9M | 2018

Hapag-Lloyd AG

Quarterly financial report

1 January to
30 September 2018

Hapag-Lloyd

SUMMARY OF HAPAG-LLOYD KEY FIGURES QUARTERLY FINANCIAL REPORT 9M 2018

		1.7.– 30.9. 2018	1.7.– 30.9. 2017	**1.1.– 30.9. 2018**	1.1.– 30.9. 2017	Change absolute
Key operating figures [1]						
Total vessels		222	215	222	215	7
Aggregate capacity of vessels	TTEU	1,596	1,559	1,596	1,559	37
Aggregate container capacity	TTEU	2,553	2,336	2,553	2,336	217
Freight rate (average for the period) [2]	USD/TEU	1,055	1,073	1,032	1,068	–36
Transport volume	TTEU	3,052	2,808	8,900	7,029	1,871
Revenue	million EUR	3,036	2,796	8,428	7,314	1,114
EBITDA [3]	million EUR	388.5	359.0	813.7	722.8	90.9
EBIT [3]	million EUR	212.1	178.1	300.8	268.8	32.0
Group profit/loss [3]	million EUR	113.4	51.8	12.5	9.1	3.4
Earnings per share [3]	EUR	0.64	0.31	0.03	0.05	–0.02
Cash flow from operating activities	million EUR	318.4	366.5	729.5	673.0	56.5
Key return figures [1]						
EBITDA margin (EBITDA/revenue) [2]	%	12.8	12.8	9.7	9.9	–0.2 ppt
EBIT margin (EBIT/revenue) [2]	%	7.0	6.4	3.6	3.7	–0.1 ppt
ROIC (Return on Invested Capital) [4]	%	6.9	5.4	3.2	2.6	0.6 ppt
Key balance sheet figures as at 30 September [1]						
Balance sheet total	million EUR	15,099	14,828	15,099	14,828	271
Equity [3]	million EUR	6,192	6,058	6,192	6,058	134
Equity ratio (equity/balance sheet total) [3]	%	41.0	40.9	41.0	40.9	0.1 ppt
Borrowed capital	million EUR	8,907	8,770	8,907	8,770	137
Financial debt	million EUR	6,279	6,336	6,279	6,336	–57
Cash and cash equivalents	million EUR	600	605	600	605	–5

United Arab Shipping Company Ltd. (until 16 January 2017 S.A.G.) and its subsidiaries (subsequently referred to as UASC or the UASC Group) are included in the Hapag-Lloyd AG group of consolidated companies from the acquisition date of 24 May 2017. In addition to Hapag-Lloyd AG, the group of consolidated companies comprised 157 companies in total as at 30 September 2018 (31 December 2017: 164 companies). The inclusion of the UASC Group means that the figures for the 2018 financial year are only comparable with those of previous years to a limited extent. The earnings development in the 2017 and 2018 financial years is affected by one-off effects resulting from the presentation of the transaction and integration of UASC in the financial statements.

1 The key operating figures and key return figures refer to the respective reporting period or reporting date. The comparison of key balance sheet figures refers to the balance sheet date 31 December 2017.

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

3 Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. The Group profit for the first 9 months of 2017 improved by EUR 0.9 million as a result. Retained earnings as at 31 December 2017 increased by EUR 1.0 million and cumulative other equity dropped by EUR 1.0 million. Equity remained unchanged overall.

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

MAIN DEVELOPMENTS IN 9M 2018

- Continued good volume growth: Transport volume rose by 26.6% year-on-year in the first 9 months, mainly explained by the inclusion of UASC. On a pro forma basis [1], the transport volume would have increased by 5.5% compared to the previous year
- The freight rate was USD 1,032 / TEU and therefore lower than in the previous year (9M 2017: USD 1,068 / TEU [2]). This was due to the ongoing intense competition and the integration of UASC. On a pro forma basis [1], the average freight rate would have increased by 1.4% compared to the previous year
- The significant rise of USD 95 per tonne in average bunker prices [3] contributed substantially to a year-on-year increase of 40.8% in expenses for raw materials and supplies
- As such, the development of both freight rates and bunker prices was poorer than anticipated at the beginning of the year but in line with the adjusted outlook from 29 June 2018
- At +12.7%, transport expenses (excl. raw materials and supplies) [4] increased at a lower rate than the increase in transport volume
- The synergy ramp-up resulting from the integration with UASC is developing according to plan
- Positive EBITDA of EUR 813.7 million in the first 9 months of 2018 (9M 2017: EUR 722.8 million). EBITDA margin of 9.7% for the first 9 months of 2018 (9M 2017: 9.9%)
- EBIT of EUR 300.8 million slightly below the previous year's level (9M 2017: EUR 268.8 million)
- Good operating cash flow of EUR 729.5 million (9M 2017: EUR 673.0 million) and a solid liquidity reserve of EUR 1,005.3 million as at 30 September 2018

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

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

[3] Weighted average MFO and MDO

[4] Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. This reduced transport expenses by EUR 0.9 million in the first 9 months of 2017.

This quarterly financial report contains statements concerning future developments at Hapag-Lloyd. Due to market fluctuations, the development of the competitive situation, world market prices for commodities, and changes in exchange rates and the economic environment, the actual results may differ considerably from these forecasts. Hapag-Lloyd neither intends nor under-takes to update forward-looking statements to adjust them for events or developments which occur after the date of this report. United Arab Shipping Company Ltd. (until 16 January 2017 S.A.G.) and its subsidiaries (subsequently referred to as UASC or the UASC Group) are included in the Hapag-Lloyd AG group of consolidated companies from the acquisition date of 24 May 2017. The presented figures include effects of the transaction and the integration of the UASC Group from the acquisition date and can therefore only be compared to the previous year's figures to a limited extent.

This quarterly financial report was published on 8 November 2018.

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INTERIM GROUP MANAGEMENT REPORT

BUSINESS ACTIVITIES

The legal merger between Hapag-Lloyd AG and United Arab Shipping Company Ltd. (UASC) was successfully completed on 24 May 2017. From this date, UASC Ltd. and its subsidiaries (the UASC Group) are included in the consolidated financial statements of Hapag-Lloyd AG. Due to the first-time consolidation of the UASC Group as at 24 May 2017, the previous year's figures are only comparable to a limited extent with the values as at 30 September 2018.

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

As at 30 September 2018, Hapag-Lloyd's fleet (including UASC's container ships) comprised 222 container ships (31 December 2017: 219). The Group had 394 sales offices in 127 countries and offered its customers worldwide access to a network of 118 liner services. In the first 9 months of 2018, Hapag-Lloyd served approximately 27,100 customers around the world.

Network of Hapag-Lloyd services

Source: Company data

Since 1 April 2017, Hapag-Lloyd has been operating THE Alliance together with Kawasaki Kisen Kaisha Ltd. (Japan) (“K” Line), Mitsui O.S.K. Lines Ltd. (Japan) (MOL), Nippon Yusen Kabushiki Kaisha Ltd. (Japan) (NYK) and Yang Ming Marine Transport Corp. Ltd. (Taiwan) (Yang Ming). The Japanese alliance partners merged their container shipping activities on 1 April 2018 and have been operating as Ocean Network Express (ONE) since then.

As at 30 September 2018, THE Alliance covered all East – West trades with around 257 container ships.

Hapag-Lloyd conducts its container liner shipping business in an international business environment. Transactions are invoiced mainly in US dollars and payment procedures are handled primarily in US dollars. This relates not only to operating business transactions, but also to investment activities and the corresponding financing of investments. The functional currency of Hapag-Lloyd AG and its main subsidiaries is therefore the US dollar. The reporting currency of Hapag-Lloyd AG is, however, the euro. For reporting purposes, the assets and liabilities of the Hapag-Lloyd Group are translated into euros using the mean exchange rate on the balance sheet date (closing rate). The cash flows listed in the consolidated statement of cash flows and the expenses, income and result shown in the consolidated income statement are translated at the average exchange rate for the reporting period. The resulting differences are recognised in other comprehensive income.

GROUP OBJECTIVES AND STRATEGY

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

The growing global demand for container transportation is the very foundation of the organic growth that Hapag-Lloyd hopes to achieve. IHS Global Insight (October 2018) has forecast a rise in global container shipments of 4.0% to around 146 million TEU in 2018 and a further 4.9% to approximately 153 million TEU in 2019. Hapag-Lloyd intends to increase the transport volume organically in line with market growth.

The key internal performance indicators for the Company’s operating activities are earnings before interest, taxes, depreciation and amortisation (EBITDA) and earnings before interest and taxes (EBIT). The performance of these key financial indicators is outlined in the section “Group earnings, financial and net asset position”. EBITDA is an important indicator of the achievement of sustainable company results and gross cash flows. It has a special significance for capital-intensive companies. Hapag-Lloyd uses EBITDA as an important parameter for investment decisions.

The main factors influencing the development of the operating result indicators are transport volume, freight rate, the US dollar exchange rate against the euro and operating costs including bunker price.

The generation of sustainable cash flows, solid corporate financing, and therefore in particular a sufficient liquidity and equity base, are once again key cornerstones of the Hapag-Lloyd Group's corporate strategy in the 2018 financial year. As at 30 September 2018, the Hapag-Lloyd Group had a liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) totalling EUR 1,005.3 million (31 December 2017: EUR 1,059.5 million).

Strategic steps to strengthen the Group's market position and expand its shareholder base

The merger with UASC is regarded as a key strategic step towards strengthening Hapag-Lloyd's market position and competitiveness. It is anticipated that the synergies from the merger with UASC will contribute approximately USD 435 million per annum from the 2019 financial year onwards. The Executive Board of Hapag-Lloyd AG expects that up to 90% of these synergies can be achieved in 2018. One-off expenses of approximately USD 5 million were incurred in the first 9 months of 2018 from the transaction and implementation of the merger. Further material expenses for the integration of UASC's container shipping activities are not anticipated.

From the Hapag-Lloyd AG Executive Board's perspective, the merger of the Hapag-Lloyd and UASC container shipping activities will bring with it the following advantages:

- Strengthened market position as one of the 5 largest container liner shipping companies (measured by the container transportation capacity of the fleet) in a container shipping industry characterised by further consolidation
- Enhanced market presence in the attractive Middle East trade and the Far East trade and solid position in all trades
- Efficient and young fleet with a low level of investment needed
- Annual synergies of approximately USD 435 million starting in 2019
- Strong partner in THE Alliance

Following the merger on 24 May 2017, the operational integration of the UASC Group was successfully completed by October 2017. A significant step in the operational integration was the incorporation of all UASC services into Hapag-Lloyd's existing IT system (voyage cut-over) and comprehensive training programmes for the new employees. Office location optimisation projects were also carried out and were largely complete as at the end of the first half of 2018.

Following the takeover of UASC in the form of a capital increase in exchange for contributions in kind, UASC's former primary shareholders, Qatar Holding LLC on behalf of the Qatar Investment Authority (QIA) and Public Investment Fund Saudi Arabia (PIF), became additional major shareholders in Hapag-Lloyd AG, with initial stakes in its share capital of 14.4% (QIA) and 10.1% (PIF). The shares held by the other previous UASC shareholders (Kuwait, Iraq, United Arab Emirates and Bahrain) totalling around 3.4% of Hapag-Lloyd shares are included in the free float. CSAV Germany Container Holding GmbH (CSAV), Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH (HGV) and Kühne Maritime GmbH together with Kühne Holding AG (Kühne) continued to be anchor shareholders. In the first 9 months of 2018, Kühne increased its share in Hapag-Lloyd from 21.4% to a total of 25.0%.

The 5 major shareholders together held 89.4% of the share capital of Hapag-Lloyd AG as at 30 September 2018. CSAV, HGV and Kühne Maritime GmbH have also agreed under a shareholders' agreement to exercise their voting rights from the shares in Hapag-Lloyd AG by issuing a common voting proxy, thereby making important decisions together. The shareholder structure of Hapag-Lloyd AG as at 30 September 2018 was as follows:

Voting rights as at 30 September 2018

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

Short- and medium-term targets

Due to the persistently challenging market environment – and particularly in light of rising fuel prices – Hapag-Lloyd is aiming to make continuous efficiency gains. To that end, the Group introduced measures starting in the second quarter of 2018 to counteract this increased cost base. These include further network optimisations and the reduction of administrative costs.

In addition to an optimised cost structure and improved revenue management, Hapag-Lloyd is working on other strategic medium-term and long-term issues and challenges. These include taking advantage of the opportunities provided by increasing digitalisation, actively shaping the Group's fuel strategy in light of ecological developments in the shipping industry and differentiating the Group to a greater extent from its competitors by increasing service quality along the entire supply chain.

