Combined management report


ESSEN EXPRESS

BASIC PRINCIPLES OF THE GROUP

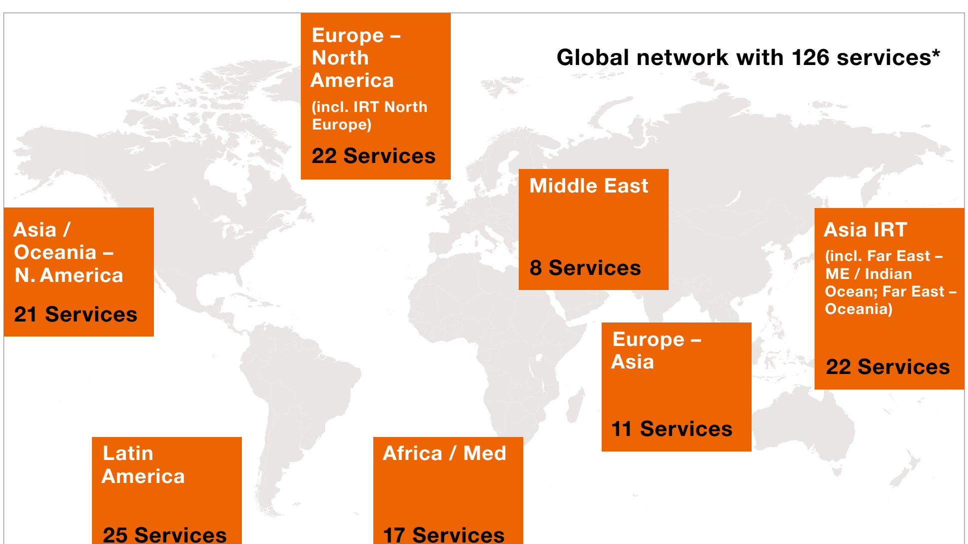
The management report of Hapag-Lloyd AG and the Group management report have been combined in accordance with section 315 sub-section 5 in conjunction with section 298 sub-section 2 of the German Commercial Code (HGB). The disclosures specific to Hapag-Lloyd AG are presented in the chapter "Notes on the individual financial statements of Hapag-Lloyd AG (HGB)".

OPERATING ACTIVITIES

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

Hapag-Lloyd's fleet comprised 253 container ships as at 31 December 2021 (previous year: 237) with a transport capacity of approximately 1.8 million TEU (previous year: approximately 1.7 million TEU). The Group currently has 421 sales offices in 137 countries (previous year: 395 sales offices in 129 countries) and offers its customers worldwide access to a network of 126 liner services (previous year: 122). In the 2021 financial year, Hapag-Lloyd served approximately 33,100 customers around the world (previous year: approximately 30,400).

Network of Hapag-Lloyd services



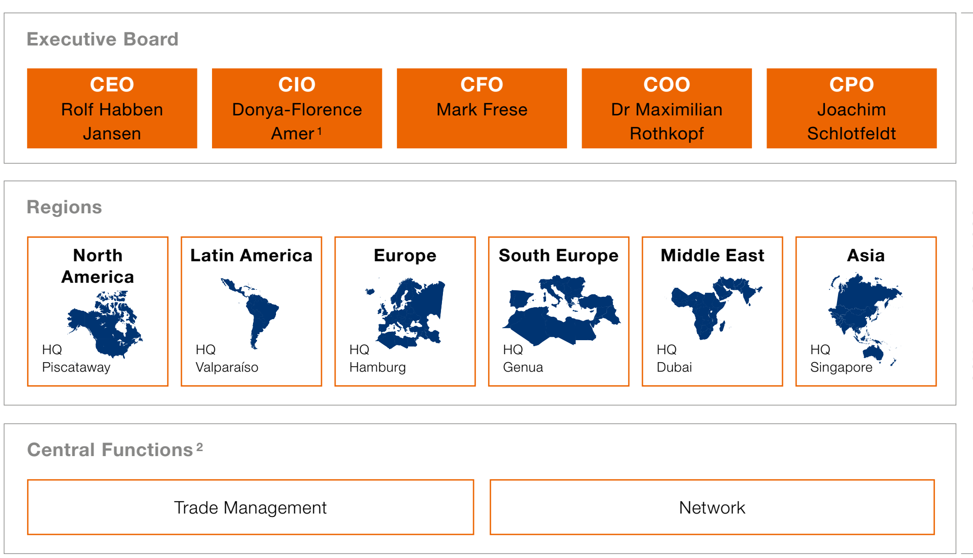
Source: Company data; note: *FP1 and FP2 services included twice (Asia–North America/Europe–Asia)

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

The Hapag-Lloyd Group's functional currency is the US dollar. The reporting currency of the individual and consolidated financial statements of Hapag-Lloyd AG is, however, the euro. Assets and liabilities recognised in the consolidated financial statements of Hapag-Lloyd AG are translated into euros as at the reporting date (closing date rate) using the middle rate of that day. The cash flows listed in the consolidated statement of cash flows and the expenses, income and result shown in the consolidated income statement are translated at the average exchange rate for the reporting period. The currency translation differences are recognised directly in the Group's other comprehensive income. If required, hedging transactions are conducted in the Hapag-Lloyd Group to hedge against the USD / EUR exchange rate.

GROUP STRUCTURE

The controlling company of the Hapag-Lloyd Group, Hapag-Lloyd AG, is also the largest single operating company within the Group. In terms of operations, the Group structure of Hapag-Lloyd AG is currently as follows:



[1] According to a resolution of the Supervisory Board on 11 November 2021, Ms Donya-Florence Amer was appointed as a new Executive Board member (CIO) with effect from 1 February 2022.
[2] There are further central functions outside the Executive Committee.

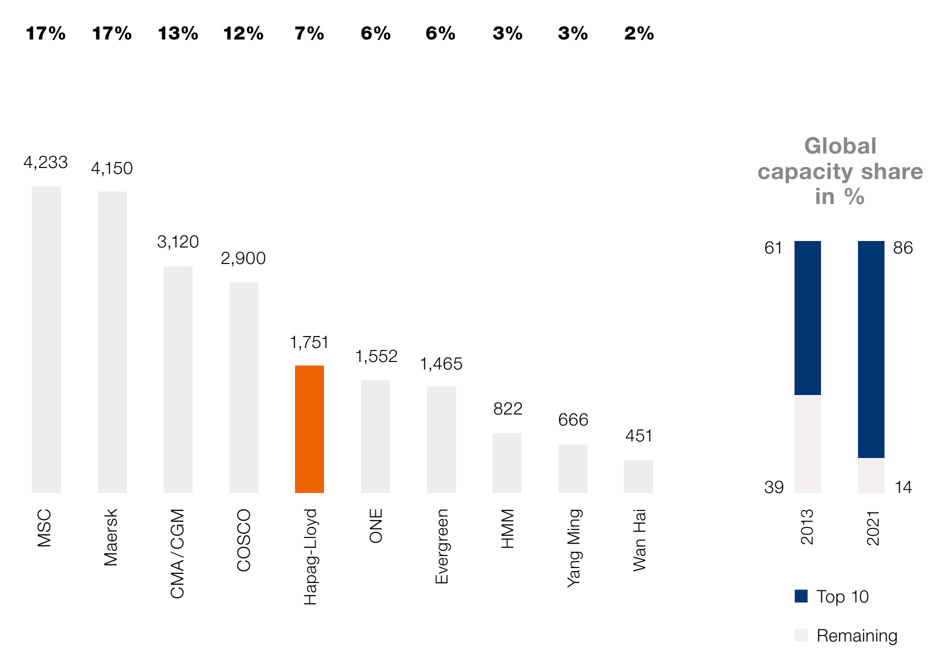
The organisational structures of all six regions are identical. This "blueprint organisational structure", used together with a uniform IT system that covers the entire transport chain, allows for standardised exchange of information between head office and the regions.

BUSINESS AND COMPETITIVE ENVIRONMENT

Consolidation of the industry and alliances in container shipping

Between 2014 and 2018 the container shipping industry underwent a further period of strong consolidation. The ten largest container shipping lines now account for around 86% (previous year: 85%) of the total capacity of the global container ship fleet. In 2013, this share was only 61% (MDS Transmodal January 2022 and October 2013 as well as Drewry Q4 2021).

Fleet capacity and market share of the top container liner shipping companies in TTEU 2021 vs. 2013



Source: Drewry (Q4 2021), MDS Transmodal (January 2022, October 2013)
Hapag-Lloyd capacity excl. chartered-out vessels

Alliances are an essential part of the container shipping industry as they enable better utilisation of ships and provide the opportunity for shipping companies to offer a more extensive service. There are currently three global alliances. Measured in terms of transport capacity, the largest alliance is the “2M Alliance”, consisting of the two market leaders – Mediterranean Shipping Company S. A. (Switzerland) (MSC) and A.P. Møller – Mærsk A/S (Denmark) (Maersk). The “Ocean Alliance” consists of CMA CGM S. A. (France), China COSCO Shipping Corporation Limited (China), including its subsidiary OOIL (Hong Kong), and Evergreen Marine Corp. Ltd. (Taiwan) (Evergreen) and is the second-biggest alliance. Hapag-Lloyd (Germany) operates “THE Alliance” in partnership with ONE (Singapore), Yang Ming Marine Transport Corp. Ltd. (Taiwan) (Yang Ming) and Hyundai Merchant Marine (South Korea) (HMM). As at 31 December 2021, “THE Alliance” covered all East–West trades with 255 container ships and 29 services (31 December 2020: 274 container ships and 30 services).

Capacity share of alliances in East–West trades

in %	Far East trade	Transpacific trade	Atlantic trade
2M	35	27	46
Ocean Alliance	33	37	13
THE Alliance	**24**	**24**	**30**
Other	8	12	10

Source: Alphaliner (December 2021), Hapag-Lloyd 2021

Hapag-Lloyd's membership of alliances and various other collaborative projects allows Hapag-Lloyd to optimise fleet deployment and expand the services provided. The Executive Board of Hapag-Lloyd AG views such alliances as an effective way of ensuring that the fleet is used efficiently and keeping the cost per transport unit lower, thereby ensuring increased productivity.

Legal framework

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

Hapag-Lloyd's business is also subject to numerous national and international environmental regulations, particularly with regard to protecting the seas and reducing air pollution. For example, stricter thresholds for sulphur dioxide emissions have been applicable worldwide since 2020 (IMO 2020) and require the use of either low-sulphur fuels or exhaust gas cleaning systems (EGCSs). Furthermore, the introduction of the Energy Efficiency Existing Ship Index (EEXI) and the Carbon Intensity Indicator (CII) in 2023 will result in new, globally applicable energy efficiency regulations aimed at steadily reducing the CO_2 emissions of commercial ships. To meet the new requirements, it is assumed that numerous ships will have to be converted and the use of low-carbon or carbon-neutral fuels will become necessary in the medium term. Several countries and international institutions are also discussing a possible surcharge for the CO_2 emitted by commercial ships by means of a tax or similar instruments. The European Commission has brought forward specific legislation in relation to this. It envisages the inclusion of commercial shipping in the European emissions trading system from 2023 and is currently being discussed with the European Parliament and Council.

The assessment of the impact of new environmental regulations on the economic viability and efficiency of some older vessels particularly affected by these regulations resulted in a recalculation for these vessels in the third quarter of 2021 and thus a shortening of their estimated remaining useful lives.

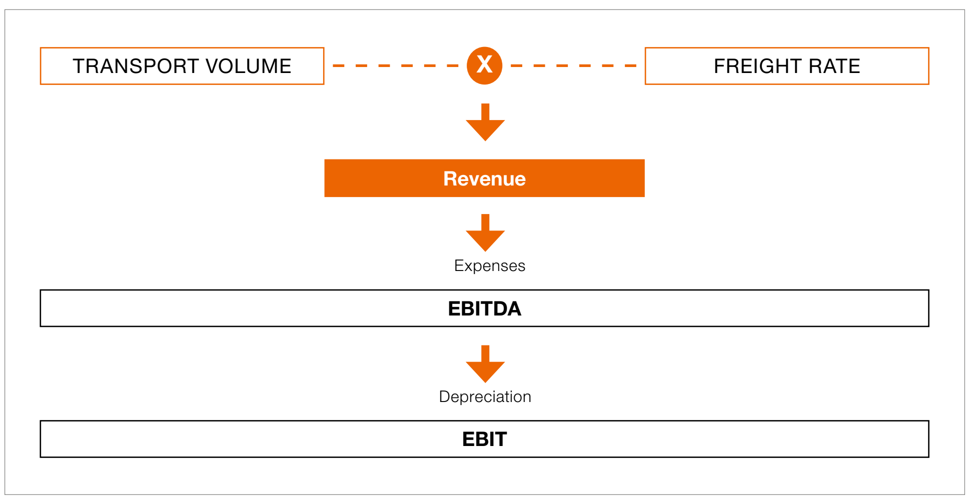
CORPORATE MANAGEMENT

Key performance indicators

The Group's financial key performance indicators for its operating business are EBITDA and EBIT. EBIT is an important indicator for measuring sustainable earnings, while EBITDA is an important indicator for measuring gross cash flows, and is also used as an important key performance indicator for investment and financial decisions.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) are calculated by adding the revenue, the other operating income, the earnings from companies accounted for using the equity method and earnings from investments and securities generated within a certain period less transport expenses and personnel expenses, not including amortisation of intangible assets and depreciation of property, plant and equipment. To calculate earnings before interest and taxes (EBIT), depreciation and amortisation are deducted from EBITDA.

Material influencing factors



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 global transport volume is dependent on the prevailing economic developments around the world and therefore also on the various levels of demand for shipping services. Other factors influencing Hapag-Lloyd's transport volume are container ship capacity and the accompanying change in the competitive situation in the trades.

Freight rates can be managed only to a limited degree because they are heavily dependent on market capacity and market demand. The Group follows a yield management approach, according to which individual container shipments are examined using profitability criteria. It attempts to continuously reduce the proportion of less profitable cargo through targeted yield management. The use of a standardised IT system that covers the entire transport chain supports business processes worldwide.

Efficient cost management provides essential control over the important EBITDA and EBIT values. The system of cost management is supported by an integrated IT solution which provides essential and up-to-date data required for management, as well as for implementing and maintaining cost reduction measures. The cost base is, however, largely dependent on external influencing factors. Due to the global nature of the Group's business operations, exchange rate fluctuations can have a considerable influence on costs.

Operating costs are also influenced by bunker price changes. The bunker price correlates with the development of crude oil prices and is subject to substantial fluctuations. Depending on the competitive situation, a proportion of the fluctuations can be compensated for via the freight rate in the form of bunker surcharges. As part of preparations for the new exhaust gas standard, which has been applicable worldwide since 1 January 2020 (IMO 2020), and the associated sharp increase in bunker prices as a result of the use of low-sulphur bunker, Hapag-Lloyd restructured and updated its bunker surcharges. A new transparent price adjustment formula based on market data was established in 2019 (MFR) and will be applied to contract cargo (i.e. for contracts with a term of more than three months). However, the extent to which bunker surcharges can be implemented is heavily dependent on the prevailing market situation.

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

PRINCIPLES AND PERFORMANCE INDICATORS

FINANCIAL PERFORMANCE INDICATORS

Important financial performance indicators for the Hapag-Lloyd Group include EBITDA and EBIT. Transport volume and freight rates are important factors influencing the development of revenue and results. A description and the calculation of the performance indicators can be found in the "Corporate Management" section.

