ANNUAL REPORT 2019

SUMMARY OF KEY FIGURES

		1.1.– 31.12.2019	1.1.– 31.12.2018	Change absolute
Key operating figures[1]				
Total vessels (as at 31 December)		239	227	12
Aggregate capacity of vessels	TTEU	1,707	1,643	64
Aggregate capacity of containers	TTEU	2,540	2,559	–19
Freight rate (average)	USD / TEU	1,072	1,044	28
Transport volume	TTEU	12,037	11,874	163
Revenue	million EUR	12,608	11,618	990
EBITDA	million EUR	1,986	1,139	847
EBIT	million EUR	811	444	368
Group profit / loss	million EUR	373	46	327
Earnings per share	EUR	2.06	0.21	1.85
Cash flow from operating activities	million EUR	2,028	1,073	955
Key return figures[1]				
EBITDA margin (EBITDA / revenue)	%	15.8	9.8	6.0 ppt
EBIT margin (EBIT / revenue)	%	6.4	3.8	2.6 ppt
ROIC (Return on Invested Capital)[2]	%	6.1	3.7	2.4 ppt
Key balance sheet figures as at 31 December				
Balance sheet total	million EUR	16,200	15,301	899
Equity	million EUR	6,621	6,259	361
Equity ratio (equity / balance sheet total)	%	40.9	40.9	0.0 ppt
Borrowed capital	million EUR	9,580	9,042	538
Key financial figures as at 31 December				
Financial debt and lease liabilities	million EUR	6,397	6,018	379
Cash and cash equivalents	million EUR	512	657	–146

1 Key operating and return figures refer to the respective reporting period.
2 Return on invested capital (ROIC) is calculated as the ratio between operating profit after tax (NOPAT) and invested capital (total assets excluding cash and cash equivalents less liabilities excluding financial liabilities and lease obligations). The ratio is calculated on an annualised basis and in US dollars.

For computational reasons, rounding differences may occur in some of the tables and charts of this financial report.

Note: Due to the first-time application of IFRS 16 “Leases” as at January 1, 2019, the figures regarding the group earnings, financial and net asset positions for the financial year 2019 are only comparable with the previous year to a limited extent. Unless stated otherwise, prior-year figures refer to the regulations for leasing agreements in accordance with IAS 17.

Due to the adjustment of the structure of the consolidated income statement, the items in the consolidated income statement have changed. The comparability of the previous year’s values are thus limited. For a better comparability with the current reporting period, the previous year’s values have been adjusted, see also chapter “Change of presentation in the consolidated income statement” in the Notes to the consolidated financial statements

This report was published on 20 March 2020.

STRATEGY 2023 –
NUMBER ONE FOR QUALITY

HAPAG-LLOYD IS THE LARGEST GERMAN LINER SHIPPING COMPANY AND ONE OF THE WORLD'S LEADING CONTAINER CARRIERS. OUR CORE BUSINESS IS THE SHIPPING OF CONTAINERS BY SEA, INCLUDING 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 NOW FOCUSES ON QUALITY, REMAINING A GLOBAL PLAYER AND PROFITABILITY WITH IT'S MID-TERM STRATEGY "STRATEGY 2023".

Main developments in the 2019 financial year:

- First measures of "Strategy 2023" successfully implemented
- Transport volume grew by 1.4% in 2019. The volume development was influenced by deliberate reduction of volume in the Intra-Asia trade and the focus on more profitable services. Adjusted for the Intra-Asia trade, transport volume grew by 2.8% in 2019
- By focussing on profitable trades and implementing revenue management measures, the average freight rate could be increased slightly by 2.7% to USD 1,072 per TEU compared to the previous year
- The average bunker consumption price[1] for Hapag-Lloyd in 2019 was USD 416 per tonne and thus USD 5 per tonne (–1.2%) below the average bunker consumption price of the previous year, which softened the increase in transport expenses
- Transport expenses rose by a total of EUR 120.6 million to EUR 9,707.0 million in 2019 (previous year period: EUR 9,586.4). The main reason was the stronger US dollar compared to the Euro as well as higher charter costs and costs for the repositioning of empty containers. The first-time application of IFRS 16 and lower costs for handling and haulage partially compensated the increase in the transport expenses
- Significant increase in EBITDA to EUR 1,985.8 million (2018: EUR 1,138.6 million) in the 2019 financial year, including a positive effect of around EUR 467.0 million from the first-time application of IFRS 16
- EBIT also increased significantly to EUR 811.4 million (2018: EUR 443.5 million) in the 2019 financial year. The IFRS 16 effect in EBIT amounted to EUR 30.6 million
- Group profit of EUR 373.4 million (including IFRS 16 effect of around EUR –36.0 million) substantially higher than previous year's level (2018: EUR 46.0 million)
- Significant increase in return on invested capital (ROIC) to 6.1% (2018: 3.7%)
- Free cash flow increased by 71.2% from EUR 968.6 million in 2018 to EUR 1,658.7 million in 2019
- Balance sheet total increased to EUR 16,200.4 million (31 December 2018: EUR 15,301.3 million) primarily due to the first-time application of IFRS 16
- Equity ratio of 40.9% remained at the previous year's level (31 December 2018: 40.9%) despite the increase in the balance sheet total
- Early redemption of the EUR 450 million bond due in 2022 as part of the debt reduction plan
- Reduction of the leverage ratio (net debt / EBITDA) to 3.0x (2018: 4.6x) and thus below the 2019 target of 3.5x

[1] Weighted average MFO and MDO.

CONTENTS

Rolf Habben Jansen
Chief Executive Officer

INTERVIEW WITH CEO ROLF HABBEN JANSEN

HEIKO HOFFMANN, HEAD OF INVESTOR RELATIONS, TALKS TO THE HAPAG-LLOYD AG CHIEF EXECUTIVE OFFICER ABOUT THE YEAR 2019 BUSINESS DEVELOPMENT.

Heiko Hoffmann: What is your overall view of the year 2019?
Rolf Habben Jansen: In 2019 we faced quite some geopolitical tensions, more trade restrictions and trade growth was modest. Even so, we enjoyed financially one of the best years in our history, as we benefited from higher transport volumes and better freight rates, and we kept a close eye on our costs. Overall, we have made very good progress with the implementation of our Strategy 2023, and we have achieved a Group net result that is well above the prior-year result.

How has the market environment developed?
Although the global economy tended to slow in 2019, it still grew by nearly 3%. In contrast, the volume of global trade – which is important for the demand for container transports – only grew by roughly 1% in the same period. Nevertheless, we increased our transport volume by 1.4% and focused on more profitable trade lanes at the same time. The latter is also reflected in the positive development of our average freight rate. What's more, lower bunker prices resulted in lower transport expenses, even if they were above the prior-year level particularly due to a stronger US dollar.

What strategic progress did you make in the year covered by this report?
Our Strategy 2023 comprises three main strategic goals: we want, first, to become the number one for quality in our industry, second, to remain a global player with a global market share (excluding Intra-Asia) of roughly 10%, and third, to be profitable across the cycle and achieve a return that enables us to cover our capital costs. To improve our service quality, we have defined Quality Promises and associated goals that our customers will be able to use to transparently measure how we deliver on them. Furthermore, we have opened several Quality Service Centers, which will allow us to deliver a more consistent level of service quality to our customers. In 2019, almost 1 million TEU were booked via our Web Channel – a great success! We expanded our business in profitable niches such as reefer and special containers, and we have launched new

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Heiko Hoffmann
Head of
Investor Relations

liner services in growth markets, for example in India and Africa. This allowed us to grow with the market and retain our global market share (excluding Intra-Asia) of around 10%. Financially, we have lowered our debt excluding IFRS 16 effects by more than EUR 800 million, thereby further reduced our financing costs in the second half of the year. Our operating result was up with about 80% compared to the previous year and we came significantly closer to earning our capital costs.

Which cost savings did you achieve in 2019?
We have achieved cost savings since we launched our Strategy 2023 in the mid three-digit million range. This means that we have already realised a large part of our planned savings of USD 350 to 400 million per year. For this reason, we have decided to explore more potential opportunities for cost savings, which are building on existing successful initiatives. We are taking a very close look at this right now, and we will definitively be able to tell you more about it over the course of 2020.

Regarding the IMO 2020 requirements, how did the switch to low-sulphur fuel oil go and who will bear the associated costs?
We prepared our vessels in good time and converted our fleet to use the new low-sulphur fuels right on time for 1 January 2020. With an assumed price difference of USD 250 per tonne compared to conventional fuels with a higher sulphur content, we initially expect additional costs of roughly USD 1 billion per year. We have to pass the higher fuel prices and the operating costs resulting from the switchover on to our customers. Most of them have understood very clearly that we cannot bear these costs by ourselves, and that we will both have to contribute to making maritime transport more sustainable.

Honestly speaking, how satisfied are you with the price developments of Hapag-Lloyd shares, and will there be a dividend?
The price of our shares jumped quite a lot last year, but given the small free float one should not overrate this. At the same time, the interest in our share was certainly also driven by market participants' expectations regarding Hapag-Lloyd's future performance based on the company's positive performance the last years. Incidentally, our shareholders should also benefit from this, which is why the Executive Board and the Supervisory Board will jointly propose to the Annual General Meeting that a dividend of 1.10 euro per share be paid out.

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Rolf Habben Jansen
Chief Executive Officer

Looking ahead, what do you think the rest of this year will be like?
The forecasts for global economic growth and the volume of international trade were, until recently, higher for 2020 than they were for last year, which should result in more demand for container transports. With a historically low orderbook, higher scrapping rates and rather moderate growth in supply in the medium term, supply and demand will also remain fairly balanced. In view of that, we would expect to see an improvement in the market environment. But our business continues to be cyclical, and conditions in global markets can change very quickly – something we have just seen recently at the beginning of 2020 with the outbreak of the coronavirus, which will certainly impact growth in 2020 even if the magnitude of it is very difficult to assess at this moment. We got the year under review off to a good start with our Strategy 2023, and we will continue along this path in the current year. We have set our course for quality, and our employees at sea and on shore are working day after day to make Hapag-Lloyd even better and more successful for our customers and for our owners. I would like to thank all of them most sincerely for their cooperation and confidence.

Many thanks for the interview.

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,
In the 2019 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 implementation of "Hapag-Lloyd Strategy 2023", fleet planning and implications of the International Marine Organization's new regulations to reduce marine pollution which came into effect on 1 January 2020 (IMO 2020).

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 Supervisory Board's own requirements and the principles of good corporate governance.

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.

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Michael Behrendt (Chairman of the Supervisory Board)

Meetings of the Supervisory Board and matters addressed

The Supervisory Board met 5 times in the reporting period. These meetings were held on 21 March 2019, 12 June 2019 (2 meetings), 11 September 2019 and 13 November 2019. All members of the Supervisory Board attended all the Supervisory Board meetings and more than 90% of the meetings of the committees which they were part of. The average attendance rate was as follows:

- Meetings of the Supervisory Board: 100%
- Meetings of the Presidential and Personnel Committee: 100%
- 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 2019 financial year

Meeting	Meetings by the Supervisory Board					Meetings by the Presidential and Personnel Committee				Meetings by the Audit and Financial Committee			
Name	21.3.2019	12.6.2019 I	12.6.2019 II	11.9.2019	13.11.2019	21.3.2019	11.9.2019	8.10.2019	13.11.2019	20.3.2019	8.5.2019	6.8.2019	12.11.2019
Albrecht	✓	✓	✓	✓	✓								
Alnowaiser	✓	✓	✓	✓	✓					✓	✓	O	✓
Al-Thani	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Behrendt	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Diekamp	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Gehrt	✓	✓	✓	✓	✓								
Gernandt	✓	✓	✓	✓	✓	✓	✓	✓	✓	O	✓	✓	✓
Hasbún	✓	✓	✓	✓	✓					✓	✓	✓	✓
Klemmt-Nissen	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Kröger	✓	✓	✓	✓	✓					✓	✓	✓	✓
Lipinski	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Nieswand	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Pérez	✓	✓	✓	✓	✓	✓	✓	✓	✓				
Schroeter	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Schwiegershausen-Güth	✓	✓	✓	✓	✓								
Zimmermann	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

✓ Meeting attendance
O Did not attend the meeting
Was not a member of the Supervisory Board or the committee at the time of the meeting

Supervisory Board meeting on 21 March 2019

At the start of the meeting, the Supervisory Board welcomed Mr Felix Albrecht who was appointed by Hamburg district court as a new member of the Supervisory Board with effect from 11 March 2019 to replace Mr Joachim Kramer who retired from his position. In its meeting on 21 March 2019, the Supervisory Board focused primarily on the annual financial statements. Following its own review and the recommendation of the Audit and Financial Committee, it approved the annual financial statements and management report as well as the consolidated financial statements and Group management report for the 2018 financial year. The Supervisory Board then approved the agenda for the Company's Annual General Meeting on 12 June 2019 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 Michael Behrendt be re-elected to the Supervisory Board as a shareholder representative since his term as Supervisory Board member and Chairman of the Supervisory Board expired as scheduled at the end of the 2019 Annual General Meeting. Furthermore, the Supervisory Board decided to propose to the Annual General Meeting that a dividend be paid. 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). It adopted this report and then discussed the current business.

The Supervisory Board passed a resolution outside of a meeting on 18 April 2019 to add another resolution proposal to the agenda of the Annual General Meeting on 12 June 2019 to amend Supervisory Board remuneration and modify the articles of association accordingly.

Supervisory Board meeting on 12 June 2019

Before the Annual General Meeting, the Supervisory Board decided to propose Mr Michael Behrendt as a candidate for the position of Chairman of the Supervisory Board and announce this to the shareholders in the event of his re-election as a member of the Supervisory Board by the subsequent Annual General Meeting. Afterwards, the Supervisory Board obtained information from the Executive Board about the current business and discussed this with the Executive Board. The discussions also focused on the forecast results for the first and second quarters of 2019 in light of the effects of the first-time application of IFRS 16 as well as cost-saving targets for the remaining course of business. Fuel alternatives in relation to the new IMO 2020 were also discussed. The Supervisory Board also obtained an overview of the current status of the process to implement 'Hapag-Lloyd Strategy 2023'. 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, Mr Michael Behrendt was re-elected as Chairman of the Supervisory Board. The Declaration of Conformity in relation to the German Corporate Governance Code (GCGC) was then adopted.

Supervisory Board meeting on 11 September 2019

In its meeting on 11 September 2019, the Supervisory Board took stock of the Executive Board's report on the current business. The Executive Board reported in particular on the performance factors of cost-cutting programmes and on progress with implementing 'Hapag-Lloyd Strategy 2023'. The remaining discussions focused on the second forecast for 2019 and fleet planning, particularly in light of the new requirements relating to fuel qualities starting in 2020.

Supervisory Board meeting on 13 November 2019

At the start of the meeting, the Supervisory Board appointed Mr Mark Frese as a new Executive Board member with effect from 25 November 2019 on the recommendation of the Presidential and Personnel Committee. Mr Mark Frese succeeded Mr Nicolás Burr as Chief Financial Officer (CFO), who stepped down on 29 February 2020. This meeting also focused on discussions about the current business and the annual budget for 2020, 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 annual budget for 2020.

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, Jutta Diekamp, Karl Gernandt, Dr Rainer Klemmt-Nissen, Arnold Lipinski, Sabine Nieswand, José Francisco Pérez Mackenna, Klaus Schroeter, Uwe Zimmermann.

Audit and Financial Committee: Oscar Hasbún Martínez (Chairman), Turqi Alnowaiser, Karl Gernandt, 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), Jutta Diekamp, José Francisco Pérez Mackenna, Klaus Schroeter.

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).

The **Presidential and Personnel Committee** met four times in 2019, on 21 March 2019, 11 September 2019, 8 October 2019 and 13 November 2019. Besides discussing the preparations for the Supervisory Board's plenary session on 21 March 2019, the Presidential and Personnel Committee also focused on the amendment of Supervisory Board remuneration. In its meeting on 8 October, the Presidential and Personnel Committee dealt in detail with the appointment of a new CFO, with the position set to become vacant on 1 March 2020. It decided to recommend to the Supervisory Board that Mr Mark Frese be appointed as a new Executive Board member and CFO.

The **Audit and Financial Committee** convened 4 meetings in the financial year 2019.

In the meeting on 20 March 2019, 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 2018 financial year (see also "Annual and consolidated financial statements 2018" in the 2018 annual report). 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" in the 2018 annual report). The Audit and Financial Committee also dealt with the implications of the first-time application of IFRS 16 on the 2019 budget as well as with cost-saving targets and fleet planning.

The second meeting on 8 May 2019 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.

In the meeting on 6 August 2019, 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 and the report regarding the Group's hedging transactions.

In the fourth meeting on 12 November 2019, the focus was on the presented 2020 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.

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

Personnel changes in the Supervisory Board and the Executive Board
Mr Joachim Kramer, the employee representative on the Supervisory Board, retired from the Company on 28 February 2019. Hamburg district court appointed Mr Felix Albrecht as the Supervisory Board's new representative for employees with effect from 11 March 2019.

According to a resolution of the Supervisory Board on 17 December 2018, Dr Maximilian Rothkopf was appointed as a new Executive Board member with effect from 1 May 2019. As the new Chief Operating Officer (COO), Dr Maximilian Rothkopf succeeded Anthony J. Firmin, who stepped down from the Executive Board on 30 June 2019.

Mr Mark Frese was appointed as a new Executive Board member with effect from 25 November 2019 as per a resolution passed by the Supervisory Board on 13 November 2019. Mr Mark Frese succeeded Mr Nicolás Burr as CFO, who stepped down on 29 February 2020.

Corporate governance
The Supervisory Board is committed to the principles of good corporate governance and maintained a continuous focus on these principles in the 2019 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 dated 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 June 2019, 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).

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 2019 financial year.

Audit of the 2019 annual and consolidated financial statements
The Executive Board submitted the annual financial statements, the consolidated financial statements and the combined 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 2019 prepared by the Executive Board in accordance with the provisions of the German Commercial Code (HGB), the consolidated financial statements prepared in accordance with Section 315 e HGB on the basis of the International Financial Reporting Standards (IFRS), as applicable in the European Union, as well as the combined management report 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 12 June 2019.

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 18 March 2020 in preparation for the audit and the handling of these documents by the Supervisory Board in the presence of the external auditors, who gave an account of the results of their audit, and 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 combined management report submitted by the Executive Board, to approve the annual financial statements, the consolidated financial statements and combined 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 19 March 2020.

In its meeting on 19 March 2020, 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, the consolidated financial statements and the combined 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 combined 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 19 March 2020. 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 combined management report. The Supervisory Board discussed the Executive Board's proposal on the appropriation of profits, which includes a dividend of EUR 1.10 per dividend-eligible share, from the perspectives of the dividend policy and the shareholders' interests. The remaining retained earnings of EUR 238.4 million will be carried forward to the subsequent year. The Supervisory Board concurred with the Executive Board's proposal on the appropriation of profits on 19 March 2020.

Review of the Executive Board report on relationships with affiliates

The Executive Board submitted its report on relationships with affiliated companies in the 2019 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 19 March 2020.

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 18 March 2020. 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 19 March 2020, 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 2019

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 2019, the Supervisory Board raised no objections.

In its meeting on 19 March 2020, 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 19 March 2020.

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

Acknowledgement
We would like to sincerely thank the Executive Board and all employees of the Hapag-Lloyd Group for the services rendered in the last financial year and their great personal commitment shown.

Adoption of the report
The Supervisory Board adopted this report by a resolution on 19 March 2020 in accordance with Section 171 (2) AktG.

Hamburg, 19 March 2020

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 German Corporate Governance Code Commission, 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 German Corporate Governance Code Commission 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 on 10 July 2018, complied with the recommendations of the German Corporate Governance Code Commission in the version of 7 February 2017 and 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 is fact serves independently.

Hamburg, 12 June 2019
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/en/about-us/sustainability/at-a-glance.html

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 and 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 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 bond are available.

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

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

Executive Board and Supervisory Board
The German Stock Corporation Act (AktG) is the legal basis of the corporate governance of Hapag-Lloyd AG. It is further enhanced by the Company's articles of association and the provisions of the 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 had 5 members as at the balance sheet date. 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 2019, the members of the Executive Board were Rolf Habben Jansen (Chairman of the Executive Board), Nicolás Burr, Mark Frese, Dr Maximilian Rothkopf and Joachim Schlotfeldt.

Members of the Executive Board of Hapag-Lloyd AG (31 December 2019):

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

Mark Frese Born in 1964	**Member of the Executive Board**
First appointment:	Member of the Executive Board of Hapag-Lloyd AG since 2019
Current appointment:	Until 30 November 2022

Dr Maximilian Rothkopf Born in 1980	**Member of the Executive Board / COO**
First appointment:	Member of the Executive Board of Hapag-Lloyd AG since 2019
Current appointment:	Until 30 April 2022

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

According to a resolution of the Supervisory Board on 13 November 2019, Mr Mark Frese was appointed as a new Executive Board member with effect from 25 November 2019. Mr Mark Frese is the new CFO and succeeds Mr Nicolás Burr, who left the Company on 29 February 2020.

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.

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 reports to the Supervisory Board 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, especially 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 2019 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 on 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 8 representatives of the shareholders are generally elected by the Annual General Meeting and the 8 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.

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 2019 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:

Goals for the composition of the Supervisory Board

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

- At least 1 seat on the Supervisory Board on the shareholder side for 1 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 2 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 2019. 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)

Klaus Schroeter
Tariff Coordinator, Federal Division Transport, ver.di – Vereinte Dienstleistungsgewerkschaft (service workers' union), Berlin
(First Deputy Chairman of the Supervisory Board)

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

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
Head of International Investments
Public Investment Fund, Kingdom of Saudi Arabia

Jutta Diekamp
Marine Works Council
Hapag-Lloyd AG, Hamburg

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

Oscar Eduardo Hasbún Martínez
Chief Executive Officer
Compañía Sud Americana de Vapores S.A., Santiago de Chile, Chile

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

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
Head of Treaty Office of the ITF "flag of convenience" campaign
Federal Department of Maritime Economy, ver.di Bundesverwaltung, Berlin

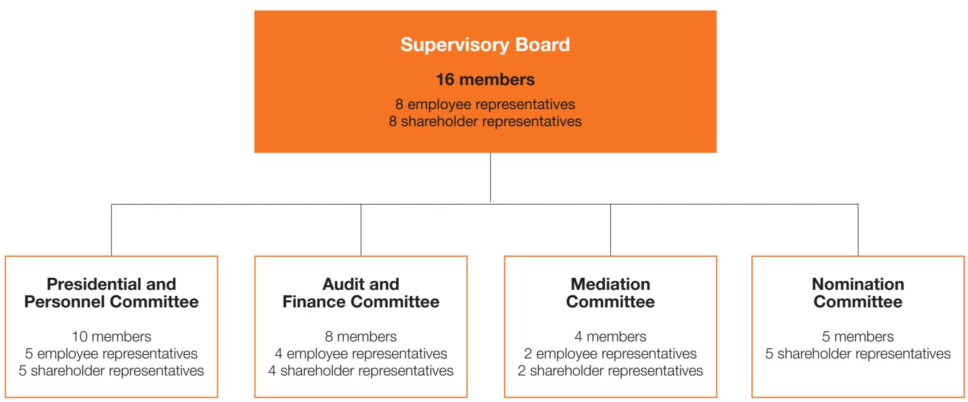
Uwe Zimmermann
Commercial Clerk
Hapag-Lloyd AG, Düsseldorf

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 4 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, Jutta Diekamp, Karl Gernandt, Dr Rainer Klemmt-Nissen, Arnold Lipinski, Sabine Nieswand, José Francisco Pérez Mackenna, Klaus Schroeter, 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), Turqi Alnowaiser, Karl Gernandt, 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), Jutta Diekamp, José Francisco Pérez Mackenna, Klaus Schroeter

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 (EUR 20,000.00 since 1 January 2020) 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 2019, the shareholders of Hapag-Lloyd AG were:

in %	2019
Kühne Holding AG and Kühne Maritime GmbH	29.6
CSAV Germany Container Holding GmbH	27.8
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	4.0
Total	**100.0**

Accounting and auditing

The Executive Board prepares the annual financial statements 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 315 e (1) of the German Commercial Code (HGB). The combined 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 combined 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 12 June 2019 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 2019 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 2019, 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 below the Executive Board 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
World Shipping Council

Anthony J. Firmin (until 30 June 2019)
HHLA Container Terminal Altenwerder GmbH (until 18 April 2019)
SCA Service Center Altenwerder GmbH (until 18 April 2019)
FRANK Beteiligungsgesellschaft mbH
The Britannia Steam Ship Insurance Association Ltd. – Deputy Chairman

Dr Maximilian Rothkopf
The Britannia Steam Ship Insurance Association Ltd.

Joachim Schlotfeldt
HHLA Container Terminal Altenwerder GmbH (as of 18 April 2019)

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
Libyan Qatari Bank – Deputy Chairman
Qatar Holding LLC
Al Rayan Bank

Turqi Alnowaiser
Lucid Motors (as of 2 April 2019)
Noon Investment
Saudi Information Technology Company (SITCO)

Michael Behrendt
Barmenia Versicherungen a.G. – Deputy Chairman (as of 2 September 2019)
Barmenia Allgemeine Versicherungs-AG – Deputy Chairman
Barmenia Krankenversicherung AG – Deputy Chairman
Barmenia Lebensversicherung a.G. – Deputy Chairman
ESSO Deutschland GmbH (until 30 April 2019)
EXXON Mobil Central Europe Holding GmbH
MAN SE
MAN Energy Solutions SE
MAN Truck & Bus SE
Renk AG

Nicola Gehrt
TUI Deutschland GmbH

Karl Gernandt
Kühne + Nagel International AG – Deputy Chairman
Kühne Holding AG – President / Chairman
Kühne + Nagel (AG & Co.) KG – Chairman
Kühne & Nagel A.G., Luxembourg – Chairman
Kühne Invest AG, Switzerland (until 22 July 2019)
Kühne Holding (Management) AG – Chairman
Kühne Logistics University – Chairman
Kühne Real Estate AG – Chairman
Hochgebirgsklinik Davos AG – President

Oscar Eduardo Hasbún Martínez
Florida International Terminal LLC
Invexans S.A.
Nexans S.A.
San Antonio Terminal Internacíonal S. A.
San Vicente Terminal Internacíonal S. A.
SM-SAAM S.A. – Chairman
Sociedad Portuaria De Caldera (SPC) S. A.
Sociedad Portuaria Granelera De Caldera (SPGC) S. A.

Dr Rainer Klemmt-Nissen
HSH Beteiligungsmanagement GmbH (until 22 January 2019)

José Francisco Pérez Mackenna
Banchile Corredores de Seguros Limitada
Banco de Chile
Compañía Cervecerías Unidas S.A.
Compañía Cervecerías Unidas Argentina S.A.
Cervecera CCU Limitada
Central Cervecera de Colombia SAS
Compañía Pisquera de Chile S.A.
Compañía Sud Americana de Vapores S.A.
Embotelladoras Chilenas Unidas S.A.
Empresa Nacional de Energía ENEX S.A. – Chairman
Invexans S.A. – Chairman
Invexans Ltd.
Inversiones IRSA Limitada
Inversiones LQ-SM Limitada
Inversiones y Rentas S.A.
LQ Inversiones Financieras S.A.
Nexans S.A.
Sociedad Matríz SAAM S.A.
Tech Pack S.A. – Chairman
Viña San Pedro Tarapacá S.A.
Zona Franca Central Cervecera S.A.S

Maya Schwiegershausen-Güth
HHLA Hamburger Hafen und Logistik AG

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.

Executive Board of Hapag-Lloyd AG

Rolf Habben Jansen (top left)
Joachim Schlotfeldt (top right)
Mark Frese (middle)
Dr. Maximilian Rothkopf (middle right)
Nicolás Burr (below)

FIRMLY FOCUSED ON THE FUTURE

2019 was a good year for Hapag-Lloyd. Despite geopolitical tensions and trade restrictions, we were able to further increase our profitability in comparison to previous years. With our 13,000 employees worldwide, we have made very good progress with the implementation of our Strategy 2023.

3

Three pillars of our Strategy 2023 form the core areas in which we aim to become even stronger and better in the years ahead.

MOVING AHEAD WITH GOOD RESULTS

With our Strategy 2023, we will be focusing on three strategic goals in the coming years. We want to become the number one for quality in our industry, to remain an international player with a global market share (excluding Intra-Asia) of roughly 10%, and to become more profitable at the same time while achieving a return that enables us to cover at least our capital costs.

MORE QUALITY

To become the quality leader in our industry, we have defined Quality Promises and associated goals that our customers will be able to use to transparently measure how we deliver on them. What's more, our new Quality Service Centers will allow us to deliver a more consistent level of service quality to our customers. More intensive cooperation and communication with terminals is making our customers' supply chains even more reliable.

Hapag-Lloyd is making great
efforts to offer the highest quality.

Debt reduced by more than

€ 800 MILLION

2023

EBIT +80%

€

Hapag-Lloyd is one of the most profitable companies in the container shipping industry.

MORE PROFITABILITY

We are meeting our targets in terms of profitability and debt reduction. Last year, we lowered our debt by more than 800 million euros (excluding IFRS 16). At the same time, compared to the previous year, we increased our operating result (EBIT) by more than 80%, to EUR 811 million.

Market position consolidated,
services in niche markets expanded –
Hapag-Lloyd is a global player.

10%

We have solidified and further expanded our market share, such as in the reefer segment.

MORE INTER-NATIONALITY

We were able to strengthen our position in attractive markets by offering new services. Our new Region South Europe brings us even closer to our customers in the Mediterranean region. At the same time, we are further expanding our presence and business in growth markets, such as India and Africa. This allowed us to grow with the market and retain our global market share (excluding Intra-Asia) of around 10%.

Our engagement is paying off – and our customers are reflecting this, too.

MORE CUSTOMER SATISFACTION

We are very pleased that our customers appreciate all our hard work. We regularly conduct customer surveys to find out exactly where we stand on important issues, such as customer loyalty and customer satisfaction, or how easy it is to do business with us. Last year, we were able to significantly improve in these areas.

COMBINED MANAGEMENT REPORT

BASIC PRINCIPLES OF THE GROUP

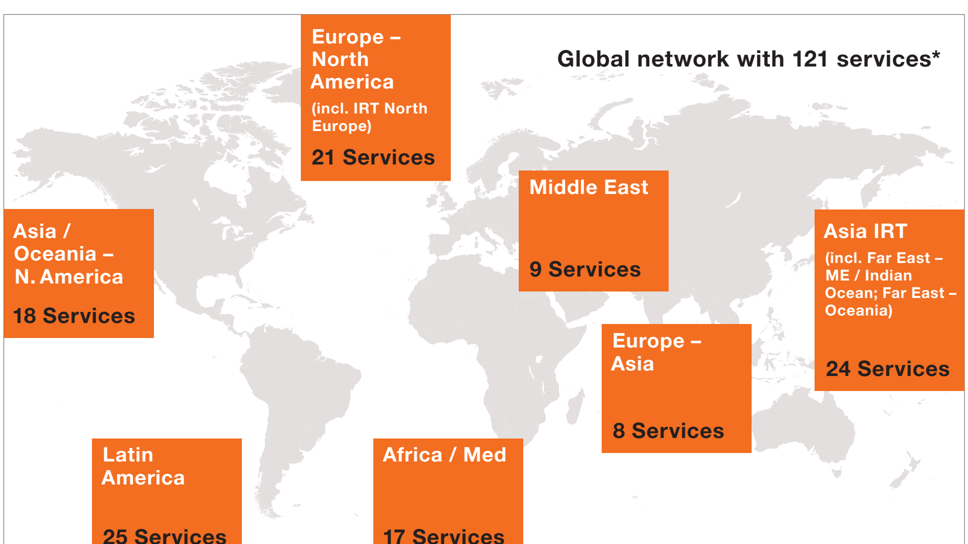
In the 2019 financial year, the management report of Hapag-Lloyd AG and the Group management report will be combined for the first time in accordance with section 315 sub-section 5 in conjunction with section 298 sub-section 2 of the German Commercial Code (HGB).
As Hapag-Lloyd AG is the most important individual company in the Hapag-Lloyd Group, the principles applied by Hapag-Lloyd Group and Hapag-Lloyd AG are largely identical. The particular features of Hapag-Lloyd AG are explained separately, in particular with regard to the course of business (see “Notes to the individual financial statements”). Where information does not relate to the Hapag-Lloyd Group, explicit reference is made to Hapag-Lloyd AG.

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.

Hapag-Lloyd’s fleet comprised 239 container ships as at 31 December 2019 (previous year: 227) with a transport capacity of approximately 1.7 million TEU (previous year: 1.6 million TEU).
The Group currently has 392 sales offices in 129 countries (previous year: 407 sales offices in 128 countries) and offers its customers worldwide access to a network of 121 liner services (previous year: 119). In the 2019 financial year, Hapag-Lloyd served approximately 30,600 customers around the world (previous year: approximately 30,200).

Network of Hapag-Lloyd services



Source: Company data; Note: *FP1 Service counted twice (Asia – North America / Europe – Asia)

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 AG 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 cash flows listed in the consolidated statement of cash flows and the expenses, income and result shown in the consolidated income statement are translated at the average exchange rate for the reporting period. The currency 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.

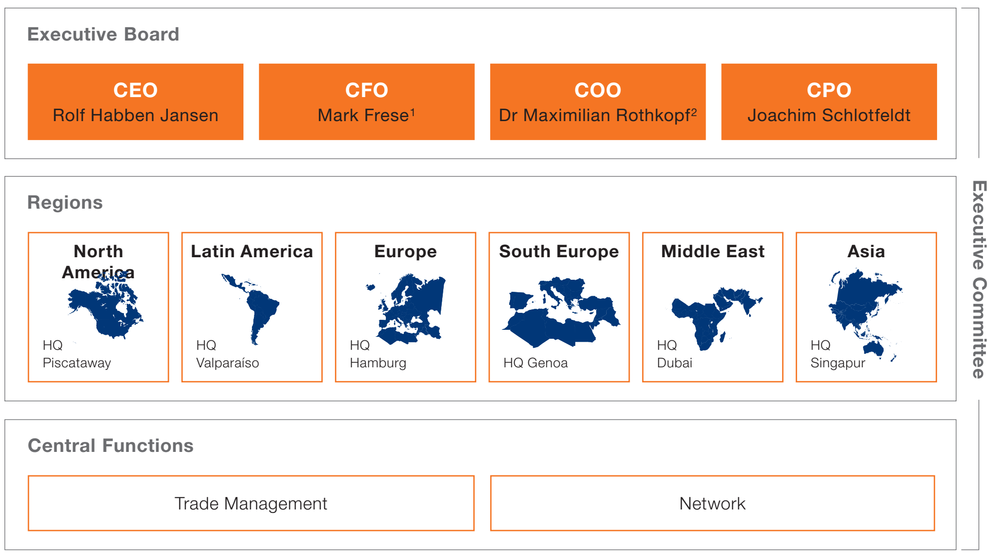
Legal framework

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 specifications, such as embargo and sanction stipulations, is a basic requirement for the provision of service.

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), Hapag-Lloyd Denmark (Holte, Denmark) and Hapag-Lloyd Poland (Gdansk, Poland).

In terms of operations, the Group structure of Hapag-Lloyd AG is currently as follows:



[1] According to a resolution of the Supervisory Board on 13 November 2019, Mr Mark Frese was appointed as a new Executive Board member with effect from 25 November 2019. Mr Mark Frese is the new CFO and succeeded Mr Nicolás Burr, who left the Company on 29 February 2020.

[2] According to a resolution of the Supervisory Board on 17 December 2018, Dr Maximilian Rothkopf was appointed as a new Executive Board member with effect from 1 May 2019 and succeeded Mr Anthony J. Firmin as the new COO.

Shareholder structure of Hapag-Lloyd AG

The shareholder structure of Hapag-Lloyd AG is dominated by its 5 major shareholders, which together hold around 96.0% of the Company's share capital. These include CSAV Germany Container Holding GmbH (CSAV), Kühne Maritime GmbH together with Kühne Holding AG (Kühne), Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH (HGV), and Qatar Holding LLC on behalf of the Qatar Investment Authority (QIA) and Public Investment Fund Saudi Arabia (PIF). In addition, CSAV, Kühne Maritime GmbH and HGV have 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.

During 2019, CSAV increased its share in Hapag-Lloyd from 25.8% to 27.8% and Kühne increased its share from 25.0% to a total of 29.6%. The shareholder structure of Hapag-Lloyd AG as at 31 December 2019 was as follows:

Voting rights as at 31 December 2019

in %	2019	2018
Kühne Holding AG and Kühne Maritime GmbH	29.6	25.0
CSAV Germany Container Holding GmbH	27.8	25.8
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	4.0	10.6
Total	**100.0**	**100.0**

In January 2020, CSAV acquired a share package from QIA of 3,890,899 shares (corresponding to approximately 2.2%) and thus holds a nearly 30.0% interest.

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

Mr Joachim Kramer, the employee representative on the Supervisory Board, retired from the Company on 28 February 2019. Hamburg district court appointed Mr Felix Albrecht as the Supervisory Board's new employee representative with effect from 11 March 2019.

Mr Michael Behrendt's term as Supervisory Board member and Chairman of the Supervisory Board expired at the end of the Annual General Meeting on 12 June 2019. In accordance with a resolution passed by the Annual General Meeting on 12 June 2019, Mr Behrendt was re-elected to the Supervisory Board until the end of the Annual General Meeting that will vote to discharge board members for the 2023 financial year. In the Supervisory Board meeting after the Annual General Meeting, Mr Behrendt was re-elected as Chairman of the Supervisory Board.

On 17 December 2018, the Supervisory Board passed a resolution to appoint Dr Maximilian Rothkopf as a new Executive Board member with effect from 1 May 2019. As the new COO, Dr Maximilian Rothkopf succeeded Anthony J. Firmin, who stepped down from the Executive Board on 30 June 2019.

Mr Mark Frese was appointed as a new Executive Board member with effect from 25 November 2019 as per a resolution passed by the Supervisory Board on 13 November 2019. Mr Mark Frese succeeded Mr Nicolás Burr as CFO, who stepped down on 29 February 2020.

GROUP OBJECTIVES AND STRATEGY

The following comments refer to the Hapag-Lloyd Group. Since Hapag-Lloyd AG is the most important individual company in the Hapag-Lloyd Group, the objectives and strategies of Hapag-Lloyd Group and Hapag-Lloyd AG are identical. Where statements do not refer to the Hapag-Lloyd Group, explicit reference is made to Hapag-Lloyd AG.

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 5 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.

In a still-competitive industry environment, Hapag-Lloyd recorded a significant increase in its EBITDA and EBIT in the 2019 financial year.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) for a certain period are calculated by adding the revenue, the other operating result, the share of profit of equity-accounted investees and the results from investments and securities less transport and personnel 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 15.8% in the 2019 financial year. In addition to a 2.7% increase in average freight rates and a 1.4% rise in transport volumes, the positive development of the EBITDA margin was also attributable to a decrease in the average bunker consumption price by USD 5 per tonne. In addition, the first-time application of IFRS 16 'Leases' reporting standard in the amount of EUR 467.0 million had a positive effect on the EBITDA and therefore on the EBITDA margin.

Development of key performance indicators

	2019	2018	2017	2016	2015
Transport volume (in TTEU)	12,037	11,874	9,803	7,599	7,401
EBITDA (in million EUR)[1]	1,986	1,139	1,055	607	831
EBIT (in million EUR)[1]	811	444	411	126	366
EBITDA-margin (in % of revenue)[1]	15.8	9.8	10.6	7.9	9.4
EBIT-margin (in % of revenue)[1]	6.4	3.8	4.1	1.6	4.1

[1] Due to the adjustment of the structure of the consolidated income statement, the items in the consolidated income statement have changed. The comparability of the previous year's values are thus limited. For a better comparability with the current reporting period, the previous year's values have been adjusted, see also chapter "Change of presentation in the consolidated income statement" in the Notes to the consolidated financial statements.

