capital changes	33.6	–97.6
Other effects	–98.8	–63.5
Cash flow from operating activities	1,072.9	893.9
Cash flow from investing activities	–104.3	31.8
Free cash flow	**968.6**	**925.7**
Cash flow from financing activities	–945.6	–806.3
Changes in cash and cash equivalents	**23.0**	**119.4**

The statement of cash flows shows the development of cash and cash equivalents, with a separate presentation of cash inflows and outflows from operating, investing and financing activities.

Cashflow from operating activities

Hapag-Lloyd generated an operating cash flow of EUR 1,072.9 million in the 2018 financial year (prior year period: EUR 893.9 million). The year-on-year increase was primarily due to the positive development of the operating result and improved working capital.

Cashflow from investing activities

The cash outflow from investing activities totalled EUR 104.3 million (prior year period: cash inflow of EUR 31.8 million) and related to payments for investments of EUR 328.9 million, primarily in containers and ship equipment. This includes payments for new containers of EUR 53.2 million which were capitalised in the previous year. Furthermore, Hapag-Lloyd invested EUR 90.5 million in containers, which will result in payments in 2019. This was compensated by cash inflows from received dividends (EUR 34.4 million) and the sale of property, plant and equipment (EUR 33.1 million) and of the ocean-going vessels held for sale as at 31 December 2017 EUR 15.2 million. In addition, the cash inflow from the settlement of a former long-term receivable of UASC arising from the sale of an investment in an amount of EUR 129.1 million reduced the cash flow from financing activities.

After deducting the cash outflows from investing activities, there was a positive free cash flow of EUR 968.6 million in the 2018 financial year (prior year period: EUR 925.7 million).

Cashflow from financing activities

Overall, there was a cash outflow from financing activities in the current reporting period in the amount of EUR 945.6 million (prior year period: EUR 806.3 million) which mainly comprised interest and redemption payments of EUR 1,663.1 million (prior year period: EUR 2,783.2 million). Furthermore, dividend payments of EUR 115.7 million, including the dividend distribution by Hapag-Lloyd AG approved at the Annual General Meeting on 10 July 2018 of EUR 100.2 million as well as dividend payments to minority shareholders, led to additional cash outflows.

This contrasted with cash inflows of EUR 782.1 million (prior year period: EUR 1,641.9 million) which essentially related to new borrowing for investments in containers (EUR 256.9 million), cash inflows from the refinancing of ship financing (EUR 289,0 million) and increases in existing financing. There were also cash inflows from the realisation of derivative financial instruments used to hedge financial debt in the amount of EUR 9.4 million (prior year period: EUR 19.8 million).

Changes in cash and cash equivalents

million EUR	1.1.–31.12.2018	1.1.–31.12.2017
Cash and cash equivalents at beginning of period	**604.9**	**570.2**
Changes due to exchange rate fluctuations	29.2	–84.7
Net changes	23.0	119.4
Cash and cash equivalents at end of period	**657.1**	**604.9**

Overall, cash inflow totalled EUR 23.0 million in the 2018 financial year, with the result that after accounting for exchange rate-related effects in the amount of EUR 29.2 million, cash and cash equivalents of EUR 657.1 million were reported at the end of the 2018 financial year (31 December 2017: EUR 604.9 million). The cash and cash equivalents dealt with in the statement of cash flows correspond to the balance sheet item "Cash and cash equivalents". In addition, there are available credit facilities in the amount of EUR 475.9 million (31 December 2017: EUR 454.6 million). The liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) therefore totalled EUR 1,133.0 million (31 December 2017: EUR 1,059.5 million). Cash and cash equivalents that are deposited as collateral for financial debt on pledged accounts amounted to EUR 6.4 million (31 December 2017: EUR 48.9 million). Due to their remaining term of more than 3 months, they are recorded under other assets.

The detailed statement of cash flows is contained in the consolidated financial statements.

Capital expenditure

Further investments in containers were made in the 2018 financial year. The development of fixed assets is discussed in the "Group net asset position" section. For further details, see the section "(12) Property, plant and equipment" in the Notes to the consolidated financial statements.

Off-balance-sheet obligations

While orders for containers were placed in the 2018 financial year, there were no new orders for ships. As at 31 December 2018, Hapag-Lloyd had purchase commitments for containers of EUR 33.4 million as well as for investments in exhaust gas cleaning systems (EGCS) on container ships with an amount of EUR 11.2 million. As at 31 December 2017, there were no substantial orders.

In the course of its normal business activities, Hapag-Lloyd uses assets of which it is not the beneficial owner. These are, in particular, vessels and containers for which the Company entered into rental, lease and charter agreements – known as operating leases – as are customary in the industry. These agreements give rise to future payment obligations in the amount of EUR 1,102.9 million (previous year: EUR 846.9 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	31.12.2018	31.12.2017
Assets		
Non-current assets	12,845.0	12,633.5
of which fixed assets	12,789.8	12,570.7
Current assets	2,456.3	2,194.3
of which cash and cash equivalents	657.1	604.9
Total assets	**15,301.3**	**14,827.8**
Equity and liabilities		
Equity	6,259.3	6,058.3
Borrowed capital	9,042.0	8,769.5
of which non-current liabilities	5,665.3	6,003.8
of which current liabilities	3,376.7	2,765.7
of which financial debt	6,017.9	6,335.5
of which non-current financial debt	5,301.6	5,630.7
of which current financial debt	716.3	704.8
Total equity and liabilities	**15,301.3**	**14,827.8**
Net debt	5,354.4	5,681.7
Equity ratio (%)	40.9	40.9

As at 31 December 2018, the Group's balance sheet total was EUR 15,301.3 million, which is EUR 473.5 million higher than the figure at the end of 2017 (EUR 14,827.8 million). The US dollar / euro exchange rate was quoted at 1.15 on 31 December 2018 (31 December 2017: 1.20).

Within non-current assets, the carrying amounts of fixed assets increased by a total of EUR 219.1 million to EUR 12,789.8 million. This rise was essentially due to investments totalling EUR 366.2 million relating primarily to containers and ship equipment and exchange rate effects of EUR 560.0 million on the reporting date. Depreciation totalling EUR 695.1 million reduced the value of fixed assets.

Current assets rose by EUR 262.0 million to EUR 2,456.3 million compared to the level as at 31 December 2017. The change primarily resulted from an increase in trade accounts receivable and due to the first time adoption of IFRS 15. These developments were countered by the lower market values of derivative financial assets.

Cash and cash equivalents of EUR 657.1 million were EUR 52.2 million (8.6%) higher than at the end of 2017 (EUR 604.9 million).

On the liabilities side, equity (including non-controlling interests) grew by EUR 201.0 million to a total of EUR 6,259.3 million. The increase came primarily from the unrealised gains and losses from foreign currency translation recognised in other comprehensive income amounting to EUR 272.2 million. The Group profit of EUR 46.0 million also caused equity to increase. The dividend distribution by Hapag-Lloyd AG approved at the Annual General Meeting on 10 July 2018 in the amount of EUR 100.2 million had the opposite effect. The equity ratio of 40.9% as at 31 December of the current financial year was unchanged compared with 31 December 2017 (40.9%).

The Group's borrowed capital has risen by EUR 272.5 million to EUR 9,042.0 million since 31 December 2017. The change primarily resulted from an increase in trade accounts payable, including the contract liabilities which must be recognised separately from 2018. By contrast, financial debt fell by EUR 317.6 million to EUR 6,017.9 million. This decrease is largely due to debt repayments of EUR 1,345.4 million. Proceeds amounting to EUR 782.1 million related to new container financing, increases in existing financing and exchange rate effects of EUR 227.6 million had the opposite effect.

Taking cash and cash equivalents and financial debt into account, net debt was EUR 5,354.4 million as at 31 December 2018 (31 December 2017: EUR 5,681.7 million).

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, sections (11) to (28), which can be found in the Notes to the consolidated financial statements.

EXECUTIVE BOARD'S STATEMENT ON OVERALL ECONOMIC PERFORMANCE

The growth in earnings of the 2018 financial year was below the Executive Board's expectations at the beginning of the year, however in line with the outlook adjusted on 29 June 2018 for the financial year. This was caused by the unexpected increase of operational cost since the start of the year, in particular bunker cost, combined with a later than expected recovery of freight rates. As a result of the unchanged intense competition in the container shipping industry, the freight rate development is still volatile. Although freight rate increases in the second half of the year contributed to an increase in average freight rates, they could not fully compensate the year on year significantly increased bunker and other operating costs. The overall result impact could be partially compensated due to the realisation of synergies from the UASC integration. The frameworks for economic development were despite the trade restrictions with China not subject to any material changes, however.

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 identified at the top management level and factored into medium and long-term planning. The management and the Executive Board of Hapag-Lloyd evaluate the opportunities which result from market and company developments on a regular basis.

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

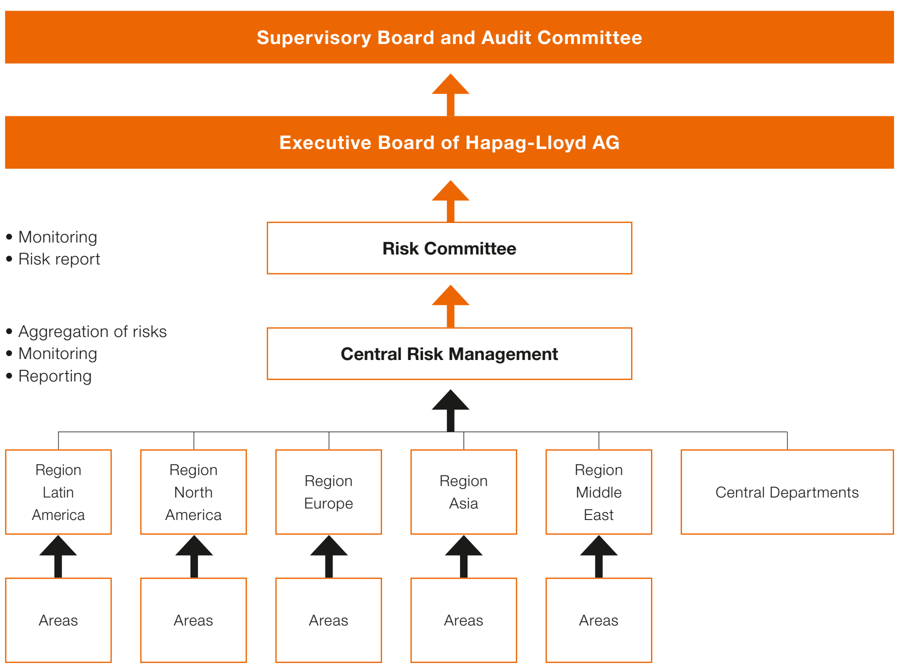
The principles, structures and processes of risk management are defined in a Group guideline which is valid for the entire organisation. The Group's significant risk categories serve as a basis for specifying the structures and responsibilities within the entire process. Furthermore, regular quarterly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

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

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

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

Risk management system of Hapag-Lloyd



Tasks of each unit:
• Risk identification • Risk assessment • Risk documentation and reporting • Risk management

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

Description of the significant characteristics of the accounting ICS / RMS pursuant to Section 315 (4) of the German Commercial Code (HGB)

Concept and objectives

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

The primary objectives of the accounting-related ICS are to decrease 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.

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

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. The subjects examined by the Corporate Audit department are systematically selected using a risk-based approach to auditing. They regularly include processes and controls which are relevant to accounting. 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).

ICS verification process

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

RISKS

The key risks and their potential impact on the earnings, financial and net asset position of Hapag-Lloyd, including their probability of occurrence, are listed on page 121. The less significant risks are also described in the following section, although the probability of their occurrence and their effects have not been assessed for risk management purposes, unless otherwise stated.

STRATEGIC RISKS

General economic risks

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

The pace at which the global economy grows and, by extension, at which global trade expands is a significant factor that influences demand for container shipping services and thus the development of the container shipping companies' cargo volumes. In its latest economic outlook (January 2019), the IMF expects global economic growth to reach 3.5% overall in 2019 (2018: 3.7%) and to achieve further growth of 3.6% in 2020.

Despite the current positive performance of the global economy and the corresponding expected performance of container transport volumes, there continue to be significant risks for the global economy in 2019. A detailed forecast can be found in the "General economic conditions" chapter. Geopolitical tensions, increasing protectionism in some countries, uncertainties about the USA's future economic, trade and financial policies, the effects of Brexit and significant valuations on the capital markets represent the main risks for global economic performance in 2019. A slowdown in global economic growth could lead to a significant decrease in the global transport volume growth in the container shipping segment. According to IHS Global Insight, the rise in global demand for container shipping services fell short of the original forecasts in recent years. The main reason for this was the modest pace of global economic growth. The lower than anticipated increase in the transport volume, coupled with the sharp rise in capacity supply, has led to a marked decline in freight rates in all the main trades in recent years. If the transport volume remains below expectations and freight rates fall further, this could have a considerable negative impact on Hapag-Lloyd's earnings.

Risks associated to the chose Mid-Term-Strategy
With its Strategy 2023, Hapag-Lloyd focuses in differentiation in the market in order to become number one for quality. Should Hapag-Lloyd not make use of long-term strategic potentials by applying its Strategy 2023 or misinterpret these potentials, deviations from plan could have negative impacts on the earnings of Hapag-Lloyd.

Risks arising from changes in trade flows
The utilisation of the Group's capacities is influenced by the development of the trade flows between the various regions. In the case of transport between regions comprising net exporters and regions comprising net importers, capacity utilisation in the two directions is divergent. This results in empty container transports and associated costs. An increase in the imbalances in global trade could further push up the costs associated with empty container transports and negatively affect the earnings. In 2018, for example, the importation bans on materials for recycling (primarily waste paper and plastic) and uncertainties regarding Brexit as well as a potential trade war led to a temporary weakening of Asian imports and exports.

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

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

Risks resulting from further industry consolidation
In the view of Hapag-Lloyd he latest phase of consolidation in container shipping is considered to be largely complete. The corporate mergers of the companies involved have been completed. The mergers and acquisitions could enable individual shipping companies to achieve higher economies of scale and greater financial strength, so that these competitors would be better able to cope with stronger price competition and higher market volatility than Hapag-Lloyd. Further large / far-reaching acquisitions within the industry are not expected for the time being.

Risks arising from membership of alliances

Hapag-Lloyd's membership of alliances is important for it to be able to cover all the key trades and offer a global service network. Membership of alliances can involve risks alongside the opportunities described in the opportunity report. The conditions within the alliances could change or other shipping companies could relinquish or not renew their membership.
Since 1 April 2017, Hapag-Lloyd has been operating THE Alliance in partnership with Ocean Network Express. Ltd (Singapur) (ONE) (formerly Kawasaki Kisen Kaisha Ltd. (Japan), Mitsui O.S.K. Lines Ltd. (Japan), Nippon Yusen Kabushiki Kaisha Ltd. (Japan) and Yang Ming Marine Transport Corp. Ltd. (Taiwan) (Yang Ming). The THE Alliance is the successor organisation to the Grand Alliance and the G6 Alliance. The partnership is scheduled to last for at least five years. Members must remain in the alliance for 36 months and then give twelve months' notice if they wish to leave. In the event of a change of control or insolvency, a member may be excluded from the alliance. The decision to exclude an alliance member must be taken unanimously by the other members.

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

Risks arising from competition from new alliances

In Hapag-Lloyd's view, the extensive restructuring of the alliances in 2017 is currently regarded as stable, which is why no changes in the composition of the alliances are to be expected in the short term. Risks from medium-term developments cannot yet be estimated.

The European Commission is presently reviewing the EU Block Exemption Regulation ("BER") for consortia (including alliances). A BER is an exemption from Art. 101.1 TFEU (Treaty of the Functioning of the European Union) for a certain business line or industry. The current consortia BER, which clearly spells out what is permitted within consortia in order to maintain competition, runs until April 2020. A consultation procedure of the European competition authorities on the continuation of the BER is ongoing. The BER may be extended unchanged, extended with revisions, withdrawn or replaced by a new guideline. A short-term decision in the next weeks is not expected. Even if the BER is abolished, alliances can continue to operate unchanged, since consortia with a market share above 30% already today operate outside the BER. Without the BER the clear guidance for internal documentation it provides would be lost, but the legality of alliances would remain the same.

These various alliances have different levels of presence in the respective trade lanes. A different development in the individual trade lanes would allow competitors to develop better than Hapag-Lloyd, which could pose a risk to Hapag-Lloyd´s profitability.

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

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

OPERATING RISKS

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

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

In the 2018 financial year, the cost of the ships' fuel amounted to 13.8% of the Hapag-Lloyd Group's revenue. The bunker consumption price is the most important factor influencing fuel costs, which is one of the main cost components for the container shipping industry. In 2018, the average bunker consumption price (MFO and MDO) was USD 421 per tonne (MFO: USD 407 per tonne; MDO: USD 616 per tonne). This was USD 103 per tonne higher than the average for the previous year. Changes in the price of bunker fuel are aligned with the price of crude oil, which has been subject to substantial fluctuations and influenced by a number of economic and geopolitical factors in the past. Bunker prices rose significantly again in the course of 2018, before temporarily decreasing slightly towards the end of the year. Bunker prices are rising again since the beginning of 2019. If this trend continues, it is likely to lead to a sharp increase in fuel costs in 2019.

On January 1, 2020, the global marine fuel regulation IMO 2020 comes into force, which lowers the sulphur limit for fuel from 3.5 percent to 0.5 percent. From 1 February 2019, Hapag-Lloyd will gradually implement the Marine Fuel Recovery (MFR) mechanism, which replaces the bunker surcharges that were previously part of the average freight rate. The higher fuel prices for low-sulphur fuel (LSFO 0.5% sulphur) will automatically be included in the MFR as soon as Hapag-Lloyd ships use low-sulphur fuel. The MFR mechanism captures different parameters such as fuel consumption per day, fuel type and price (for HSFO, LSFO 0.5% and LSFO 0.1%), sea and port days, and transported TEUs. These parameters are derived from a representative service in the market for a specific trade. The MFR also takes better account of price fluctuations with an optimised coverage of upward and downward movements in fuel market prices. 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 the MFR mechanism on freight rates. However, the extent to which this can be implemented depends heavily on the prevailing market situation. If the cost increases cannot be passed on to customers, or can only be passed on in part, this will have a negative impact on earnings.

In addition, price risks emanating from fuel procurement are hedged by means of hedging transactions in accordance with the internal hedging strategy. This involves hedging the Company's anticipated bunker requirements. Please refer to the "Financial instruments" section of the notes to the consolidated financial statements for information on the scope and type of hedging instruments as of the balance sheet date. By the end of December 2018, approximately 21% of the planned fuel consumption volumes for the 2019 financial year had been hedged.

The requirement to use marine diesel oil (MDO) as a result of stricter environmental regulations governing coastal regions may lead to a considerable rise in transport costs, given the significantly higher price of MDO. In 2018, around 13% (previous year: around 13%) of total bunker consumption of approximately 4.4 million tonnes (previous year: approximately 3.9 million tonnes) was low-sulphur bunker. From 2020, the use of low-sulphur fuels is mandatory.

Risks from fluctuations in charter rates

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

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

The proportion of own and leased ships in terms of the total capacity (in TEU) of the Hapag-Lloyd AG fleet as at 31 December 2018 was approximately 64% (previous year: approximately 68%). The remaining 36% are chartered, of which 8 ships are chartered long-term, 38 medium-term and 69 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 2019, as has been the case in recent years. Transport volumes and freight rates in container shipping are traditionally subject to sharp seasonal fluctuations. The peak season in the third quarter of the calendar year is of particular importance to the Company's performance and earnings.

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

Risks from long delivery periods for newbuilds

The lead time between the ordering and delivery of newbuilds is two to three years, with the placement of the order being based on expectations of future demand for transport capacities. The market situation can change by the time new ships are delivered. There is also the risk that the available capacity will be too low and Hapag-Lloyd cannot meet its customers' demands. This would lead to falls in revenue and a loss of market share. If additional capacities had to be chartered to retain customers, higher charter rates would have to be paid as a consequence of increased demand, leading to an additional cost burden. As of the balance sheet date, there were no orders for new ships. In order to remain competitive in the medium term, the Executive Board of Hapag-Lloyd AG assumes that the Group will invest in new ship systems again in due course.

Risk from the operation of ships

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

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

Risks arising from claims by suppliers and service providers

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

Risks caused by general political conditions and protectionism

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

Risks arising from the biggest trade, Latin America

With a share of around 23.4% of the container transport volume in 2018, the Latin America trade is Hapag-Lloyd's biggest trade. According to the latest IMF forecast (January 2019), economic growth in the region of Latin America and the Caribbean was 1.1% in 2018 (2017: 1.3%). Economic growth is expected to increase further by 2.0% in 2019, then by 2.5% in 2020. The expected recovery in economic growth could however quickly come to a halt once again as local economies are heavily dependent on political developments, commodity prices and exchange rates. This may have a negative impact on the region's import and export activities, and therefore also on demand for container shipments and consequently on the revenue and earnings performance of Hapag-Lloyd. The volatility of local currencies could also have a negative impact on earnings performance.

Risks arising from the loss of the US flag or cabotage business

In certain regional sub-trades in Latin America, Hapag-Lloyd provides container transport services on routes which are protected by regulation from general competition (cabotage business). If Hapag-Lloyd is no longer allowed to operate on these routes or if these routes are opened up to general competition, this could have a negative effect on its earnings position. The cabotage business is operated through the companies CSAV Austral SpA, Companhia Libra de Navegacao S. A., Andes Operador Multimodal Ltda and Consorcio Naviero Peruano S. A.

Hapag-Lloyd is one of three international container liner shipping companies that provide container transport services for the governmental organisations of the USA (US flag business). If Hapag-Lloyd no longer meets the requirements for this, it could have a negative impact on its earnings position. The US flag business is operated through the company Hapag-Lloyd USA LLC.

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 the lower earnings contribution of projects
The development of earnings and the achievement of corporate goals are closely linked to the implementation of efficiency and cost reduction programmes as part of Strategy 2023. Hapag-Lloyd expects the announced cost reduction measures to generate annual cost savings of USD 350 to 400 million from 2021 onwards.

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

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

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

COMPLIANCE RISKS

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

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

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

Like other companies in the industry, Hapag-Lloyd AG is subject to increasing regulation in the area of data protection and IT security. When the EU General Data Protection Regulation came into force on 25 May 2018, it will lead to greater general data protection risks and, in particular, increase the maximum fine for violations of data protection law (up to 4% of annual revenue). Similar trends towards tighter regulation and increased sanctions under data protection law are happening globally, particularly in Asia and Latin America. In addition to classic data protection regulations, various states and multinational organizations are also striving for greater standardization of IT security and cybersecurity. Hapag-Lloyd AG attaches particular importance to the Cybersecurity Law of the People's Republic of China. Furthermore, the increasing digitalisation of business processes is altering Hapag-Lloyd AG's risk exposure, which means that the additional risks relating to data protection law must be continuously assessed and managed. Both the probability of occurrence and the impact of such risks on Hapag-Lloyd´s earnings before interest and taxes (EBIT) are classified as medium.

Risks resulting from the tightening of climate protection regulations

The emission standards set by the International Maritime Organization (IMO) require a further significant reduction in emissions. The legally stipulated use of particularly low-sulphur fuels has been applicable since January 2015 in US coastal areas (and in the coastal areas of California since January 2014) as well as in Hong Kong and certain coastal areas around Europe. This will be gradually extended to the coastal region of China from 2018 onwards. The IMO has decided to expand these climate protection regulations to all of the world's oceans. From 2020 onwards, the threshold for sulphur content will be limited to 0.5%. This could lead to a sharp rise in specific fuel prices. If the rise in costs cannot be passed on to the customers in the form of fuel surcharges, either wholly or in part, this will have a negative impact on the earnings position.

Legal disputes and legal risks

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

On February 20, 2019, the U.S. Department of Justice Antitrust Division ("DoJ") announced to Hapag-Lloyd the termination of the investigation. The official end of the investigation against Hapag-Lloyd was confirmed by the DoJ on 25 February 2019. The investigations were terminated without allegations against Hapag-Lloyd AG, its affiliates or any current or former employee. This investigation was related to subpoenas to a DoJ hearing served to company representatives in San Francisco on 15 March 2017.

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

As at the reporting date, there was also EUR 107.2 million in contingent liabilities from tax risks (previous year: EUR 135.5 million), whereby the probability of occurrence is classified as low overall.

Risks from taxation

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

Risks from being a listed company

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

FINANCIAL RISKS

Management of financial risks

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

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

Currency risks

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

The materiality of risks arising from exchange rate fluctuations is monitored on an ongoing basis. If necessary, the Group hedges a portion of its net cash outflows using a rolling hedge with the aim of limiting currency risks in the consolidated financial statements. 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 be implemented further, if necessary.

Risks resulting from changes in the lending values of ships

Typically, lending limits (so-called loan-to-value ratios) are agreed in ship loans, which are reviewed continuously (usually every six months) by the lenders. If these loan-to-value ratios are undercut, the result is usually that adequate replacement collateral has to be procured or a corresponding unscheduled repayment has to be made under the loan.

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

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

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

Liquidity risks

Liquidity risk, i.e. the risk of not being able to fulfil existing or future payment obligations, is managed centrally at Hapag-Lloyd. The Company secures an adequate liquidity reserve for itself by means of syndicated credit facilities and bilateral bank loans, as well as its portfolio of cash and cash equivalents. The liquidity reserve as at 31 December 2018 amounted to EUR 1,133.0 million (previous year: EUR 1,059.5 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.

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 Bisnode (formerly Dun & Bradstreet, the world's largest provider of business information and analyses), securing the customer receivables by means of credit insurance, and a centrally managed monthly reporting system for monitoring the outstanding amounts, including their age structure and the guidelines and rules of receivables management.

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

Risks arising from debt

Hapag-Lloyd Group's financial debt as at 31 December 2018 was EUR 6,017.9 million (previous year: EUR 6,335.5 million). The ability to finance the operating capital, debt servicing and other expenditure depends on the future course of business and the development of income. Due to the existing borrowed capital, a portion of income has to be used to pay interest and service debt. An increase in the total interest-bearing liabilities could possibly make it more difficult for the Company to fulfil the payment obligations for its bonds and loans taken out.

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

They primarily require the Company to comply with minimum adjusted equity requirements, maintain a minimum liquidity level and comply with loan-to-value ratios. As at 31 December 2018, all of the covenants were complied with. Based on current planning, the Executive Board expects that these covenants will also be adhered to during the subsequent period.

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

Risks arising from the impairment of goodwill and other intangible assets

As at 31 December 2018, the goodwill recognised in the statement of financial position of Hapag-Lloyd Group amounted to EUR 1,568,8 million (previous year: EUR 1,486.8 million). Other intangible assets totalled a further EUR 1,773.2 million as at the balance sheet date of 31 December 2018 (previous year: EUR 1,785.5 million). Together, this represented 21.9% of the balance sheet total (previous year: 21.1%). 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 2018 did not identify any need for an impairment charge. As a result, the probability of a potential need for an impairment of goodwill or other intangible assets is classified as low at the time of reporting.

Risks arising from the impairment of the investment in Container Terminal Altenwerder GmbH

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

Risks arising from differing perspectives on the operation of joint ventures

Hapag-Lloyd currently operates a range of companies together with partners (subsidiaries with non-controlling interests and equity-accounted investees). Differing perspectives regarding the operation and strategic focus of these joint ventures could have a considerable impact on the operational performance of these companies and their value.

Risks arising from Hapag-Lloyd AG having a low equity base

As at 31 December 2018, Hapag-Lloyd AG's equity in the individual financial statements prepared under German commercial law totalled EUR 2,908.9 million (previous year: EUR 3,196.1 million) and was therefore significantly lower than the Group's equity. The equity ratio according to the German Commercial Code of 28.9% as at 31 December 2018 was lower than in the previous year (32.3%). Hapag-Lloyd AG's financial debt as at 31 December 2018 was EUR 2,179,4 million (previous year: EUR 2,732.0 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 medium. The current US dollar / euro exchange rate is USD 1.15 / EUR as at 31 December 2018 (previous year: USD 1.20 / EUR).

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

Risks from a downgrading of the rating

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

The international rating agency Standard & Poor's is currently rating Hapag-Lloyd with an issuer rating of B+ and stable outlook. On 25 July 2018, the rating agency Moody's confirmed Hapag-Lloyd's unchanged corporate rating of B2 and a stable outlook. On 18 February 2019 Moody's increased their rating for Hapag-Lloyd AG to B1 with a stable outlook. Both rating agencies took a positive view of the acquisition of UASC's business activities with regard to Hapag-Lloyd's competitiveness. Both rating agencies indicated the possibility of a rating downgrade if Hapag-Lloyd was unable to reduce its high level of debt following the merger with UASC as announced. Such a rating downgrade could have negative effects on the financing costs of Hapag-Lloyd, which in turn would adversely affect the Groups earnings position.

RISKS ARISING FROM THE TAKEOVER OF UASC

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

Risks arising from the potential failure to achieve the planned synergies

The merger with UASC expects to deliver annual synergies of around USD 435 million from 2019 onwards. At the time the report was prepared, the achievement of the planned synergies had already been fully established. The risk of not achieving the synergies therefore no longer exists.

Risks arising from the increase in intangible assets

Especially due to the integration of CCS's and UASC's business activities in prior years, the intangible assets amount to EUR 3,342 million (previous year: EUR 3,272 million) on Hapag-Lloyd's statement of financial position as at 31 December 2018. In the event that an impairment test identifies the need to recognise an impairment charge for goodwill or for other intangible assets, this could have a significant negative effect on Hapag-Lloyd's earnings position and equity base. An impairment could result amongst others from an increase in the general, currently very low, interest rate level.

SUMMARISED OVERVIEW OF CORPORATE RISKS

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

The operating risk situation was also compared with that of the previous year. The details relating to possible effects on the Group net result are netted, i. e. after the effects of risk mitigation measures have been accounted for. The probability of possible risks occurring based on the annual budget for the 2019 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 considering countermeasures, the possible effects on the Group operating result (EBIT) in the financial year are classified as follows:

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

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

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

Key risks

Risk	Probability of occurence	Potential impact	Probability of occurence in 2019 in comparison to the previous year
Decrease in transport volume growth	Medium	Low	Higher
Decrease in average freight rate	Medium	High	Equal
Decline in USD vs. EUR	Low	Low	Lower
Rise in bunker consumption prices	Low	Medium	Lower
Liquidity[1]	Low	High	Equal
Lower earnings contribution of synergies	Low	Medium	n. a.

[1] The assessment relates to the impact on the covenants to be complied with and on the liquidity situation.

In the previous year reference was made to the synergies from the merger with UASC, while the current year 2018 places a greater importance on the contribution to earnings by the efficiency programs.

OPPORTUNITIES

Opportunities management – strategic focus on opportunities

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

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

STRATEGIC AND OPERATIONAL OPPORTUNITIES

General economic opportunities

Container shipping is heavily dependent on the general prevailing conditions in the world's economies. Fluctuations in the economic climate have a strong, over proportional effect on this industry. The development of freight rates, which have a significant influence on Hapag-Lloyd's financial and earnings position, are particularly dependent on the transport volume on the routes and therefore on the economic development. According to IMF estimates, in 2019, the world trade volume may grow by 4.0%, a similarly strong pace to 2018 (+4.0%). IHS Global Insight believes that the volume of global container shipments will rise by 4.7% in 2019 and therefore at a faster rate than in 2018 (4.0%). Furthermore, all trades can expect to see an increase in transport volumes in 2019. 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 with regard to the chosen medium-term strategy

If unexpected potential is exploited by the measures planned under Strategy 2023, this could have a positive impact on Hapag-Lloyd's earnings situation.

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 2019. Hapag-Lloyd is endeavouring to participate in these growth markets with a suitable service network.

