ANNUAL REPORT 2010

Hapag-Lloyd

SUMMARY OF HAPAG-LLOYD KEY FIGURES

KEY OPERATING FIGURES		1.1. – 31.12. 2010	1.1. – 31.12. 2009[1)]	Change absolute
Total vessels [2)], of which		**137**	114	+23
own vessels		**59**	56	+3
leased vessels		**9**	9	-
chartered vessels		**69**	49	+20
Aggregate capacity of vessels	TTEU	**605**	478	+127
Total containers	TTEU	**1,025**	1,009	+16
Bunker price (average for the year) [2)]	USD/t	**453**	328	+125
Exchange rate (average for the year) [2)]	USD/EUR	**1.33**	1.39	-0.06
Freight rate (average for the year) [2)]	USD/TEU	**1,569**	1,257	+312
Transport volume [2)]	TTEU	**4,947**	4,637	+310
Revenue	Million EUR	**6,204**	3,326	+2,878
Total revenue (revenue + other operating income)	Million EUR	**6,336**	3,417	+2,919
Transport expenses	Million EUR	**4,811**	3,042	+1,769
Gross earnings (revenue – transport expenses)	Million EUR	**1,525**	375	+1,150
EBITDA	Million EUR	**904**	-103	+1,007
EBIT	Million EUR	**583**	-342	+925
EBIT adjusted	Million EUR	**550**	-420	+970
Consolidated net income for the year	Million EUR	**428**	-402	+830
Cash flow from operating activities [2)]	Million EUR	**664**	-330	+994
Investment in property, plant and equipment	Million EUR	**498**	127	+371
KEY RETURN FIGURES				
EBITDA margin (EBITDA / revenue)	%	**14.6**	-3.1	
EBIT margin (EBIT / revenue)	%	**9.4**	-10.3	
Return on equity	%	**12.4**	-14.5	
KEY BALANCE SHEET FIGURES AS AT 31 DECEMBER				
Balance sheet total	Million EUR	**6,570**	5,619	+951
Equity	Million EUR	**3,443**	2,766	+677
Equity ratio (equity / balance sheet total)	%	**52**	49	+3pp
Borrowed capital	Million EUR	**3,127**	2,853	+274
KEY FINANCIAL FIGURES AS AT 31 DECEMBER				
Financial liabilities	Million EUR	**1,878**	1,682	+196
Cash and cash equivalents	Million EUR	**752**	413	+339
Net borrowing (cash and cash equivalents - financial liabilities)	Million EUR	**1,126**	1,126	-
Gearing (net borrowing / equity)	%	**33**	41	-8pp
Repayment period (net borrowing / EBITDA)	Years	**1.2**	-	-
Interest coverage ratio (EBITDA / interest balance)		**6.6**	-	-
NUMBER OF EMPLOYEES AS AT 31 DECEMBER				
Employees at sea		**1,306**	1,195	+111
Employees on land		**5,566**	5,624	-58
HAPAG-LLOYD TOTAL		**6,872**	6,819	+53

ANNUAL REPORT 2010

"Albert Ballin" Holding GmbH & Co. KG

Hapag-Lloyd

Contents


HAPAG

(f.l.t.r)
Jesper Praestensgaard
Peter Ganz
Michael Behrendt
Ulrich Kranich

Ladies and Gentlemen,

2010 is being celebrated as the most successful year so far in Hapag-Lloyd's long history. We achieved the turnaround more quickly than we had forecast, thereby creating the basis for Hapag-Lloyd to continue its positive development. In doing so, we benefited from the fact that early on, at the end of 2008 when the developing global economic crisis was unfolding, we had implemented vigorous countermeasures and geared our organisation even more strongly towards sales.

The first signs of a slight reversal in the negative trend became evident towards the end of 2009. World trade picked up again, accompanied immediately by global container traffic. Hapag-Lloyd not only benefited from volume growth; during the course of 2010 we also managed to continuously push through freight rate increases on the market. During the crisis we had been one of the few lines to reduce substantially its vessel capacity, thereby adjusting it to the lower level of traffic. Last year, demonstrating equal flexibility, we increased our capacity again to take advantage of the market opportunities that were emerging. With the help of our yield management, moreover, we have carried out a cargo selection process and are now concentrating selectively on profitable freightage. And finally, thanks to our long-established and trusting links with Hyundai Heavy Industries, we have managed to delay the delivery of newly built vessels that had already been ordered.

At the end of 2010, when all the forecasts were again assuming continuous long-term growth in container traffic, we ordered four large vessels with a capacity of 13,200 standard containers (TEU) each. It was also agreed that the six new vessels ordered at the beginning of 2008 should be fitted out to provide the same capacity. These ten large vessels are scheduled for delivery between mid-2012 and the end of 2013 and comply with all current environmental requirements.

Thanks to a variety of technical innovations, consumption per TEU and nautical mile is significantly lower than that of older units.

The vessels are intended for service on the Far East routes operated jointly with our partners in the Grand Alliance. This quantum leap into the next generation of vessels has created the preconditions for us to grow along with the market as planned. At the same time, these newly built vessels are further improving our cost structure. This, together with our IT system, a leader in our industry which we are enhancing continuously, is enabling us to keep on improving our productivity. We aspire to be one of the cost leaders in our sector.

Our approach of seeing the crisis as a sign of change and using it rigorously to achieve reorientation is paying off. Today we are one of the few “pure players” in global container shipping and have a competitive cost basis. Furthermore, we have managed to restructure and optimise our scheduled services and, not least, reduce our overhead costs significantly. The cost-cutting programme totalled USD 1.1 billion compared with 2008.

Our employees, more than anyone else, deserve our heartfelt thanks for this. Without exception, they not only accepted reductions in their pay but also committed themselves to “their” company with great enthusiasm and loyalty during a difficult period. Our customers have assured us that our service and our motivation have remained at an exceedingly high level, above all during the crisis. We can be proud of that, for sure, but we also regard it as an incentive to continue refining our services in line with customers’ requirements.

In a process of interaction with our shareholders, moreover, we were able to improve our financial structures substantially in 2010. The termination of the standstill agreement with the financial institutions and the return of the state guarantee were visible signs that we had overcome the crisis. This was demonstrated by the placement of two corporate bonds that were received very positively by the capital market. The issues were oversubscribed, proving that our outstanding reputation has not suffered even during the difficult times. Finally we were able to buy back our head office building in Hamburg and repay almost EUR 600 million in shareholder loans plus interest. All in all, we were able to increase our equity by around EUR 2 billion to EUR 3.4 billion in the period from 2008 to 2010. As at the end of 2010 our equity ratio was 52%, compared with 34% in 2008.

Hapag-Lloyd has emerged strengthened from the crisis and operates in one of world trading’s most dynamic markets, one that will draw lasting benefit from continuing globalisation. Our experienced senior management has proven that even in situations fraught with difficulty, it reacts quickly and flexibly to the challenges at hand. The Company is back on a very sound financial footing, and ordering the ten large vessels has created the prerequisites for further organic and, above all, long-term profitable growth. The successful issuing of our bonds has shown that our business model, that of a shipping company offering only scheduled container services, is regarded as attractive by the capital markets. This is opening up additional scope for the further development of our company.

2010 was in many respects an extraordinary year with an extraordinary jump in our profits. It is therefore not to be seen as a benchmark, but our profitability goals nevertheless remain ambitious. We are going to carry on developing our IT systems to increase our effectiveness, we want to keep taking advantage of all potential savings, and we wish not only to satisfy our customers' requirements but also, ideally, to be one step ahead. Our objectives in all of these endeavours are to grow profitably and generate an attractive yield for our shareholders. We believe that we are well on the way to achieving this.

Michael Behrendt
Chief Executive Officer

REPORT BY THE SUPERVISORY BOARD

In the financial year 2010 the Supervisory Board performed the tasks incumbent upon it under the law and the articles of association and advised and supervised the Executive Board in its management of the Company. It obtained information from the Executive Board regularly, comprehensively and promptly about the general economic conditions, the position and development of the Company, the most important key financial figures, business transactions of note and risk management, both orally and in writing. The Supervisory Board was provided with information promptly at all times. The Executive Board answered all of the Supervisory Board's questions fully and comprehensively.

Meetings of the Supervisory Board

In four ordinary meetings, the Supervisory Board concerned itself with the development of ongoing business operations, the approval of important individual transactions, the examination of the Executive Board's reports, the reports from the various committees, and the adjusted corporate plans.

At its meeting on 23 February 2010, the Supervisory Board concerned itself with the presentation of the annual financial statements and the Group reports package of Hapag-Lloyd AG, as well as the management report prepared by the Executive Board for Hapag-Lloyd AG for the short financial year from 1 March to 31 December 2009. The annual financial statements were approved and adopted by the Supervisory Board. At this meeting the Supervisory Board also made the preparations for the annual shareholders' meeting which took place on the same day.

At its meeting on 15 June 2010, the Supervisory Board discussed the Executive Board's report on the current business position in detail. In addition, Prof Dr Dirk Jens Nonnenmacher was elected as a member of the Audit Committee.

Alongside the scheduled discussion of the business position, the Supervisory Board meeting on 26 August 2010 also discussed in particular the preparation of the bond issue for the restructuring of the Group's financing. The Supervisory Board also concerned itself with the appointment of Mr Jesper Praestensgaard as the Executive Board member responsible for marketing and sales effective as at 1 January 2011, and appointed Mr Michael Behrendt as Labour Director.

The meeting on 7 December 2010 dealt with the report on the current business position and the planning for the period 2011 to 2015. Furthermore, the new allocation of duties for the Executive Board was approved.

Meetings of the Supervisory Board's committees

At each of its four ordinary meetings, the Presiding Committee made the preparations for the four ordinary Supervisory Board meetings which took place on the same respective days and edited the minutes of the respective four preceding Supervisory Board meetings. In addition, matters relating to the Executive Board were dealt with at the Committee's two meetings on 26 August and 7 December 2010.

At the five meetings of the Finance and Investment Committee, complex financing/refinancing and investment topics were prepared and the minutes of the – in most cases – respective preceding meetings were edited.

At the first meeting in 2010, which was held on 24 August, the election of Dr Andreas Reuß as Committee Chairman was followed by the preparations for the financing measures still pending for 2010, in particular the issuing of a high-yield bond in two different currency tranches (USD 250 million and EUR 330 million) for presentation at the subsequent Supervisory Board meeting on 26 August.

In the subsequent meeting on 21 September 2010, the financing measures that had previously been submitted were approved.

The issuing of the additional EUR 150 million tranche to supplement the existing EUR 330 million tranche was on the agenda at the meeting on 21 October 2010.

The meeting held on 3 December focused mainly on the report dealing with the ongoing business position, the 2010 investment report and the forecast for the year 2010 (forecast 3). The planning for the next five years, 2011 to 2015, and the scenario analysis of the vessel capacities required up to 2013 were also discussed intensively.

At the last meeting of 2010, which was held on 10 December, the earnings, investment and financial planning for 2011 to 2015 was discussed and approved.

The Supervisory Board's Audit Committee held four meetings in 2010. Its first meeting of the year, held on 19 February, was also attended by a representative of the auditing company PricewaterhouseCoopers, in particular to address questions about Hapag-Lloyd AG's individual and consolidated financial statements as at 31 December 2009.

In addition, the consolidated financial statements of “Albert Ballin“ Holding GmbH & Co. KG as at 31 December 2009 were presented, and the status of the invitation to tender for the awarding of the 2010 audit assignment for Hapag-Lloyd AG and the organisation of Hapag-Lloyd AG’s Group accounting were discussed.

The study of the consolidated financial statements of “Albert Ballin“ Holding as at 31 December 2009 was the focus of the meeting on 23 April 2010. The presentation and choice of auditor for Hapag-Lloyd AG for the financial year 2010 were discussed, as was the cost development and capacity planning in respect of vessels.

The meeting on 25 August 2010 saw the presentation of the report on the second quarter and the first six months of 2010, as well as that of the Internal Control System (ICS) relating to the Group accounting process. The reports on the hedging transactions in the Group, the compliance organisation and the Group auditing were also on hand for information purposes.

The interim report on the third quarter and the first nine months of the financial year, as well as the report on the risk position as at 30 September 2009, were submitted on 6 December 2010. The meeting was also attended by a representative of the newly chosen auditing company KPMG for the purpose of explaining the major focal points of the audit for the financial year 2010. Furthermore, the audit planning for Group auditing in 2011 was presented, the impairment tests were discussed, and the forecast for the year 2010 (forecast 3) were discussed together with the plans for the next five years (2011 to 2015).

The Nomination Committee’s four meetings in 2010 dealt solely with the allocation of portfolio responsibilities within the Executive Board and the nomination and annulment of Executive Board posts. At its meeting on 2 July 2010, the annulment of Mr Roland Kirch’s Executive Board membership and the transfer of the Labour Director function to Mr Michael Behrendt were discussed.

The preparations for the appointment of Mr Michael Behrendt as Labour Director were made at the meeting on 26 August 2010, as they were for the appointment of Mr Jesper Praestensgaard as Executive Board member with responsibility for marketing and sales effective as from 1 January 2011.

The Committee’s two subsequent meetings, held on 1 and 7 December, dealt in particular with the new allocation of duties for the Executive Board.

Composition of the Supervisory Board and the Executive Board
On the Supervisory Board, Dr Jürgen Krumnow and Mr Heino Greve resigned from their posts effective as at 15 and 16 February 2010 respectively. Dr Heiko Fischer and Dr Dietmar Kuhnt were respectively appointed as their successors effective as at 16 February 2010.

Dr Peter Rieck resigned from his Supervisory Board post effective as at 31 May 2010. Prof Dr Dirk Jens Nonnenmacher was appointed as his successor effective as at 1 June 2010.

In the financial year 2010 there was one change in the composition of Hapag-Lloyd AG's Executive Board. Mr Roland Kirch, member of the Executive Board of Hapag-Lloyd AG, who was responsible for the "Development and Markets" department and served as Labour Director, left the Company at his own request as at 30 June 2010. Mr Kirch's duties will be performed provisionally by the other members of the Executive Board.

Audit of individual and consolidated financial statements 2010
The financial statement and the management report of the Hapag-Lloyd AG as well as the consolidated financial statement and the group management report of the "Albert Ballin" Holding for the financial year 2010 were audited and granted the unqualified auditor's report by KPMG AG Wirtschaftsprüfungsgesellschaft, Hamburg, the auditors appointed by the Supervisory Board.

The relevant financial statement documents and management reports, the proposal by the Executive Board on the appropriation of profits, and the audit reports by the auditor were available to the Supervisory Board in good time.
They were examined and discussed in great detail by the Supervisory Board's Audit Commitee in the presence of the auditor and the Executive Board on 28 March 2011.

At its meeting on 30 March 2011, the Supervisory Board examined and approved the financial statement and the management report of the Hapag-Lloyd AG.

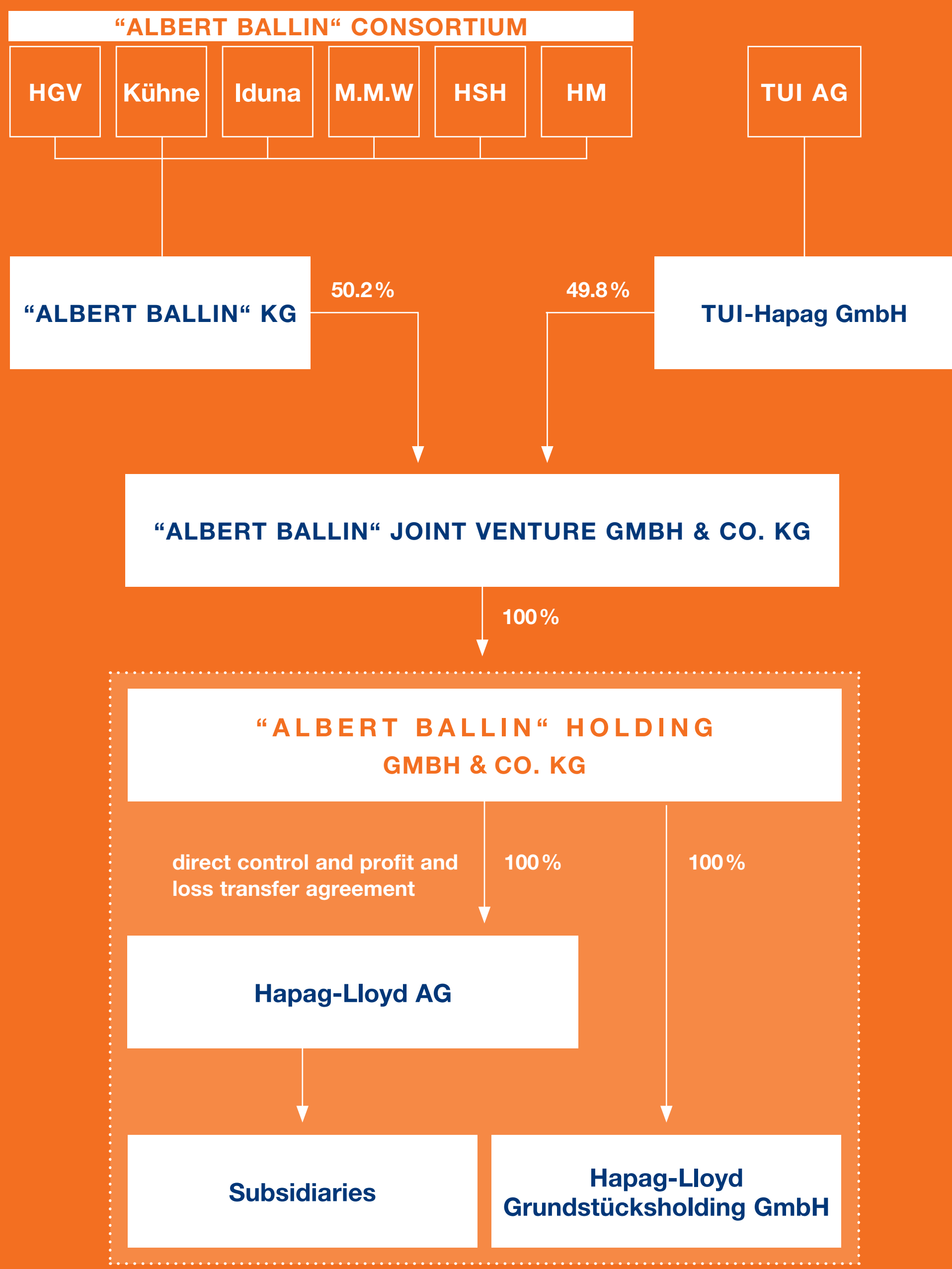
The Supervisory Board thanks the Executive Board, the employees and the members of the Worker's Council for their great effort and commitment.

Hamburg, 30 March 2011

Frenzel

Michael Frenzel
Chairman of the Supervisory Board

SHAREHOLDERS AND GROUP STRUCTURE



"Albert Ballin" Consortium

HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement
Kühne Holding AG
Iduna Vereinigte Lebensversicherung aG für Handwerk, Handel und Gewerbe
HSH Nordbank AG
M. M. Warburg & CO Gruppe KGaA
HanseMerkur Krankenversicherung AG and HanseMerkur Lebensversicherung AG

HAPAG-LLOYD – CAPITAL MARKET ACTIVITIES

SHAREHOLDERS AND INVESTORS

The Hapag-Lloyd Group's parent company is "Albert Ballin" Holding GmbH & Co. KG ("Albert Ballin" Holding) based in Hamburg. The indirect shareholders in "Albert Ballin" Holding GmbH & Co. KG are – at 31 December 2010 – Hamburgische Seefahrtsbeteiligung "Albert Ballin" GmbH & Co. KG with 50.2% and the TUI Group with 49.8%. The Group acquired all of the shares in Hapag-Lloyd AG, Hamburg, on 23 March 2009.

HAPAG-LLOYD'S ISSUE OF BONDS ON THE CAPITAL MARKET

Ratings from Moody's and Standard & Poor's
In September 2010, Hapag-Lloyd AG was awarded issuer ratings of B1 with a stable outlook by Moody's Investors Services and BB- with a similarly stable outlook by Standard & Poor's. The bonds issued in October 2010 received a B rating from Standard & Poor's and a B3 rating from Moody's.

On 8 October 2010, a bond with a seven-year term denominated in US dollars amounting to USD 250 million and a bond with a five-year term denominated in euros amounting to EUR 330 million were issued. As the euro bond met with a highly positive reception on the capital market, it was increased by a further EUR 150 million on 28 October. The USD bond has a coupon of 9.75% and the euro bond bears a nominal interest rate of 9.00%. For both bonds, interest is paid out at half-yearly intervals on 15 April an 15 October respectively.

Summary terms bonds issued

Issue	EUR tranche	USD tranches	Add. EUR tranches
Issuer	Hapag-Lloyd AG		
Guarantor	"Albert Ballin" Holding GmbH & Co. KG		
Amount	EUR 330,000,000	USD 250,000,000	EUR 150,000,000
Proceeds	EUR 328,354,950	USD 248,432,750	EUR 155,062,500
Maturity	15 October 2015	15 October 2017	15 October 2015
Interest Payment	15 April and 15 October		
Issuer Rating	B1 (Moody's); BB- (S&P)		
Issue Rating	B3 (Moody's); B (S&P)		
Coupon	9.00%	9.75%	9.00%
Issue Price	99.50%	99.37%	103.38%[1]
Yield	9.13%	9.88%	8.16%
Price 31 Dec 2010	107.38%	107.88%	107.38%

[1] Plus accrued interest if any from 8 October 2010

CAPITAL MARKETS IN 2010

In 2010, the world's stock markets benefited from a global recovery from the economic recession of 2008 and 2009, a recovery that was more rapid and more substantial than expected. The most important leading indices in America, Asia and Europe all achieved double-digit percentage increases.

The trend on the bond markets in 2010 was shaped and influenced by contradictory factors which resulted in volatile developments of yields. For example, the consistently expansive monetary policy in the first half of the year caused yields to decrease still further to all-time lows. Nonetheless, institutional investors still saw a considerable need to invest. This market environment was used by many companies to optimise their maturity structures by issuing medium and long-term corporate bonds at an attractive interest rates level. Increased issuing activity was evident in the small and medium-sized enterprises (SME) segment in particular, encouraged not least by the banking sector's more restrictive lending policy. The high level of demand from both institutional and private investors for fixed-interest securities with higher yields than government bonds led to a considerable narrowing of the spread. In the further course of the year, however, the debt problems of the some eurozone countries had an adverse impact on bond prices.


Hapag-Lloyd


Hapag-Lloyd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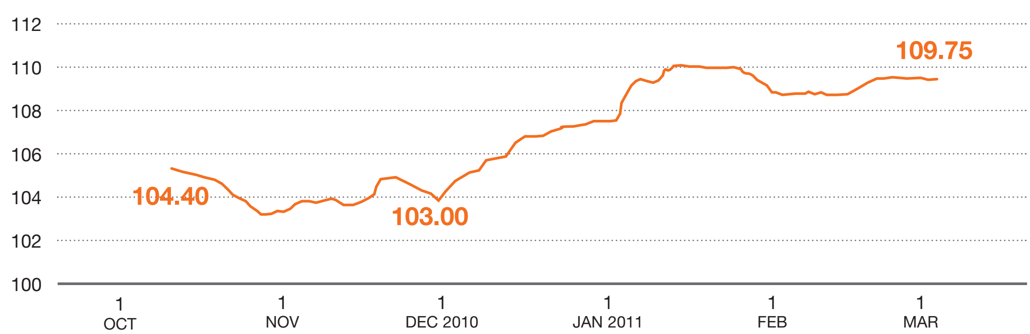
DEVELOPMENT OF THE HAPAG-LLOYD BONDS

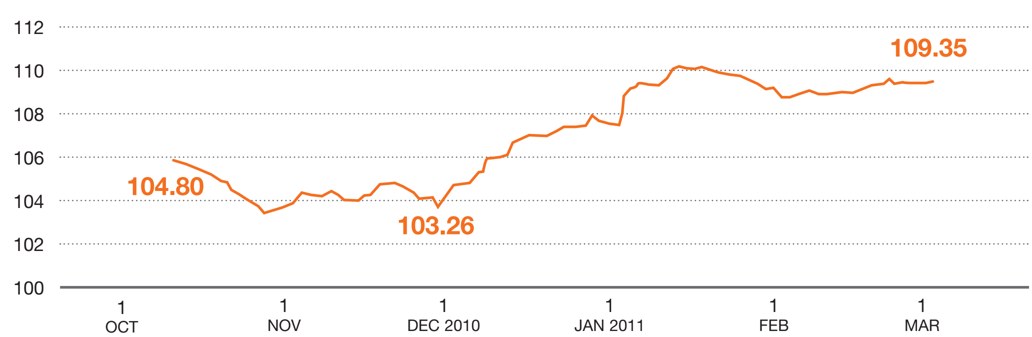
Hapag-Lloyd AG's five-year euro bond was considerably oversubscribed when it was issued at the beginning of October 2010. In the fourth quarter of 2010, the bond's price fluctuated between 103.42% and 107.84%. The highest price was reached at the end of the year. Despite the increase in the yields of government bonds denominated in euros, the Hapag-Lloyd bond's yield declined from its issue level of 9.13% to 7.04%. This meant that the spread decreased from 762 base points on the issue date to 539 base points at year-end.

The seven-year USD bond also developed positively on the market. In the fourth quarter of 2010, the bond's price ranged between 104.63% and 109.00%. At year-end it was selling at a premium rate of 107.88% and its current yield was 8.21%.

Trading EUR bonds (%)



Trading USD bonds (%)



SOURCE: Bloomberg, 4 March 2011

BUILDING TRUST WITH OPEN AND TRANSPARENT COMMUNICATION

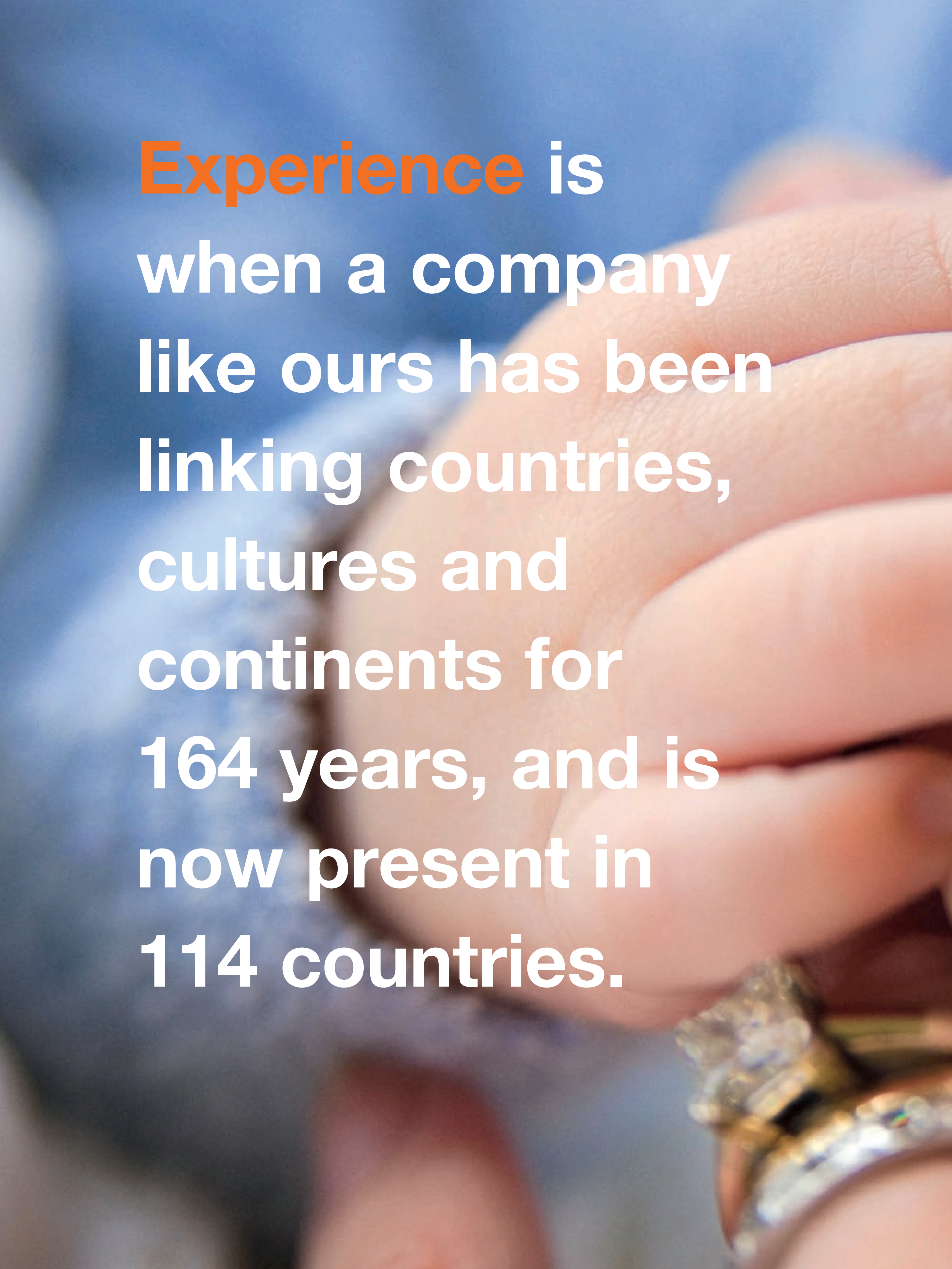
Hapag-Lloyd's access to the capital market is built on the foundation of trust that investors place in it. The open and ongoing dialogue with investors and analysts regardless of the situation on the capital market and the Company's current financial requirements provides the foundation for maintaining and strengthening this trust. In order to satisfy these market requirements, Hapag-Lloyd established its own Investor Relations department in 2010.

In addition to engaging directly with interested parties, the range of information provided online has also been expanded on the Hapag-Lloyd website – **www.hapag-lloyd.com**. Since the third quarter of 2010 Hapag-Lloyd has resumed reporting on the development of business during the course of the year in the form of quarterly reports, the aim being to guarantee a constant and up-to-date flow of information.

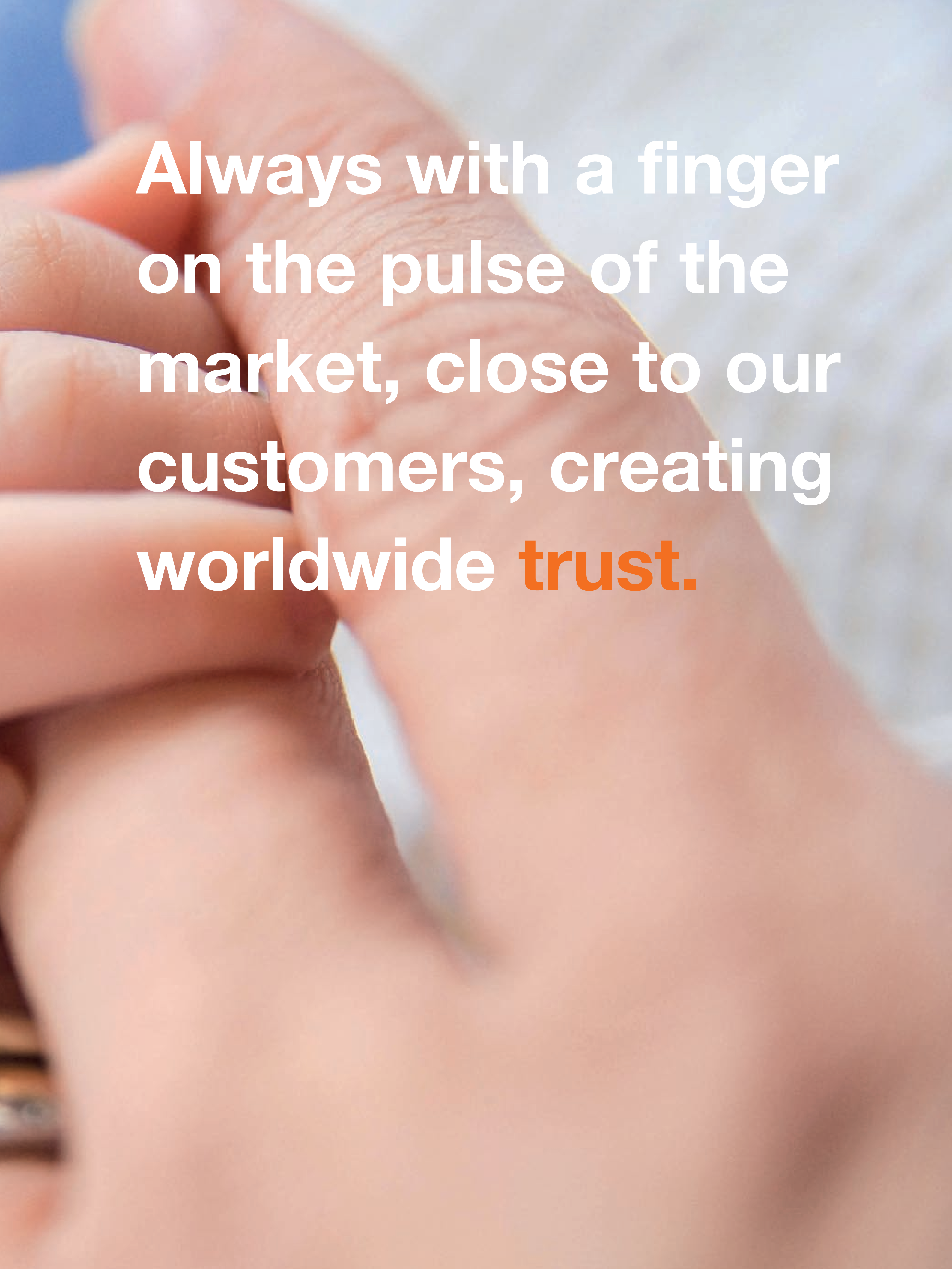
INVESTOR RELATIONS WITH A FOCUS ON SERVICE

The focus of Hapag-Lloyd's investor relations activities is on communicating with and informing the financial analysts at banks, rating agencies and institutional investors. The main priorities are short response times and the expansion of the IR website to enable all required information to be provided promptly.

