

Hapag-Lloyd AG

# Green Financing Framework

Version 1.1



Hapag-Lloyd AG (“HLAG”)

# Green Finance Framework

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1<sup>st</sup> June 2021

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# 1 Introduction

## Hapag-Lloyd AG Green Finance Framework

This document sets out the framework for HLAG's green financing program, under which Hapag-Lloyd ("HLAG") intends to issue debt instruments for the purpose of financing or refinancing projects which promote progress in the field of cleaner transportation - in line with IMO, Poseidon Principles, Climate Bonds Initiatives Standards or any other standards or initiatives that may be applicable to the Shipping Sector and that are in accordance with HLAG Group's core business and sustainability strategy ("Green Debt Instruments"). Green Debt Instruments may include amongst others Green Bonds, Green Private Placements, Green Loans and Green Leases in alignment with International Capital Markets Association ("ICMA") and Loan Markets Association ("LMA") recommendation.

## HLAG Mission and Sustainability Vision

With a fleet of about 230 ships and an annual transport volume of around 12 million TEU, HLAG is one of the world's leading liner shipping companies. We offer reliable transport solutions to our customers in 129 countries around the world. These include container transport by sea, but also encompasses transport services from door to door. With around 13,000 employees, we are on hand locally to serve our customers around the world.

Ocean shipping is the primary conduit of world trade, a key element of international economic development, and a central reason why the world enjoys access to a diversified spectrum of products. Seventy-five percent of internationally traded goods are transported via ocean going vessels. Products shipped via container include a broad spectrum of consumer goods ranging from food, beverages, clothing and shoes to electronics, machinery and furniture. Today container shipping

is one of the world's most carbon-efficient forms of transporting goods and produces fewer grams of exhaust gas emissions for each cargo transported than air, rail or road transportation.<sup>1</sup>

Having said that we nonetheless respect our ever increasing responsibility for future generations. Based on this one of the expectations we have of ourselves is to further minimize the environmental impact of our actions. To achieve this, HLAG seeks to invest in state-of-the-art technology of larger and more efficient vessels (such as vessels with LNG propulsion, more efficient hull shape and/ or coating), testing of alternative fuels like biofuel, to introduce digital solutions and to improve the routing of our fleet.

Furthermore, we combine the proven with the new as global quality and environmental management standards forming the basis of our activities. Through cooperative research (for example, via our partnership with the Hapag-Lloyd Center for Shipping and Global Logistics at Kühne Logistics University) and development projects and our involvement in initiatives – as a member of the Clean Cargo Initiative, the Ship Recycling Transparency Initiative, the EcoTransIT World Initiative, the Global Logistics Emissions Council, the Maritime Platform, Global Maritime Forum, Getting to Zero Coalition, the UmweltPartnerschaft or as a founding member of the non-profit initiative Cargo Incident Notification System – we make a significant contribution to promoting global environmental standards in liner shipping.

Furthermore we are striving to continue to improve our related public disclosure as we acknowledge the importance of such information for our stakeholders such as customers, vendors and investors. As an example we aim to participate and actively provide data into the Carbon Disclosure Project beginning from 2021 onwards.



### Fundamentals and Guiding Principles

Value-based and responsible actions are firmly anchored in HLAG's corporate structure. Our sustainability policy defines our concept of sustainability in the form of binding guidelines and principles. In them, we commit to protecting the environment and to ensure the health and safety of our employees. They supplement the content of the Global Code of Ethics, in which we have formalized our aspiration to comply with all laws and internal codes of conduct, without exception.

Our aim is to keep our impact on the environment and climate as low as possible. We have implemented high environmental standards for this purpose and therefore use cutting-edge technology as one method of ensuring compliance with them. Our activities focus on reducing our energy consumption and the CO<sub>2</sub> emissions of our fleet. We review the efficiency of our measures through internal and external audits. We also implemented various preventive measures in order to protect people, the environment, cargo, and property plant and equipment. These include audits according to ISO standards, the implementation of the safety management system on all our ships and the inclusion of environmental protection in the emergency manual.