Return on invested capital

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

Calculation of return on invested capital on a Group basis

	million EUR		million USD	
	2021	2020	**2021**	2020
Non-current assets	15,284.0	12,633.0	17,298.4	15,508.3
Inventory	337.2	172.3	381.6	211.5
Accounts receivable	2,999.2	1,362.6	3,394.5	1,672.8
Other assets	370.7	335.0	419.5	411.3
Assets	**18,991.1**	**14,503.0**	**21,494.1**	**17,803.9**
Provisions	1,020.5	827.4	1,155.0	1,015.7
Accounts payable	2,323.9	1,748.1	2,630.2	2,146.0
Other liabilities	1,710.9	749.9	1,936.4	920.5
Liabilities	**5,055.3**	**3,325.4**	**5,721.6**	**4,082.3**
Invested Capital	**13,935.8**	**11,177.6**	**15,772.5**	**13,721.6**
EBIT	9,389.8	1,315.2	11,111.0	1,501.0
Taxes	61.3	45.8	72.5	52.3
Net Operating Profit after Tax (NOPAT)	**9,328.6**	**1,269.4**	**11,038.4**	**1,448.7**
Return on Invested Capital (ROIC)			**70.0%**	**10.6%**

Figures are in USD, rounded, aggregated and calculated on an annualised basis. The table outlines selected items from the consolidated statement of financial position and the consolidated income statement in abbreviated form only. Currencies are translated as per the reporting date rates and average rates given in the Notes to the consolidated financial statements in the section “Fundamental accounting principles”.

The return on invested capital (ROIC) in the 2021 financial year was 70.0%, following 10.6% in the previous year. As a result of this extraordinary improvement, the return on capital in 2021 was significantly higher than the average cost of capital. The cost of capital after income taxes is 7.0% as at the balance sheet date (31 December 2020: 6.0%). The increase in the weighted cost of capital is mainly due to a lower risk-free base rate. The increase in the weighted cost of capital is mainly due to the higher equity ratio and a higher risk-free base interest rate.

NON-FINANCIAL PRINCIPLES

In addition to the financial performance indicators, the optimum 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 parameters for Hapag-Lloyd’s long-term profitable growth. The following non-financial parameters are important for understanding Hapag-Lloyd as a container liner shipping company. However, they are not used by the Company as performance indicators. As part of Strategy 2023, further non-financial parameters, such as quantifiable quality targets in particular, were successively implemented. The majority of the quality targets have already been published and the customer is provided with Hapag-Lloyd’s performance in relation to these quality promises.

Fleet and capacity development

As at 31 December 2021, the Hapag-Lloyd fleet comprised a total of 253 container ships (previous year: 237). The takeover of NileDutch increased the fleet by ten container ships. All of the ships are certified in accordance with the ISM (International Safety Management) Code and have a valid ISSC (ISPS) certificate. The majority of the ships are certified as per ISO 9001 (quality management) and ISO 14001 (environmental management).

The TEU capacity of the entire Hapag-Lloyd fleet as at 31 December 2021 was 1,768.7 TTEU, thus 2.9% higher than in the previous year (1,718.8 TTEU). The takeover of NileDutch increased the TEU capacity by 29.5 TTEU. In addition, Hapag-Lloyd purchased six smaller second-hand vessels with a total capacity of 23.8 TTEU. Based on the TEU capacities, 60% of the fleet was owned by the Group as at 31 December 2021 (previous year: 61%).

As at the reporting date, the average age of the total Hapag-Lloyd fleet was 10.5 years (capacity weighted; previous year: 9.5 years). This is slightly above the average of the ten biggest container liner shipping companies, which is 10.0 years (previous year: 9.6 years; source: MDS Transmodal). The average size of ships in the Hapag-Lloyd Group fleet as at 31 December 2021 was 6,991 TEU (previous year: 7,252 TEU). This figure was approximately 11% above the comparable average of the ten biggest container liner shipping companies worldwide as at 31 December 2021, which was 6,279 TEU (previous year: 6,317 TEU; source: MDS Transmodal). Average ship sizes have decreased slightly at Hapag-Lloyd, as well as among its competitors, as smaller available ships have been added to fleets due to capacity shortages.

In order to improve its competitiveness in the Europe–Far East trade, Hapag-Lloyd signed two newbuild agreements, each for the construction of six large container vessels, at the end of 2020 and in June 2021 with Korea's Daewoo Shipbuilding & Marine Engineering. The ships will be sized at 23,660 TEU and will be delivered to Hapag-Lloyd between April 2023 and December 2024. The total value of the investment will be approximately USD 2 billion. The relevant funding has already been agreed on. The purchase price will be paid in a number of instalments until final delivery, with the largest part of the payment due with delivery of the vessel. As part of the Hapag-Lloyd sustainability strategy, the ships will be fitted with modern, high-pressure, dual-fuel engines, which will be highly fuel-efficient. The engines will run on LNG, but will have sufficient tank capacity to run using conventional fuel if required. LNG offers a number of environmental advantages over conventional oil-based fuels, in particular CO_2 emissions can be reduced by around 15% to 25% (European Commission, July 2021).

During the year, Hapag-Lloyd also acquired three newbuild agreements for 13,250 TEU vessels, which will be delivered in 2022 and 2023, as well as two newbuild agreements for vessels with a capacity of 13,000 TEU, which will be delivered in 2024.

In addition to ordering the vessels that run on LNG, Hapag-Lloyd completed the first conversion of a large container vessel (15,000 TEU “Brussels Express”, formerly “Sajir”) to run on LNG in 2021. The vessel is equipped with a dual-fuel system, i.e. it can use both LNG and/or low-sulphur fuel. The “Brussels Express” has been deployed on the Europe–Far East trade since 1 April 2021.

As at 31 December 2021, Hapag-Lloyd owned or rented 1.83 million containers (31 December 2020: 1.63 million) with a capacity of 3,058.4 TTEU (31 December 2020: 2,703.9 TTEU) for shipping cargo. The capacity-weighted share of leased containers is 42% as at 31 December 2021 (31 December 2020: 45%). To counteract the capacity bottlenecks and to further strengthen the position in the reefer market in accordance with Strategy 2023, containers with a capacity of 293 TEU were ordered in the 2021 financial year, of which 41 TEU were reefers and specials.

Structure of Hapag-Lloyd’s ship and container fleets

	31.12.2021	31.12.2020	31.12.2019	31.12.2018
Number of vessels	253	237	239	227
thereof				
Own vessels [1]	113	112	112	112
Chartered vessels	140	125	127	115
Aggregate capacity of vessels (TTEU)	1,769	1,719	1,707	1,643
Aggregate container capacity (TTEU)	3,058	2,704	2,540	2,559
Number of services	126	122	121	119

1 Including lease agreements with a purchase option/obligation at the end of the term.

In 2021, Hapag-Lloyd chartered in a total of 23 container ships with a capacity of 57.3 TTEU on a short-term basis for repositioning empty containers (previous year: 20 vessels, capacity 58.9 TTEU) to counter the tight container availability in Asia as far as possible. As at 31 December 2021, one ship was still deployed for empty container transport (31 December 2020: no ship). The ships are not deployed in a liner service and are therefore not included in the display of the fleet structure.

An essential parameter for evaluating a container ship fleet is the bunker consumption of the vessels. In the financial year 2021 Hapag-Lloyd’s bunker consumption totalled 4.20 million tonnes and was therefore 2.1% higher than in the previous year (2020: 4.11 million tonnes). This increase was essentially caused by a rise in ship capacity compared with the prior year period, as well as longer waiting times at and outside of ports. For the first time, 2,551 tonnes of LNG were used as a fuel in 2021. Bunker consumption per volume transported remained constant compared to the previous year at 0.35 t/TEU. Compared with 2009, bunker consumption per TEU has been cut by approximately 42%. Bunker consumption per slot (measured in terms of container slot capacities on an annual average) was also on the same level as in the previous year at 2.4 t/slot (2009: 5.8 t/slot).

The percentage of low-sulphur bunker (MFO low sulphur 0.1% and 0.5%, MDO) and liquefied natural gas (LNG) fell slightly from 94% in 2020 to 92% in the 2021 financial year.

Bunker consumption of the Hapag-Lloyd Group

Tons (t)	2021	2020
MFO (High Sulphur)	349,278	247,933
MDO, MFO (Low Sulphur)	3,843,212	3,860,733
LNG	2,551	–
Total bunker consumption	**4,195,041**	**4,108,666**

Efficient transport services

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

Imbalances in the world's biggest trades

Cargo value in TTEU	2021	2020
Transpacific		
Asia – North America	22,787	18,863
North America – Asia	6,778	6,970
Far East		
Asia – Europe	16,191	14,212
Europe – Asia	6,601	6,471
Atlantic		
Europe – North America	3,293	2,915
North America – Europe	1,579	1,518

Source: Seabury (December 2021). Figures rounded.

The transport capacities must be planned to meet the volumes on the dominant leg. The relevant performance indicator in this regard is the capacity utilisation of the Hapag-Lloyd container vessel fleet on the dominant leg, measured on the basis of total TEU capacity. In the reporting period, capacity utilisation was 96.3% (prior year period: 95.6%).

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

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

	Hapag-Lloyd AG	Industry average
Transpacific	2.8	3.0
Far East	4.7	4.1
Atlantic	6.3	4.8

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

Source: Seabury (December 2021); Hapag-Lloyd 2021

The number of loaded containers transported by Hapag-Lloyd on the non-dominant leg on the key trades is above or on the same level as the market average.

Another important factor in connection with the fleet's capacity utilisation is the turnaround frequency of the containers. Here the average number of deployments per container per year is calculated. The objective is to increase the turnaround frequency and to boost productivity. In 2021, each container was transported on average 4.2 times (prior year period: 4.5 times). The reason for the reduction compared to the previous year is the significant increase in turnaround times due to bottlenecks in the supply chains.

Customers and customer orientation

Hapag-Lloyd's aim is to maintain a diversified customer portfolio consisting of direct customers and freight forwarders, with the latter ensuring a permanent regular supply of cargo volumes. Contractual relationships of up to 36 months generally exist with direct customers. Direct customers allow Hapag-Lloyd to plan the required transport capacity better because of the framework agreements concluded with them. Hapag-Lloyd has a balanced customer base, as demonstrated by the fact that its 50 largest customers represent considerably less than 50% of its cargo volume. In total, transports were completed for approximately 33,100 customers in the 2021 financial year (previous year: approximately 30,400 customers).

A breakdown of the goods shipped according to product category shows a relatively balanced distribution. No individual product category accounted for a share of over 12% during the past financial year (previous year: 13%).

Transport volume by product category in 2021 [1]

Product Category	Share 2021 in %	Share 2020 in %
Plastics & rubber	12	13
Machinery	9	9
Foodstuff and beverages	9	9
Agriculture	9	10
Chemicals	9	9
Metals and minerals	8	8
Textiles	7	6
Paper and forest products	7	8
Automotive	6	5
Furniture	6	5
Electronics	5	5
Glass and ceramics	3	3
Other products	10	10
Total	**100**	**100**

[1] The definitions and breakdown of the product groups were updated in 2021, the previous year's values were adjusted accordingly.

This means that the influence of economic cycles in individual sectors on the development of the transport volume is relatively low. Assuming normal economic conditions, this ensures a continuous development of the transported volume.

RESEARCH AND DEVELOPMENT

Development activities at Hapag-Lloyd can be divided into the areas IT & digitalisation as well as ship technology and the testing of new fuels and propulsion technologies as part of the decarbonisation strategy. With the Fleet Analytics & Technical Optimization department, there is an R&D department in the Fleet division responsible for the development and implementation of efficiency-enhancing technical solutions such as new propeller designs. In addition, the use of new fuels and propulsion technologies to reduce CO_2 emissions are tested in coordination with the Sustainability department. The holistic approach to continuously improve the carbon footprint for the fulfilment of the transport task also includes an increase in load factors, as well as flexibility in stowage and handling of cargo.

Since March 2021, the first large container vessel to be converted to liquefied natural gas (LNG), the 15,000 TEU "Brussels Express", has been operating on the Europe – Far East trade. Hapag-Lloyd's experience of converting and operating an LNG ship for the first time can be utilised for the increased use of LNG as a fuel in the future.

In 2020, Hapag-Lloyd began testing the use of biofuels based on fatty acid methyl ester (FAME). These are produced from organic waste such as used cooking oil and mixed with conventional bunker fuel at a variable ratio. This can reduce greenhouse gas emissions by more than 80% compared with conventional fuel. Following initial experiences in 2020, the use of biofuels was expanded in 2021. Hapag-Lloyd's largest container ships (A19 class) are now refuelled with these fuels in regular operation in Rotterdam. In 2021, 18,500 tonnes of biofuel were bunkered in Rotterdam.

Digital transformation is a top strategic priority for Hapag-Lloyd and runs through all business areas. In close cooperation between IT and specialist departments, highly integrated solutions are created using modern technologies such as artificial intelligence, robotic process automation, cloud and blockchain platforms. Special priority is given to the extensive automation of business processes with the goal of excellent service quality and efficiency. Together with the Digital Business and Transformation department and the regions, we have succeeded in making new, digitally available services and business models available to our customers and constantly developing them further using agile methods. The necessary capacity and know-how are continuously being expanded at the Hamburg and Gdańsk locations and with partners.

EMPLOYEES

As at 31 December 2021, the Hapag-Lloyd Group employed a total of 14,106 people (previous year: 13,117 employees). Of this total, 11,997 were shore-based employees (31 December 2021: 10,867), while 1,868 people were employed on-board of vessels (31 December 2021: 2,023). The number of shore-based employees thus increased significantly by 1,130 persons. The increase is mainly due to the expansion of the Global Service Center in India and the worldwide Quality Service Centers. In addition, new offices were opened in Ukraine and Morocco and the IT Knowledge Center in Gdańsk was further expanded. The acquisition of NileDutch increased the number of employees by 295 as of 31 December 2021.

Number of employees

	31.12.2021	31.12.2020	31.12.2019	31.12.2018
Marine personnel	1,868	2,023	2,072	1,970
Shore-based personnel	11,997	10,867	10,691	10,561
Apprentices	241	227	233	234
Total	**14,106**	**13,117**	**12,996**	**12,765**

The average period of employment for shore-based personnel was around 8.0 years (previous year: 8.5 years).

There is a strong focus on vocational training and qualifications for both the shore-based and marine employees. Hapag-Lloyd attaches particular importance to extensive, high-quality training. The proportion of those offered jobs at the end of their training is generally between 80% and 90% (2021: 73%). As at 31 December 2021, Hapag-Lloyd employed a total of 241 apprentices (31 December 2020: 227), of whom 145 were in shore-based positions and 96 were at sea (previous year: 116 shore-based and 111 at sea).

SHAREHOLDER STRUCTURE AND DIVIDEND

Shareholder structure of Hapag-Lloyd AG

The shareholder structure of Hapag-Lloyd AG is dominated by its five major shareholders, which hold 96.4% of the Company's share capital between them. These include Kühne Maritime GmbH together with Kühne Holding AG (Kühne), CSAV Germany Container Holding GmbH (CSAV), Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH (HGV), and Qatar Holding Germany GmbH on behalf of the Qatar Investment Authority (QIA) and Public Investment Fund of the Kingdom of Saudi Arabia (PIF). In addition, CSAV, Kühne Maritime GmbH and HGV have agreed under a shareholders' agreement to exercise their voting rights from the shares in Hapag-Lloyd AG by issuing a common voting proxy, thereby making important decisions together.