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

The target of achieving transport volume growth equal to market growth was reached in 2019 with an increase in the transport volume of 1.4% compared to market growth of 0.8%. Excluding the active reduction of transport capacity in the Intra-Asia trade lane, which is part of the strategic realignment under Strategy 2023, transport volume grew by 2.8% in Hapag-Lloyd's core markets (excl. Intra-Asia) in 2019 compared with a market growth of 0.9%.

The cost-cutting programme implemented as part of Strategy 2023 has been successfully launched and will guarantee Hapag-Lloyd's future cost-competitiveness. Here we aim at a result contribution in the range of USD 350–400 million by the year 2021 (details of the cost-cutting programme can be found in section "Strategy 2023").

The current financial key performance indicators of the Hapag-Lloyd Group will remain EBITDA and EBIT. As part of Strategy 2023 (for details see section "Strategy 2023"), further medium-term financial targets were also defined: Hapag-Lloyd aims to achieve profitability over the entire economic cycle, i. e. a return on invested capital (ROIC) at least equal to the company's weighted average cost of capital (WACC). In the 2019 financial year, Hapag-Lloyd generated a return on invested capital (ROIC) of 6.1% (previous year: 3.7%). The weighted average cost of capital was 6.8% in the 2019 financial year (previous year: 8.2%). The reasons for the decrease in the weighted average cost of capital include a lower risk-free base interest rate and a change in the financing structure.

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 was a ratio of net debt to EBITDA of 3.5x. It exceeded this target with a ratio of net debt to EBITDA of 3.0x as at 31 December 2019. Furthermore, Hapag-Lloyd is aiming for an equity ratio of over 45% latest end of 2023 and a liquidity reserve of around USD 1.1 billion. As at 31 December 2019, its equity ratio was 40.9% (previous year: 40.9%) and its liquidity reserve was USD 1.2 billion (previous year: USD 1.3 billion).

Strategy 2023

The Executive Board of Hapag-Lloyd AG first presented the Group's medium-term strategy ("Strategy 2023") at a Capital Markets Day in November 2018.

Starting point

The liner shipping industry is emerging from the longest downturn in its history. Since the 2008 financial crisis, the industry has been mostly unable to cover its cost of capital. Following a substantial number of mergers, the world's 10 biggest liner shipping companies now account for almost 85% of the global capacity. 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 AG'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. As a result, no further significant consolidation is likely at present from Hapag-Lloyd's perspective. Given that the largest liner shipping companies are already cost-competitive, the challenge for them now is to differentiate themselves commercially from one other. As the fifth-largest liner shipping company in the world by transport capacity and with a modern, efficient 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 in the view of the Executive Board of Hapag-Lloyd AG.

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

The Executive Board of Hapag-Lloyd AG assumes that the container shipping industry will no longer be solely determined by unit costs and economies of scale in the future. 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 schedule reliability in particular, there is a need for action by the industry, and therefore also by Hapag-Lloyd.

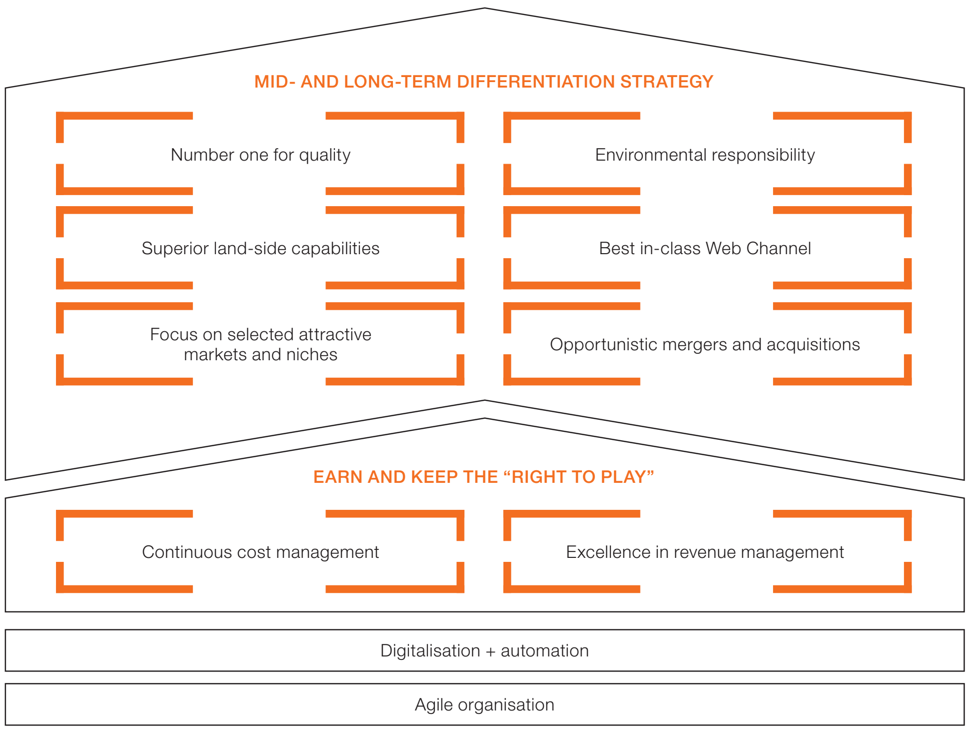
Hapag-Lloyd has developed its medium-term strategy based on these premises. Successful implementation of the strategy shall safeguard the future and provide the foundations for further organic growth.

The three core objectives of Strategy 2023 are:

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

In addition to ensuring the company's continued existence as a global player, Strategy 2023 focuses in particular on quality leadership and profitable growth, based on continuous and consistent cost and revenue management and the improvement of internal processes through greater agility and the exploitation of technological opportunities such as digitalisation and automation.

The most important elements of Strategy 2023 are presented in the following illustration.



The foundations for the realignment

Continuous cost and revenue management

Hapag-Lloyd has already launched a number of projects to ensure that the company's cost structure is competitive. At the time of publication of the strategy, Hapag-Lloyd expected to achieve cost savings of between USD 350 and 400 million annually by 2021 thanks to improved cost structures. With cost savings in the mid three-digit million range already achieved, a large proportion of the planned savings have already been realised in the 2019 financial year. As a result, efforts to expand the cost savings programme are under way and will be communicated in 2020. The cost structures will be continuously reviewed and adjusted

The key levers for optimisation in revenue management have also already been identified and initial measures have been introduced. In 2019, revenue management focused on the implementation of the new standardised and transparent marine fuel recovery (MFR) surcharge in preparation for the rising bunker costs as a result of the International Maritime Organization's (IMO) new exhaust gas regulations which came into effect on 1 January 2020. Efforts were also made to improve the cargo mix and to increase the share of automated price quotations.

Agile organisation

In the view of the Executive Board of Hapag-Lloyd AG, the development of Hapag-Lloyd's organisation towards increased agility is a key factor for the success of Strategy 2023. The aim is to make quicker and better commercial decisions with the help of data-based analysis tools. This will enable, among 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. Some structural changes were made in the reporting year: Region Europe was divided into two regions (Northern Europe and Southern Europe) to increase proximity to customers and benefit from the expected growth in countries along the Mediterranean Sea. The quality offensive in the area of customer service was driven by the expansion of additional Quality Service Centers in Kuala Lumpur (Malaysia), Bogotá (Colombia), Viña del Mar (Chile) and Santos (Brazil).

Digitalisation and automation

New technologies and automation should contribute to a continuous improvement of internal processes and systems, and thus reducing time-consuming manual tasks.

Hapag-Lloyd believes that it is well equipped in the area of digitalisation and automation. Our "single operating system" forms the backbone of our efficient operating processes. This also means that the Executive Board of Hapag-Lloyd believes that Hapag-Lloyd is in a good starting position when it comes to implementing and taking advantage of new technologies, as demonstrated with the introduction and continuous enhancement of the web channel, for example. To secure additional IT expertise and strengthen the development of new digital products, a new IT department for product innovation was established in Gdansk (Poland).

The core of the Strategy 2023

The core of Strategy 2023 is the clear differentiation from competitors through the following measures and unique selling points:

Become number one for 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. A corresponding methodology for recording and measuring this indicator was developed in the reporting year and will be gradually implemented and communicated in 2020. As a result, customer satisfaction will be one of the targets in future.

In addition to a base product that includes clearly specified pledges on service and quality, we will offer customised premium products in the future that meet specific customer requirements and shall cover additional services. For example, the new product “Shipping Guarantee” was introduced as a pilot project in 2019, whereby Hapag-Lloyd guarantees transportation on a specific ship or journey. Following the successful close of the pilot project for exports from Asia, the product will now be rolled out gradually in additional countries.

Customer satisfaction is to be measured using the Net Promoter Score (NPS). The NPS measures customer loyalty, with a score above zero indicating that the majority of customers would recommend the company. In October 2019 our customer base was surveyed in relation to this. The result is that the current NPS for Hapag-Lloyd is a clearly positive figure. In the view of the Executive Board of Hapag-Lloyd AG this shows that the quality measures already implemented are delivering initially positive results. Hapag-Lloyd aims to maintain its NPS in a clearly positive range in future. Additionally, technical specifications shall be created for standardised measurement of and reporting on punctuality. The punctuality promise will be clearly defined, and reliability and punctuality shall be improved.

Superior land-side capabilities

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 should result in higher revenue and a higher margin. In the 2019 reporting year, the share of cargo transported with an inland component was approximately 32%.

Focus on attractive selective markets and niches

Hapag-Lloyd is aiming for a global market share (excl. Intra-Asia) of around 10%. As at 31 December 2019, the market share (excl. Intra-Asia) was 10.4%. Hapag-Lloyd plans to grow with the market and thereby retain its market share. In addition, Hapag-Lloyd wants to continue expanding in attractive growth markets and in the area of special container transports. This includes the transportation of reefer containers, which Hapag-Lloyd sees already today as an area of strength. It wants to also increase its market share in this segment to around 10%. As at 31 December 2019, Hapag-Lloyd's share of the global reefer market was approximately 8.6%. As a measure to achieve the future target in this segment, 13,420 new reefer containers were ordered and acquired in the reporting year. As a further element of Strategy 2023, Hapag-Lloyd has identified attractive growth markets. These include Africa, India and South East Asia. Additional new services were established in these markets in 2019. Furthermore, Area Africa expanded its presence, opening its own office in Ghana.

Environmental responsibility

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 of the International Maritime Organization (IMO) coming into effect in 2020 to reduce sulphur emissions, Hapag-Lloyd will predominantly use low-sulphur fuel. On 10 of its own larger vessels and 9 container ships chartered on a long-term basis, the Company will install exhaust gas cleaning systems (EGCS) to filter the sulphur from the exhaust gases. One large vessel will also be retrofitted to test how it runs on liquefied natural gas (LNG). In view of the Executive Board of Hapag-Lloyd the conversion to the new exhaust gas thresholds and the associated switch to low-sulphur fuel went according to plan. Thus, all precautions have been taken to comply with the IMO 2020 regulations as of 1 January 2020.

Best in-class Web Channel

To measure the success of its digitalisation strategy, Hapag-Lloyd has set a goal of increasing the volume booked via the web channel to 15% of the total volume by 2023. In the fourth quarter of the reporting period, the share of containers booked via the web channel was already around 9.4% (previous year period: 5.2%).

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 2020 financial year our focus will be on:

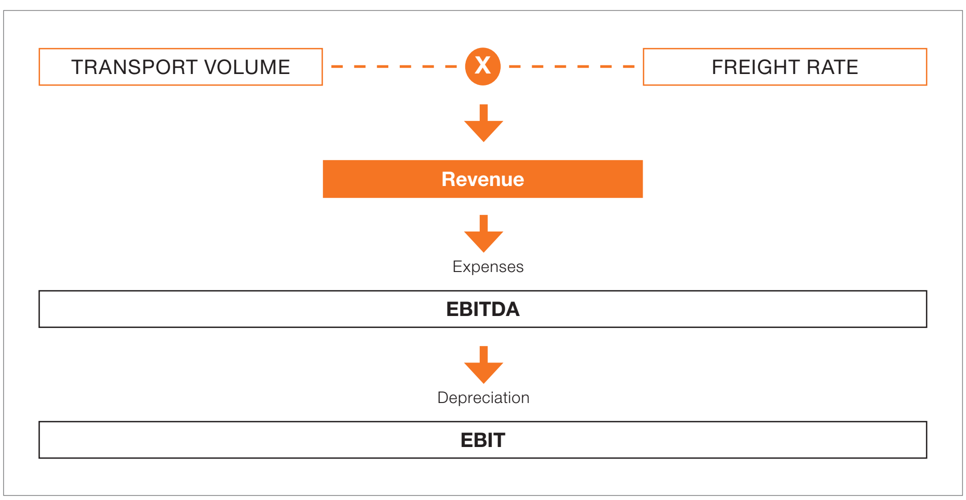
- Further implementing Strategy 2023
- Evaluating additional cost-saving potential beyond the original target of between USD 350 and 400 million p.a.
- Continuing to implement measures to improve revenue quality
- Further developing Hapag-Lloyd's partnership within THE Alliance, including the integration of Hyundai Merchant Marine (HMM) into THE Alliance starting on 1 April 2020
- Implementing the IMO's new exhaust gas standards smoothly and efficiently and retrofitting the first ship with LNG

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) are calculated by adding the revenue, the other operating income and the earnings from investments and securities of companies accounted for using the equity method generated within a certain 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 a uniform IT system covering the entire transport chain.

Efficient cost management provides essential control over the EBITDA and EBIT values. The system of cost management is supported by an 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.

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. As part of preparations for the new exhaust gas standard which applies worldwide from 1 January 2020 ("IMO 2020") and the associated sharp increase in bunker prices as a result of using low-sulphur bunker, Hapag-Lloyd has restructured and updated its bunker surcharges. A new transparent price adjustment formula based on market data was established in 2019 (MFR) and will be applied to contract cargo (i.e. for contracts with a term of more than 3 months). As a result of the switch to the new fuel and the associated costs for the operational and technical changes, a surcharge (IMO 2020 Transition Charge – "ITC") for spot cargo and short-term contracts (with a term of less than 3 months) will be levied from 1 December 2019. However, the extent to which bunker surcharges can be implemented depends in general 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 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 and lease liabilities. 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	
	2019	2018	2019	2018
Non-current assets	13,811.8	12,845.0	15,501.0	14,709.1
Inventory	248.5	238.1	278.9	272.6
Accounts receivables	1,239.8	1,217.7	1,391.4	1,394.3
Other assets	388.8	343.4	436.4	393.3
Assets	**15,688.8**	**14,644.2**	**17,607.6**	**16,769.3**
Provisions	805.2	692.6	903.6	793.1
Accounts payable	1,779.4	1,774.1	1,997.1	2,031.6
Other liabilities	598.0	557.4	671.2	638.4
Liabilities	**3,182.6**	**3,024.1**	**3,571.8**	**3,463.1**
Invested Capital	**12,506.3**	**11,620.1**	**14,035.8**	**13,306.2**
EBIT	811.4	443.5	908.3	524.1
Taxes	42.9	31.8	48.1	37.7
Net Operating Profit after Tax (NOPAT)	**768.4**	**411.7**	**860.2**	**486.4**
Return on Invested Capital (ROIC)			**6.1%**	**3.7%**

Figures are in USD, rounded, aggregated and calculated on an annualised basis
The table 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 in the section "Fundamental accounting principles".

The return on invested capital (ROIC) in the 2019 financial year was 6.1%, following 3.7% in the 2018 financial year. This clear improvement means that in 2019 the return on invested capital was only slightly lower than the weighted average cost of capital. The weighted average cost of capital after income taxes is 6.8% as per 31 December 2019 (31 December 2018: 8.2%). The reasons for the decline in the weighted average cost of capital included a lower risk-free interest rate and a higher debt ratio.

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 2019, there was a liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) totalling EUR 1,032.8 million (previous year: EUR 1,133.0 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. As part of Strategy 2023, Hapag-Lloyd aims to have a liquidity reserve of around USD 1.1 billion.

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 and equity base were significantly 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

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 incurs 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 6,620.6 million (previous year: EUR 6,259.3 million). The decision to retain some of the future profits should strengthen Hapag-Lloyd's equity base further. As part of Strategy 2023, Hapag-Lloyd aims to have an equity ratio of over 45%. As at 31 December 2019, its equity ratio was 40.9% (previous year: 40.9%).

Reducing gearing
Net gearing (ratio of net debt to equity) was 88.9% in the 2019 financial year (2018: 85.5%). The slight year-on-year increase resulted primarily from the first-time application of IFRS 16.

Dynamic gearing, as measured by the ratio of net debt to EBITDA (in USD), has improved significantly since the acquisition of UASC in May 2017. Dynamic gearing had been 5.7x at the end of 2017 and reached 4.6x as at 31 December 2018. At the end of 2019, the ratio of net debt to EBITDA was 3.0x. Achieving and maintaining an optimal level of gearing remains a priority. The Company's target is to sustain a ratio of net debt to EBITDA of 3.0x or less by the end of 2023.

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 the positive business development, the Executive Board of Hapag-Lloyd AG proposes to the Annual General Meeting that a dividend of EUR 193.3 million, or EUR 1.10 per share, be paid for the 2019 financial year. In general, Hapag-Lloyd aims to pay a dividend of at least 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. Return on invested capital (ROIC) is also 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 constitute the most important information at present for understanding Hapag-Lloyd as a container liner shipping company. However, they are not used by the Company as performance indicators. As part of Strategy 2023, further non-financial parameters, such as quantifiable quality targets in particular, are gradually being implemented.

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 a customised and uniform IT system covering the whole transport chain.

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. Hapag-Lloyd sees this as an important basis for achieving a high productivity and ensuring 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. The executive board of Hapag-Lloyd believes that this makes it possible to use the fleet efficiently and keeps the cost per transport unit low, thereby ensuring increased productivity. The Fleet Support Center (FSC) department creates 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. In connection with the preparation and smooth conversion of Hapag-Lloyd's entire fleet to the IMO regulations on the reduction of sulphur dioxide emissions applicable since 1 January 2020, the FSC has made an important contribution.

Another important factor in connection with the fleet's capacity utilisation is the turnaround frequency of the containers. Each container was transported on average 4.7 times in 2019 (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 1.2 percentage points to 94.2% (previous year: 93.0%).

Fleet and capacity development

As at 31 December 2019, Hapag-Lloyd's fleet comprised a total of 239 container ships. All of the vessels 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 2019 was 1,706,656 TEU, which was an increase of 63,285 TEU (3.9%) on the previous year. Based on the TEU capacities, around 62% of the fleet was owned by the Group as at 31 December 2019 (previous year: approximately 64%). Hapag-Lloyd has a modern and efficient fleet. The capacity-weighted average age of the fleet at balance sheet date is 8.9 years (previous year: 7.9) and is therefore just under the average of 9.0 years for the 10 largest container liner shipping companies. The average ship size within the Hapag-Lloyd Group fleet is 7,141 TEU, which is 16% above the comparable average figure for the 10 largest container liner shipping companies in the world.

At the end of the reporting date, Hapag-Lloyd also owned or rented 1,545,587 containers with a capacity of 2,540,199 TEU for shipping cargo. Around 54% of containers (capacity-weighted) were owned by the Group as at 31 December 2019 (previous year: around 52%). With a fleet of around 107,000 reefer containers capable of transporting approximately 206,000 TEU, Hapag-Lloyd believes it has a strong competitive position in the attractive market segment for refrigerated shipping. To facilitate further growth in the strategically important reefer segment, Hapag-Lloyd ordered 13,420 new reefer containers in June 2019. In connection with this, Hapag-Lloyd is also launching a programme to fit its entire fleet of reefer containers with IOT (Internet of Things) monitoring technology. The resulting customer products will be marketed under the name Hapag-Lloyd LIVE and include a real-time GPS, information on the temperature inside the container and a notification system.

Structure of Hapag-Lloyd's ship and container fleets

	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Number of vessels	239	227	219	166	177
thereof					
Own vessels[1]	112	112	116	75	71
Chartered vessels	127	115	103	91	106
Aggregate capacity of vessels (TTEU)	1,707	1,643	1,573	963	966
Aggregate container capacity (TTEU)	2,540	2,559	2,349	1,576	1,564
Number of services	121	119	120	128	121

[1] Including 17 lease agreements with a purchase option / obligation at the end of the term. The previous year's figures were adjusted accordingly.

As at 31 December 2019, Hapag-Lloyd had chartered in 5 ships for the repositioning of empty containers. The transport capacity of these 5 ships was approximately 16,500 TEU in total (previous year: 3 vessels with a transport capacity of approximately 13,000 TEU). 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. Particularly since the merger, Hapag-Lloyd has had a modern 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 (incl. HMM from 1 April 2020) 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 in the foreseeable future.

The efficiency of Hapag-Lloyd's container ship fleet is reflected in the bunker consumption data. Despite an increase in the volume transported (+1.4% compared with the previous year), absolute bunker consumption fell year-on-year by 0.6% to 4,376,544 tonnes. Bunker consumption per TEU transported therefore decreased again from 0.37 t/TEU in the previous year to 0.36 t/TEU. Compared with 2009, bunker consumption per TEU has been cut by around 41% (2018: by around 40%). Bunker consumption per slot (as measured by the average annual container storage space) was also reduced again to 2.59 tonnes/container slot (previous year: 2.75 tonnes/container slot).

Bunker consumption of the Hapag-Lloyd Group

Tons (t)	2019	2018
MFO (High Sulphur)	3,658,488	3,841,488
MDO, MFO (Low Sulphur)	718,066	562,408
Total bunker consumption	**4,376,554**	**4,403,896**

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 value in TTEU	2019	2018
Transatlantic trade		
Europe – North America	4,737	4,468
North America – Europe	2,687	2,636
Far East trade		
Asia – Europe	14,430	14,121
Europe – Asia	6,319	6,413
Transpacific trade		
Asia – North America	17,739	18,030
North America – Asia	7,119	7,415

Source: Seabury, December 2019, 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 should be repositioned into the regions with high demand via the shortest, quickest and cheapest route.

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

	Hapag-Lloyd AG	Industry average
Transpacific	4.7	4.0
Atlantic	6.8	5.7
Europe – Far East	4.9	4.4

[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: Seabury December 2019; Hapag-Lloyd 2019; figures as per Drewry's definition of trades.

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

Customers and customer orientation

With its 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 (for details about Strategy 2023 see the "Group objectives and strategy" section). In the 2019 reporting year, implementation of the new quality strategy focused on establishing the structures, processes and database needed to record and report in detail on quality-related parameters. This should make it possible to quickly identify weaknesses and problems as they arise and to implement quality-related improvements. Based on this new transparency in relation to service quality, the first quality pledges to customers will be communicated externally in 2020 and the degree to which they have been achieved will be regularly reported on.

The introduction of the web channel at the end of 2018 represents the successful establishment of a new sales channel that accounts for around 9.4% of the total transport volume at the end of the year (as per Q4 2019, previous year quarter: 5.2%). With its web channel, Hapag-Lloyd believes it provides its customers with an uncomplicated and faster method to obtain quotes and book container transport. The range of services and products available with the web channel is continuously being expanded. For example, it is now possible to take out insurance for a shipment immediately.

The founding of another 4 Quality Service Centers (QSCs) in 2019 should further increase and standardise the quality of customer service. The QSCs are located in Atlanta (USA), Suzhou (China), Kuala Lumpur (Malaysia), Mumbai (India), Bogotá (Colombia), Viña del Mar (Chile) and Santos (Brazil). In January 2020, another QSC was opened in Mauritius for the African market.

A new online service, "Hapag-Lloyd Navigator", was made available to customers. The digital dashboard provides customers with information on their transported containers and can access real-time data.

Top clients are supported globally and locally by the Global Account Management team in Hamburg and in the regional head offices. This is suppposed to enable 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 aims to achieve 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 are also special departments for the international support of reefer, special cargo and dangerous goods customers.

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 30,600 customers in the 2019 financial year (previous year: approximately 30,200 customers).

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

Transport volume by product category in 2019

Product Category	**Share 2019 in %**	Share 2018 in %
Food products	16	16
Plastic products	14	14
Chemical products	14	14
Paper and wood products	9	10
Mechanical products	9	9
Raw materials	8	8
Textiles	8	8
Automotive parts	6	6
Electronic products	5	5
Furniture	5	5
Other products	7	5
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

In the framework of the provisions of the International Maritime Organization (IMO) on the reduction of sulphur dioxide emissions applicable from 2020, Hapag-Lloyd will test operation with liquefied natural gas (LNG) by converting a large ship (15,000 TEU vessel “Sajir”). The engine system will be able to operate with a dual fuel system in future, i.e. operation will be possible with both LNG and low-sulphur fuel. With the conversion of the “Sajir”, Hapag-Lloyd will be the first shipping line worldwide to convert a container ship of this size to LNG propulsion. It is a unique pilot project to date, through which Hapag-Lloyd hopes to gain insights that will pave the way for future conversions of large ships to this alternative fuel.

The “Sajir” is one of the 17 ships in Hapag-Lloyd’s fleet initially designed for LNG readiness. The 16 sister ships are also technically prepared for retrofitting. By converting the “Sajir”, Hapag-Lloyd is implementing a technological option to reduce the environmental impact of large ships. The use of LNG in the shipping industry could reduce CO_2 emissions in part and emissions of sulphur dioxide, nitrogen oxides and particulates to a large extent. In October 2019, Hapag-Lloyd received a Maritime Standard’s Green Shipping award in Dubai for its project to convert the “Sajir” to LNG propulsion. With this award, the jury honoured the “trend-setting” contribution to environmentally compatible shipping and the improvement of environmental protection. After the necessary conversions, the “Sajir” is expected to start operation in the third quarter of 2020.

Apart from this, 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 arising as a particular result of digitalisation are being identified. For example, the Digital Business and Transformation specialist department was set up in 2017 and works closely with the various regions, the IT department and other specialist departments to develop new, digitally available services and business models. Furthermore, a new IT product development unit was established in Gdansk in the second half of 2019 to strengthen IT development capacity.

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, corresponding service agreements with external partners are in place. 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 12,996 persons as at 31 December 2019 (previous year: 12,765 persons). 2,072 people were employed in the marine division as at 31 December 2019 (previous year: 1,970). The number of shore-based employees increased by 130, from 10,561 in the previous year to 10,691 employees. The increase was largely due to the expansion of the Quality Service Centers. The average period of employment for shore-based staff is around 8.5 years (previous year 8.7 years).

Number of employees[1]

	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Marine personnel	2,072	1,970	2,007	1,295	1,411
Shore-based personnel	10,691	10,561	10,304	7,895	7,771
Apprentices	233	234	256	223	235
Total	**12,996**	**12,765**	**12,567**	**9,413**	**9,417**

[1] The figures from 2017 onwards relate to the Hapag-Lloyd Group, including 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% (2019: 87%). As at 31 December 2019, Hapag-Lloyd employed a total of 132 apprentices in shore-based positions and 101 at sea (previous year: 127 shore-based and 107 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 2020), the global economy grew by 2.9% in 2019 (previous year: 3.6%), the lowest amount since the financial crisis of 2009. Global economic growth was therefore significantly below the original prediction of 3.5% for 2019 (IMF, World Economic Outlook, January 2019). In its current economic outlook, the IMF expects global economic growth of 3.3% in 2020 and 3.4% in 2021.

According to the IMF, 2019 was marked by a synchronised slowdown of economic growth in large industrial nations like the USA, and especially the eurozone and the Asian industrial nations. It was even more pronounced in the emerging markets of Brazil, China, India, Mexico and Russia. Industrial production in particular recorded a weak year. In the second half of the year there were even partial declines in industrial production. The weakness in industrial production was caused by problems in the automotive industry (such as stricter environmental regulations and uncertainty regarding new technologies), the poor business climate resulting from US trade conflicts (especially with China), and slow structural growth in the People's Republic of China. In addition, economic conditions deteriorated in some key developing and emerging markets, such as Brazil and Turkey.

The volume of global trade, which is key to the demand for container shipping services, increased by just 1.0% in 2019 (previous year: 3.7%) because of the factors mentioned above. According to the IMF, however, the volume of global trade will recover again in the next two years, rising by 2.9% in 2020 and 3.7% in 2021. At the beginning of 2019, the IMF forecast growth in the volume of global trade of 4.0%. This prediction had to be revised significantly downwards due to the ongoing trade dispute between the USA and China as well as geopolitical risks and local problems in individual developing and emerging markets such as India, Saudi Arabia, Mexico, Chile and South Africa.

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

in %	2021e	2020e	2019	2018	2017	2016	2015
Global economic growth	3.4	3.3	2.9	3.6	3.8	3.4	3.5
Industrialised countries	1.6	1.6	1.7	2.2	2.5	1.7	2.3
Developing and newly industrialised countries	4.6	4.4	3.7	4.5	4.8	4.6	4.3
World trading volume (goods and services)	3.7	2.9	1.0	3.7	5.7	2.3	2.8

Source: IMF, January 2020

SECTOR-SPECIFIC CONDITIONS

According to Seabury, the global cargo volume in 2019 was around 152 million TEU. This is a rise of 0.8% on the previous year (Seabury, December 2019). As a result, the growth rate was 2.0 percentage points below the increase of 2.8% originally forecast for 2019 (Seabury, December 2018). For 2020 Seabury is forecasting a rise of 3.1% to around 157 million TEU and for 2021 an increase of 3.3% to around 162 million TEU. The weaker growth in 2019 was mainly attributable to the 2.3% decline in volumes in the Trans-Pacific and below-average volume growth in other trade lanes in Asia, in particular China. In contrast, the Atlantic trade lane showed a clearly positive development with growth of 4.5% in 2019.

Development of global container transport volume, 2015–2023 in million TEU

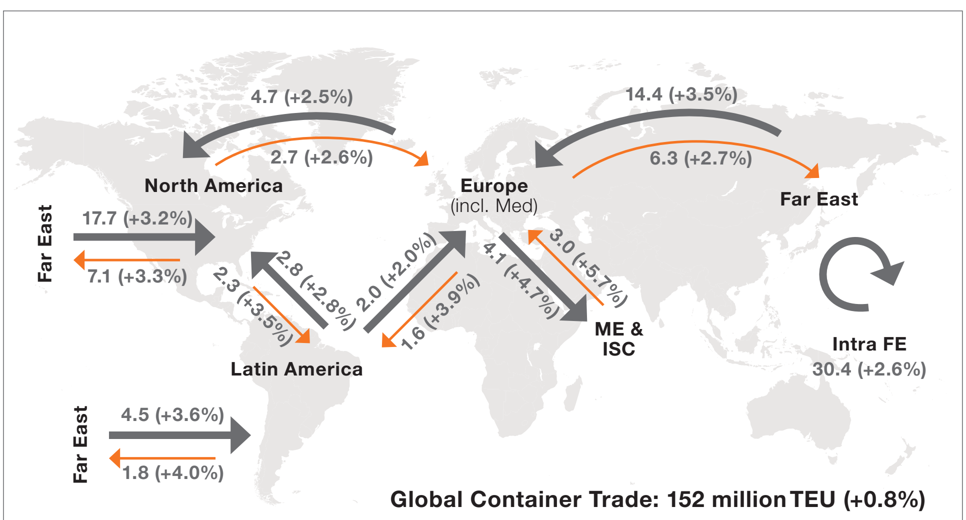
	2023e	2022e	2021e	2020e	2019	2018	2017	2016	2015
million TEU	175	168	162	157	152	151	144	138	136
Growth rate in %	3.8	3.8	3.3	3.1	0.8	4.5	4.8	1.4	–0.4

Source: Seabury, December 2019

Current forecasts put the expected compound annual growth rate (CAGR) for the period from 2020 to 2023 at 3.5%, compared with an average growth rate of around 2.9% between 2015 and 2019. Container shipping thus continues to be a growth industry.

According to Seabury, 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 2019 in million TEU; in brackets: CAGR 2020–2023 in %)



Source: Seabury, December 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. Despite the continuous increase in the supply of transport capacity, freight rates made a strong recovery from the lows recorded in 2016, due to the growing global demand for container transport services in 2019.

At the end of 2019, the aggregate capacity of the global container ship fleet was approximately 22.9 million TEU (Drewry Container Forecaster Q4 2019, December 2019), a rise of 3.7% 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 0.8 million TEU in 2020 (+3.7%) (Drewry Container Forecaster Q4 2019, December 2019). This includes the expected delays of deliveries in 2020 and the expected scrapping. While the scrapping of old ships remained at a very low level of approximately 200,000 TEU in 2019, scrapping is expected to increase to around 350,000 TEU in 2020. The idle fleet consisted of 133 ships with a capacity of around 1.4 million TEU at the end of 2019. The majority of the idle fleet comprised smaller ship sizes of up to 5,100 TEU. The relatively high number of idle ships is due in part to the retrofitting of ships with exhaust gas cleaning systems (known as scrubbers) as part of the preparations for IMO 2020.

The tonnage of the commissioned container ships under construction of approximately 2.3 million TEU (MDS Transmodal, January 2020) is equivalent to around 10% of the present global container fleet's capacity (approximately 22.9 million TEU). This is a historically low level and well below the highest level seen to date, which was around 61% in 2007, and the average over the last 5 years (around 14%).

In 2019, orders were placed for the construction of 77 container ships with a transport capacity totalling approximately 0.8 million TEU (Clarksons Research, January 2020). This means that there was a significant decrease in the number and capacity of newbuilds on order compared with the previous year with orders for 197 container ships with a capacity of 1.2 million TEU. Newbuild orders are also below the average of the last 10 years (around 1 million TEU). 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 2020).

In total, 126 container ships with a capacity of 1.0 million TEU were put into service last year. 21 of the ships delivered were bigger than 20,000 TEU (MDS Transmodal, January 2019).

Expected development of global container fleet capacity

million TEU	2021	2020	2019	2018
Existing fleet (beginning of the year)	23.7	22.9	22.1	20.9
Planned deliveries	1.3	1.3	1.1	1.5
Scrappings	0.4	0.4	0.2	0.1
Postponed deliveries	0.1	0.1	0.1	0.2
Net capacity growth	**0.8**	**0.8**	**0.8**	**1.2**

Source: Drewry Container Forecaster Q4 2019, 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, according to industry experts (Drewry Container Forecaster Q4 2019) as additional larger ships with a transport capacity of more than 20,000 TEU go into service, transport capacities increase sharply and could negatively affect the development of freight rates in all the trades.

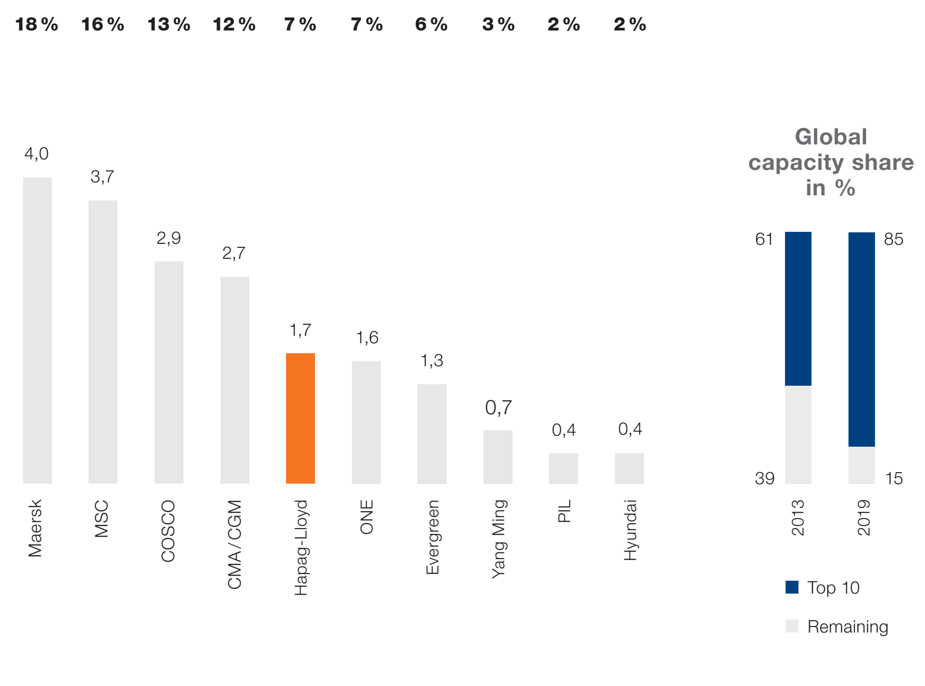
Transport volumes and freight rates in container liner shipping are subject to seasonal fluctuations. Demand for transport services is traditionally higher in the second and particularly the third quarter of any given year.

The fuel cost level in the shipping industry is largely linked to the development of the crude oil price. This stood at USD 66.00 / barrel (Bloomberg) as at 31 December 2019 and was therefore around 23% higher than at the start of the year (31 December 2018: USD 53.80 / barrel). At the beginning of the year, the crude oil price continued to rise and reached its high point of the year of USD 74.57 / barrel at the end of April (Bloomberg). During the course of the year, the oil price fell again and varied between USD 56 / barrel and USD 69 / barrel.

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 had to be bunkered during the fourth quarter of 2019 to ensure that the thresholds are met starting from 1 January 2020. This new low-sulphur bunker is significantly more expensive than the bunker used until now. In December 2019, the average price difference between high and low sulphur bunker was USD 283 per tonne (price difference based on Rotterdam HSFO 3.5% vs. MFO 0.5%). Shipping companies therefore face substantial additional costs from the end of 2019. Hapag-Lloyd aims to pass on these additional costs to customers. Hapag-Lloyd, along with all other large container liner shipping companies, has already published new calculation methods for the fuel surcharges, which were implemented over the course of 2019.

Consolidation of the industry and alliances in container shipping
In recent years, the container shipping industry has gone through a phase of significant consolidation. According to data from MDS Transmodal (January 2020), the 10 largest container liner shipping companies provide approximately 85% of the total capacity of the global fleet of container ships. This figure was just 61% in 2013.

Fleet capacity and market share of the top container liner shipping companies in TTEU 2019 vs. 2013



Source: Drewry Container Forecaster 4Q 2019; MDS Transmodal, January 2020

Alliances are an essential part of the container shipping industry as they enable better utilisation of vessels and provide the opportunity for the shipping companies to offer a more extensive service. There are currently 3 global alliances. Measured in terms of transport 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 (China), including its subsidiary OOIL (Hong Kong), and Evergreen Marine Corp. Ltd. (Taiwan) (Evergreen) and 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 2019, THE Alliance covered all East–West trades with 251 container ships and 29 services. Subject to the necessary approval of the regulatory authorities, the South Korean liner shipping company Hyundai Merchant Marine (South Korea) (HMM) will become a new member of THE Alliance on 1 April 2020.

Capacity share of alliances in East–West trades

Alliance		Far East trade	Transpacific trade	Atlantic trade
2M	in %	40	22	45
Ocean Alliance	in %	36	41	13
THE Alliance	**in %**	**24**	**26**	**36**
Other	in %	0	12	6

Source: Alphaliner, December 2019

Report on the Hapag-Lloyd Group's forecast development in 2019 compared with the forecast

The transport volume rose by 1.4% in the reporting period. It was thus at about the previous year's level and did not quite fulfil the expectation of a "slightly increasing" transport volume. The reason for this deviation was the weaker than expected market development. The volume of global trade, which is key to the demand for container shipping services, increased by just 1.0% in 2019. At the beginning of 2019, the International Monetary Fund (IMF) forecast growth in world trade volume of 4.0% (IMF World Economic Outlook January 2019 and January 2020). Seabury also significantly lowered its forecast during the year. Whereas at the start of the year, Seabury expected growth in global freight volume in 2019 to grow by 2.8%, industry experts' most recent analyses show projected growth of only 0.8% in 2019 (Seabury, December 2019).