Group management report



Experience is when a company like ours has been linking countries, cultures and continents for 164 years, and is now present in 114 countries.



Always with a finger on the pulse of the market, close to our customers, creating worldwide trust.

THE “ALBERT BALLIN“ HOLDING GROUP

LEGAL STRUCTURE

“Albert Ballin“ Holding GmbH & Co. KG (hereinafter the “Albert Ballin“ Holding), which did not engage in any operating activities of its own up to 31 December 2010, holds all of the shares in Hapag-Lloyd AG. As at 31 December 2010, the indirect shareholders were Hamburgische Seefahrtsbeteiligung “Albert Ballin“ GmbH & Co. KG, which does not engage in any operating activities of its own and holds 50.2%, and the TUI Group with 49.8%. As the information in this Annual Report relates to the operating activities of Hapag-Lloyd AG and its subsidiaries, the Group as a whole is referred to uniformly in the Annual Report as “the Hapag-Lloyd Group”, “Hapag-Lloyd” or “the Group”. Insofar as individual items of information relate only to Hapag-Lloyd AG and its subsidiaries, such as information relating to corporate governance, the designation “Hapag-Lloyd AG” or “Hapag-Lloyd subgroup” is used uniformly in this Annual Report.

The Group’s business operations comprise Hapag-Lloyd’s container shipping activities. Shareholdings, including a participating interest in terminals in Hamburg and Montreal, are accounted for in the consolidated financial statements under the equity method. A total of 49 direct and indirect subsidiaries and five companies consolidated under the equity method belonged to the “Albert Ballin“ Holding Group of consolidated companies as at the balance sheet date; seven of these were companies based within Germany and 47 had their headquarters abroad.

Hapag-Lloyd conducts its container shipping business in an international business environment in which transactions are invoiced mainly in US dollars and payment procedures are handled in US dollars. This relates not only to operating business transactions, but also to investment activities, an example being the acquisition, chartering and rental of vessels and containers, and the corresponding financing of the investments. The Hapag-Lloyd subgroup, too, conducts its financial transactions predominantly in US dollars, while payment flows in currencies other than the US dollar are hedged to the US dollar. These are the reasons why the Hapag-Lloyd subgroup’s functional currency is the US dollar. The “Albert Ballin“ Holding Group’s reporting currency, on the other hand, is the euro. The translation of individual balance sheet items such as fixed assets and financial liabilities results in some cases in significant valuation effects which are recorded in the Group’s cumulative equity.

As a consequence of Hapag-Lloyd AG’s first-time consolidation on 31 March 2009, its operating activities in 2009 are included only for the period from 1 April to 31 December 2009. The profit and loss statement and the cash flow statement for the reporting year are only comparable to those of the previous year to a limited extent.

OPERATING ACTIVITIES

Hapag-Lloyd is Germany's largest container shipping company and is one of the world's leading shipping companies with liner services in terms of global market coverage. Its core business is the transporting of containers by sea, but also encompasses transport services from door to door. With around 300 sales offices in 114 countries, Hapag-Lloyd offers its customers access to a network of 77 services around the world.

As at 31 December 2010, the Hapag-Lloyd fleet comprised 137 vessels with storage space capacity of some 605,226 TEU. As at the reporting date, 59 of the vessels formed part of the Group's own property, nine were leased and 69 vessels were chartered.

GROUP OBJECTIVES AND STRATEGY

Hapag-Lloyd's strategy is geared towards long-term profitable growth. Over the years, the global container transport volume has grown more quickly than overall global trade. Current forecasts are assuming that this trend will continue. This growth in volume is the very foundation of Hapag-Lloyd's organic growth. The objective is to have transport volume grow at the same pace as the global market. The realisation of this objective primarily involves concentrating on the needs of the customer, expanding capacity, acting productively and ensuring efficiency.

High operating cash flows and a solid equity ratio are also of considerable importance in conducting business successfully.

Focus on customer needs
Hapag-Lloyd has established itself as a high-quality provider among container shipping companies.

The reliability and high quality that the customer experiences with Hapag-Lloyd services are at the very heart of the Hapag-Lloyd strategy. The high brand awareness and the significance of the "Hapag-Lloyd" brand are testament to Hapag-Lloyd's quality strategy of continuously improving the spectrum of transport services and adapting them to the needs of the customer.

Key clients are supported by the Global Account Management Team in Hamburg as well as locally based Key Account Managers, who provide relevant solutions to customer requests that address the clients' issues directly and contribute considerably to retaining the client over the long term. Our focus on the needs of the customer also includes our global presence, both in terms of land-based organisation and of providing global coverage by means of the network of container ship routes.

Expanding capacity

A balanced programme of investment aimed at sustainable growth is crucial for the success of a profitable growth strategy. The Company's objective is to develop a fleet policy that enables it to react flexibly to market volatility. Any attempt to adapt global capacity to cater for changes in demand for transport volume will always be subject to a time delay because of long-term contract obligations and the considerable timespan between the commissioning of a new vessel and its delivery, and this is something that poses a particular challenge. The resultant market imbalances have a direct impact on freight rates, and therefore on the profitability of container shipping. In order to limit the impact of these fluctuations, Hapag-Lloyd strives to ensure that its fleet contains roughly equal proportions of Company-owned vessels and chartered vessels. This facilitates growth and limits the risks that arise from having excess capacity.

Productivity and efficiency

Besides providing for increases in capacity, Hapag-Lloyd also pays particular attention to increasing productivity and efficiency. Measures include yield management and the ongoing cost control. More importance has been placed in cost management since the end of 2008 following the introduction of an extensive cost reduction programme. This programme has been implemented consistently in the meantime. The biggest savings in absolute terms have been achieved in ship systems and through freight-related costs, i.e. by optimising the size of the fleet and its deployment, and by purchasing services required for the entire container transport process.

Business operations around the globe have benefited from the deployment of customised IT systems. The globally standardised "Blueprint" organisational structure allows for a standardised exchange of information between head offices, regions and offices, thus also ensuring that this information is used consistently around the globe as well. This enables the Group to increase productivity and ensures that the fleet is used efficiently.

Hapag-Lloyd's membership in the Grand Alliance and various other collaborative projects enables the use of the fleet to be optimised and the services provided to be expanded. Hapag-Lloyd also has at its disposal an operating fleet that is young compared to that of its competitors and offers a high average transport capacity in vessels with capacity of more than 6,000 TEU. This ensures that the fleet is used efficiently and keeps the cost per transport unit low.

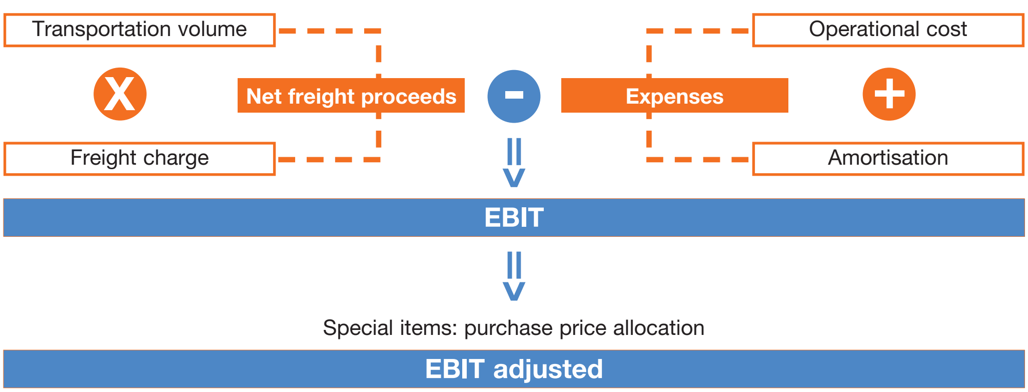
Financial stability

IIn the financial year 2010, the Group's financial stability was significantly improved as a result of far-reaching measures. The equity base was strengthened and the successful placement of two corporate bonds provided direct access to the capital market. Another objective is the provision of stable financing for future increases in capacity. For this reason, the Group is striving to improve its credit rating and reduce its capital costs. The generation of sustainable cash flows, thereby securing a consistently adequate liquidity reserve, represents another important taget.

CORPORATE MANAGEMENT

Adjusted Earnings Before Interest and Taxes (EBIT) is the central value in determining how Hapag-Lloyd's operating activities are managed. The main influencing factors are transport volume, freight rate, US dollar exchange rate against the euro, and operating costs including bunker price. The strategy of achieving long-term profitable growth in operating activities is pursued with the help of these key figures.

The EBIT or adjusted EBIT figure corresponds to the total revenue achieved in a period less operating expenses, depreciation and ammortisation.



An increase in EBIT is achieved with higher net freight revenue and efficient cost management. In order to calculate the adjusted operating result (adjusted EBIT), the operating result in the profit and loss statement is adjusted for special effects such as the purchase price allocation. Hapag-Lloyd's internal business management focuses on adjusted EBIT as the central control parameter.

The global transport volume is dependent on the prevailing economic developments around the world. Other factors influencing Hapag-Lloyd's transport volume are the container ship capacity available in any given region and the accompanying change in the competitive situation. Freight rates can be influenced only to a limited degree because they are heavily dependent on market capacity and market demand.

The Group subscribes to the yield management approach, according to which the deployment of the ships and containers is examined using profitability criteria. Yield management is used to ascertain the optimum relationship between transport volume and freight rate in accordance with the market situation. This enables Hapag-Lloyd to optimise its net freight revenue under certain conditions. The continuous, real-time observation of the yield rate using the Group's innovative IT system enables Hapag-Lloyd to use the freight rate as a control instrument. This means that unprofitable freight can be identified and avoided, and provides for strategic approaches to ensuring a positive EBIT result.

Efficient cost management provides essential control over the EBIT value. The system of cost management is supported by a standardised, integrated IT solution, thereby providing essential and up-to-date data required for management and for implementing and maintaining cost reduction measures.

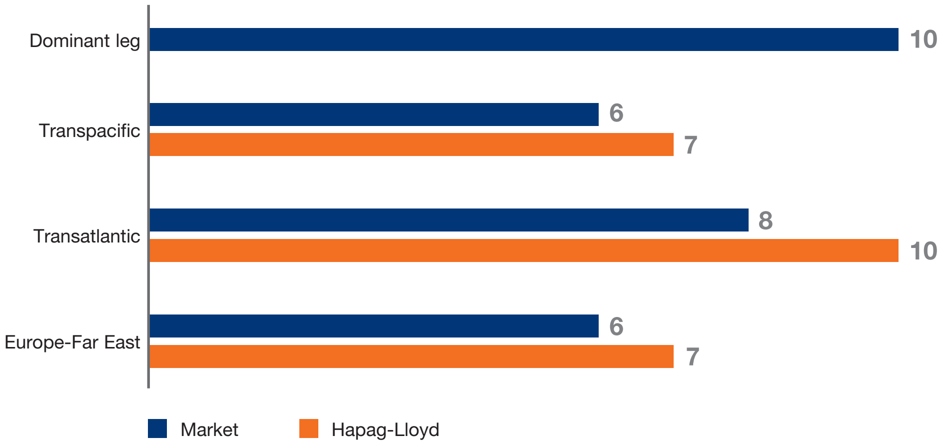
The cost basis is largely dependent on external influencing factors. The Group controls and ensures the euro disbursements by using options or forward exchange transactions on a rolling 12-month basis with the aim of limiting currency risks. The reason for this is the global nature of the Group's business operations, meaning that exchange rate fluctuations can have a considerable influence on costs.

Operating costs are also influenced by the trend in bunker prices. The bunker price correlates closely with changes in the price of crude oil. This is subject to substantial fluctuations. A large proportion of the fluctuations is compensated for via the freight rate in the form of bunker surcharges. The extent to which this can be asserted, however, depends on the prevailing market situation. Furthermore, bunker consumption of up to 80% is secured on a rolling 12-month basis.

MAJOR NON-FINANCIAL PERFORMANCE INDICATORS

The most important non-financial performance indicators are the transport volume and the freight rate. The optimum utilisation of the available ship and container capacities also has a substantial influence on whether long-term profitable growth is achieved.

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



[1)] Ratio between non-dominant leg and dominant leg cargo
(the higher the ratio, the more balanced in both directions).
Source: IHS Global Insight, January 2011, Hapag-Lloyd FY2010;
market data according to HLAG trade definition

In container shipping, the flows of goods between different regions are considerable in their magnitude and vary in their structure. These arise from differences in the import and export of goods. Some regions export far more goods than they import, while others import more than they export. Most shipping areas therefore have a “dominant leg” with a higher freight volume, and a “non-dominant leg”. The transport capacities must be planned to meet the volumes on the dominant leg. The return transport of empty containers also involves costs. The relevant performance indicator here is the ratio of loaded containers on the non-dominant leg to the number of loaded containers on the dominant leg. The objective is to keep the number of empty container transport operations low or balance the ratio to the greatest possible extent. To achieve this, empty containers are positioned in the regions with high demand via the shortest, quickest and cheapest route.

Another important non-financial performance indicator in connection with the fleet’s capacity utilisation is the turnaround frequency of the containers. Here, the average number of deployments per container per year is calculated. The objective is to increase the turnaround frequency in order to boost productivity and keep the total number of containers required as low as possible.


Hapag-Lloyd



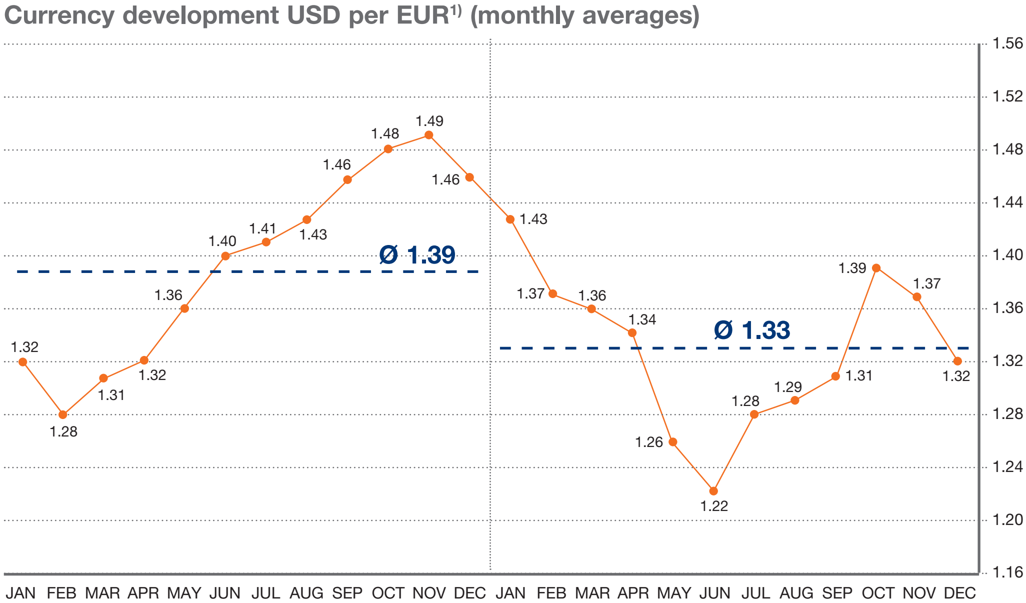
Hapag-Lloyd


GENERAL ECONOMIC CONDITIONS

In 2010, both the global economy and world trade recovered more quickly than expected from the severe global crisis. The economic recovery was driven by the Asian countries in 2010. A special role was played by China, whose GDP[2] grew by 10.3%. Thanks to China's constantly expanding trading relationships, a diversity of trading partners are benefiting from the country's dynamic development, especially exporters of raw materials. India achieved GDP growth of 9.7%, which was by and large unrelated to exports. The ASEAN members[3] generated average growth of 6.8%. Japan achieved growth of 4.3%, despite sluggish domestic demand and difficulties in selling export products. GDP in the USA grew by 2.8%, around the average achieved by the industrialised countries, whose growth remained well behind that of the developing and newly industrialising countries. The European Union generated growth of just 1.8%. Latin America, on the other hand, staged a strong economic recovery with GDP growth of 5.9%, with Brazil even generating growth of 7.5%.

The volume of global trade, which is important for container shipping, also developed positively. For 2010, the IMF expects the volume of trade to increase by 12.0%. When a distinction is made between developed economies and emerging, newly industrialised economies, an increase of 11.1% in imports is expected in 2010 for the developed countries and an increase of 13.8% is expected for the emerging markets. Similar growth rates of 11.4% for developed economies and 12.8% for newly industrialising countries are forecast for exports.

Currency development USD per EUR[1] (monthly averages)



1) The average USD exchange rate against the EUR is calculated using the arithmetic mean of the fixing rates published at midday (source: Deutsche Bank FFM).

2) Source for all GDP data: IMF (January 2011) · 3) Indonesia, Malaysia, Philippines, Thailand, Vietnam

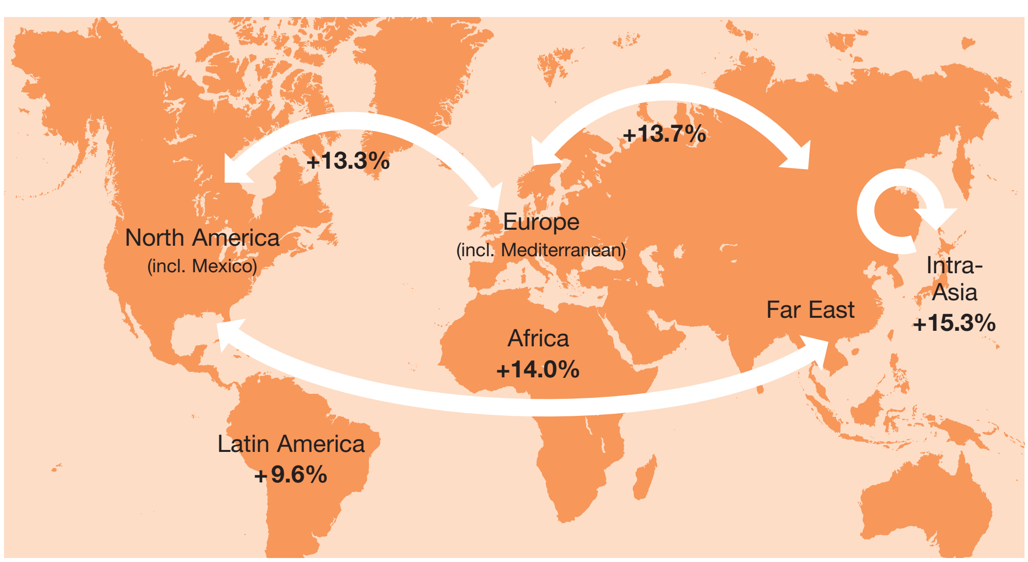
In the course of 2010, the USD-EUR exchange rate was highly volatile. This volatility was attributable to uncertainties on the market which resulted primarily from the high levels of public debt in a number of the eurozone's member states, and from the related downgrading of countries' ratings. Between the start of 2010 and June of that year, the US dollar strengthened considerably against the euro as a result of the looming insolvency of Greece, Spain and Portugal. From July to October 2010, the US dollar weakened against the euro due to disconcerting data from the United States (low private consumption, high unemployment, high debt level). Towards the end of 2010, the US dollar strengthened against the euro again following the downgrading of Ireland's rating.

On average, the currency's exchange rate in the financial year 2010 was USD 1.33 per EUR, or USD 0.06 per EUR lower than in the previous year.

Sector-specific conditions

Container traffic benefited directly from the positive developments in the global economy in 2010. As at year-end 2010, IHS Global Insight (IHS Global Insight January 2011) estimated the growth in container traffic at 11.8% for the whole of 2010. In both the second quarter and the early part of the third quarter, previously laid-up liner services were reactivated in east-west traffic, particularly in Asian-European traffic and the Transpacific area. Container traffic on the Asia-Europe route grew by 13.7% year on year in 2010, while the volume of traffic in the Transpacific area increased by 14.0% and transatlantic traffic rose by 13.3% in the same period (IHS Global Insight January 2011). Intra-Asian traffic grew by 15.3% compared with the previous year in 2010. The volumes in traffic from and to Latin America increased by a total of 9.6% compared with the previous year (IHS Global Insight January 2011). Growth in demand was particularly high in traffic between Asia and the east coast of South America.

Growth rates world container shipping volume 2010



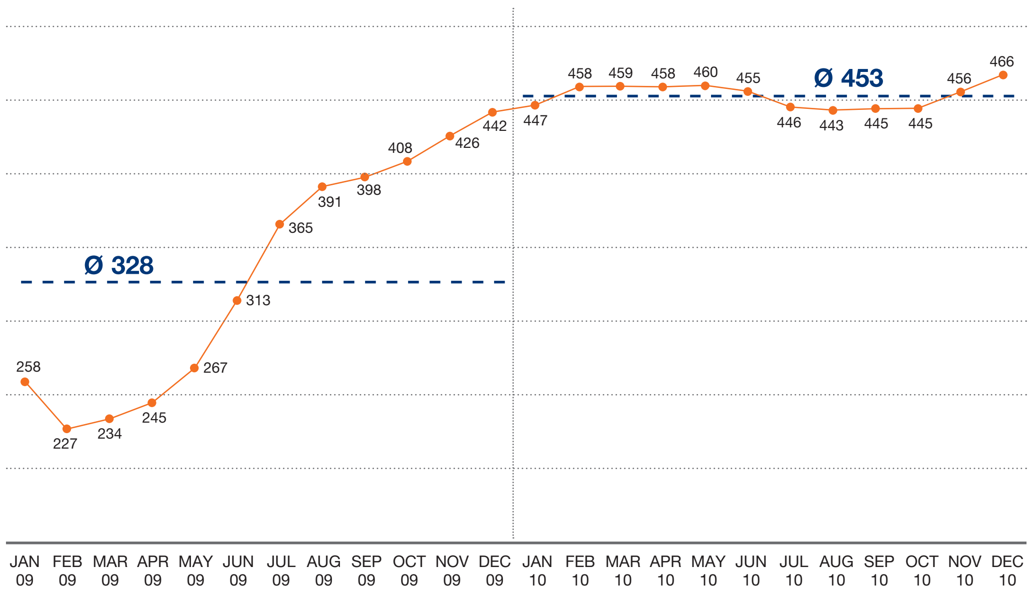
Transport volumes and freight rates in container liner shipping are subject to seasonal fluctuations. Demand for transport services is higher particularly in the second and third quarters of any given year. In 2010 there was a noticeable shift in the usual seasonality. Many customers dealt with their pre-Christmas business earlier than usual in order to avoid a bottleneck in respect of the available container equipment.

Excess supply capacity was counteracted in 2009 by scrapping old tonnage, cancelling orders or postponing ship deliveries, and with "Slow-Steaming". It has been possible to reduce the number of laid-up vessels significantly since then; at the end of 2010 there were only 145 vessels with an aggregate capacity of 326,000 TEU not currently being deployed. This represents 2.3% of global capacity in container shipping (AXS-Alphaliner Weekly Newsletter Issue 01/2011). At the beginning of 2010 there were still 581 vessels in this situation with an aggregate capacity of 1.51 million TEU (AXS-Alphaliner Weekly Newsletter Issue 01/2010) or 11.6% of the global fleet.

In 2010, container ships with aggregate storage space capacity of around 1.4 million TEU were delivered (MDS Transmodal, February 2011). 44% of those are vessels with a capacity of more than 8,000 TEU. This resulted in growth of 8.3% in the global fleet in the course of 2010 (MDS Transmodal, February 2010 and February 2011). Due to the continuing positive outlook, more new vessels have been ordered over the past few months, in contrast to the period from October 2008 to July 2010 when hardly any newly built vessels were commissioned. In the third quarter of 2010 there were 62 orders for newly built vessels with an aggregate capacity of 395,000 TEU, of which 38 are orders for post-panamax vessels with more than 8,000 TEU (Clarkson – Container Shipping Intelligence Network, various issues). In the fourth quarter of 2010, 42 newly built vessels with an aggregate capacity of 245,000 TEU were commissioned, 16 of which were orders in the post-panamax category with capacity of 172,576 TEU (Clarkson – Container Shipping Intelligence Network, various issues). All in all, the container ship market has recovered from the crisis more quickly than expected.

In the financial year 2010, the average bunker price was USD 453 per tonne; this represents a year-on-year increase of USD 125 per tonne. In the course of 2010, the bunker price remained largely stable and at a high level, while a slight increase in the average bunker price became evident towards the end of the year.

Development of bunker price[1] USD/mt (monthly averages)



1) The bunker price (MFO) is calculated from the consumer price of bunker quantities weighted across various ports.
The price for consumed quantities is ascertained using a moving average of the purchase prices for the consumed bunker stocks.

Legal environment

Hapag-Lloyd's business is subject to a multiplicity of legal provisions. In order to engage in business operations it is necessary to have authorisations, licences and certificates. Compliance with the ISM Code (International Safety Management), which regulates the measures required for ensuring safety at sea, and the ISPS Code (International Ship and Port Facility Security) must be given particular emphasis. The latter stipulates what measures are to be taken to prevent hazards on board vessels 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.

OVERVIEW OF BUSINESS DURING THE YEAR

Demand for transport services increased as a consequence of the recovery in the global economy and world trade. Hapag-Lloyd was also able to increase its transport volume in light of this. By making modest adjustments to capacity, it was possible to raise the average freight rate significantly. These developments, together with the implementation of the extensive cost reduction programme, led to a highly positive earnings position in 2010.

GROUP EARNINGS POSITION

Transport volume and freight rates

Hapag-Lloyd carried an aggregate transport volume of 4,947,000 TEU (previous year: 1 April – 31 December 2009: 3,516,000 TEU) in the financial year 2010. In the comparable period in the previous year, Hapag-Lloyd carried an aggregate volume of 4,637,000 TEU. This transport volume represented an increase, in some cases substantial, in almost all shipping areas. In the Australasia shipping area the transport volume remained below the previous year's level over a comparable 12-month basis. This development was largely the result of the freight management, which was conducted on a selective basis according to profitability criteria in the intra-Asian transport segments; this was implemented in the third quarter of the previous year to boost freight rates and margins. Adjusted for the intra-Asian transport activities, the transport volume was up 10.6% year on year.

Total transport volume (TTEU)

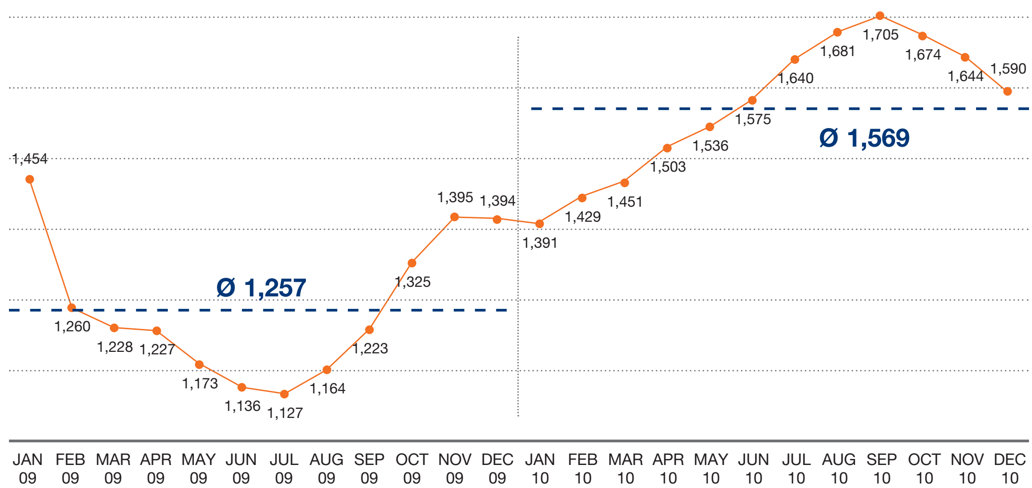
1) Complete yearly view 1.1.-31.12.2009

Transport volume exclusive Intra-Asia (TTEU)

1) Complete yearly view 1.1.-31.12.2009

The average freight rate in the financial year 2010 was 1,569 USD/TEU (previous year: 1 April – 31 December 2009: 1,238 USD/TEU). In the comparable period last year, the average freight rate was 1,257 USD/TEU. This development can be attributed primarily to a series of successful general freight rate increases in the course of 2010, the renegotiation of expired contracts and the enforceability of higher freight rate surcharges during the peak season.

Development of freight rates USD/TEU (monthly averages)



Developments in the shipping areas

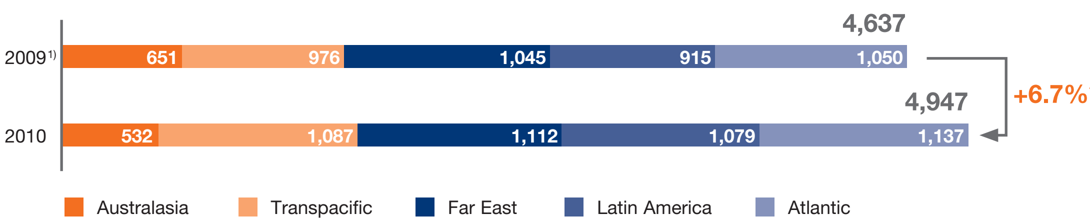
The transport volume in the Atlantic shipping area was 1,137,000 TEU in the financial year 2010 (previous year: 1 April – 31 December 2009: 786,000 TEU). In the comparable period last year, Hapag-Lloyd carried a total of 1,050,000 TEU. Especially in the transport segments from Europe to North America, the quantity transported was considerably higher than in the previous year because transport operations on behalf of customers from the automotive, mechanical engineering and chemicals segments in particular increased. More goods, in particular chemicals and paper, were transported than in the previous year on the services in the opposite direction.

The average freight rate in the Atlantic shipping area in the financial year 2010 was 1,623 USD/TEU (previous year: 1 April – 31 December 2009: 1,398 USD/TEU). In the comparable period last year, the average freight rate was 1,433 USD/TEU. The average freight rate was influenced positively by increases in general freight rates and as a result of being able to increase freight rate surcharges during the peak season.

The transport volume in the Latin America shipping area was 1,079,000 TEU in the financial year 2010 (previous year: 1 April – 31 December 2009: 731,000 TEU). In the comparable period last year, Hapag-Lloyd carried a total of 915,000 TEU. The highest growth rates were achieved for the Latin American import transportation segments, in which larger quantities of consumer goods produced in Asia (e.g. electrical items and toys) as well as European automotive parts were transported in particular. In the Latin American export transportation segments, the transport of raw materials, scrap metal and plastics to Asia exceeded the previous year's figures in particular. Larger quantities of chemicals, paper and agricultural goods were transported in the intra-American transport segments than in the previous year.

The average freight rate in the Latin America shipping area was 1,375 USD/TEU (previous year: 1 April – 31 December 2009: 1,172 USD/TEU). In the comparable period last year, the average freight rate was 1,209 USD/TEU. This was attributable primarily to rate increases during the course of the year, an optimisation of the freight composition and the successful renegotiation of expired contracts.

Development transport volume (TTEU)



* Growth rate incl. Intra-Asia; excl. Intra-Asia growth rate of 10.6% · 1) Complete yearly view 1.1.-31.12.2009

The transport volume in the Far East shipping area was 1,112,000 TEU in the financial year 2010 (previous year: 1 April – 31 December 2009: 783,000 TEU). In the comparable period last year, Hapag-Lloyd carried a total of 1,045,000 TEU. In the transport segments from Asia to Europe, the transportation of consumer goods (including electronic and sports articles) again showed an increase, while more raw materials than in the previous year were transported in the opposite direction due to the higher level of production in Asia.

The average freight rate in the Far East shipping area was 1,639 USD/TEU in the financial year 2010 (previous year: 1 April – 31 December 2009: 1,175 USD/TEU). In the comparable period last year, the average freight rate was 1,153 USD/TEU. This was the highest freight rate increase in all of the shipping areas. This was the result of general rate increases in the course of the year and of being able to set higher freight rate surcharges during the peak season.

The transport volume in the Transpacific shipping area was 1,087,000 TEU (previous year: 1 April - 31 December 2009: 730,000 TEU). In the comparable period last year, Hapag-Lloyd carried a total of 976,000 TEU. In this shipping area more consumer goods were transported, particularly in the transport segments from Asia to North America, while the transportation of recovered paper, cotton and agricultural goods in the opposite direction was up only slightly on the previous year.

The average freight rate in the Transpacific shipping area was 1,762 USD/TEU in the financial year 2010 (previous year: 1 April – 31 December 2009: 1,372 USD/TEU). In the comparable period last year, the average freight rate was 1,422 USD/TEU. This development was driven by general freight rate increases in the course of the year, the signing of new annual contracts for the 2010/11 season and being able to set higher peak season surcharges than in the previous year.


A passion for
salty sea air,
endless horizons,
the products
and languages
of faraway lands.
Our ships transport
more than just
containers.

The fascination of the sea, an important source of motivation for our employees.

The aggregate transport volume in the Australasia shipping area was 532,000 TEU (previous year: 1 April – 31 December 2009: 486,000 TEU) in the financial year 2010. In the comparable period in the previous year, Hapag-Lloyd carried a total of around 651,000 TEU. This development was largely the result of its freight management, which was conducted on a selective basis according to profitability criteria in the intra-Asian transport segments as the decision was taken not to carry freight with an insufficient contribution margin. In the Oceanic transport segments, the volume of transport was higher than in the previous year.

The average freight rate level for the Australasia shipping area in the financial year 2010 was 1,310 USD/TEU (previous year: 1 April – 31 December 2009: 975 USD/TEU). In the comparable period last year, the average freight rate was 957 USD/TEU. The selectiveness applied to freight selection and the general rate increases in the intra-Asian transport segments, as well as an optimisation of the freight composition, contributed to the increase in freight rates.