The shareholder structure of Hapag-Lloyd AG as at 31 December 2021 was unchanged from the previous year:

in %	31.12.2021
Kühne Holding AG and Kühne Maritime GmbH	30.0
CSAV Germany Container Holding GmbH	30.0
HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH	13.9
Qatar Holding Germany GmbH	12.3
Public Investment Fund of the Kingdom of Saudi Arabia	10.2
Free float	3.6
Total	**100.0**

Dividend policy and dividend proposal

As far as legally and financially possible, Hapag-Lloyd aims to pay a dividend of at least 30% of its consolidated profit for the year. Hapag-Lloyd AG's retained earnings under German commercial law form the basis for determining the distribution of dividends. Under German law, the Annual General Meeting decides how the retained earnings are to be used. Against the background of the very positive business development, the Executive Board of Hapag-Lloyd AG proposes to the Annual General Meeting that a dividend of EUR 35.00 per share be paid for the 2021 financial year (previous year: EUR 3.50 per share). This represents a disbursement ratio in relation to Group profits of around 68% (previous year: around 66%).

ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

The pace at which the global economy grows and, by extension, at which global trade develops is a significant factor that influences demand for container shipping services and thus the development of the container shipping companies' transport volumes.

Following the pandemic-related downturn in 2020, global economic conditions improved significantly again in 2021. According to the IMF, this was helped by companies adapting to the changes in operating conditions and by numerous governments and central banks implementing extensive fiscal and monetary policy measures. In Western industrialised countries, rising vaccination rates initially led to a gradual reduction in the economically damaging restrictions on movement and contact. However, high COVID-19 infection numbers at the end of the year led to the reintroduction of measures to control the pandemic in many countries, which in turn had a negative impact on economic growth. Due to the global disruption to supply chains, companies are also having to contend with a shortage of primary and intermediate products. This is further slowing down the economic recovery in industrialised countries and, in conjunction with increased energy prices, is creating a high level of inflationary pressure.

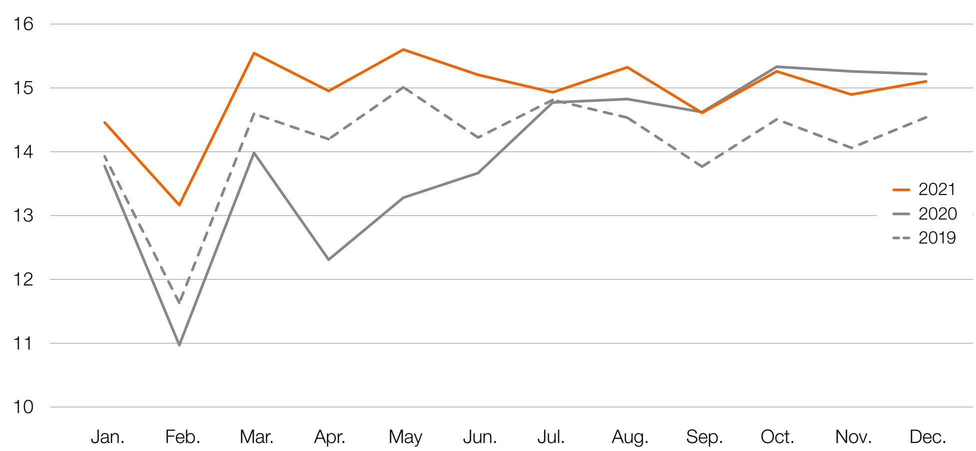
Following a strong start to the year, the economic recovery in China gradually weakened over the course of 2021. Rising commodity prices, electricity outages and supply shortages, and difficulties in the real estate sector had a negative effect. Nevertheless, the Chinese economy grew by 8.1% in 2021 compared to the previous year. Imports and exports rose by 21.4% overall in the same period (National Bureau of Statistics of China, January 2022). The main recipients of Chinese goods are the USA and Europe. The US economy grew in 2021 by 5.7% compared with the previous year thanks to strong consumption which was driven by the stimulus cheques that were issued directly to many US citizens. Following a brief weak phase in the third quarter, the pace of growth increased significantly once again at the end of 2021, primarily due to rising exports and higher investment in inventories. Imports and exports of goods increased by 21.3% and 23.3% respectively in 2021 compared with the prior year period (U.S. Department of Commerce, January and February 2022). Economic output also made a strong recovery in the EU in 2021. GDP grew by 5.2% year-on-year. However, the pace of growth weakened in the fourth quarter due to rising COVID-19 infection numbers and new measures to control the pandemic. Germany even recorded a fall in economic output in the fourth quarter of 2021 compared with the previous quarter (Eurostat, January 2022). Exports of goods from the EU increased by 12.5% in 2021 compared to the same period last year. Imports of goods grew even more significantly by 41.8%, mainly due to a 72.1% increase in energy imports, while imports of manufactured goods increased much less significantly by 15.8% (Eurostat, February 2022).

The increased economic growth worldwide pushed the price of oil up significantly during the year. On 31 December 2021, the price of Brent Crude was USD 77.78 per barrel, up from USD 51.80 per barrel at the end of 2020 (S&P Global Platts, December 2021).

SECTOR-SPECIFIC CONDITIONS

In tune with the global economic recovery and increased demand for consumer goods, global container transport volumes rose by 6.6% in 2021 compared with the previous year (Container Trades Statistics (CTS), February 2022). While the transport volume was significantly down in the first half of 2020 due to the COVID-19 pandemic, it remained at a high level throughout the 2021 financial year. However, the increased demand, combined with regional COVID-19 restrictions and a simultaneous shortage of transport capacities, resulted in sustained disruptions to global supply chains, which had a negative impact on volumes towards the end of the year. Particularly in North America, there was congestion in port and hinterland infrastructure. The already challenging situation was further exacerbated by port closures in China due to COVID-19 and the temporary blocking of the Suez Canal by a container ship.

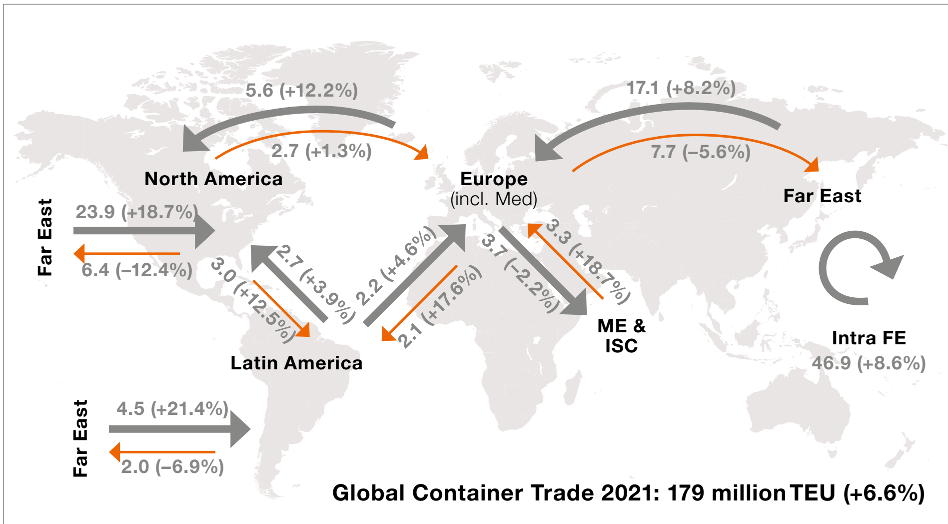
Monthly global container transport volumes (in million TEU)



Source: CTS, February 2022

In particular, transport volumes from the Far East to North and Latin America and Europe rose significantly in 2021 compared with the previous year. However, transport volumes in the opposite direction declined at the same time, further increasing the imbalances already common in the industry. Exports from Europe to North and Latin America also grew significantly.

Transport volume and growth rates for global container traffic per trade (volume 2021 in million TEU; in brackets: 2021 vs. 2020 in %)



Source: CTS (February 2022)

As a result of the market situation outlined above, there was a continuous increase in spot freight rates during the year. The Shanghai Containerized Freight Index (SCFI), which tracks spot freight rates on the major trade routes from Shanghai, climbed to a new all-time high of USD 5,047 / TEU at the end of 2021. The figure had been just USD 2,642 / TEU at the end of 2020.

Based on figures from MDS Transmodal, a total of 162 container ships with a transport capacity of 1,086 TTEU were placed into service in 2021 (prior year period: 125 ships with a transport capacity of 831 TTEU). Scrapping of obsolete ships was at a very low level of 12 TTEU in 2021 compared with 188 TTEU in the prior year period. The capacity of the container shipping fleet rose by 1,015 TTEU to 24.6 million TEU in 2021, which was significantly more than the 678 TTEU recorded in 2020.

Over the course of 2021, orders were placed for the construction of 549 container ships with a transport capacity totalling 4.2 million TEU. This was a very significant increase compared with the 100 ships ordered in 2020 with a capacity of 1 million TEU (Clarksons Research, January 2022). 73 of the newbuilds ordered with a capacity of 835 TTEU will be able to use LNG as fuel, while a further 14 newbuilds with a capacity of 159 TTEU will be able to use methanol, ammonium or other alternative fuels.

According to MDS Transmodal, the tonnage of the commissioned container ships rose to 5.4 million TEU at the end of 2021, up from 2.4 million TEU in the previous year. This means that, although the order volume in proportion to the current global container fleet capacity is 22% and therefore at its highest level since 2011, it is still significantly below the peak of 61% recorded in 2007.

Bunker prices rose steadily in the course of 2021. At the end of 2021, low-sulphur bunker cost USD 550/t, up from USD 367/t at the end of 2020 (MFO 0.5%, FOB Rotterdam).

EARNINGS, FINANCIAL AND NET ASSET POSITION

GROUP EARNINGS POSITION

The 2021 financial year was characterised by continuing strong demand for exported goods from the Asian region, which significantly contributed to the positive development of the sector. The high level of demand for container transportation combined with the ongoing COVID-19 restrictions resulted in sustained disruptions to global supply chains. This, in turn, led to operational challenges that were reflected in prolonged round voyage times for ships and containers. As a result, there was a shortage of available transport capacity.

Compared with the 2020 financial year, the rise in the average freight rate (in USD) of 79.7% resulted in revenue growth of 74.4%. By contrast, higher container handling expenses (+14.3%) and an increase in the average bunker consumption price (+25.3%) reduced the operating result. The weaker US dollar had a dampening effect overall and had a negative total impact on earnings. The average USD/EUR exchange rate was USD 1.18/EUR in the 2021 financial year, compared with USD 1.14/EUR in the corresponding prior year period.

Hapag-Lloyd generated earnings before interest, taxes, depreciation and amortisation (EBITDA) of EUR 10,852.6 million in the reporting period (prior year period: EUR 2,700.4 million) and earnings before interest and taxes (EBIT) of EUR 9,389.8 million (prior year period: EUR 1,315.2 million). The Group profit came to EUR 9,085.0 million (prior year period: EUR 935.4 million).

Consolidated income statement

million EUR	1.1.–31.12.2021	1.1.–31.12.2020
Revenue	22,273.5	12,772.4
Transport expenses	10,323.3	9,140.2
Personnel expenses	810.0	683.0
Depreciation, amortisation and impairment	1,462.8	1,385.2
Other operating result	–315.1	–279.7
Operating result	**9,362.2**	**1,284.4**
Share of profit of equity-accounted investees	28.8	32.1
Result from investments and securities	–1.2	–1.2
Earnings before interest and taxes (EBIT)	**9,389.8**	**1,315.2**
Interest result	–245.2	–330.5
Other financial items	1.7	–3.5
Income taxes	61.3	45.8
Group profit/loss	**9,085.0**	**935.4**
thereof profit/loss attributable to shareholders of Hapag-Lloyd AG	9,074.7	926.8
thereof profit/loss attributable to non-controlling interests	10.4	8.6
Basic/diluted earnings per share (in EUR)	51.63	5.27
EBITDA	**10,852.6**	**2,700.4**
EBITDA margin (%)	**48.7**	**21.1**
EBIT	**9,389.8**	**1,315.2**
EBIT margin (%)	**42.2**	**10.3**

Transport volume per trade

TTEU	1.1.–31.12.2021	1.1.–31.12.2020
Atlantic[1]	2,105	2,065
Transpacific	1,768	1,851
Far East	2,274	2,286
Middle East	1,557	1,476
Intra-Asia	608	831
Latin America	3,038	2,889
Africa[1]	522	441
Total	**11,872**	**11,838**

[1] As part of the integration of NileDutch in the third quarter of 2021, the EMA trade (Europe – Mediterranean – Africa) was renamed to Africa trade. Intra-European transport volumes are now added to the Atlantic trade. The previous year's figures have been adjusted accordingly.

The transport volume increased by 34 TTEU to 11,872 TTEU compared with the prior year period (prior year period: 11,838 TTEU). This equates to a rise of 0.3%.

The strong demand for exported goods from Asia led to an increase in transport volumes on the Latin America and Middle East trades in particular compared with the prior year period. On the Africa trade, the integration of NileDutch into the Hapag-Lloyd Group in the 2021 financial year resulted in a rise in transport volumes.

The lower transport volume on the Intra-Asia trade was essentially due to the optimised repositioning of containers to other trades, aimed at meeting the strong demand for container transport from the Asia region. On the Transpacific trade, the congestion of local port infrastructures and the resulting delays and suspension of container handling led to a slight decline in transport volumes, despite high demand for container transport.

Freight rates per trade

USD/TEU	1.1.–31.12.2021	1.1.–31.12.2020
Atlantic[1]	1,808	1,312
Transpacific	2,746	1,467
Far East	2,479	979
Middle East	1,512	837
Intra-Asia	1,295	605
Latin America	1,745	1,131
Africa[1]	1,997	1,196
Total (weighted average)	**2,003**	**1,115**

[1] As part of the integration of NileDutch in the third quarter of 2021, the EMA trade (Europe – Mediterranean – Africa) was renamed to Africa trade. Intra-European transport volumes are now added to the Atlantic trade. The previous year's figures have been adjusted accordingly.

The average freight rate in the 2021 financial year was USD 2,003/TEU, which was USD 889/TEU, or 79.7%, up on the prior year period (USD 1,115/TEU).

The continuing increase in the freight rate was primarily due to ongoing strong demand for container transport from Asia as a result of the coronavirus and to a simultaneous scarcity of transport capacity in an overstrained market environment.

Revenue per trade

million EUR	1.1.–31.12.2021	1.1.–31.12.2020
Atlantic[1]	3,215.5	2,374.6
Transpacific	4,103.7	2,379.9
Far East	4,763.6	1,961.7
Middle East	1,989.4	1,081.6
Intra-Asia	666.1	440.0
Latin America	4,480.8	2,863.2
Africa[1]	880.7	461.8
Revenue not assigned to trades	2,173.6	1,209.6
Total	**22,273.5**	**12,772.4**

[1] As part of the integration of NileDutch in the third quarter of 2021, the EMA trade (Europe – Mediterranean – Africa) was renamed to Africa trade. Intra-European transport volumes are now added to the Atlantic trade. The previous year's figures have been adjusted accordingly.

