Course of business and economic situation

Key figures

in € million	1–6 | 2019	1–6 | 2018	Change
Revenue	693.7	633.0	9.6 %
EBITDA	192.9	157.7	22.3 %
EBITDA margin in %	27.8	24.9	2.9 pp
EBIT	114.3	99.9	14.4 %
EBIT margin in %	16.5	15.8	0.7 pp
Profit after tax and minority interests	54.7	52.4	4.5 %
ROCE in %	13.1	14.7	- 1.6 pp

Notes on the reporting

The initial mandatory application of the new IFRS 16 lease standard as of 1 January 2019 has resulted in major changes to the accounting of the HHLA Group as a lessee. The new IFRS 16 regulations resulted in a € 571.2 million increase in the balance sheet total as of 1 January 2019. In addition to the capitalisation of rights of use amounting to € 542.8 million, deferred tax assets amounting to € 28.4 million resulted from the initial application. On the liabilities side, this is opposed by adjustments to revenue reserves (decrease of € 58.5 million due to the recognition of cumulative effects from initial application of the standard) and, significantly, by the recognition of lease liabilities (increase of € 637.4 million). The operating result (EBIT) increased year-on-year as a result of the necessary changes in recognition in profit and loss amounting to approximately € 7.1 million. In the cash flow statement, there was a shift between cash flow from operating activities and cash flow from financing activities. While cash flow from operating activities increased, capital outflows from financing activities also rose because higher redemptions of lease liabilities had to be accounted for.

A decrease in the interest rate used to calculate pension obligations led to an additional increase in pension provisions along with a corresponding reduction in equity. There were no other particular events or transactions during the reporting period, either in HHLA's operating environment or within the Group, that had a significant impact on its results of operations, net assets and financial position. Both the key economic indicators reported for the first half of 2019 and HHLA's actual economic performance were largely in line with the performance forecast in the 2018 Annual Report. Results of operations, Net assets and financial position

There is normally no long-term order backlog for handling and transport services, and thus no use is made of this particular reporting figure.

Earnings position

The economic development of HHLA in the first half of 2019 was encouraging. HHLA recorded a moderate increase in **container throughput** of 3.8 % to 3,770 thousand TEU (previous year: 3,631 thousand TEU). This growth was primarily due to the incorporation of the container terminal in Tallinn into the HHLA consolidated group as of the second half of 2018.

Container transport increased significantly by 9.6 % to 782 thousand TEU (previous year: 713 thousand TEU). Both rail and road transport contributed to this growth.

The HHLA Group's **revenue** rose markedly by 9.6 % to € 693.7 million during the reporting period (previous year: € 633.0 million). Revenue generated by the container terminals and in container transport outstripped the growth in volume described above. The Logistics segment also achieved strong revenue growth. In its Container, Intermodal and Logistics segments, the listed Port Logistics subgroup generated revenue of € 677.5 million in the reporting period (previous year: € 617.1 million). This increase almost matched the trend for the Group as a whole. The non-listed Real Estate subgroup posted moderate revenue growth of 3.5 % to € 19.9 million (previous year: € 19.3 million).

As in the previous year, **changes in inventories** had no noticeable impact on consolidated profit. **Own work capitalised** amounted to € 3.3 million (previous year: € 3.0 million).

Other operating income amounted to € 19.0 million (previous year: € 21.2 million).

With an increase of 7.9 % to € 601.6 million (previous year: € 557.7 million), **operating expenses** rose more slowly than revenue. While the application of IFRS 16 had a positive effect on the cost structure, the year-on-year increase resulted from the growth in volume, the integration of HHLA TK Estonia and the conversion of the company pension scheme.

The **cost of materials** rose by 12.9 % in the reporting period to € 201.7 million (previous year: € 178.7 million). The increase in the cost of materials ratio to 29.1 % (previous year: 28.2 %) was partly due to strong volume growth in the material-intensive Intermodal segment.

Personnel expenses increased in line with revenue growth by 9.4 % year-on-year to € 259.9 million (previous year: € 237.6 million). The personnel expense ratio remained unchanged at 37.5 %. A reduction in the personnel expense ratio in view of increasing volumes was prevented by a temporary increase in personnel at the Container Terminal Tollerort in connection with the launch of the new N4 terminal software, as well as by the conversion of the company pension scheme.

