In addition to securing the current operational business, the second focus was to minimise the negative effects of the decline in demand in connection with the COVID-19 pandemic and to ensure the financial solidity of the Company at all times. To safeguard profitability and liquidity, a comprehensive package of measures under the project name Performance Safeguarding Program (PSP) was developed and implemented. Among other initiatives, the PSP includes measures for cost savings, the review of all investments, and measures to increase the liquidity framework.

In cooperation with the other THE Alliance partners, the service network for the major East-West routes has been revised and individual services have been temporarily merged or cancelled. These measures enabled the alliance partners to ensure adequate utilisation of their ships and thus save costs – particularly in the second quarter – despite the double-digit percentage fall in demand. Due to the significant increase in demand in the second half of the year, capacity has progressively increased. At the same time, Hapag-Lloyd has also identified additional cost-cutting measures to save on container handling and transport, equipment (mainly containers), ship systems and overheads. The temporary low price of charter vessels was used to renegotiate charter contracts, adjusting durations and conditions at the same time. The implementation of the capacity-related and cost-cutting measures described above led to savings in the mid three-digit US dollar million range in comparison to the originally planned cost base.

Liquidity was significantly increased through the expanded use of the programme to securitise trade accounts, the drawing of credit lines and the refinancing of ships and containers. In addition, the investment budget was reviewed on an ongoing basis and planned investments prioritised. As the business development turned out to be better than had been predicted when the pandemic broke out, liquidity was slightly reduced from the second half of 2020 onwards in order to reduce liabilities further. Despite this, liquidity still stood at EUR 1.2 billion at the end of 2020, which is above the previous year level of EUR 1.0 billion.

EARNINGS, FINANCIAL AND NET ASSET POSITION

GROUP EARNINGS POSITION

The 2020 financial year was dominated by the outbreak and global spread of the COVID-19 pandemic, the corresponding cost management implemented under the PSP programme, and a comparatively low average bunker price alongside an increase in freight rates during the year.

After falling sharply in the second quarter, transport volumes recovered as the year continued – especially in the fourth quarter – to a greater extent than had been expected initially. However, at –1.6%, transport volumes were still down slightly on the previous year. By contrast, revenue was 1.3% higher than in previous year. A slight rise in freight rates, a moderate decrease in bunker prices and active cost reduction under the PSP programme all had a positive impact on earnings in the financial year.

As a result of the factors mentioned above, Hapag-Lloyd's earnings before interest, taxes, depreciation and amortisation (EBITDA) of EUR 2,700.4 million in the 2020 financial year were significantly up on the previous year (prior year period: EUR 1,985.8 million). Its earnings before interest and taxes (EBIT) came to EUR 1,315.2 million (prior year period: EUR 811.4 million) following the optimisation of the vessel portfolio in December with a valuation effect of EUR –98.8 million. The Group profit for 2020 improved significantly from EUR 373.4 million in the prior year period to EUR 935.4 million.

At USD 1.14 / EUR, the average USD / EUR exchange rate was weaker than in the prior year period (USD 1.12 / EUR). The development of the USD / EUR exchange rate therefore had a counteractive effect on the positive earnings position.

Consolidated income statement

million EUR	1.1.–31.12.2020	1.1.–31.12.2019
Revenue	12,772.4	12,607.9
Transport expenses	9,140.2	9,707.0
Personnel expenses	683.0	682.5
Depreciation, amortisation and impairment	1,385.2	1,174.4
Other operating result	–279.7	–268.8
Operating result	**1,284.4**	**775.2**
Share of profit of equity-accounted investees	32.1	35.5
Result from investments and securities	–1.2	0.7
Earnings before interest and taxes (EBIT)	**1,315.2**	**811.4**
Interest result	–330.5	–396.7
Other financial items	–3.5	1.6
Income taxes	45.8	42.9
Group profit / loss	**935.4**	**373.4**
thereof profit / loss attributable to shareholders of Hapag-Lloyd AG	926.8	362.0
thereof profit / loss attributable to non-controlling interests	8.6	11.4
Basic / diluted earnings per share (in EUR)	5.27	2.06
EBITDA	**2,700.4**	**1,985.8**
EBITDA margin (%)	**21.1**	**15.8**
EBIT	**1,315.2**	**811.4**
EBIT margin (%)	**10.3**	**6.4**

Transport volume per trade

TTEU	1.1.–31.12.2020	1.1.–31.12.2019
Atlantic	1,817	1,960
Transpacific	1,851	1,945
Far East	2,286	2,327
Middle East	1,476	1,391
Intra-Asia	831	900
Latin America	2,889	2,837
EMA (Europe – Mediterranean – Africa)	689	676
Total	**11,838**	**12,037**

The transport volume in the 2020 financial year decreased by 199 TTEU to 11,838 TTEU compared with the prior year period (prior year period: 12,037 TTEU). This equates to a fall of 1.6%. The decline was primarily attributable to the second quarter, when the global effects of the political measures to combat the COVID-19 pandemic were reflected in transport volumes on all trades. The transport volume then continuously improved as 2020 progressed and, at 3.8% in the fourth quarter, was up slightly on the prior year period, as was the case in the first quarter of 2020.