The average bunker consumption price in 2019 was 1.2% below the previous year and therefore developed differently from the original forecast. This had predicted a moderately increasing bunker consumption price at the beginning of 2019. The drop in bunker consumption prices in the fourth quarter of 2019 in particular led to a drop in the average bunker consumption price for the entire 2019 year. This was at about the level of the previous year's average.

Hapag-Lloyd's average freight rate increased slightly by 2.7% and was thus as expected.

Both the EBITDA and the EBIT were at the upper end of the ranges forecast at the beginning of the year of 1.6–2.0 billion EUR (EBITDA) and 0.5–0.9 billion EUR (EBIT). The forecast has therefore been met.

	Actual Value 2019	Actual Value 2018	Change	Forecast in the Group management report as at 31.12.2018
Transport volume (TTEU)	12,037	11,874	1.4%	Increasing slightly
Average bunker consumption price (MFO + MDO, USD / t)	416	421	−1.2%	Increasing moderately
Average freight rate Hapag-Lloyd (USD / TEU)	1,072	1,044	+2.7%	Increasing slightly
EBITDA (million EUR)[1]	1,985.7	1,138.6	+847.1	EUR 1.6 – 2.0 billion
EBIT (million EUR)[1]	811.4	443.5	+367.9	EUR 0.5 – 0.9 billion

[1] Due to the adjustment of the structure of the consolidated income statement, the items in the consolidated income statement have changed. The comparability of the previous year's values are thus limited. For a better comparability with the current reporting period, the previous year's values have been adjusted, see also chapter "Change of presentation in the consolidated income statement" in the Notes to the consolidated financial statements

EARNINGS, FINANCIAL AND NET ASSET POSITION

Due to the first-time application of IFRS 16 Leases, the earnings and financial positions are only comparable with the corresponding prior year period to a limited degree. Unless stated otherwise, the figures for 2018 refer to the regulations for leases pursuant to IAS 17.

To increase transparency and standardise the externally communicated structure of the income statement in line with the management perspective, Hapag-Lloyd has changed the presentation of the consolidated income statement since 1 January 2019. As a result, the previous period's values have been adjusted in line with the new presentation. The change in presentation has led to modifications within the income statement compared to the values reported in the annual report 2018.

GROUP EARNINGS POSITION

Hapag-Lloyd's earnings position in the 2019 financial year was shaped by the implementation of Strategy 2023, further efficiency gains, preparations to ensure compliance with the IMO 2020 regulations and the ongoing geopolitical tensions worldwide and the deteriorating economic conditions.

Within the global economic environment described previously, transport volumes rose by 1.4%, roughly matching the previous years level, but remained below the level forecast at the start of the financial year due to the slowdown in global economic growth.

By focusing on profitable trades and implementing active measures on revenue management, the Company was able to record a slight year-on-year increase in the average freight rate in 2019, ensuring that it was in line with expectations at the start of the year.

On the cost side, transport costs developed positively due to the first-time application of IFRS 16 Leases, a year-on-year fall in the average bunker consumption price and lower handling and haulage costs. However, a strengthening of the US dollar against the euro (2019: USD 1.12/EUR; prior year period: USD 1.18/EUR) more than offset these positive effects which, together with increased expenses for the repositioning of empty containers and higher charter rates for ships, had a negative effect on the earnings position overall in the 2019 financial year.

In addition, expenses from the early repayment of a bond in the amount of EUR –22.3 million (prior year period: EUR 0.0 million) had a negative effect on earnings. On the other hand, the repayment of the bond led to an improvement in the interest result in the second half of 2019. Furthermore, the valuation of the embedded derivatives of the bonds resulted in income of EUR 33.6 million (prior year period: expenses of EUR 5.2 million), which made a positive contribution to the interest result in the reporting year.

On the basis of above mentioned measures, Hapag-Lloyd significantly improved its earnings before interest and taxes (EBIT) year-on-year to EUR 811.4 million in the 2019 financial year (prior year period: EUR 443.5 million) and recorded a substantially improved profit after taxes of EUR 373.4 million (prior year period: EUR 46.0 million).

Consolidated income statement

million EUR	1.1.–31.12.2019	1.1.–31.12.2018[1]
Revenue	12,607.9	11,617.5
Transport expenses	9,707.0	9,586.4
Personnel expenses	682.5	645.0
Depreciation, amortisation and impairment	1,174.4	695.1
Other operating result	–268.8	–290.9
Operating result	**775.2**	**400.1**
Share of profit of equity-accounted investees	35.5	30.7
Result from investments and securities	0.7	12.7
Earnings before interest and taxes (EBIT)	**811.4**	**443.5**
Interest result	–396.7	–365.2
Other financial items	1.6	–0.5
Income taxes	42.9	31.8
Group profit / loss	**373.4**	**46.0**
thereof profit / loss attributable to shareholders of Hapag-Lloyd AG	362.0	36.8
thereof profit / loss attributable to non-controlling interests	11.4	9.2
Basic / diluted earnings per share (in EUR)	2.06	0.21
EBITDA	**1,985.8**	**1,138.6**
EBITDA margin (%)	**15.8**	**9.8**
EBIT	**811.4**	**443.5**
EBIT margin (%)	**6.4**	**3.8**

[1] Due to the adjustment of the structure of the consolidated income statement, the items in the consolidated income statement have changed. The comparability of the previous year's values are thus limited. For a better comparability with the current reporting period, the previous year's values have been adjusted, see also chapter "Change of presentation in the consolidated income statement" in the Notes to the consolidated financial statements. Due to the first-time application of IFRS 16 Leases, the comparability with the corresponding prior year period is limited.

Transport volume

The transport volume increased by 163 TTEU to 12,037 TTEU in the 2019 financial year (prior year period: 11,874 TTEU). This equates to a rise of 1.4%.

The continued strength of the domestic economy in the USA enabled a moderate year-on-year increase in the transport volume on the Atlantic trade. On the Far East trade, the year-on-year rise was due to a rising market growth and increased vessel capacity. At the same time, the transport volume on the EMA trade grew significantly as a result of the introduction of new services in the 2019 financial year. The decrease in the transport volume on the Transpacific trade was largely due to the trade dispute between the USA and China. By contrast, the decline in the transport volume on the Intra-Asia trade was the result of a strategic decision to actively reduce the transport capacity on this trade and focus instead on profitable services. Adjusted for the Intra-Asia trade, the transport volume grew by 2.8% year-on-year.

Transport volume per trade[1]

TTEU	1.1.–31.12.2019	1.1.–31.12.2018
Atlantic	1,960	1,856
Transpacific	1,945	1,960
Far East	2,327	2,234
Middle East	1,391	1,419
Intra-Asia	900	1,036
Latin America	2,837	2,774
EMA (Europe – Mediterranean – Africa)	676	595
Total	**12,037**	**11,874**

1 Due to organisational changes, the transport volumes to and from Djibouti, Sudan and Eritrea have been assigned to the EMA trade since 1 January 2019. Since the third quarter of 2019, transport volumes to and from Oceania have been assigned to the Far East trade. The previous year's values have been adjusted accordingly.

Freight rate

The average freight rate in the 2019 financial year was USD 1,072/TEU, which was USD 28/TEU, or 2.7%, up on the prior year period (USD 1,044/TEU). The year-on-year increase was primarily due to the decision to focus on profitable services and active revenue management across all trades.

Freight rates per trade[1]

USD/TEU	1.1.–31.12.2019	1.1.–31.12.2018
Atlantic	1,389	1,337
Transpacific	1,318	1,271
Far East	910	943
Middle East	744	762
Intra-Asia	541	511
Latin America	1,153	1,132
EMA (Europe – Mediterranean – Africa)	1,046	967
Total (weighted average)	**1,072**	**1,044**

1 Due to organisational changes, the transport volumes to and from Djibouti, Sudan and Eritrea have been assigned to the EMA trade since 1 January 2019. Since the third quarter of 2019, transport volumes to and from Oceania have been assigned to the Far East trade. The previous year's values have been adjusted accordingly.

Revenue

The Hapag-Lloyd Group's revenue rose by EUR 990.4 million to EUR 12,607.9 million in the 2019 financial year (prior year period: EUR 11,617.5 million), representing an increase of 8.5%.

The main reasons for this were the increased transport volumes and the rise in average freight rates. The strengthening of the US dollar against the euro also had a positive effect on earnings. Adjusted for exchange rate movements, revenue would have risen by EUR approximately EUR 0.3 billion, or around 3%.

Revenue per trade[1]

million EUR	1.1.–31.12.2019	1.1.–31.12.2018[2]
Atlantic	2,431.9	2,099.4
Transpacific	2,290.8	2,108.7
Far East	1,891.7	1,782.9
Middle East	924.8	915.4
Intra-Asia	435.4	448.4
Latin America	2,921.6	2,658.8
EMA (Europe – Mediterranean – Africa)	631.7	486.9
Revenue not assigned to trades	1,080.0	1,117.1
Total	**12,607.9**	**11,617.5**

1 Due to organisational changes, the transport volumes to and from Djibouti, Sudan and Eritrea have been assigned to the EMA trade since 1 January 2019. Since the third quarter of 2019, transport volumes to and from Oceania have been assigned to the Far East trade. The previous year's values have been adjusted accordingly.

2 As a result of the change in presentation of the consolidated income statement, revenue for the 2018 financial year increased by EUR 102.4 million, from EUR 11,515.1 million to EUR 11,617.5 million.

Transport expenses

In the 2019 financial year, transport expenses rose by EUR 120.6 million to EUR 9,707.0 million (prior year period: EUR 9,586.4 million). This represents an increase of 1.3%. The rise is besides increased transport volumes primarily due to a stronger US dollar against the euro, increased charter costs for ships and higher costs for the repositioning of empty containers.

At USD 1.12 / EUR, the average USD / EUR exchange rate was 5.0% stronger than in the prior year period (USD 1.18 / EUR). The conversion of transport expenses from the functional currency, the US dollar, into the reporting currency, the euro, resulted in an increase in transport expenses due to the strengthening of the US dollar. Adjusted for exchange rate movements, transport costs in the 2019 financial year would have fallen by around EUR 0.4 billion (around 4%).

Fuel expenses rose by EUR 40.2 million (2.5%) to EUR 1,625.6 million as a result of exchange rate effects. Adjusted for exchange rate effects, fuel expenses would have decreased by EUR 47.6 million (–2.8%). Besides the slight improvement of bunker consumption primarily the lower average bunker consumption price were decisive for this development. This price was USD 416 per tonne for Hapag-Lloyd, which was USD 5 per tonne (–1.2%) below the average price in the 2018 financial year.

The first-time application of IFRS 16 Leases had a positive effect on the development of transport expenses. As a result of the application of the standard, expenses for leases which were previously classified as operating leases (essentially medium and long-term charter expenses for vessels and container rental) are no longer recognised within the transport expenses position but rather as amortisation on right of use of leased assets and interest expenses for lease liabilities. As a result, the transport expenses recognised decreased year-on-year by the amount of the lease expenses previously reported under IAS 17 totalling around EUR 467.0 million.

Lower handling and haulage costs also reduced the transport expenses in the 2019 financial year.

Operating expenses

million EUR	1.1.–31.12.2019	1.1.–31.12.2018
Transport expenses	9,707.0	9,586.4
thereof:		
Bunker	1,625.6	1,585.3
Handling & haulage	4,922.7	4,744.0
Equipment and repositioning	1,205.0	1,229.8
Vessel & voyage (excluding bunker)	1,967.8	2,006.6
Change in transport expenses for pending voyages[1]	–14.0	20.6
Personnel expenses	682.5	645.0
Depreciation, amortisation and impairments	1,174.4	695.1
Other operating result	–268.8	–290.9
Total operating expenses	**11,832.7**	**11,217.3**

[1] The amounts shown as transportation expenses for unfinished voyages represent the difference between the expenses for unfinished voyages in the current period and the expenses for unfinished voyages in the previous period. The transportation expenses for unfinished voyages recorded in the previous period are shown in the current financial year as transportation expenses for finished voyages within the expense items bunker, handling & haulage, containers and repositioning as well as ships and voyages (excluding bunker).

The gross profit margin (ratio of revenue less transport expenses to revenue) for the 2019 financial year came to 23.0% (prior year period: 17.5%).

Personnel expenses

Personnel expenses rose by EUR 37.5 million (5.8%) to EUR 682.5 million in the 2019 financial year (prior year period: EUR 645.0 million). The strengthening of the US dollar against the euro caused expenses to increase, as did the rise in the number of shore-based employees and a higher performance based remuneration for employees.

Government assistance was deducted from personnel expenses and not recognised as other operating income for the first time in the financial year, causing expenses to decrease. Further details on the assistance received can be found in Note (28) Government assistance in the Notes to the consolidated financial statements.

The Group employed an annual average of 12,905 people (previous year period: 12,470 people). The personnel expenses ratio decreased compared to the previous year from 5.6% to 5.4%.

Development of personnel expenses

million EUR	1.1.–31.12.2019	1.1.–31.12.2018
Personnel expenses	682.5	645.0
Revenue	12,607.9	11,617.5
Personnel expenses ratio %	**5.4**	**5.6**

Depreciation, amortisation and impairment

In the 2019 financial year, depreciation and amortisation came to EUR 1,174.4 million (prior year period: EUR 695.1 million). The year-on-year increase in depreciation and amortisation was primarily due to the effects of the first-time recognition of leased assets in accordance with IFRS 16. The amortisation of rights of use relating to leased and first-time recognised assets (essentially ships, containers, buildings) led to additional amortisation of EUR 436.5 million (prior year period: EUR 0.0 million).

Other operating result

The other operating result comprised the net balance of other operating expenses and income. The other operating expenses included in this item totalled EUR 350.0 million in the 2019 financial year (prior year period: expenses of EUR 364.5 million). This included mainly IT and communication expenses (EUR 155.7 million; prior year period: EUR 142.1 million), office and administrative expenses (EUR 41.8 million; prior year period: EUR 65.0 million) and expenses for charges, fees, consultancy and other professional services (EUR 35.8 million; prior year period: EUR 34.3 million). A detailed overview of the other operating result can be found in Note (5) Other operating result in the Notes to the consolidated financial statements.

Share of profit of equity-accounted investees

The share of the profit of equity-accounted investees rose by EUR 4.8 million to EUR 35.5 million in the 2019 financial year. The reason for the increase was a higher pro rata result from the investment in HHLA Container Terminal Altenwerder GmbH.

Operating result

In the 2019 financial year, earnings before interest and taxes (EBIT) amounted to EUR 811.4 million (including a positive effect from the first-time application of IFRS 16 in the amount of approximately EUR 30.6 million). They were therefore well above the corresponding figure in the prior year period (EUR 443.5 million). Earnings before interest, taxes, depreciation and amortisation (EBITDA) came in at EUR 1,985.8 million in the 2019 financial year (prior year period: EUR 1,138.6 million). This includes a positive effect from the first-time application of IFRS 16 in the amount of approximately EUR 467 million. The annualised return on invested capital (ROIC) for the 2019 financial year amounted to 6.1% (prior year period: 3.7%). Basic earnings per share in the reporting period came to EUR 2.06 per share (prior year period: EUR 0.21 per share).

Key earnings figures

million EUR	2019	2018[2]
Revenue	12,607.9	11,617.5
EBIT	811.4	443.5
EBITDA	1,985.8	1,138.6
EBIT margin (%)	6.4	3.8
EBITDA margin (%)	15.8	9.8
Basic Earnings Per Share (in EUR)	2.06	0.21
Return on Invested Capital (ROIC) annualised (%)[1]	6.1	3.7

[1] The calculation of the return on invested capital is based on the functional currency USD.
[2] Due to the change in presentation of the consolidated income statement, the previous year's values have been adjusted. This decreased EBIT for the 2018 financial year by EUR 0.5 million, from EUR 443.0 million to EUR 443.5 million.

Interest result

The interest result for the 2019 financial year was EUR –396.7 million (prior year period: EUR –365.2 million). The increase in interest expenses compared to the previous year was primarily due to the first-time application of IFRS 16. Interest expenses for the new lease liabilities which must now be included in accordance with IFRS 16 totalled EUR 66.5 million in the 2019 financial year (prior year period: EUR 0.0 million). The early repayment of a bond also resulted in one-off effects totalling EUR –22.3 million as a result of redemption charges, the disposal of associated embedded derivatives and other associated transaction costs. By contrast, the valuation of the embedded derivatives of the bonds resulted in income of EUR 33.6 million (prior year period: expenses of EUR 5.2 million), which had a positive impact on the interest result in the reporting year.

Income taxes

The rise in income taxes of EUR 11.1 million to EUR 42.9 million was among other things due to the higher revenue and the increased profitability of Hapag-Lloyd. The increased transport capacity (own and chartered ocean-going vessels) also led to a rise in the German tonnage tax expense in the financial year. In addition, the previous year's income tax expense had been reduced by one-off effects from the first-time recognition of deferred tax assets on income tax loss carry-forwards (around EUR 12 million).

Group result

Overall, Group profit was significantly up on the previous year at EUR 373.4 million (prior year period: EUR 46.0 million). This includes a negative effect from the first-time application of IFRS 16 of around EUR 36 million. Group profit consist of the earnings attributable to shareholders of the parent company of EUR 362.0 million (prior year period: EUR 36.8 million) and the earnings attributable to non-controlling interests of EUR 11.4 million (prior year period: EUR 9.2 million).

The total Group net result of EUR 406.5 million (prior year period: EUR 320.9 million) comprises Group profit of EUR 373.4 million and other comprehensive income of EUR 33.1 million (prior year period: EUR 274.9 million). Other comprehensive income includes other comprehensive income from currency translation of EUR 121.2 million (prior year period: EUR 272.2 million), effects from hedging instruments in cash flow hedges of EUR –13.2 million (prior year period: EUR 14.6 million), effects from cost of hedging activities of EUR –14.1 million (prior year period: EUR –18.1 million) and other comprehensive income from the remeasurement of defined benefit pension plans of EUR –60.8 million (prior year period: EUR 6.2 million) due to a fall in the market interest rate.

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 bunkers), 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 credit lines, as well as its cash on hand. 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, the risk of bunker price changes is 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), British pound sterling (GBP), Canadian dollar (CAD), United Arab Emirates dirham (AED), Japanese yen (JPY) and Australian dollar (AUD) are also significant currencies. Transactional risks also exist from the financial debt denominated in euros (particularly issued bonds).

Derivative hedging transactions are entered into to partially hedge against these euro exchange rate risks. Interest rate risks which arise as a result of liquidity sourcing 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 Note (27) Financial instruments section in the Notes to the consolidated financial statements.

Issuer ratings

Rating / Outlook	31.12.2019	31.12.2018
Standard & Poor‘s	B+ / Positive	B+ / Stable
Moody‘s	B1 / Stable	B2 / Stable

The international rating agencies Standard & Poor’s and Moody’s assess Hapag-Lloyd AG’s financial strength at regular intervals. On 29 November 2019, the rating agency Standard & Poor’s awarded Hapag-Lloyd AG an issuer rating of B+ with a positive outlook (previously: stable outlook). On 18 February 2019, Moody’s increased its issuer 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 2019 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 costs.

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 Note (27) 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 2019 reporting year:

Containers

- During the 2019 financial year, Hapag-Lloyd AG ordered new containers with an investment amount of USD 310.6 million (EUR 276.8 million). The containers were mostly delivered to Hapag-Lloyd by the end of the reporting year with the rest expected in the first quarter of 2020.
- To refinance these investments, Hapag-Lloyd entered into several sale and leaseback transactions with a volume of USD 325.2 million (EUR 290.9 million). The newly acquired containers were sold to groups of investors on the basis of Japanese operating leases and then leased back for seven years, with the option of repurchasing the containers upon their respective maturity. The lease agreements are essentially a form of borrowing, secured by the assignment of containers as collateral.

Vessels

- On two occasions, in April 2019 and May 2019, refinancing was arranged for a container ship owned by the Company as part of a Japanese operating lease. The container ships were sold to a group of investors and then leased back for up to 9.5 years, with the option of repurchasing the ships after 7.5 and 8.0 years respectively. The economic substance of these transactions is credit financing secured by the assignment of the ships as collateral. The refinancing volume associated with these transactions totalled USD 188.1 million (EUR 168.8 million). The loan liabilities of USD 128.4 million (EUR 115.3 million) previously associated with the ships were repaid in full. In addition, the Japanese operating lease implemented in May includes approval to draw down a second tranche of up to USD 22.4 million (EUR 20.0 million). This second tranche will be made available after the ship is successfully converted into an LNG-operated ship and will be used to finance the investments associated with the conversion.
- In September 2019, a loan commitment of USD 100.0 million (EUR 89.1 million) was made to Hapag-Lloyd to finance investments in exhaust gas cleaning systems (scrubbers) on its own ships and those chartered on a long-term basis. The loan commitment has a term until 31 March 2021. Drawdowns under the loan commitment have a term of up to 4.5 years. As at the balance sheet date, no drawdowns had been made. Three container ships owned by the Company were provided as collateral for the financing.

Miscellaneous

- In February 2019, Hapag-Lloyd used its own liquidity to make an early repayment of EUR 170.0 million for its EUR bond originally scheduled to mature in 2022. In June 2019, Hapag-Lloyd made another early repayment for the remainder of the EUR bond in the amount of EUR 280.0 million. The second repayment was largely made using free liquidity. EUR 100.0 million of the second repayment was obtained by utilising a credit facility based on credit loss insurance. In the 2019 financial year, the EUR bond scheduled to mature in 2022 for an original amount of EUR 450.0 million was repaid early and in full.

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 the new regulations on accounting for leases in accordance with IFRS 16 are applicable from 1 January 2019 and the equity ratio has decreased as a result, all financing agreements that contain lending conditions with respect to the required minimum equity ratio at Group level (financial covenants) have undergone adjustments that largely neutralise this effect. The application of IFRS 16 did not have an impact on the ability to meet the lending conditions with respect to the minimum equity ratio at Group level.

Based on current planning, the Executive Board expects that all covenants will be adhered to in 2020.

Net debt

Financial solidity

million EUR	31.12.2019	31.12.2018
Financial debt and lease liabilities	6,397.2	6,017.9
Cash and cash equivalents	511.6	657.1
Restricted cash (other assets)	–	6.4
Net debt	**5,885.6**	**5,354.4**
Gearing (%)[1]	88.9	85.5
Unused credit lines	**521.3**	**475.9**
Equity ratio (%)	**40.9**	**40.9**

[1] Ratio of net debt to equity

The Group's net debt as at 31 December 2019 increased by EUR 531.2 million compared to the previous year from EUR 5,354.4 million to EUR 5,885.6 million. The increase was essentially due to the application of the reporting standard IFRS 16 from 1 January 2019. The recognition of the lease liability associated with the first-time recognition of rights of use relating to leases (primarily for medium and long-term charter expenses for vessels and for container leasing) led to an increase of EUR 947.6 million in financial debt as at 1 January 2019. As at 31 December 2019, the debt arising from lease liabilities was EUR 1,193.4 million. The repayment of a bond of EUR 450.0 million had the opposite effect.

The calculation of net debt includes restricted cash in the amount of EUR 0.0 million (31 December 2018: EUR 6.4 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) increased to 88.9% (31 December 2018: 85.5%) primarily due to the first-time application of IFRS 16.

Despite the increase in total assets mainly due to IFRS 16 Leases, the equity ratio as at 31 December 2019 was unchanged at 40.9% (31 December 2018: 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 (cash, cash equivalents and unused credit facilities) totalling EUR 1,032.8 million (previous year: EUR 1,133.0 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.–31.12.2019	1.1.–31.12.2018
EBITDA[1]	**1,985.8**	**1,138.6**
Working capital changes	121.0	33.6
Other effects	–78.6	–99.3
Cash flow from operating activities	2,028.2	1,072.9
Cash flow from investing activities	–369.5	–104.3
Free cash flow	**1,658.7**	**968.6**
Cash flow from financing activities	–1,817.6	–945.6
Changes in cash and cash equivalents	**–158.9**	**23.0**

[1] As a result of the change in presentation of the consolidated income statement, EBITDA for the 2018 financial year increased by EUR 0.5 million, from EUR 1,138.1 million to EUR 1,138.6 million.

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. Due to the first-time application of IFRS 16 Leases, the comparability of the individual items in the cash flow statement is limited.

Cash flow from operating activities

Hapag-Lloyd generated an operating cash flow of EUR 2,028.2 million in the 2019 financial year (prior year period: EUR 1,072.9 million). The increase in cash flow from operating activities was positively affected by the application of IFRS 16 as the repayment and interest portion of the lease payments in the amount of EUR 483.8 million is disclosed as cash flow from financing activities instead of cash flow from operating activities according to IFRS 16.

Cash flow from investing activities

In the 2019 financial year, the cash outflow from investing activities totalled EUR 369.5 million (prior year period: EUR 104.3 million) and related to payments for investments of EUR 426.1 million (prior year period: EUR 328.9 million), primarily in containers and ship equipment. These included payments in the amount of EUR 95.5 million for containers acquired in the previous year. This was compensated for by cash inflows of EUR 41.6 million (prior year period: EUR 33.1 million), which were primarily due to the sale of containers.

Cash flow from financing activities

Overall, there was a cash outflow from financing activities in the current reporting period in the amount of EUR 1,817.6 million (prior year period: EUR 945.6 million) which mainly comprised interest and redemption payments of EUR 2,587.2 million (prior year period: EUR 1,663.1 million).

Interest and redemption payments in the 2019 financial year mainly include the repayments of container and ship financing amounting to EUR 769.5 million, the partial repayment of the ABS programme in the amount of EUR 503.2 million and for the first time interest and repayments for lease liabilities in accordance with IFRS 16 in the amount of EUR 483.8 million, which were recognised as cash flow from financing rather than operating activities. In February 2019 and June 2019, Hapag-Lloyd completely repaid a bond in the amount of EUR 450.0 million before its 2022 due date. There were also cash outflows from the realisation of derivative financial instruments used to hedge financial debt in the amount of EUR 103.7 million (prior year period: cash inflow of EUR 9.4 million).

The cash outflows were offset by cash inflows of EUR 924.3 million (prior year period: EUR 782.1 million). A new revolving credit facility in the amount of EUR 100.0 million was utilised in connection with the early repayment of the bond. Other significant cash outflows from the financing of containers using Japanese operating leases (JOLs) in the amount of EUR 290.5 million, drawdowns under the existing ABS programme in the amount of EUR 324.3 million, loans to refinance vessels in the amount of EUR 168.0 million and the payment for an unsecured term loan in the amount of EUR 40.4 million.

Developments in cash and cash equivalents

million EUR	1.1.–31.12.2019	1.1.–31.12.2018
Cash and cash equivalents at beginning of period	**657.1**	**604.9**
Changes due to exchange rate fluctuations	13.4	29.2
Net changes	–158.9	23.0
Cash and cash equivalents at end of period	**511.6**	**657.1**

Overall, cash outflow totalled EUR –158.9 million in the 2019 financial year, with the result that, after accounting for exchange rate-related effects in the amount of EUR 13.4 million, cash and cash equivalents of EUR 511.6 million were reported at the end of the reporting period on 31 December 2019 (31 December 2018: EUR 657.1 million). The cash and cash equivalents dealt with in the statement of cash flows correspond to the balance sheet item "Cash and cash equivalents". In addition, there are available credit facilities of EUR 521.3 million (31 December 2018: EUR 475.9 million). The liquidity reserve (cash, cash equivalents and unused credit facilities) therefore totalled EUR 1,032.8 million (31 December 2018: EUR 1,133.0 million).

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

Capital expenditure

Further investments in containers and in retrofitting owned and leased ships were made in the 2019 financial year. The development of fixed assets is discussed in the "Group net asset position" section. Further details can be found in Note (12) Property, plant and equipment in the notes to the consolidated financial statements.

Off-balance-sheet obligations

At the end of the 2019 financial year, orders were placed for containers in the amount of EUR 34.0 million (previous year: EUR 33.4 million), for exhaust gas cleaning systems (EGCS) on container ships in the amount of EUR 33.3 million (previous year: EUR 11.2 million) and the conversion of container ships to liquefied natural gas in the amount of EUR 13.2 million. As at 31 December 2019, Hapag-Lloyd had further purchase commitments of EUR 11.4 million.

GROUP NET ASSET POSITION

Changes in the asset structure

million EUR	31.12.2019	31.12.2018
Assets		
Non-current assets	13,811.8	12,845.0
of which fixed assets	13,716.1	12,789.8
Current assets	2,388.6	2,456.3
of which cash and cash equivalents	511.6	657.1
Total Assets	**16,200.4**	**15,301.3**
Equity and liabilities		
Equity	6,620.6	6,259.3
Borrowed capital	9,579.8	9,042.0
of which non-current liabilities	5,586.2	5,665.3
of which current liabilities	3,993.6	3,376.7
of which financial debt and finance lease liabilities	6,397.2	6,017.9
of which non-current financial debt and finance lease liabilities	5,156.0	5,301.6
of which current financial debt and finance lease liabilities	1,241.2	716.3
Total equity and liabilities	**16,200.4**	**15,301.3**
Net debt	5,885.6	5,354.4
Equity ratio (%)	40.9	40.9

As at 31 December 2019, the Group's balance sheet total was EUR 16,200.4 million, which is EUR 899.1 million higher than the figure at the end of 2018 (31 December 2018: EUR 15,301.3 million). The main reason for the increase in the balance sheet total is the first-time application of IFRS 16 Leases in the 2019 financial year. The US dollar against the euro exchange rate was quoted at 1.12 on 31 December 2019 (31 December 2018: 1.15).

Within non-current assets, the carrying amounts of fixed assets increased by a total of EUR 926.3 million to EUR 13,716.1 million (31 December 2018: EUR 12,789.8 million). This rise was primarily due to the first-time application of IFRS 16 and the associated recognition of the right of use relating to lease contracts not previously capitalised in the amount of EUR 858.2 million as at 1 January 2019 (31 December 2018: EUR 0.0 million). As at 31 December 2019, rights of use for lease contracts previously capitalised and not previously capitalised totalling EUR 1,031.1 million were capitalised as part of fixed assets. In addition, non-current assets increased due to investments of EUR 398.5 million relating primarily to containers as well as ship equipment and retrofitting of ships to ensure compliance with IMO 2020. Exchange rate effects of EUR 269.3 million at the reporting date contributed to the increase in fixed assets.

This effect was offset by the amortisation and depreciation of intangible and tangible assets respectively totalling EUR 1,174.4 million (prior year period: EUR 695.1 million). This figure includes an amount of EUR 436.5 million for the amortisation of the rights of use relating to lease assets which were newly capitalised in accordance with IFRS 16.

Current assets fell by EUR 67.7 million to EUR 2,388.6 million compared to the level as at 31 December 2018. The change primarily resulted from a reduction in cash and cash equivalents due to a wide range of different investments to ensure compliance with the IMO 2020 regulations and the repayment of a bond in the 2019 financial year.

On the liabilities side, equity (including non-controlling interests) grew by EUR 361.3 million to a total of EUR 6,620.6 million. This increase is mainly due to the Group profit of EUR 373.4 million and the unrealised gains from currency translation recognised in other comprehensive income and amounting to EUR 121.2 million. By contrast, the payment of a dividend by Hapag-Lloyd AG for the 2018 financial year in the amount of EUR 26.4 million, the measurement of pension provisions through other comprehensive income in the amount of EUR –60.8 million due to the lower interest rate, the changes in the reserves for hedging relationships in the amount of EUR –15.6 million and the adjustment of opening balance sheet values due to the first-time application of IFRS 16 as at 1 January 2019 in the amount of EUR –17.4 million had an offsetting effect. The equity ratio was 40.9% as at 31 December 2019 (31 December 2018: 40.9%).

The borrowed capital has risen by EUR 537.8 million to EUR 9,579.8 million since the 2018 group financial statements were prepared, which was mainly due to an increase in financial debt and lease liabilities of EUR 379.3 million to EUR 6,397.2 million. The main reason for the increase in financial debt and lease liabilities was the first-time application of IFRS 16, which led to the recognition of additional lease liabilities of EUR 947.6 million as at 1 January 2019. As at 31 December 2019, total lease liabilities were EUR 1,193.4 million. This included lease obligations both recognised in previous years and not recognised in previous years. Further, payments for new financing with the amount of EUR 924.3 million had an increasing effect. Exchange rate effects relating to financial debt and lease liabilities in the amount of EUR 123.4 million also caused borrowed capital to increase. Redemption payments totalling EUR 2,189.9 million including the early repayment of a bond in the amount of EUR 450.0 million and repayments for lease liabilities in the amount of EUR 456.7 million reduced financial debt.

Taking cash and cash equivalents and financial debt into account, net debt was EUR 5,885.6 million as at 31 December 2019 (31 December 2018: EUR 5,354.4 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 (27).

EXECUTIVE BOARD'S STATEMENT ON OVERALL ECONOMIC PERFORMANCE

Earnings developed in line with the Executive Board's expectations in the 2019 financial year, although transport volume remained roughly on previous year's level and thus slightly below the level forecast at the start of the financial year due to the slowdown in global economic growth. Both EBITDA and EBIT were at the upper end of the ranges forecast at the start of the year. This was primarily the result of a slight year-to-year rise in the average freight rate alongside a slight fall in the bunker consumption price. The increase in freight rates can primarily be attributed to the decision to focus on profitable trades and implement active measures on revenue management. The implementation of initial steps under Strategy 2023 led to increases in revenue as well as improvements in transport costs. However, these were more than offset by the strengthening of the US dollar against the euro. There was also a noticeable reduction in transport expenses as a result of the first-time application of IFRS 16 Leases. The expenses previously reported under this cost item have been reported under depreciation and amortisation and under interest expenses since 1 January 2019.

OUTLOOK-, RISK- AND OPPORTUNITY REPORT

The outlook, risk and opportunity report explains the expected future development of Hapag-Lloyd's key performance indicators and the framework conditions for business operations. Risks and opportunities that cause a deviation from the forecast developments are also described.

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 forming the basis of the outlook is given below.

According to its current economic outlook (January 2020), the International Monetary Fund (IMF) expects global economic growth of 3.3% for the current year. According to this forecast, the global economy will again grow slightly faster in 2020 than in the previous year (+2.9%). According to IMF estimates, the global trade volume, which is important for the demand for container shipping transport services, will increase by 2.9% in 2020 and is thus expected to recover noticeably compared to the previous year (2019: +1.0%), but will still remain slightly below the average of the last 5 years (3.1%). The industry research agency Seabury (December 2019) forecasts a growth in global container transport volume of 3.1% (2019: 0.8%) to around 157 million TEU in 2020. This means that the expected increase in the global transport volume of container shipping in 2020 would again be in line with the growth in world trade. Extraordinary events on a global scale such as the outbreak of the coronavirus COVID-19 could have a negative impact on the growth expectations. Due to the spread of the coronavirus COVID-19 in the beginning of 2020 negative implications for the trade and financial markets can be observed. Because of potential market movements that occur with time delays as well as uncertainty regarding the containment of the viral disease a concluding assessment of the effect of COVID-19 on the global economy during the remainder of the year is not possible.

Following an increase in transport capacities (after scrapping and postponement of deliveries) in 2019 by approx. 0.8 million TEU to 22.9 million TEU, Drewry's industry experts also expect a nominal increase in transport capacities for the current year by approximately 0.8 million TEU to 23.7 million TEU. In relation to the total capacity of the world fleet, this corresponds to an increase of around 3.7% and is thus at the same level as in the previous year (+3.7%). Although the overall increase remains moderate, the delivery of large ships in the Far East trade lane could make it more difficult to implement freight rate increases in this trade lane in 2020.

Hapag-Lloyd expects a slight year-on-year increase in transport volumes in 2020 and thus intends to grow again in line with general market growth. Although capacity growth in 2020 is also expected to be higher than demand growth (by 0.6% pts.), the capacity overhang is significantly lower than in 2019 (2.9% pts.). In addition, extended shipyard periods due to the installation of exhaust gas cleaners ("scrubbers") in connection with IMO 2020 may lead to a partial reduction in the capacity actually available during the course of the year, which would reduce capacity growth. The alignment of growth rates should support the 2020 freight rate level. In addition, higher fuel surcharges for the use of sulphur-reduced fuel due to the new stricter limits on sulphur emissions should slightly increase freight rates ceteris paribus compared to the previous year. Hapag-Lloyd therefore expects average freight rates in 2020 to increase slightly year-on-year.

Due to the switch to the more expensive low-sulphur fuel (MFO 0.5%), the average bunker consumption price in 2020 will increase significantly compared to the previous year.

Provided that the expected freight rate level is achieved, the intended improvement in revenue quality combined with the achievement of further cost savings and the expected volume growth, Hapag-Lloyd is forecasting an EBITDA of EUR 1.7 – 2.2 billion and EBIT of EUR 0.5 – 1.0 billion for 2020. The earnings forecast is based on the assumption of an average exchange rate of 1.14 USD / EUR.

These figures do not include impairments of goodwill, other intangible assets and property, plant and equipment which are currently not expected but cannot be ruled out due to geopolitical developments, among other things. In addition, the forecast for 2020 is subject to considerable uncertainty and is influenced in particular by the outbreak of the coronavirus COVID-19, the effects of which on the further course of the year cannot be conclusively assessed at the time of preparation of the combined management report.

Key benchmark figures for the 2020 Outlook

Global economic growth (IMF, January 2020)	3.3%
Increase in global trade (IMF, January 2020)	2.9%
Increase in global container transport volume (Seabury, December 2019)	3.1%
Transport volume, Hapag-Lloyd	Increasing slightly
Average bunker consumption prices, Hapag-Lloyd	Increasing clearly
Average freight rate, Hapag-Lloyd	Increasing slightly
EBITDA (earnings before interest, taxes, depreciation and amortisation), Hapag-Lloyd	EUR 1.7 – 2.2 billion
EBIT (earnings before interest and taxes), Hapag-Lloyd	EUR 0.5 – 1.0 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. In addition, we expect a weaker first half of the year in 2020 due to the extended Chinese New Year in connection with the outbreak of the coronavirus COVID-19 and the associated extended closure of factories in China.

The risks and opportunities that could cause business development to deviate from the forecast are described in detail in the risk and opportunity report below. The relevant risks for the development of Group turnover and earnings are in particular a slowdown in the growth of the global economy and global trade volume, also caused by international crises and geopolitical disputes, a significant and sustained increase in bunker prices, a significant and sustained rise in the value of the euro against the US dollar and a sustained decline in average freight rates. In addition, there is a risk that the higher bunker costs resulting from IMO 2020 cannot be fully passed on to customers by increasing average freight rates.

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 2020 financial year, which could also lead to impairments on goodwill, other intangible assets and property, plant and equipment.

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 risk management system comprises risk and opportunity potentials, though it focusses primarily on risks.

OPPORTUNITIES

At Hapag-Lloyd, recognising and exploiting opportunities are integral elements of strategic management. The basis for the identification of opportunities is 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 form the basis for the initiation of measures which are geared towards long-term sustainable growth and are designed to contribute to a sustainable 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 management 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 a core element of the strategy described in the chapter "Group objectives and strategy".

