**Group profit**

Overall, Group profit was significantly up on the previous year at EUR 935.4 million (prior year period: EUR 373.4 million). Group profit consists of the earnings attributable to shareholders of the parent company of EUR 926.8 million (prior year period: EUR 362.0 million) and the earnings attributable to non-controlling interests of EUR 8.6 million (prior year period: EUR 11.4 million).

The total Group net result of EUR 273.5 million (prior year period: EUR 406.5 million) comprises Group profit of EUR 935.4 million and other comprehensive income of EUR –661.9 million (prior year period: EUR 33.1 million). Other comprehensive income includes a result from currency translation of EUR –603.7 million (prior year period: EUR 121.2 million) as well as earnings effects from hedging instruments in cash flow hedges of EUR 5.8 million (prior year period: EUR –13.2 million), from the cost of hedging activities of EUR –27.9 million (prior year period: EUR –14.1 million) and from the remeasurement of defined benefit pension plans of EUR –36.0 million (prior year period: EUR –60.8 million) due to a fall in the market interest rate.

## 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. 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 are partly hedged using derivative hedging transactions.

The transactions of the Group companies are conducted mainly in US dollars. The euro (EUR), Chinese renminbi (CNY), Hongkong dollar (HKD), Canadian dollar (CAD), Singapore dollar (SGD) 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 | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Standard & Poor's | BB- / Positive | B+ / Positive |
| Moody's | Ba3 / Stable | B1 / Stable |

The international rating agencies Standard & Poor's and Moody's assess Hapag-Lloyd AG's financial strength at regular intervals. On 5 October 2020, the rating agency Standard & Poor's awarded Hapag-Lloyd AG an issuer rating of BB- with a positive outlook. On 14 October 2020, Moody's increased its issuer rating for Hapag-Lloyd AG to Ba3 with a stable outlook.

### 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 2020 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 2020 reporting year:

**Containers**

- During the 2020 financial year, Hapag-Lloyd AG ordered new containers with an investment amount of USD 529.0 million (EUR 430.9 million). The containers were delivered to Hapag-Lloyd on a pro rata basis by the end of the reporting year with the rest expected in the first half of 2021.
- To refinance these investments as well as containers already in its portfolio, Hapag-Lloyd entered into several sale and leaseback transactions with a volume of USD 433.7 million (EUR 378.6 million). The newly acquired and used containers were sold to groups of investors on the basis of Japanese operating leases and Chinese leases and then leased back for different terms (of 3 to 12 years) with the option (obligation in the case of the Chinese leases) of repurchasing the containers upon their respective maturity. The lease agreements are essentially a form of borrowing, secured by the assignment of containers as collateral. In addition, there were loan commitments to finance investments in containers available of USD 195.5 million (EUR 159.3 million) as at 31 December 2020.

**Vessels**

- In June 2020, refinancing was arranged for 7 container vessels owned by the Company as part of a Chinese lease. The container vessels were sold to a Chinese leasing company and then leased back for up to 12 years, with the option of repurchasing upon maturity. The economic substance of these transactions is credit financing secured by the assignment of the vessels as collateral. The refinancing volume associated with these transactions totalled USD 458.2 million (EUR 405.6 million). The outstanding loan liabilities of USD 235.1 million (EUR 208.1 million) associated with the vessels were repaid in full at the time of refinancing.
- In July 2020, refinancing was arranged for 4 container vessels owned by the Company as part of a mortgage with a term of 6 years. The refinancing volume associated with these transactions totalled USD 60.0 million (EUR 51.0 million). The financing previously in place ended as scheduled in July 2020.
- In September 2020, a loan commitment of USD 40.0 million (EUR 32.6 million) was made to Hapag-Lloyd to finance investments in exhaust gas cleaning systems (scrubbers) on its own vessels. The loan commitment has a term until 30 June 2022. Drawdowns under the loan commitment have a term of up to 4 years. As at the reporting date, no drawdowns had been made. 2 container vessels owned by the Company were provided as collateral for the financing.
- In November 2020, refinancing was arranged for 1 container vessel owned by the Company as part of a Chinese lease. The container vessel was sold to a Chinese leasing company and then leased back for up to 12 years, with the obligation to repurchase the vessel upon maturity. The economic substance of this transaction is credit financing secured by the assignment of the vessel as collateral. The refinancing volume associated with this transaction totalled USD 100.0 million (EUR 84.6 million). The loan liability previously associated with the vessel was repaid in full. In addition, the Chinese lease implemented in November includes approval to refinance a second container vessel for up to USD 100.0 million (EUR 81.5 million).

- In November 2020, refinancing was arranged for 1 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 7 years and 5 months, with the option of repurchasing the vessel after 6 years and 10 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 70.0 million (EUR 58.9 million). The loan liability previously associated with the vessel was repaid in full. In addition, the Japanese operating lease implemented in November includes approval to refinance a second container vessel for up to USD 68.0 million (EUR 55.4 million).
- In December 2020, a loan commitment of USD 472.3 million (EUR 384.7 million) in the form of a Chinese lease was made to Hapag-Lloyd to finance investments in 3 new container vessels. The loan commitment covers the prepayments under the manufacturer agreement up until delivery of the container vessels, which is scheduled for 2023. As part of the financing, the container vessels will be sold directly to a Chinese leasing company after they leave the shipyard and then leased back for up to 17 years. There is an obligation to repurchase the vessels upon maturity. The economic substance of these transactions is credit financing secured by the assignment of the vessels as collateral.
- In December 2020, a loan commitment of USD 417.0 million (EUR 339.7 million) in the form of a mortgage was made to Hapag-Lloyd to finance investments in 3 new container vessels. The loan commitment can be utilised when the container vessels leave the shipyard. The mortgage has a term of up to 12 years and has been collateralised by the Korean export credit insurance company K-Sure.