The Hapag-Lloyd Group's revenue rose by EUR 9,501.1 million to EUR 22,273.5 million in the 2021 financial year (prior year period: EUR 12,772.4 million), representing an increase of 74.4%. The main reason for this was the rise in the average freight rate of 79.7%. By contrast, the weakening of the US dollar against the euro counteracted the increase in revenue. Adjusted for exchange rate movements, revenue would have risen by EUR 10.0 billion, or 80.8%.

The item for revenue not assigned to trades mainly comprises income from demurrage and detention for containers, as well as compensation payments for shipping space. At the same time, revenue for pending voyages already generated is recognised under revenue not assigned to trades.

Operating expenses

million EUR	1.1.–31.12.2021	1.1.–31.12.2020
Transport expenses	10,323.3	9,140.2
thereof:		
Bunker	1,678.2	1,407.3
Handling and haulage	5,389.0	4,716.7
Equipment and repositioning [1]	1,219.3	1,134.7
Vessel and voyage (excluding bunker) [1]	1,936.6	1,830.8
Change in transport expenses for pending voyages [2]	100.2	50.6
Personnel expenses	810.0	683.0
Depreciation, amortisation and impairments	1,462.8	1,385.2
Other operating result	–315.1	–279.7
Total operating expenses	**12,911.3**	**11,488.0**

1 Including lease expenses for short-term leases
2 The amounts presented as transport expenses for pending voyages represent the difference between the transport expenses for pending voyages for the current period and the transport expenses for pending voyages for the previous period. The transport expenses for pending voyages recognised in the previous periods are presented in the current period as completed transport expenses.

Transport expenses

In the 2021 financial year, transport expenses rose by EUR 1,183.2 million to EUR 10,323.3 million (prior year period: EUR 9,140.2 million). This represents an increase of 12.9%, which was primarily due to the rise in container handling expenses compared with the previous year and the higher average bunker consumption price. By contrast, the weaker US dollar compared with the euro led to a reduction in transport expenses. Adjusted for exchange rate movements, transport expenses would have risen by EUR 1.5 billion, or 17.1%.

Hapag-Lloyd's average bunker consumption price of USD 475/t in the 2021 financial year was up USD 96/t (+25.3%) on the figure for the corresponding prior year period of USD 379/t.

In the 2021 financial year, container handling expenses rose by EUR 672.3 million to EUR 5,389.0 million (prior year period: EUR 4,716.7 million). This mainly resulted from increased demurrage and detention for containers due to partial congestion of port and hinterland infrastructure and local COVID-19 restrictions.

Container and repositioning expenses increased year-on-year due to higher expenses for demurrage and detention for empty containers at port terminals, particularly in North America.

The increase in expenses for vessels and voyages (excluding fuel) resulted primarily from the rise in the percentage of ships chartered in on a medium-term basis and the resulting operating expenses (non-leasing components) as well as from the increased expenses for container slot charter costs on third-party ships.

The gross profit margin (ratio of revenue less transport expenses to revenue) for the 2021 financial year came to 53.7% (prior year period: 28.4%).

Personnel expenses

Personnel expenses rose by EUR 127.1 million (18.6%) to EUR 810.0 million in the 2021 financial year (prior year period: EUR 683.0 million). This was primarily due to a structural adjustment of the bonus system, a special COVID-19 bonus and an increase in the number of employees within the Hapag-Lloyd Group. This contrasted with the weaker US dollar compared with the euro, which led to a reduction in personnel expenses. Adjusted for exchange rate movements, personnel expenses would have risen by approximately EUR 151.3 million.

The Group employed an annual average of 13,634 people (prior year period: 13,085 people). The personnel expenses ratio (measured in terms of revenue) decreased compared to the previous year from 5.3% to 3.6%.

Depreciation, amortisation and impairment

In the 2021 financial year, depreciation and amortisation came to EUR 1,462.8 million (prior year period: EUR 1,385.2 million). This increase was primarily due to the rise in the percentage of ships chartered in on a medium-term basis at simultaneously higher charter rates and the resulting increase in rights of use. The amortisation of rights of use relating to leased assets (essentially vessels, containers, buildings) led to amortisation of EUR 715.2 million (prior year period: EUR 528.1 million). The increase in depreciation and amortisation was offset to some extent by the weaker US dollar compared with the euro.

Other operating result

The other operating result of EUR –315.1 million (prior year period: EUR –279.7 million) comprised the net balance of other operating income and expenses. Other operating expenses came to a total of EUR 398.1 million in 2021 (prior year period: expenses of EUR 348.8 million). This mainly included IT and communication costs (EUR 209.8 million; prior year period: EUR 175.9 million), consultancy fees (EUR 38.6 million; prior year period EUR 32.7 million) and administrative expenses (EUR 29.0 million; prior year period: EUR 33.8 million). The other operating income of EUR 82.9 million (prior year period: EUR 69.1 million) included in the figure resulted primarily from the release of provisions (EUR 15.8 million; prior year period: EUR 13.8 million) and the disposal of non-current assets (EUR 12.5 million; prior year period: EUR 13.1 million). A detailed overview of the other operating result can be found in Note (5) Other operating result in the Notes to the consolidated financial statements.

Share of profit of equity-accounted investees

The share of the profit of equity-accounted investees fell by EUR 3.3 million to EUR 28.8 million in the 2021 financial year. The reason for the decrease was a lower pro rata result from the investment in HHLA Container Terminal Altenwerder GmbH compared with the prior year period.

Operating result

In the 2021 financial year, earnings before interest and taxes (EBIT) amounted to EUR 9,389.8 million. They were therefore well above the corresponding figure in the prior year period (EUR 1,315.2 million). Earnings before interest, taxes, depreciation and amortisation (EBITDA) came in at EUR 10,852.6 million in the 2021 financial year (prior year period: EUR 2,700.4 million). The annualised return on invested capital (ROIC) for the 2021 financial year amounted to 70.0% (prior year period: 10.6%). Basic earnings per share in the reporting period came to EUR 51.63 per share (prior year period: EUR 5.27 per share).

Key earnings figures

million EUR	2021	2020
Revenue	22,273.5	12,772.4
EBIT	9,389.8	1,315.2
EBITDA	10,852.6	2,700.4
EBIT margin (%)	42.2	10.3
EBITDA margin (%)	48.7	21.1
Basic Earnings Per Share (in EUR)	51.63	5.27
Return on Invested Capital (ROIC) annualised (%) [1]	70.0	10.6

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

Interest result

The interest result in the 2021 financial year was EUR –245.2 million (prior year period: EUR –330.5 million). The decrease in interest expenses compared with the previous year resulted primarily from savings on effective interest expenses in the amount of EUR 95.9 million, which was mainly due to the reduction of bank debt (including the EUR bond) through early repayments and the lower reference interest rates as a result of the COVID-19 pandemic.

By contrast, the profit or loss effect of the embedded derivative in the amount of EUR –23.2 million (prior year period: EUR –3.7 million), which comprises the derecognition of the fair value of EUR –24.1 million associated with the exercising of the early repurchase option of the EUR bond as at 7 April 2021 (prior year period: EUR –8.6 million from the partial repayment of the bond in November 2020) and a valuation effect of EUR 0.8 million (prior year period: EUR 4.9 million), had a negative impact on the interest result.

Income taxes

The rise in income taxes of EUR 15.5 million to EUR 61.3 million was essentially caused by higher current income taxes payable by Hapag-Lloyd AG due to a significant increase in dividend income within the Group in the financial year and by the low level of domestic tax loss carry-forwards still available for offsetting. There was also a rise in the current foreign income taxes of the Group companies as a result of the exceptionally positive general earnings situation. The increase in current income taxes was offset to some extent by a fall in expenses from the consumption of deferred income taxes on tax loss carry-forwards within Germany.

Group profit

Overall, Group profit was significantly up on the previous year at EUR 9,085.0 million (prior year period: EUR 935.4 million). Group profit consists of the earnings attributable to shareholders of the parent company of EUR 9,074.7 million (prior year period: EUR 926,8 million) and the earnings attributable to non-controlling interests of EUR 10.4 million (prior year period: EUR 8.6 million).

The total Group net result of EUR 10,089.0 million (prior year period: EUR 273.5 million) comprises Group profit of EUR 9,085.0 million and other comprehensive income of EUR 1,003.9 million (prior year period: EUR –661.9 million). Other comprehensive income essentially comprises a result from currency translation of EUR 919.7 million (prior year period: EUR –603.7 million), a result from the remeasurement of defined benefit pension plans of EUR 53.7 million (prior year period: EUR –36.0 million) due to a rise in the market interest rate, and earnings effects from hedging instruments in cash flow hedges of EUR 30.1 million (prior year period: EUR 5.8 million).

GROUP FINANCIAL POSITION

Principles and objectives of financial management

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

GROUP NET ASSET POSITION

Changes in the asset structure

million EUR	31.12.2021	31.12.2020
Assets		
Non-current assets	15,284.0	12,633.0
of which fixed assets	15,204.5	12,555.6
Current assets	11,430.5	2,551.2
of which cash and cash equivalents	7,723.4	681.3
Total assets	**26,714.5**	**15,184.3**
Equity and liabilities		
Equity	16,162.0	6,722.7
Borrowed capital	10,552.5	8,461.6
of which non-current liabilities	4,594.2	4,668.7
of which current liabilities	5,958.3	3,792.9
of which financial debt and finance lease liabilities	5,497.2	5,136.2
of which non-current financial debt and finance lease liabilities	4,138.5	4,170.4
of which current financial debt and finance lease liabilities	1,358.6	965.7
Total equity and liabilities	**26,714.5**	**15,184.3**
Net debt	2,226.3	–4,454.9
Equity ratio (%)	60.5	44.3

As at 31 December 2021, the Group's statement of financial position total was EUR 26,714.5 million, which is EUR 11,530.3 million higher than the figure at year-end 2020. The reasons for this change primarily included the rise in cash and cash equivalents, price-related increases in receivables and liabilities, the higher equity as a result of the Group profit, and exchange rate effects as at the reporting date due to the stronger US dollar against the euro. The USD/EUR exchange rate was quoted at 1.13 on 31 December 2021 (31 December 2020: 1.23).

Within non-current assets, the carrying amounts of fixed assets increased by a total of EUR 2,648.9 million to EUR 15,204.5 million (31 December 2020: EUR 12,555.6 million). This rise was essentially due to newly received and extended charter and leasing contracts, which led to increased rights of use for assets in the amount of EUR 1,451.4 million (prior year period: EUR 892.6 million) and to investments in ships, ship equipment and containers in the amount of EUR 1,379.5 million (prior year period: EUR 471.4 million). Exchange rate effects as at the reporting date in the amount of EUR 1,098.7 million (prior year period: EUR –1,139.2 million) also contributed to the increase in fixed assets. In addition, the Group acquired property, plant and equipment in the amount of EUR 205.0 million through its acquisition of NileDutch. Depreciation and amortisation of EUR 1,465.6 million had an opposite effect (prior year period: EUR 1,286.3 million) on fixed assets. This includes an amount of EUR 715.2 million (prior year period: EUR 528.1 million) for the amortisation of capitalised rights of use for assets.

Increased freight rates and correspondingly higher invoicing for services led, among other things, to an increase in trade receivables of EUR 1,636.6 million to EUR 2,999.2 million. Cash and cash equivalents increased by EUR 7,042.1 million compared to the end of 2020 (EUR 681.3 million) primarily as a result of the positive operating cash flow.

On the liabilities side, equity (including non-controlling interests) grew by EUR 9,439.3 million to a total of EUR 16,162.0 million. This increase was mainly due to the Group profit of EUR 9,085.0 million (prior year period: EUR 935.4 million) recognised in retained earnings and the unrealised gains from currency translation of EUR 919.7 million (prior year period: EUR –603.7 million) as a result of the appreciation of the US dollar against the euro on the balance sheet date recognised in other comprehensive income. The dividends paid to shareholders from retained earnings in the amount of EUR 615.2 million (prior year period: EUR 193.3 million) had the opposite effect. As at 31 December 2021, the equity ratio was 60.5% (31 December 2020: 44.3%).

The Group's borrowed capital has risen by EUR 2,090.9 million to EUR 10,552.5 million since the 2020 consolidated financial statements were prepared. The increase in financial debt and lease liabilities due to new lease liabilities relating to newly acquired or extended charter and leasing contracts in the amount of EUR 1,453.2 million (prior year period: EUR 847.0 million) and the placement of a sustainability-linked euro bond totalling EUR 300.0 million contrasted with redemption payments for financial debt and lease liabilities totalling EUR 2,090.1 million (prior year period: EUR 3,256.7 million). The redemption payments included EUR 298.0 million for the early redemption of Hapag-Lloyd's existing 5.125% euro bond (original maturity in 2024). In addition, exchange rate effects in the amount of EUR 398.4 million (prior year period: EUR –435.1 million) led to an increase in financial debt and leasing liabilities.

Contract liabilities rose by EUR 900.1 million to EUR 1,445.8 million (31 December 2020: EUR 545.7 million). The reason for the increase was mainly due to higher freight rates for transport orders on voyages pending as at the reporting date. Trade accounts payable increased to EUR 2,323.9 million as at the reporting date (31 December 2020: EUR 1,748.1 million) due, among other things, to higher costs, in particular for bunker and the handling of containers.

Taking cash and cash equivalents, financial debt and lease liabilities into account, net liquidity as at 31 December 2021 was EUR 2,226.3 million (31 December 2020: net debt EUR 4,454.9 million).

For further information on significant changes to specific balance sheet items, please refer to Notes (10) to (26) in the Notes to the consolidated statement of financial position.

ACCURACY OF FORECAST

As communicated in the forecast from 18 March 2021, the development of earnings in the 2021 financial year was significantly higher than in the previous year. Nevertheless, with EBITDA of EUR 10.9 billion and EBIT of EUR 9.4 billion, the original expectations of the Executive Board and the forecast refined in July 2021 were exceeded. At the same time, the figures were at the upper end of the forecast updated on 29 October 2021. This development was primarily due to an unexpectedly sharp increase in the average freight rate. The main reasons for the development of earnings are described in detail in the preceding chapters of the economic report.

Overview of forecasts and target achievement in 2021

	Actual Value 2020	Forecast as of 18 March 2021	Forecast as of 30 July 2021	Forecast as of 29 October 2021	Actual Value 2021
Transport volume	11.8m TEU	Increasing slightly	Increasing slightly	On previous year's level	11.9m TEU
Average freight rate	USD 1,115/TEU	Increasing clearly	Increasing clearly	Increasing clearly	USD 2,003/TEU
Average bunker consumption price	379 USD/t	Increasing clearly	Increasing clearly	Increasing clearly	USD 475/t
EBITDA	EUR 2.7 bn	Increasing clearly	EUR 7.6–9.3 bn	EUR 10.1–10.9 bn	EUR 10.9 bn
EBIT	EUR 1.3 bn	Increasing clearly	EUR 6.2–7.9 bn	EUR 8.7–9.5 bn	EUR 9.4 bn

EXECUTIVE BOARD'S STATEMENT ON OVERALL ECONOMIC PERFORMANCE

The 2021 financial year at Hapag-Lloyd was dominated by a significant rise in freight rates compared with the prior year period as well as operational challenges. The increased global demand for consumer goods – combined with regional COVID-19 restrictions and a simultaneous shortage of transport capacities – resulted in sustained disruptions to global supply chains that were clearly reflected in prolonged round voyage times for ships and containers. The transport situation led to a sharp rise in spot rates, primarily for exported goods from Asia and in particular from China. Throughout 2021, global transport volumes remained at a high level.