The high standards that we set ourselves also apply to our suppliers and subcontractors. Together with our business partners, we continually seek solutions for improved sustainability in our transport chain.

### Sustainability Management aligned with IMO and SDGs

Since 2018, the International Maritime Organization's ("IMO's") Marine Environment Protection Committee has pursued the goal of reducing absolute greenhouse gas emissions by 50% by 2050 compared with 2008 levels. HLAG supports this ambitious target.

Since 2008, we have cut our specific CO<sub>2</sub> emissions per TEU-kilometer by around 50%<sup>2</sup> by 2019. Further, HLAG aims to reduce its specific CO<sub>2</sub> emissions per TEU-kilometer by 20% by 2020 as compared with 2016 (as at 2019, HLAG were already able to achieve a reduction of around 17%). This targeted reduction of specific CO<sub>2</sub> emissions will be constantly revisited.

In addition to reducing greenhouse gases, our goal is to reduce air pollutants. In 2019, our fuel had an average weighted Sulphur content of 1.95% (previous year: 2.26%). This put our levels below those specified by the IMO threshold of 3.5% that was valid until 31 December 2019 for marine areas outside emission control areas (ECAs). New IMO requirements came into force on 1 January 2020. These requirements prohibit the use of bunker with a Sulphur content of more than 0.5% - unless exhaust gas cleaning systems known as scrubbers are used. To comply with this new requirements, we either (a) acquire compliant bunkers, (b) retrofit ships for operation with LNG (not possible for all ships), (c) retrofit ships with hybrid ready exhaust gas cleaning systems or acquire ships with respective propulsion systems.

Furthermore, HLAG actively contributes to the Sustainable Development Goals ("SDGs") issued by the United Nations. Our sustainability management dealt extensively with the SDGs and linked them to our business activities. We communicated the results to all staff on the intranet and asked them to take part in the global survey on sustainability and the SDG's of our partner, Hamburg-based sustainability consultants Schlange & Co. We analysed in detail how competitors and companies from other industries contribute to achieving the SDG's. Subsequently, we compared the existing activities, measures and initiatives from a number of different areas with the content of the SDGs. We wanted to know which positive contribution HLAG makes towards the 17 SDGs and their 169 subgoals. HLAG already contributes to the following six goals: Quality Education (SDG 4), Decent Work and Economic Growth (SDG 8), Climate Action (SDG 13), Life below Water (SDG 14), Peace, Justice and Strong Institutions (SDG 16) and Partnership for the Goals (SDG 17).

Under this Green Finance Framework, HLAG has the intention to issue Green Debt Instruments based on ICMA and LMA recommendations to finance and / or refinance projects related to Clean Transportation in accordance with HLAG Group's core business and sustainability strategy (please also see "3. Use of Proceeds").

<sup>1</sup> World Shipping Council; 12.03.2021; [www.worldshipping.org](http://www.worldshipping.org)

<sup>2</sup> The specific CO<sub>2</sub> emissions based on the Clean Cargo method relate to 2019



# 2 Basis of this Green Finance Framework



Following the 2018 ICMA Green Bond Principles (“ICMA GBP”), and the May 2020 LMA Green Loan Principles (“LMA GLP”) HLAG’s Green Finance Framework is presented through the following key pillars:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

For each Green Debt Instrument issued, HLAG asserts that it will adopt (1) Use of Proceeds (2) Process for Project Evaluation and Selection (3) Management of Proceeds and (4) Reporting, as set out in this Framework. HLAG’s Green Finance Framework follows the recommendations of the Green Bond Principles / Green Loan Principles regarding External Review on a transaction by transaction basis.


HLAG’s Green Finance Framework may be subsequently revised or updated to reflect its sustainability strategy as well as the continuous evolution of the green finance market best practices.







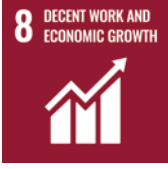


# 3 Use of Proceeds

The proceeds from the issuance of each Green Debt Instrument will be used to finance or re-finance, in part or in full, new or existing green projects (“Eligible Green Projects”) falling within one of the eligible categories detailed below. The Eligible Green Projects under the below categories need to make a material environmental impact and will be matched against existing standards.