**Miscellaneous**

- In November 2020, Hapag-Lloyd used its own liquidity to make an early repayment of EUR 150.0 million for its EUR bond originally scheduled to mature in 2024. As a result, EUR 300.0 million of the EUR bond originally scheduled to mature in 2024 was outstanding as at 31 December 2020.

Covenant clauses of a type customary on the market have been arranged for existing financing from bonds or loans. These clauses primarily concern equity and liquidity at the Hapag-Lloyd Group level along with certain loan-to-value ratios for the financing of vessel investments.

Based on current planning, the Executive Board expects that all covenants will unchanged be adhered to in 2021.

**Net debt**

**Financial solidity**

| million EUR | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Financial debt and lease liabilities | 5,136.2 | 6,397.2 |
| Cash and cash equivalents | 681.3 | 511.6 |
| **Net debt** | **4,454.9** | **5,885.6** |
| Gearing (%)[1] | 66.3 | 88.9 |
| **Unused credit lines** | **476.5** | **521.3** |
| **Equity ratio (%)** | **44.3** | **40.9** |

1 Ratio of net debt to equity

The Group's net debt amounted to EUR 4,454.9 million as at 31 December 2020. This was a fall of EUR 1,430.7 million (–24.3%) compared to net debt of EUR 5,885.6 million as at 31 December 2019. The improvement in net debt was primarily due to a positive operating cash flow.

The equity ratio increased by 3.4 percentage points, from 40.9% as at 31 December 2019 to 44.3%. The rise was primarily due to the decrease in financial liabilities for vessel financing. Equity was up by EUR 102.1 million compared with 31 December 2019 and came to EUR 6,722.7 million as at 31 December 2020. 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 1,157.8 million (previous year: EUR 1,032.8 million). Cash and cash equivalents were increased due to the uncertainty regarding business developments as a result of COVID-19. 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.–31.12.2020 | 1.1.–31.12.2019 |
|---|---|---|
| **EBITDA** | **2,700.4** | **1,985.8** |
| Working capital changes | 207.1 | 121.0 |
| Other effects | –9.6 | –78.6 |
| Cash flow from operating activities | 2,897.9 | 2,028.2 |
| Cash flow from investing activities | –477.6 | –369.5 |
| **Free cash flow** | **2,420.3** | **1,658.7** |
| Cash flow from financing activities | –2,192.1 | –1,817.6 |
| **Changes in cash and cash equivalents** | **228.2** | **–158.9** |

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 2,897.9 million in the 2020 financial year (prior year period: EUR 2,028.2 million). The increase in the cash flow from operating activities was primarily due to higher earnings in the current financial year and the positive development of working capital compared with the previous year.

### Cash flow from investing activities

In the 2020 financial year, the cash outflow from investing activities totalled EUR 477.6 million (prior year period: EUR 369.5 million). This included payments for investments of EUR 534.1 million (prior year period: EUR 426.1 million), primarily in new containers and vessel equipment associated with adherence to the IMO 2020 regulations. These payments included payments in the amount of EUR 48.9 million for containers acquired in the previous year. This was compensated for by cash inflows of EUR 31.0 million (prior year period: EUR 41.6 million), which were primarily due to the sale of containers and dividends received in the amount of EUR 35.9 million (prior year period: EUR 30.2 million).

### Cash flow from financing activities

Financing activities resulted in a net cash outflow of EUR 2,192.1 million in the current reporting period (prior year period: EUR 1,817.6 million). The cash outflow essentially resulted from the repayment of financial liabilities for vessel financing in the amount of EUR 1,638.0 million (prior year period: EUR 644.5 million). There were also cash outflows from interest payments in the amount of EUR 245.9 million (prior year period: EUR 324.7 million) as well as interest and redemption payments from lease liabilities as per IFRS 16 in the amount of EUR 584.0 million (prior year period: EUR 529.3 million). In addition, part of the existing corporate bond in the amount of EUR 157.3 million was repaid. The payment of a dividend to shareholders for the 2019 financial year led to an additional cash outflow of EUR 193.3 million (prior year period: EUR 26.4 million). The borrowings from revolving credit lines in the amount of EUR 350.5 million drawn down to secure the liquidity under the PSP programme in the first half of 2020 were repaid in full in the third quarter.

The cash outflows were offset by cash inflows to secure the liquidity under the PSP programme. There was a cash inflow of EUR 869.1 million from the financing of vessels and containers using sale and leaseback transactions.

**Developments in cash and cash equivalents**

| million EUR | 1.1.–31.12.2020 | 1.1.–31.12.2019 |
|---|---|---|
| **Cash and cash equivalents at beginning of period** | **511.6** | **657.1** |
| Changes due to exchange rate fluctuations | –58.5 | 13.4 |
| Net changes | 228.2 | –158.9 |
| **Cash and cash equivalents at end of period** | **681.3** | **511.6** |

Overall, cash inflow totalled EUR 228.2 million in the 2020 financial year, with the result that, after accounting for exchange rate-related effects in the amount of EUR –58.5 million, cash and cash equivalents of EUR 681.3 million were reported at the end of the reporting period on 31 December 2020 (31 December 2019: EUR 511.6 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 476.5 million (31 December 2019: EUR 521.3 million). The liquidity reserve (cash, cash equivalents and unused credit facilities) therefore totalled EUR 1,157.8 million (31 December 2019: EUR 1,032.8 million).

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

**Capital expenditure and off-balance-sheet obligations**

Further investments in containers and in retrofitting owned and leased vessels were made in the 2020 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.

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