At the end of the year, the Hapag-Lloyd Group's EBITDA and EBIT were within the upper part of their forecast ranges, which had last been revised in November 2021, and up on the previous year's figures. The significant improvement in the operating result for 2021 was primarily due to the sharp increase in freight rates throughout the financial year while the transport volume remained at the previous year's level. By contrast, higher container handling expenses, caused by the disruptions to supply chains, and an increase in the average bunker consumption price reduced the operating result. Based on this, the Executive Board retrospectively rates the business development in 2021 as favourable.

OUTLOOK, RISK AND OPPORTUNITY REPORT

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

OUTLOOK

General economic outlook

According to the International Monetary Fund (IMF), the recovery of the global economy following the outbreak of the COVID-19 pandemic is likely to continue in weakened form in the current 2022 financial year. The rapid spread of the omicron variant of COVID-19, high energy prices and rising inflation rates have somewhat dampened the previously optimistic growth predictions. According to the IMF's January forecast, the global economy will grow by 4.4% in 2022, after expanding by 5.9% in the previous year. This puts expected economic growth for 2022 0.5 percentage points lower than forecast in October 2021. In the USA, the continuing disruption to supply chains is likely to result in supply bottlenecks and ongoing inflationary pressure. For this reason, the Federal Reserve is now predicted to tighten monetary policy sooner. In China, by contrast, the strict COVID-19 measures and problems in the real estate sector are expected to weaken growth. In Europe, growth predictions – particularly for the export-driven German economy – have also been revised downwards due to the disruption to supply chains. International trade in goods and services is expected to grow by 6.0% in 2022, after increasing by 9.3% in the previous year.

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

in %	2023e	2022e	2021	2020	2019
Global economic growth	3.8	4.4	5.9	–3.1	2.8
Industrialised countries	2.6	3.9	5.0	–4.5	1.6
Developing and newly industrialised countries	4.7	4.8	6.5	–2.0	3.7
World trade volume (goods and services)	4.9	6.0	9.3	–8.2	0.9

Source: IMF, January 2022

Sector-specific outlook

The expected growth of the global economy in the 2022 financial year is also likely to be accompanied by rising container transport volumes. However, a limiting factor at present is the continuing disruption to supply chains. Seabury therefore predicts that the growth of the global container transport volume will slow down to 3.0% this year. In 2021, volume grew by 6.6%, due also to a weak base in the previous year as a result of the pandemic (CTS, February 2022).

Development of container transport volume

	2023e	2022e	2021	2020	2019
Growth rate (in %)	4.0	3.0	6.6	–1.1	1.3

Sources: CTS (February 2022, 2019–2021), Seabury (December 2021, 2022–2023)

The strong demand for transport combined with a shortage of available vessels resulted in a noticeable increase in ship orders in 2021. According to MDS Transmodal, the tonnage of the commissioned container ships rose to 5.4 million TEU at the end of 2021, up from 2.4 million TEU in the previous year. This means that, although the order volume in proportion to the current global container fleet capacity is 22% and therefore at its highest level since 2011, it is still significantly below the peak of 61% recorded in 2007.

For 2022, Drewry expects the globally available container ship fleet to grow by 0.9 million TEU, or 3.6%. The majority of the ships ordered in 2021 are unlikely to be put into service before 2023.

Expected development of global container fleet capacity

million TEU	2023e	2022e	2021	2020	2019
Existing fleet (beginning of the year)	25.5	24.6	23.6	23.0	22.1
Planned deliveries	2.3	1.0	1.2	1.1	1.1
Expected scrappings	0.3	0.1	0.0	0.2	0.2
Postponed deliveries and other changes	0.1	0.1	0.1	0.3	0.1
Net capacity growth	**1.9**	**0.9**	**1.0**	**0.7**	**0.9**
Net capacity growth (in %)	7.4	3.6	4.3	3.0	4.0

Source: Drewry Container Forecaster December 2021. 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.

Expected business development of Hapag-Lloyd

Hapag-Lloyd posted an exceptionally strong financial performance in the financial year 2021. At the beginning of the year 2022, the underlying market conditions remain broadly unchanged. The unabated global demand for container transports and the ongoing spread of COVID-19 continues to disrupt global supply chains. As a result, container transport capacity remains tight.

Against this backdrop, the Executive Board of Hapag-Lloyd AG expects earnings momentum to remain on a very high level in the first half of 2022, followed by a beginning normalization of earnings in the second half due to an anticipated recovery of supply chains. Group EBITDA is expected to be in the range of USD 12 to 14 billion (prior year: USD 12.8 billion) and EBIT in the range of USD 10 to 12 billion (prior year: USD 11.1 billion). In Euro, this corresponds to an expected Group EBITDA in the range of EUR 10.7 to 12.4 billion (prior year: EUR 10.9 billion) and EBIT in the range of EUR 8.9 to 10.7 billion (prior year: EUR 9.4 billion).

The earnings outlook is based on the assumptions that the transport volume can be increased slightly and the average freight rate moderately compared to the previous year. At the same time, a further increase in transport expenses is anticipated, which should have a dampening effect on the development of earnings. In particular, the average bunker consumption price is expected to increase clearly. The outlook is based on an average exchange rate of 1.13 USD/EUR.

The earnings forecast does not take into account impairments on goodwill, other intangible assets and property, plant and equipment in the course of the 2022 financial year, which are currently not expected but cannot be ruled out.

Key benchmark figures for the 2022 Outlook

	Actual 2021	Forecast 2022
Global economic growth (IMF, Jan. 2022)	5.9%	4.4%
Increase in global trade (IMF, Jan. 2022)	9.3%	6.0%
Increase in global container transport volume (CTS, Feb. 2022; Seabury, Dec. 2021)	6.6%	3.0%
Transport volume, Hapag-Lloyd	11.9m TEU	Increasing slightly
Average bunker consumption prices, Hapag-Lloyd	USD 475/t	Increasing clearly
Average freight rate, Hapag-Lloyd	USD 2,003/TEU	Increasing moderately
EBITDA (earnings before interest, taxes, depreciation and amortisation), Hapag-Lloyd	EUR 10.9 bn	EUR 10.7–12.4 bn
EBIT (earnings before interest and taxes), Hapag-Lloyd	EUR 9.3 bn	EUR 8.9–10.7 bn

The risks and opportunities that could cause business development to deviate from the forecast are described in detail below in the risk and opportunity report. The main risks for the development of the Group’s turnover and earnings are, in particular, a slowdown in the growth of the world economy and world trade volume, also due to international crises and geopolitical disputes, as well as the unpredictable development of the situation in Ukraine and a resulting decline in transport volume growth as well as a noticeably negative trend in the average freight rate. Both risks are influenced by risks from capacity bottlenecks at ports and in regional logistics chains. In addition, a significant and sustained increase in bunker prices above the expected development belongs to the top risks.

The occurrence of one or more of these risks could have a significant negative impact on the industry and thus also on the business performance of Hapag-Lloyd in financial year 2022, resulting in negative effects on liquidity and also impairments of goodwill and other intangible assets and property, plant and equipment.

RISK AND OPPORTUNITY REPORT

Risk management and the strategic focus on business opportunities contribute to the steady and sustainable enhancement of the Company's value, the attainment of its medium-term financial goals and to safeguarding its long-term existence as a going concern. The risk management system comprises potential risks and opportunities, though it focuses primarily on risks.

OPPORTUNITIES

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

By utilising and enhancing its own strengths and competitive advantages, Hapag-Lloyd strives to exploit any potential opportunities that arise to the greatest possible extent.

RISK MANAGEMENT

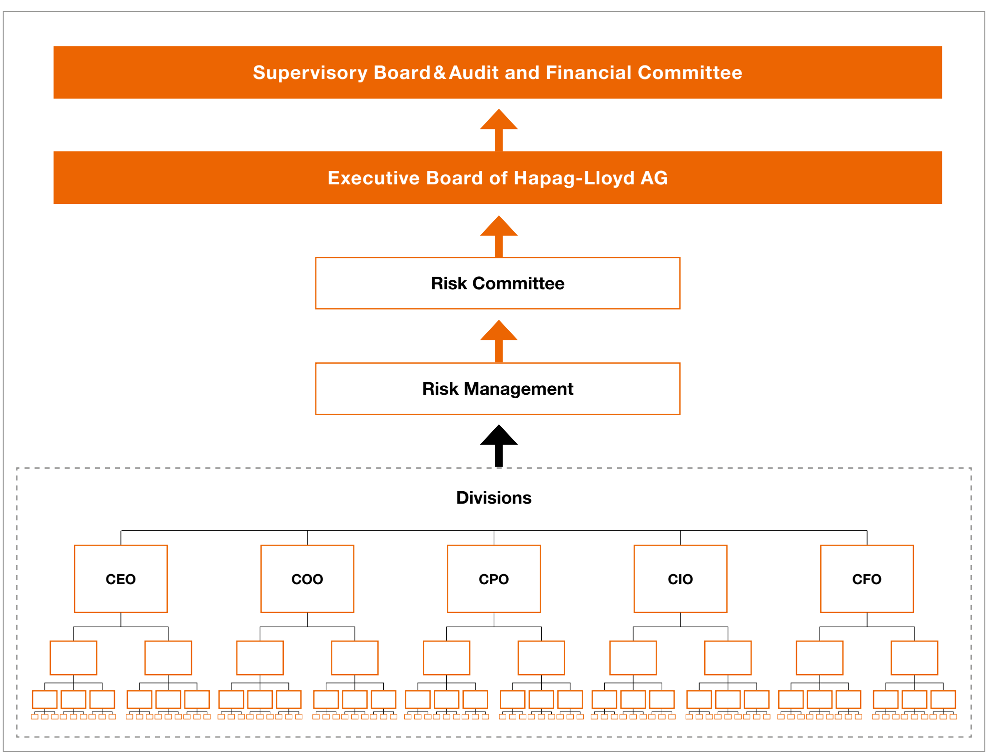
The objective of risk management is to recognise and analyse risks at an early stage and to develop and implement adequate risk responses to lower the risk to an acceptable risk level and therefore secure the achievement of Hapag-Lloyd's business objectives. Thanks to monitoring and control systems installed throughout the Group, business developments and associated risks are regularly recorded, assessed and monitored with regard to their effects on Hapag-Lloyd. Risk management is decentralised in accordance with Hapag-Lloyd's organisational structure. The structure of the iterative risk management process is an adaptation of the internationally recognised risk management standard "COSO (Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management – Integrating with Strategy and Performance".

Segregation of duties and the associated role concept have been designed based on the Three Lines Model of the Institute of Internal Auditors. This and other principles, roles and responsibilities, processes and thresholds of risk management are defined in a Group guideline which is valid for the entire Group. Within the context of the decentralised structure of risk management, risk managers are appointed across the Group and are responsible for continuously identifying, assessing, managing and monitoring risks in the various regions and central departments. These risk managers document the risks identified and their assessment, including the risk responses as part of quarterly risk reporting.

The risk assessment by the decentralised roles is carried out based on at least one scenario. Further scenarios can be added as optional to enhance the risk quantification. The quantitative description of the scenarios includes an assessment of the probability of occurrence as well as the potential financial effects. Starting with the initial gross assessment, the net assessment is derived, taking account of the risk responses which have already been implemented and have an impact on the risks. Based on this, the risks are divided into standardised size categories, which are then used to divide the risks internally into risk categories and monitor them. Risk reports are usually submitted on a quarterly basis to the risk management function in the central Accounting department. The unscheduled reporting to the risk management function is mandatory if risks are newly identified or newly assessed, with the result that reporting thresholds are exceeded, or extraordinary events occur which could cause potentially critical damage (ad-hoc reports).

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

Hapag-Lloyd risk management system



The Corporate Audit department conducts regular checks of the risk management processes and – in particular – the risk early-warning system, focusing on different aspects each time.

In risk management, the methods, systems and controls are adapted according to the type of risk and are regularly checked, enhanced and adapted to the constantly changing business and regulatory conditions. Insurance policies are concluded to cover claims and various other risks that arise in everyday business activity, insofar as these are economically justifiable. The Group also holds a number of insurance policies which are customary in the industry and tailored to the requirements of Hapag-Lloyd. These include third-party liability, property and personal insurance, as well as shipping insurance. The policies are examined regularly and adjusted if required.

RISKS AND OPPORTUNITIES

The key risks and opportunities and their potential impact on the earnings, financial and net asset position of Hapag-Lloyd, including their probability of occurrence, are listed in the following section "Summarised overview of corporate risks and opportunities". The subsequent sections provide qualitative descriptions of these and other relevant events that are subject to a high degree of uncertainty and could influence business developments, although the probability of their occurrence and their effects have not been assessed for risk management purposes, unless otherwise stated. Taking the current outlook into consideration, no new significant risks have been identified in comparison with the risk reporting in the previous year.

Summarised overview of corporate risks and opportunities

In the view of Hapag-Lloyd's Executive Board, the key risks relate to a possible decline in transport volume growth and a noticeably negative trend in the average freight rate. Both risks are influenced by risks from capacity bottlenecks at ports and in regional logistics chains. The key risks also include a potential sharp rise in the bunker consumption price and a cyberattack on information technology and security.

In the opinion of Hapag-Lloyd's Executive Board, the key opportunities relate to a positive trend in the average freight rate, a sharper than expected increase in transport volume and a reduction in the bunker consumption price.

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

Risks are assigned to internally defined risk classes according to the net perspective of their financial impact and probability of occurrence, i.e. after including the effect of risk responses. Opportunities are classified on the basis of the same size categories for assessing the Group's risk situation in internal Group risk reports.

The financial net impact on the Group's targets, mainly EBIT, in the 2022 financial year is classified as follows:	Risk impact class	Opportunity impact class	Financial impact ranges
	Bearable	Low	≤ USD 100 million
	Severe	Medium	> USD 100 million ≤ USD 250 million
	Critical	High	> USD 250 million

The net probability of risks and opportunities occurring based on the planning assumptions for the 2022 financial year as at the time of preparation of the management report is classified as follows:	Probability class	Probability ranges
	Remote	< 10%
	Low	≥ 10% ≤ 25%
	Medium	> 25% ≤ 50%
	High	> 50%

In addition, the probability of occurrence regarding the risk and opportunity situation was compared with the previous year's assessment.

The assessment of the risk and opportunity situation compared to the previous year results from the change in the probability of occurrence:	Change class	Change probability of occurrence
	Lower	significantly lower
	Equal	unchanged
	Higher	significantly higher

Key risks and opportunities

	Risks			Opportunities		
Risks and opportunities	Potential impact	Probability of occurence	Probability of occurrence in 2022 in comparison to the previous year	Potential impact	Probability of occurence	Probability of occurence in 2022 in comparison to the previous year
Fluctuation in transport volume	Critical	Medium	Equal	Medium	Remote	Lower
Fluctuation in average freight rate	Critical	Low	Equal	Medium	Medium	Equal
Bunker consumption price fluctuation	Critical	Medium	Equal	Medium	Remote	Lower
Information technology & security – cyberattack	Severe	Medium	Equal	–	–	–
Risks from capacity bottlenecks at ports and in regional logistics chains	Bearable	Medium	Equal	–	–	–

Economic risks and opportunities

General economic development

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

Developments in the global economy and, by extension, the expected volumes of container transport remain subject to a high degree of uncertainty in 2022. A detailed forecast can be found in the "General economic conditions" chapter as well as in the "Outlook" section.