Freight rates Hapag-Lloyd

USD/TEU	**2010 Actual**	2009[1] Actual	**Change in %**
Atlantic	1,623	1,433	13.2
Latin America	1,375	1,209	13.7
Far East	1,639	1,153	42.2
Transpacific	1,762	1,422	23.9
Australasia	1,310	957	36.9
Total (weighted average)	**1,569**	**1,257**	**24.8**

1) For entire year 1/1/2009 – 31/12/2009

Revenue

As a result of the first-time consolidation of Hapag-Lloyd as at 31 March 2009, its operating activity is included in the previous year's consolidated financial statements for the period from 1 April to 31 December 2009. Comparison with the cumulative profit and loss statement and the cash flow statement is therefore possible only to a limited extent.

Condensed consolidated profit and loss statement

Million EUR	**1.1.-31.12. 2010**	1.1.-31.12. 2009*
Revenue	6,204.3	3,325.9
Other operating income	131.2	90.8
Transport expenses	4,811.2	3,041.8
Personnel expenses	345.5	247.4
Depreciation, amortisation and impairment	321.2	238.9
Other operating expenses	283.2	239.3
Operating result	**574.4**	**-350.7**
Share of profit or loss of companies accounted for under the equity method	31.1	8.8
Other financial result	-22.8	0.0
Earnings before interest and tax (EBIT)	**582.7**	**-341.9**
Interest result	-138.3	-62.3
Income taxes	16.9	- 2.4
Group profit/loss	**427.5**	**-401.8**
EBIT	**582.7**	**-341.9**
EBIT margin (%)	**9.4**	**-10.3**

*) Comparable figures from previous year incl. 9 months Hapag-Lloyd

Revenue totalling EUR 6,204.3 million was generated in the financial year 2010 (previous year: EUR 3,325.9 million). The substantial increase is attributable not only to the different periods covered, but also to the recovery of the global markets and the associated upturn in demand for transport services.

Transport expenses

Million EUR	**1.1.-31.12. 2010**	1.1.-31.12. 2009*
Expenses for raw materials, supplies and purchased goods	1,063.0	521.8
Cost of purchased services	3,748.2	2,520.0
Of which		
Port, canal and terminal costs	1,483.9	996.4
Chartering, leases and container rental	538.9	370.6
Container transport costs	1,563.8	1,014.5
Maintenance/repair	161.6	138.5
Transport expenses	**4,811.2**	**3,041.8**

*) Comparable figures from previous year incl. 9 months Hapag-Lloyd

Compared with the previous year (EUR 3,041.8 million), transport expenses increased by EUR 1,769.4 million to a total of EUR 4,811.2 million. This increase in transport expenses, which, while moderate, was the cause of the increase in revenue, resulted from cost savings that were realised for inland transport operations and terminal services in particular. Other savings were achieved in the areas of equipment and ship systems costs as a result of reduced bunker consumption as well as lower chartering and operating costs. The costs of raw materials, supplies and purchased goods are strongly influenced by the bunker price. In the financial year 2010, the average bunker price was USD 453 per tonne; this represents an increase of USD 125 per tonne compared with the previous year. In the course of 2010, the bunker price remained largely stable and at a high level, while a slight increase in the average bunker price became evident towards the end of the year.

The gross earnings margin (ratio of gross earnings to revenue) increased by 13.3 percentage points during the course of 2010 thanks to the above-mentioned increases in rates accompanied by cost reductions, and amounted to 24.6% as at 31 December 2010 (31 December 2009: 11.3%).

This managed change in transport expenses in relation to revenue led to a year-on-year increase of EUR 1,006.9 million in Group earnings before interest, taxes, depreciation and amortisation (consolidated EBITDA) from minus EUR 103 million to EUR 903.9 million.
Other operating expenses essentially comprise exchange rate losses from the valuation of items denominated in foreign currencies. In addition to the exchange rate losses, this position largely comprises IT costs, expenses for service fees and charges, as well as selling expenses.

The personnel expenses ratio was 5.6% in 2010, compared with 7.4% in the previous year. Savings in the personnel expenses area can be attributed to the cost reduction programme launched in 2009 and the wage and salary freeze valid until 31 December 2010 and accepted by the entire workforce. The cost reduction programme, which contributed to a reduction in personnel expenses, was counteracted primarily by the commissioning of six newly built vessels and increased allocations to provisions for personnel costs. Personnel expenses totalled EUR 345.5 million (previous year: EUR 247.4 million) for the financial year 2010 as a whole.
It should be noted here that only nine months of the previous year were accounted for.

Charges in personnel expenses

Million EUR	**1.1.-31.12. 2010**	1.1.-31.12. 2009*
Personnel expenses	345.5	247.4
Revenue	6,204.3	3,325.9
Personnel expenses ratio	**5.6%**	**7.4%**

*) Comparable figures from previous year incl. 9 months Hapag-Lloyd

Depreciation, amortisation and impairment increased year-on-year by EUR 82.3 million to EUR 321.2 million. Depreciation of container ships and containers accounted for EUR 235.0 million of that amount. Apart from the fact that different periods were covered, the increase compared with the financial year 2009 is derived largely from the six container ships in the 8,750 TEU category that were newly acquired in the financial year 2010.

The “Albert Ballin“ Holding Group’s operating profit/loss (EBIT) improved from minus EUR 341.9 million in the previous year to EUR 582.7 million in 2010. This represents an upturn in profit of some EUR 925 million in just one financial year. This substantial increase in earnings resulted mainly from freight rates that were far higher than in the previous year, a higher container transport volume, and significant cost savings of around EUR 800 million from measures initiated in the previous year to improve earnings.

The Group EBIT of EUR 549.7 million, adjusted for special items amounting to EUR 33.0 million, results essentially from the deduction of Hapag-Lloyd AG’s purchase price allocation as at 1 April 2009. Provisions for disadvantageous charter agreements were released in relation to this.

The EBIT margin, which was negative in the previous year, improved to 9.4% in 2010.

Million EUR	**1.1.-31.12. 2010**	1.1.-31.12. 2009*
Revenue	6,204.3	3,325.9
EBIT	582.7	-341.9
EBIT margin	9.4%	-10.3%

*) Comparable figures from previous year incl. 9 months Hapag-Lloyd

The financial result comprises the earnings from the companies accounted for under the equity method and other financial gains or losses.

The other financial result consists of changes in the fair values of derivative financial instruments amounting to EUR -22.8 million as well as earnings from the companies accounted for under the equity method totalling EUR 31.1 million (2009: EUR 8.8 million).

The net interest result declined significantly compared with the previous year due to the new financial liabilities assumed in the financial year 2010 and now amounts to EUR -138.3 million (2009: EUR -62.3 million).

A significant non-recurring effect in the financial year was the interest expense resulting from the guarantee given by the Federal Republic of Germany and the Free and Hanseatic City of Hamburg which had been received but was returned in the financial year, from the syndicated loan agreement and from the standstill agreement with the financing banks.

Total interest expenses amounting to EUR 56.2 million in relation to this financing arrangement were reported. The two agreements were cancelled and the state guarantee was returned in the third quarter of 2010.

Earnings before taxes (EBT) increased substantially thanks to the strength of operating activities and totalled EUR 444.4 million in the financial year 2010. In comparison with the same period last year (EUR -404.2 million) this constitutes an improvement of some EUR 848.6 million. These earnings incurred income taxes of EUR 16.9 million. After deduction of minority interests, the Group profit amounted to EUR 427.5 million.





GROUP ASSETS POSITION

Changes in the asset structure

Million EUR	31.12.2010	31.12.2009	Change in %
Non-current assets	5,057.1	4,536.3	11.5
Of which fixed assets	4,988.3	4,498.9	10.9
Current assets	1,512.4	1,082.4	39.7
Of which cash and cash equivalents	751.8	413.3	81.9
Assets	**6,569.5**	**5,618.7**	**16.9**
Equity	3,442.8	2,765.5	24.5
Borrowed capital	3,126.7	2,853.2	9.6
Of which non-current liabilities	1,878.8	1,504.8	24.9
Of which current liabilities	1,247.9	1,348.4	-7.5
Of which financial receivables	1,877.5	1,682.0	11.6
Of which non-current financial receivables	1,673.9	1,308.4	27.9
Of which current financial receivables	203.6	373.6	-45.5
Equity and liabilities	**6,569.5**	**5,618.7**	**16.9**
Asset coverage ratio I (in %)	69.0	61.5	7.5
Asset coverage ratio II (in %)	106.7	94.9	11.8
Liquidity ratio I (in %)	60.2	30.7	29.5
Equity ratio (in %)	52.4	49.2	3.2
Net financial position	-1,125.7	-1,126.2	-0.5

The consolidated balance sheet total as at the end of the financial year 2010 was EUR 6,569.5 million, higher than the comparative figure of EUR 5,618.7 million from the previous year. Of this increase, EUR 201.2 million is accounted for by effects resulting from currency translation, in particular from the weakening of the euro against the US dollar.

Non-current assets increased by EUR 520.8 million to EUR 5,057.1 million in the reporting year (previous year: EUR 4,536.3 million). In addition to exchange rate effects amounting to EUR 319.1 million, the delivery of six new container ships and prepayments on account for newly built ships contributed to this increase.

With regard to current assets, trade accounts receivable increased as a result of the considerably more positive development of business in 2010. At EUR 401.5 million, trade accounts receivable were 23.7% higher than in the previous year (EUR 324.6 million). In addition, inventories increased by EUR 49.2 million to EUR 144.0 million (previous year: EUR 94.8 million). This year-on-year change is primarily due to an increase in bunker inventory, which itself is due to the larger number of ships deployed. The value of the inventories was additionally influenced by the higher average bunker price compared with the previous year. The increase of EUR 338.5 million in cash and cash equivalents, taking them to EUR 751.8 million (previous year: EUR 413.3 million), resulted primarily from the positive operating cash flow of EUR 664.1 million in the reporting period. Another factor that significantly influenced the liquidity situation was the issuing of fixed-interest bonds with a total volume equivalent to EUR 662.4 million.

Equity as at 31 December 2010 totalled EUR 3,442.8 million, compared with EUR 2,765.5 million as at 31 December 2009. The increase of EUR 677.3 million in equity is attributable primarily to the net profit generated in the financial year and to unrealised gains and losses from currency translation that were recognised directly in equity (EUR 201.2 million). The conversion of shareholder loans amounting to EUR 353.0 million served to further strengthen equity. Adjusted for the currency translation and valuation reserve, the equity ratio increased to 52.3% compared with 51.2% in the previous year. Of the hybrid capital I and II amounting to EUR 700 million that was reported as at 31 December 2009, EUR 350 million was converted into limited liability capital in the financial year 2010. Hybrid III capital was repaid as part of the acquisition of "Albert Ballin" Terminal Holding.

All in all, non-current liabilities increased by EUR 374.0 million to EUR 1,878.8 million (previous year: EUR 1,504.8 million).

On 8 October 2010, Hapag-Lloyd AG issued two fixed-interest bonds comprising a euro tranche amounting to a nominal sum of EUR 330 million and a US dollar tranche amounting to a nominal sum of USD 250 million. On 28 October 2010, a further increase of EUR 150 million in the euro tranche that had already been issued was placed. Due to the high level of demand, the additional euro tranche was issued at a price of 103.38% and an effective interest rate of 8.2%. The disbursement of the K-Sure-I financing amounting to EUR 216.3 million (USD 290.7 million) at the end of September also resulted in a corresponding increase. This increase was partly counteracted by the repayment of amounts postponed as part of the standstill agreement totalling EUR 229.3 million, including interest and charges, and by the redemption of a bridging loan from TUI amounting to EUR 226.4 million, including accrued interest. Total non-current financial liabilities therefore came to EUR 1,673.9 million, an increase of EUR 365.5 million over the previous year (EUR 1,308.4 million).

The net financial position as at 31 December 2010 amounted to EUR -1,125.7 million, compared with EUR -1,126.2 million as at 31 December 2009. In the previous year, outstanding contributions to the limited liability capital amounting to EUR 142.5 million were included in the net financial position.

A further increase in non-current liabilities resulted in particular from a change in interest rates from 5.2% to 4.7%, a relevant factor in the revaluation of pensions. In comparison with the previous year (EUR 84.2 million), this amount increased by EUR 13.0 million to EUR 97.2 million.

Other provisions decreased by EUR 5.4 million in the reporting period and amounted to EUR 256.0 million as at the balance sheet date (previous year: EUR 261.4 million). This is attributable primarily to the amortisation of provisions for anticipated losses which had been set up for disadvantageous charter agreements as part of the purchase price allocation as at 1 April 2009.

Current liabilities, too, fell in comparison with the previous year. As at 31 December 2010 they totalled EUR 1,247.9 million, representing a decrease of EUR 100.5 million (previous year: EUR 1,348.4 million). The primary cause of this decrease is the reduction of EUR 170.0 million in current financial liabilities. This, in turn, can be attributed to the conversion of shareholder loans into equity (debt-to-equity swap) amounting to EUR 353.0 million. This effect was counteracted by the reclassification of non-current as current financial liabilities. The trade account payables totalling EUR 752.1 million were at near their previous year's level (EUR 747.1 million) as at the balance sheet date.

GROUP FINANCIAL POSITION

Principles and objectives of financial management

The "Albert Ballin" Holding Group's financial management ensures that the Group remains solvent at all times, thus maintaining financial stability in the Group. This involves, in particular, limitations of financial risks resulting from fluctuations in currencies, interest rates and bunker prices. The overriding objective is to maintain an appropriate minimum liquidity level. Liquidity is secured on the basis of financial planning extending over several years and a rolling monthly liquidity forecast. The financial management is carried out within the framework of relevant legislation as well as internal principles and regulations.

Limitation of financial risks

The "Albert Ballin" Holding Group is an international company that is active everywhere in the world. The Group is exposed to financial risks which result from the business operations of Hapag-Lloyd AG, principally as a result of changes in exchange rates, fuel prices and interest rates. The transactions of the associated companies are conducted mainly in US dollars, euros and Canadian dollars; the Swiss franc, Hong Kong dollar, Singapore dollar, British pound and Japanese yen are also of significance.

In order to limit risks from fluctuations in exchange rates for underlying transactions, these transactions are hedged against exchange losses between the euro and the respective exchange rate. Changes in bunker prices are, if possible, passed on to customers by means of appropriate surcharges. Hedge transactions are also used to secure up to 80% of the bunker capacity that is foreseeably required for the future. Interest rate risks which arise as a result of liquidity procurement on the international money and capital markets are managed centrally within the scope of interest rate management.

Other disclosures about hedging strategies and risk management, and about financial transactions and their scope as at the balance sheet date, can be found in the risk report contained within the management's report, and in the financial instruments section in the notes to the consolidated financial statements.

Credit rating

In September 2010, Hapag-Lloyd AG was awarded issuer ratings of B1 with a stable outlook by Moody's Investors Services and BB- with a similarly stable outlook by Standard & Poor's. The high-yield bonds issued in October 2010 received a B rating from Standard & Poor's and a B3 rating from Moody's. Hapag-Lloyd is striving to improve its credit rating in order to improve its financial profile and reduce its financing costs.

Analysis of the cash flow statement

Condensed cash flow statement

Million EUR	**1.1.-31.12. 2010**	1.1.-31.12. 2009*
Cash flow from operating activities	664.1	-329.8
Cash flow from investment activities	-447.4	-2,342.1
Cash flow from financing activities	105.8	3,113.9
Changes in cash and cash equivalents	**322.5**	**442.0**

*) Comparable figures from previous year incl. 9 months Hapag-Lloyd

Cash flow from operating activities

The negative cash flow from operating activities in the previous year improved substantially in the financial year 2010 and amounted to EUR 664.1 million (previous year: EUR -329.8 million). This improvement is mainly attributable to the increase of EUR 829.3 million in Group profit. It is anticipated that investments in property, plant and equipment will be financed internally by generating stable cash flows.

Cash flow from investment activities

Cash outflow from investment activities amounted to EUR 447.4 million, compared with EUR 2,342.1 million in the previous year. EUR 235.5 million of this sum was accounted for by prepayments and final payments for six container ships that were delivered in 2010. A further EUR 132.3 million was disbursed in down payments for vessels under construction and in payments made when ordering new vessels. In the previous year, the cash outflows from investment activities included the acquisition of Hapag-Lloyd AG by “Albert Ballin” Holding.

The free cash flow, calculated as operating cash flow less net investments, was comfortably in positive territory in the financial year 2010 at EUR 216.7 million.

Cash flow from financing activities

Cash inflow from financing activities amounted to EUR 105.8 million. This change was attributable first and foremost to a year-on-year decrease in the utilisation of financial resources (previous year: EUR 3,113.9 million). The assumption of financial liabilities related mainly to the issuing of fixed-interest bonds. This change was counteracted by the repayment of current financial liabilities and interest amounting to EUR 571.6 million, and of hybrid-III-capital amounting to EUR 331.6 million. In the previous year, the cash inflow from financing activities included the financing of the acquisition of Hapag-Lloyd AG by "Albert Ballin" Holding.

Changes in cash and cash equivalents

Million EUR	**1.1.-31.12. 2010**	1.1.-31.12. 2009*
Cash and cash equivalents at beginning of period	**413.3**	**0**
Changes due to exchange rate fluctuations	16.0	-28.7
Net changes	322.5	442.0
Cash and cash equivalents at end of period	**751.8**	**413.3**

*) Comparable figures from previous year incl. 9 months Hapag-Lloyd

There was an aggregate inflow of EUR 322.5 million (previous year: 442.0 million) with the result that, taking account of exchange rate effects as at the end of the reporting period, cash and cash equivalents amounting to EUR 751.8 million (previous year: EUR 413.3 million) were reported as at the end of the reporting period. The cash and cash equivalents dealt with in the cash flow statement correspond to the balance sheet item "cash and cash equivalents".

The detailed cash flow statement and other explanations are contained in the consolidated financial statements.

Financing

The Group covers its financing requirements with cash inflows from operating activities and by assuming short, medium and long-term financial liabilities. In the financial year 2010, financing was obtained principally by issuing fixed-interest bonds and converting shareholder financing into limited liability capital.

Financing activities

The conversion of shareholder loans into equity in the amount of EUR 353 million on 31 March 2010 led to a significant strengthening of both the consolidated equity and the Group's equity ratio.

On 22 September 2010, the consortium agreement for a restructuring loan of EUR 1,200.0 million that was not utilised at any time was terminated. At the same time, the standstill agreement with the financing parties was dissolved, with the result that the provisions of the original financing agreements regained their validity. Subsequently, on 6 October 2010, redemption payments postponed as part of the standstill agreement, as well as fees payable in connection with this totalling EUR 229.3 million and interest totalling EUR 51.2 million, were repaid to TUI.

On 1 October 2010, a credit line amounting to USD 360 million was granted to Hapag-Lloyd AG and "Albert Ballin" Holding within the framework of a facility agreement. This revolving credit facility (RCF) has not yet been utilised.

The fixed-interest bonds that were issued by Hapag-Lloyd AG in October 2010 and the disbursement of the K-Sure-I financing at the end of September amounting to EUR 216.3 million (USD 290.7 million) led to a corresponding increase in the debt level.

Listed bonds

	Nominal		Maturity	Issue price	Proceeds[1] USD	Proceeds[1] EUR	**Market price as at 31.12.2010**
Tranche I	330,000,000	EUR	2015	99.50%	455,691,000	328,354,950	107.38
Tranche II	250,000,000	USD	2017	99.37%	248,432,750	179,011,925	107.88
Tranche III	150,000,000	EUR	2015	103.38%	214,730,550	155,062,500	107.38

1) Conversion at the rate prevailing on the balance sheet date 8/10/2010 or 28/10/2010

On 2 November 2010, Hapag-Lloyd repaid a bridge loan from TUI amounting to EUR 226.4 million, including accrued interest.

The hybrid-III-capital was repaid on 23 and 24 November 2010 by redeeming the credit amount of EUR 314.1 million plus interest and charges amounting to EUR 17.5 million (approximately EUR 331.6 million altogether).

There are covenant clauses of a type customary on the market for existing financing from bonds or loans. These clauses concern the equity, liquidity, level of debt and interest coverage ratio. As at 31 December 2010, all of the covenants were complied with. The Executive Board is assuming in its current planning that compliance with these covenants will continue in the subsequent period.

Prosperity grows through world trade and the flow of goods. Favourable sea freight for containerised products is a decisive catalyst for global division of work.

Facilitating in many countries increasing incomes, better education and greater personal opportunities.

Net borrowing – abbreviated presentation

Million EUR	**2010**	2009
Cash and cash equivalents	751.8	413.3
Net financial liabilities	1,877.5	1,682.0
Net financial position	**-1,125.7**	**-1,126.2**
EBITDA	903.9	-103.0
Level of debt	**35.4**	**42.4**
Discretionary credit lines	**269.5**	**16.8**
Adjusted equity	3,429.1	2,989.1
Adjusted balance sheet total	6,555.8	5,842.3
Adjusted equity ratio	**52.3**	**51.2**

The net financial position at year-end 2010 amounted to EUR -1,125.7 million, compared with EUR -1,126.2 million as at 31 December 2009. In the previous year, outstanding contributions to the limited liability capital amounting to EUR 142.5 million were included in the net financial position.

Investments

The six new container ships that were ordered in 2007, each with a nominal capacity of 8,750 TEU, were delivered to Hapag-Lloyd in the first half of 2010. Final payments totalling USD 235.5 million (USD 303.6 million) were payable upon delivery of the ships. Their delivery increased the total number of ships in this size category to 18.

In light of the buoyant trend in operating activities and the refinancing measures implemented during the year, an existing order for the construction of six further ships in this size category was adjusted on 13 December 2010. In anticipation of future market growth, the order was upgraded to the next generation of container ships with a nominal capacity of 13,200 TEU and extended to include four additional units. Hyundai Heavy Industries will deliver all ten large vessels to Hapag-Lloyd between mid-2012 and the end of 2013. The total order volume is EUR 1,083.8 million (USD 1,450.8 million), of which payments amounting to a total of EUR 242.8 million (USD 335.9 million) have already been made from operating cash flow since 2008 for six newly built vessels and, in December 2010, payments amounting to EUR 41.6 million (USD 55.7 million) for the four newly ordered vessels.

In December 2010, the Group also bought back the tradition-steeped corporate headquarters at Ballindamm, Hamburg, from TUI for the sum of EUR 88.0 million.

The changes in the financial position described above are reflected accordingly in the balance sheet as at 31 December 2010.

Off-balance-sheet financial instruments

In the course of its normal business activities, Hapag-Lloyd AG uses assets of which it is not the beneficial owner. These are, in particular, vessels and containers which are leased within the framework of rental, lease and charter agreements as is customary in the industry. These agreements give rise to future payment obligations for the corresponding rental and charter rates.

STATEMENT ON THE OVERALL ECONOMIC POSITION

At the time that the management report was in preparation, the Executive Board considered the Group to be in a good economic position. The Group is well positioned on the market with its financial profile and its service portfolio. The development of business in the first few weeks of 2011 is in line with expectations.

EMPLOYEES

As at 31 December 2010, 6,872 people were employed at Hapag-Lloyd (2009: 6,819). Two contrasting factors influenced developments in 2010: the number of employees in the marine division increased from 1,195 to 1,306, primarily as a result of new vessels being commissioned, while the measures to cut costs and increase efficiency that had been initiated led to a reduction of employees in the land division from 5,624 to 5,566.

Internationality plays a crucial role at Hapag-Lloyd. This can be seen in the fact that people of 61 nationalities currently work at Hapag-Lloyd in more than 43 countries. In particular, employees are encouraged to take on foreign deployments and are shown possible ways of broadening their experience and their intercultural skills. This philosophy pervades all staff levels right up to the management of Hapag-Lloyd, where half the posts are occupied by international executives.

In order to reinforce the organisation’s basic values and give them an appropriate framework, an ethics guideline applicable to the Group’s entire global workforce was issued in 2010. Its basic objective is to encourage employees to treat one another fairly, respectfully and in accordance with prevailing laws. It concerns both internal and external relationships, which means that it affects not only the way they treat each other, but also partners outside the Group.

Personnel development

Hapag-Lloyd redefined its personnel development strategy in 2010. This strategy will be implemented fully in 2011. It is based on a globally applicable management profile that serves as a job specification for future executives. Providing the employees with further development opportunities relevant to them, for example by means of special management training courses, is one of the most important objectives for 2011.

As the employees of the future, the apprentices of Hapag-Lloyd must be given particular attention in the development of this new strategy. Hapag-Lloyd attaches particular importance to extensive, high-quality training. In 2010, Hapag-Lloyd employed 109 apprentices in land-based positions and 127 at sea. The trainee quota in Germany was 9.5%. In recent years the Group's apprentices have regularly been among the best of the graduation year in Germany. The proportion of those offered jobs at the end of their training has been and still is between 80 and 90%.

Another important component of this strategy is the Management Career Programme (MCP), which has been in existence since 2002. 62 management trainees are currently training within the framework of this programme. Trainees are required to rotate between a number of different roles in different countries to prepare them for their future executive duties.

INNOVATION AND SUSTAINABILITY

Sustainability and quality management
Sustainability has been a fundamental part of Hapag-Lloyd's corporate philosophy for many years. The management acts as a role model in thinking and acting responsibly and with due consideration to the environment, and this way of thinking is also promoted among the employees. The Group has codified its self-imposed obligations in terms of environmental protection, extremely high quality requirements, and employee health and safety in the form of the Group's sustainability policy.

In 1994, Hapag-Lloyd was the first of the world's liner shipping companies to implement a quality management system for all activities along the international transport chain, from the sender to the recipient. This system was enhanced in 2003 with a certification in accordance with the ISO environmental standard 14001 and has been run as an integrated quality and environmental management system ever since.

For this purpose, annual audits are carried out within the global organisation in order to guarantee the high standards of quality and environmental protection. In 2010, 108 audits were carried out in the Group.

All of Hapag-Lloyd's sustainability activities, such as environmental protection measures, charitable projects and matters of quality assurance, are coordinated and managed in the Sustainability Management department. The Sustainability Management department is a fixed component of the Group Development department, the latter of which reports directly to the Executive Board. In every region and area around the world, in the corporate departments and on the ships, there are Group representatives for Sustainability Management – more than 110 in all. This means all of the employees are compelled to observe the issue of sustainability in their work, regardless of their field of work.

IT innovations in container shipping

The efficient and smooth transport of goods around the world using a variety of vehicles places considerable demands on IT systems. Only modern, networked IT systems can reduce costs significantly and guarantee a swift exchange of data between partners in the transport chain located throughout the world.

The subject of information technology has a central role at Hapag-Lloyd. Hapag-Lloyd is regarded throughout the industry as a forerunner in the area of innovative IT solutions thanks to its use and ongoing optimisation of an IT system developed in-house.

Equipment deficit action planning

Optimising the management of container boxes has a considerable effect on overall profitability. Demand for them, however, is subject to both seasonal fluctuations and regional variations. This is why it is critical to be able to anticipate trends in demand and manage equipment accordingly on the basis of these predictions. To improve the management of equipment, a system has been implemented which forecasts the need for all types of container on a weekly basis at all of the Hapag-Lloyd locations. All of the equipment planners around the world are shown these forecasts in a newly developed system that indicates changes with coloured animations. The system is to be further optimised with “planning” and “optimising” modules that enable the system to generate suggestions as to how the costs incurred on empty legs can be optimised even further. This provides even more precise control over the container fleet, thus providing a basis from which customer service can be further improved.

EFFICIENCY AND ENVIRONMENTAL PROTECTION

Objectives are defined, measured and analysed within the framework of the quality and environmental programme. One particular objective is to increase fuel efficiency and consequently reduce CO_2 emissions. Hapag-Lloyd has introduced a variety of technical and operational measures to achieve this objective. Between 2006 and 2009, the recorded CO_2 emissions were reduced by 12% per TEU/km.

One measure to reduce fuel consumption and emissions is known as “derating”. By removing one of several turbo-chargers and adjusting the machine parameters of the electronically controlled motors, the output of the ships’ engines is retroactively reduced. By adapting the engine output to slower speeds, a more cost-effective and considerably more environmentally friendly operation of the ships is ensured. In addition to the savings achieved with slow steaming, the increased charge air pressure in the remaining turbo-chargers results in a cleaner combustion process in the engine and reduces fuel consumption. The Group worked closely with the manufacturers of the vessels' engines during the derating of 21 of the large vessels in 2009 and 2010.

The use of new software on the ships provides a dynamic trim (the attitude of the vessel in the water). The vessel attitude can now be measured and electronically optimised throughout the entire voyage. The optimum attitude at all times increases the efficiency of the ship in operation, thereby reducing both costs and emissions as well as protecting the environment. Experienced cargo planners on land also ensure beforehand that the ships are loaded optimally, thereby improving the trim.

The Group cooperates closely with its industrial partners when developing new environmentally sound technologies. As well as test runs of prototypes on the vessels, Hapag-Lloyd also traditionally strives to be the first shipping company to deploy innovative technologies in daily operations. The "Kuala Lumpur Express" (8,750 TEU), for example, is the world's first container ship to have a thrust fin. The thrust fin is a new development from the Group's shipbuilding partner Hyundai Heavy Industries. The specially shaped fin, which is several metres wide, is behind the propeller on the rudder and optimises the ship's propulsion in such a way that fuel consumption can be significantly reduced.

Furthermore, the Group advises on and supports various undertakings, such as a project to develop an innovative refrigerated container. This project uses CO_2 as a refrigerating agent because carbon dioxide – unlike conventional cooling agents – is a natural gas and is subsequently more environmentally friendly, having less of an influence on the greenhouse effect. Hapag-Lloyd has also been involved for many years in the Clean Cargo Working Group (CCWG), a section of the US-based organisation "Business for Social Responsibility" (BSR). Its members include numerous large liner shipping companies and globally active shipping agents. This working group investigates and optimises the ecological and social impact of the worldwide exchange of goods.

In 2010, Hapag-Lloyd again received various awards for its commitment to reducing the environmental impact of worldwide container shipping:

In September 2010, Vancouver's port authority presented Hapag-Lloyd with the "Blue Circle Award". This award was bestowed for the Group's voluntary participation in a scheme aimed at reducing emissions in Vancouver's territorial waters.
Since 2008, Hapag-Lloyd has been involved in voluntary measures to reduce emissions in the area of Long Beach (California) close to the port. Hapag-Lloyd received its third award in connection with this in 2010.

RISK AND OPPORTUNITY REPORT

The risk policy and the strategic focus on business opportunities are designed to enhance the Company's value by providing stable, long-term growth, contribute to the attainment of its medium-term financial goals and ensure its continued existence as a going concern in the long term.

Strategic focus on opportunities

At Hapag-Lloyd, recognising and exploiting opportunities are core elements of strategic management. Fundamentally, opportunities are identified by systematically observing and analysing developments on the markets relevant to the Company, and by tracking general and sector-specific trends from which opportunities can be derived and assessed.
This analysis and assessment of opportunities forms the basis for the initiation of strategic measures which are geared towards long-term profitable growth and are designed to contribute to a lasting increase in the Company's value.

Risk management

The objective of risk management is to recognise and assess risks of all kinds at an early stage and promptly minimise them by taking appropriate steps. Thanks to monitoring and control systems installed throughout the Group, business developments and their associated risks are regularly measured, assessed and monitored with regard to their effects on the Group. The Executive Board and operations management have integrated multi-level reporting systems at their disposal for risk management purposes. The planning and controlling system, for example, conducts a monthly analysis of how actual business developments have deviated from planned developments, and uses this analysis to identify risks early on that may jeopardise the operating result of the Company. The active monitoring and observation of the operating risks are a crucial factor in the success of the risk management system (RMS).

The risk management system is decentralised in accordance with the organisational structure of Hapag-Lloyd AG. In addition to the reports on operating risks, special, independently organised reporting systems have been set up as early-warning systems for risks that threaten the existence of the Company as a going concern. The management of risks such as these is entirely separate from the operational risk management. Risks are identified, documented, assessed and continuously monitored in the individual departments and regions. They are reported to the central risk management department on a quarterly basis, with emergency unscheduled reports being issued in urgent cases. The central risk management department monitors the risks faced by the entire organisation, summarises them in an overall assessment, and reports on a regular, as well as unscheduled, basis to the Risk Committee and the Executive Board of Hapag-Lloyd AG, as well as to the management of the Group.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The necessary measures within the framework of the Group risk management are implemented in each of the operating units. Operational systems give an overview of the measures to provide assistance. Nevertheless, the risk early-warning system (KonTraG) and the operating risk management do communicate with one another. The internal auditing department also contributes to risk management. This department examines the legality, security and safety of the organisational processes on a regular basis, and on a case-by-case basis if necessary.

In risk management, the methods applied, systems used and time spent on monitoring are adapted according to the type of risk and are continuously checked, enhanced and adapted to the constantly changing business conditions.

The hedging of risks plays a part in risk management. Insurance policies are concluded to cover the risks of loss, damage and liability that arise in everyday business operations, insofar as these are economically justifiable. Among the insurance policies maintained by the Group are third-party liability and property insurance customary in the industry, as well as the insurance for the sea transports. These are examined regularly and adjusted if required.
In connection with the auditing of Hapag-Lloyd AG's financial statements for 2010, the risk early-warning system was examined by the auditor in accordance with the principles of Section 317 (4) of the German Commercial Code (HGB). This examination did not give rise to any significant objections.

Description of the significant characteristics of the accounting-related ICS/RMS pursuant to Section 315 (2) (5) of the German Commercial Code (HGB)

Principles
Hapag-Lloyd AG 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 primary objective of the accounting ICS is to prevent the risk of significant errors in accounting reporting, uncover substantially faulty valuations and ensure compliance with applicable regulations. However, no absolute guarantee can be provided that an ICS will be able to achieve this goal, irrespective of its form or structure.