RISK MANAGEMENT

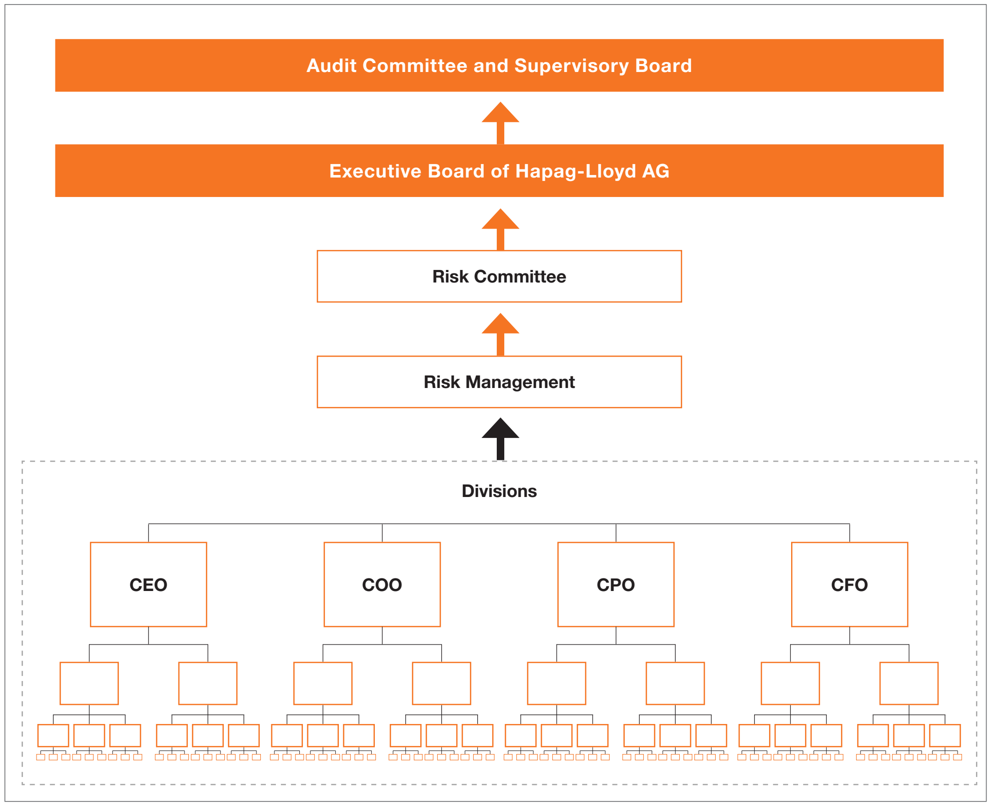
The objective of risk management is to recognise, analyse and to develop adequate risk responses to lower the risk to an acceptable risk level and therefore secure the achievement of the business objectives. Thanks to monitoring and control systems installed throughout the Group, business developments and 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.

The principles, roles and responsibilities, processes and thresholds of risk management are defined in a Group guideline which is valid for the entire organisation. 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 risks in the various regions and central departments (e.g. Treasury & Finance). These risk managers assess and document the risks identified, including the risk responses as part of risk reporting. The risk assessment is carried out taking into account the potential effects and the probability of occurrence according to the net perspective, i.e. after consideration of implemented risk responses. On this basis, risks are grouped into 3 standardised risk classes and are monitored accordingly. Risk reports are usually submitted on a quarterly basis to the risk management function in the central Accounting department. It is mandatory to submit unscheduled reports if risks are newly identified or newly assessed, with the result that reporting thresholds are exceeded (ad-hoc reports).

The Executive Board and operational management have integrated multilevel reporting systems at their disposal for risk management purposes. In addition to the quarterly and ad hoc reporting, in accordance with legal requirements, the planning and controlling system 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.

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

Risk management system of Hapag-Lloyd



The Corporate Audit department conducts regular checks of the risk management processes and – in particular – the risk early-warning system, 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 ICS was documented in 2010 and a verification process was established. A central ICS coordination framework exists for the continuous enhancement and securing of the ICS. A technical platform also exists to monitor processes globally. This ICS 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 IFRS 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 central 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 central Treasury & Finance department for the reporting of hedge relationships and financial derivatives, and information from the central Controlling department pertaining to Company planning in relation to the impairment tests.

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 central 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 central Accounting department.

General internal control 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 area 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 annual and 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 identified 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 rule have been implemented as fundamental process-integrated controls to ensure proper accounting. For example, entries are authorised by approval and release procedures. 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 detective control activities for selected 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 internal 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 summarised in a report on an annual basis (“ICS verification process”). On this basis, the Executive Board informs the Hapag-Lloyd AG Audit Committee about the ICS.

RISKS AND OPPORTUNITIES

The key risks and opportunities and their potential impact on the earnings, financial and net asset position of Hapag-Lloyd, including their probability of occurrence, are listed at the end of the risk and opportunity report under “Summarised overview of corporate risks and opportunities”. Qualitative descriptions of these and other events that are subject to a high degree of uncertainty are 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.

Economic risks and opportunities

General economic development

Container shipping is heavily dependent on the general prevailing conditions in the world’s economies and is subject to a high level of uncertainty 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 the resulting increase in global trade is a significant factor that influences demand for container shipping services and thus the development of the container shipping companies’ cargo volumes. Extraordinary events on a global scale such as the outbreak of the coronavirus COVID-19 could have a negative impact on the growth expectations. Due to the spread of the coronavirus in the beginning of 2020 negative implications for the trade and financial markets can be observed. Because of potential market movements that occur with time delays as well as uncertainty regarding the containment of the viral disease a concluding assessment of the effect of COVID-19 on the global economy during the remainder of the year is not possible.

The economic performance of the global economy and the corresponding expected performance of container transport volumes continue to be subject to a significant degree of uncertainty in 2020. A detailed forecast can be found in the “General economic conditions” chapter as well as in the “Forecast”. According to Seabury, the rise in global demand for container shipping services fell short of the original forecasts in recent years. In contrast to the expectations in the beginning of 2019 IMF and Seabury significantly reduced the forecasted key figures during the year. 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.

Seabury believes that the volume of global container shipments will rise by 3.1% in 2020 and therefore at a faster rate than in 2019 (0.8%). 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.

Trade flows

The utilisation of the Group's capacities is influenced by the development of the trade flows between the various regions. In the case of transport between regions comprising net exporters and regions comprising net importers, capacity utilisation in the two directions is divergent. This results in empty legs and associated costs. An increase in the imbalances in global trade could further push up the costs associated with empty legs and therefore have a negative impact on the earnings position. In 2019, for example, stricter import conditions on materials for recycling (primarily plastic) as well as the ongoing trade war led to a temporary weakening and relocation of Asian imports and exports. Uncertainty regarding the consequences of Brexit remains among others due to the unknown design as well as concerning the vague time horizon for putting the anticipated trade agreements into force.

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 2020. Hapag-Lloyd is endeavouring to participate in these growth markets with a suitable service network which could have a positive impact on the transport volume.

With a share of around 23.6% of the container transport volume in 2019, the Latin America trade is Hapag-Lloyd's biggest trade. According to the latest IMF forecast (January 2020), economic growth in the region of Latin America and the Caribbean was 0.1% in 2019 (2018: 1.1%). Economic growth is expected to increase by 1.6% in 2020, then by 2.7% until 2024. 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.

However in the view of Hapag-Lloyd's Executive Board, the political instability in the region may have a negative impact on import and export activities and therefore on the demand for container transport. This, in turn, could negatively affect Hapag-Lloyd's revenue and earnings.

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 and thus have a mediate negative impact on Hapag-Lloyd's revenue and earnings.

Sector- and company-specific risks and opportunities

Fuel price fluctuations

Hapag-Lloyd's business activity exposes it to market price risks arising from the procurement of fuels (bunker fuel) for the container ship 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 2019 financial year, the cost of the ships' fuel amounted to 12.9% 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 2019, the average bunker consumption price (MFO and MDO) was USD 416 per tonne (MFO: USD 400 per tonne; MDO: USD 600 per tonne). This was USD 5 per tonne lower 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 slightly in the course of 2019, before temporarily decreasing slightly in the second half of the year. In the beginning of 2020 a slight decrease of bunker prices could be observed in comparison to the high price level in the end of 2019. If this trend reverses, it is likely to lead to an increase in fuel costs in 2020.

With the entry into force of the global marine fuel regulation IMO on 1 January 2020, the sulphur limit for fuel was lowered from 3.5% to 0.5%. During 2019, Hapag-Lloyd therefore gradually implemented the Marine Fuel Recovery (MFR) mechanism, which replaces the bunker surcharges that were previously part of the average freight rate. The higher price of 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 TEU. These parameters are derived from a representative service in the market for a specific trade. The MFR also takes account of price fluctuations with an optimised coverage of upward and downward movements in fuel market prices. Fluctuating bunker prices can therefore have inpart 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 strategy. This involves hedging the Company's anticipated bunker requirements. Please refer to the "(27) Financial instruments" section of the Notes to the consolidated financial statements for information on the scope and type of hedging instruments as at the balance sheet date. By the end of December 2019, approximately 20% of the planned fuel consumption volumes for the 2020 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 expenses, given the significantly higher price of MDO. In 2019, around 16% (previous year: around 13%) of total bunker consumption of approximately 4.4 million tonnes (previous year: approximately 4.4 million tonnes) was low-sulphur bunker.

Fluctuations in 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 2020, 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. If the transport volumes and freight rates do not contribute the expected contribution to earnings, this could have a negative effect on Hapag-Lloyd's earnings position.

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.

Fluctuations in charter rates and ship and container capacities

Within the framework of a charter contract, a ship owner puts a ship at the disposal of a container liner 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. The effect of this risk on the earnings position is classified as low.

The proportion of own and leased ships in terms of the total capacity (in TEU) of the Hapag-Lloyd fleet as at 31 December 2019 was approximately 62% (previous year: approximately 64%). The remaining 38% are chartered, of which 16 ships are chartered long-term, 40 medium-term and 71 short-term (previous year: 8 ships long-term, 38 medium-term and 69 short-term).

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 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. 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. This could have a positive effect on Hapag-Lloyd's earnings position.

Earnings contribution of efficiency projects
With Strategy 2023, Hapag-Lloyd is striving for quality leadership while aiming to expand its business in selected markets.

If the measures specified as part of Strategy 2023 cannot exploit the expected long-term potential, the resulting discrepancies could have negative effects on its earnings position. The development of earnings and the achievement of corporate goals are closely linked to the successful implementation of efficiency and cost-cutting programmes as part of Strategy 2023. At the time of publication of the strategy Hapag-Lloyd expected the announced cost-cutting 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 jeopardise its ability to achieve its medium-term financial targets.

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

Risks resulting from intense competition and state aid for competitors
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 and would have a negative impact on the earnings position.

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 therefore negatively affect the earnings position.

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.

Membership of alliances

Since 1 April 2017, Hapag-Lloyd has been operating THE Alliance in partnership with Ocean Network Express Pte. Ltd. (Singapore) (ONE) (formerly Kisen Kaisha Ltd. (Japan), Mitsui O.S.K. Lines Ltd. (Japan) (MOL), Nippon Yusen Kabushiki Kaisha Ltd. (Japan)) and Yang Ming Marine Transport Corp. Ltd. (Taiwan) (Yang Ming). In addition, it is planned that the South Korean liner shipping company Hyundai Merchant Marine (HMM) will join the alliance as a full member. THE Alliance is the successor organisation to the Grand Alliance and the G6 Alliance. The partnership is scheduled to last for at least 5 years. Members must remain in the alliance for 36 months and then give 12 months' notice if they wish to leave. In the event of a change of control or insolvency, a member may be excluded from the alliance. The decision to exclude an alliance member must be taken unanimously by the other members.

Hapag-Lloyd's membership of alliances is important for it to be able to cover all the key trades and offer a global service network. The conditions within the alliances could change or other shipping companies could relinquish or not renew their membership. These various alliances have different levels of presence in the respective trades. Further cost advantages within an alliance could result from the expansion of networks and ranges of services for customers. Cost competition could have a negative impact on Hapag-Lloyd's profitability.

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.

The Block Exemption Regulation for consortia (BER) defines special competition regulations for consortia and alliances operating within the European Union and remains valid until April 2020. The work programme of the European Commission provides for an extension of the regulation of four more years. A final decision regarding this is expected at the end of the first quarter. A possible withdrawal of the BER would cause the loss of the clear guidance for internal documentation. The legality of alliances would remain the same.

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. In the event that a member of THE Alliance becomes insolvent, there is an emergency mechanism in place. It provides funds to continue alliance operations.

A possible expansion of the services and collaboration within THE Alliance, for example into hinterland transport, could provide additional growth opportunities and therefore have a positive impact on Hapag-Lloyd's earnings position.

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 Hapag-Lloyd'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 with negative effects on Hapag-Lloyd's earnings position.

Risks from the operation of ships

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

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

Risks arising from the loss of the US flag business

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.

Information Technology

Information and communication technologies are indispensable to Hapag-Lloyd for executing, managing and documenting as well as developing its business processes globally. The availability of its IT systems enables continuous processing of data relating to transport volumes, freight rates, transport costs, container locations and timetables, thereby ensuring the successful management of its fleet and containers, the efficient management of business processes and the effectiveness of costs controls.

An IT systems failure for example due to defective hard- and software components or also due to cyber attacks could hinder business processes and lead to higher costs due to business interruptions. To reduce these risks the IT systems are protected in several ways. Hapag-Lloyd is certified in accordance with ISO 27001 as well as ISO 27701 and has a corresponding information security management system to respond to information security risk. Accounting for these and other risk responses to provide cyber security, the probability of occurrence as well as the negative impact on the financial and earnings position are classified as low.

Financial risks and opportunities

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.

An element of the 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. Standardised software is used for the recording, valuation and reporting of the hedging transactions concluded.

US dollar exchange rate fluctuations

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 exchange rate 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 Indian rupee, Brazilian real, Chinese renminbi, British pound sterling, Canadian dollar, United Arab Emirates dirham, Japanese yen and Australian dollar are also significant currencies.

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.

The materiality of 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.

Liquidity and access to capital markets

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 amounted to EUR 1,032.8 million as at 31 December 2019 (previous year: EUR 1,133.0 million). Arrangements with the banks to provide lines of credit are based on a rolling liquidity plan.

The shares of Hapag-Lloyd AG have been listed on the Prime Standard segment of the Frankfurt Stock Exchange since 6 November 2015. Following its successful IPO, Hapag-Lloyd has strengthened its equity base and improved its access to the capital market. As a listed company, there 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.

Any change to the Hapag-Lloyd Group's rating or that of the bonds it issues could result in modified conditions for raising new funds and could adversely affect the price and the fungibility of the securities it has already issued. A downgrade of the rating could therefore have negative effects on the financing costs of Hapag-Lloyd, which in turn would adversely affect the Groups earnings position. A rating upgrade would have the opposite effects.

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 6 months) by the lenders. Failure to meet these loan-to-value ratios usually means that adequate replacement collateral has to be procured or a corresponding unscheduled repayment has to be made under the loan. The risk could have a negative impact on liquidity and the financial position of Hapag-Lloyd.

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.

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. Please refer to the "(14) Trade accounts receivable and other assets" section of the Notes to the consolidated financial statements for information on the scope and type of credit risks as at the balance sheet date.

Bank default risk management 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 managed by means of internal bank limits and monitored constantly to restrict the risk position by adjusting the limit if necessary.

Interest rate fluctuations

Interest rate fluctuations 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. The probability of occurrence and the negative impact on the financial position are classified as low.

Risks arising from the impairment of goodwill and other intangible assets

As at 31 December 2019, the goodwill recognised in the consolidated statement of financial position amounted to EUR 1,600.7 million (previous year: EUR 1,568.8 million). Other intangible assets totalled a further EUR 1,716.9 million as at the balance sheet date of 31 December 2019 (previous year: EUR 1,773.2 million). Together, this represented 20.5% of the balance sheet total (previous year: 21.9%). 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 2019 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 investments

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 of CTA and therefore also on the earnings position of Hapag-Lloyd and could negatively affect CTA's investment carrying amount.

Legal risks and opportunities

Legal and 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.

These regulations include numerous safety, security and customs regulations in the respective countries of origin, transit and destination. The Company could face considerable fines if it infringes applicable regulations.

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.

In the age of big data and digitalisation, data protection and data privacy are crucial in maintaining confidence between customers and companies. The introduction of the General Data Protection Regulation (GDPR) has bolstered the trend towards more stringent data protection regulations and stricter penalties, particularly in Asia and Latin America. In addition to conventional data protection regulation, various countries and multinational organisations are seeking greater standardisation in the area 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 net impact of such risks on Hapag-Lloyd's earnings before interest and taxes (EBIT) are classified as medium.

Tightening of climate and environmental protection regulations

The International Maritime Organization (IMO) will continue to promote the tightening of existing regulations and the development of further measures to increase the maritime industry's contribution to climate protection efforts. From 2020 onwards, the threshold for sulphur content in marine fuels will be limited to 0.5%. This represents a significant reduction of the original threshold of 3.5%. Hapag-Lloyd has decided to convert the majority of its fleet to low-sulphur fuel in the future. In light of this, the MFR charge was introduced to compensate for the increased fuel prices. The risk is quantified within the assessment of risks due to fuel price fluctuations.

Potential further requirements, that in particular focus on the reduction of greenhouse gas emissions, could long-term result in increased costs and therefore negatively impact the goal achievement of the Strategy 2023.

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 higher expenses with a negative impact on the earning's position if uninsured and can damage the Company's reputation.

As at the reporting date, there was also EUR 9.1 million in contingent liabilities from legal disputes, 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.

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. 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 48.5 million in contingent liabilities from tax risks (previous year: EUR 40,7 million), whereby the probability of occurrence is classified as low overall.

SUMMARISED OVERVIEW OF CORPORATE RISKS AND OPPORTUNITIES

In the view of Hapag-Lloyd's Executive Board, the key risks relate to a possible lower 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.

In the opinion of Hapag-Lloyd's Executive Board, the key opportunities relate to the successful implementation of the efficiency and cost-cutting programmes as part 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 corporate development in its scheduled meetings and in individual discussions.

Risks are assigned to internally defined risk classes (based on internal sensitivity analyses and models) according to their probability of occurrence and net impact. The probability of the potential opportunities 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.

In addition, the probability of occurrence of the risk and opportunity situation was compared with the previous year’s assessment. The details relating to possible effects on the Group net result are netted, i.e. after the effects of risk responses have been accounted for.

The probability of risks and opportunities occurring based on the planning assumptions for the 2020 financial year as at the time of preparation of the management report is classified as follows:	Probability class	Probability range
	Low	≤25%
	Medium	>25% ≤ 50%
	High	>50%

The assessment of the risk and opportunities situation compared to the previous year results from the change in the probability of occurrence:	Change class	Probability change
	Low	significant lower
	Medium	unchanged
	High	significant higher

The impact of risks and opportunities, after considering risk responses, on the Group’s operating result (EBIT) in the financial year is classified as follows:	Impact class	Financial impact
	Low	≤ USD 100 million
	Medium	> USD 100 million ≤ USD 250 million
	High	> USD 250 million

Key risks and opportunities

	Risks			Opportunities		
Risks and opportunities	Potential impact	Probability of occurence	Probability of occurence in 2020 in comparison to the previous year	Potential impact	Probability of occurence	Probability of occurence in 2020 in comparison to the previous year
Fluctuations in transport volumes	Medium	Medium	Equal	Low	Low	Equal
Fluctuations in freight rates	High	Medium	Equal	High	Medium	Equal
US dollar exchange rate fluctuations	Low	Low	Equal	Low	Medium	Lower
Fuel price fluctuations	Medium	Medium	Higher	Medium	Medium	Lower
Liquidity[1]	High	Low	Equal	–	–	–
Earnings contribution of efficiency projects	Medium	Low	Equal	Low	Low	Lower

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

OVERALL ASSESSMENT OF RISKS AND OPPORTUNITIES

The assessment of Hapag-Lloyd's overall risk picture is the result of a consolidated analysis of all of the Group's significant individual risks and opportunities. After the balance sheet date of 31 December 2019, 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 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 2020 financial year, which could also lead to impairments on goodwill, other intangible assets and property, plant and equipment. In light of the continuing macroeconomic and geopolitical uncertainties in 2020, the assessment of overall risk remains unchanged from 2019.

The main risk facing Hapag-Lloyd in 2020 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. This outlook for the full year is subject to a high degree of uncertainty due to the consequences of COVID-19 for regional and global economic developments and therefore also the development of the container transport volume that cannot be quantified at present.

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS OF HAPAG-LLOYD AG (GERMAN COMMERCIAL CODE (HGB))

GENERAL PRINCIPLES / PRELIMINARY REMARKS

The Hapag-Lloyd Group is essentially defined by the activities of the parent company Hapag-Lloyd AG, domiciled in Hamburg.

Hapag-Lloyd AG's performance is fundamentally subject to the same risks and opportunities as the Hapag-Lloyd Group. The outlook for the Hapag-Lloyd Group largely reflects the expectations for Hapag-Lloyd AG due to both the interconnectedness of Hapag-Lloyd AG with its subsidiaries and to the significance of Hapag-Lloyd AG within the Group. For this reason, the preceding comments apply to the Hapag-Lloyd Group as well as to Hapag-Lloyd AG.

The factors influencing Hapag-Lloyd AG's result before interest and taxes and that of the Group differ mainly as a result of the accounting principles used (IFRS and HGB) and particularly in relation to the different functional currencies (euro and US dollar) in this regard. Accordingly, Hapag-Lloyd AG is subject to exchange rate risks resulting in particular from financial debt denominated in USD, while currency risks arise within the Group from financial debt obtained in EUR.

The annual financial statements of Hapag-Lloyd AG were prepared in accordance with the German Commercial Code (HGB) and in accordance with the supplementary provisions of the German Stock Corporation Act (AktG) and were audited by the external auditors KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg. They are published in the online version of the German Federal Gazette.

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), Hapag-Lloyd Denmark (Holte, Denmark) and Hapag-Lloyd Poland (Gdansk, Poland).

As at 31 December 2019, Hapag-Lloyd AG's fleet comprised 231 container ships, 56 of which it owns (previous year: 220 ships, 56 of which it owned). The number of employees of Hapag-Lloyd AG was 3,486 on the reporting date (previous year: 3,381).

ECONOMIC REPORT

Report on the Hapag-Lloyd Group's forecast development in 2019 compared with the forecast

For the 2019 financial year, the forecast report of the annual financial statements and management report 2018 of the Hapag-Lloyd AG assumed an improvement in earnings from operating activities. With a profit from operating activities of EUR 340.8 million in 2019, the result was significantly higher than the previous year's result from operating activities of EUR –34.3 milion.

EARNINGS, FINANCIAL AND NET ASSET POSITION

The general economic and sector-specific conditions of Hapag-Lloyd AG are essentially the same as those of the Group and are described in the Economic report of the combined management report.

EARNINGS POSITION

In the 2019 financial year, a higher transport volume and a slight increase in freight rates as well as a higher increase in revenues compared to transport expenses, resulted in a positive effect on Hapag-Lloyd AG's earnings. At the same time, the average USD/EUR exchange rate was stronger than in the previous year (2019: USD 1.12/EUR, previous year: USD 1.18/EUR), which also had a positive effect on earnings. The closing rate of the US dollar on 31 December 2019 was USD 1.12/EUR (previous year: USD 1.15/EUR). These developments increased earnings from operating activities by EUR 375.1 million overall to EUR 340.8 million. In total, Hapag-Lloyd AG recorded a net profit of EUR 222.9 million in the 2019 financial year (previous year: net loss of EUR 187.0 million).

Notes to the income statement

million EUR	1.1.–31.12.2019	1.1.–31.12.2018[1]
Revenue	12,525.8	11,587.8
Decrease/increase in capitalised expenses for unfinished voyages	–44.1	2.4
Other own work capitalised	6.0	2.8
Other operating income	628.5	812.6
Transport expenses	–10,565.4	–10,082.5
Personnel expenses	–286.5	–277.4
Depreciation, amortisation and impairment	–451.8	–433.8
Other operating expenses	–1,471.7	–1,646.2
Operating result	**340.8**	**–34.3**
Financial result	–77.6	–120.2
thereof interest result	–170.6	–198.4
Taxes on income	–7.4	–5.3
Result after taxes	**255.8**	**–159.8**
Other taxes	–32.9	–27.2
Net gain or loss for the year	222.9	–187.0
Retained earnings brought forward	208.8	422.2
Withdrawal from the capital reserve	–	–
Balance sheet profit	**431.7**	**235.2**
EBIT	**397.1**	**12.2**
EBIT margin (%)	**3.2**	**0.1**
EBITDA	**848.9**	**446.0**
EBITDA margin (%)	**6.8**	**3.8**

[1] The mapping of items within the operating result has been changed. Expenses that were previously netted against revenue have been recognised as transport expenses or other operating expenses. Additionally expenses has been regrouped from other operating expenses to transport expenses. The previous year's values have been adjusted accordingly.

In the 2019 financial year, revenue rose by 8.1% to EUR 12,525.8 million (previous year: EUR 11,587.8 million). This was due to higher transport volumes, a slight increase in the average freight rate as well as rate of exchange effects. Hapag-Lloyd AG transported a total of 11,913 TTEU in the financial year (previous year: 11,750 TTEU), which was an increase of 163 TTEU, or 1.4%. The average freight rate for the 2019 financial year stood at USD 1,067 / TEU (previous year: USD 1,038 / TEU) and therefore rose by USD 29 / TEU, or 2.8%. In addition, Hapag-Lloyd AG recorded an increase in income from inland container transport.

Other operating income fell from EUR 812.6 million to EUR 628.5 million in the reporting year. The main reason for this was lower exchange rate gains compared to the prior year period in the amount of EUR 495.2 million (previous year: EUR 668.2 million). These primarily resulted from the measurement of foreign currency receivables and liabilities with affiliated companies due to the change in the USD / EUR exchange rate. In addition, income from derivatives decreased by EUR 28.1 million.

In the 2019 financial year, transport expenses rose by EUR 482.9 million to EUR 10,565.4 million (previous year: EUR 10,082.5 million), representing an increase of 4.8%. Within transport expenses, expenses for raw materials and supplies decreased by EUR 40.0 million to EUR 1,579.8 million (previous year: EUR 1,619.8 million) in particular as a result of the slight drop in the average bunker consumption price. By contrast, the slight rise in transport volume as well as higher terminal costs and costs for chartering of ships increased the cost of purchased services by EUR 522.9 million to EUR 8,985.6 million.

Personnel expenses rose year-on-year by 3.3% to EUR 286.5 million (previous year: EUR 277.4 million), primarily as a result of growth in the number of employees at Hapag-Lloyd AG and the associated increase in wages and salaries. As at 31 December 2019, a total of 3,486 people (including apprentices) were employed at Hapag-Lloyd (previous year: 3,381). At 2.3%, there was a slight drop in the personnel expenses ratio compared to 2.4% in the 2018 financial year.

Depreciation, amortisation and impairment of EUR 451.8 million was recorded in the 2019 financial year (previous year: EUR 433.8 million). The increase here essentially resulted from higher depreciation due to investments in containers during the financial year.

The fall in other operating expenses of EUR 174.5 million to EUR 1,471.7 million was mainly caused by significantly lower exchange rate losses, including bank charges, in the amount of EUR 628.8 million (previous year: EUR 884.2 million). These were largely due to the valuation of receivables and liabilities denominated in USD on the reporting date and to lower exchange rate effects of currency forward contracts. Netted, the exchange rate-related other operating income and other operating expenses resulted in a decrease in earnings of EUR 133.6 million (previous year: EUR 216.0 million).

The operating result in the last financial year was EUR 340.8 million (previous year: EUR –34.3 million). Earnings before interest and taxes also include income from profit transfer agreements, income from investments, amortisation of financial assets and marketable securities, expenses from the transfer of losses and other taxes and came to EUR 397.1 million as at the balance sheet date (previous year: EUR 12.2 million). Compared to the Group's EBIT of EUR 811.4 million, the German Commercial Code (HGB) earnings are significantly lower. This was primarily caused by the inclusion of subsidiary earnings within the Group and negative exchange rate effects from the translation of financial liabilities due to the development of the USD/EUR exchange rate. Earnings before interest, taxes, depreciation and amortisation (EBITDA), defined as EBIT plus depreciation and amortisation, came to EUR 848.9 million (previous year: EUR 446.0 million) and were likewise significantly lower than the figure for the Group of EUR 1,985.8 million (previous year: EUR 1,138.6 million). In addition to the primary reasons detailed above, the accounting for lease contracts according to IFRS 16 increases this difference between the individual financial statements of Hapag-Lloyd AG and the Group from financial year 2019 onwards because within the individual financial statements of Hapag-Lloyd AG the lease expenses are included within the transport expenses.

In the 2019 financial year, the financial result improved by EUR 42.6 million to EUR –77.6 million (previous year: EUR –120.2 million). The main reason for this was the rise in interest income as a result of the first-time recognition of a guarantee fee with a company within the Group in 2019 in the amount of EUR 29.2 million. The early redemption of an EUR bond resulted in one time effects for redemption costs, the disposal of the associated derivative and premium amounts, which were recognised in a total of EUR 21.8 million in interest expenses and EUR 6.5 million in interest income. In addition, income from investments increased from EUR 72.5 million to EUR 89.5 million.

A net profit for the financial year of EUR 222.9 million was reported in 2019 (previous year: net loss for the financial year of EUR 187.0 million). Including retained earnings carried forward of EUR 208.8 million after distribution of a dividend of EUR 26.4 million, the Company recorded retained earnings of EUR 431.7 million (previous year: EUR 235.2 million).

FINANCIAL AND NET ASSET POSITION

Changes in the asset structure

million EUR	31.12.2019	31.12.2018
Assets		
Fixed assets	8,152.5	8,167.6
thereof property, plant and equipment	5,232.5	5,171.6
Current assets	1,971.0	1,895.8
thereof cash-in-hand, bank balances and cheques	347.4	440.5
Prepaid expenses	13.1	8.7
Total assets	**10,136.6**	**10,072.1**
Equity and liabilities		
Equity	3,105.4	2,908.9
Provisions	974.4	964.3
Financial liabilities	1,665.6	2,179.4
thereof short-term	347.3	226.9
Sundry liabilities	4,388.5	4,010.6
thereof short-term	2,321.1	2,171.4
Deferred income	2.7	8.9
Total equity and liabilities	**10,136.6**	**10,072.1**
Net financial position (liquid assets – financial debt)	–1,318.2	–1,738.9
Equity ratio (%)	30.6	28.9

Compared to the previous year, Hapag-Lloyd AG’s balance sheet total increased by EUR 64.5 million, from EUR 10,072.1 million to EUR 10,136.6 million as at 31 December 2019. While fixed assets fell by EUR 15.1 million to EUR 8,152.5 million, current assets rose by EUR 75.2 million to EUR 1,971.0 million.

Within fixed assets, intangible fixed assets decreased from EUR 1,113.3 million to EUR 1,045.5 million, which was essentially due to the amortisation of goodwill in the amount of EUR 74.1 million. By contrast, property, plant and equipment increased by EUR 60.8 million to EUR 5,232.5 million. This includes investments of EUR 457.4 million relating primarily to investments in containers of EUR 281.0 million, the acquisition of a ship from the Hapag-Lloyd Group in the amount of EUR 97.2 million and further replacement investments and retrofitting of ocean-going vessels. This effect was offset by depreciation on property, plant and equipment totalling EUR 377.7 million and disposals of containers at their carrying amount of EUR 18.9 million.

The change in current assets resulted primarily from the increase in accounts receivable and other assets of EUR 173.2 million to EUR 1,255.4 million. In addition to trade accounts receivable totalling EUR 351.1 million (previous year: EUR 404.0 million), they primarily included accounts receivable from affiliated companies in the amount of EUR 699.3 million (previous year: EUR 493.9 million). The increase in intercompany accounts receivable was due to the increase of the shareholder loan to the subsidiary Hapag-Lloyd Special Finance relating to the programme to securitise trade accounts receivable.

Hapag-Lloyd AG's cash and cash equivalents as at 31 December 2019 were EUR 347.4 million (previous year: EUR 440.5 million).

As at 31 December 2019, Hapag-Lloyd AG had equity totalling EUR 3,105.4 million (previous year: EUR 2,908.9 million). The year-on-year change was partly due to a net profit for the year of EUR 222.9 million (previous year: net loss for the year of EUR 187.0 million) and partly due to a distribution from the previous year's retained earnings in the amount of EUR 26.4 million. Including remaining retained earnings carried forward from the previous year of EUR 208.8 million, as at 31 December 2019 there were retained earnings of EUR 431.7 million (previous year: EUR 235.2 million). The equity ratio was approximately 31% as at 31 December 2019 (previous year: approximately 29%).

Provisions rose slightly from EUR 964.3 million to EUR 974.4 million in the reporting period. This included increases in provisions for maintenance for leased containers of EUR 8.0 million, for personnel expenses of EUR 7.8 million and for outstanding invoices of EUR 21.7 million. The provisions for onerous currency forward contracts have decreased by EUR 52.1 million compared to previous year.

Financial liabilities came to EUR 1,665.6 million at the balance sheet date (previous year: EUR 2,179.4 million). They comprise a bond issued by Hapag-Lloyd AG and liabilities to banks. The sharp decrease in financial debt resulted from debt repayments during the reporting year totalling EUR 649.3 million. This included the early redemption of a EUR bond issued in 2017 in the amount of EUR 450.0 million. The utilisation of credit facilities in the amount of EUR 139.7 million had an offsetting effect. More detailed information on individual financing activities is provided under Group financial position. The balance sheet date valuation effects relating to financial liabilities denominated in US dollars resulted in a EUR 10.3 million increase in financial liabilities.

Sundry liabilities increased from EUR 4,010.6 million to EUR 4,388.5 million and essentially comprise liabilities to affiliated companies in the amount of EUR 2,385.5 million (previous year: EUR 2,278.3 million), miscellaneous loans and other financial debt in the amount of EUR 1,250.1 million (previous year: EUR 985.3 million) and trade accounts payable in the amount of EUR 644.4 million (previous year: EUR 600.6 million). The main reasons for the increase of EUR 377.9 million of sundry liabilities were the payments for the new sale and leaseback transactions for containers and for a ship totalling EUR 373.6 million and an increase of EUR 91.5 million in intercompany trade accounts payable with various subsidiaries. These were counteracted by repayments of loans and other financial debt in the amount of EUR 124.1 million, which reduced sundry liabilities. Regarding further information especially in respect to nature and maturity structure of the liabilities we refer to note (10) Liabilities within the Notes to the individual financial statements of Hapag-Lloyd AG.

Hapag-Lloyd AG manages the Hapag-Lloyd Group's liquidity centrally, based on a Group-wide liquidity concept. This concept requires that a significant portion of the Group's liquidity is concentrated within Hapag-Lloyd AG. An important instrument of this is the cash pool located at Hapag-Lloyd AG. The amount of Hapag-Lloyd AG's liquidity position therefore reflects the global business activities of Hapag-Lloyd AG and other Group companies.

Hapag-Lloyd AG's solvency was fully guaranteed at all times in the last financial year by cash inflows from operating activities, a portfolio of cash and cash equivalents, and syndicated credit facilities. The Company had a liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) totalling EUR 868.7 million as at 31 December 2019 (previous year: EUR 916.4 million). At the balance sheet date, a sum totalling EUR 10.0 million with a term of up to three months was deposited in pledged accounts (previous year: EUR 10.4 million) and was therefore subject to a limitation on disposal.

Hapag-Lloyd AG is subject to transaction risks resulting in particular from financial debt denominated in USD.

To hedge euro exchange rate risks, derivative hedging instruments are concluded, the hedging effect of which is only felt within the Group. 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 are partly limited using derivative interest rate hedging instruments.

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

The off-balance-sheet obligations of Hapag-Lloyd AG are described in notes (12) Contingencies and (13) Other financial obligations within the Notes to the financial statements of Hapag-Lloyd AG.

OUTLOOK, RISK AND OPPORTUNITY REPORT

The outlook for the Hapag-Lloyd Group largely reflects the expectations for Hapag-Lloyd AG due both to the interconnectedness of Hapag-Lloyd AG with its subsidiaries and to the significance of Hapag-Lloyd AG within the Group. For this reason, the comments on the outlook for the Hapag-Lloyd Group presented in the outlook, risk and opportunity report also apply in principle to Hapag-Lloyd AG. The factors influencing Hapag-Lloyd AG's operating result and that of the Group differ mainly as a result of the accounting principles used (IFRS and HGB) and of the different functional currencies (euro and US dollar).

Due to the development of the operating result of the operating activities of Hapag-Lloyd AG before effects of foreign currency valuation as at the balance sheet date 2019, earnings by operating activities should be expected to match the previous year's level in the 2020 financial year, assuming an unchanged USD/EUR exchange rate at the balance sheet date of 31 December 2020. This statement is to be considered in connection with the outlook for Hapag-Lloyd Group for the 2020 financial year.

The performance of Hapag-Lloyd AG largely depends on the Hapag-Lloyd Group's risks and opportunities, which are presented in detail in the outlook, risk and opportunity report in the combined management report. Furthermore, the following deviating or supplementary risks exist:

- From the perspective of the individual financial statements of Hapag-Lloyd AG in accordance with the German Commercial Code (HGB), any strengthening of the US dollar represents a further significant risk, in particular for the measurement effects of financial debt denominated in US dollars on the reporting date. The probability of occurrence of such risks and their impact on Hapag-Lloyd AG's earnings before interest and taxes (EBIT) are classified as medium. By contrast, any weakening of the US dollar represents an opportunity.
- A sustained loss of customer groups that were acquired through taking over the customer base of CP Ships Limited, CSAV and UASC and a sustained deterioration in the earnings position of the companies held as financial investments could lead, respectively, to an impairment of capitalised goodwill in Hapag-Lloyd AG's statement of financial position or an impairment of the investments' carrying amounts. This could have a significant negative effect on Hapag-Lloyd AG's earnings position. The probability of occurrence of such risks is classified as low.

As a rule, Hapag-Lloyd AG participates in the risks and opportunities of its investments and subsidiaries in accordance with its respective stake. Hapag-Lloyd AG is included in the Group-wide risk management system and the internal control system of the Hapag-Lloyd Group. For more information, please refer to the Section "Description of the significant characteristics of the accounting ICS / RMS pursuant to Section 315 (4) of the German Commercial Code (HGB)" in the combined management report.

REPORT BY THE EXECUTIVE BOARD ON RELATIONSHIPS WITH AFFILIATED COMPANIES

Pursuant to Section 312 of the German Stock Corporation Act (AktG), the Executive Board of Hapag-Lloyd AG prepared a report on relationships with affiliated companies for the period from 1 January to 31 December 2019, which contains the following conclusion: "Our Company received appropriate compensation for each legal transaction listed in the report on relationships with affiliated companies in accordance with the circumstances known to us when the legal transactions were conducted. No actions required by or in the interests of the controlling companies or their affiliated companies subject to a reporting obligation were taken or omitted."

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 aims to incentivise long-term commitment to the Company.

Short-term variable remuneration was adjusted for the 2019 financial year. For further details, see section 2.2 a).

1.1 Changes to the Executive Board

In the 2019 financial year, Dr Maximilian Rothkopf was appointed as an Executive Board member with effect from 1 May 2019. As the new Chief Operating Officer (COO), Dr Rothkopf succeeded Executive Board member Anthony J. Firmin, who retired on 30 June 2019. In addition, Mark Frese was appointed as a new Executive Board member with effect from 25 November 2019. As the new Chief Financial Officer (CFO), he succeeded Nicolás Burr, who stepped down with effect from 29 February 2020.

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 12 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 2018 financial year as well as his living costs for three months. In each case, 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.

For the 2018 financial year, the annual bonus of the ordinary Executive Board members was 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 for the 2018 financial year was equal to 0.1% of the Group's EBIT, capped at EUR 600,000 (gross).

In line with the Supervisory Board's resolution on 6 November 2018, short-term variable remuneration was adjusted as and from the 2019 financial year as follows: as a basic principle 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 EUR 600,000 (gross) per annum. An exemption from this is the variable bonus of Mr Frese, which is 0.055% of the Company's earnings before interest and taxes (EBIT), capped at EUR 660,000 (gross) per year, and the variable bonus of Mr Firmin for which no adjustment was made. The variable bonus of the CEO is 0.075% of the Company's earnings before interest and taxes (EBIT). This is capped at EUR 900,000 (gross) per year.