The Far East, Latin America and Middle East trades in particular contributed to the rise in transport volumes in the fourth quarter of 2020. This was due to increased demand for sea freight and container transport, primarily driven by a recovery effect from the previous drop in volumes related to the COVID-19 pandemic.

By contrast, transport volumes on the Intra-Asia trade were significantly down on the previous year's level due to cancelled voyages and network optimisations in the fourth quarter.

The decline in transport volumes on the Atlantic and Transpacific trade were also attributable to the effects of the COVID-19 pandemic, although there were signs of a slow recovery on these trades too in the fourth quarter of 2020. On the EMA (Europe – Mediterranean – Africa) trade, there were no significant changes compared with the previous year.

Freight rates per trade

USD/TEU	1.1.–31.12.2020	1.1.–31.12.2019
Atlantic	1,383	1,389
Transpacific	1,467	1,318
Far East	979	910
Middle East	837	744
Intra-Asia	605	541
Latin America	1,131	1,153
EMA (Europe – Mediterranean – Africa)	1,051	1,046
Total (weighted average)	**1,115**	**1,072**

The average freight rate in the 2020 financial year was USD 1,115 / TEU, which was USD 43 / TEU, or 4.0%, up on the prior year period (USD 1,072 / TEU).

The freight rate increase was primarily due to strong demand as a result of the coronavirus for consumer goods from Asia in the second half of the year and in particular at the end of the year. This unexpectedly strong demand for container transport led to a sharp rise in spot rates for exported goods from Asia and in particular from China.

Revenue per trade

million EUR	1.1.–31.12.2020	1.1.–31.12.2019
Atlantic	2,201.6	2,431.9
Transpacific	2,379.9	2,290.8
Far East	1,961.7	1,891.7
Middle East	1,081.6	924.8
Intra-Asia	440.0	435.4
Latin America	2,863.2	2,921.6
EMA (Europe – Mediterranean – Africa)	634.8	631.7
Revenue not assigned to trades	1,209.6	1,080.0
Total	**12,772.4**	**12,607.9**

The Hapag-Lloyd Group's revenue rose by EUR 164.5 million to EUR 12,772.4 million in the 2020 financial year (prior year period: EUR 12,607.9 million), representing an increase of 1.3%.

The main reason for this was the rise in average freight rates of 4.0% compared with the previous year. 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 approximately EUR 0.4 billion, or 3.3%. The year-on-year fall in the transport volume of –1.6% also counteracted the increase in revenue.

Operating expenses

million EUR	1.1.–31.12.2020	1.1.–31.12.2019
Transport expenses	9,140.2	9,707.0
thereof:		
Bunker	1,407.3	1,625.6
Handling and haulage	4,716.7	4,922.7
Equipment and repositioning [1]	1,134.7	1,205.0
Vessel and voyage (excluding bunker) [1]	1,830.8	1,967.8
Change in transport expenses for pending voyages [2]	50.6	–14.0
Personnel expenses	683.0	682.5
Depreciation, amortisation and impairments	1,385.2	1,174.4
Other operating result	–279.7	–268.8
Total operating expenses	**11,488.0**	**11,832.7**

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 2020 financial year, transport expenses fell by EUR 566.8 million to EUR 9,140.2 million (prior year period: EUR 9,707.0 million). This represents a drop of 5.8%. This decline was primarily due to the volume-related decrease in expenses, the lower average bunker consumption price compared with the previous year and active cost management under the PSP programme. In addition, the weaker US dollar compared with the euro led to a reduction in transport expenses. Adjusted for exchange rate movements, transport expenses would have fallen by approximately EUR 0.4 billion, or around 4.0%.

The decline in expenses for fuel of EUR 218.3 million resulted primarily from the decrease in the average bunker consumption price compared with the previous year as well as from the 1.6% fall in the transport volume and the included exchange rate effects (USD/EUR).

Hapag-Lloyd's bunker consumption price of USD 379/t in the 2020 financial year was down USD 37/t (–8.9%) on the figure for the corresponding prior year period of USD 416/t. While the price for low-sulphur fuel remained very high at the start of the reporting period (MFO 0.5%, FOB Rotterdam, around USD 560/t), it decreased significantly during the first half of 2020 due to a global decline in demand and a simultaneous dispute about production volumes among leading oil-producing countries. As a result, it briefly stood at around USD 135/t at the end of April (MFO 0.5%, FOB Rotterdam). However, bunker prices subsequently rose again and remained at a relatively stable level of around USD 300/t from the third quarter of 2020. The price increased again towards the end of the year, with low-sulphur fuel costing approximately USD 367/t at the end of December (MFO 0.5%, FOB Rotterdam). The decrease in the bunker consumption price was partly offset by the required use of the more expensive low-sulphur fuel from 1 January 2020 following the implementation of IMO 2020.

The decrease in container handling expenses of EUR 206.0 million to EUR 4,716.7 million resulted primarily from a volume-related decline, lower hinterland transport expenses and active cost management under the PSP programme.