In the third quarter of 2018, Hapag-Lloyd launched the "Quick Quotes" online quotation platform to digitalise its quotation process. The service platform enables customers to obtain binding online quotations and provides pricing transparency for container shipments. It is available via both the Hapag-Lloyd website and the mobile app.

In the context of the International Maritime Organization's (IMO) requirements from 2020 to reduce sulphur dioxide emissions, in October 2018, Hapag-Lloyd announced that it would be uniformly calculating all surcharges for fuel price fluctuations based on the same mechanism from 1 January 2019. The marine fuel recovery (MFR) mechanism uses market data to calculate the surcharges based on usage and thus aims to provide customers with greater transparency.

IMPORTANT FINANCIAL PERFORMANCE INDICATORS

Important financial performance indicators for the Hapag-Lloyd Group include EBITDA, the EBIT, the transport volume and the freight rate. Since the 2015 financial year, return on invested capital (ROIC) has also been used as a performance indicator. The development of the most important financial performance indicators in the first 9 months of 2018 is presented in the section "Group earnings position". ROIC compares net operating profit after tax (NOPAT), defined as EBIT less income taxes, with invested capital as at the reporting date. Invested capital is defined as assets excluding cash and cash equivalents less liabilities excluding financial debt. To facilitate comparison with other international shipping companies, the return on invested capital is calculated and presented exclusively on the basis of the functional currency, the US dollar.

Calculation of the return on invested capital is as follows:

	million EUR		million USD	
	9M 2018	9M 2017	**9M 2018**	9M 2017
Non-current assets	12,757.3	12,977.1	14,775.6	15,331.2
Inventory	269.5	175.6	312.1	207.4
Accounts receivables	721.9	1,058.6	836.1	1,250.6
Other assets	750.5	384.8	869.2	454.6
Assets	**14,499.2**	**14,596.1**	**16,793.0**	**17,243.8**
Provisions	573.3	663.0	664.1	783.2
Accounts payable	1,718.2	1,686.8	1,990.0	1,992.8
Other liabilities	336.6	265.4	389.9	313.5
Liabilities	**2,628.1**	**2,615.2**	**3,044.0**	**3,089.5**
Invested Capital	**11,871.1**	**11,980.9**	**13,749.0**	**14,154.3**
EBIT	300.8	268.8	359.4	300.0
Taxes	28.3	17.9	33.8	20.0
Net Operating Profit after Tax (NOPAT)	**272.5**	**250.9**	**325.6**	**280.0**
Return on Invested Capital (ROIC)[1]			**3.2%**	**2.6%**

[1] Figures are in USD, rounded, aggregated and calculated on an annualised basis. UASC Ltd. and its subsidiaries are included in Hapag-Lloyd AG's consolidated financial statements from the date control was transferred on 24 May 2017. The presented figures include the effects of the transaction from this date and can therefore only be compared to the prior-year's figures to a limited extent.

Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. This increased the annual profit after taxes for the first 9 months of 2017 by EUR 0.9 million. Retained earnings as at 31 December 2017 increased by EUR 1.0 million and cumulative other equity dropped by EUR 1.0 million. Equity remained unchanged overall.

IMPORTANT NON-FINANCIAL PRINCIPLES

The optimal utilisation of the available ship and container capacities has a substantial influence on whether Hapag-Lloyd achieves long-term profitable growth. Sustainable and quality-conscious corporate governance and highly qualified and motivated employees are also important principles for Hapag-Lloyd's targeted profitable growth.

Flexible fleet and capacity development

As at 30 September 2018, Hapag-Lloyd's fleet comprised a total of 222 container ships (31 December 2017: 219 ships). All of the ships are certified in accordance with the ISM (International Safety Management) Code and have a valid ISSC (ISPS) certificate. The majority of the ships are certified as per ISO 9001 (quality management) and ISO 14001 (environmental management). The TEU capacity of the entire Hapag-Lloyd fleet as at 30 September 2018 was 1,596,208 TEU, which was a slight increase compared to 31 December 2017 (1,573,377 TEU). The share of ships owned outright by Hapag-Lloyd was approximately 66% as at 30 September 2018 based on TEU capacity (31 December 2017: approximately 68%).

As at 30 September 2018, the average age of Hapag-Lloyd's total fleet (capacity-weighted) was 7.5 years. The average ship size within the Hapag-Lloyd Group fleet is 7,190 TEU, which is approximately 22% above the comparable average figure for the 10 largest container liner shipping companies (30 September 2018: 5,905 TEU) and around 74% above the average ship size in the global fleet (30 September 2018: 4,143 TEU).

As at 30 September 2018, Hapag-Lloyd owned or rented 1,553,963 containers (31 December 2017: 1,435,345) with a capacity of 2,553,396 TEU for shipping cargo (31 December 2017: 2,348,602 TEU). The capacity-weighted share of containers owned by the Group stood at around 51% as at 30 September 2018 and was therefore slightly lower compared to 31 December 2017 (54%).

Hapag-Lloyd's service network comprises 118 services (31 December 2017: 120 services).

Structure of Hapag-Lloyd's container ship fleet

	30.9.2018	31.12.2017	30.9.2017
Number of vessels	222	219	215
thereof			
Own vessels	95	102	105
Leased vessels	17	14	14
Chartered vessels	110	103	96
Aggregate capacity of vessels (TTEU)	1,596	1,573	1,559
Aggregate container capacity (TTEU)	2,553	2,349	2,336
Number of services	118	120	125

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

Bunker consumption totalled approximately 3.3 million tonnes in the first 9 months of 2018 (9M 2017: 2.8 million tonnes). Around 12% (9M 2017: approximately 13%) of this comprised bunker with a low proportion of sulphur (MFO low sulphur, MDO). The efficiency of the container ship fleet is also reflected in the bunker consumption data per slot (as measured by the average annual container storage space) of 2.8 tonnes (9M 2017: 3.0 tonnes). In terms of transported TEU, bunker consumption was 0.37 tonnes (9M 2017: 0.40 tonnes per TEU).

Following the completed takeover of UASC's container shipping activities, Hapag-Lloyd will not invest heavily in new ship systems up until the end of 2019. However, in the context of the International Maritime Organization's (IMO) requirements from 2020 to reduce sulphur dioxide emissions, Hapag-Lloyd is already preparing 2 pilot projects. These include testing exhaust gas cleaning systems (EGCS) on 2 larger container ships and converting a large vessel in the Hapag-Lloyd fleet to liquid gas (LNG).

Customers

Long-term, close business relations with customers are also important in driving value for corporate development. A global key account team manages relationships with major customers. This enables the Company to establish and maintain sustainable customer relationships. In the first 9 months of the 2018 financial year, Hapag-Lloyd completed transport contracts for approximately 27,100 customers (9M 2017: approximately 28,150).

Employees

The Hapag-Lloyd Group employed 12,661 people as at 30 September 2018 (31 December 2017: 12,567). Of this total, 10,437 were shore-based employees (31 December 2017: 10,304), while 1,963 people were sea-based (31 December 2017: 2,007). Hapag-Lloyd employed 261 apprentices as at 30 September 2018 (31 December 2017: 256).

Number of employees

	30.9.2018	31.12.2017	30.9.2017
Marine personnel	1,963	2,007	1,515
Shore-based personnel	10,437	10,304	10,299
Apprentices	261	256	264
Total	**12,661**	**12,567**	**12,078**

ECONOMIC REPORT

General economic conditions

The experts at the International Monetary Fund (IMF) anticipate global economic growth of 3.7% both in 2018 and in 2019 (IMF, World Economic Outlook, October 2018). This is the same level as in 2017. Expected economic growth is therefore 0.2 percentage points lower than the last forecast (April 2018). According to the IMF, the risk of a downturn in global growth has increased in the last 6 months. This downward correction reflects lower than expected economic growth in industrialised countries in the first half of 2018. The forecast also takes account of initial negative effects of the USA's trade dispute with its trading partners. In relation to this, the IMF is also factoring in trade tariffs that were passed or put in place between April and mid-September 2018. In addition, weaker prospects are predicted for some key developing and emerging markets in comparison to the previous forecast (April 2018), such as Brazil and Turkey, which are suffering not just as a result of domestic issues but also due to rising interest rates in the USA and the resulting outflow of capital.

The IMF's forecast from October 2018 predicts that the volume of global trade, which is key to the demand for container shipping services, will increase by 4.2% in 2018 compared with the previous year. The institute has therefore cut its forecast for a second time this year (July 2018: –0.3 percentage points; October 2018: –0.6 percentage points). Despite this clear drop in growth expectations, the predicted increases of 4.2% and 4.0% for 2018 and 2019 respectively are higher than the average level over the last 5 years.

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

in %	2019e	2018e	2017	2016	2015	2014
Global economic growth	3.7	3.7	3.7	3.3	3.5	3.6
Industrialised countries	2.1	2.4	2.3	1.7	2.3	2.1
Developing and newly industrialised countries	4.7	4.7	4.7	4.4	4.3	4.7
World trading volume (goods and services)	4.0	4.2	5.2	2.2	2.8	3.8
Container transport volume (IHS)	4.9	4.0	5.5	3.1	1.2	4.0

Source: IMF, October 2018; IHS Global Insight, October 2018

Based on current forecasts, the global cargo volume could rise by 4.0% to approximately 146 million TEU in 2018 (IHS Global Insight, October 2018). The forecast global cargo volume is therefore lower than the forecast published in June 2018 (4.9%) but remains on a healthy level. For the period 2019 to 2022, IHS Global Insight is predicting annual growth of between 4.7% and 5.1% in the global container shipping volume.

Sector-specific conditions

At the beginning of 2018, the aggregate capacity of the global container ship fleet was approximately 21 million TEU (Drewry Container Forecaster Q3 2018, October 2018). Based on the container ships on order and planned deliveries, the globally available transport capacity should see increases of around 1.2 million TEU in 2018 and around 0.8 million TEU in 2019 (Drewry Container Forecaster Q3 2018, October 2018). This includes the expected delays of deliveries in the current financial year and the expected scrapping. The tonnage of the commissioned container ships of approximately 2.4 million TEU (MDS Transmodal, October 2018) is equivalent to around 11% of the present global container fleet's capacity (approximately 22 million TEU). It therefore remains well below the highest level seen to date, which was around 61% in 2007, and the average over the last 5 years (around 17%).

In the period from January to September 2018, orders were placed for the construction of 150 container ships with a transport capacity totalling approximately 1.0 million TEU (FY 2017: capacity of 0.8 million TEU [Clarksons Research, October 2018]).

Development of global container fleet capacity

million TEU	2019e	2018e	2017	2016
Existing fleet (beginning of the year)	22.0	20.8	20.1	19.8
Planned deliveries	1.2	1.5	1.5	1.3
Expected scrappings	0.3	0.1	0.4	0.7
Postponed deliveries and other changes	0.1	0.2	0.4	0.4
Net capacity growth	**0.8**	**1.2**	**0.8**	**0.2**

Source: Drewry Maritime Research, Container Forecaster Q3 2018, October 2018. Expected nominal capacity based on planned deliveries. Based on existing orders and current predictions for scrapping and postponed deliveries. Figures rounded. Rounding differences may be the result of changes in the databases.

The forecast net capacity growth of 1.2 million TEU (Drewry Container Forecaster Q3 2018) coincides with growth in global container shipping volume of approximately 5.6 million TEU in 2018 (IHS Global Insight, October 2018).

The actual growth in the global container ship fleet's transport capacity is regularly lower than the projected nominal increase, as old and inefficient ships are scrapped and deliveries of newbuilds are postponed. Based on figures from MDS Transmodal, a total of 132 container ships with a transport capacity of approximately 1.0 million TEU were placed into service in the first 9 months of 2018 (9M 2017: 112 ships with a transport capacity of approximately 0.9 million TEU). According to Clarksons, scrapping in the first 9 months of 2018 totalled around 42,600 TEU. According to Drewry (Container Forecaster Q3 2018), it is likely to be around 65,000 TEU for the year as a whole, which is significantly lower than in the previous years (2017: 400,000 TEU; 2016: 654,000 TEU).

Idle capacity rose to around 511,000 TEU at the end of September 2018 (Alphaliner Weekly, October 2018), thereby accounting for approximately 2.3% of the global fleet. The increase of around 260,000 TEU compared with the end of June 2018 is due in particular to a rise in the laying-up of ships of between 3,000 TEU and 7,500 TEU. The majority of idle ships have a capacity of up to 5,100 TEU.

The fuel cost level in the shipping industry is largely linked to the development of the crude oil price. This stood at USD 84.98 / barrel (Bloomberg) as at 30 September 2018 and was therefore around 28% higher than at the start of the year (31 December 2017: USD 66.57 / barrel). As such, the increase was significantly greater than forecast at the start of the year.

