Interim management report

Economic environment

Macroeconomic development

Global economic activity fell dramatically during the first half of the year as a result of the coronavirus pandemic. According to the latest estimates of the International Monetary Fund (IMF), the economic impact was even more severe than initially expected. While the downturn reached historic proportions in the advanced economies during the first half-year, the effects were not quite so dramatic in the emerging and developing nations due to China's development. The Chinese economy has already pulled out of recession: following a decline of 6.8 % in the first quarter, the Statistical Office in Beijing reported a return to economic growth of 3.2 % for the second quarter. By contrast, the coronavirus is still spreading in other emerging markets such as Brazil and Russia, whose economies have not yet reached their lowest point. The global economic downturn also led to a drastic fall in oil prices, causing oil producers to curb production massively. The World Bank still forecasts growth in Russian gross domestic product (GDP) of 1.6 % for the first quarter of 2020, whereby the full impact is only likely to be felt in the growth rate for the second quarter. The effects of the pandemic are also reflected in global trade: according to IMF estimates, global trade volumes shrank by 3.5 % in the first quarter of 2020.

The measures to contain the pandemic led to the biggest drop in economic activity in the eurozone since it was established. Although most measures only came into force in March, Eurostat estimates that the year-on-year decrease in GDP in the first three months of 2020 already reached 3.1 %. Early indicators released by the Kiel Institute for the World Economy (IfW) signal a double-digit decline of over 13 %. Outside the eurozone, the economic downturn in Central and Eastern Europe in the first quarter of 2020 was less pronounced. This was particularly true in Poland and Hungary with quarter-on-quarter decreases of just 0.4 %. In comparison to the previous year, economic growth slowed to 1.7 % in Poland and to 2.0 % in Hungary. By contrast, GDP in the Czech Republic shrank by 3.3 % quarter-on-quarter and by 2.0 % compared to the first three months of 2019. In Germany, the coronavirus pandemic marks the biggest slump in economic output since the founding of the Federal Republic. In the first quarter of 2020, economic activity shrank by 2.3 % year-on-year. The IfW forecasts an even more drastic decrease in GDP of around 12 % for the second quarter. Sentiment indicators, however, suggest that the crisis has already reached its lowest point. This is also reflected in German exports. Although exports in the period January to May 2020 were down year-on-year by 14.1 % and imports by 10.3 %, there were month-on-month increases in exports (+9.0 %) and imports (+3.5 %) in May.

Sector development

As expected by the experts of the market research institute Drewry, global container throughput decreased markedly in the first half of 2020 as a result of the coronavirus pandemic. Even though the decline in throughput of 2.7 % in the first quarter – measured by container throughput at ports worldwide – was not as drastic as its experts forecast in March, Drewry anticipates a slump in global container throughput of 16.2 % for the second quarter.

Development of container throughput by region

in %	**Q2 | 20**	Q1 | 20
World	- 16.2	- 2.7
Europe as a whole	- 21.3	- 2.8
North-West Europe	- 16.7	- 2.9
Scandinavia and the Baltic region	- 33.3	- 2.4
Western Mediterranean	- 22.6	- 3.4
Eastern Mediterranean and the Black Sea	- 24.1	- 2.3

Source: Drewry Maritime Research, July 2020

The shipping region Europe has been particularly hard hit by the crisis. After forecasting a moderate decrease in volumes at the European ports of 4.1 % for the second quarter in March 2020, Drewry's experts now expect a massive decline of 21.3 %. The shipping regions of North-West Europe, Scandinavia and the Baltic region are also likely to perform much worse in the second quarter than recent forecasts had predicted.

Container throughput in Rotterdam of 7.0 million TEU in the reporting period was 7.0 % down on the first half of 2019. In Antwerp, however, 0.4 % more containers passed over the quayside in the first six months. At the time of reporting, no half-year data was available for the German ports along the North Range. In the first five months of the year, throughput at the Bremen ports amounted to 2.0 million TEU – down 4.4 % on the previous year. The JadeWeserPort in Wilhelmshaven reported throughput of 106 thousand TEU for the first quarter of 2020, which corresponds to a year-on-year decrease of 48.3 % or almost half its handling volume. At 3,058 thousand TEU, throughput at the three container terminals in Hamburg was well below the prior-year level (by 12.0 %) in the first six months of 2020.