Organisation and significant processes in Group accounting and consolidation
"Albert Ballin" Holding GmbH & Co. KG prepares the consolidated financial statements in accordance with the IASB International Accounting Standards (IFRS) as adopted by the European Commission and implemented in national legislation. One of the guidelines related to balance sheet accounting is applied throughout the Group. This implementation is codified in the form of procedures and regulations. There is also a uniform account system for Hapag-Lloyd AG and all of its subsidiaries. In the event of changes to the legal provisions

and standards, the accounting guidelines and the procedures are examined promptly for any adjustments that might be required.

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

Information is obtained from other departments and processed in the course of preparing the consolidated financial statements. This includes information from the Treasury department for the balance sheet reporting of hedge relationships and financial derivatives, and information from the Controlling department pertaining to Group planning in relation to the impairment tests that are carried out.

Individual pieces of accounting data are calculated and examined by external specialists and appraisers, for example actuaries for pension valuation.

The process of preparing the Group financial statements is carried out in accordance with a detailed time schedule (the financial statements calendar), which is agreed with the departments and subsidiaries. The Accounting department is responsible for ensuring that these time limits are adhered to.

The accounting process is supported throughout the Group by the SAP IT system. The subsidiaries send their Group report packages needed for the preparation of the consolidated financial statements. These packages are compiled to form the consolidated financial statements using the SAP ECCS consolidation system. The necessary steps to be taken in the consolidation process are managed by the Accounting department.

Principles of controlling activities
Compliance with accounting and valuation regulations is monitored by means of controlling procedures. Some of these procedures are integrated into processes, others are established independently of them. The controlling procedures serve to prevent problems and have a downstream effect. Function separation procedures and a dual control rule have been implemented as fundamental process-integrated control measures, the objective of which is to ensure proper accounting. For example, entries are generally authorised by way of a multi-level approval and release procedure. Control procedures have also been implemented in the IT systems; the booking systems, for example, can only be accessed by authorised employees due to the presence of an authorisation system.

In the process-independent control measures, the Internal Auditing department has a fundamental supervisory role to play. The audit topics are selected in accordance with a risk-based auditing approach. The Internal Auditing department reports directly to the Chairman of the Executive Board of Hapag-Lloyd AG and has a wide range of informational, auditing and access rights to enable it to safeguard the accounting process and provide advice.

ICS evidence process

Hapag-Lloyd AG has established a procedure to monitor the effectiveness of the ICS (hereafter referred to as "ICS evidence process"). This procedure was designed and introduced as part of a project carried out in 2010 and will be implemented in future business years. The process consists of the main stages "scoping and mapping", "evidence of effectiveness" and "reporting". After each of these stages, necessary improvements can be identified and deficiencies rectified, thus enabling the internal control and risk management system to be developed further. Appropriate changes can then be made parallel to the process on an ongoing basis.

In the first stage, scoping and mapping, the topics and risks relevant for Hapag-Lloyd AG's accounting are identified. Quantitative (e.g. the amount of a balance sheet item) and qualitative (e.g. the complexity of the business transactions) parameters defined in advance are taken into account when selecting these topics and risks. The established existing measures and controls are then allocated to the selected topics and risks.

The effectiveness of the measures and controls is monitored by means of effectiveness tests. These effectiveness tests, for which the Internal Auditing department is responsible, are conducted as part of a rolling audit plan.

The results of the effectiveness tests for the measures and control functions pertaining to the selected topics and risks are summarised in a report. Hapag-Lloyd AG's Audit Committee is provided with a copy of the full report once a year by the Executive Board. In the event of any significant alterations, findings or weaknesses, the Executive Board sends the Audit Committee a relevant interim report.

OPPORTUNITIES

As one of the world's leading container shipping companies, Hapag-Lloyd is subjected to a wide range of changes and developments on the domestic and international markets. The general circumstances described in this report and the information regarding market, competition and business developments reveal a diversity of potential opportunities. By utilising and enhancing its own strengths and competitive advantages, the Group strives to exploit any potential opportunities that arise to the greatest possible extent.

The continuous assessment of these potential opportunities is an integral part of the strategy described in detail in the chapter "Group objectives and strategy".

Significant potential opportunities are arising from the following developments:

Opportunities arising from developments in the global volume of container transport

Current forecasts state that the global container transport volume will continue to grow faster than global trade in the future. This growth in volume predicted for the sector is an opportunity for Hapag-Lloyd to take advantage of this market trend.

Opportunities arising from developments in ship and container capacities

Fluctuations in the supply of and demand for transport services on the market can result in both opportunities and risks. For a description of the risks, see the sub-chapter "Risks". Opportunities result from the realisation of cost advantages and/or an increase in freight rates, an example of which is given below:

- If the cost of newly built vessels falls, the long lead time between ordering and the initiation of construction provides the opportunity to realise cost advantages by retroactively increasing the order volume or by transforming and supplementing the order.
- If there is a large inventory of chartered ships, there may be cost advantages lasting several months if ships are chartered at favourable rates and the freight rates increase as a result of higher demand.
- Hapag-Lloyd is working continuously on the further development of IT-based forecast models in order to minimise empty legs and reduce the costs incurred by them. This results in cost advantages if efforts to reduce the empty leg ratio to below the market average prove to be successful.

Opportunities arising from membership of the Grand Alliance

Hapag-Lloyd's membership of the Grand Alliance, the second-largest consortium in container shipping, puts it in a position to offer its own customers a global network of liner services with regular departure times which would not be realisable with its own fleet. Only the flexibility that this provides makes it possible for the Company to make optimum use of the opportunities arising from the development of transport volumes and ship capacities described above.

Opportunities arising from the trend towards sustainability and energy efficiency

Sustainability, in particular in relation to environmental protection and energy efficiency, is going to play an increasingly significant role in container shipping in the future. These trends provide Hapag-Lloyd with an opportunity to achieve cost advantages and reduce CO_2 emissions by means of measures to reduce fuel consumption and optimise ship operations. In connection with this, please refer to the explanations in the chapter "Efficiency and environmental protection".

The various risks described individually and in detail in the next section, particularly those risks of a financial nature, also represent opportunities that would arise given appropriate positive developments. These opportunities have not been given specific mention in this opportunities report.

RISKS

STRATEGIC RISKS

General economic risks

Container shipping is heavily dependent on the general prevailing conditions in the world's economies. Fluctuations in the economic climate have an above-average negative effect on this industry. In the financial year 2010, a number of economic and business indicators improved and stabilised compared with the overall economic environment in 2009, which was characterised in particular by a sharp drop in consumption and deterioration of the business 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 on routes and therefore on economic developments in individual regions. There are considerable uncertainties with regard to how the global economy will develop. A downturn in the global economy cannot be ruled out. This would lead to another significant decrease in the global transport volume in the container shipping segment.

Although container shipping is recovering rapidly from the negative consequences of the global financial and economic crisis, it cannot be assumed with certainty that the current trend will continue or that the level attained before the crisis will be reached again in the foreseeable future.

Risks resulting from intense competition

Global container shipping is characterised by intense competition among the shipping companies. Some of the competitors are larger than Hapag-Lloyd in respect 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 highly developed technologies. This would enable these competitors to offer more cost-effective service and lower freight rates. This, in turn, might have an adverse effect on Hapag-Lloyd's market share.

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

Container shipping has gone through a phase of consolidation. If there is another round of cost-cutting measures, some individual shipping companies might achieve greater economies of scale and generate greater financial strength, with the result that these companies would be more competitive in terms of prices and more able to endure greater market volatility than Hapag-Lloyd.

Risks arising from changes in trade flows

The utilisation of the Group's capacities is influenced by the development of the trading flows between the various regions. In the case of transport between regions comprising net exporters and regions comprising net importers, capacity utilisation in the two directions is divergent. This results in empty legs and the costs that arise from them. An increase in the imbalances in global trade could increase the costs associated with empty legs still further.

OPERATING RISKS

Raw materials price risks

Hapag-Lloyd's business activity exposes it to market price risks arising from the procurement of fuels (bunker) for the container fleet. Bunker oil expenditure accounts for a substantial proportion of overall operating costs. In the financial year 2010, the cost of the vessels' fuel accounted for 17.1% of revenue. Changes in the price of bunker oil 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. These include global terrorism as well as political instability and tensions in the Middle East. In the long term, the price is determined by global demand and by developments in emerging, newly industrialised countries such as China and India.

Price risks arising from fuel procurement are largely hedged. The Group endeavours to lessen the risk of increasing oil prices by hedging some 80% of its likely bunker oil needs over 12 months using financial derivatives. As at the balance sheet date of 31 December 2010, 45% of the Group's bunker oil needs for 2011 were hedged against price changes. There nevertheless remains a risk that the hedges against increases in the bunker oil price might prove to be insufficient. Please refer to page 137 of the notes to the consolidated financial statements for more information on the scope and type of the hedging instruments used as at the balance sheet date. After the year ended, hedges continued to be transacted in order to achieve the desired level of security. As a result, 68% of the planned fuel inventories for the financial year 2011 were hedged as at the end of February.

Another method for limiting the risk from increasing bunker prices is reducing bunker oil consumption with measures such as slow steaming. This method achieves above-average savings in fuel consumption by reducing the container ships' speed. In connection with this, please refer additionally to the explanations in the chapter "Efficiency and environmental protection".

Risk from fluctuations in charter rates

Within the framework of a charter contract, a shipowner puts a ship at the disposal of a container shipping company for a contractually agreed period, with the owner also providing the crew, insuring the vessel and being responsible for maintenance. As the 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 vessels. It is possible that charter rates could increase 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. Short-term 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 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 increase his charter rates before the contract expires. If demand is falling, 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 for several months as a response to falling freight rates. The proportion of own and leased ships in the aggregate fleet capacity of Hapag-Lloyd (in TEU) as at 31 December 2010 was 48%. The remaining 52% is chartered. In addition to the Group's 59 own container ships, nine are leased long-term with a purchase option. 22 ships are chartered long-term, 19 for the medium term and 28 for the near future.

Risks from capacity bottlenecks at individual ports

Over the past few years, capacities in container shipping have grown more quickly than the ports have expanded. This leads to waiting times at the ports in question and accordingly results in a sometimes considerable amount of lost time spent loading and unloading the vessels. If capacities were increased further, the loss of time at the ports concerned could increase further. This would make it harder to keep to the timetables and could put pressure on earnings and the Company's 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.

Variety would be sought in vain in many department stores if container ships did not ensure worldwide availability of goods of all types. Whether fresh fruit, the latest mobile


phone or notebook,
jeans or sport
shoes or the beans
for a tasty cup
of morning coffee.
Enhancing the
variety in life.

Risks from longer delivery periods for newly built ships

The lead time between the ordering and delivery of newly built ships is two to three years, with the placement of the order being oriented towards expectations of future demand for transport capacities. The market situation can change by the time new ships are delivered. There is also the hazard that the available capacity will be too low and Hapag-Lloyd cannot meet its customers' demands. This would lead to falls in revenue and a loss of market share. If additional capacities have to be chartered so that the customer relationship is not endangered, higher charter rates that have to be paid as a consequence of increased demand will lead to an additional cost burden. If, on the other hand, demand falls short of expectations, overcapacity might develop.

Risk in the operation of ships

The operation of ships involves specific risks which include accidents, environmental damage, sinking, fire, explosions and collisions, loss of or damage to the cargo, damage caused by material defects, human error, war, terrorism, political activities in individual countries, difficult weather conditions, delays resulting from strikes by crews or dock employees, and piracy. All of the points listed above can lead to the death or injury of people as well as to the loss or damage of property. This could damage the reputation of the Company and put pressure on customer relationships. Hapag-Lloyd has concluded economically appropriate insurance policies to counter these risks. It cannot be ruled out, however, that the existing insurance policies do not cover the full amount of all types of damage.

Risks caused by general political conditions and protectionism

Hapag-Lloyd is active in many countries around the world. Its commercial activities can be hindered by political tension, wars, terrorism, and economic and social problems. This can result in disruptions to the production processes of its customers or interruptions in its own liner services. The use of ports or other major shipping channels (Panama Canal, Suez Canal) might be hindered as a result.

Individual countries can react to financial or economic crises by resorting to protectionist measures, for example by restricting imports. Other countries could initiate countermeasures, thereby encouraging protectionism around the world. This would have a negative impact on the development of container shipping.

Risks from piracy

Piracy has long had a considerably adverse effect on commercial shipping. Since 2008 piracy has become far more frequent in a number of regions, for example in the South China Sea, in the Gulf of Aden and off the coast of Somalia. If attacks take place in sea areas where the Company's own ships operate, the costs for insurance premiums and security measures can increase significantly. The possibility of Hapag-Lloyd not being adequately insured for every case, including the payment of ransom money, cannot be ruled out.

COMPLIANCE RISKS

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

Container shipping is subject to numerous safety, security and customs regulations in the respective countries of origin, transit and destination. Checks by the competent authorities could lead to the seizure of containers or their contents, and to delays in the loading or unloading of the ships. In connection with this, customs duties could be levied or fines could be 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.

Legal disputes and legal risks
Hapag-Lloyd AG and some of its subsidiaries are currently involved in legal disputes. These include disputes with foreign tax authorities, claims asserted by departed employees and disputes arising from contractual relationships with suppliers and customers. If legal disputes are successful for the opposing party, this can involve substantial costs and damage the Company's reputation.

In addition, the Group is subjected to a regular tax audit, following which tax arrears may have to be paid. The subsidiary Hapag-Lloyd Mexico S.A. de C.V. was faced with a considerable tax arrears demand in early 2010. Hapag-Lloyd has lodged an objection to it.

OTHER RISKS

IT risks

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

The IT systems are protected in several ways. It can nevertheless not be ruled out that damage, for example caused by fire, power failures, system errors, hacker attacks, cases of fraud or terrorism, could lead to the loss of data. The recovery of this data, if at all possible, could lead to increased costs and/or negatively affect the customer or partner relationship.

Risks from membership of the Grand Alliance

Membership of the Grand Alliance can involve risks alongside the opportunities described above. The conditions within the Grand Alliance could change or other shipping companies could relinquish or not prolong their membership. Any member of the Grand Alliance can terminate its membership with six months' notice. The contract which currently applies will expire in 2018. In the event of a dissolution of the Grand Alliance, Hapag-Lloyd would lose the benefits that the Group gains from the collaboration. This would considerably restrict the flexibility, capacities and available spectrum of liner services.

FINANCIAL RISKS

Management of financial risks

Hapag-Lloyd is represented with its business activities all over the world. As a result, the Group is primarily exposed within the scope of its ordinary business activities to currency risks, interest rate risks, raw materials price risks and liquidity risks which can have a significant impact on its net asset, financial and earnings position.

Its corporate policy is to limit the market 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. The underlying transactions of all of the Group's hedge transactions are either accordingly accounted for or represent future transactions as a matter of principle. Approved, standardised software is used for the recording, valuation and reporting of the hedging transactions concluded.

Currency risks

In international container shipping, the US dollar is the currency in which the bulk of services are usually invoiced. This applies for freight and charter rates, fuel, and the financing of containers and ships. The US dollar is the functional currency within the Hapag-Lloyd Group. The Group, a business which conducts its operations worldwide, is nevertheless exposed to the risk of currency fluctuations because various currencies make up its income and expenses. This also applies to financial liabilities assumed in euros. In addition to the US dollar, the euro and the Canadian dollar, the British pound, the Mexican peso and the Chinese renminbi are also of increased significance.
The risks of changes in exchange rates are limited with hedging transactions. Despite this, fluctuations in exchange rates can have a significant influence on the Group's earnings position, especially if the euro strengthens against the US dollar.

Interest rate risks

Interest rate risks which arise as a result of liquidity procurement on the international money and capital markets are reduced with a balanced portfolio of fixed and variable interest rate structures.

Liquidity risks

The liquidity risk, i.e. the risk of not being able to fulfil existing or future payment obligations due to insufficient means of payment, 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. Arrangements with the banks to make available lines of credit are based on a rolling liquidity plan. The bank default risk management also covers the derivative financial instruments and financial investments in the "Albert Ballin" Holding Group. The maximum default risk of the derivative financial instruments concluded is restricted to the sum of the current values of all of these instruments, because the financial damages in the event of their non-fulfilment by the contracting partners would not exceed this amount. Default risks are not to be expected as derivative financial instruments have been concluded with different borrowers of impeccable credit standing. Nonetheless, the counterparty risk is monitored constantly and managed by means of internal bank limits.

Default risks

In order to prevent or reduce bad debt losses, Hapag-Lloyd operates a uniform, centrally steered receivables management system across the Group. Its components include a standardised approval procedure for granting loans, including a creditworthiness risk check by Dun & Bradstreet, securing the customer receivables by means of credit insurance from Atradius, and a centrally managed monthly reporting system for monitoring the outstanding amounts, including their age structure and the guidelines and rules of receivables management.

Risks arising from debt

As at 31 December 2010, the Company's financial liabilities amounted to EUR 1,877.5 million. The possibility of financing the operating capital, debt servicing and other expenditure depends on the future course of business and the development of income. The proportion of borrowed capital may make it more difficult to fulfil the payment obligations for the bonds issued and requires the appropriation of a proportion of income for debt servicing. In addition, it may put Hapag-Lloyd at a disadvantage when it comes to raising new funds on favourable terms.

There are covenant clauses of a type customary on the market for existing financing from bonds or loans. These clauses concern the equity, liquidity, level of debt and interest coverage ratio. As at 31 December 2010, all of the covenants were complied with. The Executive Board is assuming in its current planning that compliance with these covenants will continue in the subsequent period.

Risks from a downgrading of the rating

The bonds already issued and all bonds which are issued in the future can be assessed by the rating agencies Moody's and Standard & Poor's. The credit rating by the rating agencies influences the Group's ability to take on financial liabilities.

Any downgrading of Hapag-Lloyd AG's rating or that of the bonds it issues could result in less favourable conditions for raising new funds and could adversely affect the price and the fungibility of the securities.

Risks of taxation

In 1999, Hapag-Lloyd decided to avail itself of the possibility of having its commercial activities taxed on the basis of the transport capacities utilised ("tonnage tax"). There are also comparable taxation systems in other European countries. In this way, the tax burden is determined by the capacity of the fleet, not by the commercial result actually achieved. It requires a particular proportion of the fleet to be registered in Germany (domestic ownership and management) and deployed in international waters or only as a liner service between foreign ports.

Some of the older ships do not fulfil these requirements, and as a result 13% to 15% of the Group's income is subject to regular German taxation. 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.


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OVERALL ASSESSMENT OF THE RISKS

The assessment of the Group's overall risk situation is the result of an examination of all of the Group's significant individual risks as they affect the Group as a whole. At present there are no indications of any risks, either alone or in combination with other risks, that endanger the continued existence of Hapag-Lloyd as a going concern.

EVENTS AFTER THE BALANCE SHEET DATE

There were no transactions of particular significance after the balance sheet date which would have altered the depiction of the earnings, financial and net asset position.

The financing requirement arising from the newly built ships ordered will be USD 1 billion up until 2013. For this purpose the banks involved have already undertaken to provide finance with a volume of USD 930 million. This means that the medium-term financing needs are covered almost in their entirety.

PROSPECTS

The development of the general economic conditions, for example global economic growth and the resultant increase in worldwide trade flows, is of particular significance for the long-term development of container shipping. In light of the renewed high volatility of raw materials prices, and the sharp increase in crude oil prices in particular, the trends forecast by leading research institutes are beset with uncertainties.

The sustainable development of the global economy in the future is contingent on the fulfilment of a number of conditions. In the industrial nations, private consumption must be strengthened. Countries with trade surpluses will have to reduce their net exports and countries with trade deficits – such as the USA – will have to increase their net exports. In the estimation of the IMF, trade relationships must be evened out. The USA has already announced that it wishes to double its exports over the next five years.

The IMF is forecasting that the global gross domestic product will grow by 4.4% in 2011 and by 4.5% in 2012. After more restrained growth expectations for the first half of 2011, growth is expected to gain momentum in the second half of 2011 and this momentum is expected to continue in 2012.

Particularly robust growth of 6.5% is expected in the developing and newly industrialising countries for both 2011 and 2012. The industrial countries are falling well short of these forecasts. For the European Union, the IMF is expecting growth of 1.7% in 2011, followed by

2.0% in 2012. For the USA it is forecasting GDP growth of 3.0% (2011) and 2.7% (2012). Global trade, according to the IMF, is likely to increase by 7.1% in 2011. Growth of 6.8% is expected for the subsequent year. The forecast for the future development of the global container transport volume is correspondingly positive. IHS Global Insight is expecting an increase of 6.8% in global container traffic in 2011. Worldwide growth of 7.0% is forecast for 2012.

Based on the general economic conditions which are being forecast, Hapag-Lloyd is striving to increase transport volume by the same percentage as the market in 2011 and 2012. The sharp increase in the freight rate of 2010 is expected to be followed by another, albeit smaller, increase in 2011 and 2012. Uncertainties regarding the anticipated market development are resulting in particular from the sharp increase in crude oil prices over the past few weeks. Furthermore, we are also expecting a delayed increase in transport expenses in 2011 as a result of the positive trend in container shipping business this past year. We are therefore assuming that the increase in costs in 2011 is likely to be higher than the increase in revenue. In addition, the development of income is subject to the usual seasonal fluctuations in the sector.

The future exchange rate of the USD against the EUR, too, is generating uncertainty. The high level of public debt in many eurozone economies has weakened the euro in relation to the US dollar. In view of the increase in the crude oil price, another increase in the bunker price to a level higher than the 2010 average is expected for 2011 and 2012. In order to maintain its organic growth at market growth level, Hapag-Lloyd will again be making major investments in 2011 and 2012. Three of the 13,200 TEU vessels that have been ordered will be delivered in 2012. Binding commitments from the banks involved have been received, thus securing financing for the required investments. With the earnings trend in the financial year 2011 likely to be influenced by the emerging above-average increase in transport expenses, the positive development of business at the “Albert Ballin“ Holding Group should continue in the medium term and profitable growth should be attainable in 2012.

Innovation and progress are not foreign to us on land or on board our ships. They are much more an integral part of our corporate philosophy.

Sustainability sets the standard for our actions – our contribution to protecting the **environment.**

Consolidated financial statements

CONSOLIDATED INCOME STATEMENT

Consolidated income statement of "Albert Ballin" Holding GmbH & Co. KG for the period 1 January to 31 December 2010

Million EUR	Note	**01.01.-31.12. 2010**	01.01.-31.12. 2009[1)]
Revenue	(1)	6,204.3	3,325.9
Other operating income	(2)	131.2	90.8
Transport expenses	(3)	4,811.2	3,041.8
Personnel expenses	(4)	345.5	247.4
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	(5)	321.2	238.9
Other operating expenses	(6)	283.2	239.3
Operating result		**574.4**	**-350.7**
Share of profit of equity-accounted investees	(12)	31.1	8.8
Other financial result	(7)	-22.8	-
Earnings before interest and tax (EBIT)		**582.7**	**-341.9**
Interest income	(8)	7.6	29.4[2)]
Interest expenses	(8)	-145.9	-91.7[2)]
Earnings before income taxes		**444.4**	**-404.2**
Income taxes	(9)	16.9	-2.4
Group profit/loss		**427.5**	**-401.8**
thereof profit/loss attributable to shareholders of "Albert Ballin" Holding		410.6	-401.9
thereof interest on hybrid-III-capital		17.0	-
thereof profit/loss attributable to non-controlling interests	(21)	-0.1	0.1

1) Incl. 9 months Hapag-Lloyd subgroup

2) The presentation for 2009 was adjusted

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated statement of comprehensive income "Albert Ballin" Holding GmbH & Co. KG for the period 1 January to 31 December 2010

Million EUR	Note	**01.01.-31.12. 2010**	01.01.-31.12. 2009[1)]
Group profit/loss		**427.5**	**- 401.8**
Cash flow hedges (no tax effect)	(19)	36.1	-
Addition to other comprehensive income (OCI)		49.9	12.5
Reclassification to income statement due to realisation		- 13.8	- 12.5
Actuarial gains (+) and losses (-) from pension provisions and related fund assets, after tax	(19)	- 9.4	- 6.0
Actuarial gains (+) and losses (-) from pension provisions and related fund assets, before tax		- 8.9	- 7.3
Tax effect		- 0.5	1.3
Currency translation (no tax effect)	(19)	201.2	- 223.6
Other comprehensive income		**227.9**	**- 229.6**
Total comprehensive income		**655.4**	**- 631.4**
thereof profit/loss attributable to shareholders of "Albert Ballin" Holding		638.5	- 631.5
thereof interest on hybrid capital III		17.0	-
thereof profit/loss attributable to non-controlling interests	(21)	- 0.1	0.1

1) Incl. 9 months Hapag-Lloyd subgroup

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated statement of financial position of “Albert Ballin“ Holding GmbH & Co. KG as of 31 December 2010

Million EUR	Note	**31.12. 2010**	31.12. 2009
Assets			
Goodwill	(10)	691.2	642.5
Other intangible assets	(10)	773.8	834.2
Property, plant and equipment	(11)	3,198.3	2,695.6
Investments in equity-accounted investees	(12)	324.8	325.0
Other assets	(13)	20.5	25.4
Derivative financial instruments	(14)	36.9	0.0
Deferred tax assets	(9)	11.6	13.6
Non-current assets		**5,057.1**	**4,536.3**
Inventories	(15)	144.0	94.8
Trade accounts receivable	(13)	401.5	324.6
Other assets	(13)	110.1	226.1
Derivative financial instruments	(14)	85.3	1.4
Income tax receivables	(9)	16.6	11.8
Cash and cash equivalents	(16)	751.8	413.3
Assets classified held for sale	(17)	3.1	10.4
Current assets		**1,512.4**	**1,082.4**
Total assets		**6,569.5**	**5,618.7**

Million EUR	Note	**31.12. 2010**	31.12. 2009
Equity and liabilities			
Capital provided by limited partners	(18)	3,086.6	2,384.8
Retained earnings	(18)	0.0	-401.9
Cumulative other equity	(19)	-1.7	-229.6
Hybrid capital	(20)	357.6	697.7
Equity attributable to shareholders of "Albert Ballin" Holding		**3,442.5**	**2,451.0**
Hybrid capital	(20)	0.0	314.1
Non-controlling interests	(21)	0.3	0.4
Equity		**3,442.8**	**2,765.5**
Provisions for pensions and similar obligations	(22)	90.4	79.3
Other provisions	(23)	103.6	111.0
Financial liabilities	(24)	1,673.9	1,308.4
Other liabilities	(25)	5.3	5.5
Deferred tax liabilities	(9)	5.6	0.6
Non-current liabilities		**1,878.8**	**1,504.8**
Provisions for pensions and similar obligations	(22)	6.8	4.9
Other provisions	(23)	152.4	150.4
Income tax liabilities	(9)	9.2	4.2
Financial liabilities	(24)	203.6	373.6
Trade accounts payable	(25)	752.1	747.1
Other liabilities	(25)	123.8	68.2
Current liabilities		**1,247.9**	**1,348.4**
Total equity and liabilities		**6,569.5**	**5,618.7**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated statement of changes in equity of “Albert Ballin“ Holding GmbH & Co. KG for the period 1 January to 31 December 2010

Million EUR*	Proportion attributable to shareholders			
	Capital provided by the limited partners	Retained earnings	Cash Flow Hedges	Actuarial gains and losses
Note	(18)	(18)		
As per 31.12.2008	**(€ 1,000)**	**(€ -303.77)**	**-**	**-**
Total comprehensive income	**-**	**-401.9**	**-**	**-6.0**
Transactions with shareholders	**2,384.8**	**-**	**-**	**-**
Of which				
capital increase for acquisition purposes	2,100.0	-	-	-
capital increase (taking account of transaction costs)	284.8	-	-	-
conversion of loans (taking account of transaction costs)	-	-	-	-
addition due to business combinations	-	-	-	-
dividend distribution	-	-	-	-
As per 31.12.2009	**2,384.8**	**-401.9**	**-**	**-6.0**
Total comprehensive income	**-**	**410.6**	**36.1**	**-9.4**
Transactions with shareholders	**701.8**	**-8.7**	**-**	**-**
Of which				
capital increase	353.0	-	-	-
conversion of hybrid I	350.0	-	-	-
transaction costs	-1.2	-	-	-
Interest from hybrid I and II	-	-8.7	-	-
Repayment hybrid III	-	-	-	-
As per 31.12.2010	**3,086.6**	**0.0**	**36.1**	**-15.4**

* The previous year's amounts refer to the individual financial statements of "Albert Ballin" Holding and are given in exact euro amounts.

of “Albert Ballin“ Holding						
Translation reserve	Cumulative other equity	Hybrid capital	Total	Hybrid capital	Minority interests	Total equity
	(19)	(20)		(20)	(21)	
-	**-**	**-**	**(€ 696.23)**	**-**	**-**	**(€ 696.23)**
-223.6	**-229.6**	**-**	**-631.5**	**-**	**0.1**	**-631.4**
-	**-**	**697.7**	**3,082.5**	**314.1**	**0.3**	**3,396.9**
-	-	-	2,100.0	-	-	2,100.0
-	-	-	284.8	-	-	284.8
-	-	697.7	697.7	314.1	-	1,011.8
-	-	-	-	-	0.4	0.4
-	-	-	-	-	-0.1	-0.1
-223.6	**-229.6**	**697.7**	**2,451.0**	**314.1**	**0.4**	**2,765.5**
201.2	**227.9**	**-**	**638.5**	**17.0**	**-0.1**	**655.4**
-	**-**	**-340.1**	**353.0**	**-331.1**	**-**	**21.9**
-	-	-	353.0	-	-	353.0
-	-	-350.0	-	-	-	-
-	-	1.2	-	-	-	-
-	-	8.7	-	-	-	-
-	-	-	-	-331.1	-	-331.1
-22.4	**-1.7**	**357.6**	**3,442.5**	**-**	**0.3**	**3,442.8**

CONSOLIDATED CASH FLOW STATEMENT

Consolidated cash flow statement of "Albert Ballin" Holding GmbH & Co. KG for the period 1 January to 31 December 2010

Million EUR	Note	**01.01.-31.12. 2010**	01.01.-31.12. 2009[1)]
Group profit/loss		427.5	-401.8
Depreciation, amortisation and impairment (+) / write-backs (-)		318.2	238.9
Other non-cash expenses (+) / income (-)		-11.0	-40.7
Interest expenses (excl. interest expenses relating to pension obligations)		137.2	85.6
Profit (-) / loss (+) from hedges of financial liabilities		15.9	-
Profit (-) / loss (+) from disposals of non-current assets		-6.1	-17.6
Income from dividends (-)		-9.6	-1.3
Increase (-) / decrease (+) in inventories		-42.1	-28.6
Increase (-) / decrease (+) in receivables and other assets		-136.5	-58.3
Increase (+) / decrease (-) in provisions		-19.1	-63.2
Increase (+) / decrease (-) in liabilities (excl. financial liabilities)		-10.3	-42.8
Cash inflow/outflow from operating activities	(27)	**664.1**	**-329.8**
Payments received from disposals of property, plant and equipment and intangible assets		14.6	14.6
Payments received from disposal of consolidated companies (net of cash and cash equivalents sold)		-	-
Payments received from the disposals of other non-current assets		13.3	315.0
Dividends received		30.1	42.4
Payments made for investment in property, plant and equipment and intangible assets		-502.2	-134.1
Payments made for investments in consolidated companies (net of cash and cash equivalents acquired)		0.0	-2,578.4
Payments made for investments in other non-current assets		-3.2	-1.6
Cash inflow/outflow from investing activities	(28)	**-447.4**	**-2,342.1**

Million EUR	Note	**01.01.-31.12. 2010**	01.01.-31.12. 2009[1)]
Payments received from capital increases		-	2,242.3
Payments received from outstanding capital contributions		142.5	-
Payments made from hybrid capital		-331.6	-
Dividends paid by subsidiaries to minority interests		-	-0.1
Payments received from the raising of financial liabilities		882.4	1,779.0
Payments made for redemption of financial liabilities		-439.0	-1,215.5
Payments received due to profit and loss transfer		-	363.2
Interest paid		-132.6	-55.0
Payments received (+) and made (-) from hedges for financial liabilities		-15.9	-
Cash inflow/outflow from financing activities	(29)	**105.8**	**3,113.9**
Net change in cash and cash equivalents		**322.5**	**442.0**
Cash and cash equivalents at beginning of period		**413.3**	**-**
Change in cash and cash equivalents due to exchange rate fluctuations		16.0	-28.7
Net change in cash and cash equivalents		322.5	442.0
Cash and cash equivalents at end of period	(30)	**751.8**	**413.3**

1) Incl. 9 months Hapag-Lloyd subgroup

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES ON THE PRINCIPLES AND METHODS UNDERLYING THE CONSOLIDATED FINANCIAL STATEMENTS

General

"Albert Ballin" Holding GmbH & Co. KG (hereinafter referred to as "the Company" or "Albert Ballin" Holding), based in Hamburg, Gertrudenstrasse 2, is a partnership established under the law of the Federal Republic of Germany and registered in the commercial register of Hamburg district court under HRA 109117. It was established with the articles of partnership dated, and the entry in the commercial register made on 9 October 2008. The purpose of the Company is the acquisition of direct or indirect investments in companies which operate globally in the container shipping market with their own or chartered ships. The management of the "Albert Ballin" Holding Group is geared exclusively to the business area of container shipping.

The parent company of "Albert Ballin" Holding is "Albert Ballin" Joint Venture GmbH & Co. KG (herein-after referred to as "Albert Ballin" Joint Venture). As of 31 December 2010 Hamburgische Seefahrtsbeteiligung "Albert Ballin" GmbH & Co. KG holds a 50.24% stake in this company, TUI-Hapag Beteiligungs GmbH holds 49.76%.

These consolidated financial statements were prepared in compliance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and adopted as European law by the European Union (EU), and the German commercial law provisions that must be observed pursuant to Section 315a (1) of the German Commercial Code (HGB).