Consolidation of the industry and alliances

The following 3 alliances have existed since the start of the second quarter of 2017: the "2M Alliance" consists of the two market leaders – Maersk Line (Denmark) (Maersk) and Mediterranean Shipping Company S.A. (Switzerland) (MSC) – which started operating in early 2015. The "Ocean Alliance" consists of CMA CGM S.A. (France), including its subsidiary APL (Singapore), China COSCO Shipping (China) (COSCO), including Orient Overseas (International) Limited (Hong Kong) (OOIL), which was taken over by COSCO in July 2018, and Evergreen Marine Corp. Ltd. (Taiwan) (Evergreen). Hapag-Lloyd operates THE Alliance in partnership with Ocean Network Express (Singapore) (ONE) and Yang Ming Marine Transport Corp. Ltd. (Taiwan) (Yang Ming). ONE was formed on 1 April 2018 from the merger of the 3 Japanese alliance partners Kawasaki Kisen Kaisha Ltd. (Japan) ("K" Line), Mitsui O.S.K. Lines Ltd. (Japan) (MOL) and Nippon Yusen Kabushiki Kaisha Ltd. (Japan) (NYK). As at 30 September 2018, the THE Alliance covered all East – West trades with around 257 container ships.

In March 2017, MSC, Maersk and Hyundai Merchant Marine Co., Ltd (Korea) (HMM) agreed to cooperate in the East – West trades. This collaboration includes slot-chartering agreements for the respective trades.

On 19 July 2018, ZIM Integrated Shipping Services Ltd (Israel) (ZIM) announced a partnership with the 2M Alliance on the route between Asia and the US east coast. The partners will jointly operate 5 services from September 2018, with the 2M Alliance partners Maersk and MSC providing 4 services and ZIM providing one. The partnership is based on slot swapping on all 5 services.

On 26 September 2018, THE Alliance members Hapag-Lloyd, ONE and Yang Ming announced a partnership with CMA-CGM, COSCO and OOCL on the route between the Mediterranean Sea and the US east coast. The joint service, which is expected to be available from December 2018, will replace an existing separate service offered by each of the companies and will provide customers with a more efficient and improved service using bigger ships.

On 12 October 2018, the shipping companies Hapag-Lloyd and ONE announced that they had entered into a bilateral agreement for a feeder network partnership. As part of the strategic partnership, the two companies will share the capacities of their existing feeder networks.

Capacity share of alliances based on selected trades

in %	Far East trade	Transpacific trade	Atlantic trade
2M	40	20	50
Ocean Alliance	36	42	11
THE Alliance	**24**	**27**	**34**
Other	0	12	5

Source: Alphaliner, October 2018

On 30 November 2017, the legal merger between Maersk and Hamburg Südamerikanische Dampf-schifffahrts-Gesellschaft (Hamburg Süd) took place.

On 7 July 2017, the 3 Japanese shipping companies Kawasaki Kisen Kaisha Ltd. (“K” Line), Mitsui O.S.K. Lines Ltd. (MOL) and Nippon Yusen Kabushiki Kaisha Ltd. (NYK) established a new holding company for the planned joint venture Ocean Network Express (ONE). The joint venture commenced operations on 1 April 2018, integrating the container shipping business (including the terminal business outside Japan) of the 3 companies.

On 9 July 2017, the Chinese shipping company COSCO announced a takeover bid for Orient Overseas (International) Limited (OOIL), Hong Kong. The majority shareholder of OOIL has approved the sale of the shares. All of the prerequisites for the takeover were fulfilled on 29 June 2018. On 13 July 2018, the companies announced that the takeover bid was accepted for 75.95% of the voting shares in OOIL. OOIL is to remain listed on the stock exchange in Hong Kong. With total transport capacity of 2.8 million TEU, COSCO has therefore further strengthened its market position and is now the world’s third-largest container liner shipping company, just ahead of CMA CGM.

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

According to data from MDS Transmodal (October 2018), the 10 largest container liner shipping companies provide approximately 83% of the total capacity of the global fleet of container ships.

GROUP EARNINGS, FINANCIAL AND NET ASSET POSITION

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

Group earnings position

Hapag-Lloyd’s performance in the first 9 months of the 2018 financial year was once again dominated by the challenges in the container shipping industry.

The average freight rate was lower than had been expected at the start of the year due to persistently strong competition and, in particular, due to developments in the first half of 2018. However, freight rate increases in the third quarter played a part in an initial recovery. Nevertheless, the freight rate increases implemented in the third quarter were unable to fully offset the significant year-on-year rise in the average bunker price. Increasing fuel-related costs, combined with a weakening of the US dollar against the euro (9 months 2018: USD 1.20 / EUR; prior year period: USD 1.11 / EUR) had a negative impact on the earnings position. However, these negative effects were compensated by the higher transport volume and synergy effects resulting from the incorporation of the UASC Group. Overall, Hapag-Lloyd recorded earnings before interest and taxes (EBIT) of EUR 300.8 million in the first 9 months of 2018 (prior year period EUR 268.8 million) and a Group profit after taxes of EUR 12.5 million (prior year period: EUR 9.1 million).

Consolidated income statement

million EUR	Q3 2018 [1]	Q3 2017 [2]	9M 2018	9M 2017 [2]
Revenue	3,035.5	2,796.0	8,428.0	7,314.3
Other operating income	24.3	24.0	70.4	127.9
Transport expenses	2,420.3	2,189.8	6,899.9	5,908.7
Personnel expenses	156.0	172.3	477.9	516.4
Depreciation, amortisation and impairment	176.4	180.9	512.9	454.0
Other operating expenses	112.1	111.8	339.5	325.6
Operating result	**195.0**	**165.2**	**268.2**	**237.5**
Share of profit of equity-accounted investees	6.8	12.4	22.3	30.8
Other financial result	10.3	0.5	10.3	0.5
Earnings before interest and tax (EBIT)	**212.1**	**178.1**	**300.8**	**268.8**
Interest result	–87.3	–120.4	–260.0	–241.8
Income taxes	11.4	5.9	28.3	17.9
Group profit / loss	**113.4**	**51.8**	**12.5**	**9.1**
thereof profit / loss attributable to shareholders of Hapag-Lloyd AG	112.4	51.6	4.4	6.6
thereof profit / loss attributable to non-controlling interests	1.0	0.2	8.1	2.5
Basic / diluted earnings per share (in EUR)	0.64	0.31	0.03	0.05
EBITDA	**388.5**	**359.0**	**813.7**	**722.8**
EBITDA margin (%)	**12.8**	**12.8**	**9.7**	**9.9**
EBIT	**212.1**	**178.1**	**300.8**	**268.8**
EBIT margin (%)	**7.0**	**6.4**	**3.6**	**3.7**

[1] The mapping of items to revenues and charter expenses (transport expenses) has been adjusted for the first half of 2018, which lead to a decrease of both positions in the amount of EUR 32.2 million. This change has no impact on the result.

[2] The figures for the first 9 months of 2017 include the UASC Group from the first-time consolidation date of 24 May 2017. Due to the retrospective application of the provisions for designating options, the previous year's values have been adjusted. This increased the Group profit for the first 9 months of 2017 by EUR 0.9 million.

The average freight rate in the first 9 months of the 2018 financial year was USD 1,032/TEU, which was USD 36/TEU, or 3.4%, down on the prior year period (USD 1,068/TEU with the UASC Group since 24 May 2017). Besides the inclusion of the UASC Group, which had a lower freight rate level overall, the main reason for the decline was the ongoing competitive market environment.

On a comparable basis (if the UASC Group had been included from 1 January 2017), the average freight rate for the prior year period would have been USD 1,017/TEU. This would have meant an increase of USD 15/TEU, or 1.4%, in the average freight rate.

Freight rates per trade [1]

USD/TEU	**Q3 2018**	Q3 2017	**9M 2018**	9M 2017
Atlantic	1,357	1,315	1,318	1,298
Transpacific	1,268	1,267	1,243	1,246
Far East	948	993	906	971
Middle East	745	878	765	884
Intra-Asia	519	615	514	593
Latin America	1,119	1,111	1,113	1,068
EMAO (Europe, Mediterranean, Africa, Oceania)	1,134	1,126	1,098	1,065
Total (weighted average)	**1,055**	**1,073**	**1,032**	**1,068**

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

With the inclusion of the UASC Group and its balanced positioning in all trades, Hapag-Lloyd was able to increase its transport volume by 1,871 TTEU to 8,900 TTEU (prior year period: 7,029 TTEU with the UASC Group since 24 May 2017), representing a rise of 26.6%. On a comparable basis (if the UASC Group had been included from 1 January 2017), the transport volume (prior year period: 8,438 TTEU) in the first 9 months of 2018 would have increased by 462 TTEU, or 5.5%.

Transport volume per trade

TTEU	Q3 2018	Q3 2017	9M 2018	9M 2017
Atlantic	468	436	1,382	1,254
Transpacific	520	465	1,459	1,254
Far East	557	503	1,601	1,040
Middle East	361	349	1,115	675
Intra-Asia	259	259	783	597
Latin America	720	649	2,072	1,812
EMAO (Europe, Mediterranean, Africa, Oceania)	167	147	488	397
Total	**3,052**	**2,808**	**8,900**	**7,029**

The Hapag-Lloyd Group's revenue rose by EUR 1,113.7 million to EUR 8,428.0 million in the first 9 months of 2018 (prior year period: EUR 7,314.3 million with the UASC Group since 24 May 2017), representing an increase of 15.2%. This was primarily due to the growth in transport volumes as a result of incorporating the UASC Group. The lower average freight rate and the significant weakening of the US dollar had the opposite effect. Adjusted for exchange rate movements, revenue would have risen by EUR 1,593.2 million (21.8%).

Revenue per trade [1]

million EUR	Q3 2018 [2]	Q3 2017	9M 2018	9M 2017
Atlantic	544.7	488.0	1,524.2	1,462.0
Transpacific	564.9	504.2	1,517.5	1,403.5
Far East	452.1	436.0	1,214.2	907.1
Middle East	231.5	267.9	714.1	536.0
Intra-Asia	115.5	138.0	337.2	318.0
Latin America	690.4	562.0	1,929.6	1,684.6
EMAO (Europe, Mediterranean, Africa, Oceania)	162.0	141.3	448.2	379.4
Revenue not assigned to trades	274.4	258.6	743.0	623.7
Total	**3,035.5**	**2,796.0**	**8,428.0**	**7,314.3**

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

[2] The mapping of items to revenues and charter expenses (transport expenses) has been adjusted for the first half of 2018, which lead to a decrease of both positions in the amount of EUR 32.2 million. This change has no impact on the result.

Other operating income decreased by EUR 57.5 million to EUR 70.4 million in the first 9 months of 2018 compared to the respective prior year period (EUR 127.9 million). The main reason for this was the gain from a bargain purchase option of EUR 46.8 million in the 2017 financial year, which resulted from the former provisional purchase price allocation in accordance with IFRS 3 as part of the acquisition of the UASC Group and which was recognised in earnings in the corresponding prior year period in 2017.

Transport expenses rose by EUR 991.2 million in the first 9 months of 2018 to EUR 6,899.9 million (prior year period: EUR 5,908.7 million). This represents an increase of 16.8% that is primarily due to the acquisition of the UASC Group and the relating growth in transport volume as well as increased bunker prices. The increase in the expenses for raw materials and supplies of EUR 346.7 million (40.8%) to EUR 1,195.5 million primarily results from the significantly higher bunker price in the current reporting period. In the reporting period, the average bunker consumption price for Hapag-Lloyd was USD 406 per tonne, up USD 95 per tonne on the figure of USD 311 per tonne for the prior year period.

The cost of purchased services in the first 9 months of 2018 rose year-on-year by EUR 644.5 million (12.7%), which is a lower %-increase compared to revenue growth (15.2%). This is a reflection of the rise in transport volumes, in particular due to the inclusion of the UASC Group as well as increased other operating cost items. By contrast, the latter were partly offset by synergy effects resulting from the incorporation of the UASC Group.

Transport expenses [1]

million EUR	Q3 2018 [2]	Q3 2017	9M 2018	9M 2017
Expenses for raw materials and supplies	437.3	310.7	1,195.5	848.8
Cost of purchased services	1,983.0	1,879.1	5,704.4	5,059.9
thereof:				
Port, canal and terminal costs	1,010.9	940.3	2,990.7	2,472.8
Chartering, leases and container rentals	269.0	264.4	729.8	722.9
Container transport costs	648.2	598.5	1,848.9	1,664.1
Maintenance / repair / other	54.9	75.9	135.0	200.1
Transport expenses	**2,420.3**	**2,189.8**	**6,899.9**	**5,908.7**

[1] The previous year's figures have been adjusted due to the retrospective application of the rules for designation of option contracts. This improved transport expenses in the first 9 months of 2017 by EUR 0.9 million.