Opportunities arising from developments in ship and container capacities

The market fluctuations between the supply of and demand for transport services can lead to opportunities as a result of the achievement of cost advantages and increasing freight rates. These opportunities are exemplified as follows:

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

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

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

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

FINANCIAL OPPORTUNITIES

Opportunities arising from an improvement in the company rating

The international rating agency Standard & Poor's has given Hapag-Lloyd an issuer rating of B+ and a stable outlook. On 25 July 2018, the rating agency Moody's confirmed Hapag-Lloyd's unchanged corporate rating of B2 and a stable outlook. On 18 February 2019 Moody's increased their rating for Hapag-Lloyd AG to B1 with a stable outlook. Both rating agencies took a positive view of the acquisition of UASC's business activities with regard to Hapag-Lloyd's competitiveness. 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 are 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 is 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.

SUMMARISED OVERVIEW OF CORPORATE OPPORTUNITIES

In the opinion of Hapag-Lloyd's Executive Board, the key opportunities relate to the successful implementation of the efficiency and cost reduction programs of Strategy 2023 and the resulting positive effects on earnings, a noticeably positive trend in average freight rates, a much sharper than expected increase in transport volume and the appreciation of the US dollar against the euro.

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

Key opportunities

Opportunities	Probability of occurence	Potential impact	Probability of occurence in 2019 in comparison to the previous year
Increase in transport volume growth	Low	Low	Lower
Increase in average freight rate	Medium	High	Equal
Increase in USD vs. EUR	High	Low	Higher
Decrease in bunker consumption prices	High	Medium	Higher
Higher earnings contribution of synergies	High	Medium	n. a.

In the previous year, reference was made to the synergies from the merger with UASC. For the financial year 2018 the contribution to earnings by the efficiency programs have gained greater importance.

OVERALL ASSESSMENT OF RISKS AND OPPORTUNITIES

The assessment of Hapag-Lloyd's overall risk situation is the result of an examination of all of the Group's significant individual risks as they affect the Group as a whole. After the balance sheet date of 31 December 2018, there are currently no indications of any risks, either alone or in combination with other risks, which endanger the continued existence of Hapag-Lloyd as a going concern. The once again solid balance sheet and the more than sufficient liquidity situation provide a stable foundation for Hapag-Lloyd's expected organic growth. In light of the continuing macroeconomic and geopolitical uncertainties in 2019, the assessment of overall risk remains unchanged from 2018.

The main risk facing Hapag-Lloyd in 2019 continues to be a market environment characterised by a strong level of competition, which could lead to renewed pressure on freight rates and, in turn, to a significant potential impact on the earnings position. The outlook for global economic performance is stable, and this should lead to increasing global trade and therefore to growing demand for container transport services.

OUTLOOK

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

In its latest economic outlook (January 2019), the International Monetary Fund (IMF) expects global economic growth to reach 3.5% in the current year. This forecast means that the global economy is set to grow at a slightly lower rate in 2019 than in the previous year (+3.7%). According to the IMF, the volume of global trade, which is key to the demand for container shipping services, will increase by 4.0% in 2019 (2018: +4.0%). This means that in 2019 the growth in global trade will once again outpace that of the global economy. IHS Global Insight (January 2018) is forecasting that the global container shipping volume will increase by 4.7% to approximately 153 million TEU in 2019 (2018: 4.0%). As such, the expected rise in worldwide transport volumes in container shipping for 2019 would be in line with the rate of growth for global trade.

Following a rise in transport capacities (following scrapping and delays in deliveries) of approximately 1.1 million TEU to 21.9 million TEU in 2018, Drewry forecasts a nominal increase in transport capacities of up to approximately 0.5 million TEU for the current year. In relation to the total capacity of the global trading fleet, this represents an increase of around 2.5%. Although the rise is expected to be lower than in the previous year (5.4%), the delivery of large vessels for use on the Far East trade could also make it difficult to increase freight rates in 2019.

Hapag-Lloyd is anticipating a rise in the transport volume in 2019 in line with the general growth of the market. Additionally assuming a lower increase in global transport capacity compared to 2018, Hapag-Lloyd's average freight rate in 2019 is likely to increase slightly compared with the previous year. Hapag-Lloyd is also expecting the average bunker consumption price in 2019 to be moderately higher compared to the previous year.

Provided that Hapag-Lloyd achieves the expected freight rate, the anticipated improvement in revenue quality combined with the cost savings as part of Strategy 2023, and the expected growth in volumes, it is forecasting an EBITDA in the range of EUR 1.6 – 2.0 billion and an EBIT in the rage of EUR 0.5 – 0.9 billion. Accounted for here is the currently expected impact on EBITDA in the range of EUR 370 – 470 million as well as EBIT in the range of EUR 10 – 50 million related to the first-time implementation of the reporting standard IFRS 16. A detailed description of the expected impact on the balance sheet from the first-time application can be found on page 172 ff. in the notes to the financial statements. Impairments on goodwill, other intangible assets and property, plant and equipment are not considered. These corrections are not expected at present but cannot be ruled out given current geopolitical developments and other factors. The earnings forecast is based on the assumption of constant exchange rates.

Key benchmark figures for the 2019 outlook

Global economic growth (IMF)	3.5 %
Increase in global trade (IMF)	4.0 %
Increase in global container transport volume (IHS)	4.7 %

Transport volume, Hapag-Lloyd	Increasing slightly
Average bunker consumption prices, Hapag-Lloyd	Increasing moderately
Average freight rate, Hapag-Lloyd	Increasing slightly
EBITDA (earnings before interest, taxes, depreciation and amortisation), Hapag-Lloyd	EUR 1.6 – 2.0 billion
EBIT (earnings before interest and taxes), Hapag-Lloyd	EUR 0.5 – 0.9 billion

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

Risks that may have an impact on the forecast for business development are described in detail in the risk report. Significant risks for the Group's revenue and earnings development include in particular a slowdown in global economic and trade volume growth, a significant and lasting rise in bunker prices extending beyond the average bunker consumption price level in 2018, a sharp and persistent increase in the euro against the US dollar and a lasting 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 substantial negative impact on the industry and, by extension, on the business development of Hapag-Lloyd in the 2019 financial year, which could also lead to impairments on goodwill, other intangible assets and property, plant and equipment.

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 (GCGC), complies with the legal provisions of the German Stock Corporation Act (AktG) and the German Commercial Code (HGB) and incorporates the principles of German Accounting Standard 17 (DRS 17).

1. PRINCIPLES AND OBJECTIVES / GENERAL PRINCIPLES

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

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

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

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

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

Executive Board remuneration in the 2018 financial year was the same as in the previous year.

1.1 Changes to the Executive Board

On 28 March 2018, the Supervisory Board of Hapag-Lloyd AG approved a reallocation of the Executive Board's responsibilities. CEO Rolf Habben Jansen took responsibility for global sales activities. Joachim Schlotfeldt became a new member of Hapag-Lloyd AG's Executive Board on 1 April 2018. In addition to other areas of responsibility, he took charge of human resources (prior to that, the responsibility of the CEO) as Labour Director, as well as global procurement as Chief Personnel and Global Procurement Officer (CPO). The latter had been the responsibility of the Chief Operating Officer (COO). The Chief Commercial Officer (CCO) Thorsten Haeser resigned on 31 March 2018.

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.

With regard to Mr Schlotfeldt, the Company covered his expenses for relocating to Hamburg in the financial year as well as his living costs for three months. The costs were covered at an appropriate amount in return for supporting documentation.

2.2 Performance-related components

a) Short-term variable remuneration

Short-term variable remuneration is granted in the form of an annual bonus which is paid after the consolidated financial statements have been examined and audited by the external auditors and subsequently approved. Since the 2016 financial year, the annual bonus of the ordinary Executive Board members has been equal to 0.065% of the Group's earnings before interest and taxes (EBIT), capped at EUR 400,000 (gross); the CEO's annual bonus is equal to 0.1% of the Group's EBIT, capped at EUR 600,000 (gross).

Mr Schlotfeldt was granted a guaranteed bonus of EUR 25,000 (gross) for every full calendar month in which he works for the Company as an Executive Board member in the period from 1 April 2018 to 31 March 2019. It is paid irrespective of the operating result achieved. If the Group's operating result leads to a higher bonus based on the calculation method outlined above, the higher amount is paid.

In line with the Supervisory Board's resolution on 6 November 2018, short-term variable remuneration has been adjusted as and from the 2019 financial year as follows: the variable bonus of ordinary Executive Board members is 0.05% of the Company's earnings before interest and taxes (EBIT). This is capped at max. EUR 600,000 (gross) per annum. The variable bonus of the CEO is 0.075% of the Company's earnings before interest and taxes (EBIT). This is capped at max. EUR 900,000 (gross) per annum.

b) Long-term variable remuneration

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

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

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

If capital measures which affect the value of real shares are carried out during the term of the LTIP, the conditions of the plan state that the Executive Board members must be treated like owners of real shares as a rule. In the event of an ordinary capital increase, the stake in the company held by owners of real shares is diluted. However, they are granted subscription rights to new shares in return. Under the conditions of the plan, the Executive Board members are not automatically granted a subscription right in the event of an ordinary capital increase.

To compensate them for being treated differently to owners of real shares, for all LTIP tranches belonging to Executive Board members which are in existence when a capital increase is carried out, the number of shares is adjusted by a value equal to the subscription rights that an owner of real shares with the same number of shares is entitled to. The additional virtual shares here are valued at the arithmetical share price on the day before trading of the subscription rights commences (ex-subscription rights). The rule must be applied separately to all LTIP tranches in existence at the time of the capital measure. The additional virtual shares are based directly on the existing virtual shares of the respective LTIP tranches. As a result, the additional virtual shares are given the same parameters as were defined in the conditions of the plan and at the time the respective tranche was granted. The additional virtual shares are consequently a component of the respective tranche.

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

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

The amount calculated in this way is paid to the respective Executive Board member as a gross amount up to a specific limit on 31 March of the year following the end of the performance period. This upper limit is EUR 750,000 (gross) for ordinary Executive Board members and EUR 1,050,000 (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 tranches which have not yet been paid remain. As a basic principle, the allocation amount for the financial year in which the participant resigns is granted on a pro rata basis. For resignations in the aforementioned cases, the performance period 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, as a basic principle the long-term variable remuneration component is granted on the basis of the pro rata allocation amount for the corresponding financial year. Exceptions to this can be made on an individual basis.

Share-based remuneration under the 2018 long-term incentive plan (LTIP)

Allotment for 2018 financial year

	Number of shares on allotment [1]	Fair value on allotment in EUR	Total value on allotment (allotment amount) in EUR
Rolf Habben Jansen (Chairman of the Executive Board)	20,784	33.68	700,000
Nicolás Burr	14,846	33.68	500,000
Anthony J. Firmin	14,846	33.68	500,000
Thorsten Haeser (Member of the Executive Board until 31 March 2018)	11,134	33.68	375,000
Joachim Schlotfeldt (Member of the Executive Board since 1 April 2018)	11,134	33.68	375,000
Total	**72,744**		**2,450,000**

[1] The number of shares allotted is commercially rounded to the nearest whole number in accordance with the terms and conditions of the 2018 LTIP.

Share-based remuneration under the 2017 long-term incentive plan (LTIP)

Allotment for 2017 financial year

	Number of shares on allotment [1]	Fair value on allotment in EUR	Total value on allotment (allotment amount) in EUR
Rolf Habben Jansen (Chairman of the Executive Board)	37,294	18.77	700,000
Nicolás Burr	26,638	18.77	500,000
Anthony J. Firmin	26,638	18.77	500,000
Thorsten Haeser (Member of the Executive Board until 31 March 2018)	26,638	18.77	500,000
Total	**117,208**		**2,200,000**

[1] The number of shares allotted is commercially rounded to the nearest whole number in accordance with the terms and conditions of the 2017 LTIP.

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

Expense recognised for share-based remuneration under the long-term incentive plans (LTIP)

	LTIP 2015 – 2018	
	Total personnel expense recognised	
EUR	2018	2017
Rolf Habben Jansen (Chairman of the Executive Board)	664,577	1,402,287
Nicolás Burr	845,043	699,434
Anthony J. Firmin	1,006,939	657,520
Thorsten Haeser (Member of the Executive Board until 31 March 2018)	1,180,658	1,193,434
Joachim Schlotfeldt (Member of the Executive Board since 1 April 2018)	36,284	–
Total	**3,733,501**	**3,952,675**

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 pensions of Anthony J. Firmin and Joachim Schlotfeldt, who are due a company pension payment of EUR 72,000 per annum and EUR 69,000 per annum respectively as a result of their long-standing service prior to their appointment as Executive Board members. This amount will be paid when their statutory retirement commences. This will be further supplemented by the annual conversion of 20% of fixed annual remuneration into pension entitlements. The entitlements of Mr Firmin and Mr Schlotfeldt under this company pension will be transferred to their surviving dependants to a limited extent after they are deceased.

2.4 Regulations in the event that Executive Board activities end

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

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

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

The Chief Commercial Officer Thorsten Haeser resigned on 31 March 2018. In relation to the early, mutual termination of his employment contract, Mr Haeser received early payment of the benefits contractually agreed until the original end date of his employment contract in the first quarter of the financial year. This comprised in particular a bonus of EUR 0.3 million in lieu of all of his entitlements to short-term variable remuneration for the financial year. Additionally, an amount of EUR 2.6 million relating to the LTIP tranches from 2015 to 2018 (long-term variable remuneration) was paid early. Mr Haeser also received a severance payment of EUR 0.2 million in the first quarter of the financial year for the early termination of his employment contract.

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 2018 financial year

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

The total remuneration granted to active Executive Board members in the financial year was EUR 6.8 million (2017: EUR 6.2 million). This includes share-based payments with a fair value of EUR 2.5 million (2017: EUR 2.2 million) on the date the remuneration was granted. The active Executive Board members were granted a total of 72,744 virtual shares in the financial year (2017: 117,208).

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

Remuneration of the Executive Board

	Fixed remuneration		Variable remuneration		Total remuneration
			Components with short-term incentive effect	Components with long-term incentive effects	
EUR	Fixed salary	Fringe benefits	Bonuses	Share-based remuneration (LTIP 2017, LTIP 2018)	
Rolf Habben Jansen (Chairman of the Executive Board)					
2018	**750,000**	**172,053**	**443,039**	**700,000**	**2,065,092**
2017	750,000	172,086	410,878	700,000	2,032,964
Nicolás Burr					
2018	**450,000**	**387,694**	**287,976**	**500,000**	**1,625,670**
2017	450,000	357,781	267,071	500,000	1,574,852
Anthony J. Firmin					
2018	**450,000**	**22,053**	**287,976**	**500,000**	**1,260,029**
2017	450,000	22,086	267,071	500,000	1,239,157
Thorsten Haeser (Member of the Executive Board until 31 March 2018)					
2018	**112,500**	**71,146**	**300,000**	**375,000**	**858,646**
2017	450,000	104,629	267,071	500,000	1,321,700
Joachim Schlotfeldt (Member of the Executive Board since 1 April 2018)					
2018	**337,500**	**29,519**	**225,000**	**375,000**	**967,019**
Total 2018	**2,100,000**	**682,465**	**1,543,991**	**2,450,000**	**6,776,456**
Total 2017	2,100,000	656,582	1,212,091	2,200,000	6,168,673

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 2018 or 31 December 2017.

With regard to pension commitments, the following obligations exist:

Pension plans (pension plans and death grants) persuant to IFRS

EUR	Present value	Service cost
Rolf Habben Jansen (Chairman of the Executive Board)		
2018	**5,955**	**1,550**
2017	5,334	1,760
Nicolás Burr		
2018	**2,342**	**767**
2017	2,074	842
Anthony J. Firmin		
2018	**2,233,636**	**203,186**
2017	2,004,177	218,981
Thorsten Haeser (Member of the Executive Board until 31 March 2018)		
2018	**0**	**265**
2017	2,347	1,260
Joachim Schlotfeldt (Member of the Executive Board since 1 April 2018)		
2018	**1,869,197**	**156,395**
Total 2018	**4,111,130**	**362,163**
Total 2017	2,013,932	222,843

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

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

Amounts granted for the financial year

Remuneration granted	Rolf Habben Jansen (Chairman of the Executive Board)			
EUR	2017	2018	2018 (min.)	2018 (max.)
Fixed salary	750,000	750,000	750,000	750,000
Fringe benefits	172,086	172,053	172,053	172,053
Total	**922,086**	**922,053**	**922,053**	**922,053**
One-year variable remuneration	410,878	443,039	0	600,000
Multiple-year variable remuneration	700,000	700,000	0	1,050,000
LTIP 2017 (term: 2017 – 2020)	700,000	0	–	–
LTIP 2018 (term: 2018 – 2021)	0	700,000	0	1,050,000
Total	**1,110,878**	**1,143,039**	**0**	**1,650,000**
Service cost	1,760	1,550	1,550	1,550
Total remuneration	**2,034,724**	**2,066,642**	**923,603**	**2,573,603**

Remuneration granted	Thorsten Haeser (Member of the Executive Board until 31 March 2018)			
EUR	2017	2018	2018 (min.)	2018 (max.)
Fixed salary	450,000	112,500	112,500	112,500
Fringe benefits	104,629	71,146	71,146	71,146
Total	**554,629**	**183,646**	**183,646**	**183,646**
One-year variable remuneration	267,071	300,000	300,000	300,000
Multiple-year variable remuneration	500,000	375,000	0	750,000
LTIP 2017 (term: 2017 – 2020)	500,000	0	–	–
LTIP 2018 (term: 2018 – 2021)	0	375,000	0	750,000
Total	**767,071**	**675,000**	**300,000**	**1,050,000**
Service cost	1,260	265	265	265
Total remuneration	**1,322,960**	**858,911**	**483,911**	**1,233,911**

	Nicolás Burr				Anthony J. Firmin			
	2017	2018	2018 (min.)	2018 (max.)	2017	2018	2018 (min.)	2018 (max.)
	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000
	357,781	387,694	387,694	387,694	22,086	22,053	22,053	22,053
	807,781	**837,694**	**837,694**	**837,694**	**472,086**	**472,053**	**472,053**	**472,053**
	267,071	287,976	0	400,000	267,071	287,976	0	400,000
	500,000	500,000	0	750,000	500,000	500,000	0	750,000
	500,000	0	–	–	500,000	0	–	–
	0	500,000	0	750,000	0	500,000	0	750,000
	767,071	**787,976**	**0**	**1,150,000**	**767,071**	**787,976**	**0**	**1,150,000**
	842	767	767	767	218,981	203,186	203,186	203,186
	1,575,694	**1,626,437**	**838,461**	**1,988,461**	**1,458,138**	**1,463,215**	**675,239**	**1,825,239**

	Joachim Schlotfeldt (Member of the Executive Board since 1 April 2018)			
	2017	2018	2018 (min.)	2018 (max.)
	0	337,500	337,500	337,500
	0	29,519	29,519	29,519
	0	**367,019**	**367,019**	**367,019**
	0	225,000	225,000	400,000
	0	375,000	0	750,000
	0	0	–	–
	0	375,000	0	750,000
	0	**600,000**	**225,000**	**1,150,000**
	0	156,395	156,395	156,395
	0	**1,123,414**	**748,414**	**1,673,414**

Amounts paid for the financial year

Remuneration disbursed	Rolf Habben Jansen (Chairman of the Executive Board)		Nicolás Burr	
EUR	2018	2017	2018	2017
Fixed salary	750,000	750,000	450,000	450,000
Fringe benefits	172,053	172,086	387,694	357,781
Total	**922,053**	**922,086**	**837,694**	**807,781**
One-year variable remuneration	443,039	410,878	287,976	267,071
Multiple-year variable remuneration	0	0	0	0
LTIP 2015 (term: 2015 – 2018)	0	0	0	0
LTIP 2016 (term: 2016 – 2019)	0	0	0	0
LTIP 2017 (term: 2017 – 2020)	0	0	0	0
LTIP 2018 (term: 2018 – 2021)	0	–	0	–
Other	0	0	0	0
Total	**443,039**	**410,878**	**287,976**	**267,071**
Service cost	1,550	1,760	767	842
Total remuneration	**1,366,642**	**1,334,724**	**1,126,437**	**1,075,694**

	Anthony J. Firmin		Thorsten Haeser (Member of the Executive Board until 31 March 2018)		Joachim Schlotfeldt (Member of the Executive Board since 1 April 2018)	
	2018	2017	2018	2017	2018	2017
	450,000	450,000	112,500	450,000	337,500	0
	22,053	22,086	71,146	104,629	29,519	0
	472,053	**472,086**	**183,646**	**554,629**	**367,019**	**0**
	287,976	267,071	300,000	267,071	225,000	0
	0	0	2,615,752	0	0	0
	0	0	750,000	0	0	0
	0	0	750,000	0	0	0
	0	0	750,000	0	0	0
	0	–	365,752	–	0	–
	0	0	0	0	0	0
	287,976	**267,071**	**2,915,752**	**267,071**	**225,000**	**0**
	203,186	218,981	265	1,260	156,395	0
	963,215	**958,138**	**3,099,663**	**822,960**	**748,414**	**0**

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 1.1 million in the 2018 financial year (previous year: EUR 0.8 million). Provisions created under IFRS for current pensions and entitlements to pensions for former Executive Board members and their surviving dependants totalled EUR 24.5 million in the 2018 financial year (previous year: EUR 25.3 million).

3. REMUNERATION OF THE SUPERVISORY BOARD

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

The fixed annual remuneration of the Supervisory Board is EUR 150,000 for the Chairman, EUR 75,000 for deputies and EUR 50,000 for other members. The Chairman of the Presidential and Personnel Committee and the Chairman of the Audit and Finance Committee each receive additional remuneration of EUR 20,000 and the other members of these committees each receive EUR 10,000. 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 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 to increases in remuneration for membership and chairmanship of a Supervisory Board committee.

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

	Fixed remuneration		Remuneration for committee service		Meeting allowance		**Total**	
EUR	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Dr Nabeel Al-Amudi	./.	29,167	./.	5,833	./.	1,200	./.	36,200
Turqi Alnowaiser	45,833	./.	9,167	./.	2,400	./.	57,400	./.
Sheikh Ali Al-Thani	50,000	33,333	10,000	6,667	2,100	600	62,100	40,600
Christine Behle	56,250	75,000	7,500	10,000	1,500	2,100	65,250	87,100
Michael Behrendt	150,000	150,000	20,000	20,000	1,800	2,100	171,800	172,100
Jutta Diekamp	50,000	50,000	10,000	10,000	1,800	2,100	61,800	62,100
Nicola Gehrt	50,000	50,000	./.	./.	1,800	1,800	51,800	51,800
Karl Gernandt	62,500	50,000	25,000	30,000	2,700	4,200	90,200	84,200
Oscar Hasbún	62,500	75,000	15,000	10,000	3,000	4,200	80,500	89,200
Dr Rainer Klemmt-Nissen	50,000	50,000	20,000	20,000	3,000	3,900	73,000	73,900
Joachim Kramer	50,000	29,167	./.	./.	1,800	600	51,800	29,767
Annabell Kröger	50,000	29,167	10,000	5,833	3,000	1,500	63,000	36,500
Arnold Lipinski	50,000	50,000	20,000	20,000	3,000	3,900	73,000	73,900
Sabine Nieswand	50,000	50,000	10,000	10,000	1,800	2,100	61,800	62,100
Francisco Pérez	50,000	50,000	10,000	10,000	1,800	2,100	61,800	62,100
Klaus Schroeter	54,167	50,000	11,667	10,000	3,000	4,200	68,833	64,200
Maya Schwiegers-hausen-Güth	12,500	./.	./.	./.	300	./.	12,800	./.
Uwe Zimmermann	50,000	50,000	20,000	16,667	2,400	3,900	72,400	70,567
Total	**943,750**	**870,833**	**198,333**	**185,000**	**37,200**	**40,500**	**1,179,283**	**1,096,333**

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

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

There were no advance payments or loans to members of the Supervisory Board as at 31 December 2018 or 31 December 2017. Furthermore, the Supervisory Board members did not receive any remuneration in 2018 or the comparative period for their own services provided, in particular consultation and mediation services.

OTHER DISCLOSURES

DISCLOSURES AND NOTES RELEVANT TO THE TAKEOVER

REPORT PURSUANT TO SECTION 315A (1) OF THE GERMAN COMMERCIAL CODE (HGB) AND SECTION 289A (1) OF THE GERMAN COMMERCIAL CODE (HGB)

1. Composition of subscribed capital

The Company's subscribed capital totalled EUR 175,760,293.00 as at the balance sheet date. It is divided into 175,760,293 no-par registered shares, with each individual share representing EUR 1.00 of the share capital. The shares are ordinary shares, without exception. Different share classes are not issued and are not provided for in the articles of association. Each share is eligible for voting rights and dividends from the time that it is created. Each share grants one vote at the shareholders' 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 which was newly formulated in the course of the business combination with United Arab Shipping Company Ltd. ("New Shareholders' Agreement"). CG Hold Co, HGV and Kühne agreed under the New Shareholders' Agreement to uniformly exercise their voting rights as and from the day following the 2017 Annual General Meeting by issuing a common voting proxy and giving binding instructions to an agent. To ensure a uniform voting, the Anchor Shareholders intend to pass a resolution on how the pooled votes shall be cast prior to shareholders' meetings. If the Anchor Shareholders are unable to pass a unanimous resolution on their voting for any agenda item, the decision will be transferred to the decision-makers of the Anchor Shareholders' ultimate shareholders. If the ultimate shareholders cannot pass a unanimous decision either, the Anchor Shareholders should cast the votes (a) against the measure with regard to resolutions requiring a 75% majority of the votes cast or of the subscribed capital present at the time of adoption of the resolution pursuant to mandatory law or the articles of association or (b) each at their own discretion regarding the respective shares of each of the Anchor Shareholders on resolution proposals which, pursuant to mandatory law or the articles of association, require a simple majority.

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

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

3. Shareholdings that exceed 10% of the voting rights

At the time of preparation of the financial statements, the Company had received the following information about shareholdings subject to mandatory disclosure pursuant to Section 160 (1) (8) of the German Stock Corporation Act (AktG). The following voting right notifications from 2015 do not take account of the total number of voting rights at the end of the reporting period:

CSAV Germany Container Holding GmbH, Hamburg, Germany, notified us on 5 November 2015 pursuant to Section 21 (1a) of the German Securities Trading Act (WpHG) that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 71.56% (corresponding to 84,524,291 voting rights). 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.

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

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

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

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

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

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

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

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

20.22% of the voting rights (corresponding to 23,878,073 voting rights) are attributable to him pursuant to Section 22 (1) (1) (1) WpHG through Kühne Holding AG and Kühne Maritime GmbH, of which 3% or more are assigned in each case.

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

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

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

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

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

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. Pursuant to Section 7 (1) of the articles of association, the Executive Board shall comprise not less than two members. The Supervisory Board determines the number of members of the Executive Board; taking into account the minimum number of members, it may appoint one member of the Executive Board as the Chairperson and may appoint deputy members of the Executive Board.

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

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

In accordance with Section 5 (3) of the articles of association, the Executive Board, subject to the approval of the Supervisory Board, is authorised to increase the Company's share capital by up to EUR 11,282,647.00, fully or in partial amounts, on one or more occasion up to 30 April 2022 by issuing up to 11,282,647 new no-par registered shares against cash contributions and / or contributions in kind (Authorised Capital 2017). As a general rule, subscription rights must be granted to the shareholders. The new shares can also be taken up by one or more banks, with the obligation to offer them to the shareholders for subscription.

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

Section 71 of the German Stock Corporation Act (AktG) includes rules regarding the acquisition of own shares. Furthermore, there is no authorisation of the Execution Board granted by the shareholders' meeting to buy back own shares.

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

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

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

b) As part of various ship, container and other bank financing arrangements with outstanding repayment amounts and fixed financing commitments with a value totalling approximately EUR 6,026 million (approximately USD 6,900 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 not utilised as at the reporting date with a value totalling around EUR 476 million (around USD 545 million), the respective lenders are entitled to terminate the loan commitment and / or seek repayment of the amounts already utilised in the event of a qualified change of control at the Company. If the outstanding amounts after the termination cannot be settled or refinanced, the creditors will have recourse to the collateralised assets to a certain extent.

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

- the voting percentage jointly held in the Company by the Key Shareholders [1] and other shareholders who have entered into a voting agreement or a comparable agreement with a Key Shareholder [2] ("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 [3] 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

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

[1] In some financings, the voting percentage of TUI AG was added here.
[2] In some financings, reference was made to TUI AG in addition to the Key Shareholders.
[3] In some financings, the voting percentage of TUI AG was added here.

DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH SECTION 315D IN CONJUNCTION WITH SECTION 289F (1) OF THE GERMAN COMMERCIAL CODE (HGB) AND DECLARATION OF CONFORMITY IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

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

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

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

The separate non-financial Group report as per Section 315b (3) of the German Commercial Code (HGB) is contained in the sustainability report, which can be retrieved from Hapag-Lloyd AG’s website via the following link: https://www.hapag-lloyd.com/en/about-us/sustainability/sustainability-report.html, and is not part of the management report.