The pace at which the global economy grows and the resulting increase in global trade is a significant factor that influences demand for container shipping services and thus the development of the container shipping companies' cargo volumes. Extraordinary events could have a sustained negative impact on growth expectations. The COVID-19 pandemic continues to have a negative global impact on society and the economy at the start of 2022. New waves of infection worldwide and the occurrence of new virus variants continue to hamper economic recovery, despite the cautiously optimistic outlook as a result of successes in vaccine research and progress in vaccination efforts. The resulting uncertainties regarding the progression of the COVID-19 pandemic cannot be estimated conclusively for the remainder of the year.

Seabury believes that the volume of global container shipments will rise by 3.0% in 2022. If the economic recovery and, by extension, the demand for container shipping services progresses at a faster rate than forecast in the current year, this would present an opportunity to achieve additional volume growth.

Trade flows and changes in general political conditions

The utilisation of the Group's transport and container capacities is influenced by the development of the trade flows between the various geographic regions. In the case of transport between regions comprising net exporters and regions comprising net importers, capacity utilisation in the two directions is divergent. This results in empty legs and associated costs. An increasing imbalance in global trade could further push up the costs associated with empty legs and therefore have a negative impact on the earnings position. In addition, tighter import restrictions and escalating trade disputes could lead to a temporary weakening and relocation of Asian imports and exports.

Hapag-Lloyd is active in many countries around the world. Its commercial activities can be hindered by political tension, wars, terrorism, and economic and social problems such as raw materials shortages and supply bottlenecks. This can result in disruptions to the production and supply chains of its customers or have adverse effects on its own liner services. As a further consequence of such disruption, ports or other major shipping channels (Panama Canal, Suez Canal) might be hindered as a further result. Individual countries could react to financial or economic crises by resorting to protectionist measures, for example by introducing import or foreign exchange restrictions. Other countries could initiate countermeasures, thereby encouraging protectionism around the world. This would have a negative impact on the development of container shipping, resulting in a directly negative effect on Hapag-Lloyd's revenue and earnings.

The increasing industrialisation of the emerging economic regions in Latin America, Asia and Africa, and the rising consumption in these countries may result in more goods being exchanged between each other and with industrialised nations. This could offer additional opportunities for growth in container shipping in 2022 as a result of new economic and trade agreements. Hapag-Lloyd is endeavouring to participate in these growth markets with a suitable service network, which could have a positive impact on the transport volume, beyond the expectation considered in the outlook.

Sector- and company-specific risks and opportunities

Fluctuation in average freight rate and transport volume

In respect of the development of freight rates and transport volumes, there are differences between the various trades in which Hapag-Lloyd is active. Freight rates and transport volumes in container shipping are traditionally subject to sharp seasonal fluctuations. Freight rate developments are largely determined by the transport capacities available and in demand within a trade. Hapag-Lloyd's membership of an alliance is important for it to be able to cover all the key trades and offer a global service network. Hapag-Lloyd's membership of THE Alliance puts it in a position to offer its own customers a comprehensive network of liner services on important trades with regular departure times, which would not be possible with its own fleet. This means the Company is better able to capitalise on opportunities arising from developments in transport volumes and vessel capacities. The development of transport volumes depends heavily on economic activity in the regions linked together by the trades. Hapag-Lloyd is working continuously on the further development of IT-based forecast models in order to minimise empty legs and reduce the costs incurred because of them. This results in cost advantages if efforts to reduce the empty leg ratio to below the market average prove to be successful, which could have a positive effect on the earnings position.

In addition to a further foreseeable increase in transport capacities in the market in the medium term, among other things due to newly commissioned new vessels, and the currently extraordinarily positive development of the capital and liquidity situation of the leading container shipping lines, the market entry of new players from outside the industry may also lead to greater price competition in individual trades. In addition, the possible effects of the COVID-19 pandemic mean that there is a high degree of uncertainty regarding economic developments, and therefore the level of demand. If freight rates or transport volumes do not deliver the expected contribution to earnings, this could have a negative effect on Hapag-Lloyd's earnings position and liquidity.

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

Fluctuation in bunker consumption price

Hapag-Lloyd's business activity exposes it to market price risks arising from the procurement of fuels (bunker fuel) for the container vessel fleet. Bunker fuel expenditure accounts for a substantial proportion of overall operating costs. Fluctuations in bunker consumption prices have a delayed effect on transport expenses, depending on when the bunker fuel was purchased and subsequently consumed. The bunker consumption price is the most important factor influencing fuel costs, which is one of the main cost components for the container shipping industry. In the 2021 financial year, the cost of the vessels' fuel amounted to 7.5% of the Hapag-Lloyd Group's revenue.

Changes in the price of bunker fuel are aligned with the price of crude oil, which has been subject to substantial fluctuations and influenced by a number of economic and geopolitical factors in the past. A steady price increase was recorded at the start of 2021 compared with the price level at the end of 2020. With the temporary easing of the pandemic situation and the strong development of demand worldwide, the price increase continued as the year progressed. At the beginning of 2022, the increase in bunker prices from the end of 2021 persisted. If this trend continues further, it is likely to cause fuel costs to increase more sharply than forecast. Decreasing bunker prices would have an opposite effect.

To limit the effect that rising bunker consumption prices have on its shipping costs, Hapag-Lloyd is endeavouring to offset a portion of the fluctuations in raw materials prices by means of the Marine Fuel Recovery (MFR) mechanism on freight rates. In addition to various parameters, the MFR mechanism takes account of price fluctuations with an optimised coverage of upward and downward movements in fuel market prices. However, the extent to which this can be implemented depends heavily on the prevailing market situation. If the cost increases cannot be passed on to customers, or can only be passed on in part, this will have a negative impact on earnings. In general, price risks emanating from fuel procurement can be hedged by means of hedging transactions in accordance with the internal strategy.

Risks from capacity bottlenecks at ports and in regional logistics chains

Over the past few years, capacities in container shipping have grown more quickly than the number of available berths at the ports. If transport and container capacities were increased further, the loss of time at the ports concerned could be even greater. Furthermore, imbalances in trade flows could culminate in regional bottlenecks in the availability of vessel and container capacities. This, along with pandemic-related temporary (partial) closures of container terminals, could lead to waiting times at the ports in question and result in a sometimes considerable amount of lost time during loading and unloading of the vessels as well as higher warehousing costs. If these cost increases for longer dwell times of containers cannot be fully passed on to customers and the delays in the transport chains cannot be reduced, this could lead to a negative impact in the earnings position and transport volumes.

Labour disputes at the ports could likewise make it difficult to adhere to timetables and possibly result in substantial additional costs, with negative effects on Hapag-Lloyd's earnings. This would make it harder to keep to the timetables and could put pressure on Hapag-Lloyd's earnings and financial position.

As a result of ongoing exceptionally high demand and inflationary pressures, there is another risk related to price increases for tariffs for services at terminals as well as the reduction of the included dwell time for containers. The negative impact on the financial and earnings position is classified as bearable and the probability of occurrence as high.

Information technology and security

Information and communication technologies are indispensable to Hapag-Lloyd for executing, managing, documenting and developing its business processes globally. The availability of IT systems enables continuous processing of data to ensure efficient management of business processes and costs.

An IT systems failure, for example due to defective hardware and software components or also due to cyberattacks, could hinder business processes and lead to higher costs as a result of business interruptions. To reduce these risks, the IT systems are protected in several ways. Hapag-Lloyd is certified in accordance with ISO 27001 as well as ISO 27701 and has a corresponding information security management system to respond to information security risks. Accounting for these and other risk responses, the negative impact on the financial and earnings position both from a cyberattack as well as from an unplanned, restricted availability of central IT systems is considered severe and the probability of occurrence of such events is classified as medium.

Fluctuation in charter rates

Within the framework of a charter contract, a vessel owner puts a vessel at the disposal of a container liner shipping company for a contractually agreed period, with the owner usually also providing the crew, insuring the vessel and taking responsibility for maintenance. As charter rates are subject to severe fluctuations influenced by how market participants anticipate that supply of and demand for vessel capacities will develop in the future – especially for short-term contracts – chartering vessels in periods of increasing demand can be more expensive than operating own vessels.

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

It cannot be ruled out that charter rates could rise further in the future, despite already being at a high level, and that it might not be possible to pass on these cost increases to customers in the form of higher freight rates. The market fluctuations between the supply of and demand for transport services can lead to opportunities as a result of the achievement of cost advantages and increasing freight rates. If there is a large inventory of chartered vessels, there may be cost advantages lasting several months if vessels are chartered at favourable rates and the freight rates increase as a result of higher demand. This could have a positive effect on Hapag-Lloyd's earnings position.

Risks from the operation of ships

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

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

Risks arising from the loss of the US flag business

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

Financial risks and opportunities

Management of financial risks

Hapag-Lloyd has a worldwide presence through its business activities. Within the scope of its ordinary business activities, Hapag-Lloyd is primarily exposed to currency risks and liquidity risks, which can have a significant impact on its earnings, financial and net asset position. Further information on the Group's financial position and the management of financial risks can be found in the economic report.

US dollar exchange rate fluctuations

In international container shipping, the US dollar is the currency in which the bulk of services are usually invoiced. This applies to freight and charter rates, fuel, and the financing of containers and vessels. The US dollar is the functional currency within the Hapag-Lloyd Group. However, the Group is a business which conducts its operations worldwide and is therefore exposed to the risk of exchange rate fluctuations because various currencies account for its income and expenses. This also applies to financial debt assumed in euros.

The reporting currency for the Hapag-Lloyd Group and the individual financial statements of Hapag-Lloyd AG is the euro. Changes in the USD/EUR exchange rate thus have a considerable impact on the key financial indicators reported in the annual and quarterly financial statements. As a result, the key financial indicators reported in euros can diverge significantly from the key financial indicators for the operating activities reported in US dollars.

The materiality of exchange rate fluctuations is monitored on an ongoing basis. If necessary, the Group hedges a portion of its net cash outflows using a rolling hedge with the aim of limiting currency risks in the consolidated financial statements. Despite this, fluctuations in exchange rates can have an influence on Hapag-Lloyd's earnings position.

Liquidity and access to capital markets

The financial management is managed centrally at Hapag-Lloyd and aims to ensure the permanent solvency of the Company and thus its ability to maintain financial stability at all times. The Company secures an adequate liquidity reserve for itself by means of syndicated credit facilities and bilateral bank loans credit facilities, as well as its portfolio of cash and cash equivalents. In addition, lending limits (so-called loan-to-value ratios) are typically agreed in vessel loans, which are reviewed continuously (usually every 6 months) by the lenders. Failure to meet these loan-to-value ratios usually means that adequate replacement collateral has to be procured or a corresponding unscheduled repayment has to be made under the loan. Should this not be possible, the undercutting of the quotas could have a negative impact on the liquidity supply and the financial position of Hapag-Lloyd. As at the reporting date, the used-market prices for vessels provide a sufficient buffer in the loan-to-value ratios of the Company's vessel loans. 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. Compliance with any equity and liquidity indicators is monitored on a regular basis. Non-compliance with the clauses could have a negative impact on liquidity supply and Hapag-Lloyd's financial position. The probability of occurrence of this risk in the outlook period is classified as very remote.

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

Risks arising from the impairment of goodwill and other intangible assets

In the event that an impairment test identifies the need to recognise an impairment charge for goodwill or for other intangible assets, this could have a significant negative effect on Hapag-Lloyd's earnings position and equity base. An impairment test as at 31 December 2021 did not identify any need for an impairment charge. As a result, the probability of a potential need for an impairment of goodwill or other intangible assets is classified as remote at the time of reporting.

Risks arising from investments

Hapag-Lloyd has a 25.1% stake in HHLA Container Terminal Altenwerder GmbH (CTA). CTA operates Container Terminal Altenwerder in the Port of Hamburg. CTA's earnings position, and therefore its dividend distributions and investment value, are dependent on the demand for services at the terminal. A decrease in container throughput would have a negative impact on the earnings position of CTA and therefore also on the earnings position of Hapag-Lloyd and could negatively affect CTA's investment carrying amount.

Credit default risks

In order to prevent or reduce bad debt losses, Hapag-Lloyd operates a uniform, centrally controlled receivables management system. Its components include a standardised approval procedure for granting loans, complete with a creditworthiness risk check, securing the customer receivables by means of credit insurance, and a centrally managed reporting system for monitoring the outstanding amounts, including their age structure and the guidelines and rules of receivables management. Please refer to Note (13) Trade accounts receivable and other assets of the consolidated financial statements for information on the scope and type of credit risks as at the balance sheet date.

Bank default risk management covers the Hapag-Lloyd Group's derivative financial instruments and financial investments. The maximum default risk of the derivative financial instruments concluded is restricted to the sum of the positive market values of all of these instruments because the financial damages in the event of their non-fulfilment by the contractual partners would not exceed this amount. No default risks are expected as derivative financial instruments have been concluded with different borrowers of impeccable credit standing. Nonetheless, the counterparty risk is managed by means of internal bank limits and monitored constantly to restrict the risk position by adjusting the limit if necessary.

Interest rate fluctuations

Interest rate fluctuations which arise as a result of raising new funds are reduced with a balanced portfolio of fixed and variable interest rate structures. Interest rate hedges can be implemented further, if necessary.

Legal risks and opportunities

Legal and regulatory frameworks

As a container shipping company, Hapag-Lloyd is subject to numerous regulations with domestic and international applicability. The alteration or broadening of such regulations and the necessity of obtaining further authorisations can be a burden on the course of business and possibly require a change of procedures.

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

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

Against the background of the current extraordinary market conditions in container shipping and their impact on global supply chains, regulatory measures could be taken to promote transparency and ensure fair conditions of competition especially with regards to passing on the increased detention and demurrage charges. A financial risk as a consequence of investigations into potential distortions of competition exists in the form of costs for legal disputes, the ordering of fines as well as possible retroactive claims from customers.

In the age of digitalisation, data protection and data security are crucial in maintaining confidence between customers and companies. The introduction of the General Data Protection Regulation (GDPR) has bolstered the trend towards more stringent data protection regulations and stricter penalties, particularly in Asia and Latin America. In addition to conventional data protection regulation, some countries and multinational organisations are seeking greater standardisation in the area of IT security and the regulation of data sovereignty.

Furthermore, the increasing digitalisation of business processes is altering Hapag-Lloyd AG's risk exposure, which means that the additional risks relating to data protection law must be continuously assessed and managed. The probability of occurrence of such risks is classified as low and the net impact on Hapag-Lloyd's earnings before interest and taxes (EBIT) as bearable.

Climate and environmental protection regulations and decarbonisation

Achieving the 1.5-degree target of the Paris climate protection agreement involves major research and investment efforts. The maritime industry has invested in climate and environmental protection in recent years and will intensify such activities in the future. To ensure that instruments are as standardised and effective as possible, the tightening of existing regulations and the development of further measures by the International Maritime Organization (IMO) and supranational institutions are to be expected.