[2] The mapping of items to revenues and charter expenses (transport expenses) has been adjusted for the first half of 2018, which lead to a decrease of both positions in the amount of EUR 32.2 million. This change has no impact on the result.

The gross profit margin (ratio of revenue less transport expenses to revenue) for the first 9 months of the current financial year came to 18.1% (prior year period: 19.2%).

Personnel expenses decreased by EUR 38.5 million in the first 9 months of 2018 to EUR 477.9 million (prior year period: EUR 516.4 million). The main reason for this decline was the one-off expenses in the amount of EUR 37.3 million recorded in the previous year from the operational integration of the UASC Group's business activities. These expenses were not incurred in the current financial year. In addition, exchange rate gains at the balance sheet date resulting from the valuation of pension provisions in the amount of EUR 5.6 million (prior year period: exchange rate losses of EUR 13.7 million) had a positive effect.

Depreciation and amortisation came to EUR 512.9 million in the first 9 months of the 2018 financial year (prior year period: EUR 454.0 million). The year-on-year increase in depreciation and amortisation was primarily due to the first-time inclusion of the UASC Group as well as depreciation of the newly built ships acquired in 2017.

The increase in the other financial result to EUR 10.3 million in the current reporting period is due to the recognition of a gain of EUR 10.2 million from the measurement of shares at fair value as at 30 September 2018, due to the sale of the shares after the balance sheet date.

The earnings before interest and taxes (EBIT) amounted to EUR 300.8 million in the current reporting period, up EUR 32.0 million on the corresponding figure in the prior year period (EUR 268.8 million). The earnings before interest, taxes, depreciation and amortisation (EBITDA) came in at EUR 813.7 million in the first 9 months of the 2018 financial year (prior year period: EUR 722.8 million). The annualised return on invested capital (ROIC) for the first 9 months of 2018 amounted to 3.2% (prior year period: 2.6%). Basic earnings per share in the reporting period came to EUR 0.03 per share (prior year period: EUR 0.05 per share).

Key earnings figures

million EUR	**Q3 2018** [2]	Q3 2017 [3]	**9M 2018**	9M 2017 [3]
Revenue	3,035.5	2,796.0	8,428.0	7,314.3
EBIT	212.1	178.1	300.8	268.8
EBITDA	388.5	359.0	813.7	722.8
EBIT margin (%)	7.0	6.4	3.6	3.7
EBITDA margin (%)	12.8	12.8	9.7	9.9
Basic earnings per share (in EUR)	0.64	0.31	0.03	0.05
Return on Invested Capital (ROIC) annualised (%) [1]	6.9	5.4	3.2	2.6

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

[2] The mapping of items to revenues and charter expenses (transport expenses) has been adjusted for the first half of 2018, which led to a decrease of both positions in the amount of EUR 32.2 million. This change has no impact on the result.

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

The interest result for the first 9 months of the 2018 financial year was EUR –260.0 million (prior year period: EUR –241.8 million). The rise in interest expenses was primarily due to the financial debt assumed as a result of incorporating the UASC Group. By contrast, interest expenses fell compared with the previous year due to one-off effects recognised in 2017 resulting from the early redemption of bonds in the amount of EUR 17.4 million.

The Group profit came to EUR 12.5 million in the first 9 months of the 2018 financial year (prior year period: EUR 9.1 million).

Group financial position

Condensed statement of cash flows

million EUR	Q3 2018	Q3 2017	9M 2018	9M 2017
Cash flow from operating activities	318.4	366.5	729.5	673.0
Cash flow from investment activities	–139.8	–87.5	–184.9	121.5
Free cash flow	**178.6**	**279.0**	**544.6**	**794.5**
Cash flow from financing activities	–138.6	255.7	–572.4	–31.8
Changes in cash and cash equivalents	**40.0**	**534.7**	**–27.8**	**762.7**

Cash flow from operating activities

Hapag-Lloyd generated an operating cash flow of EUR 729.5 million in the first 9 months of the 2018 financial year (prior year period: EUR 673.0 million).

Cash flow from investing activities

The cash outflow from investing activities totalled EUR 184.9 million (prior year period: cash inflow of EUR 121.5 million) and related to payments for investments of EUR 254.0 million, primarily in containers and ship equipment. This includes payments of EUR 52.6 million for containers, which were already capitalised within the prior year. This contrasted with cash inflows from the proceeds from dividends (EUR 33.1 million) and the sale of property, plant and equipment and of the ocean-going vessels held for sale as at 31 December 2017 totalling EUR 36.0 million. The main change in the cash flow from investing activities compared with the previous year related to the net cash inflow of EUR 357.5 million in the third quarter of 2017 from the acquisition of the UASC Group.

Cash flow from financing activities

Overall, there was a cash outflow from financing activities in the current reporting period in the amount of EUR 572.4 million (prior year period: EUR 31.8 million) that mainly comprised interest and redemption payments of EUR 1,102.0 million (prior year period: EUR 1,614.6 million) and dividend payouts of EUR 113.7 million, including the dividend distribution by Hapag-Lloyd AG approved at the Annual General Meeting on 10 July 2017. This contrasted with cash inflows of

EUR 614.0 million (prior year period: EUR 1,610.4 million) that essentially related to new borrowing for investments in containers (EUR 189.1 million), cash inflows from the refinancing of ship financing (EUR 200.8 million) and increases in existing financing. There were also cash inflows from the realisation of derivative financial instruments used to hedge financial debt in the amount of EUR 17.7 million (prior year period: cash outflow of EUR 0.9 million).

Changes in cash and cash equivalents

million EUR	Q3 2018	Q3 2017	9M 2018	9M 2017
Cash and cash equivalents at beginning of period	**552.4**	**753.7**	**604.9**	**570.2**
Changes due to exchange rate fluctuations	7.1	–67.2	22.4	–111.7
Net changes	40.0	534.7	–27.8	762.7
Cash and cash equivalents at end of period	**599.5**	**1,221.2**	**599.5**	**1,221.2**

Overall, cash outflow totalled EUR –27.8 million in the first 9 months of 2018. After accounting for exchange rate-related effects in the amount of EUR 22.4 million, cash and cash equivalents of EUR 599.5 million were reported at the end of the reporting period on 30 September 2018 (30 September 2017: EUR 1,221.2 million). The cash and cash equivalents dealt with in the statement of cash flows correspond to the balance sheet item “Cash and cash equivalents”. In addition, there are available credit facilities in the amount of EUR 405.8 million (30 September 2017: EUR 389.4 million). The liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) therefore totalled EUR 1,005.3 million (30 September 2017: EUR 1,610.6 million). Cash and cash equivalents that are deposited as collateral for financial debt on pledged accounts amounted to EUR 36.8 million (30 September 2017: EUR 57.3 million). Due to their remaining term of more than 3 months, they are recorded under other assets.

Net debt

The Group’s net debt amounted to EUR 5,642.5 million as at 30 September 2018 (31 December 2017: EUR 5,681.7 million). The equity ratio of 41.0% was almost unchanged compared with 31 December 2017. Gearing – the ratio of net debt to balance sheet equity – decreased from 93.8% at the end of 2017 to 91.1% as at 30 September 2018.

Financial solidity

million EUR	30.9.2018	31.12.2017
Financial debt	6,278.8	6,335.5
Cash and cash equivalents	599.5	604.9
Restricted cash (other assets)	36.8	48.9
Net debt	**5,642.5**	**5,681.7**
Gearing (%)[1]	**91.1**	**93.8**
Unused credit lines	**405.8**	**454.6**
Equity ratio (%)	**41.0**	**40.9**

[1] Ratio net debt to equity

Restricted cash and cash equivalents in the amount of EUR 36.8 million (31 December 2017: EUR 48.9 million) essentially comprise cash and cash equivalents that are deposited as collateral for existing financial debt on pledged accounts.

Group net asset position

Changes in the net asset structure

million EUR	30.9.2018	31.12.2017
Assets		
Non-current assets	12,757.3	12,633.5
of which fixed assets	12,683.5	12,570.7
Current assets	2,341.4	2,194.3
of which cash and cash equivalents	599.5	604.9
Total assets	**15,098.7**	**14,827.8**
Equity and liabilities		
Equity	6,191.8	6,058.3
Borrowed capital	8,906.9	8,769.5
of which non-current liabilities	5,805.7	6,003.8
of which current liabilities	3,101.2	2,765.7
of which financial debt	6,278.8	6,335.5
of which non-current financial debt	5,448.1	5,630.7
of which current financial debt	830.7	704.8
Total equity and liabilities	**15,098.7**	**14,827.8**
Net debt	5,642.5	5,681.7
Equity ratio (%)	41.0	40.9

As at 30 September 2018, the Group's balance sheet total was EUR 15,098.7 million, which is EUR 270.9 million higher than the figure at the end of 2017 (EUR 14,827.8 million). The US dollar / euro exchange rate was quoted at 1.16 on 30 September 2018 (31 December 2017: 1.20).

Within non-current assets, the carrying amounts of fixed assets increased by a total of EUR 112.8 million to EUR 12,683.5 million. This rise was essentially due to investments totalling EUR 220.2 million relating primarily to containers and ship equipment and exchange rate effects of EUR 417.0 million on the reporting date. Depreciation totalling EUR 512.9 million reduced the value of fixed assets.

Current assets rose by EUR 147.1 million to EUR 2,341.4 million compared to the level as at 31 December 2017. The change primarily resulted from an increase in trade accounts receivable, including the contract assets that must be recognised separately from 1 January 2018, and from increased inventories. These developments were countered by the lower market values of derivative financial assets.

Cash and cash equivalents of EUR 599.5 million were almost unchanged compared with the end of 2017 (EUR 604.9 million).

On the liabilities side, equity (including non-controlling interests) grew by EUR 133.5 million to a total of EUR 6,191.8 million. The increase came primarily from the unrealised gains and losses from foreign currency translation recognised in other comprehensive income amounting to EUR 203.7 million. The Group profit of EUR 12.5 million also caused equity to increase. The dividend distribution by Hapag-Lloyd AG approved at the Annual General Meeting on 10 July 2018 in the amount of EUR 100.2 million had the opposite effect. The equity ratio of 41.0% as at 30 September of the current financial year was almost unchanged compared to 31 December 2017 (40.9%).

The Group's borrowed capital has risen by EUR 137.4 million to EUR 8,906.9 million since 31 December 2017. The change primarily resulted from an increase in trade accounts payable, including the contract liabilities that must be recognised separately from 1 January 2018. By contrast, financial debt fell by EUR 56.7 million to EUR 6,278.8 million. This decrease is largely due to capital repayments of EUR 854.8 million. Proceeds amounting to EUR 614.0 million from new container financing and increases in existing financing as well as exchange rate effects of EUR 174.0 million had the opposite effect.

Taking cash and cash equivalents and financial debt into account, net debt as at 30 September 2018 was EUR 5,642.5 million (31 December 2017: EUR 5,681.7 million).

For further information on significant changes to specific balance sheet items, please refer to the Notes to the consolidated statement of financial position, which can be found in the Notes to the consolidated financial statements.

Executive Board's statement on overall expected developments

Although the development of earnings in the first 9 months of the 2018 financial year was slightly below the Executive Board's expectations at the start of the year, it was still within the forecast for the current financial year, which was modified on 29 June 2018. The reason for this is an unexpected significant and continuing increase in operational costs from the beginning of the year, especially fuel-related costs, combined with a slower than expected recovery in freight rates in the first half of 2018. As competition remains intense in the container shipping industry, the development of freight rates remains volatile. Although freight rate increases in the third quarter of 2018 played a part in an initial recovery of the average freight rate, they were unable to fully offset the significant year-on-year rise in fuel costs and other operating cost items. The realisation of synergies from the merger with UASC was able to partly counteract the reduction in earnings caused by increased operating costs. Despite a further possible intensification of trade restrictions between the USA and China, the frameworks for economic development are not subject to any material changes.

RISK AND OPPORTUNITY REPORT

Please refer to the 2017 annual report as well as the 2018 half-year financial report for details of significant opportunities and risks, an assessment of these and an evaluation of their probability of occurrence. The existing global macroeconomic uncertainties and ongoing stiff competition could have a significant negative impact on the development of transport volumes and freight rates again in the remainder of 2018. The impact of a significant decrease of the average freight rate in the fourth quarter of 2018 on the Group EBIT and the Group EBITDA is classified as medium. A further significant increase in the average bunker consumption price in the fourth quarter of 2018, compared to the price level as at 30 September 2018, would have additional negative effects on Hapag-Lloyd's earnings position. The probability of this occurring is currently classified as medium. The impact is classified as low.