GBP/GLP Category	Eligible Green Project Portfolio	EU Environmental Objective	UN SDGs
Pollution prevention and control  Energy Saving  Clean transportation	<p><b>Low direct emission</b>            Investing in new vessels and/or retrofitting vintage vessels with superior technology in order to materially reduce their respective adverse environmental impact</p> <p><b>Examples:</b> Investment into LNG propelled vessels which save substantial direct carbon emissions</p> <p>Investment into new bulbous bows optimizing shape of hull and thereby reducing fuel consumption</p>	<p>The project category contributes mainly to (but not limited to) the following objectives:</p> <p>Article 6: Climate Change Mitigation</p> <p>Article 10: Substantial contribution to pollution prevention and control</p>	

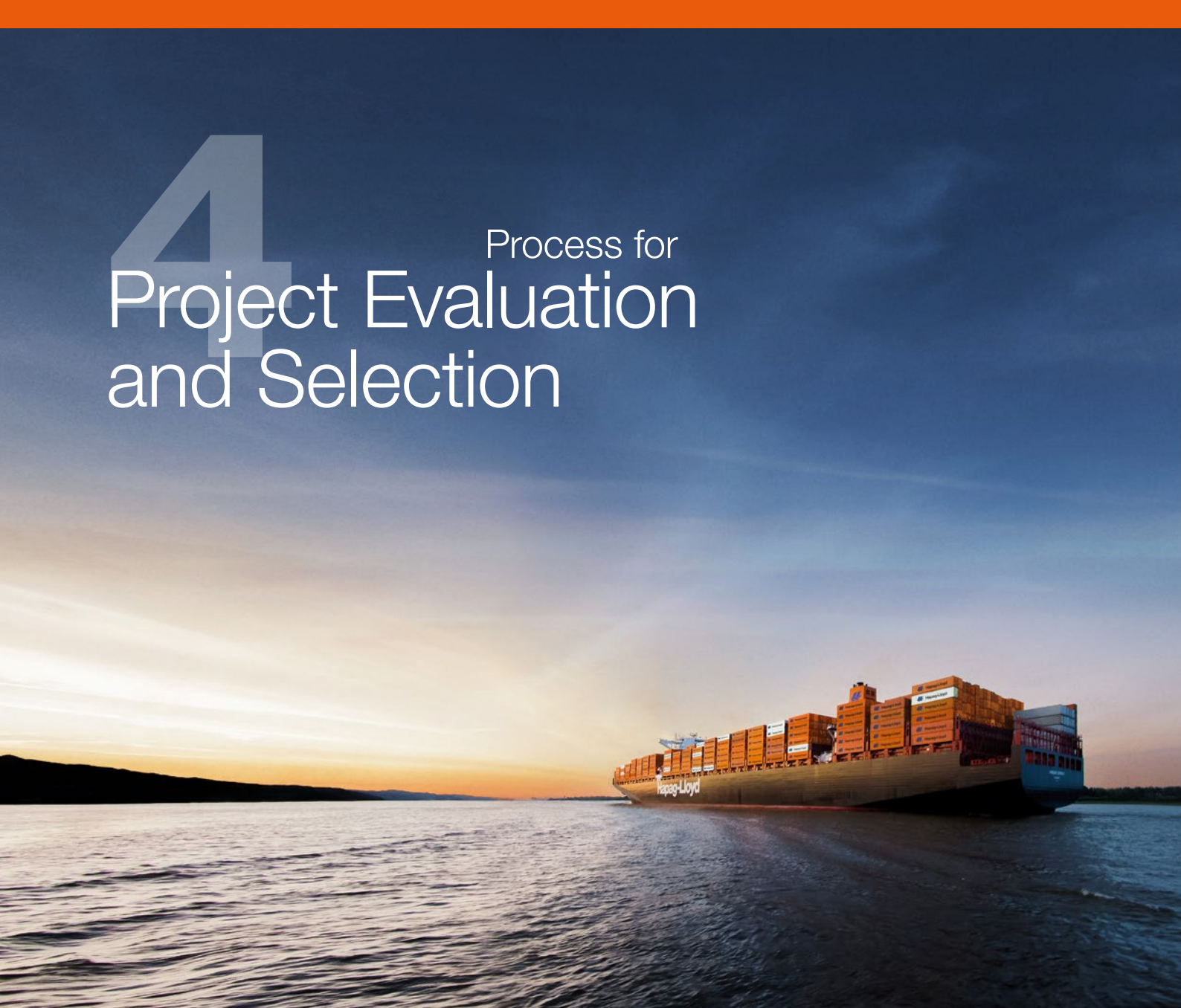


GBP/GLP Category	Eligible Green Project Portfolio	EU Environmental Objective	UN SDGs
<p>Environmentally sustainable management of living natural resources and land use</p> <p>Clean transportation</p> <p>Sustainable water and wastewater management</p>	<p><b>Preserve natural resources</b> Investments into assets the production of which and/or the operation of which consumes materially less natural resources</p> <p><b>Example:</b> Generally, dry container boxes have a plywood floor, which may have to be renewed over the useful life of the container. Alternatively investment into steel floor container boxes</p> <p>Investment into ballast water treatment equipment to be installed on vessels</p> <p>Investment into environmental friendly painting/coating of vessels/containers</p>	<p>Article 11: Substantial contribution to protection of healthy ecosystems</p>	 
<p>Environmentally sustainable management of living natural resources and land use</p> <p>Clean transportation</p>	<p><b>Preserve natural resources</b> Investments into environmental friendly recycling solutions of worn-out assets (i.e. vessels and containers)</p> <p><b>Example:</b> Extra costs of dismantling ships according to environmental friendly standards may be financed (for example to be compliant with Hongkong Convention)</p>	<p>Article 11: Substantial contribution to protection of healthy ecosystems</p>	  

