

GROUP FINANCIAL POSITION

Principles and objectives of financial management

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

Maintaining an appropriate minimum liquidity level is a deciding factor. Efficient financial management is primarily based on optimising short- and medium-term cash outflows. This is based on budgetary planning for a number of years and a rolling monthly liquidity plan that spans a period of one year. Hapag-Lloyd AG secures its short-term liquidity reserve by means of syndicated credit facilities and bilateral bank credit lines, as well as its portfolio of cash and cash equivalents. In addition, a risk-optimised investment strategy with diversified counterparties of high credit ratings exists for excess liquidity. Financial management is carried out within the framework of relevant legislation as well as internal principles and regulations.

The Hapag-Lloyd Group is an international company that is active around the world. It is exposed to operational financial transaction risks which result from the business operations of Hapag-Lloyd AG. In particular, these risks include bunker price change risk, currency risk and interest rate risk.

Changes in commodity prices have an impact on the Hapag-Lloyd Group, particularly with regard to the cost of procuring fuel such as bunker oil. Insofar as it is possible, the risk of bunker price changes is passed on to the customer based on contractual agreements. Remaining price risks arising from fuel procurement were partly hedged using derivative hedging transactions in the course of the financial year 2021.

The transactions of the Group companies are conducted mainly in US dollars. The euro, Chinese renminbi (CNY), British pound (GBP) and Indian rupee (INR) are also significant currencies. Transactional risks also exist from the financial debt denominated in euros (particularly issued bonds).

Derivative hedging transactions are entered into to partially hedge against these euro exchange rate risks. Interest rate risks which arise as a result of liquidity procurement on the international money and capital markets are centrally managed within the scope of interest rate management and can be limited using derivative interest rate hedging instruments on a case-by-case basis.

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

Other disclosures about hedging strategies and risk management, as well as financial transactions and their scope as at the reporting date, can be found in the risk report contained within the combined management report, and in Note (26) Financial instruments in the Notes to the consolidated financial statements.

Issuer ratings

Rating / Outlook	31.12.2021	31.12.2020
Standard & Poor's	BB / Stable	BB- / Positive
Moody's	Ba2 / Stable	Ba3 / Stable

The international rating agencies Standard & Poor's and Moody's assess Hapag-Lloyd AG's financial strength at regular intervals. On 23 March 2021, both rating agencies increased their issuer ratings for Hapag-Lloyd AG by one grade to "BB" (Standard & Poor's) and "Ba2" (Moody's). Both agencies rated the outlook as stable.

On 4 February 2022, Standard & Poor's again raised the issuer rating of Hapag-Lloyd AG by one notch to "BB+". The outlook was classified as "stable".

Financing

The Group covers its financing requirements with cash inflows from operating activities and by assuming short-, medium- and long-term financial debt.

The financing mix in terms of borrowing is designed to optimise financing conditions, create a balanced range of maturities and achieve investor diversification.

The focus in the 2021 financial year was on the financing of investments in containers and the implementation and restructuring of financing as part of efforts to optimise the existing capital structure and costs.

Further disclosures about the maturity profile of existing financing arrangements, as well as financial transactions and their scope as at the reporting date, can be found in Note (26) Financial instruments in the Notes to the consolidated financial statements.

Financing and investing activities

The Group executed the following major financing and investing activities in the 2021 reporting year:

Containers

- During the 2021 financial year, Hapag-Lloyd AG purchased new containers and container equipment with an amount of USD 943.4 million (EUR 797.3 million). The containers were delivered to Hapag-Lloyd by the end of the reporting year.
- The majority of the investments in containers and container equipment in the 2021 financial year were financed using the free liquidity of Hapag-Lloyd AG.

Vessels

- In April 2021, refinancing was arranged for one container vessel owned by the Company as part of a Japanese operating lease. The container vessel was sold to a group of investors and then leased back for up to seven years and five months, with the option of repurchasing the vessel after six years and ten months. The economic substance of this transaction is credit financing secured by the assignment of the vessel as collateral. The refinancing volume associated with these transactions totalled USD 68.0 million (EUR 60.1 million).

- In June 2021, a loan commitment of USD 852.0 million (EUR 752.8 million) in the form of a mortgage was made to Hapag-Lloyd to finance investments in six new container vessels expected to be delivered in 2024. The loan commitment can be utilised when the container vessels leave the shipyard. The mortgage has a term of up to twelve years and has been collateralised by the Korean export credit insurance company K-Sure. The financing was concluded under the Hapag-Lloyd Green Financing Framework which regulates and describes the issuance of green financing instruments.

In 2021 Hapag-Lloyd acquired 100% of the shares and voting rights of the Dutch container shipping company Nile Dutch Investments B.V. (NileDutch). Furthermore, investments in containers and in retrofitting owned and leased vessels were made in the 2021 financial year. The development of fixed assets is discussed in the “Group net asset position” section. Further details can be found in Note (11) Property, plant and equipment in the Notes to the consolidated financial statements.

For further substantiation of its sustainability targets Hapag-Lloyd has issued a bond with a total volume of EUR 300.0 million under the Sustainability-Linked Bond Framework, of which the interest coupon depends on the achievement of a self-imposed target on the way to decarbonisation by 2030. The bond has a term of seven years and a coupon of 2.5%, which would increase by 0.25% from 15 October 2025 if the set sustainability performance targets are not achieved.