Hamburg, den 18 March 2019

Hapag-Lloyd AG
Executive Board

Rolf Habben Jansen

Nicolás Burr Anthony J. Firmin Joachim Schlotfeldt

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

of Hapag-Lloyd AG for the period 1 January to 31 December 2018

million EUR	Notes	1.1.–31.12.2018	1.1.–31.12.2017 [1]
Revenue	(1)	11,515.1	9,973.4
Other operating income	(2)	115.1	133.0
Transport expenses	(3)	9,396.6	7,989.5
Personnel expenses	(4)	659.4	679.8
Depreciation, amortisation and impairment	(5)	695.1	643.6
Other operating expenses	(6)	479.5	439.1
Operating result		**399.6**	**354.4**
Share of profit of equity-accounted investees	(13)	30.7	38.1
Other financial result	(7)	12.7	18.9
Earnings before interest and taxes (EBIT)		**443.0**	**411.4**
Interest income	(8)	15.8	11.3
Interest expenses	(8)	381.0	366.0
Earnings before taxes		**77.8**	**56.7**
Income taxes	(9)	31.8	24.1
Group profit / loss		**46.0**	**32.6**
thereof attributable to shareholders of Hapag-Lloyd AG		36.8	27.9
thereof attributable to non-controlling interests	(22)	9.2	4.7
Basic / diluted earnings per share (in EUR)	**(10)**	**0.21**	**0.19**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

of Hapag-Lloyd AG for the period 1 January to 31 December 2018[1]

million EUR	Notes	1.1. – 31.12.2018	1.1. – 31.12.2017
Group profit / loss		**46.0**	**32.6**
Items that will not be reclassified to profit and loss:			
Remeasurements from defined-benefit plans after tax	(21)	6.2	0.1
Remeasurements from defined-benefit plans before tax		7.2	0.6
Tax effect		–1.0	–0.5
Cash flow hedges (no tax effect)	(21)	19.1	–
Effective share of the changes in fair value		19.0	–
Currency translation differences		0.1	–
Cost of hedging (no tax effect)	(21)	–18.3	–
Changes in fair value		–18.1	–
Currency translation differences		–0.2	–
Currency translation differences (no tax effect)	(21)	272.2	–670.3
Items that may be reclassified to profit and loss:			
Cash flow hedges (no tax effect)	(21)	–4.5	5.6
Effective share of the changes in fair value		–57.5	103.2
Reclassification to profit or loss		52.9	–96.7
Currency translation differences		0.1	–0.9
Cost of hedging (no tax effect)	(21)	0.2	–0.5
Changes in fair value		–29.2	–9.5
Reclassification to profit or loss		29.4	8.9
Currency translation differences		0.0	0.1
Reclassification of currency translation differences to profit or loss	(21)	–	1.3
Other comprehensive income after tax		**274.9**	**–663.8**
Total comprehensive income		**320.9**	**–631.2**
thereof attributable to shareholders of Hapag-Lloyd AG		311.3	–635.1
thereof attributable to non-controlling interests	(22)	9.6	3.9

[1] The structure of the consolidated statement of comprehensive income changed due to the retrospective adjustment relating to the first-time adoption of IFRS 9. Please refer to the explanations in the section “New accounting standards”.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

of Hapag-Lloyd AG as at 31 December 2018

ASSETS

million EUR	Notes	31.12.2018	31.12.2017 [1]
Goodwill	(11)	1,568.8	1,486.8
Other intangible assets	(11)	1,773.2	1,785.5
Property, plant and equipment	(12)	9,119.7	8,966.5
Investments in equity-accounted investees	(13)	328.1	331.9
Other assets	(14)	10.5	25.7
Derivative financial instruments	(15)	4.5	8.6
Receivables from income taxes	(9)	4.2	3.8
Deferred tax assets	(9)	36.0	24.7
Non-current assets		**12,845.0**	**12,633.5**
Inventories	(16)	238.1	186.4
Trade accounts receivable	(14)	1,217.7	887.8
Other assets	(14)	300.8	436.7
Derivative financial instruments	(15)	3.6	42.6
Income tax receivables	(9)	39.0	19.6
Cash and cash equivalents	(17)	657.1	604.9
Non-current assets held for sale	(18)	–	16.3
Current assets		**2,456.3**	**2,194.3**
Total assets		**15,301.3**	**14,827.8**

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

EQUITY AND LIABILITIES

million EUR	Notes	31.12.2018	31.12.2017 [1]
Subscribed capital	(19)	175.8	175.8
Capital reserves	(19)	2,637.4	2,637.4
Retained earnings	(20)	3,117.4	3,174.9
Cumulative other equity	(21)	318.1	57.7
Equity attributable to shareholders of Hapag-Lloyd AG		**6,248.7**	**6,045.8**
Non-controlling interests	(22)	10.6	12.5
Equity		**6,259.3**	**6,058.3**
Provisions for pensions and similar obligations	(23)	265.2	270.2
Other provisions	(24)	75.6	80.0
Financial debt	(25)	5,301.6	5,630.7
Other liabilities	(26)	9.1	9.5
Derivative financial instruments	(27)	8.5	9.4
Deferred tax liabilities	(9)	5.3	4.0
Non-current liabilities		**5,665.3**	**6,003.8**
Provisions for pensions and similar obligations	(23)	8.3	20.7
Other provisions	(24)	343.5	244.2
Income tax liabilities	(9)	52.3	34.4
Financial debt	(25)	716.3	704.8
Trade accounts payable	(26)	1,774.1	1,559.8
Contract liabilities	(26)	260.3	–
Other liabilities	(26)	157.9	201.8
Derivative financial instruments	(27)	64.0	–
Current liabilities		**3,376.7**	**2,765.7**
Total equity and liabilities		**15,301.3**	**14,827.8**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

of Hapag-Lloyd AG for the period 1 January to 31 December 2018

million EUR	1.1.–31.12.2018	1.1.–31.12.2017[1]
Group profit / loss	46.0	32.6
Income tax expenses (+) / income (–)	31.8	24.1
Interest result	365.2	354.7
Depreciation, amortisation and impairment (+) / write-backs (–)	695.1	643.6
Other non-cash expenses (+) / income (–)	12.7	19.3
Profit (–) / loss (+) from hedges for financial debt	–33.3	–35.5
Profit (–) / loss (+) from disposals of non-current assets	–24.5	–
Income (–) / expenses (+) from equity accounted investees and dividends from other investments	–30.8	–38.2
Increase (–) / decrease (+) in inventories	–41.6	–35.0
Increase (–) / decrease (+) in receivables and other assets	–46.6	–69.2
Increase (+) / decrease (–) in provisions	1.1	–45.1
Increase (+) / decrease (–) in liabilities (excl. financial debt)	120.7	51.7
Payments received from (+) / made for (–) income taxes	–28.7	–11.9
Payments received for interest	5.8	2.8
Cash inflow (+) / outflow (–) from operating activities	**1,072.9**	**893.9**
Payments received from disposals of property, plant and equipment and intangible assets	33.1	33.0
Payments received from the disposal of other investments	142.3	0.9
Payments received from dividends	34.4	29.1
Payments received from the disposal of assets held for sale	15.2	–
Payments made for investments in property, plant and equipment and intangible assets	–328.9	–411.3
Payments made for investments in other investments	–	–0.5
Net cash inflow (+) / outflow (–) from acquisitions	–0.4	380.6
Cash inflow (+) / outflow (–) from investing activities	**–104.3**	**31.8**

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

million EUR	1.1. – 31.12.2018	1.1. – 31.12.2017 [1]
Payments received from capital increases	0.2	351.5
Payments made for capital increases	–1.9	–4.0
Payments made from changes in ownership interests in subsidiaries	–	–15.0
Payments made for dividends	–115.7	–3.1
Payments received from raising financial debt	782.1	1,641.9
Payments made for the redemption of financial debt	–1,345.4	–2,475.7
Payments made for interest and fees	–317.7	–307.5
Payments received (+) and made (–) from hedges for financial debt	9.4	19.8
Change in restricted cash	43.4	–14.2
Cash inflow (+) / outflow (–) from financing activities	**–945.6**	**–806.3**
Net change in cash and cash equivalents	**23.0**	**119.4**
Cash and cash equivalents at the beginning of period	**604.9**	**570.2**
Change in cash and cash equivalents due to exchange rate fluctuations	29.2	–84.7
Net change in cash and cash equivalents	23.0	119.4
Cash and cash equivalents at the end of period	**657.1**	**604.9**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of Hapag-Lloyd AG for the period 1 January to 31 December 2018

million EUR	Equity attributable Subscribed capital	 Capital reserves
As at 1.1.2017	**118.1**	**1,061.8**
Effect from the initial application of IFRS 9	–	–
Restated as at 1.1.2017	**118.1**	**1,061.8**
Total comprehensive income (adjusted)	**–**	**–**
thereof		
Group profit / loss	–	–
Other comprehensive income	–	–
Transactions with shareholders	**57.7**	**1,575.6**
thereof		
Issuance of shares in relation to the acquisition of the UASC Group	46.0	1,240.2
Issuance of shares	11.7	339.8
Transaction costs	–	–4.4
Step acquisition of Hapag-Lloyd Denizasiri Nakliyat A. S.	–	–
Anticipated acquisition of shares from non-controlling interests	–	–
Acquisition of shares from non-controlling interests without change of control	–	–
Distribution to non-controlling interests	–	–
Deconsolidation	**–**	**–**
As at 31.12.2017 [1]	**175.8**	**2,637.4**
As at 1.1.2018 [2]	**175.8**	**2,637.4**
Effect from the initial application of IFRS 9	–	–
Adjusted as at 1.1.2018	**175.8**	**2,637.4**
Total comprehensive income	**–**	**–**
thereof		
Group profit / loss	–	–
Other comprehensive income	–	–
Hedging gains and losses transferred to the cost of inventory	**–**	**–**
Transactions with shareholders	**–**	**–**
thereof		
Distribution to shareholder	–	–
Anticipated acquisition of shares from non-controlling interests	–	–
Capital increase for non-controlling interests	–	–
Distribution to non-controlling interests	–	–
Disposal of shares and other transactions with non-controlling interests	–	–
Deconsolidation	**–**	**–**
As at 31.12.2018	**175.8**	**2,637.4**

[1] The retrospective improvement in the result in the financial year 2017 increased retained earnings as at 31 December 2017 by EUR 0.5 million. This was offset by the recognition of a reserve for hedging costs in the amount of EUR –0.5 million as at 1 January 2017 and with a total amount of EUR –1.0 million as at 31 December 2017.

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

to shareholders of Hapag-Lloyd AG									
Retained earnings	Remeasurements from defined-benefit pension plans	Reserve for cash flow hedges	Reserve for cost of hedging	Translation reserve	Reserve for put options on non-controlling interests	Cumulative other equity	Total	Non-controlling interests	Total equity
3,152.9	**–118.9**	**5.4**	**–**	**835.3**	**–**	**721.8**	**5,054.6**	**3.8**	**5,058.4**
0.5	–	–	–0.5	–	–	–0.5	–	–	–
3,153.4	**–118.9**	**5.4**	**–0.5**	**835.3**	**–**	**721.3**	**5,054.6**	**3.8**	**5,058.4**
27.9	**0.1**	**5.6**	**–0.5**	**–668.2**	**–**	**–663.0**	**–635.1**	**3.9**	**–631.2**
27.9	–	–	–	–	–	–	27.9	4.7	32.6
–	0.1	5.6	–0.5	–668.2	–	–663.0	–663.0	–0.8	–663.8
–6.0	**–**	**–**	**–**	**–**	**–1.0**	**–1.0**	**1,626.3**	**4.8**	**1,631.1**
–	–	–	–	–	–	–	1,286.2	7.1	1,293.3
–	–	–	–	–	–	–	351.5	–	351.5
–	–	–	–	–	–	–	–4.4	–	–4.4
7.2	–	–	–	–	–	–	7.2	4.3	11.5
–	–	–	–	–	–1.0	–1.0	–1.0	–1.2	–2.2
–11.6	–	–	–	–	–	–	–11.6	–3.8	–15.4
–1.6	–	–	–	–	–	–	–1.6	–1.6	–3.2
–0.4	**–**	**–**	**–**	**0.4**	**–**	**0.4**	**–**	**–**	**–**
3,174.9	**–118.8**	**11.0**	**–1.0**	**167.5**	**–1.0**	**57.7**	**6,045.8**	**12.5**	**6,058.3**
3,174.9	**–118.8**	**11.0**	**–1.0**	**167.5**	**–1.0**	**57.7**	**6,045.8**	**12.5**	**6,058.3**
10.3	–	–	–	–	–	–	10.3	–	10.3
3,185.2	**–118.8**	**11.0**	**–1.0**	**167.5**	**–1.0**	**57.7**	**6,056.1**	**12.5**	**6,068.6**
36.8	**6.2**	**14.6**	**–18.1**	**271.8**	**–**	**274.5**	**311.3**	**9.6**	**320.9**
36.8	–	–	–	–	–	–	36.8	9.2	46.0
–	6.2	14.6	–18.1	271.8	–	274.5	274.5	0.4	274.9
–	**–**	**–26.4**	**11.4**	**–**	**–**	**–15.0**	**–15.0**	**–**	**–15.0**
–104.2	**–**	**–**	**–**	**–**	**0.5**	**0.5**	**–103.7**	**–11.5**	**–115.2**
–100.2	–	–	–	–	–	–	–100.2	–	–100.2
–	–	–	–	–	0.5	0.5	0.5	–	0.5
–	–	–	–	–	–	–	–	0.2	0.2
–4.6	–	–	–	–	–	–	–4.6	–11.6	–16.2
0.6	–	–	–	–	–	–	0.6	–0.1	0.5
–0.4	**–**	**–**	**–**	**0.4**	**–**	**0.4**	**–**	**–**	**–**
3,117.4	**–112.6**	**–0.8**	**–7.7**	**439.7**	**–0.5**	**318.1**	**6,248.7**	**10.6**	**6,259.3**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FUNDAMENTAL ACCOUNTING PRINCIPLES

General information

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

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

The declaration of conformity with the German Corporate Governance Code required under Section 161 AktG was issued by the Executive Board and Supervisory Board and has been made permanently available on the Company's website (www.hapag-lloyd.com).

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.

These consolidated financial statements encompass the financial year from 1 January to 31 December 2018 and were approved by the Executive Board of Hapag-Lloyd AG for submission to the Supervisory Board on 18 March 2019. The Supervisory Board will review and approve the Notes to the consolidated financial statements on 21 March 2019.

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). In addition, the German commercial law provisions that must be observed pursuant to Section 315e (1) of the German Commercial Code (HGB) in the version applicable in the financial year have also been taken into consideration. The consolidated financial statements are published in the online version of the German Federal Gazette.

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 2018 financial year.

- Amendments to IFRS 2 classification and measurement of share-based payments
- Amendments to IFRS 4: Applying IFRS 9 with IFRS 4
- IFRS 9: Financial Instruments
- IFRS 15: Revenue from Contracts with Customers
- Amendments to IFRS 15: Clarifications to IFRS 15
- Amendments to IAS 40: Transfers of Investment Property
- IFRIC 22: Foreign Currency Transactions and Advance Considerations
- Annual improvements to IFRS, 2014 – 2016 cycle

The following describes the significant changes for the Hapag-Lloyd Group resulting from the first-time application of standards IFRS 9 and IFRS 15 in the 2018 financial year. The remaining standards, which are to be adopted for the first time in the 2018 financial year, have no significant impact on the net asset, financial and earnings position of the Hapag-Lloyd Group.

IFRS 9 Financial instruments

In July 2014, the International Accounting Standards Board published the final version of IFRS 9 Financial Instruments, which replaces the existing provisions of IAS 39 on the recognition and measurement of financial instruments.

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

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

i. Classification of financial assets and financial liabilities

IFRS 9 contains a new method for the classification and measurement of financial assets that reflects the business model within which the assets are held and the characteristics of their cash flows. According to that, there are 3 important measurement categories for financial assets: measured at amortised cost (AC), measured at fair value through other comprehensive income (FVOCI) and measured at fair value through profit or loss (FVTPL).

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

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

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

If the above-mentioned criteria for classification at amortised cost or fair value through other comprehensive income are not met, the debt instruments are measured at fair value through profit or loss. Equity instruments are basically classified and measured at fair value through profit or loss.

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

IFRS 9 includes, among other things, new provisions for taking account of contractual modifications to financial liabilities. For substantial modifications that lead to the disposal of the financial liability from the financial statements, the provisions remain unchanged in comparison to IAS 39. For insubstantial modifications that do not result in the disposal of the financial liability from the financial statements, the carrying amount should be adjusted through profit or loss pursuant to IFRS 9. The new carrying amount is calculated from the present value of the modified cash flow while applying the original effective interest rate. Under IAS 39, no modification gain or loss was recognised, but instead the effective interest rate was adjusted for the remaining term of the modified liability.

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

million EUR	Notes	Classification category according to IAS 39	Classification category according to IFRS 9	Carrying amount 31.12.2017 IAS 39	**Carrying amount 1.1.2018 IFRS 9**
Assets					
Other assets	a	LaR	AC	340.6	340.4
		n/a[3]	n/a[3]	118.5	118.5
	b	AfS	FVTPL	3.0	3.0
	b	AfS	n/a[3]	0.3	0.3
Derivative financial instruments					
Derivatives		FAHfT	FVTPL	12.7	12.7
Hedges (Hedge accounting)		n/a[3]	n/a[3]	38.5	38.5
Trade accounts receivable	a	LaR	AC	887.8	887.2
Cash and cash equivalents		LaR	AC	604.9	604.9
Liabilities					
Financial debt	c	FLAC	FLAC	6,211.9	6,200.9
Liabilities from finance leases[1]		n/a[3]	n/a[3]	123.6	123.6
Other liabilities		FLAC	FLAC	50.6	50.6
		n/a[3]	n/a[3]	158.6	158.6
Liabilities from put options[2]		FLAC	FLAC	2.1	2.1
Derivative financial liabilities					
Derivatives		FLHfT	FVTPL	5.2	5.2
Hedges (Hedge accounting)		n/a[3]	n/a[3]	4.2	4.2
Trade accounts payable		FLAC	FLAC	1,559.8	1,559.8

1 Part of financial debt
2 Part of other liabilities
3 n/a means that there is no financial instrument here and therefore no classification category according to IFRS 9 or IAS 39

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

b) As at 31 December 2017, Hapag-Lloyd had financial assets in the category “available for sale” (AfS), which were measured at fair value directly in equity pursuant to IAS 39. As at the reporting date of 31 December 2017, the carrying amount of these financial instruments was EUR 3.3 million. These include securities of EUR 2.3 million that do not meet the cash flow criterion of IFRS 9. The securities were therefore recategorised from the IAS 39 category AfS to the IFRS 9 category FVTPL. As a result of this, all changes in their fair value are recognised through profit or loss from 1 January 2018.

   In addition, the available-for-sale financial assets include investments (EUR 0.7 million) that are not held for trading purposes. These were previously measured at cost pursuant to IAS 39 in conjunction with IAS 39.46(c) and will be assigned to the category FVTPL pursuant to IFRS 9. The Hapag-Lloyd Group did not exercise the option of classifying equity instruments covered by IFRS 9 as FVOCI when applying the new standard for the first time (FVOCI option).

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

   With regard to the 3 instances outlined above, there were no adjustments to carrying amounts in other assets as at 1 January 2018.

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

ii. Impairment

The “incurred losses” model for calculating risk provisioning and impairments under IAS 39 is replaced by a forward-looking model under IFRS 9 based on “expected credit losses”. Financial assets that are not overdue are also subject to an impairment charge here.

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

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

There are 2 approaches for applying the new impairment model. The general approach involves creating a risk provision for the 12-month expected credit losses (level 1) or for the lifetime expected credit losses (levels 2 and 3). Assignment to the levels is based on whether the credit risk for the financial instrument has significantly increased since first-time recognition (level 2) or whether the financial assets became credit-impaired (level 3). The simplified approach should be applied to trade accounts receivable or contract assets under IFRS 15 that do not contain any significant financing components. With the simplified approach, changes in the credit risk are not tracked, and a risk provision is always recognised for the lifetime expected credit losses (levels 2 and 3).

The general approach is used by the Hapag-Lloyd Group for cash and cash equivalents and other financial assets that fall within the scope of application for impairments under IFRS 9. Due to the short-term nature of bank balances and other cash investments and the high credit rating of the banks involved, the expected credit losses in relation to bank balances and other cash investments are low and are therefore not recognised. The difference between the amount of the loss allowances for other financial assets as at 31 December 2017 under IAS 39 and the amount of the loss allowances for other financial assets as at 1 January 2018 under IFRS 9 is immaterial.

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

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

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

iii. Hedge accounting

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

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

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

The Hapag-Lloyd Group uses bunker options to hedge against fuel price risks, whereby only the intrinsic value is included in the hedging relationship. The resulting changes in fair value were recognised immediately through profit or loss under IAS 39, while they are recognised through other comprehensive income under IFRS 9, as a result of which there are now lower measurement fluctuations in the income statement. As the new method for recognising changes in time value of options must be applied retrospectively (see iv. Transition), measurement losses of EUR 0.5 million were reclassified from retained earnings to the reserve for hedging costs as at 1 January 2017. The negative changes in fair value of EUR 0.5 million that occurred in 2017 further increased retained earnings and reduced the reserve for hedging costs accordingly. As at 1 January 2018, the reserve for hedging costs therefore had a negative balance of EUR 1.0 million, and retained earnings were higher than under IAS 39 by the same amount.

Under IAS 39, the cumulative amounts in the reserve for cash flow hedges for all cash flow hedges were reclassified as reclassification amounts in profit or loss, and this was done in the same period in which the respective underlying transactions affect profit or loss. Under IFRS 9, however, the option to reclassify is no longer available when hedging non-financial assets. This means that, when recognising inventories, the cumulative amounts in the reserve for cash flow hedges and in the reserve for hedging costs have to be recognised as an adjustment to the cost of acquisition of the inventories (basis adjustment) from 1 January 2018. However, the carrying amount of inventories as at 1 January 2018 is unchanged within the Hapag-Lloyd Group, as it is assumed that they are consumed immediately, with the result that the amounts are again recognised in transport expenses, equal to the reclassification from the reserve for cash flow hedges.

Hapag-Lloyd also uses currency forward contracts to hedge against fluctuations in cash flows in relation to changes in foreign exchange rates for certain financial debt. Here, all price components were designated under IAS 39 as the hedging instrument of the cash flow hedging relationship (forward-to-forward method). In order to obtain a similar accounting result, Hapag-Lloyd switched to the spot-to-spot method when it applied IFRS 9 for the first time. As a result, only the spot component is still designated as the hedging instrument from 1 January 2018. Hapag-Lloyd is making use of its option here to allocate the changes in the forward component to the reserve for hedging costs.

iv. Transition

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

- Hapag-Lloyd has made use of the option not to restate comparative information for previous periods with regard to changes in categorisation and measurement (including impairment). Differences between the current carrying amounts and the carrying amounts resulting from the application of IFRS 9 were generally recognised in retained earnings as at 1 January 2018.
- New requirements for hedge accounting should generally be applied prospectively. However, the recognition of time values of options must be restated retrospectively. By contrast, the Group has the option of applying the change in accounting policy for the forward component and the foreign currency basis spread on a retrospective basis. Hapag-Lloyd has not made use of this option.
- The facts and circumstances in existence at the point of first-time application should form the basis for determining the business model within which a financial asset is held.

v. Adjustment effects from the retrospective application of IFRS 9

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

Consolidated income statement for the period 1 January to 31 December 2017

million EUR	IAS 39 as previously reported	Adjustments	Restated at 31.12.2017
Transport expenses	7,990.0	–0.5	7,989.5
Operating result	**353.9**	**0.5**	**354.4**
Earnings before interest and taxes (EBIT)	**410.9**	**0.5**	**411.4**
Earnings before taxes	**56.2**	**0.5**	**56.7**
Group profit / loss	**32.1**	**0.5**	**32.6**
thereof attributable to shareholders of Hapag-Lloyd AG	27.4	0.5	27.9
Basic / Diluted earnings per share (in USD)	**0.19**	**0.0**	**0.19**

Consolidated statement of comprehensive income for the period 1 January to 31 December 2017

million EUR	IAS 39 as previously reported	Adjustments	Restated at 31.12.2017
Group profit / loss	32.1	0.5	32.6
Other comprehensive income after tax	–663.3	–0.5	–663.8
Total comprehensive income	**–631.2**	**–**	**–631.2**

Consolidated statement of financial positions as at 31 December 2017

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

Consolidated statement of cash flows for the period 1 January to 31 December 2017

million EUR	IAS 39 as previously reported	Adjustments	Restated at 31.12.2017
Group profit / loss	32.1	0.5	32.6
Other non-cash expenses (+) / income (–)	19.8	–0.5	19.3
Cash inflow (+) / outflow (–) from operating activities	**893.9**	**–**	**893.9**

IFRS 15 Revenue from Contracts with Customers

The International Accounting Standards Board published IFRS 15 Revenue from Contracts with Customers in May 2014 and Clarifications to IFRS 15: Revenue from Contracts with Customers in April 2016. IFRS 15 replaces the previous guidelines on the recognition of revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The new standard specifies uniform basic principles for the recognition of revenue that are applicable to all sectors and to all types of revenue transaction. Under IFRS 15, a standardised five-step model applies to assessing the amount of revenue to be recognised and at which time or over which period it is to be recognised. The standard contains a range of additional rules regarding detailed issues such as presenting contract fees and contract amendments.

Hapag-Lloyd has applied IFRS 15 since 1 January 2018. Upon transition to IFRS 15, the modified retrospective method is applied according to which the cumulative adjustment amounts as at the 1 January 2018 are recognised in the retained earnings. Comparative information is not adjusted, i. e. it is presented as before in accordance with IAS 18, IAS 11 and the respective Interpretations. The first-time application of IFRS 15 by the Hapag-Lloyd Group has not had any significant effects with regard to the amount of revenue recognised and when it is recognised. Therefore, no cumulative adjustment amounts had to be recognised in equity as at 1 January 2018.

Within revenue from contracts with customers, revenue from sea freight, inland container transport and terminal handling charges are the most important sources of revenue for the Hapag-Lloyd Group. Under IFRS 15, there is one performance obligation per shipment, which is rendered on a period-related basis, i. e. for the duration of transport. Combining several shipments on a single voyage produces essentially the same results with regard to the amount and timing of revenue recognised as would be the case were the revenue to be recognised on the basis of each individual shipment. Since revenue from sea freight, inland container transport and terminal handling charges is already recognised and categorised on a period-related basis under IAS 18, the first-time application of IFRS 15 by the Hapag-Lloyd Group has not had any significant effects in relation to this revenue stream. The method currently used to measure performance progress (input-based method) continues to be used under IFRS 15. IFRS 15 has not had any significant effects on the recognition of variable purchase price components, in particular discounts or demurrage and detention. With regard to the other revenue streams, the first-time application of IFRS 15 has also not had any significant effects on the amount of revenue and the timing of revenue recognition.

As of 1 January 2018, the new balance sheet items “contract assets” and “contract liabilities” were initially presented in accordance with the provisions of IFRS 15. Contract assets mainly included receivables in connection with shipments on voyages not yet completed as at the respective reporting date. Contract liabilities mainly included prepayments received from pending voyages. Trade accounts receivables of finished voyages had been fully recognised at that point in time when the voyage had been finished.

As of 31 December 2018, Hapag-Lloyd substantiated the interpretation of an unconditional right to consideration. Due to the change in the accounting method, unconditional rights to transport consideration are recorded earlier than before and in full as trade accounts receivables. As a result of this substantiation, the financial statements provide more reliable and relevant information regarding trade account receivables related to shipments on voyages not completed on the reporting date. Prepayments received reduce the trade accounts receivables. As of 31 December 2018, the adjustment amount of trade accounts receivables resulting from the change in the accounting method is EUR 502.0 million and, taken separately, leads to a corresponding increase in trade accounts receivables and contractual liabilities. A retrospective determination of the adjustment amount is not feasible due to technical restrictions. For the accounting of other provisions, see note (24) in these Notes to the consolidated financial statements.

The table below summarizes the impact of the application of IFRS 15 in consideration of the substantiation of the accounting method explained above on the items of the consolidated balance sheet as of 31 December 2018. There were no material effects on the consolidated statement of comprehensive income or the consolidated cash flow statement for the 2018 financial year:

million EUR	IFRS 15	Adjustments	without application of IFRS 15
Assets			
Non-current assets	**12,845.0**	**0.0**	**12,845.0**
Trade accounts receivable – short-term	1,217.7	–245.4	972.3
Other	1,238.6	0.0	1,238.6
Current assets	**2,456.3**	**–245.4**	**2,210.9**
Total Assets	**15,301.3**	**–245.4**	**15,055.9**
Equity and liabilities			
Equity	**6,259.3**	**0.0**	**6,259.3**
Non-current liabilities	**5,665.3**	**0.0**	**5,665.3**
Other provisions – short-term	343.5	–118.9	224.6
Contract liabilities – short-term	260.3	–260.3	0.0
Other liabilities – short-term	157.9	133.8	291.7
Others	2,615,0	0.0	2,615.0
Current liabilities	**3,376.7**	**–245.4**	**3,131.3**
Total equity and liabilities	**15,301.3**	**–245.4**	**15,055.9**

Hapag-Lloyd AG breaks down its revenue by trade. This breakdown can be found in the segment reporting. For further information on revenue, see note (1) in these Notes to the consolidated financial statements.

Standards not yet requiring mandatory application in the financial year

The following amended standards and interpretations that were adopted by the IASB at the time these consolidated financial statements were prepared were not yet mandatory in the 2018 financial year.

Standard / Interpretation		Mandatory application as per	Adopted by EU Commission
IFRS 9	Amendments to IFRS 9: Prepayment Features with negative Compensation	1.1.2019	yes
IFRS 16	Leases	1.1.2019	yes
IAS 28	Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	1.1.2019	yes
IFRIC 23	Uncertainty over Income Tax Treatments	1.1.2019	yes
IAS 1 IAS 8	Amendments to IAS 1 and IAS 8: Definition of material	1.1.2020	no
IAS 19	Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1.1.2019	no
IFRS 3	Amendments to IFRS 3: Definition of a Business	1.1.2020	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	open	no
IFRS 17	Insurance Contracts	1.1.2021	no
Various	Annual Improvements to IFRS (2015 – 2017)	1.1.2019	no
Framework	Amendments to referrences to the Conceptual Framework	1.1.2020	no

These are regulations which will not be mandatory until the 2019 financial year or later. Hapag-Lloyd AG abstained from adopting the standards early. Only the provisions which are relevant to the Hapag-Lloyd Group are explained below. Unless stated otherwise, the effects are currently being reviewed.

EU endorsement has been given

IFRS 16 Leases

General

IFRS 16 Leasing was published by the IASB in January 2016 and endorsed into EU law on 31 October 2017. IFRS 16 becomes mandatory in financial years beginning on or after 1 January 2019. For entities reporting in accordance with IFRS as applicable in the EU, IFRS 16 sets out the recognition, measurement, presentation and disclosure requirements of leases. IFRS 16 replaces IAS 17 “Leases”, as well as the interpretations IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, SIC 15 “Operating Leases – Incentives” SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

IFRS 16 provides different regulations for lessees and lessors. For lessees there is a single accounting model which no longer differentiates between finance leases and operating leases. Lessors, however, continue to classify leases as operating or finance leases. Accordingly, the accounting model under IFRS 16 for lessors is not significantly different to the model that applied under IAS 17.

The single accounting model requires lessees to recognise all assets and liabilities for leases in the statement of financial position, unless (1) the lease term is 12 months or less or (2) the underlying asset has a low value (both optional). If the lessee makes use of one of the two exemptions described above, the possibility arises to apply an accounting model which is similar to the model currently applied to operating leases.

Lessees are required to recognise all lease arrangements in the form of a right-of-use asset and a corresponding lease liability. A leasing arrangement exists when the fulfilment of a contract is dependent on the use of an identifiable asset and, additionally, the customer obtains control over that asset. The arrangement is presented in the income statement as a financing arrangement in such a way that the right-of-use asset is usually amortized on a straight-line basis and the lease liability is accounted for in accordance with the effective interest method. Cash flow from operating activities increases as the repayment of the principal amount of the lease liability is classified as cash flow from financing activities.

Initial application of IFRS 16 in the Hapag-Lloyd Group

Hapag-Lloyd is required to apply IFRS 16 from 1 January 2019. Hapag-Lloyd has prepared a Group-wide analysis of the expected effect of implementing the new IFRS 16 standard during the reporting period 2018. For this purpose, Hapag-Lloyd initiated a Group-wide project. An important aspect of the IFRS 16 project was the introduction of a Lease Engine to account for future lease arrangements. The project was managed centrally, while on the other hand the implementation work was organised on a decentralised basis. Hapag-Lloyd performed the contract analysis on an individual agreement level.

The new rules will affect Hapag-Lloyd's recognition and measurement of rented and leased assets which are currently used under contracts classified as operating leases. This primarily affects the following categories of assets:

1. rented vessels;
2. rented containers;
3. rented office space, land and parking areas;
4. leased vehicles; and
5. other rented business equipment and furnishings

which could eventually lead to the accounting of corresponding rights of use and lease liabilities. The Lease Engine was configured to suit the requirements of the Hapag-Lloyd Group and adapted to reflect the specific assets classes in the tool.

The actual effects of applying IFRS 16 from 1 January 2019 can, however, differ from the amounts determined at the present time as

- the Group has not yet finally completed its testing and assessments of controls over its new IT systems, and
- there may still be amendments to the new accounting methods by the date that the first consolidated financial statements subsequent to initial application are issued.

Use of available accounting options

Hapag-Lloyd applies the modified retrospective approach as at 1 January 2019. For this reason, the cumulative effect from the application of IFRS 16 is recorded as an adjustment to the opening balance of retained earnings as at 1 January 2019. A restatement of comparative figures for prior periods does not take place.

The Group intends to use the simplification rule to maintain the definition of a lease in the changeover. Hapag-Lloyd applies IFRS 16 to agreements that were previously classified as lease arrangements under IAS 17 and IFRIC 4 and does not apply IFRS 16 to agreements that were previously determined not to contain a lease arrangement under IAS 17 and IFRIC 4.

As at 1 January 2019, the date of initial application, Hapag-Lloyd makes use of the following practical expedients.

Hapag-Lloyd applies IFRS 16 to a portfolio of similar container lease arrangements.

Hapag-Lloyd applies a single discount rate of interest to a portfolio of lease arrangements with similar characteristics such as asset category, lease term, and security. The discount rate corresponds to the respective marginal borrowing interest rate applicable to the five defined asset classes at the time of conversion. In addition to the rented vessels, which are combined based on arrangements with a similar remaining term, this also applies to container rental contracts which are combined based on container type and remaining term, and to rented office space, land and parking areas and leased vehicles.

Hapag-Lloyd applies a practical expedient to leasing arrangements which are onerous contracts in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and amends the right-of-use asset as at 1 January 2019 by the amount of provision that was recorded for the onerous contract as at 31 December 2018.

At the time of initial application Hapag-Lloyd applies the accounting option for short-term leases, whose commitment matures within 12 months, to all asset categories by not recognising a right-of-use asset and a lease liability in the statement of financial position for short-term leases. The corresponding expenses are shown in the disclosures for expenses for short-term leases in the 2019 financial year.