These financial statements encompass the financial year from 1 January to 31 December 2010. As the Hapag-Lloyd Group was consolidated for the first time as at 31 March 2009 only operating activities for the 9-month period 1 April to 31 December are included. A year-on-year comparison, especially of the income statement and the cash flow statement, is, therefore, only possible to a limited extent.

The consolidated statements were prepared in euros (EUR). Unless otherwise stated, all amounts from the financial year are stated in millions of euros (EUR million).

The Annual Shareholders' Meeting is expected to approve the 2010 Group financial statements as at 1 April 2011 for publication in the electronic Federal Gazette.

Segment reporting

At 31 December 2010 the company traded neither debt instruments nor equity instruments in a public market nor had presented the consolidated financial statements for the purpose of emission of instruments to a regulatory authority. Therefore, as of the balance sheet date there was no obligation for the preparation of segment reporting.

Accounting principles

In these financial statements the following new standards and amendments of existing standards already endorsed issued by the IASB had to be adopted for the first time. The first-time adoption did not have a significant impact on the financial position and results of operations of “Albert Ballin“ Holding Group:

- IFRS 1 First-time Adoption of the International Financial Reporting Standards (revised 2008)
- Amendments to IFRS 1 Additional Exceptions for First-time Adoption
- Amendments to IFRS 2 Share-based Payment
- IFRS 3 Business Combinations (revised 2008) and IAS 27 Consolidated and Separate Financial Statements (revised 2008)
- Amendments to IAS 39 Recognition and Measurement
- IFRIC 12 Service Concession Arrangements
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfer of Assets from Customers
- Improvements to IFRS (2009)
- Improvements to IFRS (2008)

The **revised version of IFRS 1** First-time Adoption of International Financial Reporting Standards retains the substance of the previous version, but within a changed structure. Furthermore, additional exceptions to the on principle compulsory retrospective adoption of all standards and interpretations applicable as at the reporting date of the first IFRS financial statements for companies in the oil and gas industry as well as for first-time IFRS-adopters, applying the transitional provisions of IFRIC 4 were established.

The **revised version of IFRS 2** Share-based Payment clarifies the accounting for cash-settled share-based payments within the group, where the reporting entity receives goods or services, but the obligation for the cash settlement lies with its parent company or another group company.

The **revised version of IFRS 3** Business Combinations essentially comprises regulations as to acquisition-related costs and incidental acquisitions costs, business combinations achieved in stages, goodwill, non-controlling interests and the revaluation of existing contracts. IAS 27 determines that acquisitions or sale of interests in a subsidiary with change of control result in a revaluation affecting net income at fair value of the interests held or retained in the group. Transactions that do not result in the loss of control are accounted for within equity without affecting earnings.

The **revised version of IAS 39** Financial Instruments – Recognition and Measurement deals with the conditions under which inflation risks as underlying transactions can be hedged as well as with the possibility to use options as hedging instrument against unilateral risk.
IFRIC 12 Service Concession Arrangements illustrates the concession arrangements with governments or similar institutions for the provision of public services. Two types of contracts have to be distinguished between. A financial asset is recognised if the entity receives a contractual right to receive cash or another financial asset or an intangible asset, if the entity receives the right to levy charges from the service recipient.
IFRIC 15 Agreements for the Construction of Real Estate determines under which conditions entities that undertake the construction of real estate have to adopt, IAS 11, Construction Contracts and IAS 18 Revenue. In addition, the issue of at which point in time to recognise revenue from the construction of real estate is dealt with.
IFRIC 16 Hedges of a Net Investment in a Foreign Operation clarifies that a risk position may only result from the translation of the functional currency of the foreign operation into the functional currency of the parent company and not from translation into the presentation currency of the parent company.
IFRIC 17 Distribution of Non-cash Assets to Owners deals with accounting issues in connection with non-cash distributions to owners at the dividend-paying entity.
IFRIC 18 Transfer of Assets from Customers clarifies the requirements for the accounting of assets, which an entity receives from a customer that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services
In the context of the **improvements to IFRS 2009** amendments were made aiming at clearer verbalisations of specific IFRS to clarify existing regulations as well as amendments having an impact on accounting, approach and valuation.
In the context of the **improvements to IFRS 2008** IFRS 5 Non-current Assets Held for Sale was amended to the effect that upon notification of an intended sale of a non-controlling interest with loss of control all assets and liabilities are to be classified as “held for sale”, if the criteria acc. to IFRS 5.6 to 5.8. are complied with.
These standards do not have any material impact on the Group’s net asset, financial and earnings position.
Furthermore “Albert Ballin“ Holding adopted the relief provisions regarding government-related entities of paragraphs 25 to 27 ahead of the date of the new IAS 24 becoming effective. These regulations exempt from full disclosure of transactions with state institutions or companies; only the name of the state institution or company and the nature of its relationship with the reporting entity as well as significant transactions have to be stated.

The following standards that were adopted, amended or newly issued by the IASB and the European Union were not yet mandatory in the financial year 2010:

Standard/Interpretation		Mandatory for financial years beginning on or after	Impact
IAS 12	Amendments to IAS 12: Deferred taxes on investment property	1.1.2012	Its future application is being examined by management
IAS 24	Related party disclosures	1.1.2011	The relief provisions regarding government-related entities is applied already. The future application of the remaining provisions is being examined by management
IAS 32	Amendments to IAS 32: Classification of Rights Issues	1.2.2010	Its future application is being examined by management
IFRIC 14	Prepayments in the context of minimum funding requirements	1.1.2011	Its future application is being examined by management
IFRIC 19	Extinguishing financial liabilities with equity instruments	1.7.2010	Its future application is being examined by management
Misc.	Annual Improvements Project 2010 - Improvements to IFRS	dependend on the standard	Its future application is being examined by management

These are regulations which will not be mandatory until the financial year 2011 or later.
The **change in IAS 12** with regard to deferred taxes on real estate held as financial investment clarifies that as a rebuttable presumption the carrying amount of certain assets is generally realised by sale; this applies to real estate held as financial investment and measured using the fair value model of IAS 40.
The **revision of IAS 24** with regard to information on the relationship with related companies and individuals resulted in a fundamental adjustment of the definition of related companies and individuals.
IAS 32 regarding classification of rights issues is changed such that rights, options and warrants on a fixed number of own instruments for a fixed amount of any currency must be classified as equity instruments as long as they are offered pro rata to all existing owners of the same class.
Changes in IFRIC 14 regarding prepayments of minimum funding requirements relate to pension plans that require a minimum funding and where the company makes corresponding premium prepayments. The economic benefit of these premium prepayments, which reduce future premium payments due to the minimum funding requirement, is activated as an asset.

The new interpretation of **IFRIC 19** regarding extinguishing financial liabilities with equity instruments regulates the accounting requirements of the debtor, if renegotiated terms result in financial liabilities to be settled in full or partially by issuance of own equity instruments and if the creditor is an unrelated third party. The equity instruments are to be measured at fair value and the difference to the carrying amount of the settled liability is to be recorded affecting income.

Within the **improvements of IFRS 2010** several smaller changes of the IFRS were affected. These relate to IFRS 1 with regard to the use of fair value or revaluation instead of deemed cost, IFRS 7 in connection with information on type and scope of risks from financial instruments, IAS 1 regarding the reconciliation of equity, information on the notes regarding material transactions according to IAS 34 and the valuation of award credits under IFRIC 13.

Changes in the income statement

In the financial year 2010 interest income and interest expenses are not netted in the income statement. The presentation for 2009 was adjusted, accordingly.

PRINCIPLES OF CONSOLIDATION

Consolidation principles and methods

The consolidated financial statements include all the significant domestic and foreign companies in which “Albert Ballin“ Holding is able to govern the financial and business policy so as to derive benefits from the activities of these companies (subsidiaries). Companies in which the Group is able to exert a significant influence over the business and financial policy (associated companies and joint ventures) are included in the consolidated financial statements using the equity method.

Such companies are generally consolidated for the first time as at their acquisition date. The acquisition date constitutes the time from which the possibility of controlling the subsidiary is acquired or, respectively, when it becomes possible to exert significant influence. When the possibility of controlling a company or of exerting significant influence over it comes to an end, the company in question is removed from the group of consolidated companies.

Capital consolidation is carried out using the purchase method. When the purchase method is applied, the acquisition costs of the acquired shares are compared with the proportionate fair value of the acquired assets, debts and contingent liabilities of the subsidiary or associated company as at the acquisition date. With subsidiaries, any positive difference is recognised as goodwill and recorded as an asset of the subsidiary; with associated companies it is contained within the carrying amount of the respective investment valuation. A negative difference is recognised immediately within the income statement. 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 or if there are any indications of a possible impairment in value in the subsequent periods, examined for their recoverable value and, in the event of impairment, written down to the lower recoverable amount. Any impairments of this kind are recognised separately in the income statement as impairment of goodwill. If the carrying amount exceeds the recoverable amount from an investment in an associated company, the carrying amount of the investment is written down to the recoverable amount. Impairments of the carrying amount are recognised in the pro rata earnings derived from the associated companies accounted for using the equity method.

The individual financial statements of "Albert Ballin" Holding and its subsidiaries, which were prepared using the standard Group accounting and measurement methods and audited or reviewed by auditors, were included in the preparation of the consolidated financial statements.

If a subsidiary or a company included in the consolidated financial statements using the equity method is sold, the difference between the proceeds from the sale and the net assets recorded in the balance sheet, including currency translation differences which had previously been recorded with no effect on net income, is recognised at the disposal date in the income statement. The carrying amounts of the capitalised goodwill are taken into account in the calculation of the gain or loss on disposal.

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. In the cases of companies accounted for using the equity method, they are eliminated in accordance with the Group's shareholding in the respective company. Deferred taxes are reported for consolidation measures with an impact on income taxes.

The share of Group profit and subsidiaries' equity which are attributable to non-controlling interests are reported separately in the consolidated income statement and within Group equity. When non-controlling interests are acquired, the difference between the acquisition cost of these shares and the non-controlling interests previously reported in the Group's equity for these shares is recognised as equity with no effect on income. When shares are sold to other shareholders without any loss of control, any difference between the realisable value and the proportion of net assets attributable to other shareholders is recognised as equity with no effect on income.

The acquisition of the Hapag-Lloyd Group in the previous year was made in accordance with IFRS 3 (2005) business combinations.

Group of consolidated companies

In addition to “Albert Ballin“ Holding a total of 54 companies are consolidated as follows:

	Fully consolidated		Equity method		Total
	domestic	foreign	domestic	foreign	
31.12.2009	4	44	2	2	52
Additions	1	-	-	1	2
Disposals	-	-	-	-	-
31.12.2010	5	44	2	3	54

Following the acquisition of the Hapag-Lloyd Group in the previous year 48 companies, as well as another four in the course of the business year 2009, were incorporated into the group of consolidated companies for the first time.

Four domestic and six foreign subsidiaries of overall minor significance for the Group’s net asset, financial and earnings position are not included in the consolidated financial statements. The shares are shown as other assets.

Hapag-Lloyd holds 49.9% of shares in Hapag-Lloyd (Thailand) Ltd., Bangkok. Due to the economic control exercised this company is fully consolidated.

In November 2010 Hapag-Lloyd Grundstücksholding GmbH was founded, which is fully consolidated in the Group.

Furthermore 40% of shares of Spence Shipping Pyt. Ltd, Sri Lanka, were acquired.

The company is consolidated using the equity method and in contrast to the Group has a non-calendar fiscal year with a balance sheet date of 31 March.

All other companies have corresponding fiscal years with “Albert Ballin“ Holding.

A complete list of the subsidiaries and associated companies in the “Albert Ballin“ Holding Group is provided in Note (39).

Company acquisitions and disposals

Addition of the Hapag-Lloyd Group

As of 31 March 2009 “Albert Ballin“ Holding acquired all shares of the Hapag-Lloyd Group. The goodwill resulting from the acquisition at the time of the first-time consolidation was determined as follows:

Million EUR	
Purchase price for the acquisition excl. assumption of debts	2,948.0
Reimbursed and capitalised costs in accordance with the cost reimbursement agreement	11.3
Other costs directly attributable to the acquisition	9.3
Total acquisition costs	**2,968.6**
Fair value of the net assets acquired (excl. minority interests)	2,274.2
Goodwill	**694.4**

As the Hapag-Lloyd Group's functional currency is the US dollar, the goodwill reported in euros, the Group's reporting currency, underwent fluctuations amounting to EUR 48.7 million (2009: EUR 51.9 million). The resulting goodwill in the balance sheet totals EUR 691.2 million (2009: EUR 642.5 million).
Within the framework of the acquisition, the customer base was identified as a separable asset because Hapag-Lloyd's business is shaped by longer-term customer relationships in the B2B environment.
The "Hapag-Lloyd" brand was included as an intangible asset with an indefinite useful life. Hapag-Lloyd operates its worldwide container liner services exclusively under this brand name. The indefinite useful life of the "Hapag-Lloyd" brand is based primarily on its expected unlimited use by the Company and the legal protection of the brand domestically and abroad.
As part of the purchase price allocation, existing contracts were identified whose contractual terms as at the time of acquisition reveal positive or negative fair values compared with the current market conditions. These include, in particular, charter and lease agreements as well as transport and supply contracts. In addition, the order book for ships is included in these contracts. This led to the recognition of intangible assets and provisions for disadvantageous contracts.
In the purchase price allocation, an individual software product created by Hapag-Lloyd itself was also allocated a positive fair value.

Currency translation

The annual financial statements of companies are prepared in the respective functional currency. The respective functional currency of a company corresponds to the currency of the primary economic environment in which the company operates. The Hapag-Lloyd subgroup's functional currency is the US dollar. The functional currency of the other companies included in the consolidated financial statements is the euro.
For purposes relating to their inclusion in the consolidated financial statements of "Albert Ballin" Holding the assets and liabilities of the Hapag-Lloyd subgroup are translated to euro at the exchange rate applicable as at the balance sheet date (closing rate). Expenses, income and earnings are translated at the average exchange rate for the reporting period. Any differences arising during translation are recorded under equity with no effect on income.
Transactions in foreign currency are recorded at the applicable exchange rate as at the date of the transaction. As of the balance sheet date monetary items are translated at the closing rate at year-end, non-monetary items are translated at the historic rate. Any differences arising during translation are recognised in a manner affecting earnings.

Exchange rates of significant currencies:

per EUR	Closing rate		Average rate	
	31.12.2010	31.12.2009	**2010**	2009
US dollars	1.3386	1.4400	1.3268	1.4234
British pounds sterling	0.8618	0.8890	0.8582	0.8853
Canadian dollars	1.3360	1.5098	1.3665	1.5733
Yen	108.8200	133.0700	116.4551	133.0329
Singapore dollars	1.7165	2.0183	1.8080	2.0405

ACCOUNTING AND MEASUREMENT

The annual financial statements of the subsidiaries included in the Group are prepared in accordance with consistent accounting and measurement principles. The amounts stated in the consolidated financial statements are not determined by tax regulations, but solely by the commercial presentation of the net asset, financial and earnings position as set out in the rules of the IASB.

Recognition of income

Revenue is primarily generated from the rendering of transport services. As a matter of principle, therefore, revenue is recorded after the service has been rendered. The revenue amount is measured by the fair value of the consideration received or to which there will be an entitlement. Revenue is recognised net of value-added tax and reductions in earnings. Income from unfinished voyages is recognised in accordance with the proportion of the voyage completed as at the balance sheet date. The completed proportion of the voyage is determined by the ratio of the expenses incurred up to the balance sheet date to the anticipated total expenses.

Other operating income is generally recorded upon delivery of the assets and/or upon transfer of their ownership or risk.

Profits and losses due to exchange rates that are in connection with transport services are recorded in both sales and transport expenses. Other profits and losses due to exchange rates are shown in other operating income or other operating expenses.

Please refer to Note (26) for the recording of profits and losses from derivative financial instruments used in hedges.

Dividends are reported when the legal claim to them has arisen.

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

Goodwill and other intangible assets

Intangible assets acquired as a result of business combinations, including advantageous contracts, customer relationships and/or trademark rights, are capitalised at their fair value as at the acquisition date. Intangible assets acquired in return for payment are carried at cost.

If intangible assets can be used only for a limited period, they are amortised regularly over their expected useful lives. Intangible assets with indefinite useful lives are not amortised but are tested for impairment at least annually (impairment test). In addition, impairment tests are conducted if there are any indications of a potential loss in value of the assets.

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

	Useful life in years
Customer base	22
“Hapag-Lloyd“ brand	indefinite
Charter and lease agreements	5-10
Transport and supply contracts	2-5
Order book	25
Self-developed computer software belonging to Hapag-Lloyd AG	8
Other	various

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

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

The order book contains contracts for new vessels. Therefore, the operating life equals the operating life for vessels and depreciation does not begin until delivery of these vessels.

Property, plant and equipment

Property, plant and equipment are measured at amortised cost. The cost of purchase 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 assets are included in the cost of acquisition or production until the assets in question are ready for their intended use. The underlying financing cost rate in case of Group-internal financings is 6.42% p.a. for the current financial year and 6.22% p.a. for the previous year. Other borrowing capital costs are shown as current expenses.
Scheduled use-related depreciation using the straight-line method is based on the following useful economic lives:

	Useful life in years
Vessels	25
Containers, chassis	13
Other equipment	3-10

Furthermore, the level of depreciation is determined by the residual amounts recoverable at the end of the useful economic life of an asset. The residual value of container ships is determined on the basis of their scrap value.
Useful economic lives and assumed residual values are both reviewed on an annual basis within the framework of the preparation of the financial statements.
Impairment tests are conducted if there are any indications of a potential loss in value of the assets.
For detailed information about the impairment test, see the section “Impairment testing”.

Leases

A lease is the term given to all arrangements that transfer the right of use of specified assets in return for payment. On the basis of the commercial opportunities and risks inherent in a leased item, it is assessed whether the commercial ownership of the leased item is attributable to the lessee (finance leases) or the lessor (operating leases).
There are no finance lease agreements in the “Albert Ballin“ Holding Group.
Rental expenses from operating leases are recorded through the income statement using the straight-line method over the terms of the respective contracts.
If the Group acts as lessor in the context of Operating Lease, the respective leasing object is still recorded and depreciated as planned in the consolidated financial statements.
Lease income from Operating Leases is recorded straight-line in gains over the term of the respective contract.

Profits or losses from sale-and-leaseback transactions that result in operating leases are recognised immediately if the transaction was 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 purchase price exceeds the fair value, the profit from the difference between these two values is also deferred and amortised.

Impairment testing

Intangible assets with finite useful lives and property, plant and equipment are tested regularly for impairment if there are any indications of a possible loss in value. This test compares the recoverable amount of the asset in question with its carrying amount. If an asset's carrying amount exceeds its recoverable amount, an impairment is recognised. Intangible assets with indefinite useful lives are tested, if circumstances require, but at least annually for impairment. This applies in particular to the "Hapag-Lloyd" brand, for which the recoverable amount was determined using licence price analogy procedures. No impairment was ascertained.

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) largely independently of other assets.

Goodwill is also allocated to cash-generating units and tested for impairment on this basis at least once a year. 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 in connection with a cash-generating unit containing goodwill, the goodwill is impaired first. Any need for impairment over and above this is spread in proportion to the carrying amount over the remaining non-current assets.

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

In order to test goodwill for impairment, container shipping in its entirety is defined as a cash-generating unit in the Group as, owing to the complexity of the transport business, it is not possible to allocate the operating cash flows to individual assets. The goodwill in the amount of EUR 691.2 million and the brand in the amount of EUR 188.2 million are allocated to the cash-generating unit container shipping.

The recoverable amount corresponds to the higher of the fair value less cost to sell and the value in use. The fair value is the amount for which an informed independent third party would acquire the asset or the cash-generating unit on the impairment test date. The value in use is ascertained by discounting the cash flows anticipated from future operational use.

The recoverable amount for the goodwill impairment test is determined by ascertaining the fair value less cost to sell using the discounted cash flow method. The basis for ascertaining the recoverable amount is the medium-term planning approved by the Executive Board which covers a five-year period. The central planning assumptions for container shipping are the future development of transport volumes and freight rates and of bunker prices and exchange rates. These are dependent on a number of macroeconomic factors, in particular the trends in gross domestic product and global trade. For that reason, the assessments of external economic and market research institutes regarding the future trend in global container shipping are obtained while the plans are being prepared and are adjusted and supplemented with experiences and assessment from the Group's own competitive position on its own shipping routes.

IHS Global Insight expects an increase of global container traffic for 2011 of 6.8% and for 2012 of 7.0%. The company strives for an increase in transport volume equal to market growth. Additionally, it is expected that freight rates will only increase slightly facing an increase in transport costs and bunker prices.

The budgeted after-tax cash flows are discounted using the weighted average cost of capital after tax. This is calculated on the basis of capital market oriented models as a weighted average of the costs of equity and borrowed capital. In the process, the cost of equity is determined using a risk-free interest rate of 4.5% (prior year 4.3%) and a risk premium. The risk premium is produced by multiplying the market risk premium by a beta factor derived from the capital market in accordance with the figures at comparable companies (peer group). In order to extrapolate the plans beyond the planning period, a growth discount of 1.0% (prior year 0.75%) was taken into consideration. The weighted average cost of capital after income taxes which is used for discounting purposes is 9.41% (prior year 8.59%) for the planning period and, as a result of the growth discount, 8.41% (prior year 7.84%) for the extrapolation of the subsequent period. The pre-tax calculation interest rate corresponds to the weighted average cost of capital after income tax.

Within the performed impairment test the respective results were verified using a sensitivity analysis. For the sensitivity analysis different capitalisation rates were used in ranges. There was no need for impairment when applying a capitalisation rate of 12.5%.

As per balance sheet date fair values minus sales costs exceeded carrying amounts, considering both plan and sensitivity analysis, so that no impairment needed to be recorded on the level of the cash-generating unit.

Impairment test for ship portfolio

Against the backdrop of an intended disposal of a ship portfolio, an individual impairment test for the designated ships was carried out in the current financial year.
The recoverable amount for these ships was determined mainly on the basis of the budgeted disposal proceeds. In the process, current sale transactions were taken into account as value benchmarks to indicate the fair value less cost to sell. In the financial year ended an impairment requirement for the designated portfolio of EUR 3.9 million and a write-up requirement of EUR 3.0 million with regard to individual ships was recognised. Especially the increasing market activity for used ships resulted in a re-evaluation.

Financial instruments

Financial instruments are contractually agreed rights or obligations that will lead to an inflow or outflow of financial assets or the issue of equity rights. They also encompass derivative rights or obligations derived from primary financial instruments.
In accordance with IAS 39, financial instruments are broken down into financial assets or liabilities measured at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments and other liabilities.
Derivative financial instruments that are not part of an effective hedging relationship as set out in IAS 39 (hedge accounting) are classified as “held for trading”. The Group also holds financial assets in the “loans and receivables” and “available for sale” categories. On the other hand, there are no held-to-maturity investments in these financial statements. Only primary liabilities classified as “financial liabilities measured at amortised cost” exist.
Financial assets and financial liabilities that fall into the application area of IAS 39 can be irrecoverably assigned to the subcategory “fair value option” under certain circumstances. Neither for financial assets nor for financial liabilities was the fair value option used.
In the financial year 2010, as in the previous financial year, there were no reclassifications within the individual measurement categories.

Primary financial assets

Financial assets are recognised at the value as at the trading date on which the Group commits to buy the asset. Primary financial assets are classified as loans and receivables or as available-for-sale financial assets when recognised for the first time. Loans and receivables as well as available-for-sale financial assets are initially recognised at fair value plus directly attributable transaction costs.
Loans and receivables are non-derivative financial assets with fixed or determinable contractual payments which are not listed on an active market. They are shown in the statement of financial position under trade accounts receivable and other assets and classified as current receivables if they mature within twelve months of the balance sheet date.

As part of subsequent measurements, loans and receivables are measured at amortised cost using the effective interest method. Allowances are carried out for identifiable individual risks. Where default of a certain proportion of the receivables portfolio is probable, impairments are carried out to the extent that the carrying amount of a financial asset exceeds its recoverable amount. Indications for recognisable individual risks include for example a material deterioration of creditworthiness, considerable default as well as a high probability of insolvency and the corresponding inability of the customer to repay debt. If the reasons for impairment cease to exist, reversals are affected – not exceeding amortised costs, however. Impairments and impairment reversals are recorded in other operating expenses and income. Impairments of trade receivables are, in part, recorded using a value adjustment account. The decision to record impairment either by using an allowance account or by directly reducing the trade receivable depends on the degree of reliability of the risk evaluation. Concrete losses lead to an impairment of the respective asset.

Available-for-sale financial assets are non-derivative financial assets which are either explicitly allocated to this category individually or not able to be allocated to any other category of financial assets. In the “Albert Ballin“ Holding Group, these consist solely of shares in companies and securities. They are allocated to non-current assets unless the management intends to sell them within twelve months of the balance sheet date.

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

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

Cash and cash equivalents

Cash and cash equivalents encompass cash in hand, bank balances and other financial investments falling due no later than three months from the time of their investment. Fully utilised overdraft credit is shown under current financial liabilities as liabilities to banks.

Financial liabilities

The evaluation and recognition of all the primary financial liabilities in the consolidated financial statements are carried out at fair value taking account of directly allocable transaction costs. Within the measurement after recognition the primary financial liabilities are measured at amortised cost using the effective interest rate method. Primary financial liabilities are written-off if contractual obligations have been settled, annulled or expired. Currency differences arising from the translation of trade receivables and payables into the functional currency are generally recorded as an adjustment to the transport expenses. Currency differences arising from the translation of assets and liabilities not incurred within the scope of the normal operational process are shown under other operating income or other operating expenses.

Derivative financial instruments and hedging

In their initial measurement, derivative financial instruments are 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. Insofar as derivative financial instruments are not part of a hedge accounting relationship, they are classified as “held for trading” in accordance with IAS 39. The method used to record profits and losses depends on whether the derivative financial instrument is classified as a hedge and on the type of hedging relationship.

The Group generally classifies derivative financial instruments either as fair value hedges to hedge against exposure to changes in the fair value of assets or liabilities, or as cash flow hedges to hedge against the risks of fluctuating cash flows from highly probable future transactions.

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

The effective proportion of changes in the fair value of derivatives which are designated as cash flow hedges is recognised in the other comprehensive income. The ineffective proportion of such changes in the fair value, by way of contrast, is recognised immediately in the financial result. For optional hedge accounting the changes in fair value must be recorded affecting net income because they are excluded from the hedge relationship. Amounts recorded in other comprehensive income are reclassified to the income statement and recognised as income or expenses in the period in which the hedged underlying transaction impacts the income statement.

If a hedge expires, is sold or no longer meets the criteria for hedge accounting, the cumulative gain or loss remains in the other comprehensive income and is not recognised with effect on the 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 income statement must immediately be recognised through income statement. Changes in the fair values of derivative financial instruments not meeting the criteria for hedge accounting are recognised in the income statement immediately with effect on net income.
Hedge measures that do not comply with the strict requirements of Hedge Accounting according to IAS 39 are used to hedge currency risks of monetary liabilities on the balance sheet. This is done based on risk management principles and effectively contributes to the hedging of a financial risk. The use of Hedge Accounting according to IAS 39 is foregone since profits and losses from conversions of the underlying transactions and profits and losses from the respective hedging instrument affect net income simultaneously.

Inventories
Inventories are measured at the lower of cost of purchase/production 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.
Inventory mainly comprises the fuel in the bunkers (especially diesel and crude oil).

Non-current assets held for sale
Non-current assets held for sale are classified as such if the associated carrying amount will be recovered principally by means of a selling transaction rather than through continued use. At the time of their classification as “held for sale”, these assets are measured at the lower of carrying amount or fair value less any selling costs. If the fair value less selling costs is below the carrying amount, impairment is recognised. Subsequently, non-current assets held for sale are no longer written down regularly.
If the fair value less selling costs is subsequently increased, the impairment that was previously recognised is reversed.

Pensions and similar obligations
The valuation of defined benefit plans from pension obligations and other post-employment benefits (e.g. healthcare benefits) is carried out in accordance with IAS 19 Employee Benefits using the projected unit credit method. The defined benefit (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 industrial bonds. The industrial 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 developments which actually occur, and changes in the actuarial assumptions for the valuation of defined benefit pension plans and similar obligations, lead to actuarial gains and losses. These are recorded in full in other comprehensive income, i.e. outside of the income statement. They will not be recorded in future income statements, either.

If the benefits accruing from a plan are changed, the part of the change in benefits which relates to previous periods (past service cost) is recognised over the qualifying period using the straight-line method; however, if these claims are already non-lapsable, they are recognised immediately with effect on net income.

If individual benefit obligations are financed using external assets (e.g. through qualified insurances), provisions for pension benefits and similar obligations, which match the cash value of defined benefit oriented 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. Any surplus amount is set off against equity with no effect on income (asset ceiling).

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 costs when they fall due.

Other provisions

Provisions are recognised for all legal or constructive obligations resulting from a past event insofar as their utilisation is probable and their amount can be reliably determined. The amounts recognised constitute the best possible estimate of the expenses that will be required to fulfil the current obligation as at the balance sheet date.

Provisions are recorded at the best estimate of their repayable amount and take account of cost increases. The cash value is assessed for provisions with terms exceeding twelve months. Over the course of time, the provisions are adjusted on the basis of new knowledge gained. Provision reversals are recorded in the same income statement item that was originally used for the expense.

If there are many similar obligations, the probability of the assets being utilised is determined on the basis of this group of obligations. A provision is also carried as a liability if the probability of a charge over assets is low in relation to an individual obligation contained in this group.

Provisions for guarantee, warranty and liability risks are created based on existing or estimated future damages. Provisions for restructuring measures are created if a detailed formal restructuring plan was prepared and delivered to the affected parties.

Deferred taxes

Deferred taxes are recognised using the balance sheet liability method. They result from temporary differences between the recognised amounts of assets and liabilities in the consolidated balance sheet and those in the tax balance sheet.

Expected tax savings 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 were taken into account accordingly.

Deferred taxes are charged or credited directly to equity if the tax relates to items recognised directly in equity.

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

Deferred tax assets are recorded to the extent that it is probable that future taxable income will be available at the level of the relevant tax authority for utilisation of the deductible temporary differences.

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 one another and if the deferred tax assets and liabilities relate to current income taxes.

Actual income taxes

As a provider of regular shipping services, Hapag-Lloyd AG, the largest company in the “Albert Ballin“ Holding Group, has opted for taxation in accordance with tonnage tax. When tonnage tax is applied, the tax liability is determined by the net tonnage and operating days of the company’s shipping fleet rather than by the profits which are actually generated. Expense resulting from tonnage tax is recorded as other tax under other operating expenses (see Note (6)) in the income statement.

Current income taxes for the reporting period and for previous periods are measured as the amount at which their payment, or their reimbursement, by the tax authority is anticipated. They are ascertained on the basis of the Company’s tax rates as at the balance sheet date. Income tax provisions are netted against the corresponding tax refund claims if they apply in the same fiscal territory and are of the same type and maturity.

Estimates and judgements

Discretionary decisions when applying accounting and valuation methods

Setting up Group financial statements according to IFRS requires discretionary decisions. All discretionary decisions are continuously re-evaluated and are based on historic experiences and expectations regarding future events which seem reasonable under the existing conditions. This specifically applies to the following cases:

During the classification of leasing relationships discretionary decisions are made regarding the assignment of economic property to either the lessor or the lessee. Leasing relationships in connection with ships are completely classified as operating lease.
For the differentiation of loan capital and equity according IAS 32 hybrid capital II was, as in the prior year, classified as equity.
For the valuation of provisions for pensions and similar obligations different possibilities for the recording of actuarial profits and losses exist. The Group records actuarial profits and losses according to IAS 19.93A immediately in other comprehensive income, not affecting net income.
For assets that are to be sold it must be determined whether they can be sold in the current state and whether a sale is highly probable. If that is the case, assets and corresponding liabilities must be presented and measured as "assets held for sale" and "liabilities in connection with assets held for sale", respectively.

Management estimates and assessments

In the consolidated financial statements, a certain number of estimates and judgements are made in order to determine the assets and liabilities shown in the statement of financial position, the disclosures of contingent claims and liabilities as at the reporting date, and the recognised income and expenses for the reporting period.
Verification of the realisable values of intangible assets and property, plant and equipment also requires assumptions and estimates to be made regarding future cash flows, anticipated growth rates, exchange rates and discount rates. All material parameters are therefore at the discretion of management regarding the future development, particularly in terms of the global economy. They are tagged with the uncertainty of every forecast. The assumptions made for this purpose can be subject to alterations which will lead to depreciations in value in future periods.
Regarding the approach we refer to the presentation above concerning impairment testing; regarding the amounts see Notes (10) and (11).
The allowance of doubtful receivables comprises to a great extent estimates and valuations of both individual and groups claims that are based on the respective creditworthiness of the customer, the current economic trend as well as the analysis of maturity structures and historic defaults. For further explanations we refer to Note (13).
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. Deviations of the actual trend from the budgeted trend can lead to adjustments of these amounts in future periods. Further explanations to deferred taxes are given in Note (9).

The valuation of provisions for pensions and similar obligations is based on, among other things, assumptions regarding discount rates, anticipated long-term returns on the plan assets, anticipated future increases in salaries and pensions, and mortality tables. These assumptions can diverge from the actual figures as a result of changes in the economic conditions or the market situation as well as mortality rates. For detailed explanations see Note (22).

The other provisions are naturally subject to a high level of estimation uncertainty with regard to the amount of the obligations and/or the time of their occurrence. The Company must sometimes use empirical values as the basis for making assumptions regarding the probability of the obligation or future developments occurring, for example in respect of the costs to be estimated for the valuation of obligations. These can be subject to estimation uncertainties, particularly in the case of long-term provisions. For the maturities of the individual provision classes see Note (23).