In the 2021 financial year, Hapag-Lloyd developed an enhanced sustainability strategy whose main focus is the reduction of greenhouse gases with the goal of a carbon-neutral fleet by 2045. A tightening of existing legal requirements or regulatory timeframes to reduce greenhouse gas emissions could bring transition risks with them, including in the form of higher costs and a need for greater investment in technological innovations. This, in turn, could have a negative impact on the ability to achieve medium and long-term objectives.

Risks relating to legal disputes as well as tax and customs regulations

Hapag-Lloyd AG and some of its subsidiaries are currently involved in legal disputes. These include disputes with foreign tax authorities, claims asserted by former employees and disputes arising from contractual relationships with suppliers, former agents and customers. Even if the Company is successful in legal disputes, they can involve higher expenses with a negative impact on the earnings position if uninsured and can damage the Company's reputation. The probability of occurrence of these risks is classified as low from an overall perspective.

Hapag-Lloyd is also subject to regular tax audits in various countries where the Group conducts large-scale business activities (e.g. Germany, India, USA). These tax audits may lead to the payment of tax arrears. To the extent that the Company can expect to incur charges and these charges are quantifiable, these were accounted for by creating corresponding provisions. The probability of occurrence of these risks is classified as low from an overall perspective.

OVERALL ASSESSMENT OF RISKS AND OPPORTUNITIES

The assessment of Hapag-Lloyd's overall risk picture is the result of a consolidated analysis of all of the Group's significant individual risks and opportunities. After the reporting date of 31 December 2021, there are currently no indications of any risks, either alone or in combination with other risks, which endanger the continued existence of Hapag-Lloyd as a going concern. The occurrence of one or more of these risks could have a substantial negative impact on the industry and, by extension, on the business development of Hapag-Lloyd in the 2022 financial year, which could also lead to impairments on goodwill, other intangible assets and property, plant and equipment.

The main risk facing Hapag-Lloyd in 2022 continues to be a market environment characterised by a strong level of competition, congested transport infrastructure and volatile fuel prices, which could lead to recurring pressure on freight rates and on the ability to adhere to timetables and therefore on transport volumes. This, in turn, could have a significant potential impact on the earnings position. The outlook for global economic performance is positive, and this should lead to increasing global trade and therefore to growing demand for container transport services. This outlook for the year is subject to a particular degree of uncertainty in view of the current situation in Ukraine and its consequences as well as due to the impact of the ongoing COVID-19 pandemic on a sustainable recovery of economic developments and therefore also on the development of the container transport volume, which still cannot be conclusively assessed.

Description of the significant characteristics of the internal control system

Concept and objectives

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

The primary objectives of the accounting-related ICS are to decrease the risk of significant errors in accounting, detect substantially incorrect valuations and ensure compliance with applicable accounting regulations. The principles, processes and measures implemented to this end are regularly checked and enhanced. Irrespective of its form or structure, however, an ICS cannot provide absolute assurance that these objectives will be achieved.

Organisation and significant processes in accounting and consolidation

Hapag-Lloyd AG prepares its annual financial statements in accordance with German accounting standards and its consolidated financial statements in accordance with the requirements of IFRS. An IFRS accounting guideline is used. This is codified in the form of procedures and regulations. Changes to the legal provisions and standards are constantly monitored and the accounting guidelines and procedures are examined promptly for any adjustments that might be required.

The central Accounting department has overall responsibility for the consolidation process, the preparation of the financial statements as well as the Group and individual reporting. Information is obtained from other departments and processed in the course of preparing the financial statements. This includes information from the central Treasury & Finance department for the reporting of hedge relationships and financial derivatives, and information from the central Controlling department pertaining to Company planning in relation to the impairment tests.

Individual items are accounted for based on the input of external specialists and appraisers, such as actuaries for pension valuation. The process of preparing the financial statements is carried out in accordance with a detailed time schedule (the financial statements calendar), which is agreed with the departments and subsidiaries. The central Accounting department is responsible for ensuring that these time limits are adhered to. Accounting throughout the Group is supported by means of suitable and standard market accounting systems at Hapag-Lloyd AG and its subsidiaries. The subsidiaries send Group reporting packages needed for the preparation of the consolidated financial statements. These packages are compiled to form the consolidated financial statements using the SAP Financial Consolidations (FC) system. The necessary steps to be taken in the consolidation process are performed by the central Accounting department.

General internal control activities

Potential effects on financial reporting are often already taken into consideration in the organisational environment, e.g. significant investments and financing should already be agreed on with the central Accounting department before being approved by the Executive Board, particularly in light of their presentation in the financial statements, and are critically assessed with regard to their impact on the individual and consolidated financial statements. Further risks are also identified and evaluated by having the Head of Accounting preside over the Risk Committee to ensure that significant developments or events within the Group and their potential accounting-related effects can be identified and assessed at an early stage. Compliance with accounting and valuation regulations is monitored by internal controls.

Some of these internal controls are integrated into processes, while others are established independently of them. These internal controls encompass preventive as well as detective activities.

Segregation of duties and a dual control rule have been implemented as fundamental process-integrated controls to ensure proper accounting. For example, entries are authorised by internal approval and release procedures. The access controls that have been implemented in the IT systems should also ensure that the booking systems can only be accessed by authorised employees. In addition, reports concerning changes and exceptions, for example, are verified as detective control activities for selected areas.

The Corporate Audit department has a fundamental supervisory role to play in the process-independent control measures. The Corporate Audit department reports to the CFO of Hapag-Lloyd AG and has a wide range of information, audit and access rights to enable it to fulfil its role as an internal auditor and advisor. The subjects examined by the Corporate Audit department are systematically selected using a risk-based approach to auditing. They regularly include processes and internal controls, which are relevant to accounting. In 2021, the Corporate Audit department was once again subject to an independent quality assessment examining compliance with the professional regulations issued by the German Institute of Internal Auditors (DIIR).

ICS verification process

Hapag-Lloyd AG has put in place a standard procedure to confirm the establishment of the ICS. The results of this procedure are annually summarised in a report (ICS verification process). On this basis, the Executive Board informs the Hapag-Lloyd AG Audit Committee about the ICS.

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

GENERAL PRINCIPLES / PRELIMINARY REMARKS

The Hapag-Lloyd Group is essentially defined by the activities of the parent company Hapag-Lloyd AG, domiciled in Hamburg. The subsidiaries of Hapag-Lloyd AG mainly act as agencies on behalf and for the account of Hapag-Lloyd AG.

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

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

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

Hapag-Lloyd AG has the following key branch offices active in the areas of sales and operations: Hapag-Lloyd Rotterdam (Rotterdam, Netherlands), Hapag-Lloyd Antwerp (Antwerp, Belgium), Hapag-Lloyd Denmark (Holte, Denmark) and Hapag-Lloyd Poland (Gdańsk, Poland).

As at 31 December 2021, Hapag-Lloyd AG's fleet comprised 245 container ships, 76 of which it owns including leases with purchase option / obligation at end of term (previous year: 228 ships, 71 of which it owned). The number of employees of Hapag-Lloyd AG was 3,848 on the reporting date (previous year: 3,672).

ECONOMIC REPORT

Report on Hapag-Lloyd AG's development in 2021 compared with the forecast
In the 2020 combined management report of the Hapag-Lloyd Group, earnings from operating activities before the effects of foreign currency valuation in the 2021 financial year were forecast to be considerably higher than the previous year's level for Hapag-Lloyd AG. With earnings from operating activities of EUR 8,503.7 million in 2021, the result was significantly up on the previous year's figure (prior year period: EUR 1,198.1 million) and considerably higher than the Executive Board's original expectations. The improvement in earnings was primarily due to the sharp rise in freight rates with a transport volume at the previous year's level and a significant rise in the bunker consumption price. The main reasons for these developments are described in detail in the economic report of the Group's combined management report and the following earnings, financial and net asset position of Hapag-Lloyd AG.

Earnings, financial and net asset position
The general economic and sector-specific conditions of Hapag-Lloyd AG are essentially the same as those of the Group and are described in the Economic report of the combined management report. The integration of the Dutch shipping company NileDutch acquired in the current financial year had no significant impact on the earnings, financial and net asset position so that the comparability of the two financial years is not impaired in this respect.

Earnings position
The 2021 financial year was dominated by ongoing strong demand for container transport and disruptions to the global transport chains due to the COVID-19 pandemic. The resulting bottlenecks in transport capacities led to a sharp increase in freight rates compared with the previous year. This more than compensated for the pressure on earnings caused by both the additional costs that resulted from the congestion of the port and hinterland infrastructure and the significant rise in the bunker consumption price. Hapag-Lloyd AG's transport volume in the 2021 financial year was on the previous year's level. At the same time, the USD/EUR exchange rate of USD 1.13/EUR as at the reporting date of 31 December 2021 was stronger (previous year: USD 1.23/EUR), which also had a positive effect on earnings. At USD 1.18/EUR, the average USD/EUR exchange rate was 4 cents higher than the USD/EUR exchange rate in the corresponding prior year period (USD 1.14/EUR). These developments increased earnings from operating activities by EUR 7,305.6 million overall to EUR 8,503.7 million. In total, Hapag-Lloyd AG recorded a net profit of EUR 8,959.6 million in the 2021 financial year (prior year period: EUR 1,008.6 million).

Notes to the income statement

million EUR	1.1.–31.12.2021	1.1.–31.12.2020
Revenue	21,710.6	12,588.8
Increase in capitalised expenses for unfinished voyages	68.1	55.9
Other own work capitalised	6.4	8.9
Other operating income	1,592.2	1,328.3
Transport expenses	–11,653.0	–10,156.0
Personnel expenses	–369.3	–298.1
Depreciation, amortisation and impairment	–546.0	–476.3
Other operating expenses	–2,305.4	–1,853.5
Operating result	**8,503.7**	**1,198.1**
Financial result	540.2	–129.1
thereof interest result	–48.9	–136.8
Taxes on income	–19.3	–8.4
Result after taxes	**9,024.6**	**1,060.6**
Other taxes	–65.0	–52.0
Net gain for the year	**8,959.6**	**1,008.6**
Retained earnings brought forward	631.8	238.4
Balance sheet profit	**9,591.4**	**1,247.0**
EBIT	**9,024.5**	**1,150.6**
EBIT margin (%)	**41.6**	**9.1**
EBITDA	**9,570.5**	**1,626.9**
EBITDA margin (%)	**44.1**	**12.9**

In the 2021 financial year, revenue rose by around 72% to EUR 21,710.6 million (prior year period: EUR 12,588.8 million). This was due to the sharp increase in the average freight rate as a result of the uninterrupted high level of demand with a transport volume on previous year's level. Hapag-Lloyd AG transported a total of 11,767 TTEU in the financial year (prior year period: 11,729 TTEU), which was an increase of 38 TTEU, or 0.3%. The average freight rate for the 2021 financial year stood at USD 2,006 / TEU (prior year period: USD 1,111 / TEU) and therefore rose by USD 895 / TEU, or approximately 81%.

Other operating income increased from EUR 1,328.3 million to EUR 1,592.2 million in the reporting year. The main reason for this was higher exchange rate gains compared to the prior year period of EUR 1,383.6 million (prior year period: EUR 1,199.4 million). These primarily resulted from the measurement of foreign currency items as at the reporting date due to the change in the USD/EUR exchange rate.

In the 2021 financial year, transport expenses rose by EUR 1,497.0 million to EUR 11,653.0 million (prior year period: EUR 10,156.0 million), representing an increase of approximately 15%. Within transport expenses, expenses for raw materials and supplies rose by EUR 296.8 million to EUR 1,703.5 million (prior year period: EUR 1,406.7 million) in particular as a result of the higher average bunker consumption price. The increase in the cost of purchased services of EUR 1,200.2 million to EUR 9,949.5 million was mainly attributable to the higher share of demurrage and storage charges for containers due to partial congestion of port and hinterland infrastructure and local COVID-19 restrictions. A rise in charter rents for ships also contributed to the increase.

Personnel expenses rose year-on-year by approximately 24% to EUR 369.3 million (prior year period: EUR 298.1 million) as a result of a structural adjustment to the bonus system for employees as well as growth in the number of employees at Hapag-Lloyd AG and the associated increase in wages and salaries. As at 31 December 2021, a total of 3,848 people (including apprentices) were employed at Hapag-Lloyd (previous year: 3,672). There was a fall in the personnel expenses ratio as a percentage of revenues from 2.4% in the 2020 financial year to 1.7%.

Depreciation, amortisation and impairment of EUR 546.0 million was recorded in the 2021 financial year (prior year period: EUR 476.3 million). The increase here essentially resulted from higher depreciation due to investments in containers and ships during the financial year. In addition, the extension of the useful life of containers from 13 to 15 years in the current financial year caused depreciation to fall by EUR 28.0 million in 2021 while the reduction of the useful life of selected container ships prompted depreciation to rise by EUR 40.3 million in 2021. The individual re-determination and thus shortening of the estimated remaining useful lives by one to five years for selected ships was carried out after assessing the impact of new environmental regulations on the profitability and efficiency of individual older ships particularly affected by this.

The rise in other operating expenses of EUR 451.9 million to EUR 2,305.4 million was mainly caused by higher exchange rate losses, including bank charges, in the amount of EUR 1,290.3 million (prior year period: EUR 998.0 million). These were largely due to the valuation of foreign currency amounts with affiliated companies on the reporting date. Netted, the exchange rate-related other operating income and other operating expenses resulted in an improvement in earnings of EUR 93.3 million (prior year period: EUR 201.4 million).

Earnings from operating activities in the last financial year were EUR 8,503.7 million (prior year period: EUR 1,198.1 million). Earnings before interest and taxes (EBIT) also include income from profit transfer agreements, income from investments, amortisation and write-backs of financial assets, expenses from the transfer of losses and other taxes and came to EUR 9,024.5 million as at the reporting date (prior year period: EUR 1,150.6 million). Compared to the Group's EBIT of EUR 9,389.8 million, the German Commercial Code (HGB) earnings are slightly lower. This was primarily caused by the inclusion of subsidiary earnings within the Group and different accounting and valuation methods according to IFRS and HGB. This effect was offset by the investment income from dividend distributions included in the annual financial statement of Hapag-Lloyd AG, which rose by EUR 431.1 million to EUR 511.5 million in the financial year 2021. Earnings before interest, taxes, depreciation and amortisation (EBITDA), defined as EBIT excluding depreciation and amortisation, came to EUR 9,570.5 million (prior year period: EUR 1,626.9 million) and were significantly lower than the figure for the Group of EUR 10,852.6 million (prior year period: EUR 2,700.4 million). In addition to the reasons detailed above, the recognition of leases in accordance with IFRS 16 has increased this difference between the financial statements of Hapag-Lloyd AG and the Group since the 2019 financial year because lease expenses continue to be fully included in transport expenses in the individual financial statements of Hapag-Lloyd AG.

In the 2021 financial year, the financial result improved by EUR 669.3 million to EUR 540.2 million (prior year period: EUR –129.1 million). The main reasons for this were a rise in income from investments of EUR 431.1 million to EUR 511.5 million, write-backs of financial investments in the amount of EUR 70.2 million in 2021 and impairments of financial investments in the previous year in the amount of EUR 80.2 million. In addition, interest expenses for bonds, bank loans and liabilities to affiliated companies decreased by EUR 50.7 million.

A net profit of EUR 8,959.6 million was reported for the 2021 financial year (prior year period: EUR 1,008.6 million). Including retained earnings carried forward of EUR 631.8 million after distribution of a dividend of EUR 615.2 million, the Company recorded retained earnings of EUR 9,591.4 million (previous year: EUR 1,247.0 million).