Hapag-Lloyd applies the option of short-term leases to all asset classes to the extent that they are not recognized in the balance sheet with a right of use and a lease liability. Hapag-Lloyd applies the option of low-value assets, i. e. less than or equal to USD 10,000, to other operating and office equipment provided on a rental basis. For leased containers that meet the definition of a low value asset, the option to dispose of low value assets has not been exercised.

Initial direct costs are excluded from the measurement of the right-of-use asset at the date of initial application.

Hapag-Lloyd separates leasing and non-leasing components in all leasing contracts that include a leasing arrangement. Hapag-Lloyd makes no use of the practical expedient to dispense of the requirement to separate leasing and non-leasing components.

Hapag-Lloyd takes into account unilateral and bilateral termination rights in the contracts examined in accordance with IFRS 16. In the case of unilateral termination rights, which may apply to Hapag-Lloyd particularly in the case of vessel contracts and rented office buildings, land and parking spaces, the likelihood of exercising the existing option is assessed under economic circumstances and on an individual basis. The assessment is used to determine the term of the respective contract.

Two-sided termination rights essentially exist for a large number of container lease agreements. These termination rights can be exercised flexibly and independently by both parties. When determining the duration of these container leases for accounting purposes, Hapag-Lloyd needs to assess in accordance to IFRS 16.B34 whether, in the event of the return of containers or the termination of these container leases, penalties need to be paid in a no more than insignificant amount. Thereby Hapag-Lloyd also takes possible economic disadvantages into account. In the opinion of Hapag-Lloyd, if these contracts are terminated, there are no disadvantages in a more than insignificant extent. If from a Hapag-Lloyd point of view the disadvantages are more than insignificant, this will be taken into account when assessing the term of the contract.

Hapag-Lloyd as lessee

Hapag-Lloyd as lessee recognises a lease liability for leases involving all classes of asset that were previously classified as operating leases in accordance with IAS 17 and for which no practical expedients were used at the time of initial application. This is measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of interest as at 1 January 2019. Hapag-Lloyd as lessee also recognises a right-of-use asset for leases involving all classes of asset that were previously classified as operating leases in accordance with IAS 17.

In all cases, Hapag-Lloyd measures the right-of-use asset from the lease liability on an asset-by-asset basis and in the asset classes (1), (2), (3) and (4) at the amount of the lease liability. These are adjusted by any advanced or accrued lease payments recognised in the consolidated statement of financial position as at 31 December 2018. In certain cases, Hapag-Lloyd recognises the right-of-use asset at the carrying amount for items included in the asset classes (1) and (2), as if the standard had already been applied since the commencement date, but discounted using the incremental borrowing rate of interest as at the date of initial application. For such cases there is a cumulated effect on equity arising from the initial application of the new standard. This effect is recorded directly in equity at the date of initial application.

The nature of the expenses recorded in connection with these lease arrangements will change, as the Group will now record an amortisation charge for the right-of-use assets and interest expenses on the lease liabilities. Until now, Hapag-Lloyd recorded the expenses from operating lease arrangements over their lifetime on a straight-line basis, while only recognising assets and liabilities to the extent that there is a difference between the actual lease payments and the expense recognised.

The Hapag-Lloyd Group does not expect any significant effect to arise from its existing finance lease arrangements. As at 1 January 2019, Hapag-Lloyd as lessee recognises the carrying amount of the right-of-use asset and the lease liability for lease arrangements that were previously classified as finance lease arrangements in accordance with IAS 17 at the amounts of the leased asset and the lease liability as measured in accordance with IAS 17 as at 31 December 2018. From 1 January 2019, these lease arrangements are subject to IFRS 16.

Adjustments have been made to all financing agreements that contain loan conditions regarding the minimum equity ratio to be maintained at Group level (financial covenant). The Group does not expect the adoption of IFRS 16 to have an impact on its ability to meet the loan conditions with respect to the minimum equity ratio to be maintained at Group level.

Determining the incremental borrowing rate of interest

In most cases, the interest rate implicit in the lease used by the lessor is not known to Hapag-Lloyd as lessee and the rate cannot easily be determined. Accordingly, an incremental borrowing rate for Hapag-Lloyd is calculated in such cases.

The incremental borrowing rate reflects what Hapag-Lloyd would have to pay as lessee if it borrowed capital in order to acquire an asset with a similar value to the right-of-use asset under similar conditions. Accordingly, the incremental borrowing rate is a specific interest rate for Hapag-Lloyd that takes account of the following:

- the credit risk of the lessee;
- the lease term;
- the amount and quality of the security;
- the nature of the assets (class of asset);
- the value of the right-of-use; and
- the commercial environment (country, currency, date that the contract was entered into) in which the transaction took place.

The incremental borrowing rate in the Hapag-Lloyd Group is determined by category of asset and term to maturity. It consists of the risk-free base interest rate plus a weighted risk premium. The term to maturity-specific risk-free base interest rate is determined based on the currency-specific interest curve. The risk premium is weighted according to the security collateral ratio and includes an unsecured and a secured element. The significant assumptions used to determine the security collateral ratio and the unsecured and a secured risk premium are based on internal and external sources.

The weighted average incremental borrowing rate amounts to 5.5% – 6.5% as at 1 January 2019.

Hapag-Lloyd as lessor

As Hapag-Lloyd only acts as lessor to a limited extent, IFRS 16 is not expected to have a significant effect on the net assets, financial position and results of operations of the Group.

Effect of IFRS 16 in the Hapag-Lloyd Group

As of the balance sheet date 31 December 2018, Hapag-Lloyd has obligations from non-cancellable rental leases in the amount of EUR 1.102,9 million, see Note (32).

On the basis of the existing lease contracts as at 31 December 2018, Hapag-Lloyd expects a first-time application effect (without possible tax effects) which will lead to an increase in the Group's balance sheet total. The right-of-use assets in the amount of EUR 0.7 – 0.9 billion and corresponding leasing liabilities in the amount of EUR 0.8 – 1.0 billion are expected. The cumulative effects from the first-time application in the amount of EUR 10 – 100 million are shown in equity as an adjustment to the opening balance of retained earnings.

On the basis of the information available, Hapag-Lloyd also expects EBITDA in the amount of EUR 370 – 470 million and EBIT in the amount of EUR 10 – 50 million for the 2019 financial year.

IAS 28

The amendments to IAS 28 clarify that IFRS 9 applies to long-term investments in associated companies or joint ventures that are not accounted for using the equity method.

IFRIC 23

IFRIC 23 supplements the provisions of IAS 12 income taxes in terms of taking into consideration uncertainty over income tax treatment of circumstances and transactions. According to IFRIC 23, tax risks should be recognised if the tax authorities are unlikely to accept the tax circumstance. This approach rules out the danger of a possible discovery (risk of discovery) by the tax authorities. The tax risks can be measured with the most likely value or with the expected value. According to the interpretation, the measurement method that best reflects the existing risk should be used. The interest on additional tax claims and rebates as well as any penalties incurred are not covered by the interpretation.

EU endorsement still pending

The amendments to IAS 1 and IAS 8 establish a uniform and more precise definition of materiality as it applied to information provided in financial statements and provides complementary examples. In this context, the amendments also harmonise with the definitions used in the framework, IAS 1, IAS 8 and IFRS Practice Statement 2 Making Materiality Judgements.

With the amendments to IFRS 3, the IASB has clarified that a business operation is a set of activities and assets that must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create outputs. In addition, the understanding of outputs is focussed on goods and services provided to customers; the reference to an ability to reduce cost has been removed. The new rules further include an optional “concentration test” designed to permit a simplified identification of a business.

The revised framework consists of the new overriding section “Status and purpose of the conceptual framework” as well as a total of 8 complete sections in all. This includes sections on “The reporting entity and Presentation and disclosure”; the Recognition section has been amended to include Derecognition. In addition, there are changes in content: the distinction between income in revenues on the one hand and gains on the other has been removed. As a consequence of the changes to the framework, the references to the framework included in various standards have been updated.

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 the control agreement comes to an end, the companies in question leave the group of consolidated companies.

A subsidiary is consolidated for the first time using the acquisition method. For this purpose, a complete fair value measurement of all the subsidiary's identifiable assets, liabilities and contingent liabilities at the time of acquisition is performed. The consideration measured at fair value for the acquisition of the investment share is offset against the equity relating to the share acquired. Any positive difference is recognised as goodwill and is recorded as an asset. Any negative difference is recognised directly through profit or loss at the time when it occurs and is reported in other operating income. The existing option to capitalise goodwill for non-controlling shares is not used. 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 form the basis for the consolidated financial statements, which are prepared using the standard Group accounting and measurement principles.

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.

Minority interests in the equity of a subsidiary are recognised as non-controlling interests within Group equity. The share of Group profit which is attributable to non-controlling interests is reported separately as such in the consolidated income statement and the consolidated statement of comprehensive income. Transactions whereby the Hapag-Lloyd Group acquires additional shares in or sells shares in an existing subsidiary without prompting a change of control are recognised as equity transactions between shareholders. The difference between the consideration received / transferred and the shares sold / received is recognised in the Group's equity.

Joint arrangements
Joint arrangements are contractual arrangements, based on which two or more parties establish a commercial activity that they jointly control. Joint control exists if the two parties must work together to manage the relevant activities, and decisions must be made unanimously. 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. Interests in joint ventures are 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. As a rule, it is assumed that Hapag-Lloyd exerts significant influence if Hapag-Lloyd AG directly or indirectly holds between 20% and 50% of the voting rights. 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 comprehensive 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 ventures are not recognised unless further instruments are issued to the company.

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.

Group of consolidated companies

In addition to Hapag-Lloyd AG, a total of 151 (previous year: 164) companies are included in consolidated financial statements for the 2018 financial year:

	Fully consolidated		Equity method		
	domestic	foreign	domestic	foreign	Total
31.12.2017	3	154	1	6	164
Additions	1	6	0	1	8
Disposal	0	19	0	2	21
31.12.2018	**4**	**141**	**1**	**5**	**151**

Certain subsidiaries which were included in the consolidated financial statements as part of the integration of CSAV's container shipping business in 2014 and the integration of the UASC Group in 2017 have been merged with Hapag-Lloyd companies in the respective countries. As a result, the group of consolidated companies decreased by 5 companies in the 2018 financial year. In addition, 7 companies 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. A further 7 companies were liquidated. No significant impact on the net asset, financial and earnings position of the Hapag-Lloyd Group resulted from the deconsolidation of companies.

Mergers

Merged company	Receiving company
CNP Holding S. A., Panama City	Rahue Investment Co. S. A., Panama City
Corvina Maritime Holding S. A., Panama City	Rahue Investment Co. S. A., Panama City
Sea Lion Shipping Co. S. A., Panama City	Corvina Maritime Holding S. A., Panama City
United Arab Shipping Agency Company (Taiwan) Ltd., Taipei	Hapag-Lloyd (Taiwan) Ltd., Taipei
United Arab Shipping Co. Korea Ltd., Seoul	Hapag-Lloyd (Korea) Ltd., Seoul

Deconsolidation due to immateriality

Malleco Shipping Co. S. A.	Panama City
Maule Shipping Co. S. A.	Panama City
Oy UASAC Finland AB i. L.	Helsinki
UASAC Sweden AB i. L.	Gothenburg
United Arab Agencies (Inc.)	Wilmington
United Arab Shipping Agency Company (Malaysia) Sdn. Bhd.	Kuala Lumpur
United Arab Shipping Agency Co. (United Kingdom) Ltd. i. L.	London

Liquidations

Hull 1796 Co. Ltd.	Majuro
Hull 1798 Co. Ltd.	Majuro
Inversiones CNP S. A.	Lima
UASC Japan Co. Ltd.	Tokio
United Arab Shipping Agency Company (Ningbo) Ltd.	Ningbo
United Arab Shipping Company Services LLC	Al-Damman
Wellington Holding Group S. A.	Road Town

The following companies are fully consolidated as Hapag-Lloyd AG has majority voting rights and therefore exerts full control over them:

Company	Registered office	Shareholding in %
Aratrans Transport and Logistics Service LLC	Dubai	49.0
Hapag-Lloyd Ecuador S. A.	Guayaquil	45.0
Hapag-Lloyd (Egypt) Shipping S. A. E.	Alexandria	49.0
Hapag-Lloyd Middle East Shipping LLC	Dubai	49.0
Hapag-Lloyd Shipping Company – State of Kuwait K. S. C. C.	Safat	49.0
Hapag-Lloyd (Thailand) Ltd.	Bangkok	49.9
Middle East Container Repair Company LLC	Dubai	49.0
United Arab Shipping Agencies Company PJS	Amman	50.0
United Arab Shipping Agencies Co. (Bahrain) WLL	Manama	49.0
United Arab Shipping Agencies Co. LLC (UAE)	Dubai	49.0
United Arab Shipping Agency Co. (Qatar) WLL	Doha	49.0
United Arab Shipping Agency Co. S. A. E. (Egypt)	Alexandria	49.0
United Arab Shipping Co. Holding (Thailand) Ltd.	Bangkok	49.945

Although Hapag-Lloyd AG only holds 48.95% of the voting shares in the fully consolidated CSAV Austral SpA, Valparaíso, it accounts for the majority of the members of the decision-making body. Hapag-Lloyd AG also holds 100% of the shares entitled to dividend payments. As such, beneficial ownership is exclusively within the Hapag-Lloyd Group.
Details of non-controlling interests can be found in Note (22).

In the reporting year, 10 fully consolidated companies and 1 equity-accounted investee had a financial year that differed from that of the Group. The values carried forward as at 31 December 2018 are used for purposes relating to inclusion in the consolidated financial statements. All other companies have financial years that correspond with Hapag-Lloyd AG.

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

Business acquisitions

Acquisition of an Egyptian agency

On 14 August 2018, Hapag-Lloyd aquired the agency business (business operations) of Medlevant Shipping S. A. E., Egypt ("MDV") by incorporating it into Hapag-Lloyd (Egypt) Shipping S. A. E., Egypt ("HLE"), which was newly established for this purpose. Hapag-Lloyd directly holds 49% of the capital and voting rights in HLE. A further 16% of the capital and voting rights are held in trust by a third party for Hapag-Lloyd and attributed to the Company. As it holds the majority of voting rights, Hapag-Lloyd controls HLE.

Prior to the acquisition date, MDV operated as an agent for Hapag-Lloyd in Egypt. Since the acquisition, HLE has been Hapag-Lloyd's agent in Egypt. The acquisition of MDV's agency business and the associated reorganisation means that redundant agent structures in Egypt will be removed and cost synergies will be utilised. The fair value of the consideration paid for the acquisition of the business operations was EUR 10.2 million on the acquisition date. EUR 9.4 million of this relates to financial liabilities incurred and a further EUR 0.8 million to liabilities incurred for a contingent consideration. The contingent consideration provides for future additional payments denominated in US dollars for volume increases generated by HLE in comparison with a fixed benchmark volume. The estimated range of the undiscounted additional payments is between EUR 0.6 million and EUR 1.2 million.

The former owners of MDV are engaged to manage HLE and provide similar services to Hapag-Lloyd. The remuneration for these services is at fair market rates and is continously recognised as other operating expenses when services are provided.

The acquisition-related costs are insignificant. The net assets identified as part of the first-time consolidation are immaterial and relate to office equipment.

New information about facts and circumstances which already existed at the acquisition date were identified after the acquisition date. This resulted in an increase in the future volumes expected for HLE, which in turn has led to an increase in the fair value of the contingent consideration of EUR 0.2 million. The purchase price allocation is therefore no longer incomplete.

As at the acquisition date, 65% of the capital and voting rights in HLE are attributable to Hapag-Lloyd. For the remaining 35%, there is a contractual arrangement in place that operates like a forward contract for the acquisition of these interests by Hapag-Lloyd. On the contractually agreed date, Hapag-Lloyd will acquire the 35% at a fixed purchase price. Under the contractual provisions, the current shareholders do not and will not have access to the returns associated with this stake. As a result, the acquisition of the 35% was anticipated at acquisition date for accounting purposes, and no non-controlling interests are recognised.

The acquisition resulted in goodwill in the amount of EUR 10.2 million. The goodwill comprises non-identifiable intangible assets such as expertise and processes of MDV's existing workforce that enable the agency business in Egypt to continue after the acquisition date, and the expected synergies from cost reductions following the reorganisation of the existing agency structures in Egypt.

Since the date of acquisition, revenue of EUR 11.9 million and earnings (EBIT) of EUR 1.6 million of HLE are included in the consolidated income statement for the period. It is impractical to disclose a pro forma assessment (as though the acquisition had occurred on 1 January 2018), as only MDV's business operations were acquired, and Hapag-Lloyd does not have access to the accounting documents of the former agent MDV.

Acquisition of UASC Group in the previous year

On 24 May 2017, Hapag-Lloyd acquired 100% of the shares and voting rights in UASC. As at the acquisition date, UASC was the biggest container liner shipping company in the Middle East. The business combination is expected to result in annual synergies of USD 435 million starting in 2019.

Had the acquisition taken place on 1 January 2017 (pro forma consideration), Group revenue would have come to EUR 11,059.5 million and earnings (EBIT) would have totalled EUR 459.9 million. The Hapag-Lloyd Group for the period 1 January to 31 December 2017 together with the UASC group for the period 1 January to 24 May 2017, accounted for in accordance with the accounting principles of Hapag-Lloyd, served as the starting point for the preparation of the pro forma figures. The pro forma consideration was calculated including the effects of the purchase price allocation, while effects from transactions which were contractually required before the time of acquisition were not included. Furthermore, in calculating these amounts, it was assumed that the adjustments made to the fair values at the time of acquisition would also have been valid if the acquisition had occurred on 1 January 2017. The required pro forma adjustments are based on the available information. Based on the outlined assumptions, the presented pro forma net result does not necessarily equate to the Group net result that the Group would have generated had the acquisition of UASC in fact been completed on 1 January 2017.

Currency translation

The annual financial statements are prepared in the respective functional currency of the company. 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 average exchange rate applicable as at the balance sheet date (closing rate). The transactions listed in the consolidated statement of cash flows and the expenses and income 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.

The cash flows, income and expenses of the acquired UASC Group in the previous year were translated at the average US dollar / euro exchange rate between 24 May and 31 December 2017 of 1.1687.

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 in the value of derivative financial instruments that are designated as qualified cash flow hedges. These are recognised in other comprehensive income.

Gains and losses due to exchange rates are shown in the item which results in 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 netted in other operating income or other operating expenses as well as in personnel expenses and income taxes.

Exchange rates of significant currencies:

	Closing rate		Average rate	
per EUR	**31.12.2018**	31.12.2017	**2018**	2017
US dollar	1.14510	1.19890	1.18150	1.12940
Indian rupee	80.25200	76.48900	80.82087	73.54459
Brazilian real	4.43666	3.96566	4.31896	3.60532
Chinese renminbi	7.85905	7.83385	7.81640	7.63223
Canadian dollar	1.55960	1.50280	1.53151	1.46607
British pound sterling	0.89690	0.88731	0.88591	0.87720
Australian dollar	1.62240	1.53311	1.58237	1.47369
Japanese yen	125.89810	134.88869	130.46391	126.64971
United Arab Emirates dirham	4.20630	4.40370	4.33963	4.14821

Accounting and measurement

The annual financial statements of the subsidiaries included in the Group are prepared in accordance with consistent accounting and measurement principles.

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 on a straight-line basis 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	20 – 25
"Hapag-Lloyd" brand	unlimited
Other brands	5 – 20
Charter and lease agreements	5 – 10
Computer software	5 – 8
Other	3

The global container liner service is almost 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, so that additional measures or investments for the conservation of the value of the brand are not necessary.

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.

The costs incurred to create internally-generated intangible assets are only capitalised on fulfilment of the relevant conditions. Research and development activities (R & D) primarily include the expenses of developing company-specific software, which is designed to improve productivity and to enable our business processes to operate more effectively. R & D expenses primarily include improvements and renewals of existing software solutions used in the Group’s operations. Intangible assets generated internally are recognised at the cost incurred in the development phase between the date on which their technological and economic realisability is established and the date on which they are completed. The development phase is complete as soon as the IT department formally documents that the assets capitalised are ready for use and can be used in the manner and for the purposes in accordance with management’s intentions. The capitalised production costs are calculated on the basis of direct costs.

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	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 5 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”.

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 section “Segment reporting”).

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 was calculated at fair value. A need for impairment was not ascertained.

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 amount 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 or the individual asset. 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 of the container shipping CGU is used for the impairment testing of goodwill and is calculated on the basis of the value in use. This is 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 earnings contributions from cost-saving measures of Strategy 2023 already initiated in the financial year 2018. The cash flow forecasts contain specific estimates for 5 years and a perpetual rate of growth thereafter. For container shipping, the central planning assumptions are the future development of transport volumes, freight rates, bunker prices and exchange rates and the EBIT margin in the perpetual annuity. 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 using experience and assessments of the Group’s own competitive position on its various trades.

The long-term growth rate is 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.

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 the commercial ownership of the leased item is attributable to the lessee (finance leases) or the lessor (operating leases).

Lessee – finance leases

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 consolidated 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 lease 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 liability recognised.

Lessee – operating leases

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. One-off costs incurred at the end of the term are accrued on a straight-line basis over the term.

Lessor – operating leases

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

Sale-and-leaseback transactions

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.

Financial instruments with effect from 1 January 2018

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 IFRS 9, financial assets are classified into the measurement categories “measured at amortised cost” (AC), “measured at fair value through other comprehensive income” (FVOCI) and “measured at fair value through profit or loss” (FVTPL).

A debt instrument is measured at amortised cost if both of the following conditions are met:

- It is held as part of a business model, the purpose of which is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (cash flow criterion).

A debt instrument is measured at fair value through other comprehensive income if both of the following conditions are met:

- It is held within a mixed business model in which contractual cash flows are both collected and the financial assets are sold.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (cash flow criterion).

If the above-mentioned criteria for classification at amortised cost or fair value through other comprehensive income are not met, the debt instruments are measured at fair value through profit or loss.

Regardless of the classification criteria described above for debt instruments in categories AC or FVOCI, a company may irrevocably categorise a financial asset at initial recognition as “fair value through profit and loss” if this avoids or significantly reduces an accounting mismatch (“fair value option”).

Equity instruments are principally classified and measured at fair value through profit or loss. Alternatively, primary equity instruments that are not held for trading purposes may, on initial recognition, be classified under an irrevocable election as fair value under other comprehensive income (OCI option).

In the Hapag-Lloyd Group, financial assets are classified, taking into account the business model and the cash flow criteria, as “measured at amortised cost” and “measured at fair value through profit or loss”. No use was made of the fair value option or the OCI option.

Primary financial liabilities are either measured at amortised cost or measured at fair value through profit or loss. They shall be measured at fair value through profit or loss when they are held for trading purposes or when, on initial recognition – provided certain conditions are met – they are designated as "fair value through profit or loss" (FV option). Primary financial liabilities in the Hapag-Lloyd Group are only classified in the category "financial liabilities measured at amortised cost".

Derivative financial instruments that are not part of an effective hedging relationship as set out in IFRS 9 (hedge accounting) but rather classified as "held for trading" are to be assigned to the category "measured at fair value through profit or loss".

Non-derivative host contracts not involving financial assets within the scope of IFRS 9 are analysed to determine whether they contain embedded derivatives. An embedded derivative is 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 requiring separation are measured at fair value through profit or loss.

In the 2018 financial year, as in the previous financial year, there were no reclassifications within the individual classification categories.

Primary financial assets

Primary financial assets are recognised when the group becomes party to the contractual provision of the financial instrument. They are measured on initial recognition at fair value. In addition, with the exception of primary financial assets that are classified as "measured at fair value through profit or loss", any directly attributable transaction costs associated with the acquisition of primary financial assets are also included in the carrying amount on initial recognition. Trade accounts receivable with no significant financing component are measured on initial recognition at their transaction price.

In the Hapag-Lloyd Group, trade accounts receivable, a majority of other financial receivables as well as cash and cash equivalents (see next section) are measured subsequent to initial recognition at amortised cost using the effective interest method.

Expected credit losses for financial assets measured at amortised cost are recognised as loss allowances, i. e. as part of the measurement of these assets in the statement of financial position. Any adjustments to the balance of the loss allowance due to an increase or decrease in the amount of expected credit losses are recognised in the income statement as gain from an impairment reversal or as an impairment loss.

The expected credit losses are calculated here as a probability-weighted amount that also takes account of future economic conditions and the fair value of the money. In addition, collaterals are taken account of when estimating expected credit losses.

There are 2 approaches to determining expected credit losses.

The general approach involves creating a risk provision for the 12-month expected credit losses (level 1) or for the lifetime expected credit losses (levels 2 and 3). Assignment to the levels is based on whether the credit risk for the financial instrument has significantly increased since initial recognition (level 2) or whether the financial assets became credit-impaired (level 3). A significant increase in credit risk since initial recognition is assumed at the latest when the contractual payments are more than 30 days past due.

A financial asset is credit-impaired if one or more events with detrimental impact on estimated future cash flows have occurred (objective evidence of impairment).

The simplified approach applies to trade accounts receivable that do not contain any significant financing components. With the simplified approach, changes in the credit risk are not tracked, and a risk provision is always recognised for the lifetime expected credit losses (levels 2 and 3).

The general approach is used by the Hapag-Lloyd Group for cash and cash equivalents and other financial assets that fall within the scope of impairments under IFRS 9. A low credit risk applies to these financial assets at the balance sheet date.

To measure the expected credit losses from trade accounts receivable that are not credit-impaired, they are grouped according to the common credit risk characteristics of “geographic region” and “customer rating” using provision matrices. The probabilities of default used in country-specific provision matrices take macroeconomic data into consideration as well as financial and non-financial information about the customers grouped by rating. The probabilities of default used are forward-looking and are verified using historical credit losses. Trade accounts receivable are assumed to be credit-impaired if it is unlikely that the customer will fulfil its obligations or if trade accounts receivable are more than 90 days overdue. To measure the expected credit losses from these receivables, maturity structures, credit standing, geographic region and historical defaults are considered, while taking into account predicted future economic conditions.

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

When, on an individual instrument basis, no reasonable and supportable information is obtainable without undue cost or effort, the expected credit losses are determined on a collective basis, taking account of comprehensive credit risk information. For this, financial instruments are grouped according to common credit risk characteristics.

Certain securities and investments included in other financial receivables of Hapag-Lloyd are accounted for at fair value through profit or loss. The measurement gains and losses recorded on such securities and investments are reported in the income statement within the other financial result.

Primary financial assets are derecognised when the contractual rights to cash flows generated by the financial asset expire or the rights to receive the cash flows are transferred in a transaction in such a way that all substantial risks and opportunities associated with the ownership of the financial asset are transferred. A financial asset is also derecognised when the substantial risks and opportunities associated with the ownership of the financial asset are neither transferred nor retained and control over the asset is not retained. In addition, financial assets that are in default are derecognised when all measures taken to recover them are unsuccessful.

Transactions in which recognised assets are transferred, but in substance either all or all of the substantial risks and rewards of the transferred assets are retained in the Group, do not lead to a derecognition of the assets transferred.

Cash and cash equivalents

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

Cash which is deposited in pledged accounts with a term of no more than 3 months is recognised as cash and cash equivalents. If the term exceeds 3 months then the cash is presented as other assets.

Due to the short-term nature of bank balances and other cash investments (generally available on a daily basis) and the high credit rating of the banks involved (exclusively investment grade), the expected credit losses associated with bank balances and other cash investments are low and are therefore not recognised. The calculation of the expected credit losses is based on market information on publicly available default rates (credit default swaps) concerning the respective banks at the reporting date.

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 by adjusting the carrying amount through profit or loss. The new carrying amount of the liability is calculated from the present value of the modified cash flows, which are discounted using the original effective interest rate.

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 designated as a hedge and on the type of hedging relationship.

Derivative financial instruments are classified either as fair value hedges of assets or liabilities (fair value hedges), or as cash flow hedges to hedge against the risks of future cash flows from assets and liabilities recognised in the statement of financial position or the risks of highly probable future transactions (cash flow hedges). Hedging relationships in accordance with IFRS 9 (Hedge Accounting) were exclusively shown as cash flow hedges in the reporting period.

At the beginning of a hedging relationship in accordance with IFRS 9, the hedging relationship between the hedging instrument and the underlying transaction and between the risk management goal and the underlying strategy are documented. In addition, a documentation is made both at the beginning of the hedging relationship and on a continual basis demonstrating to what extent the derivatives used in the hedging relationship compensate for the changes in the fair values or cash flows of the underlying transactions.

The effective proportion of changes in the fair value of derivatives which are designated as cash flow hedges is recognised in the reserve for cash flow hedges in other comprehensive income. The ineffective proportion of such changes in fair value is recognised immediately in profit or loss. The non-designated portion of the derivative is recognised in a separate reserve for hedging costs in other comprehensive income. In the Hapag-Lloyd Group, the change in the time value of commodity options as well as the change in the value of the forward component of the currency forward contracts is excluded from the hedging relationships.

If the hedged item later leads to the recognition of a non-financial item, the accumulated amount recognised under equity is reclassified from the separate equity components and is recognised with the initial costs or other carrying amount for the hedged asset or liability as a basis adjustment.

For all other cash flow hedges, however, the accumulated amount recognised in equity is reclassified as a reclassification amount in profit and loss in the same period or periods during which the hedged cash flows affect profit and loss.

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 hedged item 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 which must be separated, are recognised directly through profit or loss in the consolidated income statement.

Differing accounting and measurement methods used in the previous year for 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 classification 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”.

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 12 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 of trade accounts receivable and other assets 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.

Available-for-sale financial assets are measured at fair value after their initial measurement. Changes in fair value are recorded under other comprehensive income until the disposal of the assets. A permanent reduction in fair value gives rise to impairments recognised with effect on net income. 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.

Where non-substantial modifications to primary financial liabilities are made, the difference between the present values of the original and modified cash flows is recorded as an adjustment to the effective interest method and amortised over the remaining term of the modified liability.

The changes in non-designated time values of options used in hedging relationships are recognised in profit or loss in accordance with IAS 39. In these consolidated financial statements, however, the previous year's figures have been retrospectively adjusted in accordance with the new regulations of IFRS 9 so that the changes are shown in the reserve for cost of hedging and not in the consolidated result. 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 item is recognised in profit or loss. For hedging relationships using currency forward contracts, the total effective change in market value of the hedging instrument is recognised first in the reserve for cash flow hedges within other comprehensive income. In the next step, the spot component is reclassified from the reserve for cash flow hedges within 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 hedged item.

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 actuarial obligation (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 curtailed, 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 curtailments are immediately recognised through profit or loss. Gains or losses arising from the curtailment or settlement of a defined-benefit plan are recognised at the time at which the curtailment or settlement 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.

Releases of provisions are generally recorded in the same consolidated income statement position that was originally used for the expense. Exceptions to this rule are significant releases, 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.

In the case of onerous contracts, the provisions to be built is determined, taking into account the variable costs attributable to the transport orders / shipments on the respective relation as well as the proportionate fixed costs. Before a provision is recognised, an impairment loss is recognised on the assets associated with the contract.

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.

Put options on non-controlling interests

Put options written involving a commitment to buy non-controlling interests when exercised are recognised as a financial liability in the amount of the present value of the exercise price pursuant to IAS 32. This entails application of the anticipated acquisition method which is founded on the assumption that acquisition of the non-controlling interests has already occurred: a financial obligation to acquire own equity instruments is carried as a liability. The non-controlling interests are derecognised in equity and the difference between the non-controlling interests and the likely purchase price is recognised in the remaining equity. Since the start of the year, subsequent changes in the value of the financial liability have been recognised through profit or loss in the interest result. The effects of this voluntary adjustment are immaterial.

The anticipated acquisition of non-controlling interests was disclosed separately in the statement of changes in equity.

Share-based payments

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 (pro rata allocation). Until the end of the performance period, 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

With regard to the notes on the accounting treatment of revenues, see section "New accounting standards".

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. In both the 2018 financial year and the previous year, basic earnings per share were the same as diluted earnings per share.