Course of business and economic situation

Key figures

in € million	1–6 | 2020	1–6 | 2019	Change
Revenue	628.4	693.7	- 9.4 %
EBITDA	140.1	192.9	- 27.4 %
EBITDA margin in %	22.3	27.8	- 5.5 pp
EBIT	55.5	114.3	- 51.5 %
EBIT margin in %	8.8	16.5	- 7.7 pp
Profit after tax and minority interests	14.1	54.7	- 74.2 %
ROCE in %	5.4	11.3	- 5.9 pp

Significant events and transactions

The coronavirus pandemic had a significant impact on HHLA's financial performance in the first half of the financial year. Having said this, it has not resulted in any material effects on the recognition or measurement of the Group's assets and liabilities as of 30 June 2020.

Within the Port Logistics and Real Estate subgroups, both the key economic indicators for the first six months of 2020 and HHLA's actual economic performance were largely in line with the performance forecast in the 2019 combined management report. 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. Earnings position, financial position

Earnings position

The development of HHLA's performance data in the first half of 2020 was severely affected by the global coronavirus pandemic. **Container throughput** decreased markedly by 11.3 % year-on-year to 3,345 thousand TEU (previous year: 3,770 thousand TEU). The decline began in the middle of the first quarter, gathered considerable pace over the previous course of the year and was most noticeable at the container terminals in Hamburg. Throughput at the international terminals was only slightly below the prior-year level, although there were strong regional variations in the first half-year. **Container transport** decreased significantly by 8.2 % to 718 thousand TEU (previous year: 782 thousand TEU). Road transport was more heavily affected by the decrease than rail transport.

The 9.4 % decrease in the HHLA Group's **revenue** to € 628.4 million (previous year: € 693.7 million) during the reporting period was roughly on a par with the fall in performance data. All operating segments were significantly affected by the decrease in revenue.

In its Container, Intermodal and Logistics segments, the listed Port Logistics subgroup generated revenue of € 614.2 million in the reporting period (previous year: € 677.5 million). The non-listed Real Estate subgroup posted revenue of € 18.0 million (previous year: € 19.9 million). This decrease at both subgroups was largely in line with the trend for the Group as a whole.

Changes in inventories of € 0.6 million (previous year: € 0.0 million) had no noticeable effect on consolidated profit. **Own work capitalised** amounted to € 2.2 million (previous year: € 3.3 million).

Other operating income totalled € 22.3 million (previous year: € 19.0 million). One liability from a contingent consideration agreed as part of the acquisition of Bionic Production GmbH was derecognised in profit and loss as a result of a new agreement with the seller. This amount had a significant effect on the increase in other operating income.

Operating expenses decreased by 0.6 % to € 598.0 million (previous year: € 601.6 million). This much lower decrease as compared to the performance data and revenue was due to the development of union wage rates, as well as an increase in headcount in the second half of 2019, increased depreciation and amortisation and higher other operating expenses.

The **cost of materials** was reduced by 7.8 % to € 186.1 million during the reporting period (previous year: € 201.7 million). The decrease was not quite as marked as the decline in revenue since energy costs could not be decreased. As a result, the cost of materials ratio increased slightly to 29.6 % (previous year: 29.1 %).

There was a minor year-on-year increase of 0.1 % in **personnel expenses** to € 260.0 million (previous year: € 259.9 million). The strong increase in the personnel expense ratio to 41.4 % (previous year: 37.5 %) was partly due to wage increases in the previous year and to the decrease in revenue with an increase in headcount as a result of the expansion of business activities in rail transport.

Other operating expenses rose considerably by 9.7 % to € 67.3 million in the reporting period (previous year: € 61.4 million). The ratio of expenses to revenue rose from 8.9 % in the previous year to 10.7 %. This was caused by a rise in maintenance costs in the Container segment and increased expenses for consultancy and services.