It is not possible at present to conclusively assess the effects of the existing tariffs and a potential further escalation of trade restrictions between the USA and China. A global escalation of the conflict could cause forecast economic growth to weaken further and the demand for container transport services to fall.

At the time of reporting on the first 9 months of 2018, there were no risks which threatened the continued existence of the Hapag-Lloyd Group.

NOTE ON SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

The notes on relationships and transactions with related parties can be found in the disclosures on page 66 of the Notes to the condensed interim consolidated financial statements.

REVISED OUTLOOK

Although the forecast volume of global trade and the demand for container transport services have weakened, the container shipping industry's growth prospects remain intact in the medium term. The statements made on this subject in the "Outlook" section of the Group management report for 2017 therefore remain valid.

A summary of the most important external factors is given below.

In its latest economic outlook (October 2018), the International Monetary Fund (IMF) expects global economic growth to reach 3.7% in the current year. As such, expected economic growth is down by 0.2 percentage points on the previous forecast (April 2018). Based on the current forecast, the global economy will therefore grow in 2018 at the same pace as in the previous year (+3.7%). According to the IMF, the volume of global trade, which is key to the demand for container shipping services, will increase by 4.2% in 2018 (2017: +5.2%). Despite a reduction of 0.6 percentage points compared with the last forecast published (April 2018), the volume of global trade will grow faster than the global economy in 2018 as well. IHS Global Insight (October 2017) is forecasting that the global container shipping volume will increase by 4.0% to approximately 146 million TEU in 2018 (2017: 5.5%). As such, the expected rise in worldwide transport volumes in container shipping for 2018 would be in line with the rate of growth for global trade.

Following a rise in transport capacities (following scrapping and delays in deliveries) of approximately 0.8 million TEU to 20.8 million TEU in 2017, Drewry forecasts net growth in transport capacities of up to approximately 1.2 million TEU for the current year. The anticipated significant rise, caused by the relatively high number of deliveries of large vessels, could have a dampening effect on the freight rate development in the remaining months of the 2018 financial year.

Hapag-Lloyd is expecting a clear increase in its transport volume in 2018 – explained in part by the inclusion of UASC's business activities for the whole year. The UASC Group will be included in the consolidated financial statements of Hapag-Lloyd AG for a full 12 months for the first time in 2018 (previous financial year: inclusion of the UASC Group from 24 May 2017). This will involve – in addition to the clear rise in volume – a higher proportion of volumes in the Middle East and Far East trades when calculating the average freight rate. These trades have a lower freight rate level than some of Hapag-Lloyd's other trades.

Taking into consideration the general recovery of freight rates already visible in the second half of the year caused by seasonal effects, Hapag-Lloyd's continues to expect its average freight rate in 2018 to be around the same as in the previous year.

Based on developments in the first 5 months of the 2018 financial year, the Executive Board of Hapag-Lloyd AG decided on 29 June 2018 to refine its outlook for the Group's EBIT and EBITDA in the current 2018 financial year based on a range as follows:

	Previous outlook (Group management report 2017)	**Revised outlook**
EBITDA (earnings before interest, taxes, depreciation and amortisation), Hapag-Lloyd	Increasing clearly	EUR 900 – 1,150 m
EBIT (earnings before interest and taxes), Hapag-Lloyd	Increasing clearly	EUR 200 – 450 m

The reasons for adjusting the forecast were the unpredictably sharp increase in operating costs, in particular with regard to fuel costs and charter rates, combined with a slower than anticipated recovery in freight rates ahead of the peak season.

The ranges chosen were reflective of both the generally volatile market environment in the containershipping industry and the high degree of sensitivity of the earnings indicators with regard to changes in the average freight rate. Neither positive nor negative one-time effects have been taken into account.

Due to the business developments in the third quarter of 2018 and a general recovery in freight rates during the peak season, it can be assumed at present that Group EBIT and Group EBITDA will be in the upper part of the guided ranges.

Not accounted for here are impairments on goodwill, other intangible assets and property, plant and equipment. Although not expected at present, these adjustments cannot be ruled out given current geopolitical developments and market price risks.

The key benchmark figures for the 2018 outlook are contained in the following table:

Key benchmark figures for the 2018 outlook – Hapag-Lloyd Group

Global economic growth (IMF)	3.7%
Increase in global trade (IMF)	4.2%
Increase in global container transport volume (IHS)	4.0%
Transport volume, Hapag-Lloyd	Increasing clearly
Average bunker consumption prices, Hapag-Lloyd	Increasing clearly
Average freight rate, Hapag-Lloyd	On previous year's level
EBITDA (earnings before interest, taxes, depreciation and amortisation), Hapag-Lloyd	EUR 900 – 1,150 m
EBIT (earnings before interest and taxes), Hapag-Lloyd	EUR 200 – 450 m

The key figures for the 2018 outlook, which relate to transport volume, the average bunker consumption price and the average freight rate therefore remain unchanged on the forecast published in the 2017 annual report.

Business developments at Hapag-Lloyd are subject to far-reaching risks in an industry environment dominated by volatile freight rates and stiff competition. The general risks are described in detail in the risk report in the Group management report of the 2017 annual report (page 110 ff.). Risks that may have a further impact on the forecast for business development are also described in detail in the risk report. Significant risks for the Group's revenue and earnings development include a further sharp slowdown in global economic and trade volume growth, a sustained, significant and lasting rise in bunker prices extending beyond the level seen as at 30 September 2018, a renewed sharp and lasting increase in the euro against the US dollar and a stagnation or even a renewed reduction in freight rates. Additional risks could result from the further consolidation of the industry and its possible impact on Hapag-Lloyd's competitive position as well as from the changes in the composition of global alliances.

The occurrence of one or more of these risks could have a substantial negative impact on the industry and, by extension, on the further business development of Hapag-Lloyd in the remaining months of 2018, which could also lead to impairments on goodwill, other intangible assets and property, plant and equipment.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT OF HAPAG-LLOYD AG

for the period 1 January to 30 September 2018

million EUR	Q3 2018 [1]	Q3 2017 [2]	9M 2018	9M 2017 [2]
Revenue	3,035.5	2,796.0	8,428.0	7,314.3
Other operating income	24.3	24.0	70.4	127.9
Transport expenses	2,420.3	2,189.8	6,899.9	5,908.7
Personnel expenses	156.0	172.3	477.9	516.4
Depreciation, amortisation and impairment	176.4	180.9	512.9	454.0
Other operating expenses	112.1	111.8	339.5	325.6
Operating result	**195.0**	**165.2**	**268.2**	**237.5**
Share of profit of equity-accounted investees	6.8	12.4	22.3	30.8
Other financial result	10.3	0.5	10.3	0.5
Earnings before interest and taxes (EBIT)	**212.1**	**178.1**	**300.8**	**268.8**
Interest income	2.8	2.4	14.0	5.7
Interest expenses	90.1	122.8	274.0	247.5
Earnings before income taxes	**124.8**	**57.7**	**40.8**	**27.0**
Income taxes	11.4	5.9	28.3	17.9
Group profit/loss	**113.4**	**51.8**	**12.5**	**9.1**
thereof attributable to shareholders of Hapag-Lloyd AG	112.4	51.6	4.4	6.6
thereof attributable to non-controlling interests	1.0	0.2	8.1	2.5
Basic/diluted earnings per share (in EUR)	**0.64**	**0.31**	**0.03**	**0.05**

[1] The mapping of items to revenues and charter expenses (transport expenses) has been adjusted for the first half of 2018, which lead to a decrease of both positions in the amount of EUR 32.2 million. This change has no impact on the result.

[2] The figures for the first 9 month of 2017 include the UASC Group from the first-time consolidation date of 24 May 2017. Due to the retrospective application of the provisions for designating options, the previous year’s values have been adjusted. Please refer to the explanations in the section “New accounting standards”.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF HAPAG-LLOYD AG

for the period 1 January to 30 September 2018

million EUR	Q3 2018	Q3 2017 [1]	9M 2018	9M 2017 [1]
Group profit/loss	**113.4**	**51.8**	**12.5**	**9.1**
Items that will not be reclassified to profit and loss:				
Remeasurements from defined benefit plans after tax	5.0	0.7	4.3	10.7
Remeasurements from defined benefit plans before tax	4.9	0.9	4.5	11.1
Tax effect	0.1	–0.2	–0.2	–0.4
Cash flow hedges (no tax effect)	3.3	–	27.9	–
Effective share of the changes in fair value	3.5	–	27.4	–
Currency translation differences	–0.2	–	0.5	–
Cost of hedging (no tax effect)	–4.9	–	–7.7	–
Changes in fair value	–4.8	–	–7.7	–
Currency translation differences	–0.1	–	0.0	–
Currency translation differences (no tax effect)	34.3	–203.8	203.7	–581.7
Items that may be reclassified to profit and loss:				
Cash flow hedges (no tax effect)	2.9	0.7	5.7	–2.4
Effective share of the changes in fair value	–3.7	26.8	–33.5	91.2
Reclassification to profit or loss	6.6	–26.1	38.9	–93.6
Currency translation differences	–	–	0.3	–
Cost of hedging (no tax effect)	0.6	2.5	0.9	–0.9
Changes in fair value	–7.4	7.4	–19.8	–7.6
Reclassification to profit or loss	8.0	–4.9	20.7	6.7
Other comprehensive income after tax	**41.2**	**–199.9**	**234.8**	**–574.3**
Total comprehensive income	**154.6**	**–148.1**	**247.3**	**–565.2**
thereof attributable to shareholders of Hapag-Lloyd AG	153.8	–148.0	238.8	–567.2
thereof attributable to non-controlling interests	0.8	–0.1	8.5	2.0

[1] The structure of the consolidated statement of comprehensive income changed due to the retrospective adjustment relating to the first-time adoption of IFRS 9. Please refer to the explanations in the section “New accounting standards”. Currency translation differences are recognised in the statement of comprehensive income under the items that are not reclassified and recognised through profit or loss, because the currency translation effects of subsidiaries with the same functional currency as the parent company cannot be reclassified through profit or loss. The prior year figures were adjusted accordingly.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF HAPAG-LLOYD AG

as at 30 September 2018

Assets

million EUR	30.9.2018	31.12.2017 [1]
Goodwill	1,550.5	1,486.8
Other intangible assets	1,774.7	1,785.5
Property, plant and equipment	9,036.0	8,966.5
Investments in equity-accounted investees	322.3	331.9
Other assets	25.5	25.7
Derivative financial instruments	19.2	8.6
Receivables from income taxes	4.4	3.8
Deferred tax assets	24.8	24.7
Non-current assets	**12,757.3**	**12,633.5**
Inventories	269.5	186.4
Trade accounts receivable	721.9	887.8
Contract assets	245.6	–
Other assets	448.0	436.7
Derivative financial instruments	27.6	42.6
Receivables from income taxes	29.3	19.6
Cash and cash equivalents	599.5	604.9
Non-current assets held for sale	–	16.3
Current assets	**2,341.4**	**2,194.3**
Total assets	**15,098.7**	**14,827.8**

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

Equity and liabilities

million EUR	30.9.2018	31.12.2017 [1]
Subscribed capital	175.8	175.8
Capital reserves	2,637.4	2,637.4
Retained earnings	3,085.9	3,174.9
Cumulative other equity	281.7	57.7
Equity attributable to shareholders of Hapag-Lloyd AG	**6,180.8**	**6,045.8**
Non-controlling interests	11.0	12.5
Equity	**6,191.8**	**6,058.3**
Provisions for pensions and similar obligations	264.5	270.2
Other provisions	82.2	80.0
Financial debt	5,448.1	5,630.7
Other liabilities	5.9	9.5
Derivative financial instruments	0.1	9.4
Deferred tax liabilities	4.9	4.0
Non-current liabilities	**5,805.7**	**6,003.8**
Provisions for pensions and similar obligations	10.3	20.7
Other provisions	216.3	244.2
Income tax liabilities	38.9	34.4
Financial debt	830.7	704.8
Trade accounts payable	1,718.2	1,559.8
Contract liabilities	136.6	–
Other liabilities	104.5	201.8
Derivative financial instruments	45.7	–
Current liabilities	**3,101.2**	**2,765.7**
Total equity and liabilities	**15,098.7**	**14,827.8**