HLAG may, at its discretion, add Eligible Green Projects to the list. HLAG will update this Green Finance Framework to reflect any such changes. It is the intention that each Eligible Green Project will be reviewed by a reputable SPO provider together with the then current version of this Green Finance Framework.



# 4 Process for Project Evaluation and Selection



## Structure and Tasks of the Sustainability Organization

Sustainability management at HLAG is the responsibility of the Sustainability department, which is part of the Regulatory Affairs & Sustainability department and reports directly to the Executive Board. It coordinates and supports all our sustainability activities including environmental management of land-based operations of our Group-wide quality and environmental management system as well as ISO 9001 and 14001 certifications on land. Environmental management of sea-based operations is the responsibility of the Fleet department.

The Sustainability team is also in charge of preparing the Group's sustainability report and the mandatory non-financial report, answers questions on sustainability-related topics, coordinates working groups on topics related to sustainability and is in direct contact with the commercial organization.

The Sustainability Committee – which comprises divisional managers and regional representatives – is informed by the sustainability department about ongoing sustainability activities. It assists with efforts to identify sustainability opportunities and risks, promotes the sharing of information across divisions and is involved in coordinating sustainability-related measures. The Head of Regulatory Affairs & Sustainability chairs the meeting for the Sustainability Committee and reports directly to the Executive Committee, which the Executive Board is part of.