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. All profits in direct connection with the operating of merchant ships in international trade are essentially subject to tonnage tax. Income from capital and equity investments is taxed according to the normal rules. The same applies to ships that do not meet the requirements of tonnage taxation. 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 2018 to 2022, 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 quoted 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”.

Significant assumptions and estimates

The preparation of consolidated financial statements in accordance with IFRS requires estimates and assumptions in order to determine the assets, liabilities and provisions shown in the statement of financial position, the disclosures of contingent claims and liabilities as at the balance sheet date, and the recognised income and expenses for the reporting period. Estimates and assumptions 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:

- Verification of useful lives and residual values for intangible assets and property, plant and equipment
- Verification of the realisable values of intangible assets and property, plant and equipment
- Classification of leases
- Measurement of expected credit losses on receivables and other financial assets
- Recognition of deferred tax assets on loss carry-forwards
- Specification of parameters for measuring pension provisions
- Recognition and measurement of other provisions
- Determination of demurrage and detention to be recognised
- Determination of non-manifested rebates during the year

Verification of useful lives and residual values for 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 life 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.

Disclosures on the useful lives can be found in the section "Accounting and measurement". The carrying amounts of intangible assets and property, plant and equipment are shown in Notes (11) and (12).

Verification of the realisable values of intangible assets and property, plant and equipment

Verification of the realisable values of intangible assets and property, plant and equipment 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 carrying amounts of intangible assets and property, plant and equipment, see Notes (11) and (12).

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).

Measurement of expected credit losses on receivables and other financial assets

The measurement of expected credit losses on receivables and other financial assets requires the use of estimates and judgements concerning individual receivables and groups of receivables based on the credit risk assessments of the respective customers, the geographic region, the analysis of the age of the receivables and historical default rates as well as on an assessment of forward-looking economic conditions. Further information is provided in the section "Accounting and measurement" and Note (14).

Recognition of 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).

Specification of parameters for measuring pension 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 changed external factors such as economic conditions, the market situation and/or mortality rates.

In the valuation of defined-benefit obligations as of 31 December 2018 the 2018G mortality tables devised by Heubeck were applied for the first time. The amount of the obligation was not materially affected.

For detailed explanations, see Note (23).

Recognition and measurement of other provisions
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).

Determination of demurrage and detention to be recognised
Revenue from demurrage and detention is basically recognised when the contractually agreed free times for containers are exceeded. In order to determine the revenue from demurrage and detention to be recognised, estimates are required according to the expected amount of the claim to be received and whether it is highly probable that there will not be a significant reversal of recognised revenue in future period. In the Hapag-Lloyd group, these estimates are based on past experience.

Determination of non-manifested rebates during the year
Non manifested rebates are estimated on individual defined assumptions and deducted from the transaction price monthly. At the end of the year, the amount of rebates will be calculated on the basis of the actual circumstances and taken into account accordingly.

Risks and uncertainties
Influencing factors which can result in deviations from expectations comprise not only macroeconomic 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 of the maritime assets. The Group generates its revenue solely through its activities as a container liner shipping company. The revenue comprises income from transporting and handling containers and from related services and commissions, all of which are generated globally. As the Hapag-Lloyd Group operates with the same product around the world throughout its entire liner service network, the Executive Board has decided that there is no appropriate measure with which assets, liabilities, EBIT and EBITDA as the key performance indicators can be allocated to different trades. All of the Group's assets, liabilities, income and expenses are thus only allocable to the one segment, container liner shipping. The figures given per trade are the transport volume and freight rate, as well as the revenue allocable to said trade.

Transport volume per trade

TTEU	1.1.–31.12.2018	1.1.–31.12.2017
Atlantic	1,856	1,696
Transpacific	1,961	1,709
Far East	2,086	1,504
Middle East	1,473	1,033
Intra-Asia	1,046	851
Latin America	2,774	2,466
EMAO (Europe-Mediterranean-Africa-Oceania)	678	544
Total	**11,874**	**9,803**

Freight rates per trade [1]

USD/TEU	1.1.–31.12.2018	1.1.–31.12.2017
Atlantic	1,336	1,302
Transpacific	1,271	1,241
Far East	908	947
Middle East	758	864
Intra-Asia	512	578
Latin America	1,128	1,082
EMAO (Europe-Mediterranean-Africa-Oceania)	1,103	1,069
Total (weighted average)	**1,044**	**1,060**

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

Revenue per trade[1]

million EUR	1.1.–31.12.2018	1.1.–31.12.2017
Atlantic	2,098.8	1,955.3
Transpacific	2,108.8	1,877.8
Far East	1,602.5	1,260.8
Middle East	944.8	790.2
Intra-Asia	452.8	435.2
Latin America	2,647.7	2,363.5
EMAO (Europe-Mediterranean-Africa-Oceania)	633.0	514.9
Revenue not assigned to trades	1,026.7	775.7
Total	**11,515.1**	**9,973.4**

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

Revenue not assigned to trades mainly comprises income from demurrage and detention for containers as well as income from charter rents and compensation payments for shipping space.

Operating earnings before interest, taxes, depreciation and amortisation (EBITDA) were calculated on the basis of earnings before interest and taxes (EBIT) as presented in the following table. Earnings before taxes (EBT) and the share of profits of the segment's equity-accounted investees corresponded to those of the Group (see Note (13)).

million EUR	1.1.–31.12.2018	1.1.–31.12.2017
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**1,138.1**	**1,055.0**
Depreciation and amortisation	–695.1	–643.6
EBIT	**443.0**	**411.4**
Earnings before taxes (EBT)	**77.8**	**56.7**
Share of profit of equity-accounted investees	**30.7**	**38.1**

Non-current assets

million EUR	31.12.2018	31.12.2017
Goodwill	1,568.8	1,486.8
Other intangible assets	1,773.2	1,785.5
Property, plant and equipment	9,119.7	8,966.5
Investments in equity-accounted investees	328.1	331.9
Total	**12,789.8**	**12,570.7**
thereof domestic	9,692.2	9,464.2
thereof foreign	3,097.6	3,106.5
Total	**12,789.8**	**12,570.7**

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. The non-current assets held abroad are attributable to the United Arab Emirates with an amount of EUR 2,877.3 million (previous year: EUR 2,890.9 million).

There was no dependency on individual customers in the 2018 financial year.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) Revenue

The effects of first-time application of IFRS 15 on the Group's revenue from contracts with customers are described in the "New accounting standards" section.

Revenue streams

The Hapag-Lloyd Group's services comprise the shipping of containers by sea as well as associated hinterland transport for customers, thus providing transport services from door to door. As a result, the Hapag-Lloyd Group primarily generates revenue from sea freight, inland container transport and terminal handling charges.

The Hapag-Lloyd Group breaks down its revenue by trade. This breakdown can be found in the "Segment reporting" section.

Contract balances

Contract liabilities essentially comprise the remaining performance obligation as at the reporting date in connection with shipments on voyages not yet completed. The composition of contract liabilities is described in detail in the "New accounting standards" section. A modification to the accounting methods was made in this regard in the 2018 financial year. The retrospective calculation of opening balances as at 1 January 2018 on the basis of the new and the old accounting method according to IFRS 15.116 (a) is not possible due to technical restrictions.

Hapag-Lloyd also has contracts with customers with terms of more than 1 year in accordance with IFRS 15. However, if one considers the recognition of the associated revenue over the course of time, it can be seen that the terms of the contracts have no effect on the time-related recognition of revenue within 1 year. The reason is that the maximum duration of a ship voyage is less than 1 year. This means that the recognition of revenue for an individual shipment will not exceed a period of 1 year. With regard to the recognition of income, the Hapag-Lloyd Group therefore only has contracts with a short-term perspective of less than 1 year. On this basis, in accordance with IFRS 15.121 (a) in conjunction with IFRS 15.122, no further information is provided on transaction costs attributable to remaining performance obligations.

Performance obligations and methods for recognising revenue
The Hapag-Lloyd Group measures revenue based on the consideration specified in a contract with a customer. The revenue is recognised by the Hapag-Lloyd Group when the transport service is rendered. The performance obligation is fulfilled and the revenue is recognised in the period when the transport service is rendered by the Hapag-Lloyd Group, i.e. they are period-based.

The recognition of revenue is determined by performance progress. To determine the performance progress in connection with shipments on voyages not yet completed as at the reporting date, Hapag-Lloyd uses the input-based method while taking account of the expenses incurred up until the reporting date. Due to the transport-related expenses allocated over the itinerary, the procedure is considered reliable and suitable. The percentage of completion / transport progress is therefore determined on the basis of the ratio of expenses incurred to expected total expenses.

Payment terms at Hapag-Lloyd group vary at the local level. The payment term predominantly used by the Group constitutes immediate payment after receipt of the outgoing invoice.

Transaction price & transaction price components
With regard to the rendering of transport services in accordance with a customer's shipment contract, Hapag-Lloyd has a performance obligation as per IFRS 15.22(a), as the commitment made to the customer only comprises a distinguishable service. This is the commitment to transport goods from a specific origin to an agreed destination. A fixed transaction price is agreed for the transport service as part of a contract. The transaction price also includes variable components such as demurrage and detention. These are recorded as soon as the lease period of a container exceeds the agreed period in the contract. Other transaction price components in the Hapag-Lloyd Group include discounts of any kind, e.g. cash payment discounts, volume discounts or special discounts as per IFRS 15.47(f). This pertains to both manifested and non-manifested discounts. The latter are deducted from the transaction price on a monthly basis, thereby reducing revenue and are based on determined discount conditions, which make sure that the variable consideration is constrained. They therefore lead to a reduction in the transaction price. Since the discount is granted afterwards by means of a payment to the customer, a trade account payable (refund liability) is recognised on a monthly basis for the expected utilisation. For manifested discounts, on the other hand, the discount is granted earlier, when the receivables are booked. As a result, the revenue recognised has already been reduced by the amount of the discounts.

(2) Other operating income

million EUR	1.1.–31.12.2018	1.1.–31.12.2017
Income from the reversal of provisions	14.7	16.8
Income from the disposal of assets	14.4	2.5
Exchange rate gains	13.2	35.5
Subsidies and grants	11.2	10.5
Income from write-backs	8.7	5.4
Income from own cost capitalized	3.8	0.0
Gain from the purchase of UASC	–	28.2
Other income	49.1	34.1
Total	**115.1**	**133.0**

Income from the release of provisions mainly includes releases of provisions for guarantee, warranty and liability risks and for insurance premiums.

The income from the disposal of assets primarily results from the disposals of containers in the current financial year.

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.

Income from write-backs essentially consists of write-backs on trade accounts receivable and tax receivables.

The capitalisation of software resulted in income from own cost capitalised.

The initial consolidation of the UASC Group in the previous financial year generated one-off income from the purchase price allocation without recurrence in the current financial year.

Other income comprises items that cannot be allocated to any of the items mentioned above. This includes among other things income from cost transfers for services provided and rental and lease income.

(3) Transport expenses [1]

million EUR	1.1.–31.12.2018	1.1.–31.12.2017
Expenses for raw materials and supplies	1,694.1	1,183.6
Cost of purchased services	7,702.5	6,805.9
thereof		
Port, canal and terminal costs	3,988.3	3,472.9
Container transport costs	2,480.4	2,236.3
Chartering, leases and container rentals	1,038.6	836.2
Maintenance / repair / other	195.2	260.5
Total	**9,396.6**	**7,989.5**

[1] The previous year's figures have been adjusted due to the retrospective application of the rules for designation of option contracts. This improved transport expenses in the financial year 2017 by EUR 0.5 million.

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

(4) Personnel expenses

million EUR	1.1.–31.12.2018	1.1.–31.12.2017
Wages and salaries	547.0	552.9
Social security costs, pension costs and other benefits	112.4	126.9
Total	**659.4**	**679.8**

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).

The average number of employees was as follows:

	1.1.–31.12.2018	1.1.–31.12.2017
Marine personnel	1,985	1,508
Shore-based personnel	10,251	9,753
Apprentices	234	244
Total	**12,470**	**11,505**

(5) Depreciation, amortisation and impairment

million EUR	1.1.–31.12.2018	1.1.–31.12.2017
Scheduled amortisation / depreciation	694.2	642.1
Amortisation of intangible assets	99.3	100.3
Depreciation of property, plant and equipment	594.9	541.8
Impairment	0.9	1.5
Impairment of intangible assets	0.9	–
Impairment of property, plant and equipment	–	1.5
Total	**695.1**	**643.6**

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 break-down of depreciation and amortisation can be found in the Notes to the respective balance sheet item.

Explanatory notes on the impairments can be found in Note (18).

(6) Other operating expenses

million EUR	1.1.–31.12.2018	1.1.–31.12.2017
EDP costs	131.7	111.2
Commissions	66.9	53.4
Other taxes	52.1	50.3
Exchange rate losses	38.8	15.4
Expenses for charges, fees, consultancy and other professional services	34.3	36.7
Other social security expenses	32.7	32.7
Rental and lease expenses	32.2	33.0
Administrative expenses	18.2	16.3
Car and Travel expenses	17.4	17.9
Bank charges	9.1	7.7
Miscellaneous operating expenses	46.1	64.5
Total	**479.5**	**439.1**

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.

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

(7) Other financial result

The other financial result of EUR 12.7 million (previous year: EUR 18.9 million) mainly comprises the profit of EUR 12.9 million realised on the sale of the investment in INTTRA Inc., New Jersey.

(8) Interest result

The interest result was as follows:

million EUR	1.1.–31.12.2018	1.1.–31.12.2017
Interest income	15.8	11.3
Interest income from fund assets for the financing of pensions and similar obligations	3.4	3.4
Other interest and similar income	12.4	7.9
Interest expenses	375.8	341.9
Interest expenses from the valuation of pensions and similar obligations	8.6	9.3
Other interest and similar expenses	367.2	332.6
Effects from the change in fair value of embedded derivatives	–5.2	–24.1
Total	**–365.2**	**–354.7**

The other interest and similar income relates in particular to income from the measurement of interest rate swaps and interest income from bank balances. 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. As in the previous year, corporate entities based in Germany are subject to a corporate income tax rate of 15.0% and a solidarity surcharge of 5.5% of the corporate income tax owed. Additionally, these companies are subject to trade earnings tax, which for the years 2018 and 2017 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. In the Group, the tax rates ranged from 6.0% to 39.0% in 2018 (previous year: between 6.0% and 40.0%).

In addition, deferred taxes are recognised in this item on 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.–31.12.2018	1.1.–31.12.2017
Actual income taxes	41.4	23.7
thereof domestic	4.5	4.6
thereof foreign	36.9	19.1
Deferred tax income / expenses	–9.6	0.4
thereof from temporary differences	0.6	1.4
thereof from loss carry-forwards	–10.2	–1.0
Total	**31.8**	**24.1**

Domestic income taxes include tax expenses of EUR 2.7 million which relate to tonnage tax (previous year: EUR 1.9 million).

Prior-period tax expenses in the amount of EUR 2.8 million are included in the actual income taxes (previous year: expenses of EUR 3.2 million).

As Hapag-Lloyd AG has opted for tonnage taxation, temporary measurement differences do not affect taxation, with the result that no deferred taxes are calculated. For domestic income which is not subject to tonnage taxation, a combined income tax rate of 32.3% was used both in 2018 and 2017 to calculate the deferred taxes.

For foreign-based companies, the tax rates of the country in question were used to calculate the deferred taxes. The income tax rates applied for foreign-based companies in 2018 ranged from 8.3% to 34.0% (previous year: between 16.5% and 39.0%).

The following table shows a reconciliation statement from the expected to the reported income tax expense. To calculate the expected tax expense, the Group profit is first divided between the result that falls under tonnage taxation and the result that is subject to regular taxation. The result that is subject to regular taxation is multiplied by the statutory income tax rate of 32.3% prevailing for Hapag-Lloyd AG in the financial year, as the bulk of the Group profit was generated by Hapag-Lloyd AG.

Reconciliation statement

million EUR	**1.1. – 31.12.2018**	1.1. – 31.12.2017
Earnings before taxes	77.8	56.7
thereof under tonnage tax	–93.7	84.4
thereof under regular income tax	171.5	–27.7
Expected income tax expense (+) / income (–) (tax rate 32.3 %)	**55.3**	**–8.9**
Difference between the actual tax rates and the expected tax rates	–13.3	46.5
Effects of income not subject to income tax	–2.8	–2.2
Non-deductible expenses and trade tax additions and reductions	7.3	3.6
Effects from reassessments	**–13.4**	**–4.6**
Effective tax expenses and income relating to other periods	2.8	3.2
Tax effect from equity-accounted investees	–9.4	–12.3
Exchange rate differences	0.8	–3.5
Other differences	1.8	0.4
income tax expense under regular income tax	**29,1**	**22,2**
income tax expense under tonnage tax base	2,7	1,9
thereof: Effects from reassessments	–1.4	–0.8
Reported income tax expenses (+) / income (–)	**31.8**	**24.1**

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

Effects from reassessments comprise income of EUR 12.0 million (previous year: EUR 0.5 million) from changes in unrecognised corporate income tax loss carry-forwards both at home and abroad. Further EUR 1.4 million (previous year: EUR 3.0 million) relates to the reduction of actual income taxes due to the use of tax losses previously not recognised.

The other differences include EUR 1.5 million foreign withholding taxes for dividends, which are non-deductible (previous year period EUR 0.4 million).

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

million EUR	31.12.2018 Asset	31.12.2018 Liability	31.12.2017 Asset	31.12.2017 Liability
Recognition and measurement differences for property, plant and equipment and other non-current assets	2.3	4.2	1.8	2.9
Recognition differences for receivables and other assets	1.9	0.5	2.1	0.3
Measurement of pension provisions	5.1	0.7	5.9	0.4
Recognition and measurement differences for other provisions	4.3	–	4.5	–
Other transactions	4.7	1.3	3.0	1.2
Capitalised tax savings from recoverable loss carry-forwards	19.1	–	8.2	–
thereof: utilised by tonnage tax base	4.8	–	1.3	–
Netting of deferred tax assets and liabilities	–1.4	–1.4	–0.8	–0.8
Balance sheet recognition	**36.0**	**5.3**	**24.7**	**4.0**

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

million EUR	As per 1.1.2017	Change in the group of consolidated companies	Recognised as taxes in the income statement	Recognised in other comprehensive income	Recognised as an exchange rate difference	As per 31.12.2017
Recognition and measurement differences for property, plant and equipment and other non-current assets	0.8	–0.6	–1.5	–	0.2	–1.1
Recognition differences for receivables and other assets	1.2	–	0.7	–	–0.1	1.8
Measurement of pension provisions	6.2	–	–0.2	–0.5	–	5.5
thereof recognised directly in equity	5.9	–	–	–0.5	–	5.4
Recognition and measurement differences for other provisions	3.8	0.6	0.6	–	–0.5	4.5
Other transactions	3.1	–	–1.0	–	–0.3	1.8
Capitalised tax savings from recoverable loss carry-forwards	8.3	–	1.0	–	–1.1	8.2
Balance sheet recognition	**23.4**	**0.0**	**–0.4**	**–0.5**	**–1.8**	**20.7**

million EUR	As per 1.1.2018	Change in the group of consolidated companies	Recognised as taxes in the income statement	Recognised in other compre-hensive income	Recognised as an ex-change rate difference	As per 31.12.2018
Recognition and measurement differences for property, plant and equipment and other non-current assets	–1.1	–	–0.8	–	0.0	–1.9
Recognition differences for receivables and other assets	1.8	–	–0.4	–	0.0	1.4
Measurement of pension provisions	5.5	–	–0.1	–1.0	–	4.4
thereof recognised directly in equity	5.4	–	–	–1.0	–	4.4
Recognition and measurement differences for other provisions	4.5	–	–0.8	–	0.6	4.3
Other transactions	1.8	–	1.5	–	0.1	3.4
Capitalised tax savings from recoverable loss carry-forwards	8.2	–	10.2	–	0.7	19.1
Balance sheet recognition	**20.7**	**–**	**9.6**	**–1.0**	**1.4**	**30.7**

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 amounts 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 59.3 million (previous year: EUR 49.5 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	31.12.2018	31.12.2017
Loss carry-forwards for which deferred tax assets were recognised	**77.3**	**37.7**
Loss carry-forwards for which no deferred tax assets were recognised	**1,267.0**	**1,318.6**
thereof loss carry-forwards forfeitable in more than 5 years	1.0	1.1
Non-forfeitable loss carry-forwards	1,266.0	1,317.5
thereof interest carry-forwards	–	17.4
Total of unutilised loss carry-forwards	**1,344.3**	**1,356.3**

(10) Earnings per share

	1.1. – 31.12.2018	1.1. – 31.12.2017 [1]
Profit / loss attributable to shareholders in million EUR	36.8	27.9
Weighted average number of shares	175.8	148.2
Basic earnings per share in EUR	**0.21**	**0.19**

1 The previous year's figures have been adjusted due to the retrospective application of the first time adoption designation of option transactions. Please refer to the explanations in the section "New accounting standards".

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

The number of shares increased in the previous year as a result of the incorporation of the UASC Group on 24 May 2017 and a further capital increase in October 2017.

There were no dilutive effects in the 2018 financial year or in the previous year.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(11) Intangible assets

million EUR	Goodwill	Customer base	Advan-tageous contracts	Brand	Soft-ware	Payments on account and assets under construction	Total
Historical cost							
As per 1.1.2017	1,661.6	1,226.7	162.7	282.1	124.0	–	3,457.1
Addition from business combination	23.8	688.3	3.6	42.8	13.5	–	772.0
Additions	–	–	–	–	2.0	–	2.0
Disposals	–	–	132.3	–	–	–	132.3
Exchange rate differences	–198.6	–192.0	–12.0	–36.5	–15.6	–	–454.7
As per 31.12.2017	**1,486.8**	**1,723.0**	**22.0**	**288.4**	**123.9**	**–**	**3,644.1**
Accumulated amortisation							
As per 1.1.2017	–	192.7	144.5	4.4	113.5	–	455.1
Additions	–	67.3	16.9	6.6	9.5	–	100.3
Disposals	–	–	132.3	–	–		132.3
Exchange rate differences	–	–26.2	–10.4	–0.8	–13.9	–	–51.3
As per 31.12.2017	**–**	**233.8**	**18.7**	**10.2**	**109.1**	**–**	**371.8**
Carrying amounts 31.12.2017	**1,486.8**	**1,489.2**	**3.3**	**278.2**	**14.8**	**–**	**3,272.3**
Historical cost							
As per 1.1.2018	1,486.8	1,723.0	22.0	288.4	123.9	–	3,644.1
Addition from business combination	12.1	–	–	–	–	–	12.1
Additions	–	–	–	–	3.1	3.6	6.7
Disposals	–	–	22.3	–	4.9	–	27.2
Exchange rate differences	69.9	80.9	0.3	13.2	6.3	0.2	170.8
As per 31.12.2018	**1,568.8**	**1,803.9**	**–**	**301.6**	**128.4**	**3.8**	**3,806.5**
Accumulated amortisation							
As per 1.1.2018	–	233.8	18.7	10.2	109.1	–	371.8
Additions [1]	–	78.5	3.4	9.8	8.5	–	100.2
Disposals	–	–	22.3	–	4.9	–	27.2
Exchange rate differences	–	13.4	0.2	0.5	5.6	–	19.7
As per 31.12.2018	**–**	**325.7**	**–**	**20.5**	**118.3**	**–**	**464.5**
Carrying amounts 31.12.2018	**1,568.8**	**1,478.2**	**–**	**281.1**	**10.1**	**3.8**	**3,342.0**

[1] The impairment of intangible assets is included in additions to accumulated amortisation.

Intangible assets not subject to amortisation comprise goodwill in the amount of EUR 1,568.8 million (previous year: EUR 1,486.8 million) and the Hapag-Lloyd brand in the amount of EUR 224.2 million (previous year: EUR 214.1 million).

At the end of the financial year 2018 an impairment test was carried out for the entire cash-generating unit container shipping. We refer to the information on impairment testing in the section “Fundamental accounting principles”.

Based on IHS Global Insight’s assessment and on the available capacities, an increase in transport volume in line with market growth was assumed for the detailed planning period. At the time of planning, IHS Global Insight expected an increase in global container traffic of 4.9% in 2019 and of between 4.7% and 5.1% for the years 2020 to 2023. Additionally, it is expected that freight rates in the planning period will remain above the levels in 2018, given typical seasonal fluctuations, alongside an increase in transport expenses. Earnings contributions from cost-saving measures of Strategy 2023 already initiated in the financial year 2018 were included in the detailed planning period. The USD / EUR exchange rate for all budget years has been kept constant. The EBIT margin in the perpetual annuity corresponds to the expected average long-term performance of the industry.

The weighted average cost of capital after income taxes as used for discounting purposes is 8.2% for the planning period (previous year: 7.9%). 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: 6.9%).

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 9.1%. 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 of the anticipated surplus (free cash flow) in the subsequent period was performed in the context of a cash flow determination. A decrease in the free cash flow of up to 15.4% in the subsequent period 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 18 March 2019, 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 was calculated at fair value. As in the previous year, no need for an impairment charge was identified in the financial year.

Research and development expenses in the financial year totalled EUR 17.8 million (previous year: EUR 7.4 million). Investments in internally generated intangible assets requiring capitalisation for the first time in 2018 amounted to EUR 3.8 million. These are presented completely as payments on account and assets under construction.

(12) Property, plant and equipment

million EUR	Vessels	Containers	Other equipment	Payments on account and assets under construction	Total
Historical cost					
As per 1.1.2017	6,595.7	1,504.7	199.0	160.8	8,460.2
Addition from business combination	2,743.0	811.7	25.1	181.6	3,761.4
Additions	201.6	185.1	7.9	62.5	457.1
Disposals	44.1	9.1	3.5	–	56.7
Reclassifications as held for sale	–15.2	–	–	–	–15.2
Transfers	380.6	–	–	–380.6	–
Exchange rate differences	–993.7	–243.8	–14.8	–18.4	–1,270.7
As per 31.12.2017	**8,867.9**	**2,248.6**	**213.7**	**5.9**	**11,336.1**
Accumulated depreciation					
As per 1.1.2017	1,571.2	506.4	67.0	–	2,144.6
Addition from business combination	–	–	0.3	–	0.3
Additions	369.3	157.3	15.2	–	541.8
Impairments	1.5	–	–	–	1.5
Disposals	26.2	5.7	1.5	–	33.4
Reclassifications as held for sale	–2.7	–	–	–	–2.7
Transfers	0.3	–	–0.3	–	–
Exchange rate differences	–206.4	–68.8	–7.3	–	–282.5
As per 31.12.2017	**1,707.0**	**589.2**	**73.4**	**–**	**2,369.6**
Carrying amounts 31.12.2017	**7,160.9**	**1,659.4**	**140.3**	**5.9**	**8,966.5**
Historical cost					
As per 1.1.2018	8,867.9	2,248.6	213.7	5.9	11,336.1
Additions	49.3	295.9	9.9	4.5	359.6
Disposals	15.0	37.9	1.8	–	54.7
Transfers	3.8	–	0.2	–4.0	–
Exchange rate differences	417.5	113.8	10.0	–	541.3
As per 31.12.2018	**9,323.5**	**2,620.4**	**232.0**	**6.4**	**12,182.3**
Accumulated depreciation					
As per 1.1.2018	1,707.0	589.2	73.4	–	2,369.6
Additions	397.4	183.4	14.1	–	594.9
Disposals	14.6	19.9	0.3	–	34.8
Exchange rate differences	92.3	32.9	7.7	–	132.9
As per 31.12.2018	**2,182.1**	**785.6**	**94.9**	**–**	**3,062.6**
Carrying amounts 31.12.2018	**7,141.4**	**1,834.8**	**137.1**	**6.4**	**9,119.7**

The carrying amount of property, plant and equipment subject to restrictions of ownership was EUR 7,710.0 million as at the balance sheet date (previous year: EUR 8,033.3 million). Restrictions of ownership exist in the form of ship mortgages for container ships and in the form of collaterals for financed ships and containers transferred by way of security.

As in the previous year, there was no capitalisation of directly attributable borrowing costs in the 2018 financial year. In addition, no borrowing costs from general external financing sources were capitalised in the 2018 financial year (previous year: EUR 1.4 million). The weighted average borrowing costs for the general external financing (cost of debt) amounted to 6.62% p.a. in the previous year.

(13) Investments in equity-accounted investees

The following companies were incorporated into the Hapag-Lloyd Group using the equity method as at 31 December 2018.

Name of the company	Registered office	Proportion of ownership in the group (in %) 2018	2017
Joint venture			
Consorcio Naviero Peruano S.A. [1]	San Isidro	47.93	47.93
Texas Stevedoring Services LLC [2]	Wilmington	50.00	0.00
Associated companies			
Hapag-Lloyd Lanka (Pvt) Ltd [1]	Colombo	40.00	40.00
HHLA Container Terminal Altenwerder GmbH [2]	Hamburg	25.10	25.10
United Arab Shipping Agency Company (Thailand) Ltd. [1]	Bangkok	49.00	49.00
United Arab Shipping Agency Company (Shenzhen) Ltd. [1]	Shenzhen	disposed	49.00
United Arab Shipping Agency Company (Ningbo) Ltd. [1]	Ningbo	liquidated	49.00
Djibouti Container Services FZCO [1]	Djibouti	19.06	19.06

1 Ship agents and local shipping companies
2 Container terminal

The Hapag-Lloyd Group exerts significant control on Djibouti Container Services FZCO, Djibouti, as its share of voting rights in the group is 21.25%.

Proportionate cumulative losses for equity-accounted joint ventures of EUR –2.6 million (previous year: EUR –1.0 million) were not taken into consideration in the financial year. 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 significant 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 2018	2017
Statement of comprehensive income		
Revenues	267.2	281.4
Annual result	81.5	88.2
Dividend payments to Hapag-Lloyd Group	–30.9	–22.6
Balance sheet		
Current assets	96.6	78.6
Non-current assets	72.0	70.4
Current liabilities	50.2	27.9
Non-current liabilities	37.9	40.7
Net assets	**80.5**	**80.4**
Group share in net assets	20.2	20.2
Goodwill	276.8	276.8
Pro-rata share of current financial year's profit	28.6	30.9
Carrying amount of the participation at the end of the financial year	**325.6**	**327.9**

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

	HHLA Container Terminal Altenwerder GmbH		Non-material associated companies		Joint Venture	
million EUR	2018	2017	2018	2017	2018	2017
Participation 1.1.	**327.9**	**319.6**	**4.0**	**0.3**	**–**	**–**
Addition from business combination	–	–	–	3.7	0.1	–
Disposals	–	–	–2.0	–	–	–
Pro-rata share of earnings after taxes	28.6	30.9	1.7	1.1	0.4	–
Dividend payments	–30.9	–22.6	–1.8	–1.1	–	–
Exchange rate differences	–	–	0.1	–	–	–
Participation 31.12.	**325.6**	**327.9**	**2.0**	**4.0**	**0.5**	**–**

In the 2018 financial year, the Group disposed of its investments in United Arab Shipping Agency Company (Shenzhen) Ltd. and the United Arab Shipping Agency Company (Ningbo) Ltd, which were previously associated companies accounted for using the equity method.

In addition, Hapag-Lloyd obtained significant influence in a joint venture with the acquisition of 50% of the share capital and voting rights in Texas Stevedoring Services LLC.

(14) Trade accounts receivable and other assets

million EUR	31.12.2018 Total	31.12.2018 Remaining term more than 1 year	31.12.2017 Total	31.12.2017 Remaining term more than 1 year
Financial assets				
Trade accounts receivable	1,217.7	–	887.8	–
from third parties	1,217.7	–	887.8	–
Other assets	230.6	6.7	343.8	21.0
Available-for-sale financial assets	2.9	2.9	1.3	1.3
Receivables relating to offset or advanced payments	139.3	–	92.4	–
Receivables from other financial assets	0.7	0.1	137.4	0.5
Receivables from deposits and prepayments	12.8	3.6	22.9	2.9
Cash securities	6.4	–	48.9	14.3
Other assets	68.5	0.1	40.9	2.0
Total	**1,448.3**	**6.7**	**1,231.6**	**21.0**
Non-financial assets				
Other assets	80.7	3.8	118.6	4.7
Claims arising from the refund of other taxes	49.1	0.9	63.2	0.5
Capitalised transaction costs	3.0	1.2	4.3	2.3
Prepaid expenses	17.8	0.8	31.2	1.1
Other assets	10.8	0.9	19.9	0.8
Total	**80.7**	**3.8**	**118.6**	**4.7**

As at 31 December 2018, 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. These kinds of receivables are not derecognised by the Group, but are held according the business model in order to collect contractual cash flows (held to collect).