For liabilities provisions are made if losses from pending transactions are imminent, a loss is probable and the loss can be reliably estimated. Due to the uncertainties associated with this valuation the actual losses can deviate from the original estimates and the respective provisions amount. For provisions for guarantee, warranty and liability risks there is a particular uncertainty concerning the estimate of future damages. For detailed explanations see Note (23).

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

At the time of the preparation of the Group financial statements no material changes in the underlying assumptions and estimates are expected, so that no material adjustment of the assessed assets and liabilities is expected in the financial year 2010 at this time.

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.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) Revenue

Revenue in the amount of EUR 6,204.3 million was primarily generated from the rendering of transport services.

The revenue includes income of EUR 160.7 million (2009: EUR 132.5 million) which was included proportionately to reflect unfinished voyages as at the balance sheet date.

(2) Other operating income

Million EUR	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Exchange rate gains	71.3	45.5
Income from the reversal of provisions	17.8	0.0
Income from the disposal of non-current assets	4.6	18.7
Income from write-ups	3.0	0.0
Other income	34.5	26.6
Total	**131.2**	**90.8**

The exchange rate gains consist mainly of exchange rate effects from currency options and foreign currency valuations.

The income from the disposal of non-current assets results in particular from the sale of chassis and containers as well as three vessels.

In the financial year write-ups to ocean-going vessels amounting to EUR 3.0 million were made.

(3) Transport expenses

Million EUR	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Cost of raw materials, supplies and purchased goods	1,063.0	521.9
Cost of purchased services	3,748.2	2,519.9
Total	**4,811.2**	**3,041.8**

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

The cost of purchased services encompasses port and terminal costs, container transport costs, chartering, leases and container rental, maintenance and repair costs and other services.

(4) Personnel expenses

Million EUR	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Wages and salaries	289.0	197.6
Social security costs, pension costs and other benefits	56.5	49.8
Total	**345.5**	**247.4**

Pension costs include, among other things, expenses for defined benefit pension obligations. The interest portion of the measurement of pension obligations and the expected income from the associated fund assets were recorded within the interest result. A detailed presentation of pension obligations is provided in Note (22).

Employees

The average number of employees was as follows:

	01.01.-31.12. 2010	01.01.-31.12. 2009
Marine personnel	1,168	1,138
Shore-based personnel	5,463	5,804
Apprentices	222	219
Total	**6,853**	**7,161**

(5) Amortisation, depreciation and impairment

Million EUR	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Scheduled amortisation/depreciation	317.3	228.3
Amortisation of intangible assets	75.9	53.6
Depreciation of property, plant and equipment	241.4	174.7
Impairment of intangible assets and property, plant and equipment	3.9	10.6
Total	**321.2**	**238.9**

Scheduled amortisation of intangible assets largely concerned advantageous contracts (2010: EUR 51.2 million; 2009: EUR 36.0 million).
Scheduled depreciation of property, plant and equipment was largely accounted for by ocean going vessels (2010: EUR 159.6 million; 2009: EUR 106.0 million), containers and container chassis (2010: EUR 75.4 million; 2009: EUR 63.4 million).

Impairment recognised for intangible assets and property, plant and equipment results from the portfolio of ships, whose cash flows are largely determined by the budgeted sales proceeds in the planned sale process.

(6) Other operating expenses

Million EUR	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Exchange rate losses and bank charges	89.4	75.0
EDP costs	46.8	34.5
Rental and lease expenses	29.1	22.0
Commissions	28.1	28.7
Expenses for charges, fees, consultancy and other professional services	20.7	31.0
Other taxes	11.4	8.6
Other social security expenses	11.3	9.3
Administrative expenses	10.5	6.2
Other operating expenses	35.9	24.0
Total	**283.2**	**239.3**

The other operating expenses, whose individual values are immaterial, comprise travel costs, audit fees, insurance payments as well as maintenance and repair costs.

(7) Other financial result

The other financial result contains the earnings from changes in the value of derivative financial instruments amounting to EUR -22.9 million (2009: EUR -0.3 million) and current income from the disposal of available-for-sale financial assets amounting to EUR 0.1 million (2009: EUR 0.3 million).

(8) Interest result

The interest result was as follows:

Million EUR	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Interest income	7.6	29.4
Interest income from fund assets for the financing of pensions and similar obligations	4.0	2.3
Other interest and similar income	3.6	27.1
Interest expenses	145.9	91.7
Interest expenses from the valuation of pensions and similar obligations	8.1	6.1
Other interest and similar expenses	137.8	85.6
Total	**-137.8**	**-62.3**

Other interest and similar income mainly comprises of income from interest-bearing bank accounts. Additionally, interest income from a loan discount due to interest suspension until 30 September 2010 is included.
Other interest and similar expenses mainly comprise of interest for bank loans and interest for share-holder loans. In the financial year one-time expenses for fees incurred in connection with the prior year application for a government guarantee, state-guaranteed loan and stand-still agreement are included. These financings were ended or returned during the financial year.

(9) Income taxes

Paid or owed taxes on income and earnings in the individual countries are disclosed as income tax. For the domestic companies subject to corporate income tax, a corporate income tax rate of 15% as well as the solidarity surcharge of 5.5% on the corporate income tax applies. Additionally, these companies as well as domestic companies in the legal form of partnership are subject to trade earnings tax, which is at 16.5% for the Group corresponding to the specific applicable municipal assessment rate. Furthermore, comparable income taxes are disclosed for foreign subsidiaries; in the Group these range from 12.5% to 42.1%.

In addition, deferred taxes were recognised in this item for temporary differences in value estimates between the balance sheet 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. The expenses arising from tonnage tax are not shown under taxes on income in accordance with IAS 12, and are therefore recognised as other taxes within other operating expenses (see Note 6) in the income statement.

The taxes on income were as follows:

Million EUR	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Actual taxes on income	9.4	1.6
thereof domestic	4.2	0.5
thereof foreign	5.2	1.1
Deferred tax income/expenses	7.5	-4.0
thereof from temporary differences	1.7	1.6
thereof from loss carry-forwards	5.8	-5.6
Total	**16.9**	**-2.4**

Tax expenses relating to other periods in the amount of EUR 0.1 million (2009: income EUR 0.3 million) are included in the current taxes from income and earnings.

For the domestic companies subject to corporate income tax, a corporate income tax rate of 15% (2009: 15.0%) was used to calculate the deferred taxes. The calculation also included a solidarity surcharge of 5.5% on the corporate income tax and a trade earnings tax rate of 16.5% (2009: 16.5%). The aggregate tax rate of these companies for the calculation of deferred taxes was 32.3% (2009: 32.3%). As a partnership, however, the parent company of the “Albert Ballin“ Holding Group is not subject to corporate income tax. The resultant tax rate for calculating its deferred taxes is therefore only 16.5% (2009: 16.5%).

For the 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 for the financial year 2010 ranged from 16.5% to 42.1% (2009: 16.5% to 42.1%).

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

Million EUR	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Earnings before tax	444.4	-404.2
Expected income tax expense (+) / income (-) (tax rate 32.3%)	**143.4**	**-130.4**
Difference between the actual tax rates and the expected tax rate	9.0	20.0
Effects of income not subject to income tax	-143.1	59.9
Non-deductible expenses and trade tax additions/reductions	1.5	43.6
Adjustments to recognition of deferred taxes	1.3	24.2
Effective tax expenses and income relating to other periods	0.1	-0.3
Tax effect from companies accounted for using the equity method	-0.8	-2.2
Other differences	5.5	-17.2
Reported income tax expense (+) / income (-)	**16.9**	**-2.4**

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

The effects from income not subject to income tax comprise primarily the effects from tonnage tax. Tax liability for tonnage tax is not calculated using the actual profits but rather depends on net tonnage and operating days of the ship fleet of the Company.

In the adjustments to recognition of deferred taxes there are EUR 1.5 million included (2009: EUR 23.9 million) in relation to non-recognition of deferred taxes from losses carried forward.

The effects from the currency conversion of the financial statements of foreign subsidiaries as well as Hapag-Lloyd AG are the material portion of the other differences in the reconciliation above.

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

Million EUR	31.12.2010		31.12.2009	
	Asset	**Liability**	Asset	Liability
Recognition and valuation differences for property, plant, and equipment and other non-current assets	2.6	5.8	2.5	2.6
Recognition differences for receivables and other assets	0.3	1.3	0.6	0.7
Fair value measurement of financial instruments	-	-	0.1	-
Valuation of pension provisions	2.9	0.2	2.8	0.2
Recognition and valuation differences for other provisions	3.1	0.0	1.5	-
Other transactions	3.7	0.0	2.8	0.1
Capitalised tax savings from recoverable loss carry-forwards	0.7	-	6.3	0.0
Netting of deferred tax assets and liabilities	-1.7	-1.7	-3.0	-3.0
Balance sheet recognition	**11.6**	**5.6**	**13.6**	**0.6**

The deferred tax income for the financial year results from the formation of deferred tax assets for loss carry-forwards in the amount of EUR 0.3 million (2009: EUR 5.9 million) and from temporary differences amounting to EUR 4.1 million (2009: EUR 1.5 million). In the financial year there were deferred tax expenses of EUR 5.8 million (2009: EUR 3.1 million) resulting from temporary differences and of EUR 6.1 million (2009: EUR 0.3 million) resulting from the reversal of deferred tax assets on loss carry-forwards.

Deferred tax assets recognised with no effect on profit or loss in equity in the amount of EUR 0.9 million (2009: 1.4 million) and deferred tax liabilities in the amount of EUR 0.1 million (2009: 0.1 million) result primarily from the treatment of actuarial gains and losses in connection with the balance sheet reporting of pension obligations.

No deferred tax liabilities were recognised for temporary differences between the net assets and the carrying amount for tax purposes of subsidiaries amounting to EUR 192.7 million (2009: EUR 65.0 million), as no reversal of the temporary differences is likely in the near future.

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

Deferred tax assets are assessed on temporary differences and tax loss carry-forwards if their realisation seems certain in the near future. The amounts of unutilised tax losses and the capacity to bring forward the tax losses for which no deferred tax assets were recognised are as follows:

Million EUR	**31.12.2010**	31.12.2009
Loss carry-forwards for which deferred tax assets were recognised	**2.5**	**37.8**
Loss carry-forwards for which no deferred tax assets were recognised	**180.7**	**156.0**
of which loss carry-forwards forfeitable within one year	0.2	0.2
of which loss carry-forwards forfeitable between 2 and 5 years	0.3	2.0
of which loss carry-forwards forfeitable in more than 5 years (excl. non-forfeitable loss carry-forwards)	0.6	0.8
Non-forfeitable loss carry-forwards	179.6	153.0
of which for trade income tax	30.4	26.0
of which interest carry-forwards	32.7	0.0
Total unutilised loss carry-forwards	**183.2**	**193.8**

Deferred taxes for loss carry-forwards have not been recognised, as due to changes in the Group structure the future utilisation is questionable.

NOTES TO THE CONSOLIDATED BALANCE SHEET

(10) Intangible assets

Million EUR	Goodwill	Customer base	Advantageous contracts	Brand	Software	Other	Total
Historical cost							
As per 01.01.2009	-	-	-	-	-	-	-
Acquisition through business combinations	694.4	309.9	375.6	189.0	79.1	3.6	1,651.6
Additions	-	-	-	-	0.2	-	0.2
Disposals	-	-	-	-	-	-	-
Transfers							
Exchange rate differences	-51.9	-23.1	-26.9	-14.1	-5.8	-0.3	-122.1
As per 31.12.2009	**642.5**	**286.8**	**348.7**	**174.9**	**73.5**	**3.3**	**1,529.7**
Accumulated amortisation							
As per 01.01.2009	-	-	-	-	-	-	-
Acquisition through business combinations	-	-	-	-	-	-	-
Additions	-	9.7	36.0	-	7.9	-	53.6
Disposals	-	-	-	-	-	-	-
Transfers	-	-	-		-	-	-
Exchange rate differences	-	-0.1	-0.4	-	-0.1	-	-0.6
As per 31.12.2009	**-**	**9.6**	**35.6**	**-**	**7.8**	**-**	**53.0**
Carrying amounts 31.12.2009	**642.5**	**277.2**	**313.1**	**174.9**	**65.7**	**3.3**	**1,476.7**
Historical cost							
As per 01.01.2010	642.5	286.8	348.7	174.9	73.5	3.3	1,529.7
Additions	-	-	-	-	0.7	0.3	1.0
Disposals	-	-	15.7	-	0.1	-	15.8
Transfers	-	-	-49.5	-	-	-	-49.4
Exchange rate differences	48.7	21.8	43.1	13.3	5.6	0.8	133.1
As per 31.12.2010	**691.2**	**308.6**	**326.6**	**188.2**	**79.7**	**4.4**	**1,598.6**
Accumulated amortisation							
As per 01.01.2010	-	9.6	35.6	-	7.8	-	53.0
Additions	-	13.8	51.2	-	10.9	-	75.9
Disposals	-	-	15.7	-	-	-	15.7
Transfers	-	-	-	-	0.0	-	0.0
Exchange rate differences	-	0.6	18.8	-	0.5	0.6	20.5
As per 31.12.2010	**-**	**24.0**	**89.9**	**-**	**19.2**	**0.6**	**133.7**
Carrying amounts 31.12.2010	**691.2**	**284.6**	**236.7**	**188.2**	**60.5**	**3.8**	**1,465.0**

At the end of the financial year 2010 an impairment test was carried out for the entire cash-generating unit container shipping. The calculations were made using the parameters described in the accounting and measurement principles and did not necessitate the recognition of any impairment.

Intangible assets not subject to scheduled amortisation comprise the goodwill in the amount of EUR 691.2 million and the “Hapag-Lloyd” brand in the amount of EUR 188.2 million, which were recognised following the acquisition of the Hapag-Lloyd Group

Existing contracts were identified as advantageous if their contract terms had a positive market value at the time of the acquisition of the Hapag-Lloyd Group compared to the current market conditions. This particularly includes charter and leasing contracts as well as transport and delivery contracts.

The development costs for self-developed software which are not capitalisable amounted to EUR 4.0 million (2009: EUR 2.5 million) and were recognised within expenses.

(11) Property, plant and equipment

Million EUR	Vessels	Containers, chassis	Other equip-ment	Prepayments on account and assets under construction	Total
Historical cost					
As per 1.1.2009	-	-	-	0.1	0.1
Acquisition through business combinations	2,105.5	424.1	43.2	426.9	2,999.7
Additions	6.8	0.8	1.1	118.5	127.2
Disposals and reclassifi-cations in held-for-sale	22.6	5.2	1.1	0.2	29.1
Exchange rate differences	-156.8	-31.6	-3.2	-31.8	-223.4
As per 31.12.2009	**1,932.9**	**388.1**	**40.0**	**513.5**	**2,874.5**
Accumulated amortisation					
As per 1.1.2009	-	-	-	-	-
Additions	106.0	63.4	5.3	-	174.7
Impairments	10.6	-	-	-	10.6
Disposals and reclassifi-cations in held-for-sale	4.3	-	-	-	4.3
Transfers	-	-	-	-	-
Exchange rate differences	-1.3	-0.8	-0.0	-	-2.1
As per 31.12.2009	**111.0**	**62.6**	**5.3**	**-**	**178.9**
Carrying amounts 31.12.2009	**1,821.9**	**325.5**	**34.7**	**513.5**	**2,695.6**
Historical cost					
As per 1.1.2010	1,932.9	388.1	40.0	513.5	2,874.5
Additions	18.9	-	94.2	384.5	497.6
Disposals and reclassifi-cations in held-for-sale	4.8	3.6	3.5	-	11.9
Transfers	656.7	-	0.0	-607.2	49.5
Exchange rate differences	146.6	29.4	3.0	38.6	217.6
As per 31.12.2010	**2,750.3**	**413.9**	**133.7**	**329.4**	**3,627.3**
Accumulated amortisation					
As per 1.1.2010	111.0	62.6	5.3	-	178.9
Additions	159.6	75.4	6.4	-	241.4
Reversal of impairments	3.0	-	-	-	3.0
Impairments	3.9	-	-	-	3.9
Disposals and reclassifi-cations in held-for-sale	1.6	0.6	1.5	-	3.7
Transfers	-	-	-	-	-
Exchange rate differences	7.0	4.2	0.3	-	11.5
As per 31.12.2010	**276.9**	**141.6**	**10.5**	**-**	**429.0**
Carrying amounts 31.12.2010	**2,473.4**	**272.3**	**123.2**	**329.4**	**3,198.3**

As of 22 December 2010 the Ballindamm property was acquired at a purchase price of EUR 88 million. Incidental acquisition expenses in the amount of EUR 4 million were capitalised. Land charges of EUR 43.4 million and EUR 18.6 million were registered in the land charge register as collateral for the loan from Deutschen Genossenschafts-Hypothekenbank for the purchase of the Ballindamm property.

The carrying amount of the property, plant and equipment subject to restrictions of ownership was EUR 2,484.5 million as at the balance sheet date (2009: EUR 2,249.3 million). These property restrictions mainly pertain to market-typical access restrictions resulting from existing financing contracts for ships and containers as well as the mortgage on the Ballindamm property.

In the Group reversals of impairments to vessels were affected in the amount of EUR 3.0 million (2009: EUR 0). Impairments amount to EUR 3.9 million (2009: EUR 10.6 million) and are disclosed in the income statement in the item depreciation, amortisation and impairment of intangible assets and property, plant and equipment.

Disposals within the current financial year also include the reclassification of the ships held for sale according to IFRS 5 with a carrying amount as of 31 December 2010 in the amount of EUR 3.1 million (2009: EUR 10.4 million). This figure represents a ship that is to be sold in 2011.

In the financial year 2010, the capitalisation of the directly attributable borrowing costs amounted to EUR 1.4 million (2009: EUR 4.0 million). In addition, EUR 19.0 million (2009: EUR 15.6 million) in borrowing costs from general external financing was capitalised in the financial year. The weighted average borrowing costs for the general raising of borrowed funds (borrowing costs rate) amounted to 6.42% p.a. for the financial year 2010 (2009: 6.22% p.a.).

(12) Investments in equity-accounted investees

Million EUR	**2010**	2009
Share as of 01.01.	**325.0**	**-**
Acquisition through business combinations	-	359.6
Disposals	-	-295.9
Additions	-	321.5
Pro-rata share of earnings after taxes	27.7	7.7
Dividend payments	-28.1	-41.1
Direct changes in equity with neutral effect on income	-	-
Exchange rate differences	0.2	-26.8
Share as of 31.12.	**324.8**	**325.0**

The equity-accounted investees are, without exception, associated companies.

No impairment losses are included in the proportionate equity result.

Proportionate losses of EUR 2.0 million (2009: EUR 1.3 million) from the associated companies have not been taken into account because they were higher than the investment share and there is no obligation to make additional contributions. Dividend income amounting to EUR 3.4 million (2009: EUR 1.1 million) was reported for these companies in the income statement under share of profit of equity-accounted investees.
Summarised financial information for the associated investments reported in the balance sheet using the equity method (on a 100% basis and therefore not adjusted to the percentage holding) is contained in the following table:

Income statement information

Million EUR	**31.12.2010**	31.12.2009
Revenue	334.1	319.9
Profit/loss for the year	56.5	69.8

Balance sheet information

Million EUR	**31.12.2010**	31.12.2009
Assets	665.2	640.7
Liabilities	520.6	430.0

(13) Other assets

Million EUR	**31.12.2010**		31.12.2009	
	Total	Remaining term of more than 1 year	Total	Remaining term of more than 1 year
Trade accounts receivable	401.5	-	324.6	-
of which from third parties	399.4	-	324.3	-
of which from affilated non-consolidated companies	0.1	-	-	-
of which from companies, with which a participating interest exists	2.0	-	0.3	-
Other assets	130.6	20.5	251.5	25.4
Capital contributions agreed	-	-	142.5	-
Other assets and prepaid expenses	102.4	14.5	75.8	23.9
Claims arising from the refund of other taxes	28.0	5.8	31.7	-
Available-for-sale financial assets	0.2	0.2	1.5	1.5
Total	**532.1**	**20.5**	**576.1**	**25.4**

Within the framework of ship financing there are, as at 31 December 2010, assignments of earnings of a type customary on the market for accounts receivable relating to the revenue that was generated by the respective ships.
If no market prices listed on an active market are available and the fair value cannot be determined reliably, the available-for-sale financial assets are measured at (amortised) cost. In financial year 2010 no impairment was recognised in the "available for sale" category.

Credit risks

The following table provides information about the credit risks involved in trade accounts receivable:

Million EUR	Carrying amounts of financial instruments	Of which neither overdue nor impaired	Of which not impaired and overdue in the following periods				
			less than 30 days	between 31 and 60 days	between 61 and 90 days	between 91 and 180 days	more than 180 days
31.12.2009							
Trade accounts receivable	324.6	229.7	85.4	8.0	0.4	0.4	0.7
Other assets	154.3	154.3	-	-	-	-	-
Total	**478.9**	**384.0**	**85.4**	**8.0**	**0.4**	**0.4**	**0.7**
31.12.2010							
Trade accounts receivable	401.5	275.4	104.2	15.8	4.5	0.8	0.8
Other assets	29.3	29.3	-	-	-	-	-
Total	**430.8**	**304.7**	**104.2**	**15.8**	**4.5**	**0.8**	**0.8**

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

Impairment allowances

The impairment allowances on trade accounts receivable developed as follows:

Million EUR	2010	2009
Impairment allowances as of 01.01. (PY 31.03.)	**-18.5**	**-17.2**
Additions	-14.6	-7.4
Utilisation	11.2	5.5
Release	2.6	0.7
Exchange rate difference	-1.2	-0.1
Impairment allowances as of 31.12.	**-20.5**	**-18.5**

In the financial year there were cash inflows of EUR 0.4 million (2009: EUR 0.3 million) from impaired trade accounts receivable.

(14) Derivative financial instruments

Million EUR	**31.12.2010**		31.12.2009	
	Total	Remaining term > 1 year	Total	Remaining term > 1 year
Receivables from derivative financial instruments	122.2	36.9	1.4	-
thereof derivatives with hedge accounting applied	80.7	-	-	-
thereof derivatives with hedge accounting not applied	41.5	36.9	1.4	-

The derivative financial instruments are shown at fair value (market value). They serve the hedging of both the future operating business and currency risks from financing. A detailed description of the derivative financial instruments follows within the explanation of the financial instruments (Note (26)).

(15) Inventories

The inventories were as follows:

Million EUR	31.12.2010	31.12.2009
Raw materials and supplies	144.0	94.8
Total	**144.0**	**94.8**

The raw materials and supplies were primarily fuel and lubricating oil (EUR 141.6 million; 2009: EUR 92.7 million).

In the reporting period, impairments of fuel inventories in the amount of EUR 0.04 million (2009: EUR 0.1 million) were recognised as expenses. No reversals of impairments were carried out.

(16) Cash and cash equivalents

Million EUR	31.12.2010	31.12.2009
Securities	0.5	1.0
Cash at bank	745.5	405.4
Cash in hand and cheques	5.8	6.9
Total	**751.8**	**413.3**

As at 31 December 2010, cash and cash equivalents amounting to EUR 0 (2009: EUR 14.1 million) were subject to restrictions.

(17) Assets classified held for sale

Three older ships, which in 2009 due to the intended sale were reported as non-current assets held for sale, pursuant to IFRS 5, were sold in the second quarter of 2010.

The Executive Board of Hapag-Lloyd AG has agreed to the sale of another ship in 2011. Pursuant to IFRS 5, assets with a carrying amount of EUR 3.1 million were reclassified as non-current assets held for sale.

(18) Capital provided by the limited partners and retained earnings

The paid-in capital of “Albert Ballin“ Holding as at the balance sheet date amounted to EUR 3,086.6 million (2009: EUR 2,242.3 million). The increase is in part due to the payment of subscribed capital outstanding in the amount of EUR 142.5 million on 29 January 2010. Additionally, in connection with non-cash contributions, financial liabilities in the amount of EUR 353.0 million was converted as a non-cash contribution on 31 March 2010 and in connection with a waiver on 30 December 2010 the hybrid capital I of EUR 348.8 million allocated to the capital reserve of the limited liability capital.

The liability capital of “Albert Ballin“ Holding entered in Hamburg district court’s commercial register amounts to EUR 1,000.

The limited partners’ shares in “Albert Ballin“ Holding must be classified as puttable financial instruments in accordance with IAS 32. The following amounts are currently attributable to these limited partners’ shares pursuant to the provisions of the articles of partnership:

Million EUR	31.12.2010	31.12.2009
Capital provided by the limited partners	3,086.6	2,384.8
Retained earnings	0.0	-401.9
Puttable financial instruments	**3,086.6**	**1,982.9**

The calling of these amounts, and therefore likely outflows of funds, are not expected at present. In the event of being called, however, the settlement amount for fulfilling a repayment of the limited liability capital would be derived from the statutory regulations.
The Group equity generated encompasses the earnings from the financial year or previous years.

(19) Cumulative other equity

Results from cash flow hedges to be directly settled with equity had a positive effect on equity in the reporting year with EUR 36.1 million (2009: EUR 0.0 million).
The change in the reserve for actuarial gains and losses (change in 2010: EUR -9.4 million; 2009: EUR -6.0 million) results from the change in actuarial parameters in connection with the measurement of pension obligations and the associated fund assets; those gains and losses were recognised with no effect on income.
The differences from currency translation (2010: EUR 201.2 million; 2009: EUR -223.6 million) contain differences from the translation of the financial statements of subsidiaries prepared in foreign currency and from the conversion of goodwill carried in foreign currency.

(20) Hybrid capital

EUR 350 million of the nominal amount of EUR 700 million of the hybrid capital of TUI-Hapag Beteiligungs GmbH contributed to “Albert Ballin“ Holding as of 31 December 2009 was converted to limited liability capital on 30 December 2010 by waiver. As of 1 October 2010 the hybrid capital was interest-bearing at 5% p.a. Interest not yet paid as of 31 December 2010 in the amount of EUR 8.7 million increases the hybrid capital, accordingly.
The hybrid capital as of 31 December 2009 of Hamburgische Seefahrtsbeteiligung “Albert Ballin“ GmbH & Co. KG as well as of TUI-Hapag Beteiligungs GmbH in “Albert Ballin“ Terminal Holding GmbH in a nominal amount of EUR 314.1 million was repaid in full in 2010, including the additional interest of EUR 17 million.
Since the agreements regarding the hybrid capital neither limit the term nor require a payment of a current fee, the remaining hybrid capital as of balance sheet date is classified as equity and disclosed separately in compliance with regulation IAS 32, as was the case in the previous year.

(21) Non-controlling interests

The non-controlling interests (2010: EUR 0.3 million; 2009: EUR 0.4 million) relate solely to foreign subsidiaries of the Group.

(22) Provisions for pensions and similar obligations

Defined benefit pensions plans

The financing status and the pension provision are determined as follows:

Million EUR	**31.12.2010**	31.12.2009
Net present value of defined benefit obligations	180.2	153.9
Less fair value of plan assets	83.0	69.6
Financing status	**97.2**	**84.3**
Balance of past service cost not yet recognised in balance sheet	-	-0.1
Due to limitations according to IAS 19.58b not recognised as asset	-	-
Balance sheet amount (net)	**97.2**	**84.2**
Of which recorded in other assets	-	-
Of which recorded in provisions for pensions and similar obligations	97.2	84.2

The net present value of the defined benefit obligations and the fair value of the plan assets have developed as follows:

Million EUR	31.12.2010	31.12.2009
Net present value of defined benefit obligations as at 01.01.	**153.9**	**-**
Current service cost	4.5	5.5
Interest cost	8.1	6.1
Contributions by plan participants	0.4	0.2
Actuarial (gains)/losses	11.1	12.5
Past service cost/(income)	2.9	0.1
Plan curtailments	-	-0.3
Plan settlements	0.1	-
Benefits paid	-6.1	-3.6
Exchange rate differences	5.3	2.2
Addition by means of company acquisition	-	131.2
Net present value of defined benefit obligations as at 31.12.	**180.2**	**153.9**
Of which funded	84.0	71.3
Of which non-funded	96.2	82.6
Fair value of plan assets as at 01.01.	**69.6**	**-**
Expected return on plan assets	4.0	2.3
Actuarial gains/(losses)	2.5	5.2
Actual income/(expenses) from plan assets	6.5	7.5
Employer contributions	4.2	4.1
Contributions by plan participants	0.4	0.2
Plan settlements	-0.3	-
Benefits paid	-2.8	-2.0
Exchange rate differences	4.5	1.1
Addition by means of company acquisition	-	58.7
Reclassification	0.9	-
Fair value of plan assets as at 31.12.	**83.0**	**69.6**
Of which dividend-carrying shares	23.3	19.9
Of which bonds	36.5	24.8
Of which property, plant and equipment	1.1	0.9
Of which cash	1.1	2.1
Of which other	21.0	21.9

The obligations of the defined benefit plan in Taiwan were compensated in the financial year 2010. Since then employees are covered by a defined contribution plan.
The plan assets contain neither the Group's own financial instruments nor real estate used by the Group itself.

The net pension expenses/(income) were as follows:

Million EUR	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Current service cost	4.5	5.5
Interest cost	8.1	6.1
Expected return on plan assets	-4.0	-2.3
Past service costs	2.9	0.1
Current net service cost/(income)	**11.5**	**9.4**
Plan curtailments and settlements	0.0	-0.3
Net pension expenses/(income)	**11.5**	**9.1**

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

Million EUR	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Personnel expenses	7.4	5.3
Interest result	4.1	3.8
Total	**11.5**	**9.1**

The closing date for the valuation of the pension obligations and the plan assets is generally 31 December. The closing date for the valuation of the current net pension expenses is generally 1 January. The parameters established for the calculation of the pension obligations and the assumptions for the long-term interest on the plan assets vary in accordance with the prevailing market conditions in the currency region in which the pension plan was set up. The “Albert Ballin“ Holding maintains domestic and foreign benefit plans. Provisions for benefit obligations and similar obligations are primarily made in Germany due to benefit commitments for pensions, survivorship annuities and disability benefits. The amount of the benefit depends on which benefit group, based on years of service, the employees belong to and therefore on the total years of service.
The following valuation factors as of 31 December 2010 were used to calculate the pension obligations in Germany:

In % points	**31.12.2010**	31.12.2009
Discount factors	4.70%	5.20%
Expected rate of salary and wage increases	2.50%	2.50%
Expected rate of pension increases	1.80%	1.80%
Fluctuation rate	1.00%	2.00%

As a biometric foundation the mortality table 2005 G from Heubeck was used.

Amortisation of national benefit expenses is based on the following factors of 31 December 2009:

In % points	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Discount factors	5.20%	6.00%
Expected rate of return on plan assets	4.50%	4.50%
Expected rate of salary and wage increases	2.50%	3.00%
Expected rate of pension increases	1.80%	2.40%
Fluctuation rate	2.00%	2.00%

Furthermore, discount factors for benefit obligations and expected long-term returns on the plan assets for the following countries are particularly important.

In % points	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Discount factors for pension obligations		
- United Kingdom	5.40%	5.60%
- Netherlands	4.70%	5.20%
- Canada	4.75%	5.50%
Expected rates of return on plan assets		
- United Kingdom	6.70%	6.80%
- Netherlands	6.00%	5.00%
- Canada	5.00%	5.00%

The discounting factors for the pension plans are determined annually as of 31 December on the basis of first-rate industrial bonds with maturities and values matching those of the pension payments. An index for industry bonds is assumed as the basis for determining the discounting factors for the pension plans. In order to cover an appropriately broad market, an index based on bonds with relatively short terms is used as the basis. 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.

The returns on the plan assets which are expected in the long term are derived from the plan assets' investment allocation and from the expected returns on the investment categories contained in the portfolios. For this purpose, the Hapag-Lloyd Group's investment committees use yield forecasts for the relevant capital market indices of banks and asset managers. The average yield forecast, weighted for allocations, serves as the starting point for determining the anticipated yields from the individual plan assets. In addition, the Group keeps track of the long-term actual yields from the plan assets and historical yields from the market as a whole when determining the anticipated interest, the aim being to take sufficient account of the long-term character of the plan assets as well.

The adjustments based on experience, i.e. the difference between the previous actuarial assumptions and actual developments, in relation to the obligations and plan assets as of 31 December 2010 or 31 December 2009 respectively, can be seen in the following table:

Million EUR	**31.12.2010**	31.12.2009
Net present value of obligations	2.4	-1.6
Fair value of plan assets	-2.5	5.1

The amount disclosed in other comprehensive income of actuarial profits and losses from defined benefit obligations before tax on 31 December 2010 and before consideration of deferred tax amounts to EUR -8.9 million (2009: EUR -7.3 million). The cumulative amount for actuarial gains and losses recorded in the statement of comprehensive income, after taxes, totals EUR -15.4 million as at 31 December 2010 (2009: EUR -6.0 million). For 2011, the Group is planning to make payments amounting to EUR 4.4 million (2009: EUR 3.7 million) into the pension plan assets. The payments for unfunded pension plans are anticipated in the amount of EUR 2.4 million in 2010 (2009: EUR 2.0 million).

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 2010, expenses incurred in connection with defined contribution pension plans totalled EUR 15.2 million (2009: EUR 8.2 million).

The amount includes an expense of EUR 2.6 million (2009: EUR 2.3 million) in connection with a joint plan operated by several employers. In the financial year 2008 pension and medical benefit obligations in the USA were transferred from the Company's own benefit plan to the joint plan by several employers. This plan is a defined benefit plan. Since the joint plan does not provide sufficient data regarding the development of the entitlement of employees of the Group or the Group's share in the plan assets, this plan is since then recognised as a contribution plan. Due to past contribution claims and refunds in connection with this plan a net liability of EUR 0.9 (2009: EUR 0.9 million) is disclosed.