## PROCESS FOR PROJECT EVALUATION AND SELECTION

### The Green Finance Committee

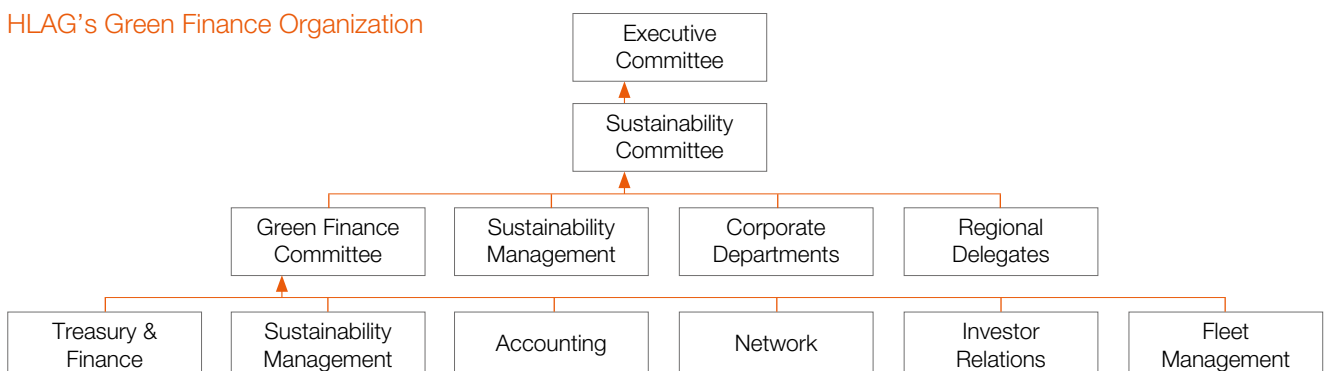
As a subcommittee of the Sustainability Committee, HLAG has established a cross-departmental Green Finance Committee (“GFC”). The GFC is responsible for overseeing the process of selecting, evaluating and monitoring Eligible Green Projects for an Eligible Green Project Portfolio.

The GFC is responsible for:

- reviewing and updating the content of the Green Finance Framework and managing any future updates of this document to reflect relevant changes in the Group’s corporate strategy, technology and market developments
- excluding or replacing projects that no longer comply with the Eligibility Criteria or which the GFC has otherwise determined should not be funded under this framework
- Designating, reviewing and updating the Eligible Green Project Portfolio. A designation of Eligible Green Projects will be done through specific documentation and should in form and substance contain the specific project information as outlined in the exemplary Annex 1.
- Ensure that at the time of the implementation of any Green Debt Instrument, selected Eligible Green Projects have a maximum 3-year existence. This would apply in the case of a portfolio of Eligible Green Projects, being understood that if there is the need to replace any of those Eligible Green Projects, the same look-back criteria would apply.
- Preparing allocation and impact reports associated with the Green Debt Instruments in accordance with the Framework based on ICMA and LMA recommendations.

The GFC is chaired by Treasury & Finance with fixed members from the Sustainability Department, Accounting, Network, Fleet Management and Investor Relations. The GFC will meet at least annually to review respective projects or on ad-hoc basis whenever a green project will be initiated. Project submissions will be assessed to ensure they conform to the Eligibility Criteria, including aligning with the Eligible Categories, Use of Proceeds and the objective of making a positive impact on sustainable transportation.

### HLAG’s Green Finance Organization



## PROCESS FOR PROJECT EVALUATION AND SELECTION

### Selection criteria of Eligible Green Projects

The Green Finance Committee will select the Eligible Green Projects based on overarching criteria and specific ones according to their categories. Selection criteria for Eligible Green Projects include (but not limited to):

- within the categories defined under section 3;
- the main purpose of the green asset will not be related to fossil fuel transportation;
- new projects or existing ones provided they have not been implemented more than 3 years ago;
- technical features of the project (for example GHG emissions reduction, fuel reduction etc.) that will be assessed against objective references / targets<sup>3</sup> (for example IMO, Poseidon, CBI, etc.); and
- contribution of the project to the strategy defined at corporate level for HLAG

<sup>2</sup> ideally science based



# 5 Management of Proceeds



## Hapag-Lloyd

HLAG intends to allocate an amount equal to the net proceeds from the issue of any Green Debt Instrument to an Eligible Green Project Portfolio, selected in accordance with the use of proceeds criteria and evaluation and selection process presented above. Additional Eligible Green Projects will be added over time to the Eligible Green Project Portfolio.

HLAG is able to track investments and or expenditures and or costs that are related to the Eligible Projects based on internal reporting systems.

HLAG intends, overtime, to achieve a level of allocation for the Eligible Green Project Portfolio which matches or exceeds the balance of net proceeds from its outstanding Green Debt Instruments. HLAG intends to add Eligible Green Projects over time to the Eligible Green Project Portfolio to the extent required to ensure that the net proceeds from outstanding Green Debt Instruments will match the total amounts of the Eligible Green Projects.