Other assets include restricted cash in the amount of EUR 6.4 million (previous year: EUR 48.9 million), which is held in trust as security for existing financial debt.

Credit risks

The following tables provide information about the credit risks of trade accounts receivable and other financial assets that fall within the scope of impairments under IFRS 9:

million EUR	31.12.2018
Trade account receivables and other financial assets	
No credit risk, collateral backed	281.8
Low & medium credit risk	1,069.4
High credit risk & credit-impaired	166.4
Gross carrying amount	**1,517.6**
Loss allowance	–72.2
Carrying amount	**1,445.4**

The other assets (EUR 227.7 million) have a low credit risk.

million EUR	31.12.2018
Trade account receivables and other financial assets	
Not overdue	1,173.7
Overdue up to 30 days	212.6
Overdue between 31 and 90 days	53.5
Overdue for more than 90 days	77.8
Gross carrying amount	**1,517.6**
Loss allowance	–72.2
Carrying amount	**1,445.4**

As comparative information as of December 31, 2017, the analysis of the age of trade receivables and other assets is presented in the following table:

			Thereof not impaired and overdue in the following periods				
million EUR	Carrying amounts of financial instruments	Thereof neither overdue nor impaired	less than 30 days	between 31 and 60 days	between 61 and 90 days	between 91 and 180 days	more than 180 days
31.12.2017							
Trade accounts receivable	887.8	632.5	195.4	24.9	20.1	8.9	6.0
Other assets	343.9	343.9	–	–	–	–	–
Total	**1,231.7**	**976.4**	**195.4**	**24.9**	**20.1**	**8.9**	**6.0**

Impairment allowances

The impairment allowances on trade accounts receivable and on other financial assets that fall within the scope of impairments under IFRS 9 developed as follows:

million EUR	2018	2017
Impairment allowances on trade account receivables and other financial assets		
Impairment allowances as of 1.1. according to IAS 39	**66.6**	**49.2**
Adjustments from the first application of IFRS 9	0.8	–
Impairment allowances as of 1.1. according to IFRS 9	**67.4**	**49.2**
Utilisation	5.4	10.7
Impairment losses	7.0	5.5
Changes in the group of consolidated companies	–	30.3
Change of translation reserve	3.2	–7.7
Impairment allowances as of 31.12.	**72.2**	**66.6**

Of the impairment allowances at 31 December 2018 (EUR 72.2 million), EUR 70.6 million are attributable to credit-impaired receivables.

(15) Derivative financial instruments

	31.12.2018		31.12.2017	
million EUR	Total	Remaining term more than 1 year	Total	Remaining term more than 1 year
Receivables from derivative financial instruments	8.1	4.5	51.2	8.6
thereof derivatives in hedge accounting [1]	4.4	0.8	38.5	–
thereof derivatives not included in hedge accounting	3.7	3.7	12.7	8.6

[1] As at 31 December 2018 the changes of market value of the non-designated time values and forward components which are recognised in the reserve for costs of hedging are also included.

Derivative financial instruments are shown at fair value (market value). They serve to hedge both the future operating business and the currency risks and interest rate risks in the area of financing. 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]).

(16) Inventories

The inventories were as follows:

million EUR	31.12.2018	31.12.2017
Raw materials and supplies	236.5	185.8
Prepayments	1.6	0.6
Total	**238.1**	**186.4**

Raw materials, consumables and supplies primarily comprised fuel and lubricating oil. At EUR 233.8 million, they were up EUR 182.9 million on the previous year.

The carrying amount of inventories recognised at net realisable value comes to EUR 99.3 million (previous year: EUR 88.9 million).

Of the expenses for raw materials, supplies and purchase goods totalling EUR 1,694.1 million, EUR 1,610.2 million was recognised as fuel expenses in the reporting period (previous year: EUR 1,111.3 million).

Impairments of fuel inventories in the amount of EUR 28.0 million were recognised as expenses in the reporting period (previous year: EUR 0.1 million). No write-backs were recognised.

(17) Cash and cash equivalents

million EUR	31.12.2018	31.12.2017
Securities	0.0	0.0
Cash at bank	638.3	598.5
Cash in hand and cheques	18.8	6.4
Total	**657.1**	**604.9**

As at 31 December 2018, a sum totalling EUR 11.1 million with a term of up to 3 months was deposited in pledged accounts (31 December 2017: EUR 17.6 million) and was therefore subject to a limitation on disposal.

Due to local restrictions, the Hapag-Lloyd Group has limited access to cash and cash equivalents of EUR 4.4 million (previous year: EUR 2.3 million) at individual subsidiaries.

(18) Non-current assets held for sale

The 4 ocean-going vessels classified as held for sale in the 2017 financial year were sold in the 2018 financial year.

(19) Subscribed capital and capital reserves

As at 31 December 2018, Hapag-Lloyd AG's subscribed capital is divided into 175.8 million no-par registered shares with equal rights, as in the previous year. Each individual share represents EUR 1.00 of the share capital (previous year: EUR 1.00).

Capital increase in the previous year

The Company's subscribed capital increased by EUR 46.0 million with effect from 24 May 2017 as a result of the incorporation of UASC Ltd. into Hapag-Lloyd AG by means of a non-cash capital increase in exchange for new shares. In a second step, a cash capital increase of EUR 11.7 million was made on 17 October 2017.

The gross issue proceeds from the 2 capital increases carried out in the 2017 financial year totalled EUR 1,637.7 million. EUR 1,286.2 million of this was attributable to the capital increase in return for contributions in kind and EUR 351.5 million to the cash capital increase. The new shareholders' contributions amounted to EUR 1,240.2 million from the capital increase in return for contributions in kind and EUR 339.8 million from the cash capital increase. In connection with the capital increases, transaction costs totalling EUR 4.4 million were deducted from the capital reserves.

Authorised capital

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

The Executive Board made a decision on 28 September 2017, with the approval of the Supervisory Board on 27 September 2017, to increase the share capital by EUR 11.7 million to EUR 175.8 million utilising the Authorised Share Capital 2017 registered on 20 July 2017. The capital increase was carried out and entered in the commercial register on 17 October 2017.

The Authorised Share Capital pursuant to the authorisation granted on 29 May 2017 (Authorised Share Capital 2017) still amounted to EUR 11.3 million as at 31 December 2017 following partial utilisation.

(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.

Dividend distribution 2018

On 13 July 2018, a dividend of EUR 0.57 per dividend-eligible individual share was paid out to the shareholders of Hapag-Lloyd AG, amounting to a total payment of EUR 100.2 million.

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 retained earnings brought forward of EUR 422.2 million carried forward from 2017, the annual financial statements of Hapag-Lloyd AG reported retained earnings of EUR 235.2 million. The Executive Board of Hapag-Lloyd AG proposes to the Annual General Meeting to use the retained earnings to pay a dividend of EUR 0.15 per dividend-eligible share and following payment of the dividends totalling EUR 26.4 million, to carry forward the remaining retained earnings of EUR 208.8 million to the subsequent year.

(21) Cumulative other equity

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

The reserve for remeasurements from defined-benefit pension plans (31 December 2018: EUR –112.6 million; 31 December 2017: EUR –118.8 million) contains income and expenses from the remeasurement of pension obligations and plan assets recognised cumulatively in other comprehensive income, among other things due to the change in actuarial and financial parameters in connection with the valuation of pension obligations and the associated fund assets. The expenses from the remeasurement of pension obligations and the associated plan assets recognised in other comprehensive income in the 2018 financial year resulted in a decrease of EUR 6.2 million in the negative reserve (previous year: EUR 0.1 million).

The reserve for cash flow hedges contains changes in the intrinsic value of commodity options, in the spot component of currency forward contracts as well as market value changes of interest rate swaps and amounted to EUR –0.8 million as at 31 December 2018 (31 December 2017: EUR 11.0 million). In the 2018 financial year, the resulting gains and losses totalling EUR –38.5 million were recognised in other comprehensive income as an effective part of the hedging relationship (previous year: EUR 103.2 million), while gains and losses of EUR 52.9 million (previous year: EUR –96.7 million) were reclassified and recognised through profit or loss.

The reserve for cost of hedging contains changes in the time value of commodity options and in the forward component of currency forward contracts that are recognised in other comprehensive income and amounted to EUR –7.7 million as at 31 December 2018 (31 December 2017: EUR –1.0 million). In the 2018 financial year, the resulting gains and losses totalling EUR –47.3 million were recognised in other comprehensive income (previous year: EUR –9.5 million), while gains and losses of EUR 29.4 million (previous year: EUR 8.9 million) were reclassified and recognised through profit or loss.

The translation reserve of EUR 439.7 million (31 December 2017: EUR 167.5 million) includes all differences from currency translation. The differences from currency translation of EUR 272.2 million recognised in other comprehensive income in the 2018 financial year (previous year: EUR –670.3 million) were due to the translation of the financial statements of Hapag-Lloyd AG and its subsidiaries into the reporting currency. Currency translation differences are recognised in the statement of comprehensive income under the items that are not reclassified and recognised through profit or loss, because the currency translation effects of subsidiaries with the same functional currency as the parent company cannot be recycled.

The difference between the relevant non-controlling interests and the expected purchase price at the time the put option was entered is recognised in the reserve for put options on non-controlling interests. Since the start of the year, subsequent changes in the value of the financial liability have been recognised through profit or loss in the interest result. This is a voluntary adjustment to the accounting methods that enables a more accurate and relevant presentation of the earnings position. The effects of this voluntary adjustment are immaterial. As at 31 December 2018, the reserve for put options on non-controlling interests amounted to EUR –0.5 million (31 December 2017: EUR –1.0 million).

(22) Non-controlling interests

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

With the acquisition of 15% of the capital and voting rights in Hapag-Lloyd Denizasiri Nakliyat A. S., Izmir (HLOT) in the previous year, the share of equity held by the Hapag-Lloyd Group in HLOT rose from 50% to 65%, and Hapag-Lloyd gained control of HLOT. From that date, HLOT is no longer recognised as an equity-accounted interest in a joint venture and instead is fully consolidated in the Hapag-Lloyd Group, while 35% of HLOT's equity is recognised as non-controlling interests.

As part of the acquisition of the UASC Group in the previous year, companies with non-controlling interests were added to the Hapag-Lloyd Group which are of minor overall significance to the Group's net asset, financial and earnings position. As a result of the acquisition of the non-controlling interests in 7 of these companies by the Hapag-Lloyd Group in the previous year, the share of non-controlling interests in Group equity fell by EUR 3.8 million and retained earnings fell by EUR 11.6 million. The Group's shares in all 7 companies rose to 100%.

Other changes in non-controlling interests, among other things due to liquidation of companies in the 2018 financial year, had no significant effect.

(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 primarily relate to plans in the United Kingdom, the Netherlands 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 additional employee benefits resulting from the incorporation of the UASC Group in 2017 mainly comprise a pension plan in the United Kingdom and statutory claims for employee termination benefits.

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	31.12.2018	31.12.2017
Domestic defined-benefit obligations		
Net present value of defined-benefit obligations	221.5	216.9
Less fair value of plan assets	10.3	10.5
Deficit (net liabilities)	**211.2**	**206.4**
Foreign defined-benefit obligations		
Net present value of defined-benefit obligations	178.3	212.1
Less fair value of plan assets	116.0	127.6
Deficit (net liabilities)	**62.3**	**84.5**
Total	**273.5**	**290.9**

Composition and management of plan assets

The Group’s plan assets are as follows:

million EUR	31.12.2018	31.12.2017
Equity instruments		
with quoted market price in an active market	28.4	34.9
without quoted market price in an active market	1.6	1.6
Government bonds		
with quoted market price in an active market	33.2	31.3
without quoted market price in an active market	–	–
Corporate bonds		
with quoted market price in an active market	19.6	25.5
without quoted market price in an active market	–	–
Other debt instruments		
mortgage-backed securities		
with quoted market price in an active market	–	6.7
without quoted market price in an active market	–	–
(other) asset-backed securities		
with quoted market price in an active market	5.4	1.3
without quoted market price in an active market	–	–
Derivatives		
with quoted market price in an active market	5.8	11.3
without quoted market price in an active market	3.2	3.3
Pension plan reinsurance	10.3	10.5
Real estate	8.1	1.3
Cash and cash equivalents	1.2	4.5
Other	9.5	5.9
Fair value of plan assets	**126.3**	**138.1**

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 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 8 to 12 years, low-risk investment forms are chosen, e. g. fixed-interest or index-linked government and corporate bonds. For any other obligations falling due, investments are made in forms with a higher risk, but which have 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 3 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	2018	2017
Net present value of defined-benefit obligations as at 1.1.	**429.0**	**363.4**
Current service cost	12.9	11.8
Interest expenses	8.6	9.3
Remeasurements:		
Gains (–) / losses (+) from changes in demographic assumptions	3.5	2.3
Gains (–) / losses (+) from changes in financial assumptions	–14.2	1.9
Gains (–) / losses (+) from changes due to experience	–3.2	–2.3
Past service cost	1.2	2.2
Plan reductions	–	–1.0
Plan settlements	–8.5	–0.2
Contributions by plan participants	0.4	0.3
Benefits paid	–29.9	–50.7
Exchange rate differences	0.4	–6.2
Additions from change in the group of consolidated companies	–0.4	98.2
Net present value of defined-benefit obligations as at 31.12.	**399.8**	**429.0**

The weighted average maturity of defined-benefit obligations was 19.6 years as at 31 December 2018 (previous year: 19.8 years).

Development of the fair value of the plan assets

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

million EUR	2018	2017
Fair value of plan assets as at 1.1.	**138.1**	**118.8**
Interest income	3.4	3.4
Return and losses on plan assets (excluding interest income)	–5.2	–1.4
Employer contributions	4.0	3.2
Contributions by plan participants	0.2	0.2
Plan settlements	–8.7	–
Benefits paid	–4.8	–4.2
Exchange rate differences	–0.4	–3.3
Additions from change in the group of consolidated companies	–0.3	21.4
Fair value of plan assets as at 31.12.	**126.3**	**138.1**

Net pension expenses

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

million EUR	1.1.–31.12.2018	1.1.–31.12.2017
Current service cost	12.9	11.8
Interest expenses	8.6	9.3
Interest income	–3.4	–3.4
Past service cost	1.2	2.2
Plan settlements / plan reductions	–8.6	–1.2
Net pension expenses	**10.7**	**18.7**

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

million EUR	1.1.–31.12.2018	1.1.–31.12.2017
Personnel expenses	5.5	12.7
Interest expenses (+) / interest income (–)	5.2	6.0
Total	**10.7**	**18.7**

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 2018 G 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	2018	2017
Discount factors	1.80	1.70
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	2018	2017
Discount factors for pension obligations		
United Kingdom	2.85	2.60
Netherlands	1.80	1.70
Mexico	9.97	7.87
Expected rate of pension increases		
United Kingdom	2.85	2.90
Netherlands	2.00	2.00
Mexico	3.65	3.50

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 discounting rate is determined in accordance with the duration of the obligation.

Remeasurements

Remeasurements from defined-benefit pension plans recognised in other comprehensive income amounted to EUR 7.2 million before tax as at 31 December 2018 for the 2018 financial year (previous year: EUR 0.6 million) and can be broken down as follows:

million EUR	31.12.2018	31.12.2017
Actuarial gains (+) / losses (–) from		
Changes in demographic assumptions	–3.5	–2.3
Changes in financial assumptions	14.2	–1.9
Changes from experience	3.2	2.3
Return on plan assets (excluding interest income)	–5.2	–1.5
Exchange rate differences	–1.5	4.0
Remeasurements	**7.2**	**0.6**

The cumulative amount of remeasurements recognised in other comprehensive income after taxes totalled EUR –112.5 million as at 31 December 2018 (previous year: EUR –118.8 million).

Future contribution and pension payments

For 2018, the Group is planning to make contributions to pension plan assets amounting to EUR 3.0 million (previous year: EUR 2.7 million). Payments for unfunded pension plans, including employee termination costs, are anticipated in the amount of EUR 5.3 million in 2019 (previous year: EUR 3.6 million).

Sensitivity analyses

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 2018:

million EUR	Δ Present value 31.12.2018	Δ Present value 31.12.2017
Discount factor 0.8 % points higher	–55.2	–54.5
Discount factor 0.8 % points lower	69.3	68.2
Expected rate of pension increase 0.2 % higher	8.9	8.3
Expected rate of pension increase 0.2 % lower	–8.6	–8.0
Life expectancy 1 year longer	13.9	13.3

The sensitivity calculations are based on the average maturity of pension provisions determined as at 31 December 2018. In order to present the effects on the present value of pension provisions as at 31 December 2018 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 2018, expenses incurred in connection with defined-contribution pension plans totalled EUR 28.1 million (previous year: EUR 27.8 million). This amount includes an expense of EUR 0.9 million in connection with a joint plan operated by several employers in the USA (previous year: EUR 1.0 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 10 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 2018 (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 2018; previous year: 1 January 2017), the plan participants were as follows:

Plan participants (total)

	Medical care	Pensions	Medical care	Pensions
	2018		2017	
Active vested participants	556	521	562	528
Inactive vested participants	2	45	–	42
Beneficiaries	230	240	214	224
Total	**788**	**806**	**776**	**794**

Plan participants (Hapag-Lloyd)

	Medical care	Pensions	Medical care	Pensions
	2018		2017	
Active vested participants	35	35	30	30
Inactive vested participants	–	2	–	2
Beneficiaries	2	2	2	2
Total	**37**	**39**	**32**	**34**

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.

In 2019, payments to the plan are expected to amount to EUR 0.8 million (2018: EUR 1.2 million).

As a result of the incorporation of UASC, there is an additional defined-benefit plan operated by several employers. The Merchant Navy Officer's Pensions Fund (MNOPF) is registered in the United Kingdom and has been established worldwide for British merchant navy officers.

As at 31 December 2018, no liability was recorded for this plan.

(24) Other provisions

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

million EUR	As per 1.1.2017	Addition from business combination	Reclassification	Utilisation	Release	Addition	Exchange rate differences	As per 31.12.2017
Personnel costs	65.4	1.9	–	39.0	3.2	84.9	–6.9	103.1
Guarantee, warranty and liability risks	80.9	19.7	–	16.0	13.2	7.3	–10.2	68.5
Risks from pending transactions and lawsuits	108.8	29.8	–	58.9	1.0	0.1	–12.1	66.7
Insurance premiums	15.6	–	–	2.6	–	4.5	–2.0	15.5
Restructuring	1.7	–	–	–	–	12.2	–0.9	13.0
Provisions for other taxes	2.2	10.5	–	2.5	1.9	2.7	–0.9	10.1
Miscellaneous provisions	50.6	0.5	–	18.1	3.2	22.3	–4.8	47.3
Other provisions	**325.2**	**62.4**	**–**	**137.1**	**22.5**	**134.0**	**–37.8**	**324.2**

million EUR	**As per 1.1.2018**	Addition from business combination	Reclassification	Utilisation	Release	Addition	Exchange rate differences	**As per 31.12.2018**
Risks from pending transactions and lawsuits	66.7	–	88.6	119.8	–	115.3	5.3	156.1
Personnel costs	103.1	–	–	67.0	4.7	78.9	1.6	111.9
Guarantee, warranty and liability risks	68.5	–	27.5	52.4	5.4	28.6	3.2	70.0
Restructuring	13.0	–	–	7.4	–	9.8	0.6	16.0
Insurance premiums	15.5	–	–	5.7	–	3.0	0.6	13.4
Provisions for other taxes	10.1	–	–	4.8	–	3.5	0.4	9.2
Miscellaneous provisions	47.3	–	–	10.4	7.9	11.6	1.9	42.5
Other provisions	**324.2**	**–**	**116.1**	**267.5**	**18.0**	**250.7**	**13.6**	**419.1**

The risks from pending transactions and legal disputes primarily relate to existing performance obligations in connection with transport orders for unfinished voyages, see also section “New accounting standards”. As a result of the first-time recognition, the amount of EUR 88.6 million was reclassified from trade receivables to other provisions. This item also includes 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 had a negative market value. They are recognised as provisions and utilised over the respective contractual terms of the underlying agreements. No new increases in the discounted amount due to the passage of time were recorded here during the financial year. The change in the remaining discounted non-current provisions is insignificant due to an adjusted discount rate.

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.

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. Additionally, provisions for insured damages to cargo have been recorded as at 31 December 2018. If the right of recourse against the insurance company is nearly certain it is capitalised in other assets. At the balance sheet date, the provisions for damages to cargo amounts to EUR 49.9 million, the rights of recourse against insurance companies are capitalised with an amount of EUR 28.4 million.

As part of the Hapag-Lloyd Group’s acquisition of the UASC Group on 24 May 2017, the Executive Board of the Hapag-Lloyd Group decided to implement a restructuring plan in June 2017. The plan comprises implementation of the integration and the Group’s new organisational structure, which resulted to a provision of EUR 12.2 million as at 31 December 2017. In financial year 2018, this provision was utilised in the amount of EUR 7.4 million.

Miscellaneous 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:

	31.12.2018				31.12.2017			
	Remaining terms				Remaining terms			
million EUR	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	156.1	142.3	13.8	–	66.7	37.4	29.3	–
Personnel costs	111.9	81.9	20.3	9.7	103.1	86.6	6.0	10.5
Guarantee, warranty and liability risks	70.0	55.5	10.2	4.3	68.5	49.1	14.2	5.2
Restructuring	16.0	13.4	2.6	–	13.0	13.0	–	–
Insurance premiums	13.4	13.4	–	–	15.5	15.5	–	–
Provisions for other taxes	9.2	9.1	0.1	–	10.1	10.1	–	–
Miscellaneous provisions	42.5	27.9	6.8	7.8	47.3	32.5	7.1	7.7
Other provisions	**419.1**	**343.5**	**53.8**	**21.8**	**324.2**	**244.2**	**56.6**	**23.4**

(25) Financial debt

	31.12.2018				31.12.2017			
	Remaining terms				Remaining terms			
million EUR	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	4,483.5	584.8	2,559.7	1,339.0	4,747.4	589.9	2,739.6	1,417.9
Bonds	923.7	23.8	450.2	449.7	923.8	23.5	451.1	449.2
Liabilities from finance lease contracts	99.0	38.6	59.3	1.1	123.6	29.0	81.3	13.3
Other financial liabilities	511.7	69.1	231.2	211.4	540.7	62.4	239.5	238.8
Total	**6,017.9**	**716.3**	**3,300.4**	**2,001.2**	**6,335.5**	**704.8**	**3,511.5**	**2,119.2**

Financial debt by currency exposure

million EUR	31.12.2018	31.12.2017
Financial liabilities denoted in USD (excl. transaction costs)	4,714.6	5,055.8
Financial liabilities denoted in EUR (excl. transaction costs)	1,118.2	1,085.7
Financial liabilities denoted in SAR (excl. transaction costs)	194.1	207.5
Interest payable	49.8	47.5
Accounting for transaction costs	–58.8	–61.0
Total	**6,017.9**	**6,335.5**

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 the 2018 financial year, the programme to securitise receivables was expanded by USD 100.0 million (EUR 87.3 million).

Furthermore, Hapag-Lloyd fully repaid an existing loan held by UASC Ltd. early in the amount of USD 100.0 million (EUR 87.3 million) using only cash from the available liquidity.

An existing USD Private placement financing with an outstanding amount of USD 101.4 million (EUR 88.6 million) was replaced by a bank loan in the financial year 2018.

Additionally, an existing ship financing with an outstanding amount of USD 151.0 million (EUR 131.9 million) was replaced by 3 Japanese operating leases ("JOLs") totalling USD 240.0 million (EUR 209.6 million).

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 414.0 million (previous year: EUR 399.3 million).

Other financial debt

Three sale and leaseback transactions were concluded in the previous financial year to refinance existing ship portfolios. As at 31 December 2018, the leasing arrangements have a volume of USD 409.8 million (EUR 357.9 million) and end in the year 2027. The economic substance of these transactions is credit financing secured by the assignment of ship portfolios as collateral. Classification is in accordance with SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease, because the agreements contain purchase obligations at the end of the lease term. The Group remains the beneficial owner of the ship portfolios, and the disposal of the ocean-going vessels had no effect on earnings.

In the 2018 financial year and in previous financial years, various container 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 2021 and 2026. Classification is in accordance with SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease, because the agreements contain attractive purchase options that mean that it can be assumed with sufficient certainty that the options will be exercised and therefore that legal ownership of the containers will be transferred back to Hapag-Lloyd AG. Part of these transactions is included in liabilities to banks as the liabilities are against special-purpose entities, which are established and financed by banks. Six such transactions were concluded in the 2018 financial year.

Overall, transactions of this kind resulted in liabilities to banks totalling EUR 933.3 million as at the reporting date (previous year: EUR 522.5 million) and other financial debt totalling EUR 501.4 million (previous year: EUR 540.7 million). Interest totalling EUR 54.2 million was recognised in interest expenses in the 2018 financial year (previous year: EUR 29.5 million).

Credit facilities

The Hapag-Lloyd Group had total available credit facilities of EUR 475.9 million as at 31 December 2018 (31 December 2017: EUR 454.6 million).

Reconciliation of the changes in financial debt with the cash flow from financing activities

	Liabilities from financing activities				Liabilities (+) / assets (–) from derivative financial instruments in hedge accounting		
million EUR	Liabilities to banks	Bonds	Finance lease liabilities	Other financial liabilities	Forward exchange contracts	Interest rate swaps	Total
Balance at 1 January 2017	**3,050.1**	**785.2**	**137.2**	**208.2**	**41.1**	**–**	**4,221.8**
Changes from financing cash flows							
Payments received from raising financial debt	314.2	886.6	–	441.1	–	–	1,641.9
Payments made for redemption of financial debt	–1,613.8	–767.0	–36.7	–58.3	–	–	–2,475.8
Payments received (+) / made (–) from hedges for financial debt	–	–	–	–	24.7	–4.9	19.8
Payments made for interest and fees	–186.3	–89.0	–8.7	–23.5	–	–	–307.5
Total changes from financing cash flows	**–1,485.9**	**30.6**	**–45.4**	**359.3**	**24.7**	**–4.9**	**–1,121.6**
Changes arising from obtaining or losing control of subsidiaries or other business	3,508.8	–	42.5	–	–	19.1	3,570.4
The effect of changes in foreign exchange	–520.4	9.4	–18.3	–46.8	–0.7	–1.0	–577.8
Changes in fair value	–	–	–	–	–95.3	–3.8	–99.1
Other changes	194.8	98.6	7.6	20.0	–1.0	–	320.0
Balance at 31 December 2017	**4,747.4**	**923.8**	**123.6**	**540.7**	**–31.2**	**9.4**	**6,313.7**

million EUR	Liabilities from financing activities				Liabilities (+) / assets (–) from derivative financial instruments in hedge accounting		
	Liabilities to banks	Bonds	Finance lease liabilities	Other financial liabilities	Forward exchange contracts	Interest rate swaps	Total
Balance at 1 January 2018	**4,747.4**	**923.8**	**123.6**	**540.7**	**–31.2**	**9.4**	**6,313.7**
Changes from financing cash flows							
Payments received from raising financial debt	782.1	–	–	–	–	–	782.1
Payments made for redemption of financial debt	–1,250.7	–	–29.6	–65.1	–	–	–1,345.4
Payments received (+) / made (–) from hedges for financial debt	–	–	–	–	13.4	–4.0	9.4
Payments made for interest and fees	–230.9	–53.9	–7.7	–25.1	–	–	–317.6
Total changes from financing cash flows	**–699.5**	**–53.9**	**–37.3**	**–90.2**	**13.4**	**–4.0**	**–871.5**
The effect of changes in foreign exchange	197.9	1.1	4.9	23.7	1.5	0.4	229.5
Changes in fair value	–	–	–	–	78.7	6.4	85.1
Other changes	237.7	52.7	7.8	37.5	–	–4.2	331.5
Balance at 31 December 2018	**4,483.5**	**923.7**	**99.0**	**511.7**	**62.4**	**8.0**	**6,088.3**

(26) Trade accounts payable, contract liabilities and other liabilities

	31.12.2018				31.12.2017			
	Remaining terms				Remaining terms			
million EUR	Total	up to 1 year	1–5 years	more than 5 years	Total	up to 1 year	1–5 years	more than 5 years
Financial liabilities								
Trade accounts payable	1,774.1	1,774.1	–	–	1,559.8	1,559.8	–	–
thereof to third parties	1,772.9	1,772.9	–	–	1,559.8	1,559.8	–	–
thereof to investments	1.2	1.2	–	–	–	–	–	–
Other liabilities	101.1	97.7	3.2	0.2	52.6	45.9	6.6	0.1
Other liabilities to employees	4.4	4.2	–	0.2	2.8	2.7	–	0.1
Put option	1.7	–	1.7	–	2.1	–	2.1	–
Other liabilities	95.0	93.5	1.5	–	47.7	43.2	4.5	–
Total	**1,875.2**	**1,871.8**	**3.2**	**0.2**	**1,612.4**	**1,605.7**	**6.6**	**0.1**
Non-financial liabilities								
Contract liabilities	260.3	260.3	–	–	–	–	–	–
Other liabilities	65.9	60.2	5.6	0.1	158.7	155.9	2.8	–
Prepayments received	–	–	–	–	122.5	122.5	–	–
Other liabilities as part of social security	13.3	11.7	1.5	0.1	21.2	19.2	2.0	–
Other liabilities from other taxes	10.5	10.5	–	–	8.1	8.1	–	–
Prepaid income	41.7	37.6	4.1	–	–	–	–	–
Other liabilities	0.4	0.4	–	–	6.9	6.1	0.8	–
Total	**326.2**	**320.5**	**5.6**	**0.1**	**158.7**	**155.9**	**2.8**	**0.0**

(27) Derivative financial instruments

million EUR	31.12.2018 Total	31.12.2018 Remaining term more than 1 year	31.12.2017 Total	31.12.2017 Remaining term more than 1 year
Liabilities from derivative financial instruments	72.5	8.5	9.4	9.4
thereof derivatives in hedge accounting [1]	70.1	6.1	4.2	4.2
thereof derivatives not included in hedge accounting	2.4	2.4	5.2	5.2

[1] As at 31 December 2018 the changes of market value of the non-designated time values and forward components which are recognised in the reserve for costs of hedging are also included.

Liabilities from derivative financial instruments result from currency forward contracts and interest rate swaps. 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. The derivative financial instruments employed to reduce market risks are consistent with the payment dates and the relevant risks of the hedged items. Accordingly, the financial instruments designated as cash flow hedges hedge the cash flows, and, as a result, increase financial security. Accounting for the hedging relationships leads to a reduction in the volatility reported in the income statement, as the effect of the underlying on profit or loss is matched by the corresponding opposite change in the fair value of the hedging transactions in the same reporting periods in the same line items of the income statement.

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 results may deviate substantially from the information provided.

Currency risk

Currency risks are hedged as far as 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 Brazilian real (BRL), Indian rupee (INR), Canadian dollar (CAD), Chinese renminbi (CNY), British pound sterling (GBP), Australian dollar (AUD), Japanese yen (JPY) and United Arab Emirates Dirham (AED) are significant currencies.

If necessary, currency hedging instruments are conducted, while taking account of internal guidelines. The Group hedges a portion of its operating cost exposure denominated in CAD by using currency forward contracts on a 13-week basis with the aim of limiting currency risks. The hedging quota for costs denominated in CAD is 80%.

The repayment of euro-denominated financial debt is also hedged up to as much as 100%. As a rule, forward contracts used to hedge euro-denominated debt generally mature within less than 1 year. 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). In addition, pension obligations denominated in euros are hedged in full. Currency forward contracts and euro-denominated money market deposits are also used for hedging purposes in the same way as euro-denominated financial debt.