Mr Schlotfeldt was granted a guaranteed bonus of EUR 25,000 (gross) for every full calendar month in which he worked 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. Similar to this agreement, Dr Rothkopf has been granted a guaranteed bonus of EUR 25,000 (gross), as has Mr Mark Frese in the amount of EUR 27,500 (gross), for every full calendar month in which they work for the Company as Executive Board members in the first year of their contract. If the Group's operating result leads to a higher bonus based on the calculation method outlined above, the higher amount is paid in each case.

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 as a basic principle.

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 0, 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 0, 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 basic principle. 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.

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 2019 long-term incentive plan (LTIP)

Allotment for 2019 financial year

	Numbers 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)	23,522	29.76	700,000
Nicolás Burr	16,802	29.76	500,000
Anthony J. Firmin (Member of the Executive Board until 30 June 2019)	16,802	29.76	500,000
Mark Frese (Member of the Executive Board since 25 November 2019)	1,682	29.76	50,000
Dr Maximilian Rothkopf (Member of the Executive Board since 1 May 2019)	11,190	29.76	333,333
Joachim Schlotfeldt (Member of the Executive Board since 1 April 2018)	16,802	29.76	500,000
Total	**86,800**		**2,583,333**

1 The number of shares allotted is commercially rounded to the nearest whole number in accordance with the terms and conditions of the 2019 LTIP.

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 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 (Member of the Executive Board until 30 June 2019)	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.

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

	LTIP 2016–2019	
	Total personnel expense recognised	
EUR	2019	2018
Rolf Habben Jansen (Chairman of the Executive Board)	1,133,994	664,577
Nicolás Burr	1,522,606	845,043
Anthony J. Firmin (Member of the Executive Board until 30 June 2019)	674,104	1,006,939
Mark Frese (Member of the Executive Board since 25 November 2019)	4,834	0
Dr Maximilian Rothkopf (Member of the Executive Board since 1 May 2019)	165,116	0
Thorsten Haeser (Member of the Executive Board until 31 March 2018)	0	1,180,658
Joachim Schlotfeldt (Member of the Executive Board since 1 April 2018)	672,190	36,284
Total	**4,172,844**	**3,733,501**

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 year and EUR 69,000 per year 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 2019 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 7.4 million (2018: EUR 6.8 million). This includes share-based payments with a fair value of EUR 2.6 million (2018: EUR 2.5 million) on the date the remuneration was granted. The active Executive Board members were granted a total of 86,800 virtual shares in the financial year (2018: 72,744).

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

EUR	Fixed remuneration		Variable remuneration		Total remuneration
			Components with short-term incentive effect	Components with long-term incentive effect	
	Fixed salary	Fringe benefits	Bonuses	Share-based remuneration (LTIP 2018, LTIP 2019)	
Rolf Habben Jansen (Chairman of the Executive Board)					
2019	**750,000**	**172,078**	**608,534**	**700,000**	**2,230,612**
2018	750,000	172,053	443,039	700,000	2,065,092
Nicolás Burr					
2019	**450,000**	**389,830**	**405,689**	**500,000**	**1,745,519**
2018	450,000	387,694	287,976	500,000	1,625,670
Anthony J. Firmin (Member of the Executive Board until 30 June 2019)					
2019	**225,000**	**11,039**	**200,000**	**500,000**	**936,039**
2018	450,000	22,053	287,976	500,000	1,260,029
Mark Frese (Member of the Executive Board since 25 November 2019)					
2019	**60,000**	**14,404**	**37,188**	**50,000**	**161,592**
Dr Maximilian Rothkopf (Member of the Executive Board since 1 May 2019)					
2019	**300,000**	**72,816**	**270,459**	**333,000**	**976,275**
Joachim Schlotfeldt (Member of the Executive Board since 1 April 2018)					
2019	**450,000**	**12,842**	**405,689**	**500,000**	**1,368,531**
2018	337,500	29,519	225,000	375,000	967,019
Total 2019	**2,235,000**	**673,009**	**1,927,559**	**2,583,000**	**7,418,568**
Total 2018	1,987,500	611,319	1,243,991	2,075,000	5,917,810[1]

[1] In the previous year, the Executive Board's total emoluments included the emoluments of Thorsten Haeser, who stepped down from the Executive Board on 31 March 2018. As a result, the sum total of the Executive Board's emoluments for 2018 in this table is different to the figure for the Executive Board's emoluments in 2018 in section 2.5 (a) of this remuneration report which includes Thorsten Haeser's emoluments.

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 2019 or 31 December 2018.

With regard to pension commitments, the following obligations exist:

Pension plans (pension plans and death grants) pursuant to IFRS and HGB

EUR	Present value (IFRS)	Service cost (IFRS)	Present value (HGB)	Personnel expenses (HGB)
Rolf Habben Jansen (Chairman of the Executive Board)				
2019	**6,920**	**1,347**	**6,467**	**387**
2018	5,955	1,550	5,756	666
Nicolás Burr				
2019	**3,082**	**636**	**2,734**	**352**
2018	2,342	767	2,209	322
Anthony J. Firmin (Member of the Executive Board until 30 June 2019)[1]				
2019	**2,671,834**	**105,984**	**2,114,571**	**84,766**
2018	2,233,636	203,186	1,847,674	170,369
Mark Frese (Member of the Executive Board since 25 November 2019)				
2019	**522**	**0**	**501**	**501**
Dr Maximilian Rothkopf (Member of the Executive Board since 1 May 2019)				
2019	**567**	**0**	**501**	**501**
Joachim Schlotfeldt (Member of the Executive Board since 1 April 2018)[1]				
2019	**2,466,003**	**230,121**	**1,807,284**	**157,473**
2018	1,869,197	156,395	1,466,629	–50,888
Total 2019	**5,148,928**	**338,088**	**3,932,058**	**243,980**
Total 2018	4,111,130	361,898	3,322,268	120,469

[1] The figures disclosed include amounts resulting from commitments prior to appointment to the Executive Board (cf. the explanations in section 2.3).

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	2018	2019	2019 (min.)	2019 (max.)
Fixed salary	750,000	750,000	750,000	750,000
Fringe benefits	172,053	172,078	172,078	172,078
Total	**922,053**	**922,078**	**922,078**	**922,078**
One-year variable remuneration	443,039	608,534	0	900,000
Multiple-year variable remuneration	700,000	700,000	0	1,050,000
LTIP 2018 (term: 2018-2021)	700,000	0	0	0
LTIP 2019 (term: 2019-2022)	0	700,000	0	1,050,000
Total	**1,143,039**	**1,308,534**	**0**	**1,950,000**
Service cost	1,550	1,347	1,347	1,347
Total remuneration	**2,066,642**	**2,231,959**	**923,425**	**2,873,425**

Remuneration granted	Mark Frese (Member of the Executive Board since 25 November 2019)			
EUR	2018	2019	2019 (min.)	2019 (max.)
Fixed salary	0	60,000	60,000	60,000
Fringe benefits	0	14,404	14,404	14,404
Total	**0**	**74,404**	**74,404**	**74,404**
One-year variable remuneration	0	37,188	27,500	55,000
Multiple-year variable remuneration	0	50,000	0	750,000
LTIP 2018 (term: 2018-2021)	0	0	0	0
LTIP 2019 (term: 2019-2022)	0	50,000	0	750,000
Total	**0**	**87,188**	**27,500**	**805,000**
Service cost	0	0	0	0
Total remuneration	**0**	**161,592**	**101,904**	**879,404**

	Nicolás Burr				Anthony J. Firmin (Member of the Executive Board until 30 June 2019)			
	2018	2019	2019 (min.)	2019 (max.)	2018	2019	2019 (min.)	2019 (max.)
	450,000	450,000	450,000	450,000	450,000	225,000	225,000	225,000
	387,694	389,830	389,830	389,830	22,053	11,039	11,039	11,039
	837,694	**839,830**	**839,830**	**839,830**	**472,053**	**236,039**	**236,039**	**236,039**
	287,976	405,689	0	600,000	287,976	200,000	0	200,000
	500,000	500,000	0	750,000	500,000	500,000	0	750,000
	500,000	0	0	0	500,000	0	0	0
	0	500,000	0	750,000	0	500,000	0	750,000
	787,976	**905,689**	**0**	**1,350,000**	**787,976**	**700,000**	**0**	**950,000**
	767	636	636	636	203,186	105,984	105,984	105,984
	1,626,437	**1,746,155**	**840,466**	**2,190,466**	**1,463,215**	**1,042,023**	**342,023**	**1,292,023**

	Dr Maximilian Rothkopf (Member of the Executive Board since 1 May 2019)				Joachim Schlotfeldt (Member of the Executive Board since 1 April 2018)			
	2018	2019	2019 (min.)	2019 (max.)	2018	2019	2019 (min.)	2019 (max.)
	0	300,000	300,000	300,000	337,500	450,000	450,000	450,000
	0	72,816	72,816	72,816	29,519	12,842	12,842	12,842
	0	**372,816**	**372,816**	**372,816**	**367,019**	**462,842**	**462,842**	**462,842**
	0	270,459	200,000	400,000	225,000	405,689	75,000	600,000
	0	333,000	0	750,000	375,000	500,000	0	750,000
	0	0	0	0	375,000	0	0	0
	0	333,000	0	750,000	0	500,000	0	750,000
	0	**603,459**	**200,000**	**1,150,000**	**600,000**	**905,689**	**75,000**	**1,350,000**
	0	0	0	0	156,395	230,121	230,121	230,121
	0	**976,275**	**572,816**	**1,522,816**	**1,123,414**	**1,598,652**	**767,963**	**2,042,963**

Amounts paid for the financial year

Remuneration disbursed	Rolf Habben Jansen (Chairman of the Executive Board)		Nicolás Burr		Anthony J. Firmin (Member of the Executive Board until 30 June 2019)	
EUR	2019	2018	2019	2018	2019	2018
Fixed salary	750,000	750,000	450,000	450,000	225,000	450,000
Fringe benefits	172,078	172,053	389,830	387,694	11,039	22,053
Total	**922,078**	**922,053**	**839,830**	**837,694**	**236,039**	**472,053**
One-year variable remuneration	608,534	443,039	405,689	287,976	200,000	287,976
Multiple-year variable remuneration	1,050,000	0	750,000	0	2,989,062	0
LTIP 2015 (term: 2015–2018)	1,050,000	0	750,000	0	750,000	0
LTIP 2016 (term: 2016–2019)	0	0	0	0	750,000	0
LTIP 2017 (term: 2017–2020)	0	0	0	0	750,000	0
LTIP 2018 (term: 2018–2021)	0	0	0	0	491,707	0
LTIP 2019 (term: 2019–2022)	0	0	0	0	247,355	0
Other	0	0	0	0	0	0
Total	**1,658,534**	**443,039**	**1,155,689**	**287,976**	**3,189,062**	**287,976**
Service cost	1,347	1,550	636	767	105,984	203,186
Total remuneration	**2,581,959**	**1,366,642**	**1,996,155**	**1,126,437**	**3,531,085**	**963,215**

	Mark Frese (Member of the Executive Board since 25 November 2019)		Dr Maximilian Rothkopf (Member of the Executive Board since 1 May 2019)		Joachim Schlotfeldt (Member of the Executive Board since 1 April 2018)	
	2019	2018	2019	2018	2019	2018
	60,000	0	300,000	0	450,000	337,500
	14,404	0	72,816	0	12,842	29,519
	74,404	**0**	**372,816**	**0**	**462,842**	**367,019**
	37,188	0	270,459	0	405,689	225,000
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
	37,188	**0**	**270,459**	**0**	**405,689**	**225,000**
	0	0	0	0	230,121	156,395
	111,592	**0**	**643,275**	**0**	**1,098,652**	**748,414**

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

The total remuneration for former members of the Executive Board and their surviving dependants amounted to EUR 0.9 million in the 2019 financial year (previous year: EUR 1.1 million). Provisions created for current pensions and entitlements to pensions for former Executive Board members and their surviving dependants totalled EUR 30.4 million under IFRS in the 2019 financial year (previous year: EUR 24.5 million) and EUR 22.8 million under HGB (previous year: EUR 19.7 million).

3. REMUNERATION OF THE SUPERVISORY BOARD

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

A resolution was passed at the Annual General Meeting on 12 June 2019 to adjust the fixed annual remuneration of the Supervisory Board, the Audit and Financial Committee and the Presidential and Personnel Committee as well as the attendance fee with effect from 28 June 2019 (change to articles of association entered in the commercial register). The fixed annual remuneration of the Supervisory Board is EUR 180,000 (previously: EUR 150,000) for the Chairman, EUR 90,000 (previously: EUR 75,000) for deputies and EUR 60,000 (previously: EUR 50,000) for other members. The Chairman of the Audit and Financial Committee receives additional remuneration of EUR 40,000 (previously: EUR 20,000) and the other committee members each receive EUR 20,000 (previously: EUR 10,000) for every full financial year of their membership. The Chairman of the Presidential and Personnel Committee receives additional remuneration of EUR 30,000 (previously: EUR 20,000) and the other committee members each receive EUR 15,000 (previously: 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 1,500 (previously: 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	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Felix Albrecht	46,667	0	0	0	3,900	0	50,567	0
Turqi Alnowaiser	55,000	45,833	15,000	9,167	6,000	2,400	76,000	57,400
Sheikh Ali Al-Thani	55,000	50,000	12,500	10,000	5,400	2,100	72,900	62,100
Christine Behle	0	56,250	0	7,500	0	1,500	0	65,250
Michael Behrendt	165,000	150,000	25,000	20,000	5,400	1,800	195,400	171,800
Jutta Diekamp	55,000	50,000	12,500	10,000	5,400	1,800	72,900	61,800
Nicola Gehrt	55,000	50,000	0	0	3,900	1,800	58,900	51,800
Karl Gernandt	82,500	62,500	27,500	25,000	8,700	2,700	118,700	90,200
Oscar Hasbún	55,000	62,500	30,000	15,000	7,500	3,000	92,500	80,500
Dr Rainer Klemmt-Nissen	55,000	50,000	27,500	20,000	9,000	3,000	91,500	73,000
Joachim Kramer	8,333	50,000	0	0	0	1,800	8,333	51,800
Annabell Kröger	55,000	50,000	15,000	10,000	7,500	3,000	77,500	63,000
Arnold Lipinski	55,000	50,000	27,500	20,000	9,000	3,000	91,500	73,000
Sabine Nieswand	55,000	50,000	12,500	10,000	5,400	1,800	72,900	61,800
Francisco Pérez	55,000	50,000	12,500	10,000	5,400	1,800	72,900	61,800
Klaus Schroeter	82,500	54,167	27,500	11,667	9,000	3,000	119,000	68,833
Maya Schwiegers-hausen-Güth	55,000	12,500	0	0	3,900	300	58,900	12,800
Uwe Zimmermann	55,000	50,000	27,500	20,000	9,000	2,400	91,500	72,400
Total	**1,045,000**	**943,750**	**272,500**	**198,333**	**104,400**	**37,200**	**1,421,900**	**1,179,283**

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 2019 or 31 December 2018. Furthermore, the Supervisory Board members did not receive any remuneration in 2019 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 Annual General Meeting (Section 15 (1) of the articles of association).

2. Restrictions which affect voting rights or the transfer of shares

On 16 April 2014, CSAV Germany Container Holding GmbH, Hamburg ("CG Hold Co"), HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, Hamburg ("HGV"), and Kühne Maritime GmbH, Hamburg ("Kühne") (CG Hold Co, HGV and Kühne also jointly referred to as the "Anchor Shareholders") entered into a shareholders' agreement 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 uniform voting, the Anchor Shareholders intend to pass a resolution on how the pooled votes shall be cast prior to Annual General 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 Anchor Shareholders will be in a position to exert a significant influence on the Annual General Meeting and, consequently, on matters decided by the Annual General Meeting, including the appointment of the Company's Supervisory Board, the distribution of dividends or proposed capital increases.

Although the New Shareholders' Agreement shall have a fixed term until 30 November 2024, the Anchor Shareholders are free to dispose of their shares. The parties of the New Shareholders' Agreement 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 Quiñenco 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) of the German Securities Trading Act (WpHG). The companies through which the voting rights are held are (starting with the top subsidiary): Qatar Holding LLC, Doha, Qatar, Qatar Holding Luxembourg II S.à.r.l., Luxembourg, Qatar Holding Netherlands B.V., Amsterdam, Netherlands, Qatar Holding Germany GmbH, Frankfurt am Main, Germany.

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 no fewer 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 Annual General Meeting in accordance with Section 179 of the German Stock Corporation Act (AktG). The resolution of the Annual General Meeting requires a majority of at least three quarters of the share capital represented when the resolution is being adopted; Sections 179 ff. of the German Stock Corporation Act (AktG) are applicable. In accordance with Section 20 of the articles of association, the Supervisory Board is authorised to make amendments to the articles of association which only affect the wording. The Supervisory Board is also entitled to amend the wording of the articles of association after a share capital increase from the Authorised Capital 2017 and after the authorisation period expires, in accordance with the amount of the capital increase.

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

In accordance with Section 5 (3) of the articles of association, the Executive Board, subject to the approval of the Supervisory Board, is authorised to increase the Company's share capital by up to EUR 11,282,647.00, 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 Executive Board granted by the Annual General Meeting to buy back own shares.

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

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

a) As part of the bond issued by the Company with a value totalling EUR 450 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 4,827 million (approximately USD 5,417 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 521 million (around USD 585 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.

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

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.

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.

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

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

The combined separate non-financial report as per Section 289b (3) and 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/de/about-us/sustainability/sustainability-report.html, and is not part of the combined management report.

Hamburg, 10 March 2020

Hapag-Lloyd Aktiengesellschaft
Executive Board

Rolf Habben Jansen

Mark Frese | Dr Maximilian Rothkopf | Joachim Schlotfeldt

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

of Hapag-Lloyd AG for the period 1 January to 31 December 2019

million EUR	Notes	1.1.–31.12.2019	1.1.–31.12.2018[1]
Revenue	(1)	12,607.9	11,617.5
Transport expenses	(2)	9,707.0	9,586.4
Personnel expenses	(3)	682.5	645.0
Depreciation, amortisation and impairment	(4)	1,174.4	695.1
Other operating result	(5)	–268.8	–290.9
Operating result		**775.2**	**400.1**
Share of profit of equity-accounted investees	(13)	35.5	30.7
Result from investments and securities	(6)	0.7	12.7
Earnings before interest and taxes (EBIT)		**811.4**	**443.5**
Interest income and similar income	(7)	12.2	15.8
Interest expenses and similar expenses	(7)	408.9	381.0
Other financial items	(8)	1.6	–0.5
Earnings before taxes		**416.3**	**77.8**
Income taxes	(9)	42.9	31.8
Group profit/loss		**373.4**	**46.0**
thereof attributable to shareholders of Hapag-Lloyd AG		362.0	36.8
thereof attributable to non-controlling interests	(21)	11.4	9.2
Basic/diluted earnings per share (in EUR)	**(10)**	**2.06**	**0.21**

[1] Due to the adjustment of the structure of the consolidated income statement, the items in the consolidated income statement +have changed. Comparability with the previous year's values is thus limited. For better comparability with the current reporting period, the previous year's values have been adjusted (see also "Change of presentation in the consolidated income statement"). Comparability with the previous year's values is limited due to the first-time application of IFRS 16 Leases.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

of Hapag-Lloyd AG for the period 1 January to 31 December 2019

million EUR	Notes	1.1.–31.12.2019	1.1.–31.12.2018
Group profit/loss		**373.4**	**46.0**
Items that will not be reclassified to profit and loss:			
Remeasurements from defined benefit plans after tax	(20)	–60.8	6.2
Remeasurements from defined benefit plans before tax		–63.0	7.2
Tax effect		2.2	–1.0
Cash flow hedges (no tax effect)	(20)	–	19.1
Effective share of the changes in fair value		–	19.0
Currency translation differences		–	0.1
Cost of hedging (no tax effect)	(20)	–12.4	–18.3
Changes in fair value		–12.3	–18.1
Currency translation differences		–0.2	–0.2
Currency translation differences (no tax effect)	(20)	121.2	272.2
Items that may be reclassified to profit and loss:			
Cash flow hedges (no tax effect)	(20)	–13.2	–4.5
Effective share of the changes in fair value		–31.7	–57.5
Reclassification to profit or loss		18.5	52.9
Currency translation differences		–	0.1
Cost of hedging (no tax effect)	(20)	–1.7	0.2
Changes in fair value		–28.6	–29.2
Reclassification to profit or loss		27.0	29.4
Other comprehensive income after tax		**33.1**	**274.9**
Total comprehensive income		**406.5**	**320.9**
thereof attributable to shareholders of Hapag-Lloyd AG		394.8	311.3
thereof attributable to non-controlling interests	(21)	11.7	9.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

of Hapag-Lloyd AG as at 31 December 2019

ASSETS

million EUR	Notes	31.12.2019	31.12.2018[1]
Goodwill	(11)	1,600.7	1,568.8
Other intangible assets	(11)	1,716.9	1,773.2
Property, plant and equipment	(12)	10,064.9	9,119.7
Investments in equity-accounted investees	(13)	333.6	328.1
Other assets	(14)	23.7	10.5
Derivative financial instruments	(15)	27.6	4.5
Receivables from income taxes	(9)	4.7	4.2
Deferred tax assets	(9)	39.7	36.0
Non-current assets		**13,811.8**	**12,845.0**
Inventories	(16)	248.5	238.1
Trade accounts receivable	(14)	1,239.8	1,217.7
Other assets	(14)	346.9	300.8
Derivative financial instruments	(15)	14.5	3.6
Income tax receivables	(9)	27.4	39.0
Cash and cash equivalents	(17)	511.6	657.1
Current assets		**2,388.6**	**2,456.3**
Total assets		**16,200.4**	**15,301.3**

[1] Comparability with the previous year's values is limited due to the first-time application of IFRS 16 Leases.

EQUITY AND LIABILITIES

million EUR	Notes	31.12.2019	31.12.2018[1]
Subscribed capital	(18)	175.8	175.8
Capital reserves	(18)	2,637.4	2,637.4
Earned consolidated equitty	(19)	3,430.8	3,117.4
Cumulative other equity	(20)	362.6	318.1
Equity attributable to shareholders of Hapag-Lloyd AG		**6,606.6**	**6,248.7**
Non-controlling interests	(21)	14.0	10.6
Equity		**6,620.6**	**6,259.3**
Provisions for pensions and similar obligations	(22)	327.6	265.2
Other provisions	(23)	65.7	75.6
Financial debt	(24)	4,445.1	5,241.2
Lease liabilities[2]	(24)	710.9	60.4
Other liabilities	(25)	5.3	9.1
Derivative financial instruments	(26)	22.8	8.5
Deferred tax liabilities	(9)	8.7	5.3
Non-current liabilities		**5,586.2**	**5,665.3**
Provisions for pensions and similar obligations	(22)	12.6	8.3
Other provisions	(23)	399.3	343.5
Income tax liabilities	(9)	50.0	52.3
Financial debt	(24)	758.7	677.7
Lease liabilities[2]	(24)	482.4	38.6
Trade accounts payable	(25)	1,779.4	1,774.1
Contract liabilities	(25)	372.9	260.3
Other liabilities	(25)	126.6	157.9
Derivative financial instruments	(26)	11.6	64.0
Current liabilities		**3,993.6**	**3,376.7**
Total equity and liabilities		**16,200.4**	**15,301.3**

1 Comparability with the previous year's values is limited due to the first-time application of IFRS 16 Leases.
2 Under the first-time application of IFRS 16 Leases, from the first half of 2019 lease liabilities are shown as a separate balance sheet item and no longer as part of financial debt. Financial debt has been reduced accordingly. The previous year's values reported in the new balance sheet item relate to finance lease liabilities in accordance with IAS 17.

CONSOLIDATED STATEMENT OF CASH FLOWS

of Hapag-Lloyd AG for the period 1 January to 31 December 2019

million EUR	1.1.–31.12.2019	1.1.–31.12.2018[1]
Group profit/loss	373.4	46.0
Income tax expenses (+)/income (–)	42.9	31.8
Other finacial Items	–1.6	0.5
Interest result	396.7	365.2
Depreciation, amortisation and impairment (+)/write-backs (–)	1,174.4	695.1
Profit (–)/loss (+) from disposals of non-current assets	–18.5	–24.5
Income (–)/expenses (+) from equity accounted investees and dividends from other investments	–35.7	–30.8
Other non-cash expenses (+)/income (–)	–0.8	–21.1
Increase (–)/decrease (+) in inventories	–5.6	–41.6
Increase (–)/decrease (+) in receivables and other assets	–54.0	–46.6
Increase (+)/decrease (–) in provisions	69.8	1.1
Increase (+)/decrease (–) in liabilities (excl. financial debt)	110.8	120.7
Payments received from (+)/made for (–) income taxes	–29.4	–28.7
Payments received for interest	5.8	5.8
Cash inflow (+)/outflow (–) from operating activities	**2,028.2**	**1,072.9**
Payments received from disposals of property, plant and equipment and intangible assets	41.6	33.1
Payments received from the disposal of other investments	–	142.3
Payments received from dividends	30.2	34.4
Payments received from the disposal of assets held for sale	–	15.2
Payments made for investments in property, plant and equipment and intangible assets	–426.1	–328.9
Payments made for the issuing of loans	–4.7	–
Payments made for investment in financial assets	–10.6	–
Net cash Inflow (+)/outflow (–) from acquisition	–	–0.4
Cash inflow (+)/outflow (–) from investing activities	**–369.5**	**–104.3**

[1] Due to the new structure of the consolidated income statement (see chapter “Change in presentation of the consolidated income statement”) the previous year’s values for 2018 in the consolidated statement of cash flows for other financial items have been adjusted from the previous EUR 0.0 million by EUR 0.5 million and other non-cash expenses (+)/income (–) from the previous EUR 12.7 million by EUR –33.8 million. The item profit (–)/loss (+) from hedging transactions for financial debt is no longer presented (previously EUR –33.3 million) as this is now included in the item other financial items.

million EUR	1.1.–31.12.2019	1.1.–31.12.2018
Payments received from capital increases	–	0.2
Payments made for capital increases	–	–1.9
Payments made for dividends	–39.5	–115.7
Payments received from raising financial debt	924.3	782.1
Payments made for the redemption of financial debt	–1,733.2	–1,316.0
Payments made for the redemption of lease liabilities[2]	–456.7	–29.4
Payments made for leasehold improvements	–18.1	–
Payments made for interest and fees	–397.3	–317.7
Payments received (+) and made (–) from hedges for financial debt	–103.7	9.4
Change in restricted cash	6.6	43.4
Cash inflow (+) / outflow (–) from financing activities	**–1,817.6**	**–945.6**
Net change in cash and cash equivalents	**–158.9**	**23.0**
Cash and cash equivalents at beginning of period	**657.1**	**604.9**
Change in cash and cash equivalents due to exchange rate fluctuations	13.4	29.2
Net change in cash and cash equivalents	–158.9	23.0
Cash and cash equivalents at end of period	**511.6**	**657.1**

[2] Under the first-time application of IFRS 16, since first half of 2019 the payments made for redemption of lease liabilities are shown as a separate item in the consolidated statement of cash flows. The item payments made for the redemption of financial debt has been reduced accordingly. The previous year's value recognised in the new item relates to payments made for the redemption of finance lease liabilities in accordance with IAS 17.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of Hapag-Lloyd AG for the period 1 January to 31 December 2019

	Equity attributable	
million EUR	Subscribed capital	Capital reserves
As at 1.1.2018	**175.8**	**2,637.4**
Effect from the first-time application of IFRS 9	–	–
Adjusted as at 1.1.2018	**175.8**	**2,637.4**
Total comprehensive income (adjusted)	**–**	**–**
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**
As at 1.1.2019	**175.8**	**2,637.4**
Effect from the first-time application of IFRS 16	–	–
Adjusted as at 1.1.2019	**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	–	–
Distribution to non-controlling interests	–	–
As at 31.12.2019	**175.8**	**2,637.4**

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**
3,174.9	**–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**
									–
3,117.4	**–112.6**	**–0.8**	**–7.7**	**439.7**	**–0.5**	**318.1**	**6,248.7**	**10.6**	**6,259.3**
–17.4	–	–	–	–	–	–	–17.4	–	–17.4
3,100.0	**–112.6**	**–0.8**	**–7.7**	**439.7**	**–0.5**	**318.1**	**6,231.3**	**10.6**	**6,241.9**
362.0	**–60.8**	**–13.2**	**–14.1**	**120.8**	**–**	**32.8**	**394.8**	**11.7**	**406.5**
									–
362.0	–	–	–	–	–	–	362.0	11.4	373.4
–	–60.8	–13.2	–14.1	120.8	–	32.8	32.8	0.4	33.1
–	**–**	**–**	**11.7**	**–**	**–**	**11.7**	**11.7**	**–**	**11.7**
–31.2	**–**	**–**	**–**	**–**	**–**	**–**	**–31.2**	**–8.3**	**–39.5**
						–			–
–26.4	–	–	–	–	–	–	–26.4	–	–26.4
–4.8	–	–	–	–	–	–	–4.8	–8.3	–13.2
3,430.8	**–173.3**	**–14.0**	**–10.2**	**560.5**	**–0.5**	**362.6**	**6,606.6**	**14.0**	**6,620.6**

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 (GCGC) required under Section 161 of the German Stock Corporation Act (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. In individual cases, rounding differences may occur in the tables and charts of these interim consolidated financial statements for computational reasons.

These consolidated financial statements encompass the financial year from 1 January to 31 December 2019 and were approved by the Executive Board of Hapag-Lloyd AG for passing on to the Supervisory Board on 10 March 2020. The Supervisory Board will review and approve the Notes to the consolidated financial statements on 19 March 2020.

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 315 e (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.

These financial statements are the Group's first financial statements in which IFRS 16 Leases has been applied. The related changes in the key accounting and measurement principles are outlined in the "New accounting standards" section.

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 2019 financial year:

- Amendments to IFRS 9: Prepayment Features with Negative Compensation,
- IFRS 16: Leases,
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement,
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures,
- Annual improvements to the IFRS, 2015–2017 cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23),
- IFRIC 23: Uncertainty over Income Tax Treatments.

The following describes the significant changes for the Hapag-Lloyd Group resulting from the first-time application of standard IFRS 16 in the 2019 financial year. The remaining standards, which are to be adopted for the first time in the 2019 financial year, have no significant impact on the net asset, financial and earnings position of the Hapag-Lloyd Group.

IFRS 16 Leases

i. General

IFRS 16 Leases was published by the IASB in January 2016 and adopted by the EU into European law on 31 October 2017. For companies that report in accordance with IFRS as applicable in the EU, IFRS 16 establishes the recognition, measurement, presentation and disclosure requirements of leases. IFRS 16 replaces IAS 17 Leases as well as the associated interpretations IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 comprises different regulations for lessees and lessors. For lessees, the standard provides a single accounting model. With regard to leases, rights of use for the leased asset and the corresponding lease liabilities that represent the payment obligation will be recognised in the statement of financial position. Lessors will continue to differentiate between finance leases and operating leases for accounting purposes.

The new regulations significantly affect Hapag-Lloyd as a lessee, in particular in terms of its recognition and measurement of rented and leased assets which were previously classified as operating leases. This relates to the following asset classes:

(1) rented container ships
(2) rented containers
(3) rented office buildings, office space and parking spaces
(4) rented vehicles
(5) other rented business equipment.

As with the Group's own assets, rights of use for the above asset classes are recognised in the statement of financial position under property, plant and equipment.

Since Hapag-Lloyd only operates as a lessor to a very limited extent, IFRS 16 has no effect on the Group's net asset, financial and earnings position.

As at 1 January 2019, Hapag-Lloyd has applied the financial reporting standard IFRS 16 Leases for the first time in accordance with the modified retrospective approach, without making any adjustments for the reference period 2018. For this reason, the cumulative effect of the first-time application of IFRS 16 has been recognised as an adjustment to the opening values for retained earnings as at 1 January 2019. The figures for 2018 are presented in accordance with the provisions of IAS 17 and the aforementioned interpretations.

Based on the operating lease requirements as at 31 December 2018, the following reconciliation with the opening value for lease liabilities existed as at 1 January 2019:

million EUR	1.1.2019
Obligations from operating leases reported as at 31 December 2018 (undiscounted)	**1,102.9**
Discounting	–149.5
Obligations from operating leases reported as at 31 December 2018 (discounted)	**953.4**
Plus liabilities from finance leases recognised as at 31 December 2018	99.0
(less) leases in accordance with IFRS 16.4 for other intangible assets	–157.0
(less) short-term leases recognised as an expense on a straight-line basis	–146.1
(less) contracts reassessed as service contracts	–126.8
(less) leases of low-value assets recognised as an expense on a straight-line basis	–0.3
Plus terminable operating leases	291.4
Plus adjustments due to different estimates of contract options	100.2
Plus other adjustments	32.8
Lease liabilities recognised as at 1 January 2019	**1,046.6**

The lease liabilities were discounted using the incremental borrowing rate as at 1 January 2019. The weighted average interest rate was 6.0%.

The first-time application of IFRS 16 as at 1 January 2019 has had the following effects on the following balance sheet items:

million EUR	1.1.2019
Right of use assets reported under property, plant and equipment	858.2
Retained earnings	–17.4
Liabilities from lease contracts reported under financial debt	947.6
Other liabilities	–41.2
Other provisions	–30.7

The reported rights of use assets and lease liabilities do not include any assets and liabilities that were accounted for under finance leases in accordance with IAS 17 until 31 December 2018. The finance leases accounted for in accordance with IAS 17 until 31 December 2018 resulted in carrying amounts of EUR 172.1 million for right of use assets and EUR 99.0 million for lease liabilities as at 1 January 2019.

ii. Main accounting principles

Hapag-Lloyd uses the simplification rule to retain the definition of a lease in the changeover to IFRS 16. The Group therefore applies IFRS 16 at the point of first-time application to the agreements which were previously classified as leases using IAS 17 and IFRIC 4. The definition of a lease under IFRS 16 is applied to agreements which were concluded or changed on or after 1 January 2019.

The single accounting model pursuant to IFRS 16 requires that all assets and liabilities relating to leases be recognised in the statement of financial position unless (in each case an option) (1) the lease term is 12 months or less or (2) the underlying asset has a low value. If the lessee makes use of one of the two practical expedients outlined above, the presentation in the statement of financial position is the same as with the previous operating leases.

If the practical expedients are not made use of, the right of use will be measured at the beginning at cost of acquisition. The subsequent measurement occurs at cost of acquisition less cumulative depreciation, amortisation, impairment and certain remeasurements of the lease liability due to modifications. The lease liability is measured at the beginning at the fair value of the future lease payments. The lease payments are discounted using the interest rate implicitly specified in the leases or, in most cases, the incremental interest rate.

Hapag-Lloyd takes account of unilateral and bilateral rights of prolongation or termination in accordance with IFRS 16. In the case of unilateral rights of prolongation or termination which may exist for Hapag-Lloyd, particularly for container ship agreements and rented office buildings, office space and parking spaces, the probability of exercising the existing option is assessed while taking account of economic factors and on an individual basis in order to determine the term of the agreement.

Bilateral rights of termination essentially exist for a large number of container leases. These rights of termination can be exercised by both parties on a flexible and independent basis. When determining the term of these container leases for accounting purposes, Hapag-Lloyd must assess in accordance with IFRS 16.B34 whether significant penalties may be incurred when containers are returned or if these container leases are terminated. Hapag-Lloyd also assesses possible economic disadvantages in this regard. If Hapag-Lloyd also believes from an economic perspective that termination of these agreements will not result in any significant disadvantages, the term of the agreement is determined while taking account of the termination notice period in the respective agreement and a possible transition period in accordance with IFRS 16. If Hapag-Lloyd believes that there are significant disadvantages, this is taken into account when assessing the term of the agreement and the term extended until such time as the disadvantages have been resolved. This assessment will affect the amount of the lease liabilities and the right of use assets significantly.

For lease agreements which include a lease, Hapag-Lloyd separates a lease component and non-lease component and allocates the contractual consideration of each lease and non-lease component based on their relative stand-alone price. Hapag-Lloyd does not make use of the practical expedient that removes the obligation to separate the lease and non-lease component.

A portion of the container rental agreements is recognized on the basis of a portfolio approach, since the individual leases in the portfolio have similar characteristics.

The new rules have not been applied for leases of intangible assets.

iii. Transition date

As lessee, Hapag-Lloyd recognises a lease liability for leases in all asset classes which were previously classified as operating leases under IAS 17 and for which it did not make use of any practical expedient at the point of first-time application. This lease liability is measured at the fair value of the remaining lease payments and discounted using the incremental borrowing rate as at 1 January 2019. As lessee, Hapag-Lloyd also recognises a right of use for leases in all asset classes which were previously classified as operating leases under IAS 17.

As a rule, Hapag-Lloyd measures the right of use from the lease liability individually and in the asset classes (1), (2), (3) and (4) at the amount of the lease liability which has been adjusted by the amount of the lease payments paid in advance or deferred, which in turn were recognised in the consolidated statement of financial position as at 31 December 2018. For asset classes (1) and (2), Hapag-Lloyd uses the carrying amount in certain cases to measure the right of use as if the standard had already been applied since the date of transition and this amount discounted using the incremental borrowing rate at the point of first-time application. At this stage, there is a cumulative effect of applying the new standard for the first time, which is offset against retained earnings directly in equity at the point of first-time application.

On the transition date as at 1 January 2019, Hapag-Lloyd also made use of the following practical expedients:

Hapag-Lloyd applies IFRS 16 to a portfolio of similarly structured container leases.

At the point of first-time application, Hapag-Lloyd applies a discount rate which is dependent on the asset class, term and securitisation to a portfolio of similarly structured leases. The discount rate corresponds to the incremental borrowing rate applicable to the five defined asset classes at the respective changeover point. In addition to the rented container ships, which are essentially combined according to a similar remaining term, this assumption affects the container leases which are combined according to container type and remaining term and the rented office buildings, office space and parking spaces as well as the leased vehicles.

Hapag-Lloyd makes use of the practical expedient in the case of leases which are onerous agreements pursuant to IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and adjusts the right of use as at 1 January 2019 by the amount which was recognised as a provision for onerous agreements in the statement of financial position as at 31 December 2018.

At the point of first-time acquisition, Hapag-Lloyd treats leases for all asset classes whose term ends within 12 months of 1 January 2019 as short-term leases pursuant to IFRS 16. The corresponding expenses, which essentially result from container ship agreements expiring in 2019, are reported in the disclosures for the expenses for short-term leases for the 2019 financial year.

Initial direct costs were not taken into account at the point of first-time application when calculating the amount of the right of use.

There are no material effects on the Hapag-Lloyd Group's existing finance leases. As lessee, Hapag-Lloyd recognises as at 1 January 2019 the carrying amount of the right of use and of the lease liability for leases which were previously classified as finance leases under IAS 17 at the amount of the carrying amount which results from measuring the leased asset and the lease liability pursuant to IAS 17 as at 31 December 2018. From 1 January 2019, the provisions of IFRS 16 are applied to these leases.

Adjustments were made to all finance agreements that contain lending conditions as regards the required minimum equity ratio at Group level (financial covenant). In the Hapag-Lloyd Group, the application of IFRS 16 will not have any effect on its ability to meet the lending conditions in terms of the required minimum equity ratio at Group level.

Standards that were not yet mandatory 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 2019 financial year.

Standard / Interpretation		Mandatory application as per	Adopted by EU Commission
IFRS 3	Amendments to IFRS 3: Definition of a Business	1.1.2020	nein
IFRS 9 IAS 39 IFRS 7	Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	1.1.2020	ja
IAS 1 IAS 8	Amendments to IAS 1 and IAS 8: Definition of Material	1.1.2020	ja
Frame-work	Amendments to referrences to the Conceptual Framework in IFRS	1.1.2020	ja
IFRS 17	Insurance Contracts	1.1.2021	nein
IAS 1	Amendments to IAS 1: Classification of Liabilities as Current or Non-current	1.1.2022	nein
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	offen	nein

These are regulations which will not be mandatory until the 2020 financial year or later. The Hapag-Lloyd Group has decided against early adoption of these standards. Only the provisions which are relevant to the Hapag-Lloyd Group are explained below.