Financial and net asset position

Changes in the asset structure

million EUR	31.12.2021	31.12.2020[1]
Assets		
Fixed assets	9,050.5	8,006.9
thereof property, plant and equipment	6,068.4	5,233.6
Current assets	11,931.6	2,585.2
thereof cash-in-hand, bank balances and cheques	7,460.0	554.2
Prepaid expenses	21.7	12.3
Total assets	**21,003.8**	**10,604.4**
Equity and liabilities		
Equity	12,265.1	3,920.7
Provisions	1,491.3	1,052.8
Financial liabilities	825.0	957.0
thereof short-term	117.9	125.1
Sundry liabilities	6,417.9	4,671.4
thereof short-term	4,937.8	2,642.9
Deferred income	4.5	2.5
Total equity and liabilities	**21,003.8**	**10,604.4**
Net financial position (liquid assets – financial debt)	6,635.0	–402.8
Equity ratio (%)	58.4	37.0

[1] The exercise of the option for the reporting of advance payments received was changed. The advance payments received from unfinished voyages were previously openly deducted from inventories and were reported as a liability in the 2021 financial year in order to avoid a negative value for the item inventories. The reporting of the corresponding previous year's values was also adjusted and led to an increase in current assets and an increase in other liabilities of EUR 256.7 million in the previous year.

Compared to the previous year, Hapag-Lloyd AG's balance sheet total increased by EUR 10,399.4 million, from EUR 10,604.4 million to EUR 21,003.8 million as at 31 December 2021. Fixed assets rose by EUR 1,043.6 million to EUR 9,050.5 million, and current assets by EUR 9,346.4 million to EUR 11,931.6 million.

Within fixed assets, intangible fixed assets decreased from EUR 983.7 million to EUR 946.8 million, which was essentially due to the amortisation of goodwill in the amount of EUR 72.2 million. Property, plant and equipment increased by EUR 834.8 million to EUR 6,068.4 million. This includes investments of EUR 1,308.6 million relating primarily to investments in containers of EUR 869.2 million, and in ocean-going vessels of EUR 147.2 million. This effect was offset in particular by depreciation on property, plant and equipment totalling EUR 467.3 million. The increase in financial assets of EUR 245.8 million primarily related to the acquisition of the investment in the shipping company Nile Dutch Investments B.V. in the amount of EUR 118.9 million and three investments in ship-building companies in the amount of EUR 49.3 million. In addition, write-backs of financial investments in the amount of EUR 70.2 million were recognised in the 2021 financial year due to increased earnings prospects at two subsidiaries.

The change in current assets resulted primarily from the increase in accounts receivable and other assets of EUR 2,226.4 million to EUR 3,885.5 million and a sharp rise in cash and cash equivalents of EUR 6,905.8 million to EUR 7,460.0 million as a result of a positive operating cash flow. In addition to trade accounts receivable totalling EUR 1,242.2 million (previous year: EUR 580.6 million), accounts receivable and other assets primarily included accounts receivable from affiliated companies in the amount of EUR 2,454.5 million (previous year: EUR 919.9 million). The rise in intercompany accounts receivable was due to the increase in the shareholder loan to the subsidiary Hapag-Lloyd Special Finance relating to a programme to securitise trade accounts receivable. The development of trade accounts receivable was characterised by the higher freight rates and a corresponding increase in the billing of services.

As at 31 December 2021, Hapag-Lloyd AG had equity totalling EUR 12,265.1 million (previous year: EUR 3,920.7 million). The year-on-year change was due to a significantly increased net profit for the year of EUR 8,959.6 million (previous year: EUR 1,008.6 million). Taking into account a distribution from the previous year's retained earnings in the amount of EUR 615.2 million and remaining retained earnings carried forward from the previous year of EUR 631.8 million, as at 31 December 2021 there were retained earnings of EUR 9,591.4 million (previous year: EUR 1,247.0 million). The equity ratio was approximately 58% as at 31 December 2021 (previous year: approximately 37%).

Provisions rose from EUR 1,052.8 million to EUR 1,491.3 million in the reporting period. This includes increases for provisions for outstanding invoices of EUR 288.0 million, provisions for guarantee, warranty and liability risks of EUR 36.5 million and provisions for personnel expenses of EUR 36.0 million.

Financial liabilities came to EUR 825.0 million at the reporting date (previous year: EUR 957.0 million). They comprise a bond issued by Hapag-Lloyd AG and liabilities to banks. The decrease in financial liabilities resulted from scheduled and early debt repayments during the reporting year totalling EUR 573.8 million. This included the early partial redemption of a EUR bond issued in 2017 in the amount of EUR 300.0 million. The utilisation of financial liabilities in the amount of EUR 420.4 million, including the placement of a sustainability-linked euro bond totalling EUR 300.0 million, had an offsetting effect. More detailed information on individual financing activities is provided under Group financial position. The reporting date valuation effects relating to financial liabilities denominated in US dollars resulted in a EUR 27.8 million increase in financial liabilities (previous year: decrease of EUR 78.3 million).

Sundry liabilities increased from EUR 4,671.4 million to EUR 6,417.9 million and essentially comprised miscellaneous loans and other financial debt in the amount of EUR 1,633.4 million (previous year: EUR 1,821.6 million), liabilities to affiliated companies in the amount of EUR 2,425.6 million (previous year: EUR 1,392.4 million), trade accounts payable in the amount of EUR 1,419.6 million (previous year: EUR 1,115.3 million) and prepayments received for pending voyages in the amount of EUR 839.1 million (previous year: EUR 256.7 million). The exercise of the option for the reporting of advance payments received was changed. The advance payments received from unfinished voyages were previously openly deducted from inventories and were reported as a liability in the 2021 financial year in order to avoid a negative value for the item inventories. The reporting of the corresponding previous year's values was also adjusted and led to an increase in current assets and an increase in other liabilities of EUR 256.7 million in the previous year. EUR 1,009.1 million of the rise in intercompany liabilities was due to the increase in the liability to the subsidiary Hapag-Lloyd Special Finance in relation to a receivables securitisation programme.

For further details on the type and maturity structure of the liabilities in particular, we refer to Note (10) Liabilities in the Notes to the annual financial statements of Hapag-Lloyd AG.

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

Hapag-Lloyd AG's solvency was fully guaranteed at all times in the last financial year by cash inflows from operating activities, a portfolio of cash and cash equivalents, and both bilateral and syndicated credit facilities. The Company had a liquidity reserve (consisting of cash, cash equivalents and unused credit facilities) totalling EUR 7,976.9 million as at 31 December 2021 (previous year: EUR 1,030.7 million).

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

To hedge euro exchange rate risks, derivative hedging transactions are concluded, the hedging effect of which is only felt within the Group. Interest rate risks which arise as a result of liquidity procurement on the international money and capital markets are centrally managed within the scope of interest rate management and are partly limited using derivative interest rate hedging instruments.

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

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

OUTLOOK, RISK AND OPPORTUNITY REPORT

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

Due to the development of the operating result from operating activities of Hapag-Lloyd AG before the effects of foreign currency valuation as at the 2021 reporting date, earnings from operating activities can be expected at the previous year's level, assuming an unchanged USD/EUR exchange rate at the reporting date of 31 December 2022. This statement is to be considered in connection with the outlook for the Hapag-Lloyd Group for the 2022 financial year.

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

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

Hapag-Lloyd AG is included in the Group-wide risk management system and the internal control system of the Hapag-Lloyd Group. For more information, please refer to the Section "Description of the significant characteristics of the internal control system" in the combined management report.

REPORT BY THE EXECUTIVE BOARD ON RELATIONSHIPS WITH AFFILIATED COMPANIES

Pursuant to Section 312 of the German Stock Corporation Act (AktG), the Executive Board of Hapag-Lloyd AG prepared a report on relationships with affiliated companies for the period from 1 January to 31 December 2021, which contains the following conclusion: “Our Company received appropriate compensation for each legal transaction listed in the report on relationships with affiliated companies in accordance with the circumstances known to us when the legal transactions were conducted. No actions required by or in the interests of the controlling companies or their affiliated companies subject to a reporting obligation were taken or omitted.”

OTHER DISCLOSURES

DISCLOSURES AND NOTES RELEVANT TO THE TAKEOVER

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

1. Composition of subscribed capital

The Company's subscribed capital totalled EUR 175,760,293.00 as at the reporting date. It is divided into 175,760,293 no-par registered shares, with each individual share representing EUR 1.00 of the share capital. The shares are ordinary shares, without exception. Different share classes are not issued and are not provided for in the articles of association. Each share is eligible for voting rights and dividends from the time that it is created. Each share grants one vote at the Annual General Meeting (Section 15 (1) of the articles of association).

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

There is a shareholder agreement in force (the "Shareholders' Agreement") between CSAV Germany Container Holding GmbH, Hamburg ("CG Hold Co"), HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, Hamburg (HGV) and Kühne Maritime GmbH, Hamburg ("Kühne") (with CG Hold Co, HGV and Kühne being referred to collectively as the "Anchor Shareholders"). Under the Shareholders' Agreement, the Anchor Shareholders have agreed to exercise their voting rights in a uniform manner by issuing a joint proxy to their authorised representatives, along with binding instructions. To ensure uniform voting, the Anchor Shareholders intend to pass a resolution on how the pooled votes shall be cast prior to Annual General Meetings. If the Anchor Shareholders are unable to pass a unanimous resolution on their voting for any agenda item, the decision will be transferred to the decision-makers of the Anchor Shareholders' ultimate shareholders. If the ultimate shareholders cannot pass a unanimous decision either, the Anchor Shareholders should cast the votes (a) against the measure with regard to resolutions requiring a 75% majority of the votes cast or of the subscribed capital present at the time of adoption of the resolution pursuant to mandatory law or the articles of association or (b) each at their own discretion regarding the respective shares of each of the Anchor Shareholders on resolution proposals which, pursuant to mandatory law or the articles of association, require a simple majority.

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

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

3. Shareholdings that exceed 10% of the voting rights

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

CSAV Germany Container Holding GmbH, Hamburg, Germany, notified us on 5 November 2015 pursuant to Section 21 (1a) of the German Securities Trading Act (WpHG) that its share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 71.56% (corresponding to 84,524,291 voting rights). 31.35% of the voting rights (corresponding to 37,032,743 voting rights) are held directly by the Company. 40.21% of the voting rights (corresponding to 47,491,548 voting rights) are attributable to the Company pursuant to Section 22 (2) WpHG through Kühne Maritime GmbH and HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH.

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

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

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

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

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

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

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

Mr Klaus-Michael Kühne, Switzerland, notified us on 6 November 2015 pursuant to Section 21 (1a) WpHG that his share of voting rights in Hapag-Lloyd AG, Ballindamm 25, 20095 Hamburg, Germany, as at 4 November 2015 was 72.20% (corresponding to 85,274,291 voting rights). 51.98% of the voting rights (corresponding to 61,396,218 voting rights) are attributable to Mr Kühne pursuant to Section 22 (2) WpHG through CSAV Germany Container Holding GmbH and HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH. 20.22% of the voting rights (corresponding to 23,878,073 voting rights) are attributable to him pursuant to Section 22 (1) (1) (1) WpHG through Kühne Holding AG and Kühne Maritime GmbH, of which 3% or more are assigned in each case.

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

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

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

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

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

4. Holders of shares with special rights

There are no shares with special rights that confer powers of control.

5. Type of voting right control for employee investments

The Company is not aware of any employees who hold an interest in its capital and do not exercise their control over voting rights directly.

6. Rules on appointing and discharging members of the Executive Board and on amending the articles of association

The guidelines on the appointment and discharge of members of the Executive Board are based on Sections 84 and 85 of the German Stock Corporation Act (AktG) and on Section 31 of the German Co-Determination Act (MitbestG) in conjunction with Section 7 (1) of the articles of association. Pursuant to Section 7 (1) of the articles of association, the Executive Board shall comprise no fewer than two members. The Supervisory Board determines the number of members of the Executive Board; taking into account the minimum number of members, it may appoint one member of the Executive Board as the Chairperson and may appoint deputy members of the Executive Board.

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

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

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

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

Section 71 of the German Stock Corporation Act (AktG) includes rules regarding the acquisition of own shares. Furthermore, there is no authorisation of the Executive Board granted by the Annual General Meeting to buy back own shares.

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

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

a) As part of the bond issued by the Company with a value totalling EUR 300 million, the Company is obliged to offer to buy back the bonds from the bondholders at an amount equal to 101% of the respective nominal value plus interest accrued if, among other reasons, a third party who is not an Anchor Shareholder, IDUNA Vereinigte Lebensversicherung auf Gegenseitigkeit für Handwerk, Handel und Gewerbe, HanseMerkur Krankenversicherung AG, HanseMerkur Lebensversicherung AG, M.M.Warburg & CO Gruppe (GmbH & Co) KGaA (jointly also referred to as the "Key Shareholders"), Qatar Holding LLC or the Public Investment Fund of the Kingdom of Saudi Arabia, directly or indirectly acquires more than 50% of the voting rights of the Company's shares.

b) As part of various ship, container and other bank financing arrangements with outstanding repayment amounts and the fixed financing commitments regarding the newbuilds with a value totalling approximately EUR 4,334 million (approximately USD 4,905 million), the respective lenders have an extraordinary right of termination and/or full mandatory repayment in the event of a qualified change of control at the Company. If the outstanding amounts after the termination and/or mandatory repayment that may be due cannot be settled or refinanced, the creditors will have, among other options, recourse to the financed assets if necessary.

c) As part of syndicated credit facilities not utilised as at the reporting date with a value totalling around EUR 517 million (around USD 585 million), the respective lenders are entitled to terminate the loan commitment and / or seek repayment of the amounts already utilised in the event of a qualified change of control at the Company. If the outstanding amounts after the termination and/or mandatory repayment that may be due cannot be settled or refinanced, the creditors will have recourse to the collateralised assets to a certain extent.

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

- the voting percentage jointly held in the Company by the Key Shareholders[1] and other shareholders who have entered into a voting agreement or a comparable agreement with a Key Shareholder[2] ("Other shareholders with a voting agreement") (i) falls to 25% or less, or (ii) falls below the percentage held by a third-party shareholder or by persons or groups acting together with this third-party shareholder within the meaning of Section 2 (5) of the German Securities Acquisition and Takeover Act (WpÜG); or
- the voting percentage jointly held by the Key Shareholders[3] falls below the voting percentage held by another shareholder with a voting agreement; or
- one of the Anchor Shareholders (including all of its affiliated companies) individually (directly or indirectly) holds 50% or more of the voting rights in the Company.

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

9. Company compensation agreements with Executive Board members or employees in the event of a takeover bid

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

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

The declaration on corporate governance in accordance with Sections 289f (1) (2) and 315d HGB, along with the declaration of conformity in accordance with Section 161 of the German Stock Corporation Act (AktG), are published in the Annual Report 2021 of the group. Both declarations have also been published on the Company website at https://www.hapag-lloyd.com/en/company/ir/corporate-governance/compliance-statement.html, where they can be accessed at any time. They do not form part of the management report.

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

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

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

Hamburg, 28 February 2022

Hapag-Lloyd Aktiengesellschaft
Executive Board

Rolf Habben Jansen

Donya-Florence Amer | Mark Frese | Dr Maximilian Rothkopf | Joachim Schlotfeldt