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

CONSOLIDATED STATEMENT OF CASH FLOWS OF HAPAG-LLOYD AG

for the period 1 January to 30 September 2018

million EUR	Q3 2018	Q3 2017 [1]	9M 2018	9M 2017 [1]
Group profit/loss	113.4	51.8	12.5	9.1
Income tax expenses (+)/income (–)	11.4	5.9	28.3	17.9
Interest result	87.3	120.4	260.0	241.8
Depreciation, amortisation and impairment (+)/write-backs (–)	176.4	180.9	512.9	454.0
Impairment (+)/write-backs (–) of financial assets	–2.4	–	–2.4	–
Other non-cash expenses (+)/income (–)	–21.2	30.4	8.7	–0.2
Profit (–)/loss (+) from hedges for financial debt	4.1	–7.5	–36.4	–3.9
Profit (–)/loss (+) from disposals of non-current assets and assets held for sale	–4.1	–0.6	–6.2	–1.4
Income (–)/expenses (+) from equity-accounted investees and dividends from other investments	–7.0	–12.5	–22.5	–30.9
Increase (–)/decrease (+) in inventories	–11.6	9.7	–74.2	–21.3
Increase (–)/decrease (+) in receivables and other assets	–4.7	–144.0	–64.3	–214.7
Increase (+)/decrease (–) in provisions	–6.0	–25.9	–45.4	13.9
Increase (+)/decrease (–) in liabilities (excl. financial debt)	–6.9	146.5	174.7	201.0
Payments received from (+)/made for (–) income taxes	–10.6	11.1	–19.0	5.9
Payments received for interest	0.3	0.3	2.8	1.8
Cash inflow (+)/outflow (–) from operating activities	**318.4**	**366.5**	**729.5**	**673.0**
Payments received from disposals of property, plant and equipment and intangible assets	10.0	14.8	20.9	17.7
Payments received from the disposal of other investments	–	0.4	–	0.4
Payments received from dividends	0.6	–	33.1	28.1
Payments received from the disposal of assets held for sale	0.5	–	15.1	–
Payments made for investments in property, plant and equipment and intangible assets	–150.6	–95.7	–254.0	–281.7
Payments made for investments in other investments	–	–0.5	–	–0.5
Net cash inflow (+)/outflow (–) from acquisitions	–0.3	–6.5	–	357.5
Cash inflow (+)/outflow (–) from investing activities	**–139.8**	**–87.5**	**–184.9**	**121.5**

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

million EUR	Q3 2018	Q3 2017 [1]	9M 2018	9M 2017 [1]
Payments received from capital increases	0.2	–	0.2	–
Payments made for capital increases	–	–0.6	–1.9	–0.7
Payments made from changes in ownership interests in subsidiaries	–	–	–	–0.3
Payments made for dividends	–103.6	–1.7	–113.7	–3.2
Payments received from raising financial debt	453.0	701.4	614.0	1,610.4
Payments made for the redemption of financial debt	–380.5	–363.8	–854.8	–1,403.8
Payments made for interest and fees	–96.3	–87.7	–247.2	–210.8
Payments received (+) and made (–) from hedges for financial debt	–15.0	3.9	17.7	–0.9
Change in restricted cash	3.6	4.2	13.3	–22.5
Cash inflow (+)/outflow (–) from financing activities	**–138.6**	**255.7**	**–572.4**	**–31.8**
Net change in cash and cash equivalents	**40.0**	**534.7**	**–27.8**	**762.7**
Cash and cash equivalents at beginning of period	**552.4**	**753.7**	**604.9**	**570.2**
Change in cash and cash equivalents due to exchange rate fluctuations	7.1	–67.2	22.4	–111.7
Net change in cash and cash equivalents	40.0	534.7	–27.8	762.7
Cash and cash equivalents at end of period	**599.5**	**1,221.2**	**599.5**	**1,221.2**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF HAPAG-LLOYD AG

for the period 1 January to 30 September 2018

	Equity attributable to shareholders		
million EUR	Subscribed capital	Capital reserves	Retained earnings
As at 1.1.2017	**118.1**	**1,061.8**	**3,152.9**
Effect from the initial application of IFRS 9	–	–	0.5
Restated as at 1.1.2017	**118.1**	**1,061.8**	**3,153.4**
Total comprehensive income (adjusted)	**–**	**–**	**6.6**
thereof			
Group profit / loss	–	–	6.6
Other comprehensive income	–	–	–
Transactions with shareholders	**45.9**	**1,239.4**	**–1.6**
thereof			
Issuance of shares in relation to the acquisition of the UASC Group	45.9	1,240.2	–
Transaction costs	–	–0.8	–
Anticipated acquisition of shares from non-controlling interests	–	–	–
Acquisition of shares from non-controlling interests without change of control	–	–	–
Distribution to non-controlling interests	–	–	–1.6
Deconsolidation	–	–	0.1
As at 30.9.2017 [1]	**164.0**	**2,301.2**	**3,158.5**
As at 1.1.2018 [2]	**175.8**	**2,637.4**	**3,174.9**
Effect from the initial application of IFRS 9	–	–	10.3
Adjusted as at 1.1.2018	**175.8**	**2,637.4**	**3,185.2**
Total comprehensive income	**–**	**–**	**4.4**
thereof			
Group profit / loss	–	–	4.4
Other comprehensive income	–	–	–
Hedging gains and losses transferred to the cost of inventory	**–**	**–**	**–**
Transactions with shareholders	**–**	**–**	**–103.7**
thereof			
Distribution to shareholder	–	–	–100.2
Anticipated acquisition of shares from non-controlling interests	–	–	–
Capital increase for non-controlling interests	–	–	–
Distribution to non-controlling interests	–	–	–3.2
Disposal of shares and other transactions with non-controlling interests	–	–	–0.3
As at 30.9.2018	**175.8**	**2,637.4**	**3,085.9**

[1] The retrospective improvement in the result in the first 9 months of 2017 increased retained earnings as at 30 September 2017 by EUR 0.9 million. This was offset by the recognition of a reserve for hedging costs in the amount of EUR –0.5 million as at 1 January 2017 and with a total amount of EUR –1.4 million as at 30 September 2017.

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

						of Hapag-Lloyd AG		
				Cumulative other equity				
Remeasurements from defined benefit pension plans	Reserve for cash flow hedges	Reserve for cost of hedging	Translation reserve	Reserve for put options on non-controlling interests	Total cumulative other equity	**Total**	Non-controlling interests	**Total equity**
–118.9	**5.4**	**–**	**835.3**	**–**	**721.8**	**5,054.6**	**3.8**	**5,058.4**
–	–	–0.5	–	–	–0.5	–	–	–
–118.9	**5.4**	**–0.5**	**835.3**	**–**	**721.3**	**5,054.6**	**3.8**	**5,058.4**
10.7	**–2.4**	**–0.9**	**–581.2**	**–**	**–573.8**	**–567.2**	**2.0**	**–565.2**
–	–	–	–	–	–	6.6	2.5	9.1
10.7	–2.4	–0.9	–581.2	–	–573.8	–573.8	–0.5	–574.3
–	**–**	**–**	**–**	**–0.5**	**–0.5**	**1,283.2**	**4.0**	**1,287.2**
–	–	–	–	–	–	1,286.1	7.1	1,293.2
–	–	–	–	–	–	–0.8	–	–0.8
–	–	–	–	–0.5	–0.5	–0.5	–1.2	–1.7
–	–	–	–	–	–	–	–0.3	–0.3
–	–	–	–	-	–	–1.6	–1.6	–3.2
–	–	–	–0.1	–	–0.1	–	–	–
–108.2	**3.0**	**–1.4**	**254.0**	**–0.5**	**146.9**	**5,770.6**	**9.8**	**5,780.4**
–118.8	**11.0**	**–1.0**	**167.5**	**–1.0**	**57.7**	**6,045.8**	**12.5**	**6,058.3**
–	–	–	–	–	–	10.3	–	10.3
–118.8	**11.0**	**–1.0**	**167.5**	**–1.0**	**57.7**	**6,056.1**	**12.5**	**6,068.6**
4.3	**33.6**	**–6.8**	**203.3**	**–**	**234.4**	**238.8**	**8.5**	**247.3**
–	–	–	–	–	–	4.4	8.1	12.5
4.3	33.6	–6.8	203.3	–	234.4	234.4	0.4	234.8
–	**–19.4**	**8.5**	**–**	**–**	**–10.9**	**–10.9**	**–**	**–10.9**
–	**–**	**–**	**–**	**0.5**	**0.5**	**–103.2**	**–10.0**	**–113.2**
–	–	–	–	–	–	–100.2	–	–100.2
–	–	–	–	0.5	0.5	0.5	–	0.5
–	–	–	–	–	–	–	0.2	0.2
–	–	–	–	–	–	–3.2	–10.3	–13.5
–	–	–	–	–	–	–0.3	0.1	–0.2
–114.5	**25.2**	**0.7**	**370.8**	**–0.5**	**281.7**	**6,180.8**	**11.0**	**6,191.8**

CONDENSED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FUNDAMENTAL ACCOUNTING PRINCIPLES

General information

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

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

The interim consolidated financial statements cover the period of 1 January to 30 September 2018 and are reported and published in euros (EUR). All amounts recognised for the financial year are reported in million euros (EUR million) unless otherwise stated.

The Executive Board authorised the publication of the condensed interim consolidated financial statements on 6 November 2018.

Accounting principles

The consolidated financial statements of Hapag-Lloyd AG and its subsidiaries were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), including the interpretations of the IFRS Interpretations Committee (IFRIC), as they are to be applied in the European Union. This interim report as at 30 September 2018 was prepared in compliance with the provisions of IAS 34. It is presented in condensed form. These condensed interim consolidated financial statements and interim Group management report of Hapag-Lloyd AG have not been subject to an audit review nor have they been reviewed in accordance with Section 317 of the German Commercial Code (HGB).

The standards and interpretations valid in the EU since 1 January 2018 were applied during the preparation of the interim consolidated financial statements. As regards the possible effects of standards and interpretations that have already been adopted, but that are not yet mandatory, we refer to the explanations in the Notes to the consolidated financial statements as at 31 December 2017, which remain valid and have not changed.

The interim consolidated financial statements as at 30 September 2018 are to be read in conjunction with the audited and published IFRS consolidated financial statements as at 31 December 2017. With the exception of the changes outlined in the "New accounting standards" section, the interim consolidated financial statements were prepared in compliance with the same accounting and measurement principles that formed the basis for the consolidated financial statements as at 31 December 2017. Estimates and discretionary decisions were made in the same manner as in the previous year. The actual values may differ from the estimated values.

The functional currency of Hapag-Lloyd AG and all of its main subsidiaries is the US dollar. The reporting currency of Hapag-Lloyd AG is, however, the euro. For reporting purposes, the assets and liabilities of the Hapag-Lloyd Group are translated into euros using the mean exchange rate on the balance sheet date (closing rate). The cash flows listed in the consolidated statement of cash flows and the expenses, income and result shown in the consolidated income statement are translated at the average exchange rate for the reporting period. The resulting differences are recognised in other comprehensive income.

As at 30 September 2018, the closing US dollar / euro exchange rate was quoted as USD 1.1582 / EUR (31 December 2017: USD 1.1989 / EUR). For the first 9 months of 2018, the average US dollar / euro exchange rate was USD 1.1950 / EUR (prior year period: USD 1.1133 / EUR).

The earnings and financial position are only comparable with the corresponding prior year period to a limited degree, as the UASC Group was not incorporated into Hapag-Lloyd Group until 24 May 2017.

Change of measurement principles

As of 20 July 2018, the new Heubeck mortality tables 2018 G are now available. The resulting effect of the adjustment would be considered in other comprehensive income. The new mortality tables have not been considered in the interim group report.

New accounting standards

The following describes the significant changes for the Hapag-Lloyd Group resulting from the first-time application of standards IFRS 9, IFRS 15 and IFRS 16 in the 2018 financial year.

The remaining standards, which are to be adopted for the first time in the 2018 financial year, have no significant impact on the net asset, financial and earnings position of the Hapag-Lloyd Group.