EU endorsement has been given

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

The amendments to IFRS 9, IAS 39 and IFRS 7 are intended to mitigate effects on financial reporting resulting from the reform of interest rate benchmarks (known as IBOR reform). The purpose of these simplification rules is the continuation of hedge accounting which would otherwise have to be terminated due to the uncertainties associated with the expected replacement of various interest rate benchmarks. In the Hapag-Lloyd Group, only the hedging relationships for interest rate risks are directly affected by these amendments. The application of these amendments means that these hedges will be continued in spite of the uncertainties regarding the replacement of specific interest rate benchmarks. The Hapag-Lloyd Group has not opted for early adoption of these amendments. This has likewise not had any effect on the hedging relationships reported in these consolidated financial statements.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments to IAS 1 and IAS 8 create a uniform and precise definition in the IFRS of the materiality of the information provided in financial statements. This definition is supplemented by accompanying examples. The definitions in the conceptual framework, IAS 1, IAS 8 and the IFRS Practice Statement 2: Making Materiality Judgements have been harmonised in this respect. These amendments are not expected to have any significant effect on the Hapag-Lloyd consolidated financial statements.

Amendments to references to the conceptual framework in IFRS

The revised conceptual framework consists of a new general section “Status and purpose of the conceptual framework” as well as 8 complete sections. The framework now includes sections on “The reporting entity” and “Presentation and disclosure”; the “Recognition” section now also includes “Derecognition”. Contents have also been modified. For instance, the “income” distinction between “revenues” and “gains” has been abandoned. In line with the amended conceptual framework, references to the conceptual framework have been adjusted in various standards. The amendments of the conceptual framework references in the standards have not had any significant impact on the Hapag-Lloyd consolidated financial statements.

EU endorsement still pending

Amendments to IFRS 3: Definition of a Business

Through its amendment of IFRS 3, the IASB clarifies that a business encompasses a group of activities and assets which include at least one input and a substantive process that together significantly contribute to the ability to create outputs. Moreover, the definition of the term “outputs” is narrowed to focus on goods and services provided to customers. The reference to lower costs is now excluded. The new rules also include an optional “concentration test” which is intended to simplify the identification of a business. The amendments to IFRS 3 may have an effect on the Hapag-Lloyd Group in case of such corporate transactions in future.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The amendments to IAS 1 relate to an adjustment of the criteria for classification of liabilities as current or non-current. They clarify that the classification of liabilities as current should be based on the right of an entity at the end of the reporting period to defer settlement of the liability by at least 12 months; if the entity has such rights, the liability is to be classified as non-current. The right to defer settlement of the liability must be substantial. If the entity is required to fulfil certain conditions for the exercise of such a right, these must be fulfilled at the end of the reporting period; otherwise, the liability must be classified as current. In addition, it is clarified that it is irrelevant for the classification of a liability whether the management intends or expects the liability to be settled within 12 months of the end of the reporting period. Only the rights in place at the end of the reporting period to defer settlement of the liability by at least 12 months should affect the classification of a liability. This also applies in case of settlement during the value adjustment period. The effect of these amendments on the Hapag-Lloyd Group are currently being reviewed.

Consolidation principles and methods
All significant subsidiaries, joint ventures and associated companies are included in the consolidated financial statements.

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. Significant subsidiaries are fully consolidated from the time at which control over the significant 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. To begin with, 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 option to capitalise the proportionate goodwill on non-controlling interests is not applied. Transaction costs incurred in connection with a business combination are recognised as expenses.

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

The individual financial statements of Hapag-Lloyd AG and its subsidiaries 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's 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 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 venture in the Group 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 141 (previous year: 151) companies are included in consolidated financial statements for the 2019 financial year:

	Fully consolidated		Equity method		
	domestic	foreign	domestic	foreign	Total
31.12.2018	4	141	1	5	151
Additions	0	2	0	0	2
Disposal	0	12	0	0	12
31.12.2019	**4**	**131**	**1**	**5**	**141**

Various 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 liquidated. As a result, the group of consolidated companies decreased by 8 companies in the 2019 financial year. In addition, 4 companies were removed from the group of consolidated companies since they are being wound up and are of minor overall importance to the Group's net asset, financial and earnings position. These deconsolidations have not had any significant impact on the net asset, financial and earnings position of the Hapag-Lloyd Group. The group of consolidated companies has expanded due to the establishment of 2 new companies.

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
Hapag-Lloyd Bahrain Co. 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 held by Hapag-Lloyd AG.

Details of non-controlling interests can be found in Note (21) Non-controlling interests.

In the reporting year, 9 fully consolidated companies and one equity-accounted investee had a financial year that differed from that of the Group. The values carried forward as at 31 December are used for purposes relating to inclusion in the consolidated financial statements. All other companies have financial years that correspond with Hapag-Lloyd AG.

A list of the subsidiaries and associated companies in the Hapag-Lloyd Group is provided in Note (39) List of holdings pursuant to Section 315 a of the German Commercial Code (HGB).

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 Hapag-Lloyd Group's functional currency is the US dollar. Its reporting currency, however, is the euro.

For purposes relating to their inclusion in the consolidated financial statements, 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.

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.

Since the 2019 reporting year, exchange rate-related gains and losses associated with operating business have been reported under other operating income, while exchange rate-related gains and losses associated with income taxes have been reported in the income taxes item. Where exchange rate-related gains and losses result from accounting for financial debt, from the current financial year on these will be reported under other financial items.

Exchange rates of significant currencies:

	Closing rate		Average rate	
per EUR	31.12.2019	31.12.2018	2019	2018
US dollar	1.12230	1.14510	1.11950	1.18150
Indian rupee	80.10977	80.25200	78.83536	80.82087
Brazilian real	4.52340	4.43666	4.41678	4.31896
Chinese renminbi	7.82964	7.85905	7.73267	7.81640
British pound sterling	0.85048	0.89690	0.87725	0.88591
Canadian dollar	1.46174	1.55960	1.48537	1.53151
United Arab Emirates dirham	4.12221	4.20630	4.11189	4.33963
Japanese yen	121.77516	125.89810	122.06369	130.46391
Australian dollar	1.60074	1.62240	1.61054	1.58237

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, trademark rights and / or customer base are capitalised at their fair value as at the acquisition date. Other intangible assets are recognised 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 following 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
Computer software	3–8

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.

In case of internally generated intangible assets, the expenditure for the development phase will be capitalised where the necessary preconditions are met. Research and development expenses include expenses associated with the development of company-specific customised software with the goal of enhanced productivity and greater efficiency in business processes. Internally generated intangible assets are reported at the costs arising during the development phase, from the time of determination of technological and financial feasibility up to completion. The development phase will be considered to have been completed once the IT department formally documents that the capitalised asset is ready for use and can be used as intended by the management. The capitalised production costs are calculated on the basis of direct costs and overheads directly attributable to production.

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 asset in question is put into operation.

Subsequent expenditure will be capitalised as subsequent cost of acquisition or production if it is probable that the future economic benefit associated with this expenditure will accrue to the Hapag-Lloyd Group.

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 five years. The same applies to the installation of exhaust gas cleaning systems (scrubbers) in ships. These must be considered as a separate component and have a useful economic life of 7 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 following section "Impairment testing".

In principle, rights of use within the meaning of IFRS 16 are measured individually upon recognition and, in the relevant asset categories, in the amount of the respective lease liability. The right of use is amortised over the term of the lease and, in case of impairment, is reduced in accordance with this impairment. Please see the "New accounting standards" section for detailed information on the recognition of rights of use.

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 need for impairment. Intangible assets with indefinite useful lives are tested for impairment if circumstances require, but at least annually at the end of the financial year. The recoverable amount of the examined asset is compared 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, the recoverable amount 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 comments in the "Segment reporting" section).

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

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

If, at some later date, following an impairment recognised in previous years a higher recoverable amount is applicable for the asset or for the cash-generating unit, a reversal of the impairment to no higher than the amortised cost is carried out. Reversals of impairment of goodwill are not permitted.

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.

Leases

A lease is a contract under which the right of use of an asset (the leased asset) is transferred for an agreed period of time in return for payment of a charge. This mainly relates to rented container ships, rented containers as well as rented office buildings, office space and parking spaces.

Recognition and measurement principles since 1 January 2019

Lessee

Since 1 January 2019, for all of the leases where it is a lessee Hapag-Lloyd has recognised the assets for the rights of use for the leased assets and the liabilities for the payment obligations entered into at their present values in its consolidated statement of financial position. Please see the comments in the “New accounting standards” section for more detailed information on the recognition and measurement principles in accordance with IFRS 16.

Lessor

Hapag-Lloyd only operates as a lessor to a very limited extent. In such cases, these leases are classified as finance leases or operating leases.

As a lessor for an operating lease, Hapag-Lloyd continues to report the leased asset as an asset carried at amortised cost under property, plant and equipment. The lease payments received in the period are shown under other operating result.

There are no significant differences between the recognition and measurement principles for lessor accounting under IFRS 16 (from 1 January 2019) and those under IAS 17 (up to and including 31 December 2018) in the Hapag-Lloyd Group.

Sale and leaseback transactions

Hapag-Lloyd transfers assets such as container ships and containers to other companies and subsequently leases these assets back from the other company in question (these are known as sale and leaseback transactions). Since Hapag-Lloyd is entitled on the basis of the relevant contracts to repurchase the asset, the requirements of IFRS 15 regarding the reporting of an asset as a sale are generally not fulfilled. Hapag-Lloyd thus continues to recognise the transferred assets in its consolidated statement of financial position and a financial liability in the amount of the revenue resulting from the transfer in accordance with IFRS 9.

Recognition and measurement principles up to 31 December 2018

Until 31 December 2018, a lease was defined as an agreement under which the lessor transfers the right of use for an asset to the lessee for a specific period of time in return for a payment or a series of payments. On the basis of the commercial opportunities and risks inherent in a leased asset, an assessment was made of whether beneficial ownership of the leased asset is attributable to the lessee (finance lease) or the lessor (operating lease).

Lessee – finance leases

Provided that the Hapag-Lloyd Group as lessee bears all of the substantial risks and rewards associated with the lease, the leased assets are capitalised in the consolidated statement of financial position upon commencement of the lease at the leased asset's fair value or the 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 liability was entered which was equivalent to the carrying amount of the leased asset upon recognition. Each lease payment was divided into an interest portion and a repayment element. The interest portion was recognised as an expense in the consolidated income statement; the repayment element reduced the lease liability recognised.

Lessee – operating leases

Rental expenses from operating lease contracts were recorded in the consolidated income statement using the straight-line method over the terms of the respective contracts. One-off costs arising at the end of the period were amortised on a straight-line basis over the period.

Lessor – operating leases

If the Hapag-Lloyd Group acts as a lessor in the context of operating leases, the respective leased asset is still recorded and depreciated in the consolidated statement of financial position. Lease income from operating leases was recorded in revenue or other operating result, 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

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.

IFRS 9 classifies financial instruments in terms of 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 the following two conditions are fulfilled:

- 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 exclusively repayments and interest payments on the outstanding capital amount (cash flow criterion).

A debt instrument will be measured at fair value through other comprehensive income if the following two conditions are fulfilled:

- It is held as part of a mixed business model in which both contractual cash flows are collected and the financial assets are sold.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are exclusively repayments and interest payments on the outstanding capital amount (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 its financial assets upon initial recognition as “measured at fair value through profit and loss” if this will avoid or significantly reduce an accounting mismatch (fair value option).

Equity instruments are always classified and measured at fair value through profit or loss. However, for primary equity instruments not held for trading, there is an irrevocable option upon initial recognition to recognise the fair value changes in other comprehensive income (OCI option).

In the Hapag-Lloyd Group, in view of its business model and the cash flow criterion, financial assets are classified as “measured at amortised cost” and “measured at fair value through profit or loss”. Neither the fair value option nor the OCI option is made use of.

Primary financial liabilities are measured either at amortised cost or at fair value through profit or loss. They will be measured at fair value through profit or loss if they are held for trading or, upon initial recognition, they have been designated – subject to certain preconditions – as “at fair value through profit or loss” (FV option). In the Hapag-Lloyd Group, primary financial liabilities only exist in the category “financial liabilities measured at amortised cost”.

Derivative financial instruments that are not part of an effective hedging relationship in accordance with IFRS 9 (Hedge Accounting) and which are “held for trading” must be allocated to the category “measured at fair value through profit or loss”.

Non-derivative host contracts which are not financial assets within the scope of IFRS 9 are analysed in terms of whether embedded derivatives exist. Embedded derivatives are to be recognised separately from the host contract as an independent financial instrument if, among other features, the two components have different economic characteristics which are not closely linked to each other. In case of an obligation to separate them, embedded derivatives are to be measured at fair value through profit or loss.

In the 2019 financial year, as in the previous financial year, there were no reclassifications within the individual measurement categories.

Primary financial assets

Primary financial assets are reported at fair value upon initial recognition. In case of primary financial assets which are not allocated to the “fair value through profit or loss” category, transaction costs directly attributable to the purchase are also included in the initial measurement. Trade accounts receivable without a significant financing component are measured at their transaction price upon initial recognition. They are initially recognised when the unconditional right to payment arises, starting from the handover of the goods to the transport agent.

Trade accounts receivable, most other financial receivables and cash and cash equivalents are subsequently measured at amortised cost using the effective interest method.

Expected credit losses on financial assets measured at amortised cost are recognised as loss allowances. For trade accounts receivable without a significant financing component, loss allowances are always measured in the amount of the credit losses expected over the term.

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 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.

Some other financial receivables of Hapag-Lloyd are recognised at fair value through profit or loss. These are securities and investments. The measurement gains and losses on such financial instruments are recognised in the income statement under earnings from investments and securities.

Primary financial assets are derecognised if the contractual rights in relation to the cash flows from the financial asset expire or if the rights to receive the cash flows are transferred by means of a transaction through which all of the key risks and opportunities associated with ownership of the financial asset are likewise transferred. If all the key risks and opportunities associated with ownership of a financial asset are neither transferred nor retained and if control over the transferred asset is not retained, the asset will likewise be derecognised. In addition, financial assets which are deemed to be in default will be derecognised if all of the collection measures have proved unsuccessful.

Transactions in which reported assets are transferred but all or substantially all of the risks and rewards of ownership, resulting from the transferred assets are retained will not result in any derecognition of the transferred assets.

Cash and cash equivalents

Cash and cash equivalents encompass cash in hand, bank balances and other financial investments that can be converted into defined cash amounts at any time and are only subject to minor changes in value. These transactions are recognised at the cost of acquisition.

Fully utilised overdraft facilities are not netted, but are shown as liabilities to banks under current financial debt.

Due to the short-term nature of bank balances and other cash investments and the strong credit standing of the banks involved, the expected credit losses in relation to bank balances and other cash investments are low (low default risk at the end of the reporting period) and are not recognised.

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 will continue to exist subject to the new conditions, by adjusting the carrying amount in profit or loss. The new carrying amount of the liability is calculated on the basis of 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 when 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 recorded assets and liabilities 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 year under review.

Upon conclusion of the transaction in accordance with IFRS 9, the hedging relationships between the hedging instrument and the hedged item and between the risk management goal and the underlying strategy are documented. In addition, an assessment is made and documented both at the beginning of the hedging relationship and on a continual basis as to the extent to which the derivatives used in the hedging relationship compensate for the changes in the fair values or cash flows of the hedged items.

The effective portion 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 portion 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 cost of hedging under other comprehensive income. In the Hapag-Lloyd Group, the changes in the time values of commodity options and the changes in the value of the forward component of currency forward contracts are excluded from the hedging relationship.

If the hedged transaction later leads to the recognition of a non-financial item, the accumulated amount recognised under equity is reclassified from the separate equity component 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 under equity for the period or periods where the hedged cash flows affect profit and loss is reclassified as reclassification amounts in 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 underlying transaction occurs. If the future transaction is no longer expected to occur, the cumulative gains or losses recognised outside the scope of 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.

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.

Pensions and similar obligations

The valuation of defined benefit plans from pension obligations and other post-employment benefits upon termination of the employment position (e.g. healthcare 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 cut, both the part of the change in benefits which relates to previous periods (past service cost) and the gains or losses arising from the plan cuts are immediately recognised through profit or loss. Gains or losses arising from a defined benefit plan being cut or paid out are recognised at the time at which the cut or payment is made.

If individual pension 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 of provisions, which are recorded under other operating result.

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.

A provision is recognised for transports not yet completed at the end of the reporting period which are associated with onerous contracts. The amount to be provisioned is calculated taking into consideration the variable costs allocable to the transports as well as the pro rata fixed costs. Before a provision is recognised, an impairment loss will be recognised for 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.

Contract liabilities
A contract liability reflects the performance obligation still required as at the end of the reporting period in connection with unfinished voyages. The performance obligation is determined based on the unconditional right to payment of the transport price and will be recognised starting from the handover of the goods to the transport agent, in line with the related trade account receivable.

The contract liability will subsequently be released pro rata in accordance with performance progress, against revenue.

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. Subsequent changes in the value of the financial liability are recognised through profit or loss in the interest result.

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
Realisation of revenue
In the Hapag-Lloyd Group, revenue is mainly generated in connection with transport services within the scope of revenue resulting from contracts with customers. 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 ship journey produces essentially the same results with regard to the amount of revenue recognised and when it is recognised as are produced when the revenue is recognised on the basis of a single shipment. Revenue is recognised in accordance with the input-oriented method for measurement of performance progress.

Other realisation of income and expenses

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 (27) Financial instruments 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 2019 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 income taxation based on tonnage. The Tonnage Tax liability 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 operation 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 refund from the tax authority is anticipated. They are ascertained on the basis of the Company's tax rates as at the balance sheet date but without interest payments or interest refunds and penalties for back taxes. Tax liabilities are recognised for amounts considered in the tax returns that will probably not be realised (uncertain tax positions). The amount is determined by the best estimate of the expected tax payment (expected value or most likely value of the tax uncertainty). Tax receivables from uncertain tax positions are recognised in the balance sheet if it is predominantly probable and therefore reasonably certain that they can be realised. Only if a tax loss carryforward exists, no tax liabilities or tax assets are recognised for these uncertain tax positions; instead, deferred tax assets are adjusted for the unused tax loss carryforwards. Income tax liabilities are netted against the corresponding tax refund 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 2020 to 2024, 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 measurement 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 valuation 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 this is a key valuation parameter. 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 (27) Financial instruments.

Government assistance

Hapag-Lloyd receives various forms of performance-related government assistance and subsidies. The assistance received is offset against related expenses.

Further information on the nature of this assistance may be found in Note (28) Government assistance.

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 historical experience and expectations regarding future events which seem reasonable in the given circumstances.

This specifically applies to the following cases:

- Review of useful lives and residual values for intangible assets and property, plant and equipment
- Determination of the term of leases with extension and termination options
- Measurement of the 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 recognised demurrage and detention
- Determination of the non-manifested discounts recognised during the year
- Classification of present liabilities as contingent liability

Review 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 "Accounting and measurement" section. The carrying amounts of intangible assets and property, plant and equipment are shown in Notes (11) Intangible assets and (12) Property, plant and equipment.

Determination of the term of leases with extension and termination options and mutual cancellation right

Within the scope of the exercise of extension and termination options for leases, discretionary decisions are made on the probability of the exercise of existing options. Hapag-Lloyd also assesses possible economic disadvantages in this regard. If, from an economic perspective for contracts with mutual cancellation right, termination of these agreements will not result in any significant disadvantages, the term of the agreement is determined while taking account of the termination notice period in the respective agreement and a possible transition period. If Hapag-Lloyd believes that there are significant disadvantages, this is taken into account when assessing the term of the agreement and the term extended until such time as the disadvantages have been resolved.

For container rental agreements with similar characteristics, the terms and in general the fixed payments to be recognized as lease payments are determined on the basis of a portfolio approach and applied consistently for all leases in the portfolio.

For further information, please see the "New accounting standards" section as well as Note (31) Leases.

Measurement of the expected credit losses on receivables and other financial assets

The measurement of expected credit losses on receivables and other financial assets includes assessments and evaluations of individual receivables and groups of receivables which are based on the credit standing of the relevant customer, geographic region, analysis of maturity structures and historical defaults as well as future economic conditions. In case of adjustments to receivables balances, a determination of whether credit losses or transaction price changes are applicable will be made based on the relevant facts and circumstances.

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) Income taxes.

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 may diverge from the actual figures due to changes in external factors such as economic conditions or the market situation as well as mortality rates.

The Heubeck RT 2018 G mortality tables are used for measurement of the pension obligations.

For detailed explanations, see Note (22) Provisions for pensions and similar obligations.

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 make assumptions on the basis of past experience regarding the likelihood of the realisation of the obligation or future developments, e.g. the costs to be estimated for the measurement of obligations. These may 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 may 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 more detailed information, please see Note (23) Other provisions.

Determination of the demurrage and detention to be recognised
As a rule, demurrage and detention for containers are recognised once the contractually stipulated free times for a container are exceeded. Determination of the demurrage and detention to be recognised requires estimates concerning the expected amount of the receivable as well as the question of whether it is highly probable that the revenue recognised will not be subject to any significant correction in future. These estimates are based on past experience.

Determination of the non-manifested discounts recognised during the year
Non-manifested discounts are estimated monthly based on individually specified discount conditions and deducted from the transaction price, thereby reducing revenue. At the end of the year, the discount amount will be determined on the basis of the actual circumstances and reported accordingly.

Classification of present liabilities as contingent liability
Present liabilities based on past events will not be recognised if fulfilment of the relevant obligation is not probable. The management will assess whether the fulfilment of an obligation is not probable or not based on judgements made by lawyers and tax advisers.

For detailed information on the contingent liabilities resulting from tax risks which are not classified as probable, please see Note (30) Legal disputes.

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.

Change of presentation in the consolidated income statement

Hapag-Lloyd modified the structure of the consolidated income statement at the start of the 2019 financial year. Up until then, the structure was based on the principal types of expense, whereby the measurement effects from currency fluctuations were recognised in the respective income statement item. The new structure is based on a separate presentation of the individual components of service provision in the Hapag-Lloyd Group and separates operating effects from measurement effects. The purpose of the change is to provide a more detailed information basis and to increase harmonisation between the externally communicated income statement structure and internal management reporting. The modifications undertaken result from the following table:

	Consolidated income statement before adjustments	Adjustments			
million EUR	**1.1.2018– 31.12.2018**	Reclassification foreign exchange rate effects	Reclassification subsidies	Reclassification commissions	Reclassification non-deductible indirect tax
Revenue	11,515.1	52.1	–	–	–
Other operating income	115.1	–	–19.8	–	–
Transport expenses	–9,396.6	–32.4	–	–66.9	–40.1
Personnel expenses	–659.4	–6.3	19.8	–	–
Depreciation, amortisation and impairment	–695.1	–	–	–	–
Other operating expenses	–479.5	–	–	66.9	40.1
	–	–13.3	–	–	–
Operating result	**399.6**	**–**	**–**	**–**	**–**
Share of profit of equity-accounted investees	30.7	–	–	–	–
Other financial result	12.7	–	–	–	–
Earnings before interest and taxes (EBIT)	**443.0**	**–**	**–**	**–**	**–**
Interest income	15.8	–	–	–	–
Interest expenses	–381.0	–	–	–	–
	–	–	–	–	–
Earnings before taxes	**77.8**	**–**	**–**	**–**	**–**
Income taxes	–31.8	–	–	–	–
Group profit/loss	**46.0**	**–**	**–**	**–**	**–**

1 The other reclassifications essentially relate to cost reimbursements.
2 The position other financial items includes realised and unrealised exchange rate effects from the currency translation of financial debt including relating hedge effects as well as fair value changes from financial instruments.

	Adjustments			Consolidated income statement after adjustments
Reclassification exchange rate gains / losses of financing	Merge of other operating income / expenses	Reclassification Others[1]		**1.1.2018– 31.12.2018**
–	–	50.4	Revenue	11,617.5
–	–95.3	–		–
–	–	–50.4	Transport expenses	–9,586.4
–	–	0.9	Personnel expenses	–645.0
–	–	–	Depreciation, amortisation and impairment	–695.1
0.5	372.0	–		–
–	–276.7	–0.9	Other operating result (OOR)	–290.9
–	**–**	**–**	**Operating result**	**400.1**
–	–	–	Share of profit of equity-accounted investees	30.7
–	–	–	Result from investments and securities	12.7
–	**–**	**–**	**Earnings before interest and taxes (EBIT)**	**443.5**
–	–	–	Interest income and similar income	15.8
–	–	–	Interest expenses and similar expenses	–381.0
–0.5	–	–	Other financial items[2]	–0.5
–	**–**	**–**	**Earnings before taxes**	**77.8**
–	–	–	Income taxes	–31.8
–	**–**	**–**	**Group profit / loss**	**46.0**

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[1]

TTEU	1.1.–31.12.2019	1.1.–31.12.2018
Atlantic	1,960	1,856
Transpacific	1,945	1,960
Far East	2,327	2,234
Middle East	1,391	1,419
Intra-Asia	900	1,036
Latin America	2,837	2,774
EMA (Europe – Mediterranean – Africa)	676	595
Total	**12,037**	**11,874**

[1] Due to organisational changes, the transport volumes to and from Djibouti, Sudan and Eritrea have been assigned to the EMA trade since 1 January 2019. Since the third quarter of 2019, transport volumes to and from Oceania have been assigned to the Far East trade. The previous year's values have been adjusted accordingly.

Freight rates per trade[1]

USD/TEU	1.1.–31.12.2019	1.1.–31.12.2018
Atlantic	1,389	1,337
Transpacific	1,318	1,271
Far East	910	943
Middle East	744	762
Intra-Asia	541	511
Latin America	1,153	1,132
EMA (Europe – Mediterranean – Africa)	1,046	967
Total (weighted average)	**1,072**	**1,044**

1 Due to organisational changes, the transport volumes to and from Djibouti, Sudan and Eritrea have been assigned to the EMA trade since 1 January 2019. Since the third quarter of 2019, transport volumes to and from Oceania have been assigned to the Far East trade. The previous year's values have been adjusted accordingly.

Revenue per trade[1]

million EUR	1.1.–31.12.2019	1.1.–31.12.2018[2]
Atlantic	2,431.9	2,099.4
Transpacific	2,290.8	2,108.7
Far East	1,891.7	1,782.9
Middle East	924.8	915.4
Intra-Asia	435.4	448.4
Latin America	2,921.6	2,658.8
EMA (Europe – Mediterranean – Africa)	631.7	486.9
Revenue not assigned to trades	1,080.0	1,117.1
Total	**12,607.9**	**11,617.5**

1 Due to organisational changes, the transport volumes to and from Djibouti, Sudan and Eritrea have been assigned to the EMA trade since 1 January 2019. Since the third quarter of 2019, transport volumes to and from Oceania have been assigned to the Far East trade. The previous year's values have been adjusted accordingly.

2 As a result of the change in presentation of the consolidated income statement, revenue for the 2018 financial year have been adjusted by EUR 102.4 million, from EUR 11,515.1 million to EUR 11,617.5 million.

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. Additionally, already recognized revenues from voyages not yet completed are assigned to revenue not assigned to trades.

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.–31.12.2019	1.1.–31.12.2018[1]
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**1,985.8**	**1,138.6**
Depreciation and amortisation	–1,174.4	–695.1
EBIT	**811.4**	**443.5**
Earnings before taxes (EBT)	**416.3**	**77.8**
Share of profit of equity-accounted investees	**35.5**	**30.7**

[1] Due to the change in presentation of the consolidated income statement, the previous year's values have been adjusted. This increased EBIT for the 2018 financial year by EUR 0.5 million, from EUR 443.0 million to EUR 443.5 million.

Non-current assets

million EUR	31.12.2019	31.12.2018
Goodwill	1,600.7	1,568.8
Other intangible assets	1,716.9	1,773.2
Property, plant and equipment	10,064.9	9,119.7
Investments in equity-accounted investees	333.6	328.1
Total	**13,716.1**	**12,789.8**
thereof domestic	10,765.9	9,692.2
thereof foreign	2,950.2	3,097.6
Total	**13,716.1**	**12,789.8**

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 2,777.6 million (previous year: EUR 2,877.3 million).

There was no dependency on individual customers in the 2019 financial year.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) Revenue

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.

Revenue is broken down by trade in the Hapag-Lloyd Group. 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 revenue which was recorded in the reporting period and included in the balance of contract liabilities at the start of the 2019 financial year came to EUR 260.3 million.

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 vary at the local level. The payment term predominantly used by the Group constitutes payment within 30 days of receipt of the outgoing invoice.

Transaction price and 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 for containers. These are recorded based on past experience 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. 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 set discount conditions, which make sure that the variable consideration is limited. 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) Transport expenses

million EUR	**1.1.–31.12.2019**	1.1.–31.12.2018
Transport expenses for finished voyages	9,721.1	9,565.8
Bunker	1,625.6	1,585.3
Handling & haulage	4,922.7	4,744.0
Equipment and repositioning[1]	1,205.0	1,229.8
Vessel & voyage (excluding bunker)[1]	1,967.8	2,006.6
Change in transport expenses for pending voyages[2]	–14.0	20.6
Total	**9,707.0**	**9,586.4**

[1] Lease expenses for short-term leases are included in expenses for ships and voyages (excluding fuel) along with containers and repositioning.

[2] The amounts shown as transportation expenses for unfinished voyages represent the difference between the expenses for unfinished voyages in the current period and the expenses for unfinished voyages in the previous period. The transportation expenses for unfinished voyages recorded in the previous period are shown in the current financial year as transportation expenses for finished voyages within the expense items bunker, handling & haulage, containers and repositioning as well as ships and voyages (excluding bunker).

Expenses for handling & haulage essentially comprise expenses for inland container transport and terminal handling charges. Expenses for ships and voyages (excluding fuel) primarily relate to port and canal costs, expenses for ship and slot chartering and expenses for repairs to and maintenance of ocean-going vessels.

(3) Personnel expenses

million EUR	1.1.–31.12.2019	1.1.–31.12.2018
Wages and salaries	562.8	526.6
Social security costs, pension costs and other benefits	119.7	118.4
Total	**682.5**	**645.0**

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 (22) Provisions for pensions and similar obligations. Personnel expenses were reduced by the government assistance granted in the amount of EUR 10.4 million (previous year: EUR 11.2 million), which was recognised in profit and loss. In the previous year, the item was recognised under other operating income. Further details can be found under Note (28) Government assistance.

The average number of employees was as follows:

	1.1.–31.12.2019	1.1.–31.12.2018
Marine personnel	2,026	1,985
Shore-based personnel	10,655	10,251
Apprentices	225	234
Total	**12,905**	**12,470**

(4) Depreciation, amortisation and impairment

million EUR	1.1.–31.12.2019	1.1.–31.12.2018
Scheduled amortisation/depreciation	1,174.4	694.2
Amortisation of intangible assets	99.6	99.3
Depreciation of property, plant and equipment[1]	1,074.7	594.9
Impairment	–	0.9
Impairment of intangible assets	–	0.9
Total	**1,174.4**	**695.1**

[1] The Group applied IFRS 16 for the first time on 1 January 2019. In relation to this, EUR 436.5 million in depreciation and amortisation was recognised for corresponding leases in 2019.

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.

(5) Other operating result[1]

million EUR	1.1.–31.12.2019	1.1.–31.12.2018
Other operating income	**81.2**	**73.7**
Gains and losses from disposal of assets	20.2	15.0
Income from the reversal of provisions	11.4	14.4
Income from own cost capitalized	6.8	3.8
Miscellaneous operating income	42.8	40.4
Other operating expenses	**350.0**	**364.5**
IT & Communication expenses	155.7	142.1
Office & Administration expenses	41.8	65.0
Charges, fees, consultancy and other professional services	35.8	34.3
Training and other personnel expenses	26.9	27.3
Car and Travel expenses	19.4	17.4
Other taxes	12.5	11.3
Exchange rate gains / losses	10.2	36.9
Bank charges	8.3	9.1
Miscellaneous operating expenses	39.4	21.2
Total	**–268.8**	**–290.9**

1 As a result of the changes to the structure of the Income statement, other operating income and other operating expenses are combined and reported under the item "other operating income". The previous year's values have been adjusted accordingly. Further explanatory notes can be found in the segment "change of presentation in the consolidated income statement".

The income from the disposal of assets primarily results from disposals of containers in the current financial year.

Income from the release of provisions mainly includes releases of provisions for guarantee, warranty and liability risks and for insurance premiums.

Miscellaneous operating 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.

The exchange rate gains and losses are shown netted in other operating expenses and were mainly attributable to exchange rate fluctuations of assets and liabilities (excluding financial debt).

Miscellaneous operating expenses comprise items that cannot be allocated to any of the items mentioned above.

(6) Income from investments and securities

Income from investments and securities was EUR 12.7 million in the previous year and essentially comprised the profit of EUR 12.9 million from the disposal of the investment INTTRA Inc., New Jersey.

(7) Interest result

The interest result was as follows:

million EUR	1.1.–31.12.2019	1.1.–31.12.2018
Interest income	**12.2**	**15.8**
Interest income from fund assets for the financing of pensions and similar obligations	3.7	3.4
Other interest and similar income	8.5	12.4
Interest expenses	**432.5**	**375.8**
Interest expenses from the valuation of pensions and similar obligations	9.0	8.6
Interest expenses for lease liabilities	72.6	7.9
Other interest and similar expenses	350.9	359.3
Effects from the result of embedded derivatives	23.6	–5.2
Total	**–396.7**	**–365.2**

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 other financial debt.

For information on the interest expenses in relation to lease liabilities, please refer to Note (31) Leases.

(8) Other financial items

Other financial items of EUR 1.6 million essentially comprise realised and unrealised exchange rate effects from the foreign currency translation of financial debt including the associated hedging effects.

(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 2019 and 2018 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 2019 (previous year: between 6.0% and 39.0%).

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

Income taxes were as follows:

million EUR	1.1.–31.12.2019	1.1.–31.12.2018
Actual income taxes	40.4	41.4
thereof domestic	5.9	4.5
thereof foreign	34.5	36.9
Deferred tax income/expenses	2.5	–9.6
thereof from temporary differences	2.0	0.6
thereof from loss carry-forwards	0.5	–10.2
Total	**42.9**	**31.8**

Domestic income taxes include tax expenses of EUR 4.3 million which relate to tonnage tax (previous year: EUR 2.7 million).

Prior-period tax expenses in the amount of EUR 5.6 million are included in the actual income taxes (previous year: expenses of EUR 2.8 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 2019 and 2018 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 2019 ranged from 8.3% to 34.9% (previous year: between 8.3% and 34.0%).

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.–31.12.2019	1.1.–31.12.2018
Earnings before taxes	416.3	77.8
thereof under tonnage tax	176.8	–93.7
thereof under regular income tax	239.5	171.5
Expected income tax expense (+) / income (–) (tax rate 32.3%)	**77.3**	**55.3**
Difference between the actual tax rates and the expected tax rates	–24.9	–13.3
Changes in tax rate or tax law	0.2	–
Effects of income not subject to income tax	–0.4	–2.8
Non-deductible expenses and trade tax additions and reductions	4.1	7.3
Effects from reassessments	–4.5	–13.4
Effective tax expenses and income relating to other periods	–5.6	2.8
Tax effect from equity-acounted investees	–11.4	–9.4
Exchange rate differences	0.6	0.8
Other differences	3.3	1.8
Income tax expense under regular income tax	**38.7**	**29.1**
Income tax expense under tonnage tax base	4.2	2.7
thereof: effects from reassessments	–	–1.4
Reported income tax expenses (+) / income (–)	**42.9**	**31.8**

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

Effects from reassessments include income of EUR 4.3 million (previous year: EUR 12.0 million) from changes in unrecognised corporate income tax loss carry-forwards both at home and abroad. A further EUR 0.8 million (previous year: EUR 1.4 million) relates to the reduction of actual income taxes due to the use of tax losses previously not recognised.

The other differences include EUR 3.2 million in foreign withholding taxes for dividends, which are non-deductible (previous year: EUR 1.5 million).

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

	31.12.2019		31.12.2018	
million EUR	Asset	Liabillity	Asset	Liabillity
Recognition and measurement differences for property, plant and equipment and other non-current assets	1.3	7.0	2.3	4.2
Recognition differences for receivables and other assets	2.6	0.6	1.9	0.5
Measurement of pension provisions	6.4	0.7	5.1	0.7
Recognition and measurement differences for other provisions	4.5	–	4.3	–
Other transactions	7.6	2.1	4.7	1.3
Capitalised tax savings from recoverable loss carry-forwards	19.0	–	19.1	–
thereof: utilised by tonnage tax base	2.7	–	4.8	–
Netting of deferred tax assets and liabilities	–1.7	–1.7	–1.4	–1.4
Balance sheet recognition	**39.7**	**8.7**	**36.0**	**5.3**

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

million EUR	As at 1.1.2018	Recognised as taxes in the income statement	Recognised in other comprehensive income	Recognised as an ex-change rate difference	As at 31.12.2018
Recognition and measurement differences for property, plant and equipment and other non-current assets	–1.1	–0.8	–	–	–1.9
Recognition differences for receivables and other assets	1.8	–0.4	–	–	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-frowards	8.2	10.2	–	0.7	19.1
Balance sheet recognition	**20.7**	**9.6**	**–1.0**	**1.4**	**30.7**

million EUR	As at 1.1.2019	Recognised as taxes in the income statement	Recognised in other comprehensive income	Recognised as an ex-change rate difference	As at 31.12.2019
Recognition and measurement differences for property, plant and equipment and other non-current assets	–1.9	–3.7	–	–0.1	–5.7
Recognition differences for receivables and other assets	1.4	0.6	–	–	2.0
Measurement of pension provisions	4.4	–1.0	2.2	0.1	5.7
thereof recognised directly in equity	4.4	–	2.2	–	6.6
Recognition and measurement differences for other provisions	4.3	0.2	–	–	4.5
Other transactions	3.4	1.9	–	0.2	5.5
Capitalised tax savings from recoverable loss carry-frowards	19.1	–0.5	–	0.4	19.0
Balance sheet recognition	**30.7**	**–2.5**	**2.2**	**0.6**	**31.0**

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 64.8 million (previous year: EUR 59.3 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	31.12.2019	31.12.2018
Loss carry-forwards for which deferred tax assets were recognised	**67.6**	**77.3**
Loss carry-forwards for which no deferred tax assets were recognised	**1,282.6**	**1,267.0**
thereof loss carry-forwards forfeitable in more than 5 years	1.0	1.0
Non-forfeitable loss carry-forwards	1,281.6	1,266.0
thereof interest carry-forwards	–	–
Total of unutilised loss carry-forwards	**1,350.2**	**1,344.3**

(10) Earnings per share

	1.1.–31.12.2019	1.1.–31.12.2018
Profit / loss attributable to shareholders in million EUR	362.0	36.8
Weighted average number of shares	175.8	175.8
Basic earnings per share in EUR	**2.06**	**0.21**

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.