Covenant clauses of a type customary on the market have been arranged for existing financing. These clauses primarily concern certain equity and liquidity of the Group along with loan-to-value ratios.

Based on current planning, the Executive Board expects that adherence to all covenants will continue unchanged in 2022.

Net debt

Financial solidity

million EUR	31.12.2021	31.12.2020
Financial debt and lease liabilities	5,497.2	5,136.2
Cash and cash equivalents	7,723.4	681.3
Net liquidity (previous year net debt)	2,226.3	4,454.9
Gearing (%) ¹	n/a	66.3
Unused credit lines	516.9	476.5
Equity ratio (%)	60.5	44.3

¹ Ratio of net debt to equity

The Group's net liquidity amounted to EUR 2,226.3 million as at 31 December 2021. Compared to net debt of EUR 4,454.9 million as at 31 December 2020, there was an excess of cash and cash equivalents over financial debt and lease liabilities. The improvement in net debt was primarily due to a significantly positive operating cash flow.

The equity ratio increased by 16.2 percentage points, from 44.3% as at 31 December 2020 to 60.5%. The rise was primarily due to the increase in earnings for the year. Equity was up by EUR 9,439.3 million compared with 31 December 2020 and came to EUR 16,162.0 million as at 31 December 2021. A detailed overview of the change in equity can be found in the consolidated statement of changes in equity in the consolidated financial statements.

Liquidity analysis

The Hapag-Lloyd Group's solvency was guaranteed at all times in the last financial year by cash inflows from operating activities, a portfolio of cash and cash equivalents, and bilateral and syndicated loan agreements with banks. The Company had a liquidity reserve (cash, cash equivalents and unused credit facilities) totalling EUR 8,240.3 million (previous year: EUR 1,157.8 million). Notes regarding restrictions on cash and cash equivalents can be found in Note (16) Cash and cash equivalents in the Notes to the consolidated statement of changes in equity in the financial statement.

Statement of cash flows and capital expenditure

Condensed statement of cash flows

million EUR	1.1.–31.12.2021	1.1.–31.12.2020
EBITDA	10,852.6	2,700.4
Working capital changes	-344.4	207.1
Other effects	-98.2	-9.6
Cash flow from operating activities	10,410.0	2,897.9
Cash flow from investing activities	-1,231.7	-477.6
Free cash flow	9,178.3	2,420.3
Cash flow from financing activities	-2,481.0	-2,192.1
Cash-effective changes in cash and cash equivalents	6,697.3	228.2

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

Cash flow from operating activities

Hapag-Lloyd generated an operating cash flow of EUR 10,410.0 million in the 2021 financial year (prior year period: EUR 2,897.9 million). The increase in the cash flow from operating activities was primarily due to higher earnings in the 2021 financial year.

Cash flow from investing activities

In the 2021 financial year, the cash outflow from investing activities totalled EUR 1,231.7 million (prior year period: EUR 477.6 million). This primarily included payments for investments of EUR 1,252.7 million (prior year period: EUR 534.1 million) in ships, ship equipment and new containers. The payments for containers acquired in the previous year included in the investment amount were EUR 21.8 million. There was also a net cash outflow from the acquisition of NileDutch in the amount of EUR 69.7 million. This was compensated by cash inflows from dividends in the amount of EUR 25.9 million (prior year period: EUR 35.9 million) and proceeds from the sale of containers received in the amount of EUR 20.2 million (prior year period: EUR 31.0 million).

Cash flow from financing activities

Financing activities resulted in a net cash outflow of EUR 2,481.0 million in the current reporting period (prior year period: EUR 2,192.1 million). The cash outflow essentially resulted from interest and redemption payments relating to financial liabilities for vessel and container financing in the amount of EUR 1,163.2 million (prior year period: EUR 2,049.4 million). In addition, the corporate bond maturing in 2024 in the amount of EUR 298.0 million and the loan from the ABS programme in the amount of EUR 83.6 million were repaid in full. The payment of a dividend to the shareholders of Hapag-Lloyd AG for the 2020 financial year led to an additional cash outflow of EUR 615.2 million. The interest and redemption payments from lease liabilities in accordance with IFRS 16 totalled EUR 748.8 million in the current financial year (prior year period: EUR 584.0 million). The cash outflows contrasted with cash inflows from the placement of a new corporate bond of EUR 295.9 million. Cash inflows of EUR 201.5 million resulted from the financing of ships/ship equipment and containers (prior year period: EUR 1,013.4 million).

Developments in cash and cash equivalents

million EUR	1.1.–31.12.2021	1.1.–31.12.2020
Cash and cash equivalents at beginning of period	681.3	511.6
Changes due to exchange rate fluctuations	344.8	-58.5
Net changes	6,697.3	228.2
Cash and cash equivalents at end of period	7,723.4	681.3

Overall, cash inflow totalled EUR 6,697.3 million in the 2021 financial year, with the result that, after accounting for exchange rate-related effects in the amount of EUR 344.8 million, cash and cash equivalents of EUR 7,723.4 million were reported at the end of the reporting period on 31 December 2021 (31 December 2020: EUR 681.3 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 unused credit facilities of EUR 516.9 million (31 December 2020: EUR 476.5 million). The liquidity reserve (cash, cash equivalents and unused credit facilities) therefore totalled EUR 8,240.3 million (31 December 2020: EUR 1,157.8 million).

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

Off-balance-sheet obligations

Information about off-balance-sheet obligations can be found in Note (31) Other financial obligations in the Notes to the consolidated financial statements.