IFRS 9 Financial Instruments

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

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

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

i. Classification of financial assets and financial liabilities

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

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

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

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

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

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

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

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

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

[1] Part of financial debt
[2] Part of other liabilities

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

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

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

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

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

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

ii. Impairment

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

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

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

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

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

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

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

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

iii. Hedge accounting

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

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

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

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

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

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

iv. Transition

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

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

v. Adjustment effects from the retrospective application of IFRS 9

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

Consolidated income statement for the period 1 January to 30 September 2017

million EUR	IAS 39 as previously reported	Adjustments	Restated at 30.09.2017
Transport expenses	5,909.6	–0.9	5,908.7
Operating result	**236.6**	**0.9**	**237.5**
Earnings before interest and taxes (EBIT)	**267.9**	**0.9**	**268.8**
Earnings before income taxes	**26.1**	**0.9**	**27.0**
Group profit/loss	**8.2**	**0.9**	**9.1**
thereof attributable to shareholders of Hapag-Lloyd AG	5.7	0.9	6.6
Basic/diluted earnings per share (in USD)	**0.04**	**0.01**	**0.05**

Consolidated statement of comprehensive income for the period 1 January to 30 September 2017

million EUR	IAS 39 as previously reported	Adjustments	Restated at 30.09.2017
Group profit/loss	**8.2**	**0.9**	**9.1**
Other comprehensive income after tax	**–573.4**	**–0.9**	**–574.3**
Total comprehensive income	**–565.2**	**–**	**–565.2**

Consolidated statement of financial position as at 31 December 2017

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

Consolidated statement of cash flows for the period 1 January to 30 September 2017

million EUR	IAS 39 as previously reported	Adjustments	Restated at 30.09.2017
Group profit/loss	8.2	0.9	9.1
Other non-cash expenses (+)/income (–)	0.7	–0.9	–0.2
Cash inflow (+)/outflow (–) from operating activities	**673.0**	**–**	**673.0**

IFRS 15 Revenue from Contracts with Customers

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

Hapag-Lloyd has applied IFRS 15 since 1 January 2018. The first-time application of IFRS 15 by the Hapag-Lloyd Group has not had any significant effects with regard to the amount of revenue recognised and when it is recognised. Hapag-Lloyd has not made use of eased transitional provisions regarding IFRS 15 and has therefore not reported any adjustments to the previous year's figures.

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

Since application of IFRS 15 has not resulted in any material effects, no cumulative adjustment amounts had to be recognised in equity as at 1 January 2018. The application of IFRS 15 rather than IAS 18 has also not resulted in any material changes to the amount of revenue in the current reporting period.

As at 1 January 2018, the new balance sheet items "contract assets" and "contract liabilities" were introduced in accordance with the provisions of IFRS 15. "Contract assets" mainly includes receivables in connection with shipments on voyages not yet completed as at the respective reporting date (30 September 2018: EUR 245.6 million). The presentation of trade receivables in the statement of financial position was correspondingly reduced by this amount as at 30 September 2018. "Contract liabilities" mainly includes prepayments received from customers (30 September 2018: EUR 136.6 million). Other liabilities were reduced accordingly as at 30 September 2018. Contract assets and contract liabilities offset each other.

Hapag-Lloyd AG breaks down its revenue by trade. This breakdown can be found in the segment reporting.

IFRS 16 Leases

IFRS 16 Leases has to be initially applied from 1 January 2019. So far, the payment obligations for operating leases have only to be disclosed in the notes. In the future, the rights resulting from these leases have to be recognised as assets (rights of use of the leased asset) and obligations as liabilities (leasing liabilities) in the statement of financial position of the lessee. Hapag-Lloyd will apply IFRS 16 in accordance with the modified retrospective method. With this method, the previous year's figures do not need to be adjusted. Any resulting effects from the transition to IFRS 16 are shown as an adjustment in the retained earnings as at 1 January 2019.

Hapag-Lloyd has launched a Group-wide project to implement the new leases standard and has rolled out a Group-wide IT system for entering contract data and postings of lease transactions. The Group is currently in the final phase of gathering contracts, analysing and testing. These will be completed in the 4th quarter of 2018.

Hapag-Lloyd will make most of the options available for short-term leases and low-value leases.

Within the framework of the present implementation, the closed and already analysed contracts and the current interest environment, the Group expects, based on a preliminary assessment, a potential increase of the lease liabilities in the amount of approximately EUR 0.5 – 1.0 billion. The actual impact of the implementation of IFRS 16 as at 1 January 2019 is dependent among other things on the future economic framework including the composition of the lease portfolio at that time, the amount of the time charter rates and the interest rate level. Therefore, changes in the previously mentioned range are possible.

Expenses from operating lease contracts were previously recognised in the income statement under transport expenses and other operating expenses. In the future these expenses will lead to the straight-line amortisation of the right of use and interest expenses for lease liabilities instead. EBITDA margin and EBIT margin are expected to improve in financial year 2019 due to the mentioned changes relating to IFRS 16.

Group of consolidated companies

The consolidated financial statements include all significant subsidiaries and equity-accounted investments. In addition to Hapag-Lloyd AG, the group of consolidated companies comprised 150 fully consolidated companies (31 December 2017: 157) and 7 equity-accounted investees as at 30 September 2018 (31 December 2017: 7).

There were 4 additions to the group of consolidated companies in the first 9 months of 2018 following the establishment of new companies. Five companies have been liquidated since 31 December 2017 and are therefore no longer part of the group of consolidated companies. As part of the integration process, 5 companies have been amalgamated into other companies within the Hapag-Lloyd Group. There were no significant effects on earnings as a result of the liquidations.

Acquisition of an Egyptian agency

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

Prior to the acquisition date, MDV operated as an agent for Hapag-Lloyd in Egypt. HLE will now handle the agency business for Hapag-Lloyd in Egypt. The acquisition of MDV's agency business and the associated reorganisation means that redundant agent structures in Egypt will be removed and cost synergies will be utilised. The fair value of the consideration paid for the acquisition of the business operations was EUR 10.0 million on the acquisition date. EUR 9.4 million of this relates to financial liabilities and EUR 0.6 million relates to liabilities for a contingent consideration. The contingent consideration provides for additional future payments in US dollars for volume increases generated by HLE in comparison with a fixed benchmark volume. The estimated range of the undiscounted additional payments is between EUR 0.4 million and EUR 1.3 million.

The former owners of MDV are managing directors of HLE or provide similar services to Hapag-Lloyd. Remuneration for these services is recognised at fair value as other operating expenses when the services are provided.

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

Provisional nature of purchase price allocation

The valuation of the acquired assets, assumed liabilities and non-controlling interests at the acquisition date is incomplete due to the short time between the acquisition date and the reporting date. If facts and circumstances become known within one year of the acquisition date that existed on the acquisition date and that would have resulted in changes to the amounts indicated above, the accounting of the company acquisition will be retrospectively adjusted accordingly.

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

The acquisition provisionally resulted in goodwill in the amount of EUR 10.0 million. The goodwill comprises non-identifiable intangible assets such as expertise and processes of MDV's existing workforce that enable the agency business in Egypt to continue after the acquisition date, and the expected synergies from cost reductions following the reorganisation of the existing agent structures in Egypt.

HLE has contributed revenue of EUR 3.2 million and earnings (EBIT) of EUR 0.1 million since the acquisition date.

It is impractical to disclose pro forma information (as though the acquisition had occurred on 1 January 2018), as only MDV's business operations were acquired, and Hapag-Lloyd does not have access to the accounting documents of the former agent MDV.

SEGMENT REPORTING

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

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

Transport volume per trade

TTEU	Q3 2018	Q3 2017	9M 2018	9M 2017
Atlantic	468	436	1,382	1,254
Transpacific	520	465	1,459	1,254
Far East	557	503	1,601	1,040
Middle East	361	349	1,115	675
Intra-Asia	259	259	783	597
Latin America	720	649	2,072	1,812
EMAO (Europe-Mediterranean-Africa-Oceania)	167	147	488	397
Total	**3,052**	**2,808**	**8,900**	**7,029**

Freight rates per trade[1]

USD/TEU	Q3 2018	Q3 2017	9M 2018	9M 2017
Atlantic	1,357	1,315	1,318	1,298
Transpacific	1,268	1,267	1,243	1,246
Far East	948	993	906	971
Middle East	745	878	765	884
Intra-Asia	519	615	514	593
Latin America	1,119	1,111	1,113	1,068
EMAO (Europe-Mediterranean-Africa-Oceania)	1,134	1,126	1,098	1,065
Total (weighted average)	**1,055**	**1,073**	**1,032**	**1,068**

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

Revenue per trade[1]

million EUR	Q3 2018[2]	Q3 2017	9M 2018	9M 2017
Atlantic	544.7	488.0	1,524.2	1,462.0
Transpacific	564.9	504.2	1,517.5	1,403.5
Far East	452.1	436.0	1,214.2	907.1
Middle East	231.5	267.9	714.1	536.0
Intra-Asia	115.5	138.0	337.2	318.0
Latin America	690.4	562.0	1,929.6	1,684.6
EMAO (Europe-Mediterranean-Africa-Oceania)	162.0	141.3	448.2	379.4
Revenue not assigned to trades	274.4	258.6	743.0	623.7
Total	**3,035.5**	**2,796.0**	**8,428.0**	**7,314.3**

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

2 The mapping of items to revenues and charter expenses (transport expenses) has been adjusted for the first half of 2018, which lead to a decrease of both positions in the amount of EUR 32.2 million. This change has no impact on the result.

Operating earnings before interest, taxes, depreciation and amortisation (EBITDA) are calculated on the basis of the Group's earnings before interest and taxes (EBIT) as presented in the following table. Earnings before taxes (EBT) and the share of profits of the segment's equity-accounted investees correspond to those of the Group.

million EUR	Q3 2018	Q3 2017	9M 2018	9M 2017
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**388.5**	**359.0**	**813.7**	**722.8**
Depreciation, amortisation and impairment	176.4	180.9	512.9	454.0
Earnings before interest and taxes (EBIT)	**212.1**	**178.1**	**300.8**	**268.8**
Earnings before income taxes (EBT)	**124.8**	**57.7**	**40.8**	**27.0**
Share of profit of equity-accounted investees	**6.8**	**12.4**	**22.3**	**30.8**

SELECTED NOTES TO THE CONSOLIDATED INCOME STATEMENT

Detailed notes to the income statement are contained in the interim Group management report in the chapter “Group earnings position”.

Earnings per share

	Q3 2018	Q3 2017 [1]	9M 2018	9M 2017 [1]
Profit / loss attributable to shareholders of Hapag-Lloyd AG in million EUR	112.4	51.6	4.4	6.6
Weighted average number of shares in million	175.8	164.0	175.8	139.8
Basic earnings per share in EUR	**0.64**	**0.31**	**0.03**	**0.05**

[1] The previous year’s figures have been adjusted due to the retrospective application of the first time adoption designation of option transactions. Please refer to the explanations in the section “New accounting standards”.

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

The number of shares increased in the 2017 financial year as a result of the incorporation of the UASC Group on 24 May 2017 and a further capital increase in October 2017. There were no dilutive effects in the first 9 months of 2018 or in the corresponding prior year period.

SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Goodwill and other intangible assets

Goodwill and intangible assets increased compared with 31 December 2017 by EUR 112.6 million due to the effects of currency translation and by EUR 11.5 million due to the effects of the acquisition of agencies. Offsetting this, amortisation in the amount of EUR 74.1 million reduced other intangible assets.

Property, plant and equipment

million EUR	30.9.2018	31.12.2017
Vessels	7,158.8	7,160.9
Container	1,735.8	1,659.4
Other equipment	137.8	140.3
Prepayments on account and assets under construction	3.6	5.9
Total	**9,036.0**	**8,966.5**

The carrying amounts of property, plant and equipment were reduced primarily by depreciation in the amount of EUR 438.8 million. Meanwhile, investments in ocean-going vessels and primarily in containers in the amount of EUR 209.6 million and currency effects at the reporting date of EUR 304.3 million prompted an increase in property, plant and equipment above all.

Fixed assets of EUR 175.4 million were recognised in conjunction with finance lease contracts (31 December 2017: EUR 185.1 million). Of this, EUR 90.3 million was attributable to containers (31 December 2017: EUR 96.7 million) and EUR 85.1 million to ships (31 December 2017: EUR 88.4 million).

Non-current assets held for sale

The 4 ocean-going vessels classified as held for sale in the 2017 financial year were sold in the first 9 months of 2018.

Cash and cash equivalents

million EUR	30.9.2018	31.12.2017
Cash at bank	583.8	598.5
Cash in hand and cheques	15.7	6.4
Total	**599.5**	**604.9**

As at 30 September 2018, a sum totalling EUR 18.7 million with a term of up to 3 months was deposited in pledged accounts (31 December 2017: EUR 17.6 million) and was therefore subject to a limitation on disposal.

Due to local restrictions, the Hapag-Lloyd Group has limited access to cash and cash equivalents of EUR 0.9 million (31 December 2017: EUR 2.3 million) at individual subsidiaries.

Retained earnings

On 13 July 2018, a dividend of EUR 0.57 per dividend-eligible individual share was paid out to the shareholders of Hapag-Lloyd AG, amounting to EUR 100.2 million.

Cumulative other equity

Cumulative other equity comprises the reserve for remeasurements from defined benefit pension plans, the reserve for cash flow hedges, the reserve for cost of hedging, the translation reserve and the reserve for put options on non-controlling interests.