There were no dilutive effects in the 2019 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	Software	Payments on account and assets under con-struction	Total
Historical cost							
As at 1.1.2018	1,486.8	1,723.0	22.0	288.4	123.9	–	3,644.1
Addition from buisness 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 at 31.12.2018	**1,568.8**	**1,803.9**	**–**	**301.6**	**128.4**	**3.8**	**3,806.5**
Accumulated amortisation							
As at 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 at 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**
Historical cost							
As at 1.1.2019	1,568.8	1,803.9	–	301.6	128.4	3.8	3,806.5
Addition from buisness combination	–	–	–	–	–	–	–
Additions	–	–	–	–	0.4	6.8	7.2
Disposals	–	–	–	–	0.1	–	0.1
Transfers	–	–	–	–	0.0	–	0.0
Exchange rate differences	31.9	36.6	–	6.1	2.6	0.1	77.3
As at 31.12.2019	**1,600.7**	**1,840.6**	**–**	**307.7**	**131.3**	**10.6**	**3,891.0**
Accumulated amortisation							
As at 1.1.2019	–	325.7	–	20.5	118.3	–	464.5
Additions	–	82.8	–	10.4	6.5	–	99.6
Disposals	–	–	–	–	–0.0	–	–0.0
Transfers	–	–	–	–	0.0	–	0.0
Exchange rate differences	–	6.4	–	0.4	2.5	–	9.3
As at 31.12.2019	**–**	**415.0**	**–**	**31.3**	**127.2**	**–**	**573.4**
Carrying amounts 31.12.2019	**1,600.7**	**1,425.6**	**–**	**276.4**	**4.2**	**10.6**	**3,317.6**

[1] The impairments on intangible assets are included in the additions to accumulated depreciation, amortisation and impairment.

Intangible assets not subject to amortisation comprise goodwill in the amount of EUR 1,600.7 million (previous year: EUR 1,568.8 million) and the Hapag-Lloyd brand in the amount of EUR 228.7 million (previous year: EUR 224.2 million).

At the end of the 2019 financial year, an impairment test of goodwill and intangible assets that are not subject to amortisation was carried out for the entire cash-generating unit “container shipping”. The recoverable amount was calculated based on the fair value less costs of disposal. Measurement was based on level 1 input factors (unchanged use of the quoted share price of Hapag-Lloyd AG and of a bond price) and on level 2 input factors (use of observable market price quotations that are not level 1 to measure the remaining financial debt). With regard to the fundamental measurement assumptions, please refer to the section “Accounting and measurement principles”. As a whole, the fair value of the cash-generating unit “container shipping” should be assigned to level 2, as this level corresponds to the lowest input factor that is significant for overall measurement.

As at the balance sheet date, the fair value less costs of disposal was higher than the carrying amounts of the cash-generating unit “container shipping”, with the result that it was not necessary to recognise an impairment.

Research and development expenses in the financial year totalled EUR 25.5 million (previous year: EUR 17.8 million). Investments in internally generated intangible assets requiring capitalisation in 2019 amounted to EUR 6.8 million (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, chassis	Property, buildings and other equipment	Payments on account and assets under construc-tion	Total
Historical cost					
As at 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 at 31.12.2018	**9,323.5**	**2,620.4**	**232.0**	**6.4**	**12,182.3**
Accumulated depreciation					
As at 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 at 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**
Historical cost					
As at 1.1.2019	9,323.5	2,620.4	232.0	6.4	12,182.3
First-time application of IFRS 16[1]	374.3	394.7	89.2	–	858.2
Adjusted as at 1.1.2019	9,697.8	3,015.1	321.2	6.4	13,040.5
Additions	461.7	439.6	36.5	62.3	1,000.0
Disposals	6.0	100.4	5.7	–	112.1
Transfers	3.6	–	–1.7	–3.6	–1.8
Exchange rate differences	195.7	60.4	5.0	–0.1	261.1
As at 31.12.2019	**10,352.8**	**3,414.7**	**355.2**	**65.0**	**14,187.7**
Accumulated depreciation					
As at 1.1.2019	2,182.1	785.6	94.9	–	3,062.6
Additions	649.0	387.4	38.3	–	1,074.7
Disposals	6.0	65.2	2.8	–	73.9
Transfers	–	–	–0.6	–	–0.6
Exchange rate differences	42.7	15.2	2.1	–	60.0
As at 31.12.2019	**2,867.9**	**1,123.0**	**132.0**	**–**	**4,122.9**
Carrying amounts 31.12.2019	**7,484.9**	**2,291.7**	**223.3**	**65.0**	**10,064.9**

[1] The addition to acquisition and production costs due to the first-time application of IFRS 16 is net (netted with accumulated depreciation).

The carrying amount of the property, plant and equipment subject to restrictions of ownership was EUR 7,620.0 million as at the balance sheet date (previous year: EUR 7,710.0 million). Restrictions of ownership exist in the form of ship mortgages for container ships and in the form of collateral for financed ships and containers transferred by way of security.

Changes in the rights of use for each asset class in the financial year are presented in Note (31) Leases.

(13) Equity-accounted investees

The following companies were incorporated into the Hapag-Lloyd Group using the equity method as at 31 December 2019.

		Proportion of ownership in the Group (in %)	
Name of the company	Registered office	2019	2018
Joint venture			
Consorcio Naviero Peruano S.A.[1]	San Isidro	47.93	47.93
Texas Stevedoring Services LLC[3]	Wilmington	50.00	50.00
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
Djibouti Container Services FZCO[1]	Djibouti	19.06	19.06

1 Ship agents and local liner shipping companies
2 Container terminals
3 Service company at the container terminal

The Hapag-Lloyd Group exerts significant control over 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 0.5 million (previous year: EUR –2.6 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 (100% values and therefore not adjusted to the percentage held) is contained in the following table:

million EUR	HHLA Container Terminal Altenwerder GmbH 2019	2018
Statement of comprehensive income		
Revenues	300.5	267.2
Annual result	99.3	81.5
Dividend payments to Hapag-Lloyd Group	–28.6	–30.9
Balance sheet		
Current assets	97.3	96.6
Non-current assets	75.2	72.0
Current liabilities	34.0	50.2
Non-current liabilities	58.1	37.9
Net assets	**80.4**	**80.5**
Group share in net assets	20.2	20.2
Goodwill	276.8	276.8
Pro-rata share of current financial year's profit	34.0	28.6
Carrying amount of the participation at the end of the financial year	**331.0**	**325.6**

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

	HHLA Container Terminal Altenwerder GmbH		Non-material associated companies		Joint Venture	
million EUR	2019	2018	2019	2018	2019	2018
Participation 1.1.	**325.6**	**327.9**	**2.0**	**4.0**	**0.5**	**–**
Addition from business combination	–	–	–	–	–	0.1
Disposals	–	–	–	–2.0	–	–
Pro-rata share of earnings after taxes	34.0	28.6	1.3	1.7	0.1	0.4
Dividend payments	–28.6	–30.9	–1.3	–1.8	–	–
Exchange rate differences	–	–	0.1	0.1	–	–
Participation 31.12.	**331.0**	**325.6**	**2.1**	**2.0**	**0.6**	**0.5**

There were no acquisitions through business combinations or disposals in the 2019 financial year.

(14) Trade accounts receivable and other assets

million EUR	31.12.2019 Total	31.12.2019 Remaining term more than a year	31.12.2018 Total	31.12.2018 Remaining term more than a year
Financial assets				
Trade accounts receivable	1,239.8	–	1,217.7	–
from third parties	–	–	1,217.7	–
Other assets	257.2	12.5	230.6	6.7
Available-for-sale financial assets	8.5	8.5	2.9	2.9
Receivables relating to offset or advanced payments	146.8	–	139.3	–
Receivables from other financial assets	5.1	2.7	0.7	0.1
Receivables from deposits and prepayments	15.5	1.0	12.8	3.6
Cash securities	–	–	6.4	–
Other assets	81.3	0.3	68.5	0.1
Total	**1,497.0**	**12.5**	**1,448.3**	**6.7**
Non-financial assets				
Other assets	113.4	11.2	80.7	3.8
Claims arising from the refund of other taxes	61.1	0.7	49.1	0.9
Commitment fees for loans	7.8	3.4	3.0	1.2
Prepaid expenses	27.4	0.3	17.8	0.8
Other assets	17.1	6.8	10.8	0.9
Total	**113.4**	**11.2**	**80.7**	**3.8**

As at 31 December 2019, 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 to the business model in order to collect contractual cash flows (held to collect).

Credit risks

The gross carrying amounts of trade account receivables and other financial assets that fall within the scope of impairments under IFRS 9 amounted to EUR 1,517.4 million as of December 31, 2019 (December 31, 2018: EUR 1,477.0 million) and are mostly exposed to low or medium credit risk. As of the reporting date, gross carrying amounts of EUR 123,4 million (December 31, 2018: EUR 125.9 million) were credit-impaired or exposed to high credit risk. EUR 282.4 million of the gross carrying amounts (December 31, 2018: EUR 281.8 million) were collateral backed.

In addition to the risk categorisation presented above, the following table provides information about the age of trade account receivables and other financial assets that fall within the scope of impairments under IFRS 9:

million EUR	31.12.2019	31.12.2018[1]
Trade account receivables and other financial assets		
Not overdue	1,288.0	1,160.2
Overdue up to 30 days	142.5	208.0
Overdue between 31 and 90 days	38.6	49.7
Overdue for more than 90 days	48.3	59.1
Gross carrying amount	**1,517.4**	**1,477.0**
Loss allowance	–28.9	–31.6
Carrying amount	**1,488.4**	**1,445.4**

[1] Values adjusted

Loss allowances

The loss 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	2019	2018[1]
Loss allowances on trade account receivables and other financial assets		
Loss allowances as of 1.1.	**31.6**	**39.8**
Utilisation	7.4	5.4
Impairment losses/gains	4.0	–4.3
Change of translation reserve	0.7	1.6
Loss allowances as of 31.12.	**28.9**	**31.6**

[1] Values adjusted

Of the loss allowances as at 31 December 2019 (EUR 28.9 million), EUR 27.0 million are attributable to credit-impaired receivables.

(15) Derivative financial instruments

	31.12.2019		31.12.2018	
million EUR	Total	Remaining term more than 1 year	Total	Remaining term more than 1 year
Receivables from derivative financial instruments	42.1	27.6	8.1	4.5
thereof derivatives in hedge accounting[1]	14.8	0.3	4.4	0.8
thereof derivatives not included in hedge accounting	27.3	27.3	3.7	3.7

[1] The market values of the non-designated time values and forward components, the changes of which are recognised in the reserve for cost 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 (27)).

(16) Inventories

The inventories were as follows:

million EUR	31.12.2019	31.12.2018
Raw materials and supplies	247.2	236.5
Prepayments	1.3	1.6
Total	**248.5**	**238.1**

Raw materials, consumables and supplies primarily comprised fuel inventories, which fell from EUR 233.8 million in the previous year to EUR 233.0 million.

Expenses of EUR 1,625.6 million for fuels were recognised in the reporting period (previous year: EUR 1,585.3 million). Impairments for fuel inventories in the amount of EUR 0.5 million were also recognised as expenses in the financial year (previous year: EUR 28.0 million). No write-backs were recognised.

The carrying amount of inventories recognised at net realisable value comes to EUR 123.8 million (previous year: EUR 99.3 million).

(17) Cash and cash equivalents

million EUR	31.12.2019	31.12.2018
Cash at bank	490.6	638.3
Cash in hand and cheques	21.0	18.8
Total	**511.6**	**657.1**

As at 31 December 2019, a sum totalling EUR 10.0 million with a term of up to 3 months was deposited in pledged accounts (31 December 2018: EUR 11.1 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 2.3 million (previous year: EUR 4.4 million) at individual subsidiaries.

(18) Subscribed capital and capital reserves

As at 31 December 2019, Hapag-Lloyd AG's subscribed capital was divided into 175.8 million no-par registered shares with equal rights, as in the previous year. As in the previous year, each individual share represents EUR 1.00 of the share capital.

Authorised capital

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). 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 Authorised Share Capital still amounted to EUR 11.3 million as at 31 December 2019 following partial utilisation.

(19) 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 2019

On 17 June 2019, a dividend of EUR 0.15 per dividend-eligible individual share was paid out to the shareholders of Hapag-Lloyd AG, amounting to a total payment of EUR 26.4 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 according to the German Commercial Code. Taking into account retained earnings of EUR 208.8 million carried forward from 2018, the annual financial statements of Hapag-Lloyd AG reported retained earnings of EUR 431.7 million. A proposal will be made at the Annual General Meeting that the retained earnings of EUR 431.7 million be used to pay a dividend of EUR 1.10 per dividend-eligible share and that the retained earnings of EUR 238.4 million remaining after the distribution totalling EUR 193.3 million be carried forward to the subsequent year.

(20) Cumulative other equity

Changes in the value of the financial liability are subsequently recognised through profit or loss in the interest result.

The reserve for remeasurements from defined benefit pension plans (31 December 2019: EUR –173.3 million; 31 December 2018: EUR –112.6 million) contains gains and losses 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 measurement of pension obligations and the associated fund assets. The effect of remeasuring pension obligations and the associated plan assets recognised in other comprehensive income in the 2019 financial year resulted in an increase of EUR 60.8 million in the negative reserve (prior year period: decrease of EUR 6.2 million).

The reserve for cash flow hedges contains changes in the intrinsic value and in the cash component from hedging transactions that are recognised in other comprehensive income and amounted to – EUR 14.0 million as at 31 December 2019 (31 December 2018: EUR –0.8 million). In the 2019 financial year, the resulting gains and losses totalling EUR –31.7 million were recognised in other comprehensive income as an effective part of the hedging relationship (prior year period: EUR –38.5 million), while gains and losses of EUR 18.5 million (prior year period: EUR 52.9 million) were reclassified and recognised through profit or loss.

The reserve hedging costs contains changes in the time value and in the forward component from hedging transactions that are recognised in other comprehensive income and amounted to EUR –10.2 million as at 31 December 2019 (31 December 2018: EUR –7.7 million). In the 2019 financial year, the resulting gains and losses totalling EUR –40.9 million were recognised in other comprehensive income (previous year: EUR –47.3 million), while gains and losses of EUR 27.0 million (previous year: EUR 29.4 million) were reclassified and recognised through profit or loss.

The translation reserve of EUR 560.5 million (31 December 2018: EUR 439.7 million) includes differences from currency translation. The differences from currency translation of EUR 121.2 million recognised in other comprehensive income in the 2019 financial year (previous year: EUR 272.2 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. Changes in the value of the financial liability are subsequently recognised through profit or loss in the interest result. As at 31 December 2019, the reserve for put options on non-controlling interests amounted to EUR –0.5 million and was therefore the same as at year-end 2018.

(21) Non-controlling interests

The non-controlling interests within the Hapag-Lloyd Group are not material from a quantitative or qualitative perspective. There were no material changes in non-controlling interests in the 2019 financial year.

(22) 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 mainly comprise 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	31.12.2019	31.12.2018
Domestic defined benefit obligations		
Net present value of defined benefit obligations	273.9	221.5
Less fair value of plan assets	10.2	10.3
Deficit (net liabilities)	**263.7**	**211.2**
Foreign defined benefit obligations		
Net present value of defined benefit obligations	208.0	178.3
Less fair value of plan assets	131.5	116.0
Deficit (net liabilities)	**76.5**	**62.3**
Total	**340.2**	**273.5**

Composition and management of plan assets

The Group's plan assets are as follows:

million EUR	31.12.2019	31.12.2018
Equity instruments		
with quoted market price in an active market	37.7	28.4
without quoted market price in an active market	1.7	1.6
Government bonds		
with quoted market price in an active market	38.4	33.2
without quoted market price in an active market	–	–
Corporate bonds		
with quoted market price in an active market	17.3	19.6
without quoted market price in an active market	–	–
Other debt instruments		
mortgage-backed securities		
with quoted market price in an active market	–	–
without quoted market price in an active market	–	–
(other) asset-backed securities		
with quoted market price in an active market	5.0	5.4
without quoted market price in an active market	–	–
Derivatives		
with quoted market price in an active market	6.2	5.8
without quoted market price in an active market	5.1	3.2
Pension plan reinsurance	10.2	10.3
Real estate	9.3	8.1
Cash and cash equivalents	1.2	1.2
Other	9.7	9.5
Fair value of plan assets	**141.7**	**126.3**

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	2019	2018
Net present value of defined benefit obligations as at 1.1.	**399.8**	**429.0**
Current service cost	10.9	12.9
Interest expenses	9.0	8.6
Remeasurements:		
Gains (–)/losses (+) from changes in demographic assumptions	0.6	3.5
Gains (–)/losses (+) from changes in financial assumptions	75.8	–14.2
Gains (–)/losses (+) from changes due to experience	–3.5	–3.2
Past service cost	–0.3	1.2
Plan reductions	–1.9	–
Plan settlements	–2.1	–8.5
Contributions by plan participants	0.3	0.4
Benefits paid	–12.5	–29.9
Exchange rate differences	5.7	0.4
Additions from change in the group of consolidated companies	–	–0.4
Net present value of defined benefit obligations as at 31.12.	**481.9**	**399.8**

The weighted average maturity of defined benefit obligations was 20.7 years as at 31 December 2019 (previous year: 19.6 years).

Development of the fair value of the plan assets

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

million EUR	2019	2018
Fair value of plan assets as at 1.1.	**126.3**	**138.1**
Interest income	3.7	3.4
Return and losses on plan assets (excluding interest income)	10.6	–5.2
Employer contributions	2.9	4.0
Contributions by plan participants	0.1	0.2
Plan settlements	–1.1	–8.7
Benefits paid	–5.2	–4.8
Exchange rate differences	4.4	–0.4
Additions from change in the group of consolidated companies	–	–0.3
Fair value of plan assets as at 31.12.	**141.7**	**126.3**

Net pension expenses

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

million EUR	1.1.–31.12.2019	1.1.–31.12.2018
Current service cost	10.9	12.9
Interest expenses	9.0	8.6
Interest income	–3.7	–3.4
Past service cost	–0.3	1.2
Plan settlements / plan reductions	–4.0	–8.6
Net pension expenses	**12.0**	**10.7**

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.–31.12.2019	1.1.–31.12.2018
Personnel expenses	6.7	5.5
Interest expenses (+) / interest income (–)	5.4	5.2
Total	**12.0**	**10.7**

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	2019	2018
Discount factors	0.90	1.80
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	2019	2018
Discount factors for pension obligations		
United Kingdom	2.05	2.85
Netherlands	0.90	1.80
Mexiko	7.48	9.97
Expected rate of pension increases		
United Kingdom	2.13	2.85
Netherlands	2.00	2.00
Mexiko	3.50	3.65

The discount factors for the pension plans are determined annually 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 –63.1 million before tax as at 31 December 2019 for the 2019 financial year (previous year: EUR 7.2 million) and can be broken down as follows:

million EUR	31.12.2019	31.12.2018
Actuarial gains (+)/losses (–) from		
Changes in demographic assumptions	–0.6	–3.5
Changes in financial assumptions	–75.8	14.2
Changes from experience	3.5	3.2
Return on plan assets (excluding interest income)	10.6	–5.2
Exchange rate differences	–0.7	–1.5
Remeasurements	**–63.1**	**7.2**

The cumulative amount of remeasurements recognised in other comprehensive income after taxes totalled EUR –173.4 million as at 31 December 2019 (previous year: EUR –112.6 million).

Future contribution and pension payments

For 2020, the Group is planning to make contributions to pension plan assets amounting to EUR 2.0 million (previous year: EUR 3.0 million). Payments for unfunded pension plans, including employee termination costs, are anticipated in the amount of EUR 5.5 million in 2020 (previous year: EUR 5.3 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 2019:

million EUR	Δ Present value 31.12.2019	Δ Present value 31.12.2018
Discount factor 0.8% points higher	–69.4	–55.2
Discount factor 0.8% points lower	88.4	69.3
Expected rate of pension increase 0.2% higher	11.2	8.9
Expected rate of pension increase 0.2% lower	–10.8	–8.6
Life expectancy 1 year longer	18.4	13.9

The sensitivity calculations are based on the average maturity of pension provisions determined as at 31 December 2019. In order to present the effects on the present value of pension provisions as at 31 December 2019 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 2019, expenses incurred in connection with defined contribution pension plans totalled EUR 27.8 million (previous year: EUR 28.1 million).

At Hapag-Lloyd exist two defined benefit multi-employer plans. These releate to a pension and medical benefit plan in the USA as well as the Merchant Navy Officer's Pension Fund (MNOPF) registered in the United Kingdom, which has been established worldwide for British merchant navy officers.

As the joint pension plans do 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, these plans have been recognised as a contribution plans since then.

The two multi-employer pension plans are not material in the Hapag-Lloyd Group in quantitative and qualitative terms.

(23) Other provisions

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

million EUR	As at 1.1.2018	Reclassi-fication	Utilisation	Release	Addition	Exchange rate differences	As at 31.12.2018
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
Risks from pending transactions and lawsuits	66.7	88.6	119.8	–	115.3	5.3	156.1
Insurance premiums	15.5	–	5.7	–	3.0	0.6	13.4
Restructuring	13.0	–	7.4	–	9.8	0.6	16.0
Provisions for other taxes	10.1	–	4.8	–	3.5	0.4	9.2
Other 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**

million EUR	**As at 1.1.2019**	Reclassi-fication	Utilisation	Release	Addition	Exchange rate differences	**As at 31.12.2019**
Risks from pending transactions and lawsuits	156.1	–30.7	120.5	–	164.5	2.4	171.8
Personnel costs	111.9	–	81.1	3.9	101.2	1.4	129.5
Guarantee, warranty and liability risks	69.9	–	40.2	2.9	59.0	1.4	87.1
Restructuring	16.1	–	5.6	2.0	9.5	0.3	18.3
Insurance premiums	13.4	–	3.3	–	2.3	0.3	12.7
Provisions for other taxes	9.3	–	0.6	–	1.4	0.2	10.3
Other provisions	42.4	–	7.6	13.1	13.3	0.3	35.3
Other provisions	**419.1**	**–30.7**	**258.9**	**22.0**	**351.2**	**6.3**	**464.9**

The risks from pending transactions and legal disputes primarily relate to existing performance obligations in connection with transport orders for unfinished voyages. In the previous year this item also includes disadvantageouslease 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 were recognised as provisions and utilised over the respective contractual terms of the underlying agreements. Due to the first-time application of IFRS 16, these provisions for unfavourable contracts were derecognised at an amount of EUR 30.7 million and the carrying amount of the rights of use was reduced by this amount at the time of first-time application.

Provisions for personnel costs comprise provisions for bonuses not yet paid, leave not yet taken, 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 Note (33). 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. The main damage to ships, cargo and equipment as well as rescue costs have a provision of EUR 17.7 million. Other assets were capitalised for associated, virtually secure recourse claims against insurance agencies.

As part of the implementation of Strategy 2023, plans to optimise the organisation were approved in order to further strengthen and increase the Company's competitiveness. An amount of EUR 9.5 million was set aside for severance payments to be made.

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:

	31.12.2019				31.12.2018			
	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	171.8	170.4	1.5	–	156.1	142.3	13.8	–
Personnel costs	129.5	97.0	21.4	11.1	111.9	81.9	20.3	9.7
Guarantee, warranty and liability risks	87.1	68.5	14.3	4.3	70.0	55.5	10.2	4.3
Restructuring	18.3	18.3	–	–	16.0	13.4	2.6	–
Insurance premiums	12.7	12.7	–	–	13.4	13.4	–	–
Provisions for other taxes	10.3	10.3	–	–	9.2	9.1	0.1	–
Other provisions	35.3	22.2	4.8	8.3	42.5	27.9	6.8	7.8
Other provisions	**464.9**	**399.3**	**42.0**	**23.7**	**419.1**	**343.5**	**53.8**	**21.8**

(24) Financial debt and lease liabilities

	31.12.2019				31.12.2018			
	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 debt	5,203.8	758.7	3,089.0	1,356.1	5,918.9	677.7	3,241.1	2,000.1
Liabilities to banks[1]	4,292.9	678.5	2,433.3	1,181.1	4,483.5	584.8	2,559.7	1,339.0
Bonds	458.3	10.2	448.1	–	923.7	23.8	450.2	449.7
Other financial debt	452.6	70.1	207.6	175.0	511.7	69.1	231.2	211.4
Lease liabilities	1,193.4	482.4	604.3	106.6	99.0	38.6	59.3	1.1
Total	**6,397.2**	**1,241.2**	**3,693.3**	**1,462.7**	**6,017.9**	**716.3**	**3,300.4**	**2,001.2**

[1] This includes liabilities which result from sale and leaseback transactions that are accounted for as loan financing in accordance with IFRS 16 in conjunction with IFRS 15 (up to 31 December 2018 in accordance with SIC–27), insofar as the liabilities are to banks or special purpose entities, which are established and financed by banks.

Financial debt by currency exposure

million EUR	31.12.2019	31.12.2018
Denoted in USD (excl. transaction costs)	5,472.9	4,714.6
Denoted in EUR (excl. transaction costs)	736.1	1,118.2
Denoted in SAR (excl. transaction costs)	152.0	194.1
Denoted in other currencies (excl. transaction costs)	56.6	–
Interest liabilities	32.5	49.8
Transaction costs	–52.9	–58.8
Total	**6,397.2**	**6,017.9**

Financial debt includes liabilities to banks, bonds and other financial debt.

Liabilities to banks

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

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 456.4 million (previous year: EUR 414.0 million).

In the 2019 financial year, Hapag-Lloyd conducted 7 container sale and leaseback transactions to refinance investments in reefer and standard containers (Japanese operating leases [JOLs]). The lease agreements include substantial purchase options that entitle Hapag-Lloyd to repurchase the containers after 7 years. As a result, the transactions are recognised as loan financing in accordance with the provisions of IFRS 16 in conjunction with IFRS 15. The financing volume has a total amount of EUR 290.9 million.

Furthermore, sale and leaseback transactions were conducted for the refinancing of 2 container ships (Japanese operating leases [JOLs]). The lease agreements include substantial purchase options that entitle Hapag-Lloyd to repurchase the container ships after 8 or 7.5 years, respectively. The refinancing volume associated with these transactions has a total amount of EUR 168.8 million. The loan liabilities of EUR 115.3 million previously associated with these two ships were repaid in full.

These transactions are included in liabilities to banks, as the liabilities are to special purpose entities, which are established and financed by banks.

Overall, transactions of this kind resulted in liabilities to banks totalling EUR 1,293.7 million as at the reporting date (previous year: EUR 933.3 million) and other financial debt totalling EUR 443.3 million (previous year: EUR 501.4 million). Interest totalling EUR 75.6 million was recognised in interest expenses in the 2019 financial year (previous year: EUR 54.2 million).

Bonds

On 31 January 2019, the Executive Board of Hapag-Lloyd AG decided to conduct an early partial repayment of EUR 170.0 million of its bond due in 2022. On 14 June 2019, the Board resolved to completely repay the bond, with a remaining amount of EUR 280.0 million. Both the partial epayment made on 11 February 2019 and the repayment of the residual amount made on 24 June 2019 occurred at a repayment rate of 103.375%. The bond was issued in February 2017 with a nominal value of EUR 450.0 million and a coupon of 6.75%.

Lease liability

Descriptions relating to lease liabilities in the Hapag Lloyd Group are included in chapter “New accounting standards”.

Credit facilities

The Hapag-Lloyd Group had total available credit facilities of EUR 521.3 million as at 31 December 2019 (31 December 2018: EUR 475.9 million).

Reconciliation of the changes in debt with the cash flow from financing activities

million EUR	Financial debt				Liabilities (+) / assets (–) from derivative financial instruments in hedge accounting		
	Liabilities to banks	Bonds	Other finacial liabilities	Lease liabilities	Forward exchange contracts	Interest rate swaps	**Total**
As at 1 January 2018	**4,747.4**	**923.8**	**540.7**	**123.6**	**–31.2**	**9.4**	**6,313.7**
Changes of liabilities from financing cash flows							
Payments received from raising financial debt	782.1	–	–	–	–	–	782.1
Payments made for redemption of financial debt	–1,250.7	–	–65.1	–29.6	–	–	–1,345.4
Payments received (+) / made (–) from hedges for finacial debt	–	–	–	–	13.4	–4.0	9.4
Payments made for interest and fees	–230.9	–53.9	–25.1	–7.7	–	–	–317.6
Total changes of liabilities from financing cash flows	**–699.5**	**–53.9**	**–90.2**	**–37.3**	**13.4**	**–4.0**	**–871.5**
Effect of changes in exchange rates	197.9	1.1	23.7	4.9	1.5	0.4	229.5
Changes in fair value	–	–	–	–	78.7	6.4	85.1
Other changes	237.7	52.7	37.5	7.8	–	–4.2	331.5
As at 31 December 2018	**4,483.5**	**923.7**	**511.7**	**99.0**	**62.4**	**8.0**	**6,088.3**

million EUR	Financial debt				Liabilities (+) / assets (–) from derivate financial instruments in hedge accounting		
	Liabilities to banks	Bonds	Other finacial liabilities	Lease liabilities	Foward exchange contracts	Inetrest rate swaps	Total
As at 1 January 2019	**4,483.5**	**923.7**	**511.7**	**99.0**	**62.4**	**8.0**	**6,088.3**
First-time application of IFRS 16	–	–	–	947.6	–	–	947.6
Adjusted as at 1 January 2019	**4,483.5**	**923.7**	**511.7**	**1,046.6**	**62.4**	**8.0**	**7,035.9**
Changes of liabilities from financing cash flows							
Payments received from raising financial debt	924.3	–	–	–	–	–	924.3
Payments made for redemption of financial debt	–1,206.3	–456.8	–70.2	–	–	–	–1,733.2
Payments made for redemption of lease liabilities	–	–	–	–456.7	–	–	–456.7
Payments received (+) / made (–) from hedges for finacial debt	–	–	–	–	–98.4	–5.3	–103.7
Payments made for interest and fees	–234.5	–62.3	–27.7	–72.6	–	–	–397.1
Total changes of liabilities from financing cash flows	**–516.5**	**–519.1**	**–97.9**	**–529.3**	**–98.4**	**–5.3**	**–1,766.5**
Effect of changes in exchange rates	85.6	7.3	10.5	20.0	1.4	0.1	124.9
Changes in fair value	–	–	–	–	45.7	19.7	65.4
Other changes[1]	240.3	46.4	28.2	656.1	–	–	971.0
As at 31 December 2019	**4,292.9**	**458.3**	**452.5**	**1,193.4**	**11.1**	**22.5**	**6,430.7**

[1] The other changes in the lease liabilities mainly include current additions from IFRS 16 in the amount of EUR 591.5 million.

(25) Trade accounts payable, contract liabilities and other liabilities

	31.12.2019				31.12.2018			
	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	1,779.4	1,779.4	–	–	1,774.1	1,774.1	–	–
thereof to third parties	1,779.4	1,779.4	–	–	1,772.9	1,772.9	–	–
thereof to investments	–	–	–	–	1.2	1.2	–	–
Other liabilities	105.6	103.8	1.7	0.2	101.1	97.7	3.2	0.2
Other liabilities to employees	9.0	8.8	–	0.2	4.4	4.2	–	0.2
Put option	1.6	–	1.6	–	1.7	–	1.7	–
Other liabilities	95.0	95.0	–	–	95.0	93.5	1.5	–
Total	**1,885.0**	**1,883.2**	**1.7**	**0.2**	**1,875.2**	**1,871.8**	**3.2**	**0.2**
Non-financial liabilities								
Contract liabilities	372.9	372.9	–	–	260.3	260.3	–	–
Other liabilities	26.4	22.9	3.4	0.1	65.9	60.2	5.6	0.1
Other liabilities as part of social security	13.7	12.0	1.7	0.1	13.3	11.7	1.5	0.1
Other liabilities from other taxes	9.0	9.0	–	–	10.5	10.5	–	–
Prepaid income	3.5	1.8	1.7	–	41.7	37.6	4.1	–
Other liabilities	0.1	0.1	–	–	0.4	0.4	–	–
Total	**399.2**	**395.7**	**3.4**	**0.1**	**326.2**	**320.5**	**5.6**	**0.1**

(26) Derivate financial instruments

million EUR	31.12.2019 Total	31.12.2019 Remaining term more than 1 year	31.12.2018 Total	31.12.2018 Remaining term more than 1 year
Liabilities from derivative financial instruments	34.4	22.8	72.5	8.5
thereof derivatives in hedge accounting[1]	26.4	14.9	70.1	6.1
thereof derivatives not included in hedge accounting	8.0	8.0	2.4	2.4

[1] The market values of the non-designated time values and forward components, the changes of which are recognised in the reserve for cost 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 (27)).

(27) 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 hedged item on profit or loss is matched by the corresponding opposite change in the fair value of the hedging instrument 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. Alongside the euro, the Indian rupee (INR), Brazilian real (BRL), Chinese renminbi (CNY), British pound sterling (GBP), Canadian dollar (CAD), United Arab Emirates dirham (AED), Japanese yen (JPY) and Australian dollar (AUD) are also 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).

Hapag-Lloyd only designates the spot price element of the currency forward contracts. The change in the forward components is recorded in the reserve for cost of hedging 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.
- 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 –516.8 million.

	31.12.2019			31.12.2018		
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)	Reserve for cost of hedging (equity)
USD / EUR						
+10%	22.3	–	0.1	13.9	–	0.1
–10%	–22.3	–	–0.1	–13.9	–	–0.1
USD / CAD						
+10%	–0.4	1.3	–	–2.0	1.7	–
–10%	0.4	–1.3	–	2.0	–1.7	–
USD / INR						
+10%	3.3	–	–	1.5	–	–
–10%	–3.3	–	–	–1.5	–	–

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 cost of hedging 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. Due to the IMO2020 regulation, from 1 January 2020 the Hapag-Lloyd Group will mainly use low-sulphur fuel (LSFO 0.5%). Since the liquidity and level of price transparency on the financial market for derivative financial instruments with the underlying LSFO 0.5% are currently inadequate, for the time being fuel price hedging has been implemented by using Gasoil 0.1% (Marine Gas Oil) options as a proxy for LSFO 0.5%.

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 heged 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.

	31.12.2019		31.12.2018	
million EUR	10%	–10%	10%	–10%
Reserve for cash flow hedges	–	–	–	–
Reserve for cost of hedging	36.6	–12.0	5.1	–1.8

Interest rate risk

The Hapag-Lloyd Group is exposed to interest rate risks affecting cash flow, particularly from financial debt based on variable interest rates. In order to minimise the interest rate risk, the Group strives to achieve a balanced combination of assets and liabilities with variable and fixed interest rates. Interest rate 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 as hedges of 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 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. Generally, the nominal volume, benchmark interest rate and interest rate fixing dates of the hedged item and the hedging instrument 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 2019 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 3,042.2 million that existed at the balance sheet date (previous year: EUR 3,493.3 million), the fair value of interest rate swaps of EUR –22.5 million (previous year: EUR –8.0 million) and the market value of embedded derivatives totalling EUR 27.3 million (previous year: EUR 3.7 million). It is assumed that this exposure also constitutes a representative figure for the next financial year.

million EUR	31.12.2019		31.12.2018	
Change in variable interest rate	+100 base points	–100 base points	+100 base points	–100 base points
Reserve for cash flow hedges	12.5	–13.0	20.5	–20.9
Earnings before taxes	–39.5	40.2	–16.3	16.4

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 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.

With regard to derivative financial instruments, all the counterparties must have a credit rating or alternatively, for non-rated counterparties, 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 14.8 million (previous year: EUR 4.4 million) and negative fair values totalling EUR –34.4 million (previous year: EUR –72.5 million), there is the potential to offset financial assets and financial liabilities in the amount of EUR –5.3 million (previous year: EUR 1.1 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 27.3 million (previous year: EUR 3.7 million) were not taken into account here.

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 December 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**

Cash flows of financial instruments (31 December 2019)

	Cash inflows and outflows				
million EUR	2020	2021	2022–2024	from 2025	Total
Primary financial liabilities					
Liabilities to banks	–839.9	–736.8	–2,202.6	–1,159.3	–4,938.6
Bonds	–23.1	–23.1	–519.2	–	–565.3
Lease liabilities	–522.3	–290.1	–357.4	–108.2	–1,278.0
Other financial liabilities	–91.8	–96.1	–169.6	–192.4	–549.8
Trade accounts payable	–1,779.4	–	–	–	–1,779.4
Other liabilities	–103.8	–	–	–0.2	–104.0
Liabilities from put options	–	–	–2.5	–	–2.5
Total primary financial liabilities	**–3,360.3**	**–1,146.1**	**–3,251.3**	**–1,460.0**	**–9,217.6**
Total derivative financial liabilities	**–18.3**	**–7.2**	**–9.8**	**–**	**–35.3**

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

All financial instruments for which payments had already been contractually agreed as at the reporting date of 31 December 2019 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 fair values of the currency forward contracts used and the 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 and 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	31.12.2019 Positive market values	31.12.2019 Negative market values	31.12.2018 Positive market values	31.12.2018 Negative market values
Hedging instruments acc. to IFRS 9 (Hedge accounting)				
Commodity options	13.5	–	3.4	–
Currency forward contracts	1.0	–11.6	0.2	–63.7
Interest rate swaps	0.3	–14.9	0.8	–6.4
Hedges[1]	**14.8**	**–26.4**	**4.4**	**–70.1**
Derivative financial instruments (FVTPL)				
Interest rate swaps	–	–8.0	–	–2.4
Embedded derivatives	27.3	–	3.7	–
Other derivative financial instruments	**27.3**	**–8.0**	**3.7**	**–2.4**
Total	**42.1**	**–34.4**	**8.1**	**–72.5**

[1] The market values of the non-designated time values and forward components, the changes of which are recognised in the reserve for cost of hedging are also included.

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 spot rates of the hedging instruments by risk category:

	31.12.2019			31.12.2018		
	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	649.1	–	649.1	1,189.6	–	1,189.6
Hedged nominal in million CAD	52.5	–	52.5	57.5	–	57.5
Average hedged rate USD/EUR	1.16	–	1.16	1.22	–	1.22
Average hedged rate USD/CAD	0.76	–	0.76	0.76	–	0.76
Fuel price risk						
Hedged nominal in million USD	539.9	–	539.9	473.2	–	473.2
Average hedged price in USD	647.94	–	647.94	491.42	–	491.42
Interest rate risk						
Hedged nominal in million USD	–	561.3	561.3	107.1	783.8	890.9
Average fixed interest rate	–	2.77%	2.77%	3.22%	2.79%	2.84%

The hedging instruments designated for use in hedging relationships have the following effect on the consolidated statement of financial position:

	31.12.2018				
Hedge of cash flows	Nominal amount	Carrying amount asset in million EUR[1]	Carryig amount liability in million EUR[1]	Line item in the statement of financial position	Change in fair value used as measurment 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	–	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 890.9 million	0.8	6.4	Derivative financial instruments	4.0

[1] The market values of the non-designated fair values and forward components, the changes of which are recognised in the reserve for cost of hedging are also included.

	31.12.2019				
Hedge of cash flows	Nominal amount	Carrying amount asset in million EUR[1]	Carrying amount liability in million EUR[1]	Line item in the statement of financial position	Change in fair value used as measurement of the ineffectveness in the reporting period in million EUR
Currency risk					
Currency forward contracts (USD/EUR)	EUR 649.1 million	0.5	11.6	Derivative financial instruments	–1.4
Currency forward contracts (USD/CAD)	CAD 52.5 million	0.5	–	Derivative financial instruments	0.5
Fuel price risk					
Commodity options	833,250 mt	13.5	–	Derivative financial instruments	–
Interest rate risk					
Interest rate swaps	USD 561.3 million	0.3	14.9	Derivative financial instruments	–14.6

[1] The market values of the non-designated fair values and forward components, the changes of which are recognised in the reserve for cost of hedging are also included.