The fall in container and repositioning expenses of EUR 70.2 million to EUR 1,134.7 million was essentially due to active cost management under the PSP programme, the resulting decline in expenses for loading and unloading empty containers at the terminals and the optimisation of container utilisation on voyages from Europe and to Asia in the fourth quarter of 2020.

The decrease in expenses for vessels and voyages (excluding bunker) of EUR 137.0 million to EUR 1,830.8 million resulted primarily from active cost management under the PSP programme. Suspended services, a reduced number of voyages, network optimisations and a higher percentage of vessels chartered in on a medium-term basis compared with the previous year were the main reasons for the decrease in expenses.

The gross profit margin (ratio of revenue less transport expenses to revenue) for the 2020 financial year came to 28.4% (prior year period: 23.0%).

Personnel expenses

Personnel expenses rose by EUR 0.5 million (0.1%) to EUR 683.0 million in the 2020 financial year (prior year period: EUR 682.5 million). This was primarily due to an increase in the number of employees compared with the previous year, higher bonuses for the 2020 financial year and special COVID-19 payments to employees. 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 14 million.

The Group employed an annual average of 13,085 people (prior year period: 12,905 people). The personnel expenses ratio (measured in terms of revenue) decreased compared to the previous year from 5.4% to 5.3%.

Depreciation, amortisation and impairment

In the 2020 financial year, depreciation and amortisation came to EUR 1,385.2 million (prior year period: EUR 1,174.4 million). The year-on-year increase in depreciation and amortisation resulted essentially from scheduled depreciation associated with the recognition of retrofittings due to IMO 2020 as well as from a rise in the percentage of vessels chartered in on a medium-term basis 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 528.1 million (prior year period: EUR 459.2 million). There were also impairments due to the optimisation of the vessel portfolio in the amount of EUR 98.8 million (prio year period: EUR 0.0 million) and the additional depreciation from the abbreviated scheduled depreciation of the UASC and CSAV brands in the amount of EUR 36.8 million (prio year period: EUR 0.0 million).

Other operating result

The other operating result of EUR –279.7 million (prior year period: EUR –268.8 million) comprised the net balance of other operating income and expenses. Other operating expenses came to a total of EUR 348.8 million in 2020 (prior year period: expenses of EUR 350.0 million). This mainly included IT and communication costs (EUR 175.9 million; prior year period: EUR 155.7 million), administrative expenses (EUR 33.8 million; prior year period EUR 41.8 million) and consultancy fees (EUR 32.7 million; prior year period: EUR 35.8 million). The other operating income of EUR 69.1 million (prior year period: EUR 81.2 million) included in the figure resulted primarily from the release of provisions (EUR 13.8 million; prior year period: EUR 11.4 million) and the long term disposal of assets (EUR 13.1 million; prior year period: EUR 20.2 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 3.4 million to EUR 32.1 million in the 2020 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 2020 financial year, earnings before interest and taxes (EBIT) amounted to EUR 1,315.2 million. They were therefore well above the corresponding figure in the prior year period (EUR 811.4 million). Earnings before interest, taxes, depreciation and amortisation (EBITDA) came in at EUR 2,700.4 million in the 2020 financial year (prior year period: EUR 1,985.8 million). The annualised return on invested capital (ROIC) for the 2020 financial year amounted to 10.6% (prior year period: 6.1%). Basic earnings per share in the reporting period came to EUR 5.27 per share (prior year period: EUR 2.06 per share).

Key earnings figures

million EUR	2020	2019
Revenue	12,772.4	12,607.9
EBIT	1,315.2	811.4
EBITDA	2,700.4	1,985.8
EBIT margin (%)	10.3	6.4
EBITDA margin (%)	21.1	15.8
Basic Earnings Per Share (in EUR)	5.27	2.06
Return on Invested Capital (ROIC) annualised (%) [1]	10.6	6.1

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

Interest result

The interest result in the 2020 financial year was EUR –330.5 million (prior year period: EUR –396.7 million). The decrease in interest expenses compared with the previous year was primarily due to the reduction in interest expenses for the early repayment of the bond in February and June 2019 and the partial repayment of the bond in November 2020 in the amount of EUR 22.2 million. In addition, further reductions in interest expenses in relation to bank financing in the amount of EUR 61.0 million which were primarily due to the past repayment of debt helped to improve the other interest result.

By contrast, the profit or loss effect of the embedded derivative in the amount of EUR –3.7 million (prior year period: EUR 23.6 million), which comprises the derecognition of the fair value of EUR –8.6 million associated with the partial repayment of the bond in November (prior year period: EUR –10.0 million from the bond repayments in February and June 2019) and a valuation effect of EUR 4.9 million (prior year period: EUR 33.6 million), reduced the interest result.

Income taxes

The rise in income taxes of EUR 2.9 million to EUR 45.8 million was primarily due to exchange rate-related effects on deferred taxes and to income in 2019 from higher deferred tax assets of loss carry-forwards. The increase was offset by a fall in current income taxes of EUR 6.4 million.

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.