The reserve for remeasurements from defined benefit pension plans (30 September 2018: EUR –114.5 million; 31 December 2017: EUR –118.8 million) contains income and expenses from the remeasurement of pension obligations and plan assets recognised cumulatively in other comprehensive income, among other things due to the change in actuarial and financial parameters in connection with the valuation of pension obligations and the associated fund assets. The expenses from the remeasurement of pension obligations and the associated plan assets recognised in other comprehensive income in the first 9 months of 2018 resulted in a decrease of EUR 4.3 million in the negative reserve (prior year period: EUR 10.7 million).

The reserve for cash flow hedges contains changes in the intrinsic value and in the cash component from hedging transactions that are recognised in other comprehensive income and amounted to EUR 25.2 million as at 30 September 2018 (31 December 2017: EUR 11.0 million). In the first 9 months of 2018, the resulting gains and losses totalling EUR –6.1 million were recognised in other comprehensive income as an effective part of the hedging relationship (prior year period: EUR 91.2 million), while gains and losses of EUR 38.9 million (prior year period: EUR –93.6 million) were reclassified and recognised through profit or loss.

The reserve for cost of hedging contains changes in the fair value and in the forward component from hedging transactions that are recognised in other comprehensive income and amounted to EUR 0.7 million as at 30 September 2018 (31 December 2017: EUR –1.0 million). In the first 9 months of 2018, the resulting gains and losses totalling EUR –27.5 million were recognised in other comprehensive income (prior year period: EUR –7.6 million), while gains and losses of EUR 20.7 million (prior year period: EUR 6.7 million) were reclassified and recognised through profit or loss.

The translation reserve of EUR 370.8 million (31 December 2017: EUR 167.5 million) includes all differences from currency translation. The differences from currency translation of EUR 203.3 million recognised in other comprehensive income in the first 9 months of 2018 (prior year period: EUR –581.2 million) were due to the translation of the financial statements of Hapag-Lloyd AG and its subsidiaries into the reporting currency. Currency translation differences are recognised in the statement of comprehensive income under the items that are not reclassified and recognised through profit or loss, because the currency translation effects of subsidiaries with the same functional currency as the parent company cannot be recycled. The previous year's amount was reclassified within the statement of comprehensive income.

The difference between the relevant non-controlling interests and the expected purchase price at the time the put option was entered is recognised in the reserve for put options on non-controlling interests. Since the start of the year, subsequent changes in the value of the financial liability have been recognised through profit or loss in the interest result. This is a voluntary adjustment to the accounting methods that enables a more accurate and relevant presentation of the earnings position. The effects of this voluntary adjustment are immaterial.

As at 30 September 2018, the reserve for put options on non-controlling interests amounted to EUR –0.5 million (31 December 2017: EUR –1.0 million).

Provisions

As part of the Hapag-Lloyd Group's acquisition of the UASC Group on 24 May 2017, the Executive Board of the Hapag-Lloyd Group decided to implement a restructuring plan in June 2017. The plan comprises implementation of the integration and the Group's new organisational structure, which resulted directly from this. The provision of EUR 12.2 million in place as at 31 December 2017 for the expected restructuring costs, including estimated costs incurred for IT modifications, agent terminations, consultancy costs and employee termination costs was utilised in the amount of EUR 6.2 million in the first 9 months of 2018.

Financial instruments

The carrying amounts and fair values of the financial instruments as at 31 December 2017 are presented in the table below.

million EUR	Carrying amount Total	Carrying amount thereof financial instruments	Fair value Financial instruments
Assets			
Trade accounts receivable	887.8	887.8	887.8
Other assets	462.4	343.9	343.9
Derivative financial instruments (Held for trading)	12.7	12.7	12.7
Commodity options	4.1	4.1	4.1
Embedded derivatives	8.6	8.6	8.6
Derivative financial instruments (Hedge accounting)	38.5	38.5	38.5
Currency forward contracts	31.2	31.2	31.2
Commodity options	7.3	7.3	7.3
Cash and cash equivalents	604.9	604.9	604.9
Liabilities			
Financial debt	6,211.9	6,211.9	6,225.8
Liabilities from finance leases [1]	123.6	123.6	125.5
Trade accounts payable	1,559.8	1,559.8	1,559.8
Derivative financial instruments (Held for trading)	5.2	5.2	5.2
Interest rate swaps	5.2	5.2	5.2
Derivative financial liabilities (Hedge accounting)	4.2	4.2	4.2
Interest rate swaps	4.2	4.2	4.2
Other liabilities	209.2	50.6	50.6
Liabilities from put options [2]	2.1	2.1	2.3

[1] Part of financial debt
[2] Part of other liabilities

The carrying amounts and fair values of the financial instruments as at 30 September 2018 are presented in the table below.

	Carrying amount		Fair value
million EUR	**Total**	thereof financial instruments	Financial instruments
Assets			
Trade accounts receivable	721.9	721.9	721.9
Contract assets[1]	245.6	245.6	245.6
Other assets	473.4	370.7	370.7
Derivative financial instruments (FVTPL)	14.9	14.9	14.9
Embedded derivatives	13.4	13.4	13.4
Interest rate swaps	1.5	1.5	1.5
Derivative financial instruments (Hedge accounting)[2]	31.9	31.9	31.9
Commodity options	27.2	27.2	27.2
Interest rate swaps	4.3	4.3	4.3
Cash and cash equivalents	599.5	599.5	599.5
Liabilities			
Financial debt	6,172.4	6,172.4	6,154.8
Liabilities from finance leases[3]	106.4	106.4	106.8
Trade accounts payable	1,718.2	1,718.2	1,718.2
Derivative financial liabilities (Hedge accounting)[2]	45.8	45.8	45.8
Currency forward contracts	45.2	45.2	45.2
Interest rate swaps	0.6	0.6	0.6
Other liabilities	108.7	86.0	86.0
Liabilities from put options[4]	1.7	1.7	1.8
Contract liabilities[5]	136.6	–	–

1 The balance of the contract assets was contained in trade accounts receivable as at 31 December 2017.
2 The market value of the non-designated fair values and forward components, the changes of which are recognised in the reserve for costs of hedging, are also recognised here.
3 Part of financial debt
4 Part of other liabilities
5 The balance of the contract liabilities was contained in other liabilities as at 31 December 2017.

The derivative financial instruments were measured at fair value.

Other assets include securities with a fair value of EUR 2.1 million (31 December 2017: EUR 2.1 million) that are allocated to level 1 of the fair value hierarchy, as their prices are quoted on an active market.

The liabilities from bonds included within financial debt that, due to the quotation on an active market, are also allocated to level 1 of the fair value hierarchy have a fair value of EUR 926.6 million (31 December 2017: EUR 948.3 million).

Financial debt also includes a liability to pay contingent consideration for a company acquisition for which a fair value at level 3 of EUR 0.6 million was calculated.

The put options recognised under other liabilities, whose fair value is EUR 1.8 million, also belong to level 3 of the fair value hierarchy.

The fair values indicated for the remaining financial debt, derivative financial instruments and liabilities from finance leases are assigned to level 2 of the fair value hierarchy. This means that the instruments are measured using methods which are based on factors derived directly or indirectly from observable market data.

The carrying amounts of all other level 2 financial instruments are a suitable approximation of the fair values.

There were no transfers between levels 1, 2 and 3 in the first 3 quarters of 2018.

Financial debt

The following tables contain the carrying amounts for the individual categories of financial debt.

Financial debt

million EUR	30.9.2018	31.12.2017
Liabilities to banks	4,739.8	4,747.4
Bonds	910.4	923.8
Liabilities from finance lease contracts	106.4	123.6
Other financial debt	522.2	540.7
Total	**6,278.8**	**6,335.5**

Financial debt by currency

million EUR	30.9.2018	31.12.2017
Financial debt denoted in USD (excl. transaction costs)	5,000.0	5,055.8
Financial debt denoted in EUR (excl. transaction costs)	1,101.7	1,085.7
Financial debt denoted in SAR (excl. transaction costs)	195.4	207.5
Interest liabilities	43.2	47.5
Transaction costs	–61.6	–61.0
Total	**6,278.8**	**6,335.5**

In the first 9 months of 2018, the programme to securitise receivables was expanded by USD 100.0 million.

Furthermore, Hapag-Lloyd fully repaid an existing loan held by UASC Ltd. early in the amount of USD 100.0 million using only cash from the available liquidity.

In March 2018, Hapag-Lloyd placed an order for 55,000 standard containers with a capital expenditure of USD 109.7 million. For this purpose, Hapag-Lloyd entered into a financing obligation of USD 171.4 million, which enables additional capital expenditure on containers. All of the containers ordered were held by Hapag-Lloyd on the reporting date.

In addition, 11,100 reefer containers were ordered in the third quarter of 2018. The relating capital expenditure of USD 148.2 million is completely financed by third parties. The delivery of containers is expected to be completed in the first quarter of 2019.

Hapag-Lloyd entered into a sale and leaseback transaction in the third quarter. Existing ship financing with an outstanding amount of USD 151.0 million was replaced by 3 Japanese operating leases (“JOLs”) totalling USD 240.0 million.

Hapag-Lloyd fully redeemed the amount of USD 69.5 million in container debt financing in September 2018. In return, a sale-and-leaseback transaction was completed with an amount of USD 77.9 million.

The Hapag-Lloyd Group had total available credit facilities of EUR 405.8 million as at 30 September 2018 (31 December 2017: EUR 454.6 million).

OTHER NOTES

Legal disputes

There have been no significant changes regarding legal disputes in comparison with the 2017 consolidated financial statements.

As at the reporting date, there were EUR 117.9 million in contingent liabilities from tax risks not classified as probable (31 December 2017: EUR 135.5 million).

Obligations from operating lease contracts

The Group's obligations from operating lease contracts above all relate to charter and lease agreements for ships and containers, and rental agreements for business premises. Charter agreements for ships are always structured as time charter contracts, i. e. in addition to the capital costs, the charterer bears part of the ship operating costs, which are reimbursed as part of the charter rate.

In the first 9 months of 2018, lease payments of EUR 787.3 million were posted to expenses (prior year period: EUR 774.9 million).

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

million EUR	30.9.2018	31.12.2017
Ships and containers	804.6	542.1
Administrative buildings	99.0	101.6
Other	203.8	203.2
Total	**1,107.4**	**846.9**

Other financial obligations

As at 30 September 2018, the purchase obligation for investments in containers amounted to EUR 93.4 million. The amount of the purchase obligation for investments in containers was immaterial as at 31 December 2017.

Related party disclosures

In carrying out its ordinary business activities, the Hapag-Lloyd Group maintained indirect or direct relationships with related companies and individuals and with its own subsidiaries included in the consolidated financial statements. These supply and service relationships are transacted at market prices. No significant changes in these supply and service relationships have arisen since 31 December 2017. With the exception of the changes detailed in the following two paragraphs, the contractual relationships with related parties described in the remuneration report from page 76 onwards of the 2017 annual report remain essentially unchanged, but are not of material importance to the Group.

In relation to the Executive Board changes as at 1 April 2018, the employment contract of an Executive Board member was terminated early on 31 March 2018 and the benefits agreed until the original end date of the employment contract were paid early in the last quarter. The remuneration of the former Executive Board member in the financial year 2018 consists of short-term employee benefits in the amount of EUR 0.2 million, termination benefits in the amount of EUR 0.5 million and share-based benefits in the amount of EUR 1.1 million (expenses recognised in 2018). Additionally, an amount of EUR 2.6 million relating to LTIP tranche 2015 to 2018 (share-based benefits) was paid.

The remuneration structure and amount for the new Executive Board member is not significantly different from the remuneration of the other Executive Board members detailed in the remuneration report of the 2017 annual report.

At its meeting on 9 May 2018, the Supervisory Board of Hapag-Lloyd AG decided to extend the contract of CEO Rolf Habben Jansen by another 5 years until 30 June 2024.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 16 October 2018 the board decided to accept the binding offer by a third party to acquire all shares in an investment held by Hapag-Lloyd AG and UASC Ltd. The relevant agreements were signed on 17 October 2018. The closing is expected until year-end.

Hamburg, 6 November 2018

Hapag-Lloyd Aktiengesellschaft

Executive Board

Rolf Habben Jansen

Nicolás Burr

Anthony J. Firmin

Joachim Schlotfeldt

PRELIMINARY FINANCIAL CALENDAR 2019

March 2019
Publication of annual financial statements and annual report 2018

May 2019
Publication of the financial report for the first quarter of 2019

August 2019
Publication of the financial report for the first half of 2019

November 2019
Publication of the financial report for the third quarter of 2019

IMPRINT

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