The hedged items designated to hedging relationships have the following effect on the consolidated statement of financial position:

	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

	31.12.2019	
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	1.4	–
Operational costs in CAD	–0.5	0.2
Fuel price risk		
Bunker purchases	–	–
Interest rate risk		
Interest payments of variable rate loans	14.6	–14.1

The hedging relationships described above have the following effect on the Group's income statement and other comprehensive income:

	31.12.2018				
Hedge of cash flows million EUR	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 financial items
Repayment of pension obligations in EUR	0.1	–	–	–0.1	Other financial items
Operational costs in CAD	–1.5	–	–	1.1	Transport expenses / other operating result
Fuel price risk					
Bunker purchases	19.0	–	–	–	–
Interest rate risk					
Interest payments of variable rate loans	–6.4	2.4	Interest expenses	2.6	Interest expenses

	31.12.2019				
Hedge of cash flows million EUR	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	–17.3	–	–	17.3	Other financial items
Operational costs in CAD	1.5	–	–	–0.9	Transport expenses / other operating result
Fuel price risk					
Bunker purchases	–	–	–	–	–
Interest rate risk					
Interest payments of variable rate loans	–15.8	2.2	Interest expenses	2.1	Interest expenses

The following table shows a reconciliation of the equity reserves which result from accounting for hedging relationships:

	2019		2018	
Cash flow hedges million EUR	Reserve for cash flow hedges	Reserve for cost of hedging	Reserve for cash flow hedges	Reserve for cost of hedging
Balance at 1.1.	**–0.8**	**–7.7**	**11.0**	**–1.0**
Change in fair value:	–31.7	–40.9	–38.5	–47.3
Currency risk[1]	–15.9	–28.6	–51.1	–29.2
Fuel price risk[2]	–	–12.3	19.0	–18.1
Interest rate risk	–15.8	–	–6.4	–
Reclassification into profit or loss:	18.5	27.0	52.9	29.4
Currency risk[1]	16.4	27.0	50.3	29.4
Fuel price risk[2]	–	–	–	–
Interest rate risk	2.1	–	2.6	–
Hedging gains and losses transferred to the cost of inventory:	–	11.7	–26.4	11.4
Fuel price risk[2]	–	11.7	–26.4	11.4
Currency translation differences:	–	–0.2	0.2	–0.2
Currency risk[1]	–	–	–	–
Fuel price risk[2]	–	–0.2	0.1	–0.2
Interest rate risk	–	–	0.1	–
Balance at 31.12.	**–14.0**	**–10.2**	**–0.8**	**–7.7**

[1] The currency risk shown in the reserve for cost of hedging includes only amounts in connection with forward components in currency forward contracts which are used to hedge against primarily time-period related hedged items.
[2] The fuel price risks shown in the reserve for cost of hedging includes only amounts in connection with the fair 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, trade accounts payable and significant portions of other assets and other liabilities are a suitable approximation of the 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. A disposal of the investments is not planned at present.

Carrying amounts, assessed values and fair values by class and valuation category as at 31.12.2018

		Carrying amount 31.12.2018	Amount recognised in the balance sheet under IFRS 9					
million EUR	Classification category according to IFRS 9	Total	Amortised 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	Amount recognised in the balance sheet under IFRS 15	Fair value of financial instruments
Assets								
	AC	227.7	227.7	–	–	–	–	227.7
Other assets	n/a[4]	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[4]	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[4]	99.1	–	–	–	99.1	–	103.2
Other liabilities	FLAC	99.4	99.4	–	–	–	–	99.4
	n/a[4]	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[4]	70.1	–	70.1	–	–	–	70.1
Trade accounts payable	FLAC	1,774.1	1,774.1	–	–	–	–	1,774.1
Contract liabilities	n/a[4]	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 Amortized 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 cost of hedging are also included.
2 Part of financial debt
3 Part of other liabilities
4 N/A means that this is not a financial instrument and thus a measurement category according to IFRS 9 is not applicable.

Carrying amounts, assessed values and fair values by class and valuation category as at 31.12.2019

million EUR	Classification category according to IFRS 9	Carrying amount 31.12.2019 Total	Amount recognised in the balance sheet under IFRS 9: Amortised acquisition cost	Fair value with no effect on profit or loss	Fair value through profit and loss	Amount recognised in the balance sheet under IFRS 16	Amount recognised in the balance sheet under IFRS 15	Fair value of financial instruments
Assets								
	AC	248.7	248.7	–	–	–	–	248.7
Other assets	n/a[3]	113.4	–	–	–	–	–	–
	FVTPL	8.5	–	–	8.5	–	–	8.5
Derivative financial instruments								
Derivatives (FVTPL)	FVTPL	27.3	–	–	27.3	–	–	27.3
Hedges (Hedge accounting)[1]	n/a[3]	14.8	–	14.8	–	–	–	14.8
Trade accounts receivable	AC	1,239.8	1,239.8	–	–	–	–	1,239.8
Cash and cash equivalents	AC	511.6	511.6	–	–	–	–	511.6
Liabilities								
Financial debt	FLAC	5,203.2	5,203.2	–	–	–	–	5,277.2
	FVTPL	0.6	–	–	0.6	–	–	0.6
Lease liabilities	n/a[3]	1,193.4	–	–	–	1,193.4	–	–
Other liabilities	FLAC	104.0	104.0	–	–	–	–	104.0
	n/a[3]	26.4	–	–	–	–	–	–
Liabilities from put options[2]	FLAC	1.6	1.6	–	–	–	–	1.8
Derivative financial liabilities								
Derivatives (FVTPL)	FVTPL	8.0	–	–	8.0	–	–	8.0
Hedges (Hedge accounting)[1]	n/a[3]	26.4	–	26.4	–	–	–	26.4
Trade accounts payable	FLAC	1,779.4	1,779.4	–	–	–	–	1,779.4
Contract liabilities	n/a[3]	372.9	–	–	–	–	372.9	–
Thereof aggregated according to IFRS 9 classification category								
Financial Assets measured at Amortized Cost (AC)		2,000.0	2,000.0	–	–	–	–	–
Financial Assets and Liabilities measured at Fair Value through Profit and Loss (FVTPL)		44.4	–	–	44.4	–	–	–
Financial Liabilities measured at Amortized Cost (FLAC)		7,088.3	7,088.3	–	–	–	–	–

1 The market values of the non-designated time values and forward components, the changes of which are recognised in the reserve for cost of hedging are also included.
2 Part of other liabilities
3 N/A means that this is not a financial instrument and thus a measurement category according to IFRS 9 is not applicable.

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 IFRS 9	31.12.2018 Level 1	Level 2	Level 3	**Total**
Assets					
Securities/investments	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
Lease liabilities[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 this is not a financial instrument and thus a measurement category according to IFRS 9 is not applicable.

million EUR	Classification category according to IFRS 9	31.12.2019 Level 1	Level 2	Level 3	**Total**
Assets					
Securities/investments	FVTPL	1.9	6.6	–	8.5
Derivative financial instruments (Hedge accounting)	n/a[2]	–	14.8	–	14.8
Derivative financial instruments (Trading)	FVTPL	–	27.3	–	27.3
Liabilities					
Derivative financial instruments (Hedge accounting)	n/a[2]	–	26.4	–	26.4
Derivative financial instruments (Trading)	FVTPL	–	8.0	–	8.0
Financial debt	FVTPL	–	–	0.6	0.6
Financial debt	FLAC	472.8	4,804.4	–	5,277.2
Liabilities from put options[1]	FLAC	–	–	1.8	1.8

1 Part of other liabilities
2 N/A means that this is not a financial instrument and thus a measurement category according to IFRS 9 is not applicable.

Net earnings

The net earnings of the financial instruments by classification category pursuant to IFRS 9 are as follows:

	31.12.2019			31.12.2018		
million EUR	From interest	Other net earnings	**Net earnings**	From interest	Other net earnings	**Net earnings**
Financial assets measured at amortised cost	5.1	–18.2	–13.1	–0.2	–70.0	–70.2
Financial liabilities measured at amortised cost	–312.7	16.5	–296.2	–327.1	72.3	–254.8
Financial assets and liabilities measured at fair value through profit or loss	17.4	0.2	17.7	–3.3	10.4	7.1
Total	**–290.2**	**–1.5**	**–291.7**	**–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 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 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) as an indicator of the performance within a period. The aim is to generate a return on invested capital at least equal to the weighted average cost of capital (WACC) of the Group across one economic cycle in the medium term. 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.

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.

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 2019, 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

(28) Government assistance

The Federal Maritime and Hydrographic Agency awarded training subsidies and subsidies for marine personnel totalling EUR 9.7 million in 2019 (previous year: EUR 10.6 million) according to the guideline for lowering indirect labour costs in the German marine industry. Overall, the Group received assistance and subsidies of EUR 10.4 million in the reporting year (previous year: EUR 11.2 million), which was recognised through profit and loss as a deduction from personnel expenses.

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 2019 financial year totalled EUR 25.0 million (previous year: EUR 25.0 million), which was recognised through profit and loss as a deduction from transport expenses.

(29) 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 2019, there were no sureties or guarantees requiring disclosure.

(30) 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 2019. Such payment obligations will not have any significant influence on the Group's net asset, financial and earnings position. As at the reporting date, there was USD 10.2 million (EUR 9.1 million) in contingent liabilities from legal disputes not classified as probable.

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 was also EUR 48.5 million in contingent liabilities from tax risks not classified as probable (previous year adjusted: EUR 40.7 million).

(31) Leases

Lessee

As a lessee, Hapag-Lloyd rents container ships, containers, office buildings, office space and parking spaces as well as other business equipment. The obligations under these contracts were primarily classified as operating lease contracts until 31 December 2018. In addition, Hapag-Lloyd leased container ships and containers through finance lease contracts until the end of the 2018 reporting year. Since 1 January 2019, the former finance lease contracts have been reported together with the former operating lease contracts in accordance with IFRS 16. For further details, please refer to the section “New accounting standards”.

Charter agreements for container ships are nearly always structured as time charter contracts, i.e. in addition to the capital costs, the charterer bears all of the ship operating costs, which are reimbursed as part of the charter rate. Non-lease components which are included in the price structure of the charter rates are not part of the lease liability. These costs are recognised in the (consolidated) income statement based on the time at which they are incurred. Some of the charter agreements contain renewal options enabling Hapag-Lloyd to respond flexibly to changes in the market and secure the use of the container vessels. If the extension options were exercised, potential lease payments of EUR 0.5 billion would arise. The potential lease payments have not yet been recognised as part of the lease liability.

The structure of the container lease contracts varies. Many of the contracts contain mutual rights of termination. The termination rights enable Hapag-Lloyd to react flexibly and at short notice to changes in the market. If the termination rights are not exercised, potential leasing payments of EUR 0.1 billion per year would result. The potential lease payments have not yet been recognised as part of the lease liability.

The structure of the contracts for the office buildings, office space and parking space also varies. Many of the contracts contain unilateral rights of termination. For further details, please refer to section “New accounting standards”.

The lease contracts for the aforementioned asset classes have terms of between 1 and 17 years.

Hapag-Lloyd has leases for rented container ships, rented office buildings, office space and parking spaces, rented vehicles and other business equipment, with terms of less than 12 months. No rights of use and no lease liabilities are recognised in the consolidated statement of financial position for these short-term leases. In addition, the Company has leases for other business equipment for which the underlying asset is of low value. No rights of use and no lease liabilities are recognised in the consolidated statement of financial position for these low-value leases either.

Hapag-Lloyd excludes IT contracts and contracts for intangible assets from the scope of application of IFRS 16.

The table below shows the development of rights of use for each asset class in the 2019 financial year:

million EUR	Vessels	Rented containers	Rented office buildings, grounds and parking slots	Rented Vehicles	Fixtures, fittings, tools and other office equipment	Total
Carrying amounts right of use as at 1.1.2019	**374.3**	**394.7**	**85.0**	**4.1**	**0.1**	**858.2**
Carrying amounts finance leases as at 1.1.2019	84.0	88.0	–	–	–	172.1
Adjusted carrying amount IFRS 16 leases	**458.3**	**482.7**	**85.0**	**4.1**	**0.1**	**1,030.2**
Depreciation in reporting period	–241.5	–192.6	–22.9	–2.1	–	–459.2
Additions right of use in reporting period	429.3	159.5	22.0	1.9	–	612.8
Disposals right of use in reporting period	–	–13.9	–0.8	–	–	–14.8
Transfers	–81.2	–3.0	–0.8	–0.4	–	–85.4
Exchange rate differences	8.8	9.9	1.7	0.1	–	20.5
Carrying amounts right of use as at 31.12.2019	**573.8**	**442.5**	**84.3**	**3.7**	**–**	**1,104.3**

The rights of use for the asset classes listed are reported under the item “property, plant and equipment”.

The remaining terms of the lease liabilities as at 31 December 2019 are presented in the table on financial debt in section (24) Financial debt and lease liabilities.

The following table shows the effects of IFRS 16 Leases to the Income Statement in financial year 2019:

million EUR	1.1.–31.12.2019
Transport expenses	9,707.0
Expenses from short term leases	297.0
Expenses from leases of low value assets	0.2
Expenses from variable lease payments	–
Depreciation, amortisation and impairment	1,174.4
Depreciation of right of use	459.2
Interest expenses and similar expenses	72.6

Total cash outflows for leases came to EUR 0.9 billion in the 2019 financial year.

As at 31 December 2019, future commitments under short-term leases totalled EUR 98.6 million (31 December 2018: EUR 131.0 million). The decrease resulted primarily from the use of a practical expedient at the point of first-time application. All leases with a remaining term of less than 12 months were classified as short-term leases at the point of first-time application.

For disclosures on future cash outflows from leases which Hapag-Lloyd has already entered into but which have not commenced yet, please refer to the section (32) Other financial obligations.

For information on sale and leaseback transactions carried out in 2019, please refer to Note (24) Financial liabilities and lease liabilities.

The following provides comparative information for finance and operating lease contracts in accordance with IAS 17 for the 2018 financial year for which Hapag-Lloyd was the lessee and lessor.

Lessee – finance leases

The Hapag-Lloyd Group had finance lease contracts as at 31 December 2018. The items leased in this regard were primarily ships and containers. The contracts had 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; the containers had a net carrying amount of EUR 88.0 million.

The future minimum lease payments from finance lease contracts and their present values were as follows as at 31 December 2018:

	31.12.2018			
		Remaining terms		
million EUR	Total	up to 1 year	1 – 5 years	more than 5 years
Future minimum lease payments	113.5	44.5	67.8	1.2
Interest portion	–14.5	–5.9	–8.5	–0.1
Present value	**99.0**	**38.6**	**59.3**	**1.1**

As at 31 December 2018, there were no expectations of future income from non-cancellable subletting arrangements, nor were there any contingent rental payments.

Lessee – operating leases
In the 2018 financial year, lease payments of EUR 1,117.3 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 consisted of the following in the 2018 financial year:

	31.12.2018			
	Remaining terms			
million EUR	Total	up to 1 year	1 – 5 years	more than 5 years
Vessels and containers	813.8	394.6	412.8	6.4
Business premises	100.3	23.7	49.2	27.4
Other	188.8	68.8	119.8	0.2
Total	**1,102.9**	**487.1**	**581.8**	**34.0**

As at 31 December 2018, future minimum lease income from subletting arrangements relating to non-cancellable subletting arrangements totalled EUR 0.2 million.

Lessor
Hapag-Lloyd acts as lessor in the context of operating lease contracts only to a very limited degree. In the 2019 financial year, a container ship owned by the Company was let short-term as part of an operating lease contract.

(32) Other financial obligations
The Group's other financial obligations as at 31 December 2019 comprised purchase obligations

- for investments in an exhaust gas cleaning system (EGCS) on container ships amounting to EUR 33.3 million,
- for investments in containers amounting to EUR 34.0 million,
- for investments in conversion to the use of liquid gas on container ships amounting to EUR 13.2 million,
- for investments in equipment for ballast water treatment on container ships amounting to EUR 5.2 million,
- for investments in the use of low-sulphur fuel on container ships amounting to EUR 2.6 million,
- for further investments on container ships totalling EUR 3.6 million.

The future cash outflow from leases which Hapag-Lloyd has already entered into but which have not commenced yet, amounting to EUR 129.5 million at the reporting date.

The Group's other financial obligations as at 31 December 2018 comprised purchase obligations 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.

(33) Share-based payment

Executive Board members

As part of the Company's IPO, long-term variable remuneration was introduced for Executive Board members in the form of virtual shares. Under the long-term incentive plan (LTIP), a specified euro amount (allocation amount) contractually agreed on an individual basis is allocated to each Executive Board member at the start of every calendar year, reflecting performance in the current and following three financial years (performance period).

This allocation amount is converted into virtual shares in the Company based on the average price of the Hapag-Lloyd AG share over the 60 trading days preceding the day on which the shares are granted. For the second tranche after the IPO, which was granted on 4 January 2016, there was 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 basic principle. 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 measurement of the virtual shares at the time they are granted is based on the allocation amount. In the financial year, 86,800 virtual shares were granted (previous year: 72,744 shares) with a fair value of EUR 2.6 million (previous year: EUR 2.5 million). As at 31 December 2019, there were 312,988 virtual shares (previous year: 415,836 shares) with a fair value of EUR 21.6 million (previous year: EUR 12.4 million).

In the reporting period, EUR 4.2 million (previous year: EUR 3.7 million) was recognised for share-based payments to Executive Board members through profit or loss. The provision for share-based payments to Executive Board members amounted to EUR 6.4 million as at 31 December 2019 (previous year: EUR 7.0 million).

Upper management level

The members of upper management levels also receive long-term variable remuneration based on virtual shares. Under this long-term incentive plan (LTIP), a specified euro amount (grant amount) contractually agreed on an individual basis is granted to each plan participant on 1 January of every calendar year.

This grant 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. As a basic principle, the virtual shares are subject to a 3-year vesting period which begins on 1 January of the calendar year in which the virtual shares are granted and ends on 31 December of the third subsequent year (vesting period).

When the vesting period expires, the virtual shares automatically become non-forfeitable and the LTIP becomes due for payment. The number of non-forfeitable virtual shares is converted into a euro amount by multiplying them by the relevant share price. This share price is equal to the average share price over the last 60 trading days before the vesting period ends.

The amount calculated in this way is paid to the respective plan participant as a gross amount on 31 March of the year following the end of the vesting period. The maximum payment amount is equal to 1.5 times the grant amount.

In the event of an early departure, the vesting period is curtailed to the end of the employment relationship and the virtual shares granted up until this time become non-forfeitable when the curtailed vesting period ends. If the curtailed vesting period ends during the year, the virtual shares granted in the year in which it ends are deemed to be non-forfeitable on a pro rata temporis basis, and the payment amount is reduced accordingly on a pro rata temporis basis. If the employment relationship ends due to extraordinary termination by the Company, all virtual shares for which the vesting period has not yet expired 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 plan participants must be treated like owners of real shares as a basic principle. In addition, the same regulations as detailed above in the section on the LTIP of the Executive Board members are applicable in this regard.

The measurement of the virtual shares at the time they are granted is based on the grant amount. In the financial year, 149.653 virtual shares were granted (previous year: 139.229 shares) with a fair value of EUR 4.5 million (previous year: EUR 4.7 million). As at 31 December 2019, there were 275,016 virtual shares (previous year: 134,418 shares) virtual with a fair value of EUR 19.0 million (previous year: EUR 4.0 million).

In the reporting period, EUR 9.0 million (previous year: EUR 4.0 million) was recognised for share-based payments to upper management level through profit or loss. The provision for share-based payments to upper management level amounted to EUR 12.6 million as at 31 December 2019 (previous year: 3.9 million).

(34) 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

(35) Services provided by the auditors of the consolidated financial statements
In the 2019 financial year, the following fees were paid to the external auditors KPMG AG Wirtschaftsprüfungsgesellschaft within the global KPMG network:

	1.1.–31.12.2019		1.1.–31.12.2018	
million EUR	Total	Domestic	Total	Domestic
Audit fees for annual audit	3.5	2.1	3.4	2.2
Audit fees for other assurance services	0.0	0.0	0.1	0.0
Audit fees for tax consultancy	0.0	–	0.0	0.0
Audit fees for other services	0.0	0.0	0.0	0.0
Total	**3.5**	**2.1**	**3.5**	**2.2**

The fee for audit services rendered by KPMG AG Wirtschaftsprüfungsgesellschaft related primarily to the audit of the consolidated financial statements and the annual financial statements of Hapag-Lloyd AG including legal contractual amendments and audits of the financial statements of subsidiaries. Activities integral to the audit were also performed in relation to audit reviews of interim financial statements, as were services in relation to an enforcement process.

Other attestation services relate to agreed examination actions on financial covenants, an EMIR audit pursuant to Section 20 of the German Securities Trading Act (WpHG) and compliance with certain requirements under EU regulations pursuant to Section 32 of the German Securities Trading Act (WpHG).

The other services relate to quality-assuring support services.

(36) Related party disclosures
In carrying out its ordinary business activities, Hapag-Lloyd AG maintains direct and indirect relationships with related parties as well as with its own subsidiaries included in the consolidated financial statements.

In the 2019 financial year, CSAV Germany Container Holding GmbH (CSAV) increased its stake in Hapag-Lloyd from 25.8% to 27.8%, while Kühne Maritime GmbH, together with Kühne Holding AG (Kühne), increased its stake from 25.0% to 29.6%. Apart from that, Hapag-Lloyd's shareholder structure remained virtually unchanged. As at 31 December 2019, CSAV, HGV and Klaus-Michael Kühne (including companies attributable to him, in particular through Kühne Maritime) therefore together held around 71% of the share capital of Hapag-Lloyd.

In the following disclosures on transactions with shareholders, the relationships with Kühne 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 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 %	2019	2018
Kühne Holding AG / Kühne Maritime GmbH	29.6	25.0
CSAV Germany Container Holding GmbH	27.8	25.8
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	4.0	10.6
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. 2019	1.1.–31.12. 2018	1.1.–31.12. 2019	1.1.–31.12. 2018
Shareholders	537.5	461.4	93.6	68.9
Affiliated non-consolidated companies	–	–	–	0.7
Associated companies and Joint Ventures	8.3	7.2	260.2	206.9
Total	**545.8**	**468.6**	**353.8**	**276.5**

	Receivables		Liabilities	
million EUR	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Shareholders	45.0	40.9	9.4	10.1
Affiliated non-consolidated companies	–	–	0.2	0.3
Associated companies and Joint Ventures	–	0.6	30.6	33.1
Total	**45.0**	**41.5**	**40.2**	**43.5**

The amounts for delivered goods and services and other income regognised arising from transactions with related parties contained in the above table result from services rendered (EUR 545.8 million; previous year: EUR 468.6 million).

Of the expenses for goods and services received and other expenses regognised shown above, EUR 353.0 million result from operating services (previous year: EUR 275.9 million) and EUR 0.8 million are from other services (previous year: EUR 0.6 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	2019	2018	2019	2018
Short-term benefits	4.8	4.3	1.9	1.6
Post-employment benefits	0.3	0.4	–	–
Share based benefits	4.2	3.7	–	–
Total	**9.3**	**8.6**	**1.9**	**1.6**

In the 2019 financial year, the employee representatives on the Supervisory Board received EUR 0.6 million (previous year: EUR 0.5 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	2019	2018	2019	2018
Active board members	7.4	6.8	1.3	1.1
Former board members	0.9	1.1	–	–
Total	**8.3**	**7.9**	**1.3**	**1.1**

The active Executive Board members were granted 86,800 virtual shares in total in the financial year, with a fair value of EUR 2.6 million at the time they were granted (previous year: 72,744 virtual shares with a fair value of EUR 2.5 million).

A total of EUR 30.4 million was allocated to pension provisions for former Executive Board members as at 31 December 2019 (previous year: EUR 24.5 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.

(37) Declaration of conformity with the German Corporate Governance Code (GCGC) pursuant to Section 161 of the German Stock Corporation Act (AktG)

The declaration required under Section 161 of the German Stock Corporation Act (AktG) was issued by the Executive Board and Supervisory Board in June 2019 and has been made permanently available to shareholders on the Company's website www.hapag-lloyd.com in the "Investor Relations" section under "Corporate Governance" at https://www.hapaglloyd.com/en/ir/corporate-governance/compliance-statement.html

(38) Significant transactions after the balance sheet date

There were no significant transaction after the balance sheet date with a material impact in the net asset, financial and earnings position of the Hapag-Lloyd Group.

(39) List of holdings pursuant to Section 315 a of the German Commercial Code (HGB)

Name of the company	Registered office	Currency unit (CU)	Shareholding 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
North Europe			
Hapag-Lloyd (Austria) GmbH	Vienna	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 (Schweiz) AG	Basel	CHF	100.00
Hapag-Lloyd (Sweden) AB	Gothenburg	SEK	100.00
Hapag-Lloyd (UK) Ltd.	Barking	GBP	100.00
Hapag-Lloyd Polska Sp.z.o.o.	Gdynia	PLN	100.00
Hapag-Lloyd Special Finance DAC	Dublin	USD	100.00
Oy Hapag-Lloyd Finland AB	Helsinki	EUR	100.00
UASAC (RUS) LLC	St. Petersburg	RUB	100.00
South Europe			
Hapag-Lloyd Denizasiri Nakliyat A.S.	Izmir	TRY	65.00
Hapag-Lloyd (Egypt) Shipping S.A.E.	Alexandria	EGP	49.00[5]
Hapag-Lloyd (Italy) S.R.L.	Milano	EUR	100.00
Hapag-Lloyd Portugal LDA	Lisboa	EUR	100.00
Hapag-Lloyd Spain S.L.	Barcelona	EUR	90.00
Norasia Container Lines Ltd.	Valletta	USD	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			
CSAV Group (China) Shipping Co. Ltd.	Shanghai	CNY	100.00
Hapag-Lloyd (Australia) Pty. Ltd.	Pyrmont	AUD	100.00
Hapag-Lloyd Business Services (Suzhou) Co. Ltd.	Suzhou	CNV	100.00
Hapag-Lloyd (Cambodia) Co., Ltd.	Phnom Penh	KHR	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

Name of the company	Registered office	Currency unit (CU)	Share-holding in %
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
Hapag-Lloyd (Vietnam) Ltd.	Ho Chi Minh City	VND	100.00
UASC (Thailand) Ltd.	Bangkok	THB	74.97
UASC Holding (Thailand) Ltd.	Bangkok	THB	49.95
United Arab Shipping Agency Co. (Asia) Pte Ltd.	Singapore	USD	100.00
United Arab Shipping Agency Company (Hong Kong) Ltd.	Hong Kong	HKD	100.00
United Arab Shipping Agency Company (Vietnam) Ltd.	Ho Chi Minh City	VND	100.00
United Arab Shipping Co. (Asia) Pte. Ltd.	Singapore	SGD	100.00
United Arab Shipping Company (Shanghai) Ltd.	Shanghai	CNY	100.00
Middle East			
Aratrans Transport and Logistics Service LLC	Dubai	AED	49.00[1]
Hapag-Lloyd Africa (PTY) Ltd.	Durban	ZAR	100.00
Hapag-Lloyd Bahrain Co. WLL	Manama	BHD	49.00
Hapag-Lloyd Business Services LLP	Mumbai	INR	100.00
Hapag-Lloyd (Ghana) Ltd.	Tema	GHS	65.00
Hapag-Lloyd Global Services Pvt. Ltd.	Thane	INR	100.00
Hapag-Lloyd India Private Ltd.	Mumbai	INR	100.00
Hapag- Lloyd (Jordan) Private Limited Company (formerly United Arab Shipping Agencies Company Private Shareholding Company)	Amman	JOD	50.00
Hapag-Lloyd Middle East Shipping LLC	Dubai	AED	49.00[1]
Hapag-Lloyd Pakistan (Pvt.) Ltd.	Karachi	PKR	100.00
Hapag-Lloyd Qatar WLL	Doha	QAR	49.00
Hapag-Lloyd Saudi Arabia Ltd.	Jeddah	SAR	60.00
Hapag-Lloyd Shipping Company – State of Kuwait (K.S.C.C.)	Kuwait City	KWD	49.00[1]
Middle East Container Repair Company LLC	Dubai	AED	49.00[2]
United Arab Shipping Agencies Co. LLC	Dubai	USD	49.00[1]
United Arab Shipping Agency Co. (India) Pvt. Ltd.	Chembur	INR	100.00
United Arab Shipping Company Ltd.	Dubai	USD	100.00
United Arab Shipping Company for Maritime Services LLC	Baghdad	IQD	100.00
United Arab Shipping Company Services DMCCO	Dubai	AED	100.00
North America			
Florida Vessel Management LLC	Wilmington	USD	75.00
Hapag-Lloyd (America) LLC	Wilmington	USD	100.00
Hapag-Lloyd (Canada) Inc.	Montreal	CAD	100.00
Hapag-Lloyd USA LLC	Wilmington	USD	100.00
Latin America			
Agencias Grupo CSAV Mexico S.A. de C.V.	Mexico City	MXN	100.00
Andes Operador Multimodal Ltda.	São Paulo	BRL	100.00

Name of the company	Registered office	Currency unit (CU)	Share-holding in %
Compañía Libra de Navegación (Uruguay) S.A.	Montevideo	UYU	100.00
CSAV Austral SpA	Santiago de Chile	USD	49.00
CSAV Ships S.A.	Panama City	USD	100.00
Hapag-Lloyd Argentina S.R.L.	Buenos Aires	ARS	100.00
Hapag-Lloyd Bolivia S.R.L.	Santa Cruz de la Sierra	BOB	100.00
Hapag-Lloyd Chile SpA	Valparaíso	USD	100.00
Hapag-Lloyd Colombia Ltda.	Bogota	COP	100.00
Hapag-Lloyd Costa Rica S.A.	San Jose	CRC	100.00
Hapag-Lloyd Ecuador S.A.	Guayaquil	USD	45.00
Hapag-Lloyd Guatemala, S.A.	Guatemala City	GTQ	100.00
Hapag-Lloyd Mexico S.A. de C.V.	Mexico City	MXN	100.00
Hapag-Lloyd (Peru) S.A.C.	Lima	PEN	60.00
Hapag-Lloyd Quality Service Center Bogotá S.A.S.	Bogota	COP	100.00
Hapag-Lloyd Uruguay S.A.	Montevideo	UYU	100.00
Hapag-Lloyd Venezuela C.A.	Caracas	VEF	100.00
Libra Serviços de Navegação Limitada	São Paulo	BRL	100.00
Norasia Alya S.A.	Panama City	USD	100.00
Rahue Investment Co. S.A.	Panama City	USD	100.00
Servicios Corporativos Portuarios S.A. de C.V.	Mexico City	MXN	100.00
Other			
Afif Ltd.	Majuro	USD	100.00
Ain Esnan Ltd.	Valletta	EUR	100.00
Al Dahna Ltd.	Valletta	EUR	100.00
Al Dhail Ltd.	Majuro	USD	100.00
Al Jasrah Ltd.	Majuro	USD	100.00
Al Jmeliyah Ltd.	Majuro	USD	100.00
Al Jowf Ltd.	Valletta	USD	100.00
Al Madinah Ltd.	George Town	USD	100.00
Al Mashrab Ltd.	Majuro	USD	100.00
Al Murabba Ltd.	Majuro	USD	100.00
Al Muraykh Ltd.	Valletta	EUR	100.00
Al Mutanabbi Ltd.	George Town	USD	100.00
Al Nasriyah Ltd.	Majuro	USD	100.00
Al Nefud Ltd.	Valletta	EUR	100.00
Al Oyun Ltd.	George Town	USD	100.00
Al Qibla Ltd.	Valletta	USD	100.00
Al Rawdah Ltd.	Majuro	EUR	100.00
Al Riffa Ltd.	Valletta	EUR	100.00
Al Wakrah Ltd.	George Town	USD	100.00
Al Zubara Ltd.	Valletta	EUR	100.00
Alula Ltd.	Valletta	EUR	100.00
Barzan Ltd.	Valletta	EUR	100.00
Busaiteen	George Town	USD	100.00

Name of the company	Registered office	Currency unit (CU)	Shareholding in %
CSBC Hull 900 Ltd.	Douglas	USD	100.00
Dhat Al Salasil Ltd.	George Town	USD	100.00
Hira Ltd.	George Town	USD	100.00
Hull 1975 Co. Ltd.	Majuro	USD	100.00
Hull 1976 Co. Ltd.	Majuro	USD	100.00
Jebel Ali Ltd.	Valletta	EUR	100.00
Linah Ltd.	Majuro	USD	100.00
Manamah Ltd.	George Town	USD	100.00
Onayzah Ltd.	Valletta	EUR	100.00
Qurtuba Ltd.	George Town	USD	100.00
Sajid Ltd.	Majuro	USD	100.00
Salahuddin Ltd.	Majuro	USD	100.00
Ship Management (No. 1) Ltd.	Dubai	USD	99.80
Ship Management (No. 2) Ltd.	Dubai	USD	99.80
Tayma Ltd.	Valletta	EUR	100.00
Tihama Ltd.	Valletta	EUR	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
Umm Qarn Ltd.	Majuro	USD	100.00
Umm Salal Ltd.	Valletta	EUR	100.00
Joint Venture			
Consorcio Naviero Peruano S.A.	San Isidro	USD	47.93[6]
Texas Stevedoring Services LLC	Wilmington	USD	50.00
Associated companies			
Djibouti Container Services FZCO	Djibouti	DJF	19.06[3]
Hapag-Lloyd Lanka (Private) Ltd.	Colombo	LKR	40.00
HHLA Container Terminal Altenwerder GmbH	Hamburg	EUR	25.100
United Arab Shipping Agency Company (Thailand) Ltd.	Bangkok	THB	49.00
Affiliated non-consolidated companies			
Ash-Shahaniyah Ltd.	George Town	USD	100.00
Brunswick Investment Co. Inc.	Nassau	USD	100.00
Chacabuco Shipping Ltd.	Majuro	USD	100.00
CMR Container Maintenance Repair Hamburg GmbH	Hamburg	EUR	100.00
CSBC Hull 898 Ltd.	Douglas	USD	100.00
Hamburg-Amerikanische-Packetfahrt-Gesellschaft mbH	Hamburg	EUR	100.00
Hapag-Lloyd Business Services (Malaysia) Sdn. Bhd.	Kuala Lumpur	MYR	100.00
Hapag-Lloyd Container (No. 2) Ltd.	Barking	EUR	100.00
Hapag-Lloyd Container (No. 3) Ltd.	Barking	EUR	100.00

Name of the company	Registered office	Currency unit (CU)	Share-holding in %
Hapag-Lloyd Container Ltd.	Barking	EUR	100.00
Hapag-Lloyd Quality Service Center Mauritius	Port Louis	MUR	100.00
Hapag-Lloyd Ships (No. 2) Ltd.	Barking	EUR	100.00
Hapag-Lloyd Ships Ltd.	Barking	EUR	100.00
Hull 1794 Co. Ltd.	Majuro	USD	100.00
Hull 2082 Co. Ltd.	Majuro	USD	100.00
Malik Al Ashtar Ltd.	Valletta	EUR	100.00
Malleco Shipping Co. S.A.	Panama City	USD	100.00
Maule Shipping Co. S.A.	Panama City	USD	100.00
Norddeutscher Lloyd GmbH	Bremen	EUR	100.00
Palena Shipping Ltd.	Majuro	USD	100.00
Servicios de Procesamiento Naviero S.R.L. i.L.	Montevideo	USD	100.00
Southern Shipmanagement Chile Ltda.	Valparaíso	USD	100.00
Southern Shipmanagement Co. S.A.	Panama City	USD	100.00
UASAC Groupement France G.I.E.	Marseille	EUR	100.00
UASC Services (India) Pvt. Ltd. i.L.	Chembur	INR	99.99[4]
UASAC Uruguay (S.A.)	Montevideo	UYU	60.00
United Arab Shipping Agency Co. (Polska) Sp.z.o.o. i. L.	Warsaw	PLN	100.00
United Arab Shipping Agency Company (CEE) Kft.	Budapest	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 2.19% are hold by a trustee on behalf of Hapag-Lloyd Group.
4 Additional 0.01% are hold by a trustee on behalf of Hapag-Lloyd Group.
5 Additional 16.00% are hold by a trustee on behalf of Hapag-Lloyd Group.
6 Additional 2.07% are hold by a trustee on behalf of Hapag-Lloyd Group.

Hamburg, 10. March 2020

Hapag-Lloyd Aktiengesellschaft
Executive Board

Rolf Habben Jansen

Mark Frese

Dr Maximilian Rothkopf

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 combined 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, 10 March 2020

Hapag-Lloyd Aktiengesellschaft
Executive Board

Rolf Habben Jansen

Mark Frese

Dr Maximilian Rothkopf

Joachim Schlotfeldt

INDEPENDENT AUDITOR'S REPORT

To Hapag-Lloyd Aktiengesellschaft, Hamburg

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED 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 2019, 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 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report of Hapag-Lloyd Aktiengesellschaft and the Group (combined management report) for the financial year from 1 January to 31 December 2019. In accordance with German legal requirements, we have not audited the content of those components of the combined management report specified in the "Other Information" section of our auditor's report.

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 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of those components of the combined management report specified in the "Other Information" section of the auditor's report.

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 combined management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined 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 Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined 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 Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined 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 2019. 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.

Accounting for unfinished voyages

For further information on the accounting policies applied, please refer to the disclosures in the notes to the consolidated financial statements under "Fundamental accounting principles – Realisation of income and expenses" and "Notes to the consolidated income statement – (1) Revenue".

THE FINANCIAL STATEMENT RISK

Revenue for unfinished voyages is 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 revenue for unfinished voyages is 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 revenue 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 inspected the model for computational accuracy.

OUR OBSERVATIONS

Hapag-Lloyd's approach with respect to revenue recognition cut-off is appropriate.

Completeness, accuracy and measurement of the right-of-use assets and leaseliabilities according to the new accounting standard IFRS 16 Leases in relation to ships and containers

THE FINANCIAL STATEMENT RISK

IFRS 16 Leases 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.

The first-time application of the new financial reporting standard "IFRS 16 Leases" had a material effect on the opening statement of financial position figures for the financial year and how they were updated as at the reporting date. As at 31 December 2019, right-of-use assets of EUR 1,031 million and lease liabilities of EUR 1,193 million are recognized in the consolidated financial statements of Hapag-Lloyd AG. Right-of-use assets and lease liabilities account for 6% and 7% of total assets respectively and thus have a material influence on the Company's financial position.

The determination of the lease term, the amount of the lease payments and the incremental borrowing rate used as the discount rate may require judgement and be based on estimates. Furthermore, determining the first-time application effect of IFRS 16 and the updated lease liabilities and right-of-use assets in accordance with the standard requires the recording of extensive data from the lease agreements. There is the risk for the consolidated financial statements that the lease liabilities and right-of-use assets are not recorded in full in the consolidated statement of financial position. There is also the risk that the lease liabilities and right-of-use assets have not been appropriately measured.

OUR AUDIT APPROACH

In an initial step, we 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 on the basis of risk-oriented elements.

OUR OBSERVATIONS

Hapag-Lloyd has established appropriate procedures to record leases for the purposes of IFRS 16. The assumptions and parameters used to measure the lease liabilities and right-of-use assets are appropriate overall.

Other Information

Management and/or the Supervisory Board are/is responsible for the other information. The other information comprises the following parts of the combined management report, whose content was not audited:

- the corporate governance statement referred to in the combined management report, and
- the separate non-financial report, which will be provided to us expected after the date of this independent auditor's report, which is referred to in the combined management report.

The other information also includes the remaining parts of the annual report.

The other information does not include the consolidated financial statements, the combined management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the combined 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 information in the combined management report audited for content 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 Combined 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 assets, liabilities, financial position and financial performance of the Group. 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 combined 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 combined 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 combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined 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 combined 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 combined 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 combined 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 of the combined 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 combined 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 combined 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 combined 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 combined 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 combined 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 Article 10 of the EU Audit Regulation
We were elected as group auditor at the annual general meeting on 12 June 2019. We were engaged by the chair of the Audit and Finance Committee of the Supervisory Board on 5 August 2019. We have been group auditor of Hapag-Lloyd Aktiengesellschaft, Hamburg, without interruption since financial year 2015.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Dr Victoria Röhricht.

Hamburg, 11 March 2020

KPMG AG

Wirtschaftsprüfungsgesellschaft

Madsen	Dr. Röhricht
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

FINANCIAL CALENDAR

15 MAY 2020
Publication of quarterly financial report Q1 2020

5 JUNE 2020
Annual general meeting

14 AUGUST 2020
Publication of quarterly financial report H1 2020

13 NOVEMBER 2020
Publication of quarterly financial report 9M 2020

IMPRINT

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