(23) Other provisions

Other provisions developed as follows in the financial year:

Million EUR	As per 01.01.2010	Reclassi-fication	Utilization	Release	Addition	Exchange rate differences	As per 31.12.2010
Guarantee, warranty and liability risks	62.2	-	3.7	8.2	15.6	4.7	70.6
Risks from pending transactions	117.1	-	56.7	0.0	0.0	8.9	69.3
Personnel costs	31.5	-3.0	18.7	2.8	52.6	1.9	61.5
Insurance premiums	8.7	-	1.2	0.1	4.1	0.6	12.1
Provisions for other taxes	1.5	0.8	0.6	0.0	2.1	0.1	3.9
Restructuring	9.1	-	5.9	2.3	0.9	0.7	2.5
Other provisions	31.3	6.3	7.4	5.7	8.8	2.8	36.1
Other provisions	**261.4**	**4.1**	**94.2**	**19.1**	**84.1**	**19.7**	**256.0**

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

Provisions for risks from pending transactions with regard to the purchase price allocation of the Hapag-Lloyd Group purchase in 2009 relate to identified existing contracts that showed a negative fair value for their contract terms at the time of the purchase compared to the current market conditions. Provisions for risks from pending transactions are utilised over the respective contractual term of the underlying contract. Some contracts have terms exceeding five years.

Provisions for personnel costs comprised provisions for holidays not yet taken, bonuses not yet paid, severance compensation and anniversary payments.

Provisions for insurance premiums include outstanding premiums for general and business insurances; the insurance contracts were entered into with an insurer outside the Group.

Restructuring provisions comprise payments for the premature termination of tenancies as well as severance payments to employees.

Other provisions particularly include archiving provisions (EUR 3.7 million; 2009: EUR 3.1 million) as well as provisions for audit and advisory fees (EUR 0.9 million; 2009: EUR 1.5 million).

The increase of the discounted amount during the financial year due to the passage of time is irrelevant. Discounted provisions increased during the reporting year due to a change in the discount rate by EUR 0.5 million.

The maturities of the other provisions are as follows:

Million EUR	**31.12.2010**		31.12.2009	
	Total	Remaining term more than 1 year	Total	Remaining term more than 1 year
Risks from pending transactions	69.3	59.1	117.1	67.6
Guarantee, warranty and liability risks	70.6	33.9	62.2	33.0
Personnel costs	61.5	5.4	31.5	5.4
Restructuring	2.5	1.1	9.1	0.9
Insurance premiums	12.1	-	8.7	-
Provisions for other taxes	3.9	-	1.5	0.3
Other provisions	36.1	4.1	31.3	3.8
Other provisions	**256.0**	**103.6**	**261.4**	**111.0**

The remaining term of long-term other provisions does not exceed five years with the exception of the provisions for risks from pending transactions.

(24) Financial liabilities

Million EUR	**31.12.2010**				31.12.2009			
		Remaining terms				Remaining terms		
	Total	up to 1 year	1-5 years	more than 5 years	Total	up to 1 year	1-5 years	more than 5 years
Liabilities to banks	1,053.6	206.9	539.6	307.1	893.9	20.6	560.6	312.7
Bonds	646.8	-2.6	466.6	182.8	-	-	-	-
Other financial liabilities	177.1	-0.7	177.8	-	788.1	353.0	435.1	-
Total	**1,877.5**	**203.6**	**1,184.0**	**489.9**	**1,682.0**	**373.6**	**995.7**	**312.7**

Negative amounts regarding bonds and other financial liabilities with a remaining term of up to one year relate to transaction costs spread using the effective interest rate method. Financial liabilities by currency exposure:

Mio. EUR	**31.12.2010**	31.12.2009
Financial liabilities denoted in USD (before IFRS adjustments)	1,052.7	753.7
Financial liabilities denoted in EUR (before IFRS adjustments)	856.6	970.3
Accounting for transaction costs	-31.8	-42.0
Total	**1,877.5**	**1,682.0**

The liabilities to banks mainly comprise loans to finance the existing fleet of vessels and the newly built ships that have been ordered. In addition, a loan from the Kreditanstalt für Wiederaufbau (KfW) (public institution), Frankfurt am Main, and a loan for container financing were reported under liabilities to banks.

The loan for container financing is connected with a container lease agreement which, in accordance with SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease, is shown as credit financing as Hapag-Lloyd has retained all the risks and opportunities associated with the containers and, with regard to the use of the containers, essentially has the same rights as before the agreement. This lease agreement is collateralised by the assignment of the containers for five years with the automatic retransfer of the ownership of the containers after the last instalment for the containers has been paid. Accordingly, the containers are still being reported and amortised in the Group. Interest for the credit financing is recognised as interest expenses.

Significant elements of the liabilities to banks are collateralised with ship mortgages.

Shareholder loans posted in other financial liabilities of EUR 353.0 million were converted into equity on 31 March 2010.

As part of the recapitalisation measures, a provisional standstill agreement was reached with the financing banks in 2009. On 30 April 2010 the provisional standstill agreement was replaced by a long-term standstill agreement. This agreement encompassed the non-exercise of termination rights and the suspension of regular capital repayments due.

On 22 September 2010 the application for a guarantee by the German Federal Government and the Free and Hanseatic City of Hamburg to safeguard a credit line in the amount of EUR 1.2 billion was revoked by "Albert Ballin" Holding and Hapag-Lloyd AG (see Note (31)). At the same time the framework contract for this credit line was terminated. With the termination of the credit framework the long-term standstill agreement was also terminated, resulting in the disbursement of deferred interest and redemption payments in October 2010.

On 28 September 2010 within the framework of the K-Sure 1 financing, USD 303.6 million (EUR 225.9 million) was taken up while at the same time a redemption payment of USD 12.9 million (EUR 9.6 million) was made.

Furthermore, on 1 October 2010 within the framework of a facility agreement a credit line amounting to USD 360 million (EUR 268.9 million) to serve as a liquidity reserve for Hapag-Lloyd AG and "Albert Ballin Holding" was provided, which so far was not yet utilised.

For further financing two bonds consisting of a euro tranche in the amount of EUR 330 million and a US dollar tranche in the amount of USD 250 million (EUR 186.8 million) as well as a second euro tranche in the amount of EUR 150 million were issued. The bond is presented net of transaction costs amounting to EUR 19.9 million.

(25) Trade accounts payable and other liabilities

Million EUR	31.12.2010 Remaining terms				31.12.2009 Remaining terms			
	Total	up to 1 year	1-5 years	more than 5 years	Total	up to 1 year	1-5 years	more than 5 years
Trade accounts payable	752.1	752.1	-	-	747.1	747.1	-	-
Of which to third parties	749.1	749.1	-	-	744.1	744.1	-	-
of which to companies with which a participating interest exists	3.0	3.0	-	-	3.0	3.0	-	-
Other liabilities	129.1	123.8	4.3	1.0	73.7	68.2	4.0	1.5
Other liabilities to affilated non-consolidated companies	0.2	0.2	-	-	0.2	0.2	-	-
Other liabilities to investments	6.8	6.8	-	-	-	-	-	-
Other liabilities and deferred income	35.4	33.0	2.2	0.2	16.5	14.1	1.9	0.5
Other liabilities from other taxes	6.9	6.9	-	-	2.8	2.8	-	-
Other liabilities as part of social security	8.2	5.3	2.1	0.8	7.5	4.4	2.1	1.0
Other liabilities to employees	1.9	1.9	-	-	3.4	3.4	-	-
Prepayments received	69.7	69.7	-	-	43.3	43.3	-	-
Total	**881.2**	**875.9**	**4.3**	**1.0**	**820.8**	**815.3**	**4.0**	**1.5**

(26) Financial instruments

FINANCIAL RISKS AND RISK MANAGEMENT

Risk management principles

"Albert Ballin" Holding is exposed to market risks as a result of Hapag-Lloyd AG's international operations. The market risks include, in particular, the currency risk, the interest rate risk and the fuel price risk. The objective of financial risk management is to reduce market risks. For this purpose, selected derivative financial instruments are deployed at the level of Hapag-Lloyd AG; these are used solely as a hedging instrument and not for trading or other speculative purposes.

As well as the market risks, the 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 guideline approved by the Executive Board. This is applied analogously for "Albert Ballin" Holding. 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 risk management processes are examined for their effectiveness annually by the internal auditing department and by external auditors.

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

Market risk

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

The causes of the existing market price risks to which the Group is exposed lie particularly in the fuel consumption, the significant cash flows in foreign currencies at the level of Hapag-Lloyd AG, 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 after-tax earnings 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 disclosures. Due to unforeseeable developments on the global financial markets, actual events may deviate substantially from the disclosures provided.

Currency risks

Currency risks are hedged if they influence the 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. Currency risks for the consolidated financial statements exist solely at the level of the Hapag-Lloyd subgroup.

The Hapag-Lloyd subgroup's functional currency is the US dollar. Currency risks result on one hand from operating activities (incoming or outgoing payments in currencies other than the US dollar) and on the other from financial liabilities taken on in euros.

Hapag-Lloyd AG's currency management generally provides for the hedging of euro-denominated cost exposure of up to 80%. The risks are hedged through the use of derivative financial instruments in the form of currency options and currency forwards.

The following sensitivity analysis contains the Hapag-Lloyd subgroup's currency risks in relation to primary and derivative financial instruments and reflects the risk that the US dollar as functional currency might appreciate or depreciate by 10% against the major Group currencies (EUR, CAD, GBP). The analysis is depicted accordingly in US dollars.

Million USD	31.12.2010		31.12.2009	
	Effect on earnings	Value change reserve (equity)	Effect on earnings	Value change reserve (equity)
USD/EUR				
EUR +10%	-70.5	72.7	8.9	-
EUR -10%	70.9	-21.8	-5.4	-
USD/CAD				
+10%	-3.2	-	-2.3	-
-10%	3.2	-	2.3	-
USD/GBP				
+10%	1.1	-	0.8	-
-10%	-1.1	-	-0.8	-

Risks at the level of "Albert Ballin" Holding's consolidated financial statements arise from the translation of Hapag-Lloyd AG's financial statements in US dollars into the functional 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.

As shown in the table, the Hapag-Lloyd subgroup's earnings effect is reflected analogously, taking account of the relevant USD/EUR exchange rate (see Note "Currency translation") in "Albert Ballin" Holding's consolidated financial statements.

Fuel price risks

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

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

In order to portray the fuel price risks according to IFRS 7 a sensitivity analysis was performed, with an implied hypothetical market price change of +/-10%. The effects on after-tax earnings and equity resulting from the market price changes of the derivative financial instrument used is shown in the following table. Fuel price risks were not hedged as at 31 December 2009.

Million EUR	**31.12.2010**		31.12.2009	
	10%	-10%	10%	-10%
Value change reserve	54.3	-19.8	-	-
Result before income taxes	-15.3	-6.6	-	-

Interest rate risks

The Group is exposed to interest rate risks affecting cash flow, particularly with financial liabilities based on variable interest rates. In order to minimise the interest rate risk, the Group strives to achieve a balanced combination of assets and liabilities with variable and fixed interest rates. Interest rate hedging instruments were not used in 2010.

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 as of the closing date. The market interest rate as of 31 December 2010 was increased or decreased by +/– 100 base points, whereby hypothetical, negative changes in interest rates, considering the low interest rate level, were only made of up to nil. The determined effect relates to the existing financial liabilities with a variable interest rate amounting to EUR 1,001.0 million (2009: EUR 1,474.4 million). It is assumed that this exposure constitutes a representative figure for the next financial year. The prior-year figures are taking the agreed-upon standstill agreement into account, due to which lower interest charges were assumed.

Million EUR	**31.12.2010**		31.12.2009	
Change in variable interest rate	+100 base points	-100 base points	+100 base points	-100 base points
Earnings before income taxes	-10.0	4.3	-7.6	6.8

Default risks

In addition to the market risks described above, the Group is exposed to default risks. The default risk constitutes the risk that a contracting partner will be unable to meet its contractual payment obligations. It refers to both Hapag-Lloyd AG's operating activities and the counterparty credit 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 operational activities, Hapag-Lloyd AG has an established credit and receivables management system at the area, regional and central levels. 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 credit standing and rating. To provide protection against default risks, moreover, a credit insurance policy was purchased for the majority of the trade accounts receivable.

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

If there are discernible risks in the area of trade accounts receivable and other receivables, these are taken into account by means of appropriate impairment allowances. With regard to the age structure analysis for the trade accounts receivable and other assets, please refer to Note (13).

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

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

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

Liquidity risks

Generally, the liquidity risk constitutes the risk that a company will be unable to meet its obligations resulting from financial liabilities.

To ensure solvency at all times the liquidity requirements are determined by means of a multi-year financial planning and a monthly rolling liquidity forecast and steered centrally. During the past financial year solvency was guaranteed at all times.

To strengthen medium-term liquidity in October 2010 a high-yield bond was issued. In total two euro tranches amounting to EUR 330 million respectively EUR 150 million as well as a US dollar tranche in the amount of UDS 250 million were placed. Previously the Company terminated an agreed state-guaranteed syndicated loan in the amount of EUR 1,200 million and revoked the related guarantee of the German Federal Government and the Free and Hanseatic City of Hamburg. The syndicated loan was not at all used.

Further explanatory notes regarding the steering of liquidity risks are comprised in the Group Management Report.
The current contractually fixed cash flows from undiscounted both primary financial liabilities (interest and redemption) and from derivative financial instruments are as follows:

Cash flows of financial instruments (31.12.2010)

Million EUR	Cash inflows and outflows			
	2011	2012	2013-2015	from 2015
Primary financial liabilities				
Liabilities to banks	-231.2	-186.3	-451.3	-363.8
Bonds	-48.6	-61.4	-664.2	-223.2
Other financial liabilities (excl. operating leases)	-8.8	-8.8	-188.2	-
Trade accounts payable	-752.1	-	-	-
Other liabilities	-40.0	-0.7	-	-
Total primary financial liabilities	**-1,080.7**	**-257.2**	**-1,303.7**	**-587.0**
Derivative financial instruments				
Hedging transactions - inflow	-	-	-	-
Hedging transactions - outflow	-	-	-	-
Other derivative financial instruments - inflows	179.4	-	-	-
Other derivative financial instruments - outflows	-174.8	-	-	-
Total derivative financial instruments	**4.6**	**0.0**	**0.0**	**0.0**

Cash flows of financial instruments (31.12.2009)

Million EUR	Cash inflows and outflows			
	2010	2011	2012-2014	from 2014
Primary financial liabilities				
Liabilities to banks	-61.0	-60.1	-504.4	-504.4
Other financial liabilities (excl. operating leases)	-	-	-483.6	-
Trade accounts payable	-747.1	-	-	-
Other liabilities	-13.1	-3.1	-	-
Total primary financial liabilities	**-821.2**	**-63.2**	**-988.0**	**-504.4**
Derivative financial instruments				
Hedging transactions - inflow	-	-	-	-
Hedging transactions - outflow	-	-	-	-
Other derivative financial instruments - inflows	179.4	-	-	-
Other derivative financial instruments - outflows	-178.0	-	-	-
Total derivative financial instruments	**1.4**	**0.0**	**0.0**	**0.0**

All instruments for which payments had already been contractually agreed as at the closing date of 31 December 2010 were included. Amounts in foreign currencies were translated at the spot rate as of the closing 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.

Derivative financial instruments and hedges

Derivative financial instruments are generally used to hedge existing or planned underlying transactions and serve to reduce foreign currency risks and fuel price risks, which incur in day-to-day business activities in the context of investment and financial transactions. Currency risks are hedged predominantly by means of currency options and currency forward contracts. Commodity options are used as hedges for fuel price risks.

Balance sheet hedging relationships in accordance with IAS 39 (Hedge Accounting) were exclusively shown as cash flow hedges in the reporting year. The effective share of the accumulated changes in market value is, until the underlying transaction is realised, shown in the value change reserve without affecting earnings and, upon completion of the hedged underlying transaction, recognised in the income statement.

As of 31 December 2010 there existed hedges, which according to IAS 39 were classified as hedge accounting with a remaining term of up to one year. The hedged cash flows from the underlying transactions are also expected to mature within one year.

In the financial year 2010 changes of fair values of derivative financial instruments in hedging relationships resulted in gains totalling EUR 49.9 million which were recorded in equity (PY: EUR 12.5 million). These changes in value represent the effective share of the hedging relationship.

In the reporting period EUR 13.8 million (PY: EUR 12.5 million) were reclassified affecting earnings from the value change reserve. Thereof EUR 8.0 million are attributable to commodity hedges, with their contribution affecting earnings shown in transport expenses, and EUR 5.8 million to foreign exchange hedges taken into account as other operating income.

In the reporting period as well as in 2009 no inefficiencies from hedging relationships incurred to a significant extent.

Moreover the Group uses optional hedges to hedge currency risks from existing foreign currency liabilities, which are in an economic relationship with the respective underlying transaction, but were not designated as a hedging relationship according to IAS 39.

Derivative financial instruments were at no time used for speculative purposes.

The following table shows the nominal values of the derivative financial instruments:

Million EUR	31.12.2010			31.12.2009	
	Remaining term			Remaining term	
	up to 1 year	over 1 year	Total	over 1 year	Total
Currency options	503.7	480.0	983.7	-	-
Currency forwards	179.4	-	179.4	-	179.4
Commodity options	530.1	-	530.1	-	-

The fair values of derivative financial instruments generally correspond to their market values. The market price determined for the derivative financial instruments is the price at which a contracting party would take on the rights and/or obligations of the other contracting party. The forward prices, or prices of currency forward contracts, are calculated on the basis of the spot price prevailing on the closing date, taking account of forward premiums and discounts for the residual term of the contract in question. The determination of the fair values of concluded option transactions for currency hedging is based on a model of Black & Scholes. In the framework of the determination of fair values for commodity options the model of Turnbull/Wakeman is applied.

The positive and/or negative fair values of derivative financial instruments shown as receivables or liabilities are as follows:

Million EUR	31.12.2010		31.12.2009	
	Receivables	Liabilities	Receivables	Liabilities
Hedging instruments acc. to IAS 39 for the hedging of cash flow				
Currency options	28.2	-	-	-
Commodity options	52.5	-	-	-
Hedges	**80.7**	**-**	**-**	**-**
Other derivative financial instruments				
Currency options	36.9	-	-	-
Currency forwards	4.6		1.4	-
Other derivative financial instruments	**41.5**	**-**	**1.4**	**-**
Total	**122.2**	**-**	**1.4**	**-**

Financial instruments—additional disclosures on carrying amounts and fair values

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Where financial instruments are listed in an active market, as in particular bond issues, the respective quotation in this market represents the fair value.

For cash and cash equivalents, trade accounts receivable and significant elements of other assets, trade accounts payable and other liabilities, the carrying amount corresponds to the fair value because of the short residual term to maturity.

The available-for-sale financial assets included under other assets are generally measured at fair value. If no reliable fair value is available, the assets are measured at acquisition cost.

For liabilities to banks and other non-current financial liabilities, the fair value is determined as the net present value of the future cash flows taking account of yield curves and the relevant credit spreads. Traded bonds are measured at the market price as of the balance sheet date.

The following table shows the carrying amounts, value estimates and fair values by class and valuation category as of 31 December 2010:

Million EUR	Measurement category according to IAS 39	Carrying amount 31.12.2010	Amount recognised in the balance sheet under IAS 39				Carrying amount financial instru-ments	Fair value of financial instru-ments
			Amortised cost	Acquisition cost	Fair value with no effect on profit or loss	Fair value through profit and loss		
Assets								
Other receivables	LaR	130.4	29.1	-	-	-	29.1	29.1
	AfS	0.2	-	0.2	-	-	0.2	0.2
Derivative financial instruments								
Derivatives (Held for Trading)	FAHfT	41.5	-	-	-	41.5	41.5	41.5
Hedges (Hedge Accounting)	n.a.	80.7	-	-	80.7	-	80.7	80.7
Trade accounts receivable	LaR	401.5	401.5	-	-	-	401.5	401.5
Cash and cash equivalents	LaR	751.8	751.8	-	-	-	751.8	751.8
Liabilities								
Financial liabilities	FLAC	1,877.5	1,877.5	-	-	-	1,877.5	1,944.3
Other liabilities	FLAC	129.1	40.7	-	-	-	40.7	40.7
Derivative financial liabilities								
Derivatives (Held for Trading)	FLHfT	-	-	-	-	-	-	-
Hedges (Hedge Accounting)	n.a.	-	-	-	-	-	-	-
Trade accounts payable	FLAC	752.1	752.1	-	-	-	752.1	752.1
Of which aggregated according to IAS 39 measurement category:								
Loans and receivables (LaR)		1,182.4	1,182.4	-	-	-	-	-
Held-to-maturity investments (HtM)		-	-	-	-	-	-	-
Available-for-sale financial assets (AfS)		0.2	-	0.2	-	-	-	-
Financial assets held for trading (FAHfT)		41.5	-	-	-	41.5	-	-
Financial liabilities measured at amortised cost (FLAC)		2,670.3	2,670.3	-	-	-	-	-
Financial liabilities held for trading (FLHfT)		-	-	-	-	-	-	-

Carrying amounts, value estimates and fair values by class and valuation category as of 31 December 2009:

Million EUR	Measurement category according to IAS 39	Carrying amount 31.12.2009	Amount recognised in the balance sheet under IAS 39				Carrying amount financial instruments	Fair value of financial instruments
			Amortised cost	Acquisition cost	Fair value with no effect on profit or loss	Fair value through profit and loss		
Assets								
Other receivables	LaR	250.0	152.8	-	-	-	152.8	152.8
	AfS	1.5	-	0.2	1.3	-	1.5	1.5
Derivative financial instruments								
Derivatives (Held for Trading)	FAHfT	1.4	-	-	-	1.4	1.4	1.4
Hedges (Hedge Accounting)	n.a.	-	-	-	-	-	-	-
Trade accounts receivable	LaR	324.6	324.6	-	-	-	324.6	324.6
Cash and cash equivalents	LaR	413.3	413.3	-	-	-	413.3	413.3
Liabilities								
Financial liabilities	FLAC	1,682.0	1,682.0	-	-	-	1,682.0	1,669.1
Other liabilities	FLAC	73.7	16.2	-	-	-	16.2	16.2
Derivative financial liabilities								
Derivatives (Held for Trading)	FLHfT	-	-	-	-	-	-	-
Hedges (Hedge Accounting)	n.a.	-	-	-	-	-	-	-
Trade accounts payable	FLAC	747.1	747.1	-	-	-	747.1	747.1
Of which aggregated according to IAS 39 measurement category:								
Loans and receivables (LaR)		890.7	890.7	-	-	-	-	-
Held-to-maturity investments (HtM)		-	-	-	-	-	-	-
Available-for-sale financial assets (AfS)		1.5	-	0.2	1.3	-	-	-
Financial assets held for trading (FAHfT)		1.4	-	-	-	1.4	-	-
Financial liabilities measured at amortised cost (FLAC)		2,445.3	2,445.3	-	-	-	-	-
Financial liabilities held for trading (FLHfT)		-	-	-	-	-	-	-

The financial instruments in the available-for-sale category which are included under other assets contain, among other things, participating interests not listed on a stock exchange for which there are no market prices listed on an active market. A reliable determination of the market value could only be achieved in the context of actual sales negotiations. Their disposal is not planned at present.

Fair value hierarchy

The following table shows the classification of the financial instruments measured at fair value in the three levels of the fair value hierarchy:

Level 1:

Unchanged assumption of prices from active markets for identical financial assets or financial liabilities.

Level 2:

Use of input factors whose prices are not the listed prices referred to in level 1 but can be observed either directly (i.e. as price) or indirectly (i.e. in the derivation of prices) for the financial asset or liability in question.

Level 3:

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

Million EUR	**31.12.2010**			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments (hedge accounting)	-	80.7	-	80.7
Derivative financial instruments (trading)	-	41.5	-	41.5

Million EUR	31.12.2009			
	Level 1	Level 2	Level 3	Total
Other receivables (AfS)	1.3	-	-	1.3
Derivative financial instruments (trading)	-	1.4	-	1.4

Earnings effect

The net earnings of the financial instruments by valuation category pursuant to IAS 39 are as follows:

Million EUR	31.12.2010			31.12.2009		
	From interest	Other net earnings	Net earnings	From interest	Other net earnings	Net earnings
Loans and receivables	3.1	-47.5	-44.4	5.6	12.9	18.5
Available-for-sale financial assets	-	-	-	-	0.3	0.3
Financial assets and liabilities held for trading	-	-10.1	-10.1	-	16.9	16.9
Financial liabilities measured at amortised cost	-101.1	51.2	-49.9	-64.0	-64.1	-128.1
Total	**-98.0**	**-6.4**	**-104.4**	**-58.4**	**-34.0**	**-92.4**

In addition to the interest income and expenses from the liabilities to banks and other financial liabilities, the net earnings mainly comprise the foreign currency valuation of Hapag-Lloyd AG's trade accounts receivable and valuation allowances.

Capital management

The Hapag-Lloyd Group strives to achieve a strong financial profile in order to guarantee the continued existence of the Company and its financial flexibility and independence. Its objective is to strengthen the trust of shareholders and other parties involved in the Company in a lasting manner. To achieve this, the Group is aiming for an equity ratio of 50%.

The goal of its capital management is to safeguard the capital basis at its disposal over the long term. This should be reached via a balanced relationship to financing requirements for the profitable growth.

One of the most significant central control parameters within the scope of capital risk management is the relationship between equity and the balance sheet total (equity ratio). Therefore, the Group's equity and balance sheet total are adjusted for unrealised gains and losses from currency translation as part of the consolidation of subsidiaries and from the market valuation of hedging transactions for future cash flows (cash flow hedges) in order to eliminate valuation effects related to the closing date from the process.

Million EUR	**31.12.2010**	31.12.2009
Consolidated equity	3,442.8	2,765.5
+/- unrealised losses/gains from currency translation as part of the consolidation of subsidiaries	22.4	223.6
+/- unrealised losses/gains from valuations results from derivative financial instruments appropriated to valuation reserve	-36.1	0.0
Adjusted consolidated equity	**3,429.1**	**2,989.1**
Adjusted balance sheet total	**6,555.8**	**5,842.3**
As % of balance sheet total	52.3%	51.2%

In addition, at the level of the Hapag-Lloyd subgroup there are financial covenants regarding equity and minimum liquidity, which are used as an additional control tool. Compliance with the key figures must be reported to the creditor banks on a quarterly basis. In the reporting period, the financial covenants were adhered to for all the reporting dates.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement shows the development of cash and cash equivalents using separate presentation of cash inflows and outflows from operating, investing and financing activities. The effects of changes in the group of consolidated companies are eliminated.

(27) Cash inflow/outflow from operating activities

In the financial year, interest amounting to EUR 3.2 million (2009: EUR 5.9 million) was received. Income tax payments in the financial year 2010 led to a cash inflow of EUR 0.3 million (2009: EUR 0.0 million) and a cash outflow of EUR 2.7 million (2009: EUR 0.9 million). The other non-cash expenses and income contained in the reconciliation from Group profit/loss to cash inflow/outflow from operating activities essentially encompass the effect from the closing-date valuation of loans granted in currencies other than the functional currency of the consolidated company in question and the Group's proportion of earnings from the companies accounted for using the equity method.

(28) Cash inflow/outflow from investing activities

In the financial year under review, the cash outflow from investing activities amounted to EUR 447.4 million (2009: EUR 2,342.1 million). The cash payments for investments in property, plant and equipment consisted mainly of final payments for six new container ships as well as down payments for the newbuilding of another four container ships and for six ships ordered in 2007, but not yet delivered.

The cash outflow from investing activities – offset against acquired cash and cash equivalents – included cash payments for the acquisition of shares in Hapag-Lloyd AG by "Albert Ballin" Holding. Cash and cash equivalents acquired with these acquisitions totalled around EUR 401.8 million.
The cash flows from investing activities contain capitalised interest on debt amounting to EUR 20.4 million (2009: EUR 19.6 million) on container ships and on capitalised down payments made for container ships.

(29) Cash inflow/outflow from financing activities
The cash flows from financing activities comprise in addition to cash flows for financial liabilities taken up or paid off as well as interest payments in the amount of EUR 132.6 million (2009: EUR 55.0 million) made in the financial year, as well as the redemption of hybrid capital including interest in the amount of EUR 331.6 million.

(30) Development of cash and cash equivalents
Cash and cash equivalents encompass all liquid funds, i.e. cash in hand, bank balances and cheques. The impact of changes in cash and cash equivalents due to exchange rate fluctuations is shown separately.
As of 31 December 2010, no cash and cash equivalents were subject to restrictions (2009: EUR 14.1 million).

OTHER NOTES

(31) Government assistance
Over the first nine months of 2010 the financing of the Group was safeguarded not only by restructuring funds provided by the shareholders but also, and in particular, by the promise of a state-guaranteed syndicated loan amounting to EUR 1.2 billion. On 6 October 2009, the German Federal Government and the Free and Hanseatic City of Hamburg had committed to granting a guarantee for the benefit of Hapag-Lloyd AG and "Albert Ballin" Holding (government assistance). This guarantee amounted to 90% of the confirmed loans and credit lines totalling EUR 1.2 billion at the time of commitment. The Federal guarantee, accompanied by an integrated state guarantee, had a maximum term up to 30 November 2021. The syndicated loan was terminated by Hapag-Lloyd AG and "Albert Ballin" Holding on 22 September 2010 and the application for the guarantee revoked.

(32) Contingencies

Contingencies are contingent liabilities not accounted for in the balance sheet which are recognised in accordance with their amounts repayable estimated as at the balance sheet date.
As at 31 December 2010, there were merely guarantees and sureties for liabilities of affiliated consolidated companies (subsidiaries).

(33) 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 and suppliers. It is regarded as unlikely that these proceedings will result in any noteworthy payment obligations. Consequently, no provisions for litigation risks were formed and no contingent liabilities were reported in the Notes.
In 2009 within Hapag-Lloyd Mexico, tax audits were completed for the financial years 2002 and 2003. The assessments were received on 21 January 2010 and 26 February 2010 respectively. These oblige the company to make additional corporate income tax and income tax payments and to pay fines and additional sums for inflation and other charges. Furthermore, the tax office is demanding that the company allow its employees to share in the additional profits that were identified. The lawyers handling the case are of the opinion that the tax assessments are not lawful. The company has lodged objections for 2002 and 2003.
The outcome of the legal disputes, of course, cannot be predicted with any certainty. The Group forms provisions for pending and imminent proceedings if a payment obligation is probable and its amount can be determined reliably. It is also possible, however, that the outcome of individual proceedings for which no provisions were formed will compel the Group to make payments whose amounts could not have been foreseen with sufficient accuracy as of 31 December. In our opinion, such payments will not have any lasting influence on the Group's net asset position.

(34) Other financial obligations

The "Albert Ballin" Holding Group's other financial obligations contain, in particular, purchase obligations for investments in container ships, charter and lease agreements for ships and containers, and rental payments for business premises, in particular for a part of central administration in Rosenstrasse. The agreements have terms of between one year and 20 years and some include prolongation and purchase options as well as price adjustment clauses. In the financial year 2010, rental payments of EUR 586.5 million (2009: EUR 492.4 million) were posted to expenses.

Total future minimum lease payments from non-cancellable contracts consist of the following:

Million EUR	31.12.2010 Total	Remaining terms up to 1 year	1-5 years	5-10 years	more than 10 years	31.12.2009 Total	Remaining terms more than 1 year
Vessels and containers	1,143.9	330.7	613.9	199.3	-	1,389.0	1,087.9
Administrative buildings	130.0	18.9	50.8	27.6	32.7	173.7	149.4
Other	123.0	37.1	85.1	0.8	-	150.3	117.7
Rent	1,396.9	386.7	749.8	227.7	32.7	1,713.0	1,355.0
Purchase commitments	807.8	88.6	719.2	-	-	667.5	369.3
Total	**2,204.7**	**475.3**	**1,469.0**	**227.7**	**32.7**	**2,380.5**	**1,724.3**
Fair value	**1,953.8**	**464.1**	**1,306.5**	**163.9**	**19.3**	**2,075.3**	**1,435.9**

The fair value of the other financial obligations was ascertained by discounting the future expenses while applying a market interest rate of 4.70% p.a. (2009: 5.25% p.a.). These obligations are set against future minimum lease payments from non-cancellable operating lease contracts and payments from sub-lease relationships.

Payments from operating lease contracts

Million EUR	31.12.2010 Total	Remaining terms up to 1 year	1-5 years	5-10 years	more than 10 years	31.12.2009 Total	Remaining terms more than 1 year
Vessels	5.8	5.8	-	-	-	0.3	-
Administrative buildings	0.2	0.2	0.0	-	-	0.9	0.2
Total	**6.0**	**6.0**	**0.0**	**0.0**	**0.0**	**1.2**	**0.2**

Payments from sub-lease relationships

Million EUR	31.12.2010 Total	Remaining terms up to 1 year	1-5 years	5-10 years	more than 10 years	31.12.2009 Total	Remaining terms more than 1 year
Administrative buildings	3.2	0.6	1.8	0.8	-	3.9	3.1
Total	**3.2**	**0.6**	**1.8**	**0.8**	**0.0**	**3.9**	**3.1**

The assets let in the framework of the operating lease contracts basically are three fully-owned ships and slotcharter. As of the balance sheet date 31 December 2010 the gross carrying amount of the chartered ships amounts to EUR 252.5 million, the accumulated depreciation amounts to EUR 32.0 million and the depreciation of the period to EUR 13.8 million. In the financial year 2010 no contingent rent payments were recognised through the income statement.

(35) Utilisation of Sections 264 (3) and 264b of the German Commercial Code (HGB)

The following corporate entities, which are affiliated consolidated subsidiaries of "Albert Ballin" Holding and for which the consolidated financial statements of "Albert Ballin" Holding are the discharging consolidated financial statements, are utilising the discharging option provided by Section 264 (3) of the German Commercial Code (HGB) in respect of disclosure:

- Hapag-Lloyd AG, Hamburg
- Hapag-Lloyd Schiffsvermietungsgesellschaft mbH, Hamburg
- Zweite Hapag-Lloyd Schiffsvermietungsgesellschaft mbH, Hamburg.