Other operating expenses decreased markedly in the reporting period by 26.6 % to € 61.4 million (previous year: € 83.7 million), primarily as a result of the initial application of IFRS 16. The ratio of expenses to revenue decreased from 13.2 % in the previous year to 8.9 %.

As a result, there was a strong increase in the **operating result before depreciation and amortisation (EBITDA)** of 22.3 % to € 192.9 million (previous year: € 157.7 million). The EBITDA margin increased to 27.8 % in the reporting period (previous year: 24.9 %).

Depreciation and amortisation increased primarily as a result of the initial application of IFRS 16 by 36.0 % to € 78.6 million (previous year: € 57.8 million), while the share of revenue increased to 11.3 % (previous year: 9.1 %).

There was a strong increase in the **operating result (EBIT)** of € 14.4 million or 14.4 % to € 114.3 million during the reporting period (previous year: € 99.9 million). The effects of the initial application of IFRS 16 amounted to € 7.1 million. The EBIT margin amounted to 16.5 % (previous year: 15.8 %). In the Port Logistics subgroup, EBIT rose by 15.6 % to € 105.6 million (previous year: € 91.4 million). The Real Estate subgroup achieved EBIT growth of 1.3 % to € 8.5 million (previous year: € 8.4 million).

Net expenses from the **financial result** increased by € 7.9 million or 105.3 % to € 15.5 million (previous year: € 7.6 million). This was largely due to the changes in lease accounting from the initial application of IFRS 16.

At 26.3 %, the Group's **effective tax rate** was slightly higher than in the previous year (25.5 %).

Profit after tax and minority interests was up on the previous year at € 54.7 million (previous year: € 52.4 million). Earnings per share amounted to € 0.75 (previous year: € 0.72). The listed Port Logistics subgroup achieved earnings per share of € 0.71 (previous year: € 0.68). Earnings per share of the non-listed Real Estate subgroup were down on the prior-year figure at € 1.80 (previous year: € 1.87). Return on capital employed (ROCE) reached 13.1 % (previous year: 14.7 %).

Financial position

Balance sheet analysis

Compared with year-end 2018, the HHLA Group's **balance sheet total** grew by a total of € 619.0 million to € 2,592.0 million as of 30 June 2019 (31 December 2018: € 1,972.9 million).

Balance sheet structure

in € million	**30.06.2019**	31.12.2018
Assets		
Non-current assets	2,078.0	1,446.9
Current assets	514.0	526.0
	2,592.0	**1,972.9**
Equity and liabilities		
Equity	534.4	614.8
Non-current liabilities	1,790.2	1,114.7
Current liabilities	267.4	243.4
	2,592.0	**1,972.9**

On the assets side of the balance sheet, **non-current assets** rose by € 631.1 million to € 2,078.0 million (31 December 2018: € 1,446.9 million). This was primarily due to effects from the initial application of IFRS 16 amounting to € 571.2 million (primarily attributable to rights of use of € 542.8 million and deferred taxes of € 28.4 million). **Current assets** fell by € 12.0 million to € 514.0 million (31 December 2018: € 526.0 million). This was largely attributable to the decrease in cash, cash equivalents and short-term deposits of € 13.9 million.

On the liabilities side, **equity** fell by € 80.4 million to € 534.4 million compared to the year-end figure (31 December 2018: € 614.8 million). The decrease was largely due to the effects of the initial application of IFRS 16 amounting to € 58.5 million, as well as the payout of dividends amounting to € 62.7 million and interest rate adjustments to pension provisions. Profit for the period under review of € 72.9 million had an opposing effect. The equity ratio decreased to 20.6 % (31 December 2018: 31.2 %).

Non-current liabilities rose by € 675.5 million to € 1,790.2 million (31 December 2018: € 1,114.7 million). This increase is largely due to the effects of the initial application of IFRS 16 amounting to € 589.4 million. Primarily as a result of the interest rate adjustments, pension provisions increased by € 58.1 million compared to 31 December 2018. **Current liabilities** rose by € 24.0 million to € 267.4 million (31 December 2018: € 243.4 million), also primarily due to effects from the initial application of IFRS 16 amounting to € 40.3 million, as well as to an increase in other liabilities. Opposing effects reduced current financial liabilities.