Hapag-Lloyd only designates the spot element of the currency forward contracts. The change in the forward components is recorded in the reserve for hedging costs within equity.

A commercial relationship must exist between the hedging transaction and the underlying. This relationship is always present when the derivative compensates for the changes in the cash flows of the hedged item as a result of a change in a common risk factor, and not when it simply results from a purely statistical correlation.

Ineffectiveness in hedging relationships can arise in particular for the following reasons:

- In case of a significant deterioration in the creditworthiness of a bank counterparty, a fair value deterioration occurs as part of a credit valuation adjustment. This risk is not reflected in the hedged item. Currently, this source of ineffectiveness is not relevant as the counterparty risk is insignificant
- Timing differences between the hedged item and the hedging instrument
- Designation of currency forward contracts which already have a market value (off-market derivatives)

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, INR) at the reporting date. The analysis is depicted on the basis of a posted foreign currency exposure of USD –1,320.0 million.

	31.12.2018			31.12.2017	
million USD	Effect on earnings	Reserve for cash flow hedges (equity)	Reserve for cost of hedging (equity)	Effect on earnings	Reserve for cash flow hedges (equity)
USD / EUR					
+10 %	13.9	–	0.1	9.9	0.2
–10 %	–13.9	–	–0.1	–9.9	–0.2
USD / CAD					
+10 %	–2.0	1.7	0.0	–6.9	–
–10 %	2.0	–1.7	0.0	6.9	–
USD / INR					
+10 %	1.5	–	–	1.9	–
–10 %	–1.5	–	–	–1.9	–

Risks at the level of Hapag-Lloyd AG's consolidated financial statements arise from the translation of the US dollar consolidated financial statements 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.

Hapag-Lloyd only designates the intrinsic value of the option. The change in the time value is recorded in the reserve for hedging costs within equity.

A commercial relationship must exist between the hedging instrument and the hedged item. This relationship is always present when the derivative compensates for the changes in the cash flows of the hedged item as a result of a change in a common risk factor, and not when it simply results from a purely statistical correlation.

Ineffectiveness in hedging relationships can arise in particular for the following reasons:

- In case of a significant deterioration in the creditworthiness of a bank counterparty, a fair value deterioration occurs as part of a credit valuation adjustment. This risk is not reflected in the hedged item. Currently, this source of ineffectiveness is not relevant as the counterparty risk is insignificant
- Differences in payment dates between the hedged item and the hedging instrument
- Change in the correlation between quoted bunker prices worldwide

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 other comprehensive income resulting from the market price changes of the derivative financial instrument used are shown in the following table. The previous year's figures have been adjusted retrospectively.

	31.12.2018		31.12.2017	
million EUR	10%	–10%	10%	–10%
Reserve for cash flow hedges	–	–	13.5	–7.1
Reserve for cost of hedging	5.1	–1.8	18.0	–3.6

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. Additionally, interest rate swaps have also been used since 2017 to hedge the interest rate risk. 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 reduce interest rate risk, Hapag-Lloyd designates interest swaps on the variable element of interest rate payments of hedged items. Some interest swaps only hedge a proportion of the total nominal volumes. In this way, certain hedged items are not designated in full, but only certain risk components are hedged.

The variations in the cash flows of the hedging transactions are primarily affected by changes in the variable interest rate.

A commercial relationship must exist between the hedging transaction and the underlying. This relationship is always present when the derivative compensates for the changes in the cash flows of the underlying transaction as a result of a change in a common risk factor, and not when it simply results from a purely statistical correlation. Generally, the nominal volume, benchmark interest rate and interest rate fixing dates of the underlying transaction and the hedging transaction are matched.

Ineffectiveness in hedging relationships can arise in particular for the following reasons:

- In case of a significant deterioration in the creditworthiness of a bank counterparty, a fair value deterioration occurs as part of a credit valuation adjustment. This risk is not reflected in the hedged item. Currently, this source of ineffectiveness is not relevant as the counterparty risk is insignificant
- Differences in payment dates between the hedged item and the hedging instrument
- Designation of interest rate swaps which already have a market value (off-market derivatives)

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 2018 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 a maximum of 0. The determined effect on earnings relates to financial debt with a variable interest rate amounting to EUR 3,493.3 million that existed at the balance sheet date (previous year: EUR 4,048.0 million), the fair value of interest rate swaps of EUR –8.0 million (previous year: EUR –9.4 million) and the market value of embedded derivatives totalling EUR 3.7 million (previous year: EUR 8.6 million). It is assumed that this exposure also constitutes a representative figure for the next financial year.

million EUR	31.12.2018		31.12.2017	
Change in variable interest rate	+100 base points	–100 base points	+100 base points	–100 base points
Reserve for cash flow hedges	20.5	–20.9	8.3	–8.3
Earnings before taxes	–16.3	16.4	–22.7	20.1

Credit risk

In addition to the market risks described above, the Hapag-Lloyd Group is exposed to credit risks. Credit risk constitutes the risk that a contract 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. In addition, collective factors such as country risks, are taken into account. There are also credit insurance arrangements and bank guarantees in place at the reporting date which provide protection against credit risk.

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.

Analyses of the maturity structure of trade accounts receivable and other assets and other information on the impairment allowances recorded against these financial assets is provided in Note (14) and in the description of accounting and measurement methods for primary financial instruments.

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. Unpaid receivables that are derecognised continue to be subject to debt collection procedures until any insolvency procedures are completed.

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 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.

For the derivative financial instruments with positive fair values totalling EUR 4.4 million (previous year: EUR 42.6 million) and negative fair values totalling EUR –72.5 million (previous year: EUR –9.4 million), there is the potential to offset financial assets and financial liabilities in the amount of EUR 1.1 million (previous year: EUR 0.0 million), taking into account the German Master Agreement for Financial Derivatives and the ISDA Framework Agreement. The market values of embedded derivatives linked to the buy-back option of issued bonds totalling EUR 3.7 million (previous year: EUR 8.6 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 (31.12.2017)

	Cash inflows and outflows				
million EUR	2018	2019	2020 – 2022	from 2023	**Total**
Primary financial liabilities					
Liabilities to banks	–1,084.9	–813.2	–2,304.2	–1,621.4	–5,823.7
Bonds	–53.4	–53.4	–595.1	–496.1	–1,198.0
Liabilities from finance lease	–36.5	–42.6	–52.0	–13.9	–145.0
Other financial liabilities (excl. operating leases)	–73.1	–73.0	–188.7	–243.8	–578.6
Trade accounts payable	–1,559.8	–	–	–	–1,559.8
Other liabilities	–45.9	–4.5	–	–0.2	–50.6
Liabilities from put options	–	–	–3.5	–	–3.5
Total primary financial liabilities	**–2,853.6**	**–986.7**	**–3,140.0**	**–2,375.4**	**–9,355.7**
Total derivative financial liabilities	**–4.2**	**–2.1**	**–3.2**	**–0.8**	**–10.3**

Cash flows of financial instruments (31.12.2018)

	Cash inflows and outflows				
million EUR	2019	2020	2021 – 2023	from 2024	Total
Primary financial liabilities					
Liabilities to banks	–783.0	–1,015.3	–2,241.4	–1,347.9	–5,387.6
Bonds	–53.4	–53.4	–564.8	–473.1	–1,144.7
Liabilities from finance lease	–44.6	–21.5	–46.3	–1.2	–113.6
Other financial liabilities (excl. operating leases)	–94.0	–90.0	–210.1	–239.1	–633.2
Trade accounts payable	–1,774.1	–	–	–	–1,774.1
Other liabilities	–97.8	–1.5	–	–0.1	–99.4
Liabilities from put options	–	–	–2.4	–	–2.4
Total primary financial liabilities	**–2,846.9**	**–1,181.7**	**–3,062.6**	**–2,061.4**	**–9,152.6**
Total derivative financial liabilities	**–65.7**	**–2.3**	**–5.7**	**–**	**–73.7**

It is generally 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. The cash flows do not include the early partly redemption of an outstanding senior note due 2022 in the amount of EUR 170 million at a fixed redemption price of 103.375% on 11 February 2019.

All financial instruments for which payments had already been contractually agreed as at the reporting date of 31 December 2018 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.

The cash outflows from the put options resulted from the undiscounted expected strike price of the put option.

The cash outflows from derivative financial instruments include the (undiscounted) estimated net payments of the interest rate swaps used on the basis of the yield curve applicable on the balance sheet date.

The cash outflows associated with the liability contained in other financial debt to reflect a contingent consideration payable for a business combination result from the undiscounted expected payments which are dependent on the development of the volumes of the agency acquired.

Derivative financial instruments and hedging relationships

Derivative financial instruments are generally used to hedge existing or planned hedged items and serve to reduce foreign currency risks, fuel price risks and interest rate 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. Interest rate swaps are used to hedge interest rate risks.
Derivative financial instruments are recorded as current or non-current financial assets or liabilities according to their remaining terms.

The positive and / or negative fair values of derivative financial instruments are shown as follows:

million EUR	31.12.2018 Positive market values	31.12.2018 Negative market values	31.12.2017 Positive market values	31.12.2017 Negative market values
Hedging instruments acc. to IFRS 9 (Hedge accounting)				
Commodity options	3.4	–	7.3	–
Currency forward contracts	0.2	–63.7	31.2	–
Interest rate swaps	0.8	–6.4	0.0	–4.2
Hedges [1]	**4.4**	**–70.1**	**38.5**	**–4.2**
Derivative financial instruments (FVTPL)				
Commodity options	–	–	4.1	–
Currency forward contracts	–	–	–	–
Interest rate swaps	–	–2.4	–	–5.2
Embedded derivatives	3.7	–	8.6	–
Other derivative financial instruments	**3.7**	**–2.4**	**12.7**	**–5.2**
Total	**8.1**	**–72.5**	**51.2**	**–9.4**

[1] The market value of the non-designated time values and forward components, the changes of which are recognised in the reserve for costs of hedging, are also recognised here as at 31 December 2018.

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. The fair value of the interest rate swaps is calculated as the present value of the anticipated future cash flows. The estimates of future cash flows from variable interest payments are based on quoted swap rates and interbank interest rates. The estimate of the fair value is adjusted by the credit risk of the Group and the counterparty.

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. The market value of the embedded derivatives is calculated using the Hull-White model in combination with a trinomial decision tree based on current market values.

Hedging relationships in accordance with IFRS 9 in the reporting period wholly consist of cash flow hedges.

The following table shows the nominal values and the average prices or avarage rates of the hedging instruments by risk category:

	31.12.2018			31.12.2017		
	Remaining terms			Remaining terms		
	up to 1 year	more than 1 year	Total	up to 1 year	more than 1 year	Total
Currency risk						
Hedged nominal in million EUR	1,189.6	–	1,189.6	1,034.6	–	1,034.6
Hedged nominal in million CAD	57.5	–	57.5	–	–	–
Average hedged rate USD / EUR	1.22	–	1.22	1.17	–	1.17
Average hedged rate USD / CAD	0.76	–	0.76	–	–	–
Fuel price risk						
Hedged nominal in million USD	473.2	–	473.2	225.9	–	225.9
Average hedged price in USD	491.42	–	491.42	355.69	–	355.69
Interest rate risk						
Hedged nominal in million USD	107.1	983.8	1,090.9	–	561.0	561.0
Average fixed interest rate	3.22 %	2.79 %	2.84 %	–	2.76 %	2.76 %

The hedging instruments designated for use in hedging relationships have the following effect on the consolidated statement of financial position:

Hedge of cash flows	31.12.2017 Nominal amount	Carrying amount asset in million EUR	Carrying amount liability in million EUR	Line item in the statement of financial position	Change in fair value used as measurement of the ineffectiveness in the reporting period in million EUR
Currency risk					
Currency forward contracts (USD / EUR)	EUR 1,034.6 million	31.2	–	Derivative financial instruments	31.2
Fuel price risk					
Commodity options	635,000 mt	7.3	–	Derivative financial instruments	7.3
Interest rate risk					
Interest rate swaps	USD 561.0 million	0.0	4.2	Derivative financial instruments	3.3

Hedge of cash flows	31.12.2018 Nominal amount	Carrying amount asset in million EUR[1]	Carrying amount liability in million EUR	Line item in the statement of financial position	Change in fair value used as measurement of the ineffectiveness in the reporting period in million EUR
Currency risk					
Currency forward contracts (USD / EUR)	EUR 1,189.6 million	0.2	62.5	Derivative financial instruments	–43.3
Currency forward contracts (USD / CAD)	CAD 57.5 million	0.0	1.2	Derivative financial instruments	–1.1
Fuel price risk					
Commodity options	963,000 mt	3.4	–	Derivative financial instruments	–
Interest rate risk					
Interest rate swaps	USD 1,090.9 million	0.8	6.4	Derivative financial instruments	4.0

[1] The market value of the non-designated time values and forward components, the changes of which are recognised in the reserve for costs of hedging, are also recognised here as at 31 December 2018.

The hedged items designated to hedging relationships have the following effect on the consolidated statement of financial position:

	31.12.2017	
Hedge of cash flows million EUR	Change in value used as measurement of the ineffectiveness	Reserve for cash flow hedges
Currency risk		
Repayment of financial debt in EUR	–31.2	0.4
Fuel price risk		
Bunker purchases	–7.3	7.3
Interest rate risk		
Interest payments of variable rate loans	–3.3	3.3

	31.12.2018	
Hedge of cash flows million EUR	Change in value used as measurement of the ineffectiveness	Reserve for cash flow hedges
Currency risk		
Repayment of financial debt in EUR	43.4	–
Repayment of pension obligations in EUR	–0.1	–
Operational costs in CAD	1.1	–0.4
Fuel price risk		
Bunker purchases	–	–
Interest rate risk		
Interest payments of variable rate loans	0.5	–0.4

The hedging relationships described above have the following effect on the Group's income statement and other comprehensive income:

Hedge of cash flows million EUR	31.12.2017 Hedging gains or losses recognised in other comprehensive income	Ineffectiveness recognised in the income statement	Line item in the income statement	Amount reclassified from the other comprehensive into profit or loss	Line item in the income statement
Currency risk					
Repayment of financial debt in EUR	95.3	–	–	–95.6	Other operating expense / income
Fuel price risk					
Bunker purchases	7.0	–	–	–3.6	Transport expenses
Interest rate risk					
Interest payments of variable rate loans	0.9	2.2	Interest expenses	2.5	Interest expenses

Hedge of cash flows million EUR	**31.12.2018** Hedging gains or losses recognised in other comprehensive income	Ineffectiveness recognised in the income statement	Line item in the income statement	Amount reclassified from the other comprehensive into profit or loss	Line item in the income statement
Currency risk					
Repayment of financial debt in EUR	–49.7	–	–	49.2	Other operating expense / income
Repayment of pension obligations in EUR	0.1	–	–	–0.1	Other operating expense / income
Operational costs in CAD	–1.5	–	–	1.1	Transport expenses
Fuel price risk					
Bunker purchases	19.0	–	–	–	Transport expenses
Interest rate risk					
Interest payments of variable rate loans	–6.4	2.4	Interest expenses	2.6	Interest expenses

The following table shows a reconciliation of the equity reserves which result from accounting for hedging relationships:

Cash flow hedges million EUR	2018 Reserve for cash flow hedges	2018 Reserve for cost of hedging	2017 Reserve for cash flow hedges	2017 Reserve for cost of hedging
Balance at 1.1.	**11.0**	**–1.0**	**5.4**	**–0.5**
Change in fair value	–38.5	–47.3	103.2	–9.5
Currency risk [1]	–51.1	–29.2	95.3	–
Fuel price risk [2]	19.0	–18.1	7.0	–9.5
Interest rate risk	–6.4	–	0.9	–
Reclassification into profit or loss	52.9	29.4	–96.7	8.9
Currency risk [1]	50.3	29.4	–95.6	–
Fuel price risk [2]	–	–	–3.6	8.9
Interest rate risk	2.6	–	2.5	–
Hedging gains and losses transferred to the cost of inventory	–26.4	11.4	–	–
Fuel price risk [2]	–26.4	11.4	–	–
Currency translation differences	0.2	–0.2	–0.9	0.1
Currency risk [1]	0.0	0.0	–0.1	–
Fuel price risk [2]	0.1	–0.2	–0.7	0.1
Interest rate risk	0.1	–	–0.1	–
Balance at 31.12.	**–0.8**	**–7.7**	**11.0**	**–1.0**

1 The currency risk shown in the reserve for hedging costs includes only amounts in connection with forward components in currency forward contracts which are used to hedge against primarily period-related underlying transactions.

2 The fuel price risks shown in the reserve for hedging costs includes only amounts in connection with the time values of commodity options to hedge against transaction-related hedged items.

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 market 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 their fair values.

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.

The securities in the “fair value through profit or loss” category, which are included in other assets, are measured at their quoted market price. The financial instruments in the “fair value through profit or loss” category also contain investments not listed on a stock exchange for which there are no market prices listed on an active market. As there is insufficient information available to determine the fair values of these investments, they are measured at cost of acquisition as the best possible estimate of their fair values. The disposal of the investments is not planned at present.

Carrying amounts, assessed values and fair values by class and valuation category as at 31.12.2017

million EUR	Classification category according to IAS 39	Carrying amount 31.12.2017 Total	Amount recognised in the balance sheet under IAS 39 Amortised acquisition cost	Acquisition cost	Fair value with no effect on profit or loss	Fair value through profit and loss	Amount recognised in the balance sheet under IAS 17	Fair value of financial instruments
Assets								
Other assets	LaR	340.6	340.6	–	–	–	–	340.6
	n/a[3]	118.5	–	–	–	–	–	–
	AfS	3.3	–	1.2	2.1	–	–	3.3
Derivative financial instruments								
Derivatives (Held for trading)	FAHfT	12.7	–	–	–	12.7	–	12.7
Hedges (Hedge accounting)	n/a[3]	38.5	–	–	38.5	–	–	38.5
Trade accounts receivable	LaR	887.8	887.8	–	–	–	–	887.8
Cash and cash equivalents	LaR	604.9	604.9	–	–	–	–	604.9
Liabilities								
Financial debt	FLAC	6,211.9	6,211.9	–	–	–	–	6,225.8
Liabilities from finance leases[1]	n/a[3]	123.6	–	–	–	–	123.6	125.5
Other liabilities	FLAC	50.6	50.6	–	–	–	–	50.6
	n/a[3]	158.6	–	–	–	–	–	–
Liabilities from put options[2]	FLAC	2.1	2.1	–	–	–	–	2.3
Derivative financial liabilities								
Derivatives (Held for trading)	FLHfT	5.2	–	–	–	5.2	–	5.2
Hedges (Hedge accounting)	n/a[3]	4.2	–	–	4.2	–	–	4.2
Trade accounts payable	FLAC	1,559.8	1,559.8	–	–	–	–	1,559.8
Thereof aggregated according to IAS 39 classification category								
Loans and receivables (LaR)		1,833.3	1,833.3	–	–	–	–	–
Held-to-maturity investments (HtM)		–	–	–	–	–	–	–
Available-for-sale financial assets (AfS)		3.3	–	1.2	2.1	–	–	–
Financial assets held for trading (FAHfT)		12.7	–	–	–	12.7	–	–
Financial liabilities measured at amortised Cost (FLAC)		7,824.4	7,824.4	–	–	–	–	–
Financial liabilities held for trading (FLHfT)		5.2	–	–	–	5.2	–	–

1 Part of financial debt
2 Part of other liabilities
3 n/a means that there is no financial instrument here and therefore no classification category according to IFRS 9 or IAS 39

Carrying amounts, assessed values and fair values by class and valuation category as at 31.12.2018

million EUR	Classification category according to IFRS 9	Carrying amount 31.12.2018 Total	Amount recognised in the balance sheet under IFRS 9: Amortised acquisition cost	Amount recognised in the balance sheet under IFRS 9: Fair value with no effect on profit or loss	Amount recognised in the balance sheet under IFRS 9: Fair value through profit and loss	Amount recognised in the balance sheet under IAS 17	Amount recognised in the balance sheet under IFRS 15	Fair value of financial instruments
Assets								
Other assets	AC	227.7	227.7	–	–	–	–	227.7
	n/a[5]	80.7	–	–	–	–	–	–
	FVTPL	2.9	–	–	2.9	–	–	2.9
Derivative financial instruments								
Derivatives (FVTPL)	FVTPL	3.7	–	–	3.7	–	–	3.7
Hedges (Hedge accounting)[1]	n/a[5]	4.4	–	4.4	–	–	–	4.4
Trade accounts receivable	AC	1,217.7	1,217.7	–	–	–	–	1,217.7
Cash and cash equivalents	AC	657.1	657.1	–	–	–	–	657.1
Liabilities								
Financial debt	FLAC	5,918.0	5,918.0	–	–	–	–	5,925.0
	FVTPL	0.8	–	–	0.8	–	–	0.8
Liabilities from finance leases[2]	n/a[5]	99.1	–	–	–	99.1	–	103.2
Other liabilities	FLAC	99.4	99.4	–	–	–	–	99.4
	n/a[5]	65.9	–	–	–	–	–	–
Liabilities from put options[3]	FLAC	1.7	1.7	–	–	–	–	1.8
Derivative financial liabilities								
Derivatives (FVTPL)	FVTPL	2.4	–	–	2.4	–	–	2.4
Hedges (Hedge accounting)[1]	n/a[5]	70.1	–	70.1	–	–	–	70.1
Trade accounts payable	FLAC	1,774.1	1,774.1	–	–	–	–	1,774.1
Contractual liabilities[4]	n/a[5]	260.3	–	–	–	–	260.3	–
Thereof aggregated according to IFRS 9 classification category								
Financial assets measured at amortized Cost (AC)		2,102.5	2,102.5	–	–	–	–	–
Financial assets and liabilities measured at fair value through profit and loss (FVTPL)		9.8	–	–	9.8	–	–	–
Financial liabilities measured at amortised Cost (FLAC)		7,793.2	7,793.2	–	–	–	–	–

1 The market values of the non-designated time values and forward components, the changes of which are recognised in the reserve for costs of hedging, are also recognised here.

2 Part of financial debt

3 Part of other liabilities

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

5 n/a means that there is no financial instrument here and therefore no classification category according to IFRS 9 or IAS 39

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 3 levels of the fair value hierarchy. In addition to the fair value of the financial instruments that are recognised at fair value under IFRS 9, 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	31.12.2017 Level 1	Level 2	Level 3	Total
Assets					
Securities	AfS	2.1	1.2	–	3.3
Derivative financial instruments (Hedge accounting)	n/a[3]	–	38.5	–	38.5
Derivative financial instruments (Trading)	FLHfT	–	12.7	–	12.7
Liabilities					
Derivative financial instruments (Hedge accounting)	n/a[3]	–	4.2	–	4.2
Derivative financial instruments (Trading)	FLHfT	–	5.2	–	5.2
Financial debt	FLAC	948.3	5,277.5	–	6,225.8
Liabilities from financial lease[1]	n/a[3]	–	125.5	–	125.5
Liabilities from put options[2]	FLAC	–	–	2.3	2.3

1 Part of financial debt
2 Part of other liabilities
3 n/a means that there is no financial instrument here and therefore no classification category according to IFRS 9 or IAS 39

million EUR	Classification category according to IFRS 9	31.12.2018 Level 1	Level 2	Level 3	Total
Assets					
Securities	FVTPL	2.2	0.7	–	2.9
Derivative financial instruments (Hedge accounting)	n/a[3]	–	4.4	–	4.4
Derivative financial instruments (Trading)	FVTPL	–	3.7	–	3.7
Liabilities					
Derivative financial instruments (Hedge accounting)	n/a[3]	–	70.1	–	70.1
Derivative financial instruments (Trading)	FVTPL	–	2.4	–	2.4
Financial debt	FVTPL	–	–	0.8	0.8
Financial debt	FLAC	909.2	5,015.8	–	5,925.0
Liabilities from financial lease[1]	n/a[3]	–	103.2	–	103.2
Liabilities from put options[2]	FLAC	–	–	1.8	1.8

1 Part of financial debt
2 Part of other liabilities
3 n/a means that there is no financial instrument here and therefore no classification category according to IFRS 9 or IAS 39

Net earnings

The net earnings of the financial instruments by classification category pursuant to IFRS 9 are as follows:

	31.12.2017		
million EUR	From interest	Other net earnings	Net earnings
Loans and receivables	–0.7	56.7	56.0
Available-for-sale financial assets	0.0	–	0.0
Financial assets and liabilities held for trading	–21.2	–9.5	–30.7
Financial liabilities measured at amortised cost	–280.6	–164.1	–444.7
Total	**–302.5**	**–116.9**	**–419.4**

	31.12.2018		
million EUR	From interest	Other net earnings	Net earnings
Financial assets measured at amortised cost	–0.2	–70.0	–70.2
Financial liabilities measured at amortised cost	–327.1	72.3	–254.8
Financial assets and liabilities measured at fair value through profit or loss	–3.3	10.4	7.1
Total	**–330.6**	**12.7**	**–317.9**

In addition to interest expenses from the liabilities to banks and other financial debt, the net earnings mainly comprise the foreign currency valuation of financial assets and liabilities, the gain from the disposal of an investment as well as the realised and unrealised earnings from derivative financial instruments that are not part of an effective hedging relationship as set out in IFRS 9.

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 of a type customary on the market have been arranged for existing financing. These clauses primarily concern certain equity and liquidity indicators of the Group along with loan-to-value ratios. As at 31 December 2018, 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.

OTHER NOTES

(29) Government assistance

The Federal Maritime and Hydrographic Agency awarded training subsidies and subsidies for marine personnel totalling EUR 10.6 million in 2018 (previous year: EUR 8.9 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 11.2 million in the reporting year (previous year: EUR 10.5 million).

In addition, Hapag-Lloyd USA, a wholly owned subsidiary of HLAG, receives government funding as part of the Maritime Security Program (MSP). Government grants in the 2018 financial year totalled EUR 25.0 million (previous year: EUR 26.9 million), which was recognised through profit or loss as a deduction from transport expenses.

(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 2018, there were no sureties or guarantees requiring disclosure.

(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. 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 2018. Such payment obligations will not have any significant influence on the Group’s net asset, financial and earnings position.

On 20 February 2019 the U.S. Department of Justice Antitrust Division (“DoJ”) has announced towards Hapag-Lloyd the completion of its investigation. The official end of the investigation against Hapag-Lloyd has been confirmed by the DoJ on 25 February 2019. The investigation has been closed without charges against Hapag-Lloyd AG, its affiliates or any of its current or former employees. This investigation was related to subpoenas which were served to company representatives in San Francisco on 15 March 2017, ordering them to attend a hearing by the DoJ.

Hapag-Lloyd is subject to regular tax audits in various countries where the Group conducts large-scale business activities (e.g. Germany, India, USA). These tax audits may lead to the payment of tax arrears. In addition, Hapag-Lloyd regularly analyses and assesses potential tax risks within the Group (e.g. in the area of transfer pricing). 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 107.2 million in contingent liabilities from tax risks not classified as probable (previous year: EUR 135.5 million).

(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 9 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 2018, the ships recognised in connection with the finance lease contracts had a net carrying amount of EUR 84.0 million (previous year: EUR 88.4 million); the containers were recognised at EUR 88.0 million as at 31 December 2018 (previous year: EUR 96.7 million).

The future minimum lease payments and their present values are as follows:

	31.12.2018				31.12.2017			
	Remaining terms				Remaining terms			
million EUR	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	113.5	44.5	67.8	1.2	144.9	36.5	94.5	13.9
Interest portion	–14.5	–5.9	–8.5	–0.1	–21.3	–7.5	–13.2	–0.6
Present value	**99.0**	**38.6**	**59.3**	**1.1**	**123.6**	**29.0**	**81.3**	**13.3**

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 1 year and 13 years, with the majority maturing after a term of up to 5 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 nearly always structured as time charter contracts, i. e. in addition to the capital costs, the ship owner bears all 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 total charter expenses.

In the 2018 financial year, lease payments of EUR 1,117.3 million (previous year: EUR 909.3 million) were recognised in expenses. No contingent rental payments were recognised as expenses in 2018.

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

	31.12.2018				31.12.2017			
	Remaining terms				Remaining terms			
million EUR	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	813.8	394.6	412.8	6.4	542.1	282.5	246.1	13.5
Business premises	100.3	23.7	49.2	27.4	101.6	21.6	50.9	29.1
Other	188.8	68.8	119.8	0.2	203.2	60.3	142.9	–
Total	**1,102.9**	**487.1**	**581.8**	**34.0**	**846.9**	**364.4**	**439.9**	**42.6**

As at 31 December 2018, future minimum lease income from subletting arrangements relating to non-cancellable subletting arrangements totalled EUR 0.2 million (previous year: EUR 0.2 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 primarily fully owned ships and slots on ships.

The following future minimum lease payments relate to non-cancellable operating lease contracts:

	31.12.2018				31.12.2017			
	Remaining terms				Remaining terms			
million EUR	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	12.8	12.8	–	–	27.5	27.5	–	–
Business premises	0.8	0.2	0.6	–	4.1	1.5	2.3	0.3
Total	**13.6**	**13.0**	**0.6**	**0.0**	**31.6**	**29.0**	**2.3**	**0.3**

There were no future minimum lease payments from non-cancellable operating lease contracts for chartered ships in the 2018 reporting year. In the previous year, the gross carrying amounts of the chartered ships totalled EUR 327.5 million. Depreciation for the 2017 reporting period amounted to EUR 8.5 million and corresponded to cumulative depreciation. No contingent rental payments were recorded through profit or loss in the 2018 financial year.

(33) Other financial obligations

The Group's other financial obligations as at 31 December 2018 comprise a purchase obligation for investments in containers amounting to EUR 33.4 million as well as investments in exhaust gas cleaning systems (EGCS) on container ships with an amount of EUR 11.2 million. There were no significant orders for containers as at 31 December 2017.

(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 3 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"), this share price was calculated differently and is based on the average of the 20 trading days that followed 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 the 60 trading days that followed 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 4-year performance period. The number of performance share units can be a maximum of 1.5 times and a minimum of 0, as measured by a performance factor, when the performance period ends. If the performance factor is 0, 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 the latter case, all entitlements under the long-term incentive plan are forfeited.

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

The maturities of the other provisions are as follows:

	virtual shares	**Fair Value** million EUR
As per 31.12.2016	**208,079**	**3.9**
Virtual shares granted	117,208	2.2
Adjustment due to capital increase	3,740	0.1
Virtual shares exercised	–	–
Virtual shares forfeited	–	–
Measurement result	119,417	8.9
As per 31.12.2017	**448,444**	**15.1**
Virtual shares granted	72,744	2.5
Virtual shares exercised	–113,053	–3.7
Virtual shares forfeited	–	–
Measurement result	7,701	–1.5
As per 31.12.2018	**415,836**	**12.4**

The measurement of the virtual shares at the time they are granted is based on the allocation amount. The adjusted number of shares following the ordinary capital increase in October 2017 was calculated as outlined above. The arithmetical share price on the day before trading of the subscription rights commences (ex-subscription rights) was used as a basis here and stood at EUR 35.13. The exercising of virtual shares in 2018 resulted from the resignation of an Executive Board member as at 31 March 2018. The actual distribution amount of EUR 2.6 million differs from the fair value, as individual contractual provisions exist for the maximum distribution amount. As a result, this amount has been capped.

In the reporting period, EUR 3.7 million (previous year: EUR 4.0 million) was recognised for share-based payments through profit or loss. The provision for share-based payments amounted to EUR 7.0 million as at 31 December 2018 (previous year: EUR 5.9 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
- Zweite Hapag-Lloyd Schiffsvermietungsgesellschaft mbH, Hamburg
- Hamburg-Amerika Linie GmbH, Hamburg

(36) Services provided by the auditors of the consolidated financial statements

In the 2018 financial year, the following fees were paid to the external auditors KPMG AG Wirtschaftsprüfungsgesellschaft within the global KPMG network:

	1.1. – 31.12.2018		1.1. – 31.12.2017	
million EUR	Total	Domestic	Total	Domestic
Audit fees for annual audit	3.4	2.2	3.2	1.9
Audit fees for other assurance services	0.1	0.0	1.0	0.9
Audit fees for tax consultancy	0.0	0.0	0.3	0.1
Audit fees for other services	0.0	0.0	0.1	0.1
Total	**3.5**	**2.2**	**4.6**	**3.0**

The fee for audit services rendered by KPMG AG Wirtschaftsprüfungsgesellschaft related primarily to the audit of the consolidated financial statements and the annual financial statements of Hapag-Lloyd AG including legal contractual amendments and audits of the financial statements of subsidiaries (thereof EUR 0.2 million for the previous year). Activities integral to the audit were also performed in relation to audit reviews of interim financial statements.