In addition, "Albert Ballin" Holding GmbH & Co. KG itself is utilising the discharging option provided by Section 264b HGB.

(36) Services provided by the auditors of the consolidated financial statements

The fees for the services provided by the auditor KPMG AG Wirtschaftsprüfungsgesellschaft and its worldwide network in financial year 2010 amounted to EUR 0.9 million, thereof EUR 0.4 million domestically. The fees comprises mainly the Group audit and the legally required audit of Hapag-Lloyd AG and "Albert Ballin" Holding. Furthermore other professional services in the amount of EUR 0.4 million were rendered.

In the prior year the services provided by the auditor, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and its worldwide network amounted to EUR 1.4 million, thereof EUR 0.5 million domestically.

(37) Related party disclosures

In carrying out its ordinary business activities, "Albert Ballin" Holding maintained indirect or direct relationships with related companies and individuals as well as with its own subsidiaries included in the consolidated financial statements.

As at 31 December 2010 the following companies are indirect shareholders in "Albert Ballin" Holding:

Shareholding in %	
TUI AG / TUI-Hapag Beteiligungs GmbH	**49.76%**
HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH	20.43%
Kühne Holding AG	13.34%
IDUNA Vereinigte Lebensversicherung aG für Handwerk, Handel und Gewerbe	6.33%
HSH Nordbank AG	4.22%
Hanse Merkur AG	1.69%
Group of investors managed by M. M. Warburg & CO Group KGaA	4.23%
Hamburgische Seefahrtsbeteiligung "Albert Ballin" GmbH & Co. KG	**50.24%**
Total	**100.00%**

Transactions with related companies and individuals (excluding management in key positions):

Million EUR	Delivered services and other income recognised		Services received and other expenses recognised	
	01.01.-31.12. 2010	01.01.-31.12. 2009	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Associated companies	25.5	0.0	82.0	60.5
Indirect shareholders	274.1	129.9	107.3	129.3
Other participating interests	5.4	5.0	1.2	2.6
Total	**305.0**	**134.9**	**190.5**	**192.4**

Million EUR	Receivables		Liabilities	
	31.12.2010	31.12.2009	**31.12.2010**	31.12.2009
Affilated non-consolidated companies	0.0	0.2	0.2	-
Associated companies	0.3	0.0	9.8	6.0
Indirect shareholders	312.5	270.7	486.1	966.7
Other participating interests	0.7	0.7	0.4	0.4
Total	**313.5**	**271.6**	**476.5**	**973.1**

The amounts arising from transactions with related parties contained in the above table result from services rendered (EUR 278.1 million; 2009: EUR 128.4 million), income from investments (EUR 25.4 million; 2009: EUR 0.0 million) and from interest income (EUR 1.0 million; 2009: EUR 6.5 million) as well as other services (EUR 0.5 million; 2009: EUR 0.0 million). The income from services rendered consists primarily of profits generated from the business relationship with Kühne Holding group.
Of the expenses shown above, EUR 98.6 million (2009: EUR 79.1 million) are accounted for by services, EUR 48.1 million (2009: EUR 32.1 million) by lease expenses, EUR 39.4 million (2009: 78.9 million) by financing expenses and EUR 4.4 million (2009: EUR 2.3 million) by other supplies and services. Services comprise, in particular, the expenses incurred for the container handling services rendered by the associated companies CTA and Montreal Gateway Terminals Partnership in the Port of Hamburg and in Montreal Harbour. The interest

expenses resulted primarily from the provision of funds by TUI. Another significant contribution resulted from financing by HSH Nordbank. Included in the lease expenses are rents for the central administration office of "Albert Ballin" Holding (Ballindamm and Rosenstrasse, Hamburg), which in the reporting year were rented by a subsidiary of TUI AG.
In addition, effective 22 December 2010 the property Ballindamm was re-acquired from TUI-Hapag Beteiligungs GmbH at a purchase price of EUR 88.0 million.
In the reporting year redemption payments for shareholder loans and interest liabilities from 2009 were made as well as hybrid capital paid back to the shareholders (please also refer to Notes (20) and (24)):

Million EUR	
Hybrid III	
TUI-Hapag Beteiligungs GmbH	226.3
Hamburgische Seefahrtsbeteiligung "Albert Ballin" GmbH & Co. KG	105.3
Loans	
TUI-Hapag Beteiligungs GmbH	238.9
HSH Nordbank AG	21.6
Interest 2009	
TUI-Hapag Beteiligungs GmbH	31.9
Hamburgische Seefahrtsbeteiligung "Albert Ballin" GmbH & Co. KG	2.2

In addition transactions with the HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH (HGV), who via Hamburgische Seefahrtsbeteiligung „Albert Ballin" GmbH & Co. KG is an indirect shareholder of „Albert Ballin" Holding were made in the reporting year. To HGV, its affiliates as well as its associated companies, payments were made in the amount of EUR 2.6 million basically for harbour dues and mooring fees.
All of the transactions with regard to the operating activities with related parties were executed on the basis of international price comparison methods in accordance with IAS 24 on terms that are also usual with non-Group third parties.
The remuneration of management personnel in key positions in the Group that must be disclosed under IAS 24 encompasses the remuneration paid to the active members of the Hapag-Lloyd AG Executive Board and Supervisory Board. "Albert Ballin" Holding itself employs no personnel.

The active members of the Executive Board of Hapag-Lloyd AG were remunerated as follows:

Million EUR	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Short-term benefits	7.7	1.1
Benefits resulting from termination of employment	0.7	0.0
Post-employment benefits	0.4	0.3
Total	**8.8**	**1.4**

The post-employment benefits refer to the allocations to pension provisions for active Executive Board members.
The pension obligations for board members amount to EUR 12.0 million. The fair value of the corresponding plan assets is EUR 9.8 million.

The active members of the Supervisory Board of Hapag-Lloyd AG were remunerated as follows:

Million EUR	**01.01.-31.12. 2010**	01.01.-31.12. 2009
Short-term benefits	1.3	0.7
Total	**1.3**	**0.7**

The management of "Albert Ballin" Holding is not remunerated separately for the management tasks at the Company.

(38) Significant transactions after the balance sheet date

After the balance sheet date there were no transactions that might have a significant impact on the financial position and results of operations of "Albert Ballin" Holding Group.

(39) List of shareholdings pursuant to Section 315 HGB

Name and registered office of the company	Shareholding in %	Currency unit (CU)	Equity in TCU*	Net profit/ loss for the year in TCU*
Affiliated consolidated companies				
Hapag-Lloyd AG, Hamburg	100.00	EUR	1,087,631	**)
Hapag-Lloyd Grundstücksholding GmbH, Hamburg	100.00	EUR	25,979	-46
"Albert Ballin" Terminal Holding GmbH, Hamburg	100.00	EUR	1,859	8,502
Hamburg-Amerika Linie GmbH, Hamburg	100.00	EUR	58	2
Hapag-Lloyd Schiffsvermietungsgesellschaft mbH, Hamburg	100.00	EUR	26	**)
Hapag-Lloyd Spain S.L., Barcelona	90.00	EUR	636	59
Hapag-Lloyd (Italy) S.R.L., Milan	100.00	EUR	2,051	143
Hapag-Lloyd Portugal LDA, Lisbon	100.00	EUR	432	7
Hapag-Lloyd Africa PTY Ltd., Durban	100.00	ZAR	2,000	228
Oy Hapag-Lloyd Finland AB, Helsinki	100.00	EUR	59	-237
Hapag-Lloyd (Ireland) Ltd., Dublin	100.00	EUR	329	26
Hapag-Lloyd (UK) Ltd., London	100.00	GBP	3,107	210
Hapag-Lloyd (Sweden) AB, Gothenburg	100.00	SEK	3,746	262
Hapag-Lloyd Nederland B.V., Rotterdam***)	100.00	EUR	3,665	0
Hapag-Lloyd Belgium N.V., Antwerp	100.00	EUR	5,394	88
Hapag-Lloyd (France) S.A.S., Paris	100.00	EUR	7,798	79
Hapag-Lloyd (Austria) GmbH, Vienna	100.00	EUR	2,401	19
Hapag-Lloyd Polska Sp.z.o.o., Gdynia	100.00	PLN	531	42
Hapag-Lloyd (Schweiz) AG, Basel	100.00	CHF	182	34
Hapag-Lloyd (Thailand) Ltd., Bangkok	49.90	THB	7,199	125
Hapag-Lloyd (Japan) K.K., Tokyo	100.00	JPY	217,129	6,470
Hapag-Lloyd (Korea) Ltd., Seoul	100.00	KRW	1,257,582	33,556
Hapag-Lloyd (China) Ltd., Hong Kong	100.00	HKD	3,973	637
Hapag-Lloyd (Eastwind) Pte. Ltd., Singapore	100.00	USD	9,007	16
Hapag-Lloyd (China) Shipping Ltd., Shanghai	100.00	CNY	37,213	4,345
Hapag-Lloyd (Taiwan) Ltd., Taipei	100.00	TWD	83,660	1,183
Hapag-Lloyd (Asia) Pte. Ltd., Singapore	100.00	SGD	6,001	255
Hapag-Lloyd Crew Management Pte. Ltd., Singapore	100.00	USD	81	-6
Hapag-Lloyd (Singapore) Pte. Ltd., Singapore	100.00	SGD	1,289	88
Hapag-Lloyd (South East Asia) Sdn. Bhd., Kuala Lumpur	100.00	MYR	6,623	20
Hapag-Lloyd (Malaysia) Sdn. Bhd., Kuala Lumpur	100.00	MYR	4,801	75
Hapag-Lloyd (Australia), Pty. Ltd., Sydney	100.00	AUD	2,459	-72
Hapag-Lloyd (New Zealand) Ltd., Auckland	100.00	NZD	629	54
Hapag-Lloyd Vietnam Ltd., Ho Chi Minh City	51.00	VND	5,515,947	23,946,797
Hapag-Lloyd Global Services Pvt. Ltd., Mumbai	100.00	INR	347,649	40,506
Hapag-Lloyd India Private Ltd., Mumbai	100.00	INR	138,955	16,242
Hapag-Lloyd Venezuela C.A., Caracas	100.00	VEB	327	50
Hapag-Lloyd Costa Rica S.A., San Jose	100.00	CRC	123,176	-1,397
Hapag-Lloyd Argentina S.R.L., Buenos Aires	100.00	ARS	2,919	-519
Hapag-Lloyd Brasil Agenciamento Maritimo Ltda., Sao Paolo	100.00	BRL	12,262	175
Hapag-Lloyd Chile Agencia Maritima Ltda., Santiago	100.00	CLP	51,849	25,381
Hapag-Lloyd (Peru) S.A.C., Lima	100.00	PEN	2,845	7,875
Hapag-Lloyd Colombia Ltda., Bogota	100.00	COP	222,427	-11,810
Hapag-Lloyd Mexico S.A. de C.V., Mexico City	100.00	MXN	401,452	26,255
Servicios Corporativos Portuarios S.A. de C.V., Mexico City	100.00	MXN	11,853	2,504
Hapag-Lloyd (Canada) Inc., Montreal	100.00	CAD	1,627	317
Hapag-Lloyd (America) Inc., Piscataway	100.00	USD	5,361	722
Hapag-Lloyd USA LLC, Tampa	100.00	USD	173,051	60,947
Florida Vessel Management LLC, Tampa	75.00	USD	54	-4

Name and registered office of the company	Shareholding in %	Currency unit (CU)	Equity in TCU*	Net profit/ loss for the year in TCU*
Associated companies				
HHLA Container-Terminal Altenwerder GmbH, Hamburg	25.10	EUR	74,072	**)
HHLA CTA Besitzgesellschaft mbH, Hamburg	25.10	EUR	6,360	**)
Hapag-Lloyd Denizasiri Naklivat A.S., Izmir	50.00	TRY	4,642	10,630
Montreal Gateway Terminals Ltd. Partnership, Montreal	20.00	CAD	75,130	-21,649
Spence Shipping (PVT) Ltd., Colombo ****)	40.00	LKR	2,417	81,700
Affiliated non-consolidated companies				
Zweite Hapag-Lloyd Schiffsvermietungsgesellschaft mbH, Hamburg	100.00	EUR	26	**)
Hamburg-Amerikanische Packetfahrt-Gesellschaft mbh, Hamburg	100.00	EUR	58	2
Hapag-Lloyd Ship Funding GmbH, Hamburg	100.00	EUR	25	0
Norddeutscher Lloyd GmbH, Bremen	100.00	EUR	29	1
Hapag-Lloyd Special Finance Limited, Dublin	100.00	EUR	-16	-11
Hapag-Lloyd Ships Ltd., London	100.00	GBP	92	11
Hapag-Lloyd GP Inc., Montreal	100.00	CAD	-8	-2
Hapag-Lloyd (Westwind) Pte. Ltd., Singapore	100.00	USD	-1	-4
C Truck Italy S.R.L., Milan***)	100.00	EUR	20	-0.3
Hapag-Lloyd Guatemala S.A., Guatemala	100.00	GTQ	-227	-232

*) TCU = thousand of currency units as at 31.12.2010
**) Control agreement
***) In liquidation
****) Financial statements as at 31.03.2010

Hamburg, 2 March 2011

“Albert Ballin“ Holding GmbH & Co. KG
Verwaltung “Albert Ballin“ Holding GmbH
The Management

Martin Görge

Peter Ganz

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by "Albert Ballin" Holding GmbH & Co. KG, Hamburg – consisting of consolidated profit and loss statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, and notes to the consolidated financial statements – and the Group management report for the financial year from 1 January 2010 to 31 December 2010. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as applicable in the EU, and the provisions of German commercial law in accordance with Section 315a (1) of the German Commercial Code (HGB) is the responsibility of the Company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report on the basis of our audit. We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB) and the German generally accepted standards for the audit of financial statements established by the Institute of German Certified Public Accountants (Institut der Wirtschaftsprüfer – IDW). These stipulate that we plan and conduct the audit in such a way that misstatements which have a material impact on the presentation of the net asset, financial and earnings position as conveyed by the consolidated financial statements, taking account of the applicable accounting principles, and by the Group management report are detected with a reasonable degree of certainty. Knowledge of the business activities and the economic and legal environment of the Group and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a sample basis within the framework of the audit. The audit includes an assessment of the annual financial statements of the companies in the consolidated group, the determination of the scope of the consolidated group, the accounting and consolidation principles used and significant estimates made by the Company's legal representatives, as well as an assessment of the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the results of our audit, the consolidated financial statements are in compliance with the IFRS, as adopted by the EU, and the additional provisions stated in Section 315a (1) of the German Commercial Code (HGB) and give a true and fair view of the net asset, financial and earnings position of the Group in accordance with these provisions. The Group management report is consistent with the consolidated financial statements and as a whole provides an accurate picture of the Group's position and an accurate description of the opportunities and risks of future development.

Hamburg, 4 March 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr Gutsche
Wirtschaftsprüfer (German Public Auditor)

Heckert
Wirtschaftsprüfer (German Public Auditor)

CORPORATE GOVERNANCE

"Albert Ballin" Holding GmbH & Co. KG holds 100% of the shares in Hapag-Lloyd AG, whose corporate governance structures are described below.

RESPONSIBLE CORPORATE GOVERNANCE

Hapag-Lloyd AG and its management bodies have committed themselves to good and responsible corporate governance. This ethos is shared by "Albert Ballin" Holding and their indirect owners.

As Hapag-Lloyd AG is not listed on the stock market, its Executive Board and Supervisory Board are not obliged to issue a declaration on the extent to which they are implementing the recommendations of the German Corporate Governance Code (DCGK). However, Hapag-Lloyd is also drawing on the DCGK as a guideline for the quality and structure of good corporate management and supervision.

In addition to the observation of these generally acknowledged principles of good corporate management, the companies' own internal guidelines and standards are also contributing to the good, sustainable corporate development at Hapag-Lloyd.

In July 2010, Hapag-Lloyd introduced a code of ethics which embodies Hapag-Lloyd's commitment to lawful, upright and sustainable actions and to social responsibility. The code of ethics is intended to act as a guide to all employees as they go about their business. In particular, it provides guidelines on the fair treatment of customers, suppliers and competitors, but also in dealings within the Company.

Not only do the staff of Hapag-Lloyd act with a sense of responsibility and observe high legal and ethical standards, but the ethos of Hapag-Lloyd also attaches particular importance to environmental protection, extremely high quality standards, and employee health and safety. This ethos is firmly anchored in the Company's sustainability policy.

The sustainability policy can be viewed at:
http://www.hapag-lloyd.com/de/about_us/environment_policy.html

The great importance attached to quality and environmental protection at Hapag-Lloyd is also reflected in an integrated quality and environmental management system (ISO 9001 and 14001) that is applicable throughout the world. As one of the world's few container liner shipping companies, Hapag-Lloyd covers all of the activities along the global transport chain with this system.

Detailed information about Hapag-Lloyd's quality and environmental protection programmes is available at:
http://www.hapag-lloyd.com/de/about_us/environment_overview.html

EXECUTIVE BOARD AND SUPERVISORY BOARD

The Executive Board directs the business operations of Hapag-Lloyd AG and represents the Company. It manages the Company on its own responsibility for the benefit of the Company and pursues the goal of sustainable value creation. The Executive Board develops the corporate strategy and steers and monitors its implementation. It also ensures that statutory provisions and internal Company guidelines are complied with. In addition, it has implemented an effective internal control and risk management system.

The Supervisory Board has issued rules of procedure for the Executive Board. These rules stipulate the allocation of duties on the Executive Board, the appointment of its chairman (CEO), and the transactions and measures for which a resolution of the entire Board is required. In addition, the Supervisory Board has established a catalogue of transactions in its rules of procedure which may only be executed with the consent of the Supervisory Board.

The Executive Board currently consists of four members. They work together as colleagues and continuously inform each other about important measures and activities in their areas of business. In general, the Executive Board adopts resolutions at regular meetings. These require a simple majority. If the vote is tied, the Chairman has the casting vote.

The members of the Executive Board are Michael Behrendt (Chief Executive Officer), Peter Ganz, Ulrich Kranich and Jesper Praestensgaard.

The members of the Executive Board were appointed at different times. None of the members of the Executive Board has been appointed for longer than three years.

Michael Behrendt Born 1951	**Chief Executive Officer / CEO**
First appointment: *Currently appointed:*	Member of the Executive Board at Hapag-Lloyd AG since 1999 Chief Executive Officer of Hapag-Lloyd AG since 2002 until 30 June 2013

Peter Ganz Born 1967	**Chief Financial Officer / CFO**
First appointment: *Currently appointed:*	Member of the Executive Board at Hapag-Lloyd AG since 2009 until 31 March 2012

Roland Kirch Born 1972	**Chief Commercial Officer / CCO**
First appointment:	Member of the Executive Board at Hapag-Lloyd AG from 2009 to 2010

Ulrich Kranich Born 1950	**Chief Operation Officer / COO**
First appointment: *Currently appointed:*	Member of the Executive Board at Hapag-Lloyd AG since 2006 until 30 June 2013

Jesper Praestensgaard Born 1964	**Chief Commercial Officer / CCO**
First appointment: *Currently appointed:*	Member of the Executive Board at Hapag-Lloyd AG since 2011 until 31 December 2013

The Executive Board and the Supervisory Board work together closely and in confidence for the good of the Company. The Executive Board discusses the Company's strategic focus with the Supervisory Board. They discuss in detail how this strategy is being implemented at regular intervals. The Executive Board informs the Supervisory Board regularly, promptly and comprehensively about all issues relevant to the Company pertaining to planning, business development, the risk position, the internal control and risk management system, and compliance. The Chief Executive Officer also exchanges information with the Chairman of the Supervisory Board regularly between Supervisory Board meetings.

Hapag-Lloyd has concluded a pecuniary damage liability insurance policy (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 loss or damage caused not exceeding one and a half times the annual fixed remuneration of the Executive Board member in question has been agreed.

The Supervisory Board of Hapag-Lloyd AG advises the Executive Board on the management of the Company and supervises its conduct of business. It is also responsible for appointing the members of the Executive Board and the adoption of the annual financial statements. The Supervisory Board has issued rules of procedure for his work.

The Supervisory Board has 20 members. The ten representatives of the shareholders are elected by the annual shareholders' meeting, while the ten employees' representatives are elected in accordance with the provisions of the German Co-Determination Act (MitbestG). In submitting the proposals for election of Supervisory Board members, attention is paid to the candidates' possession of the knowledge, skills and professional experience necessary to perform the duties required of them. Consideration is also given to the diversity of the Board's composition. In order to guarantee that the Executive Board receives independent advice and supervision, the Supervisory Board – as has been the case in years previous – contains no former members of the Executive Board. At least one independent member has specialist knowledge of accounting or auditing.

Supervisory Board members generally serve for five years. In December 2010 it was decided to reduce the size of the Supervisory Board to twelve members effective from 31 March 2011 in accordance with the provisions of the German Co-Determination Act (MitbestG) (six representatives each for the shareholders and the employees).

SUPERVISORY BOARD

The employees' representatives on the Supervisory Board until 31 March 2011 are:

Barbara Ruthmann
(Deputy Chair of the Supervisory Board)
Trade union secretary
ver.di - Vereinte Dienstleistungsgewerkschaft, Berlin

Renate Commerell
Commercial clerk
Hapag-Lloyd AG, Hamburg

Jutta Diekamp
Deputy Chair, Marine Works Council
Hapag-Lloyd AG, Hamburg

Karl-Heinz Biesold
Trade union secretary
ver.di - Vereinte Dienstleistungsgewerkschaft, Berlin

Oliver Bringe
Chairman, Marine Works Council
Hapag-Lloyd AG, Hamburg

Peter Graeser
Chief Engineer
Hapag-Lloyd AG, Hamburg

Arnold Lipinski
Director of Human Resources, Marine
Hapag-Lloyd AG, Hamburg

Dieter Lübkemann
Chairman, Works Council
Hapag-Lloyd AG, Hamburg

Wolfgang Rose
District Chairman
ver.di - Vereinte Dienstleistungsgewerkschaft, Hamburg

Uwe Zimmermann
Commercial clerk
Hapag-Lloyd AG, Düsseldorf

The shareholders' representatives on the Supervisory Board until 31 March 2011 are:

Dr Michael Frenzel
(Chairman of the Supervisory Board)
Chief Executive Officer
TUI AG, Hannover

Horst Baier
Member of the Executive Board
TUI AG, Hannover

Rainer Feuerhake
Former member of the Executive Board
TUI AG, Hannover

Dr Heiko Fischer
(since 16/2/2010)
Chief Executive Officer
VTG AG, Hamburg

Karl Gernandt
Delegate of the Supervisory Board
Kühne Holding AG, Schindellegi, Schweiz

Heino Greve
(until 16/2/2010)
Managing Director
HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, Hamburg

Dr Jürgen Krumnow
(until 15/2/2010)
Former member of the Executive Board
Deutsche Bank AG, Frankfurt am Main

Dr Dietmar Kuhnt
(since 16/2/2010)
Former Chairman of the Executive Board
RWE AG, Essen

Ulrich Leitermann
Member of the Executive Board
SIGNAL IDUNA, Hamburg

Prof Dr Dirk Jens Nonnenmacher
(since 1/6/2010)
Chief Executive Officer
HSH Nordbank AG, Hamburg/Kiel

Dr Christian Olearius
General Partner
M.M. Warburg & Co. KGaA, Hamburg

Dr Andreas Reuß
Managing Director
HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, Hamburg

Dr Peter Rieck
(until 31/5/2010)
Former member of the Executive Board
HSH Nordbank AG, Hamburg/Kiel

Supervisory Board committees

To help it perform its tasks efficiently, the Supervisory Board has constituted a total of five committees which prepare the Supervisory Board's resolutions and the topics to be dealt with in the joint meetings. In specific cases, decision-making powers of the Supervisory Board are transferred to its committees as far as this is legally permissible. The Supervisory Board has constituted a Presiding Committee, a Finance and Investment Committee, an Audit Committee, a Nomination Committee and a Mediation Committee as permanent committees in accordance with Section 27 (3) of the German Co-Determination Act (MitbestG).

The Presiding Committee coordinates the work of the Supervisory Board and its committees. It does the preparation work for the Supervisory Board's meetings and monitors the implementation of the resolutions drawn up by the Supervisory Board. The Presiding Committee remains in constant contact with the Executive Board.

Members:
Dr Michael Frenzel (Chairman), Barbara Ruthmann, Dr Andreas Reuß, Jutta Diekamp, Dieter Lübkemann, Dr Christian Olearius.

The Supervisory Board's Finance and Investment Committee deals with the financial planning and examines investment projects proposed by Hapag-Lloyd AG. As a general rule, it prepares those resolutions of the Supervisory Board that pertain to legal transactions requiring approval.

Members:
Dr Andreas Reuß (Chairman), Horst Baier, Oliver Bringe, Dieter Lübkemann, Dr Christian Olearius.

The preliminary examination of the documents for the annual financial statements is incumbent upon the Audit Committee constituted by the Supervisory Board. 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. In addition, the Audit Committee prepares the Supervisory Board's proposal for the election of the auditor at the annual shareholders' meeting, conducts negotiations with the auditors concerning their fee and awards the audit assignment. It also monitors the auditor's independence. In addition to the above, it is responsible for monitoring the effectiveness of the internal control system, the risk management system, the compliance management system and the internal auditing system.

Members:
Karl Gernandt (Chairman), Horst Baier, Rainer Feuerhake, Prof Dr Dirk Jens Nonnenmacher, Uwe Zimmermann.

The Nomination Committee prepares the Supervisory Board's decisions on the appointment and dismissal of Executive Board members and on the conclusion, alteration or termination of contracts of employment with the members of the Executive Board.

Members:
Dr Michael Frenzel (Chairman), Barbara Ruthmann, Jutta Diekamp, Rainer Feuerhake, Karl Gernandt, Ulrich Leitermann.

In addition, a Mediation Committee has been constituted in accordance with Section 27 of the German Co-Determination Act.

Members:
Dr Michael Frenzel (Chairman), Barbara Ruthmann, Dieter Lübkemann, Dr Christian Olearius.

Remuneration of the Executive Board and the Supervisory Board

A remuneration system structure for the Executive Board and the Supervisory Board that provides incentives and rewards good performance is an important component of responsible corporate governance. The remuneration of the Executive Board's members currently consists of fixed basic remuneration and a performance-related remuneration component. The Supervisory Board currently receives only fixed remuneration.

Both the Executive Board's remuneration system and the Supervisory Board's remuneration structure are currently being subjected to a thorough examination and improvement process in order to further optimise the existing models.

Shareholders

The Hapag-Lloyd Group's parent company is "Albert Ballin" Holding GmbH & Co. KG ("Albert Ballin" Holding) based in Hamburg. The indirect shareholders in "Albert Ballin" Holding GmbH & Co. KG are – at 31 December 2010 – Hamburgische Seefahrtbeteiligung "Albert Ballin" GmbH & Co. KG with 50.2% and the TUI Group with 49.8%. The Group acquired all of the shares in Hapag-Lloyd AG, Hamburg, on 23 March 2009.

Accounting and auditing

The annual financial statements and associated management report of Hapag-Lloyd AG are prepared by the Executive Board in accordance with the German Commercial Code (HGB). The consolidated financial statements and the Group management report are prepared in line with the International Financial Reporting Standards (IFRS) as applicable within the European Union. The individual and consolidated financial statements and their respective management reports are examined by the auditors and by the Supervisory Board.

Hapag-Lloyd AG is itself included in the consolidated financial statements of "Albert Ballin" Holding GmbH & Co. KG.

The individual and consolidated financial statements of Hapag-Lloyd AG were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, as were the consolidated financial statements of “Albert Ballin“ Holding. The audits were carried out in accordance with German auditing rules and in compliance with the principles of proper auditing established by the Institute of German Certified Public Accountants (Institut der Wirtschaftsprüfer). The International Standards on Auditing were additionally observed.

Supervisory Board members’ seats on other supervisory boards and other supervising bodies

Dr Michael Frenzel

AWD Holding AG · *Member of the Supervisory Board*
AXA Konzern AG · *Member of the Supervisory Board*
TUIfly GmbH · *Chairman of the Supervisory Board*
TUI Cruises GmbH · *Member of the Shareholders’ Committee*
TUI Deutschland GmbH · *Chairman of the Supervisory Board*
Volkswagen AG · *Member of the Supervisory Board*
TUI China Travel Co. Ltd. · *Chairman of the Supervisory Board*
TUI Travel PLC · *Non-Executive Chairman*

Horst Baier

Magic Life Assets AG · *Member of the Supervisory Board*
TUI Deutschland GmbH · *Member of the Supervisory Board*
TUIfly GmbH · *Member of the Supervisory Board*
TUI Leisure Travel GmbH · *Member of the Supervisory Board*
TUI Travel PLC · *Non-Executive Director*
RIUSA II S.A.· *Chairman of the Supervisory Board*

Rainer Feuerhake

TUI Deutschland GmbH · *Member of the Supervisory Board*
TUIfly GmbH · *Member of the Supervisory Board*
TUI Info Tec GmbH · *Member of the Supervisory Board*
TUI Travel PLC · *Member of the Supervisory Board*
Amalgamated Metal Corporation · *Member of the Supervisory Board*
Femern A/S · *Member of the Supervisory Board*
GP Günter Papenburg AG · *Member of the Supervisory Board*

Dr Heiko Fischer

Transwaggon-Gruppe, Schweiz · *Chairman of the Supervisory Board*
„Brückenhaus“ Grundstücksgesellschaft m.b.H. · *Member of the Supervisory Board*
Kommanditgesellschaft „Brückenhaus“
Grundstücksgesellschaft m.b.H. & Co. · *Member of the Supervisory Board*
Transwaggon AG, Schweiz · *Member of the Supervisory Board*
Waggon Holding AG, Schweiz · *Member of the Supervisory Board*

Karl Gernandt

Kühne Holding AG · *Delegate of the Supervisory Board*
Kühne + Nagel International AG · *Delegate of the Supervisory Board*
Kühne Stiftung · *Member of the Foundation Board*
Kühne Logistics University · *Chairman of the Supervisory Board*
HCI Capital AG · *Member of the Supervisory Board*

Dr Dietmar Kuhnt

TUI AG · *(until 9/2/2011) Chairman of the Supervisory Board*
GEA AG · *Member of the Supervisory Board*

Ulrich Leitermann

Signal Iduna Bauspar AG · *Chairman of the Supervisory Board*
HANSAINVEST Hanseatische Investment-Gesellschaft mbH
Chairman of the Supervisory Board
Donner & Reuschel AG · (until 30/9/2010 Conrad Hinrich Donner Bank AG)
Chairman of the Supervisory Board
Balance Vermittlungs- und Beteiligungs AG · *Chairman of the Supervisory Board*
3. Verwaltungs-AG · *Chairman of the Supervisory Board*
ADLER Verwaltungs-AG · *Member of the Supervisory Board*
DEURAG Deutsche Rechtsschutz-Versicherung AG · *Member of the Supervisory Board*
SDV Serviepartner der Versicherungsmakler AG · *Member of the Supervisory Board*
Signal Iduna Rückversicherung AG, Zug/Schweiz · *Member of the Administrative Council*
Protektor Lebensversicherungs-AG · *Member of the Supervisory Board*
Dortmunder Volksbank eG · *Member of the Supervisory Board*
FORMAXX AG · *Member of the Supervisory Board*

Arnold Lipinski

Knappschaft Bahn See · *Member of the Delegates’ Conference*
BG See · *Member of the Delegates’ Conference*

Prof Dr Dirk Jens Nonnenmacher

DekaBank Deutsche Girozentrale · *Member of the Administrative Council*
DekaBank Deutsche Girozentrale · *Member of the Audit Committee*

Dr Christian Olearius

M.M. Warburg & Co. Hypothekenbank AG, Hamburg
Chairman of the Supervisory Board
M.M. Warburg Bank (Schweiz) AG, Zürich · *President of the Supervisory Board*
Bankhaus Hallbaum AG, Hannover · *Chairman of the Supervisory Board*
MARCARD, STEIN & Co. AG, Hamburg · *Chairman of the Supervisory Board*
Bankhaus Löbbecke AG, Berlin · *Chairman of the Supervisory Board*
Bankhaus Carl F. Plump & Co. GmbH & co. KG, Bremen
Chairman of the Supervisory Board
M.M. Warburg & CO Geschäftsführungs-AG, Hamburg
Chairman of the Supervisory Board
Degussa Bank GmbH, Frankfurt · *Chairman of the Supervisory Board*
GEDO Grundstücksentwicklungs- und Verwaltungsgesellschaft mbH & Co KG,
Grünwald · *Deputy Chairman of the Supervisory Board*
KanAM Grund Kapitalanlagegesellscahft mbH, Frankfurt ·
Member of the Supervisory Board
VTG Aktiengesellschaft, Hamburg · *Member of the Supervisory Board*

Dr Andreas Reuß

P+R Betriebsgesellschaft mbH · *Member of the Supervisory Board*
SGG Städtische Gebäudereinigung GmbH · *Member of the Supervisory Board*
Hamburger Wasserwerke GmbH · *Member of the Supervisory Board*
Gesellschaft zur Beseitigung von Sonderabfällen mbH
Member of the Supervisory Board
SpriAG Sprinkenhof AG · *Member of the Supervisory Board*

Wolfgang Rose

Asklepios Kliniken Hamburg · *Member of the Supervisory Board*
Hamburger Hafen- und Logistik AG (HHLA) · *Member of the Supervisory Board*

PRELIMINARY FINANCIAL CALENDAR 2011

March 2011
Publication of consolidated financial statements / Annual Report 2010

May 2011
Publication of interim report for first quarter of 2011

August 2011
Publication of interim report for second quarter / first six months of 2011

November 2011
Publication of interim report for third quarter / first nine months of 2011

IMPRINT

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