Pending the allocation or reallocation of the net proceeds, HLAG will invest the balance of the net proceeds, at its own discretion, in cash or other liquid marketable instruments.





# 6 Reporting

The ICMA Green Bond Principles (“GBP”) / LMA Green Loan Principles (“GLP”) require Green Bond / Green Loan issuers to provide information on the allocation of proceeds. In addition to the information to which projects Green Debt Instrument proceeds have been allocated, the GBP / GLP recommend communicating on the expected impact of the projects.

HLAG will prepare an annual reporting on the allocation of net proceeds to the Eligible Green Project Portfolio and – wherever feasible – a reporting on the impact of the Eligible Green Project Portfolio, at least at the category level. The reporting will be made available for all debtors of the applicable Green Debt Instruments.

## Allocation Reporting

HLAG will, at least, report on an aggregated basis one year after the issuance of a Green Debt Instrument and on an annual basis thereafter, until full allocation:

- The total amount of investments in, expenditures for and/or costs in the Eligible Green Project Portfolio
- The amount or number of new versus existing investments and/or projects (financing versus refinancing)
- The year of investment and/or expenditure and/or costs
- The balance of unallocated proceeds

## Impact Reporting

Where and when feasible, depending on selected asset types, HLAG will report on the environmental impacts resulting from the Eligible Green Project Portfolio. Subject to confidentiality agreements, competitive considerations, or a large number of underlying projects limiting the amount of detail

that can be made available, the information may be presented on an aggregated portfolio basis. Where feasible the environmental impact of each individual project will be reported upon by comparing actual performance against objective references / targets (for example IMO, Poseidon, CBI, etc.).





# External Review

## Second Party Opinion

The Green Finance Framework will be made available on HLAG Group's website.

Eligible Green Projects will be listed in the Annex 2 of the Green Finance Framework. The actual description according to Annex 1 will be made available only to the lenders of the respective Green Debt Instrument. The respective description of Eligible Green Projects together with the then current version of this Green Finance Framework will be reviewed by a reputable SPO provider.

The Annex 2 will be updated regularly as new Eligible Green Projects will be defined.

Information provided per Eligible Green Project in the Annex aims to provide more detail for the specific project in order to demonstrate alignment with the four pillars mentioned in this Green Finance Framework as well as details of to the environmental impact of the Eligible Green Project.





## ANNEX 1 – FORM OF ELIGIBLE GREEN FINANCE PROJECTS

Project Name	Title
<b>Green Finance Committee Meeting</b>	Date, Participants, Area of Responsibility, Subscribers
<b>Project Volume</b>	USD x
<b>Financing Volume</b>	USD x
<b>Project description</b>	Project description (including economic rational and performance criteria)
<b>Environmental impact</b>	Definition of objective environmental impact
<b>GLP/GBP category</b>	Pollution prevention and control
<b>Use of Proceeds</b>	Appropriate description of proceeds, description if funds will be used in whole or part (estimate of the share of financing versus refinancing), designation of green tranche(s) in case of several tranches, to be tracked in an appropriate manner
<b>Project Evaluation and Selection</b>	Environmental sustainability objectives; description of how the project fits into the eligible categories; related eligible criteria
<b>Management of Proceeds</b>	Description of how transparency of the appropriate management of proceeds guaranteed
<b>Reporting</b>	What kind of reporting is provided to the lenders; frequency of the reporting; what kind of KPIs are reported;

## ANNEX 2 – LIST OF ELIGIBLE GREEN FINANCE PROJECTS

No.	Project Name	Date of Green Finance Committee
1	ECA Financing for 3 x 23,5k TEU Dual fuel vessels	20. January 2021
2	China Lease transaction for 3 x 23,5k TEU Dual fuel vessels	20. January 2021
3	ECA Financing for 6 x 23,5k TEU Dual fuel vessels	1. June 2021





[www.hapag-lloyd.com](http://www.hapag-lloyd.com)