Investment analysis

Capital expenditure in the reporting period totalled € 110.9 million, well above the prior-year figure of € 44.2 million. The main reason for this increase was the capitalisation of a concession agreement for a terminal facility. Property, plant and equipment accounted for € 106.1 million (previous year: € 37.8 million) of capital expenditure, while investments in intangible assets made up € 4.8 million (previous year: € 6.4 million). The majority of capital expenditure was for expansion work.

Liquidity analysis

Cash flow from operating activities rose by € 77.2 million to € 173.1 million as of 30 June 2019 (previous year: € 95.9 million). This was due to the comparatively low increase in trade receivables and current financial assets as compared with the same period in the previous year, as well as the higher increase in trade liabilities and other liabilities. Increased depreciation and amortisation as a result of the initial application of IFRS 16 and the improvement in EBIT also led to an increase in operating cash flow.

Investing activities led to cash outflows of € 90.2 million (previous year: € 84.8 million). This was largely due to payments for short-term deposits. Furthermore, payments for investments in property, plant and equipment were also higher than in the previous year. Payments for company acquisitions in the previous year had an opposing effect due to the acquisition of all shares in HHLA TK Estonia AS, Tallinn, Estonia.

Cash flow from financing activities was € 12.5 million lower than in the previous year. This was primarily due to payments for the acquisition of all minority interests in METRANS a.s. in Prague, Czech Republic, in the previous year. By contrast, the initial application of IFRS 16 resulted in higher payments for the redemption of lease liabilities in the reporting period. No payments were received from the take-up of loans in the reporting period as compared with the same period last year.

Financial funds totalled € 210.1 million as of 30 June 2019 (30 June 2018: € 127.4 million). Including all short-term deposits, the Group's available liquidity at the end of the first half of 2019 amounted to € 260.1 million (30 June 2018: € 127.4 million).

Liquidity analysis

in € million	**1–6 | 2019**	1–6 | 2018
Financial funds as of 01.01.	**254.0**	**255.5**
Cash flow from operating activities	173.1	95.9
Cash flow from investing activities	- 90.2	- 84.8
Free cash flow	**82.9**	**11.1**
Cash flow from financing activities	- 127.6	- 140.1
Change in financial funds	- 43.9	- 128.1
Financial funds as of 30.06.	**210.1**	**127.4**
Short-term deposits	50.0	0.0
Available liquidity	260.1	127.4

Segment performance

Container segment

Key figures

in € million	**1–6 | 2019**	1–6 | 2018	Change
Revenue	401.7	380.3	5.6 %
EBITDA	120.5	106.9	12.7 %
EBITDA margin in %	30.0	28.1	1.9 pp
EBIT	71.8	68.2	5.3 %
EBIT margin in %	17.9	17.9	0.0 pp
Container throughput in thousand TEU	3,770	3,631	3.8 %

During the first half of 2019, the **throughput volume** at **HHLA's container terminals** increased moderately by 3.8 % to 3,770 thousand standard containers (TEU) (previous year: 3,631 thousand TEU). The three **Hamburg container terminals** showed a sideways trend with a marginal year-on-year increase in throughput volume of +0.1 % to 3,476 thousand TEU (previous year: 3,473 thousand TEU). The changes in service structure (addition of several services to North America, disposal of a Far East service) were overall slightly positive. Asian routes were virtually on a par with the previous year. Feeder traffic in the Baltic region continued to develop heterogeneously across the various routes and decreased slightly overall. The proportion of seaborne handling by feeders was therefore down slightly by 0.7 percentage points to 22.9 % (previous year: 23.6 %).

Throughput at the **international container terminals** in Odessa and Tallinn amounted to 293 thousand TEU in the reporting period (previous year: 158 thousand TEU). However, the prior-year figures are only comparable to a limited extent, as the container terminal in Tallinn was only incorporated into HHLA's consolidated group as of the second half of 2018.