Other attestation services relate to agreed examination actions on financial covenants and an EMIR audit pursuant to Section 20 of the German Securities Trading Act (WpHG).

The tax consultation activities comprise support services for the integration of the UASC Group companies in the financial year 2017.

The other services relate to quality-assuring support services.

(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.

During the second quarter of 2018, Kühne Maritime GmbH increased its share in Hapag-Lloyd AG to a total of 25.0%. Apart from that, Hapag-Lloyd's shareholder structure remained virtually unchanged. As at 31 December 2018, CSAV, HGV and Klaus-Michael Kühne (including companies attributable to him, in particular through Kühne Maritime) together held around 65% of the share capital of Hapag-Lloyd.

In the following disclosures on transactions with shareholders, the relationships with Kühne Holding AG as well as Kühne Maritime and CSAV and their respective related parties are outlined. During the reporting period Hapag-Lloyd mainly conducted legal transactions within the scope of its ordinary activities with Kühne Maritime and CSAV and their respective related parties. These comprise terminal and transport services in particular. Performance and consideration have been agreed on the basis of normal market conditions.

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.

Voting rights

in %	2018	2017
CSAV Germany Container Holding GmbH	25.8	25.5
Kühne Holding AG / Kühne Maritime GmbH	25.0	20.5
Qatar Holding Germany GmbH	14.5	14.5
HGV Hamburger Gesellschaft für Vermögens- und Beteiligungs-management mbH	13.9	13.9
Public Investment Fund of the Kingdom of Saudi Arabia	10.2	10.2
Free Float	10.6	15.4
Total	**100.0**	**100.0**

Transactions with related parties (excluding management in key positions):

	Delivered goods and services and other income recognised		Goods and services received and other expenses recognised	
million EUR	1.1. – 31.12. 2018	1.01. – 31.12. 2017	1.1. – 31.12. 2018	1.1. – 31.12. 2017
Shareholders	461.4	414.2	68.9	87.6
Affiliated non-consolidated companies	–	–	0.7	0.0
Associated companies and Joint Ventures	7.2	16.3	206.9	163.2
Total	**468.6**	**430.5**	**276.5**	**250.8**

	Receivables		Liabilities	
million EUR	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Shareholders	40.9	43.7	10.1	7.5
Affiliated non-consolidated companies	–	–	0.3	0.2
Associated companies and Joint Ventures	0.6	0.8	33.1	28.1
Total	**41.5**	**44.5**	**43.5**	**35.8**

The amounts arising from transactions with related parties contained in the above table result from services rendered (EUR 468.6 million; previous year: EUR 430.5 million).

Of the expenses shown above, EUR 275.9 million result from operating services (previous year: EUR 249.9 million) and EUR 0.6 million are from other services (previous year: EUR 0.9 million).

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:

	Executive Board		Supervisory Board	
million EUR	**2018**	2017	**2018**	2017
Short-term benefits	4.3	3.9	1.6	1.5
Terminiation benefits	0.2	–	–	–
Post-employment benefits	0.4	0.2	–	–
Share based benefits	3.7	4.0	–	–
Total	8.6	**8.1**	**1.6**	**1.5**

In the 2018 financial year, the employee representatives on the Supervisory Board received EUR 0.5 million (previous year: EUR 0.4 million) 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 315e of the German Commercial Code (HGB)

	Executive Board		Supervisory Board	
million EUR	**2018**	2017	**2018**	2017
Active board members	6.8	6.2	1.1	1.1
Former board members	1.1	0.8	–	–
Total	7.9	**7.0**	**1.1**	**1.1**

The active Executive Board members were granted 72,744 virtual shares in total in the financial year, with a fair value of EUR 2.5 million at the time they were granted (previous year: 117,208 virtual shares with a fair value of EUR 2.2 million).

A total of EUR 24,5 million was allocated to pension provisions for former Executive Board members as at 31 December 2018 (previous year: EUR 25.3 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 AktG

The declaration required under Section 161 AktG was issued by the Executive Board and Supervisory Board in July 2018 and has been made permanently available to shareholders on the Company's website www.hapag-lloyd.com in the "Corporate Governance" section under "Investor Relations" at https://www.hapag-lloyd.com/en/ir/corporate-governance/compliance-statement.html.

(39) Significant transactions after the balance sheet date

On 3 January 2019, a fire broke out in one container on deck of Hapag-Lloyd´s "Yantian Express". The 7,510 TEU ship was on its way from Colombo to Hallifax. After the fire was contained, the ship was towed to the port of Freeport (Bahamas) where the assessment and the recovery of cargo is continuing. Potential loss from damage on ship, cargo, bunker, and equipment as well as the rescue cost are either covered by insurance or eligible in the "General average". Costs for business interruption are not insured.

On 30 January 2019, 15 February 2019 and 15 March 2019, newly acquired containers were sold to an investor group as part of Japanese operating leases and subsequently leased back over a term of 7 years, with the option of repurchasing the containers at the end of the term. The design of the leasing agreements essentially corresponds to a borrowing, combined with a transfer by way of security of the containers. The refinancing volume associated with these transactions totalled EUR 113.4 million (USD 128.4 million).

On 31 January 2019, the Executive Board of Hapag-Lloyd decided to partly redeem EUR 170 million of its outstanding senior note due in 2022. The partly redemption took place on 11 February 2019 at a fixed redemption price of 103.375%. The senior note was issued in 2017 with an aggregate principal amount of EUR 450 million and a coupon of 6.75%.

On 6 February 2019, Hapag-Lloyd has drawn down EUR 87.8 million under the existing Receivable Sales Program.

On 18 February 2019, the Rating Agency Moody´s upgraded Hapag-Lloyd´s corporate family rating (CFR) to B1 from B2 and its senior unsecured bond rating to B3 from Caa1. The rating outlook remains stable.

On 20 February 2019, the U.S. Department of Justice Antitrust Division ("DoJ") announced towards Hapag-Lloyd the completion of its investigation. The official end of the investigation against Hapag-Lloyd was confirmed by the DoJ on 25 February 2019. The investigation has been closed without charges against Hapag-Lloyd AG, its affiliates or any of its current or former employees. This investigation was related to subpoenas which were served to company representatives in San Francisco on 15 March 2017, ordering them to attend a hearing by the DoJ.

(40) List of holdings pursuant to Section 315a of the German Commercial Code (HGB)

Name of the company	Registered office	Currency unit(CU)	Share-holding in %
Affiliated consolidated companies			
Head office			
Hamburg-Amerika Linie GmbH	Hamburg	EUR	100.00
Hapag-Lloyd Grundstücksholding GmbH	Hamburg	EUR	94.90
Hapag-Lloyd Schiffsvermietungsgesellschaft mbH	Hamburg	EUR	100.00
Zweite Hapag-Lloyd Schiffsvermietungsgesellschaft mbH	Hamburg	EUR	100.00
Europe			
Hapag-Lloyd (Austria) GmbH	Vienna	EUR	100.00
Oy Hapag-Lloyd Finland AB	Helsinki	EUR	100.00
Hapag-Lloyd (France) S. A. S.	Asnieres sur Seine	EUR	100.00
Hapag-Lloyd (Ireland) Ltd.	Dublin	EUR	100.00
Hapag-Lloyd (Italy) S. R. L.	Milano	EUR	100.00
Hapag-Lloyd Polska Sp. z. o. o.	Gdynia	PLN	100.00
Hapag-Lloyd Portugal LDA	Lisboa	EUR	100.00
Hapag-Lloyd (Schweiz) AG	Basel	CHF	100.00
Hapag-Lloyd Special Finance DAC	Dublin	USD	100.00
Hapag-Lloyd (Sweden) AB	Gothenburg	SEK	100.00
Hapag-Lloyd Spain S. L.	Barcelona	EUR	90.00
Hapag-Lloyd (UK) Ltd.	Barking	GBP	100.00
Norasia Container Lines Ltd.	Valetta	USD	100.00
Hapag-Lloyd Denizasiri Nakliyat A. S.	Izmir	TRY	65.00
Hapag-Lloyd (Egypt) Shipping S. A. E.	Alexandria	EGP	49.0[6]
United Arab Shipping Agency Co. (Polska) Sp. z. o. o.	Warsaw	PLN	100.00
United Arab Shipping Agency Company (Italy) S. r. l.	Milano	EUR	100.00
UASAC Nordic A / S	Holte	DKK	100.00
UASAC Russia ApS	Holte	DKK	100.00
UASAC Russia llc	St. Petersburg	RUB	100.00
United Arab Shipping Agency Company (CEE) Kft.	Budapest	EUR	100.00
United Arab Shipping Agency Company (Benelux) B. V.	Rotterdam	EUR	100.00
United Arab Shipping Agency Company (Denizcilik Nakliyat) A. S.	Istanbul	TRY	100.00
United Arab Shipping Agency Co. (Egypt) S. A.E	Alexandria	EGP	49.00[1]
Asia			
Hapag-Lloyd (Australia) Pty. Ltd.	Pyrmont	AUD	100.00
Hapag-Lloyd (China) Ltd.	Hong Kong	HKD	100.00
Hapag-Lloyd (China) Shipping Ltd.	Shanghai	CNY	100.00
Hapag-Lloyd (Japan) K. K.	Tokyo	JPY	100.00
Hapag-Lloyd (Korea) Ltd.	Seoul	KRW	100.00
Hapag-Lloyd (Malaysia) Sdn. Bhd.	Kuala Lumpur	MYR	100.00
Hapag-Lloyd (New Zealand) Ltd.	Auckland	NZD	100.00
Hapag-Lloyd Pte.Ltd.	Singapore	USD	100.00
Hapag-Lloyd (Taiwan) Ltd.	Taipei	TWD	100.00
Hapag-Lloyd (Thailand) Ltd.	Bangkok	THB	49.90

Name of the company	Registered office	Currency unit(CU)	Share-holding in %
Hapag-Lloyd (Vietnam) Ltd.	Ho Chi Minh City	VND	100.00
Hapag-Lloyd Business Service (Suzhou) Co. Ltd.	Suzhou	CNV	100.00
CSAV Group (China) Shipping Co. Ltd.	Shanghai	CNY	100.00
United Arab Shipping Co. (Shanghai) Ltd.	Shanghai	CNY	100.00
United Arab Shipping Co. (Asia) Pte. Ltd.	Singapore	SGD	100.00
United Arab Shipping Agency Co. (Asia) Pte Ltd.	Singapore	USD	100.00
United Arab Shipping Co. Holding (Thailand) Ltd.	Bangkok	THB	49.945
UASC (Thailand) Ltd.	Bangkok	THB	74.972
United Arab Shipping Agency Company (Vietnam) Ltd.	Ho Chi Minh City	VND	100.00
United Arab Shipping Agency Company (Hong Kong) Ltd.	Hong Kong	HKD	100.00
Middle East			
Hapag-Lloyd Africa PTY Ltd.	Durban	ZAR	100.00
Hapag-Lloyd Global Services Pvt. Ltd.	Thane	INR	100.00
Hapag-Lloyd India Private Ltd.	Mumbai	INR	100.00
Hapag-Lloyd Middle East Shipping LLC	Dubai	AED	49.00 [1]
Hapag-Lloyd (Ghana) Ltd.	Tema	GHS	65.00
Hapag-Lloyd Business Service Center LLP	Mumbai	INR	100.00
United Arab Shipping Company Ltd.	Dubai	USD	100.00
United Arab Shipping Company for Maritime Services LLC	Baghdad	IQD	100.00
Hapag-Lloyd Pakistan (Pvt.) Ltd. (formerly United Arab Shipping Agency Company Pakistan Pvt. Ltd.)	Karachi	PKR	100.00
United Arab Shipping Agencies Company Private Shareholding Company	Amman	JOD	50.00
United Arab Shipping Agency Co. (India) Pvt. Ltd.	Chembur	INR	100.00
United Arab Shipping Agencies Co. LLC (UAE)	Dubai	USD	49.00 [1]
Hapag-Lloyd Bahrain Co. WLL	Manama	BHD	49.00
Hapag-Lloyd Qatar WLL (formerly United Arab Shipping Agency Co. (Qatar) WLL)	Doha	QAR	49.00
Hapag-Lloyd Saudi Arabia Ltd. (formerly United Arab Shipping Agencies Co. (Saudi Arabia) Ltd.)	Jeddah	SAR	60.00
Hapag-Lloyd Shipping Company – State of Kuwait K. S. C. C.	Kuwait City	KWD	49.00 [1]
United Arab Shipping Company Services Ltd. (DIFC)	Dubai	USD	100.00
United Arab Shipping Company Services DMCCO	Dubai	AED	100.00
Aratrans Transport and Logistics Service LLC	Dubai	AED	49.00 [1]
Middle East Container Repair Company LLC	Dubai	AED	49.00 [2]
North America			
Hapag-Lloyd (America) LLC	Wilmington	USD	100.00
Hapag-Lloyd (Canada) Inc.	Montreal	CAD	100.00
Hapag-Lloyd USA LLC	Wilmington	USD	100.00
Florida Vessel Management LLC	Wilmington	USD	75.00
Latin America			
Hapag-Lloyd Argentina S. R. L.	Buenos Aires	ARS	100.00
Hapag-Lloyd Colombia Ltda.	Bogota	COP	100.00
Hapag-Lloyd Costa Rica S. A.	San Jose	CRC	100.00

Name of the company	Registered office	Currency unit(CU)	Share-holding in %
Hapag-Lloyd Guatemala, S.A.	Guatemala City	GTQ	100.00
Hapag-Lloyd Mexico S.A. de C.V.	Mexico City	MXN	100.00
Servicios Corporativos Portuarios S.A. de C.V.	Mexico City	MXN	100.00
Agencias Grupo CSAV Mexico S.A. de C.V.	Mexico City	MXN	100.00
Hapag-Lloyd (Peru) S.A.C.	Lima	PEN	60.00
Hapag-Lloyd Venezuela C.A.	Caracas	VEF	100.00
Hapag-Lloyd Ecuador S.A.	Guayaquil	USD	45.00
Hapag-Lloyd Bolivia S.R.L.	Santa Cruz de la Sierra	BOB	100.00
CSAV Austral SpA	Santiago de Chile	USD	49.00
Hapag-Lloyd Chile SpA	Valparaíso	USD	100.00
Hapag-Lloyd Uruguay S.A. (formerly CSAV Group Agencies Uruguay S.A.)	Montevideo	UYU	100.00
Libra Serviços de Navegação Limitada (formerly Companhia Libra de Navegacao S.A.)	São Paulo	BRL	100.00
Andes Operador Multimodal Ltda.	São Paulo	BRL	100.00
Rahue Investment Co. S.A.	Panama City	USD	100.00
Southern Shipmanagement Co. S.A.	Panama City	USD	100.00
Southern Shipmanagement (Chile) Ltda.	Valparaíso	USD	100.00
Compañía Libra de Navegación (Uruguay) S.A.	Montevideo	UYU	100.00
Torksey S.A.	Montevideo	USD	100.00
CSAV Ships S.A.	Panama City	USD	100.00
Norasia Alya S.A.	Panama City	USD	100.00
Other			
CSBC Hull 900 Ltd.	Douglas	USD	100.00
Hull 1975 Co. Ltd.	Majuro	USD	100.00
Hull 1976 Co. Ltd.	Majuro	USD	100.00
Al Wakrah Ltd.	George Town	USD	100.00
Al Rayyan Ltd.	George Town	USD	100.00
Qurtuba Ltd.	George Town	USD	100.00
Dhat Al Salasil Ltd.	George Town	USD	100.00
Hira Ltd.	George Town	USD	100.00
Al Madinah Ltd.	George Town	USD	100.00
Al Mutanabbi Ltd.	George Town	USD	100.00
Manamah Ltd.	George Town	USD	100.00
Al Aziziyah Ltd.	George Town	USD	100.00
Busaiteen	George Town	USD	100.00
Al Oyun Ltd.	George Town	USD	100.00
Onayzah Ltd.	Valetta	EUR	100.00
Barzan Ltd.	Valetta	EUR	100.00
Alula Ltd.	Valetta	EUR	100.00
Al Muraykh Ltd.	Valetta	EUR	100.00
Tayma Ltd.	Valetta	EUR	100.00
Al Zubara Ltd.	Valetta	EUR	100.00
Al Jasrah Ltd.	Majuro	USD	100.00
Al Nefud Ltd.	Valetta	EUR	100.00

Name of the company	Registered office	Currency unit(CU)	Share-holding in %
Al Riffa Ltd.	Valetta	EUR	100.00
Al Dahna Ltd.	Valetta	EUR	100.00
Jebel Ali Ltd.	Valetta	EUR	100.00
Tihama Ltd.	Valetta	EUR	100.00
Al Qibla Ltd.	Valetta	USD	100.00
Umm Salal Ltd.	Valetta	EUR	100.00
Al Jowf Ltd.	Valetta	USD	100.00
Ain Esnan Ltd.	Valetta	EUR	100.00
Umm Qarn Ltd.	Majuro	USD	100.00
Salahuddin Ltd.	Majuro	USD	100.00
Afif Ltd.	Majuro	USD	100.00
Linah Ltd.	Majuro	USD	100.00
Al Jmeliyah Ltd.	Majuro	USD	100.00
Al Nasriyah Ltd.	Majuro	USD	100.00
Al Rawdah Ltd.	Majuro	EUR	100.00
Al Dhail Ltd.	Majuro	USD	100.00
Al Murabba Ltd.	Majuro	USD	100.00
Al Mashrab Ltd.	Majuro	USD	100.00
Sajid Ltd.	Majuro	USD	100.00
UASC Ships (No. 1) Ltd.	Dubai	USD	100.00
UASC Ships (No. 3) Ltd.	Dubai	USD	100.00
UASC Ships (No. 4) Ltd.	Dubai	USD	100.00
UASC Ships (No. 5) Ltd.	Dubai	USD	100.00
UASC Ships (No. 6) Ltd.	Dubai	USD	100.00
UASC Ships (No. 7) Ltd.	Dubai	USD	100.00
UASC Ships (No. 8) Ltd.	Dubai	USD	100.00
Ship Management No. 1 Ltd.	Dubai	USD	99.80
Ship Management No. 2 Ltd.	Dubai	USD	99.80
Joint Venture			
Texas Stevedoring Services LLC	Wilmington	USD	50.00
Associated companies			
HHLA Container Terminal Altenwerder GmbH	Hamburg	EUR	25.10
Hapag-Lloyd Lanka (Private) Ltd.	Colombo	LKR	40.00
United Arab Shipping Agency Company (Thailand) Ltd.	Bangkok	THB	49.00
Djibouti Container Services FZCO	Djibouti	DJF	19.06 [4]
Affiliated non-consolidated companies			
Hapag-Lloyd Container Ltd.	Barking	EUR	100.00
Hapag-Lloyd Container (No. 2) Ltd.	Barking	EUR	100.00
Hapag-Lloyd Container (No. 3) Ltd.	Barking	EUR	100.00
Hapag-Lloyd Ships Ltd.	Barking	EUR	100.00
Hapag-Lloyd Ships (No. 2) Ltd.	Barking	EUR	100.00
Brunswick Investment Co. Inc.	Nassau	USD	100.00
CSAV Denizcilik Acentasi A.S.	Istanbul	TRY	100.00
CSBC Hull 898 Ltd.	Douglas	USD	100.00
Hull 1794 Co. Ltd.	Majuro	USD	100.00

Name of the company	Registered office	Currency unit(CU)	Shareholding in %
Hull 2082 Co. Ltd.	Majuro	USD	100.00
Chacabuco Shipping Ltd.	Majuro	USD	100.00
Palena Shipping Ltd.	Majuro	USD	100.00
Malleco Shipping Co. S. A.	Panama City	USD	100.00
Maule Shipping Co. S. A.	Panama City	USD	100.00
Servicios de Procesamiento Naviero S. R. L. i. L.	Montevideo	USD	100.00
United Arab Agencies (Inc.)	Wilmington	USD	100.00
United Arab Shipping Agencies Company Uruguay S. A. (Kiranbir S. A.)	Montevideo	UYU	60.00
UASAC Sweden AB i. L.	Göteborg	SEK	100.00
Oy UASAC Finland AB i. L.	Helsinki	EUR	100.00
UASAC CEE (Slovakia) s. r. o.	Bratislava	EUR	100.00
UASAC Groupement France G. I. E.	Marseille	EUR	100.00
United Arab Shipping Agency Company (Malaysia) Sdn. Bhd.	Kuala Lumpur	MYR	100.00
United Arab Shipping Agency Co. (United Kingdom) Ltd. i. L.	London	GBP	49.00[1]
UASC Services (India) Pvt. Ltd. i. L.	Chembur	INR	99.99[5]
Khafji Ltd.	George Town	USD	100.00
Ash-Shahaniyah Ltd.	George Town	USD	100.00
Malik Al Ashtar Ltd.	Valetta	EUR	100.00
Hamburg-Amerikanische-Packetfahrt-Gesellschaft mbH	Hamburg	EUR	100.00
Norddeutscher Lloyd GmbH	Bremen	EUR	100.00

1 Additional 51.00 % are hold by a trustee on behalf of Hapag-Lloyd group.
2 Additional 5.64 % are hold by a trustee on behalf of Hapag-Lloyd group.
3 Additional 75.99 % are hold by a trustee on behalf of Hapag-Lloyd group.
4 Additional 2.19 % are hold by a trustee on behalf of Hapag-Lloyd group.
5 Additional 0.01 % are hold by a trustee on behalf of Hapag-Lloyd group.
6 Additional 16.0 % are hold by a trustee on behalf of Hapag-Lloyd group.

Hamburg, 18 March 2019

Hapag-Lloyd AG
Executive Board

Rolf Habben Jansen

Nicolás Burr | Anthony J. Firmin | Joachim Schlotfeldt

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

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, 18 March 2019

Hapag-Lloyd AG
Executive Board

Rolf Habben Jansen

Nicolás Burr | Anthony J. Firmin | Joachim Schlotfeldt

INDEPENDENT AUDITOR'S REPORT

To Hapag-Lloyd Aktiengesellschaft, Hamburg

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Opinions

We have audited the consolidated financial statements of Hapag-Lloyd Aktiengesellschaft, Hamburg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Hapag-Lloyd Aktiengesellschaft, Hamburg, for the financial year from 1 January to 31 December 2018.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment testing of goodwill

Please refer to the disclosures in the notes to the consolidated financial statements in the "Impairment testing" section and the disclosures on the judgements made by management in the section on "Significant assumptions and estimates" for further information on the accounting policies applied. Please see consolidated notes disclosure number 11 for information on goodwill.

THE FINANCIAL STATEMENT RISK

The carrying amount of goodwill equalled EUR 1,568.8 million as at 31 December 2018.

Goodwill is tested for impairment each year in accordance with IAS 36 on the level of the container shipping cash-generating unit. The carrying amount is compared with the recover-able amount of the cash-generating unit. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised. The recoverable amount is the higher value of fair value less costs of disposal and the value in use of the cash-generating unit. Impairment testing of goodwill is complex and based on a range of assumptions that require judgement. Among other elements, these include key input factors for Hapag-Lloyd Group's projected business and earnings performance: freight rates, transport volumes, bunker prices, realisation of cost savings from measures kicked off in the 2018 financial year as part of the "Strategy 2023", the long-term revenue level and long-term EBIT margin as well as the WACC applied and the growth discount on the WACC in the terminal value including sensitivity.

There is the risk for the financial statements that any existing impairment of goodwill as of the reporting date was not identified. There is also the risk that the related disclosures in the notes to the consolidated financial statements are not appropriate.

OUR AUDIT APPROACH

By involving our valuation specialists, we have also assessed the appropriateness of the key assumptions and calculation methods of the company. For this purpose, we discussed the projected business and earnings development and the assumed growth discounts with those responsible for planning. In addition, we reconciled the projected business and earnings performance with the management planning prepared by the Executive Board and approved by the Supervisory Board. As even just minor changes to business and earnings performance can significantly impact the results of impairment testing and the economic conditions in the container shipping industry continue to be strained, we assessed the consistency of assumptions for the development of key input factors with external market assessments, findings from comparable businesses and historical values. In addition, we compared the assumptions and parameters underlying the capital costs to our own assumptions and publicly available data. To ensure the computational accuracy of the valuation models used, we verified the company's calculations on the basis of selected risk-based elements. In order to take forecast uncertainty into account, we investigated – with respect to testing goodwill for impairment – the impact of potential changes to the cost of capital and earnings performance along with the growth discount on the recoverable amount (sensitivity analysis) by calculating alternative scenarios and comparing these to the Company's figures. In doing so, we carried out a sensitivity analysis in the form of a Monte Carlo simulation with respect to the EBIT margin used in perpetual annuity. Finally, we assessed whether the disclosures in the notes to the consolidated financial statements on the impairment of goodwill are appropriate.

OUR OBSERVATIONS

The calculation methods used for goodwill impairment testing are appropriate and in line with the accounting policies to be applied. The assumptions and parameters used by the Company for measurement are reasonable overall. The related disclosures in the notes to the consolidated financial statements are appropriate.

Accounting for unfinished voyages

Please refer to the disclosures in the "Fundamental accounting principles – New accounting standards" section in the notes to the financial statements for further information on the accounting policies applied.

THE FINANCIAL STATEMENT RISK

Revenues for unfinished voyages are recorded by Hapag-Lloyd by reference to the voyage progress as at the reporting date. In determining voyage progress, the ratio of expenses incurred up to the reporting date to the expected total expenses per voyage is relevant. Determining the transport costs incurred in connection with the voyages unfinished as at the reporting date and the margins underlying revenue recognition is a highly complex process.

There is the risk for the financial statements that revenues for unfinished voyages are not accurately recognised in respect of the cut-off reporting date.

OUR AUDIT APPROACH

We assessed the design, implementation and effectiveness of the controls that are to ensure accurate recognition cut-off of revenue as at the reporting date. We assessed the accounting policies applied by Hapag-Lloyd for revenue recognition in terms of their compliance with the requirements of IFRS 15. In addition, we assessed whether the policies defined by Hapag-Lloyd for recognition cut-off are appropriately structured to ensure the recognition of revenues on an accrual basis. We assessed the reliability of the analyses from the accounting system on an accrual basis by examining representative samples of the underlying documents and the actual voyage data. We assessed the method of calculating the margins for revenue recognition and the required cut-off procedures at the reporting date and evaluated the model for computational accuracy.

OUR OBSERVATIONS

Hapag-Lloyd's approach with respect to revenue recognition cut-off is appropriate overall.

Completeness and accuracy of the disclosures in the notes in accordance with IAS 8.30 to the consolidated financial statements on the anticipated impact of the first-time application of the new accounting standard ("IFRS 16 – Leases") as at 1 January 2019

We refer to the comments in the notes in the "Fundamental accounting principles – New accounting standards" section for more information on the anticipated impact of the first-time application of the new accounting standard ("IFRS 16 – Leases").

THE FINANCIAL STATEMENT RISK

Pursuant to the requirements set forth in IAS 8.30, Hapag-Lloyd must disclose in the notes to the consolidated financial statements information on the anticipated impact of the first-time application of the new accounting standard "IFRS 16 – Leases". IFRS 16 must be applied by Hapag-Lloyd for financial years starting on or after 1 January 2019. The new standard introduces for lessees a uniform accounting model for recognising leases in the lessee's statement of financial position. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

According to the anticipated impact stated by Hapag-Lloyd in the notes to the consolidated financial statements from the first-time application of IFRS 16 as at 1 January 2019, lease liabilities will presumably rise by approx. EUR 0.8 to 1.0 billion and right-of-use assets will have to be recognised in the amount of EUR 0.7 to 0.9 billion. The accumulated effects of the first time adoption in the amount of EUR 10 to 100 million will reduce the retained earnings as a correction of the opening balance amount. On the basis of the information available, Hapag-Lloyd also expects EBITDA in the amount of EUR 370 – 470 million and EBIT in the amount of EUR 10 – 50 million for the 2019 financial year.

The value of the right-of-use asset in general corresponds to amount stated for the first-time recognition of the lease liability. Upon first-time recognition, a lease liability corresponds to the present value of the future lease payments over the expected lease term. Determination of the lease term, the amount of the lease payments and the discount rate may require judgement in isolated cases and be based on estimates. At the same time, IFRS 16 generally requires that all leases be reported, which entails considerable work or the development of standardised / IT-supported processes on the part of the reporting entity in order to determine and collect the relevant data from the leases to calculate the effect from the first-time adoption of IFRS 16.

Determination of the first-time adoption effect is linked to the risk of material misstatement, which can be due to incorrectly exercising judgements as well as due to taking an erroneous approach for determining the relevant data to calculate the carrying amount of the lease liabilities and right-of-use assets. Furthermore, the actual calculation may be inaccurate. This can lead to a material misstatement in the notes to the consolidated financial statements regarding the anticipated impact of the first-time application of IFRS 16.

OUR AUDIT APPROACH

In an initial step, we first gained an understanding of the process used to implement the new IFRS 16 accounting standard in the Hapag-Lloyd Group. We then analysed the business concept and the accounting instructions underlying the implementation in terms of completeness and compliance with IFRS 16.

As part of our control-based audit procedures, we assessed the appropriateness, implementation and effectiveness of the controls established by Hapag-Lloyd to ensure the full and correct determination of the data used to measure the lease liabilities and right-of-use assets. If IT processing systems were used to determine and collect relevant data, we tested the effectiveness of rules and procedures relating to numerous IT applications and which support the effectiveness of application controls, with the involvement of our IT experts.

As part of our test of details involving leases, we used contract documents, in some cases on the basis of representative samples and in others on the basis of risk-oriented elements, to check whether the relevant data was correctly and fully determined. To the extent that accounting judgements were made for determining the lease term, we examined whether – in light of the prevailing market conditions and risks in the industry – the underlying assumptions are comprehensible and consistent with other assumptions made in the financial statements.

With the involvement of our valuation experts, we compared the assumptions and parameters underlying the incremental borrowing rates to our own assumptions and publicly available data. We also assessed the calculation model for the interest rate in terms of appropriateness.

We verified the calculations on the carrying amounts recognised by Hapag-Lloyd for lease liabilities and right-of-use assets in part on the basis of representative sampling and in part using elements selected according to risks.

We then audited the disclosures in the notes to the consolidated financial statements on the first-time application of IFRS 16 pursuant to IAS 8.30 as regards the completeness and adequacy of the required information.

OUR OBSERVATIONS
The disclosures in accordance with IAS 8.30 on the anticipated impact of the first-time application of IFRS 16 were prepared in a manner consistent with the relevant accounting requirements and are appropriate overall.

Other information
Management is responsible for other information. The other information comprises the annual report, with the exception of the audited consolidated financial statements, group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report
Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the Group's assets, liabilities, financial position and financial performance. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going-concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the group management report.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by the management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Art. 10 of the EU Audit Regulation
We were elected group auditor by the annual general meeting on 10 July 2018. We were engaged by the Audit and Finance Committee on 8 August 2018. We have been group auditor of Hapag-Lloyd Aktiengesellschaft, Hamburg, without interruption since the financial year 2015.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Dr Victoria Röhricht.

Hamburg, 19 March 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

gez. Madsen	gez. Dr. Röhricht
Wirtschaftsprüfer	Wirtschaftsprüferin
German Public Auditor	German Public Auditor

FINANCIAL CALENDAR

9 MAY 2019
Quartely financial report, first quarter 2019

12 JUNE 2019
Annual General Meeting

7 AUGUST 2019
Half-year financial report, first half 2019

14 NOVEMBER 2019
Quartely financial report, first nine months 2019

IMPRINT

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