As a result of reduced volumes, the **operating result before depreciation and amortisation (EBITDA)** fell by 27.4 % to € 140.1 million (previous year: € 192.9 million) The EBITDA margin declined to 22.3 % in the reporting period (previous year: 27.8 %).

Depreciation and amortisation increased significantly by 7.7 % to € 84.6 million (previous year: € 78.6 million) in connection with a value adjustment for goodwill of Bionic Production GmbH and the expansion of rail transport; its ratio to revenue rose to 13.5 % (previous year: 11.3 %).

There was a strong decrease in the **operating result (EBIT)** of € 58.8 million, or 51.5 %, to € 55.5 million during the reporting period (previous year: € 114.3 million). The **EBIT margin** amounted to 8.8 % (previous year: 16.5 %). In the Port Logistics subgroup, EBIT fell by 53.5 % to € 49.1 million (previous year: € 105.6 million). In the Real Estate subgroup, EBIT decreased by 27.8 % to € 6.1 million (previous year: € 8.5 million).

Net expenses from the **financial result** increased by € 2.2 million, or 13.9 %, to € 17.7 million (previous year: € 15.5 million). The main reason for this is the lower earnings from associates accounted for using the equity method.

At 30.9 %, the Group's **effective tax rate** was higher than in the previous year (previous year: 26.3 %).

Profit after tax decreased by 64.2 %, from € 72.9 million to € 26.1 million. **Profit after tax and minority interests** was significantly lower than in the previous year at € 14.1 million (previous year: € 54.7 million). **Earnings per share** amounted to € 0.19 (previous year: € 0.75). The listed Port Logistics subgroup achieved earnings per share of € 0.15 (previous year: € 0.71). Earnings per share of the non-listed Real Estate subgroup were also down year-on-year to € 1.27 (previous year: € 1.80). The **return on capital employed (ROCE)** amounted to 5.4 % (previous year: 11.3 %).

Financial position

Balance sheet analysis

Compared with year-end 2019, the HHLA Group's **balance sheet total** grew by a total of € 21.8 million to € 2,631.8 million as of 30 June 2020 (31 December 2019: € 2,610.0 million).

Balance sheet structure

in € million	30.06.2020	31.12.2019
Assets		
Non-current assets	2,117.9	2,124.3
Current assets	513.9	485.7
	2,631.8	**2,610.0**
Equity and liabilities		
Equity	589.7	578.9
Non-current liabilities	1,719.7	1,749.8
Current liabilities	322.4	281.3
	2,631.8	**2,610.0**

On the assets side of the balance sheet, **non-current assets** decreased by € 6.4 million to € 2,117.9 million, primarily due to the decrease in property, plant and equipment (31 December 2019: € 2,124.3 million). **Current assets** increased by € 28.2 million to € 513.9 million (31 December 2019: € 485.7 million). This was largely due to the increase in cash, cash equivalents and short-term deposits of € 45.0 million and the decrease in trade receivables of € 18.9 million.

On the liabilities side, **equity** rose by € 10.8 million to € 589.7 million compared to the year-end figure for 2019 (31 December 2019: € 578.9 million). This increase stemmed largely from the positive result for the reporting period of € 26.1 million. Interest rate adjustments to pension provisions and the difference from foreign currency translation had an opposing effect. The equity ratio increased slightly to 22.4 % (31 December 2019: 22.2 %).

Non-current liabilities fell by € 30.1 million to € 1,719.7 million (31 December 2019: € 1,749.8 million). This decrease is primarily due to the decline in non-current financial liabilities of € 31.2 million and the decrease in liabilities to related parties. The increase in pension provisions had an opposing effect. **Current liabilities** increased by € 41.1 million to € 322.4 million, primarily as a result of the increase in other liabilities, trade liabilities and current liabilities to related parties (31 December 2019: € 281.3 million).

Investment analysis

Capital expenditure in the reporting period totalled € 89.0 million and was thus 19.7 % below the prior-year figure (previous year: € 110.9 million). Property, plant and equipment accounted for € 85.5 million (previous year: € 106.1 million) of capital expenditure and intangible assets for € 3.5 million (previous year: € 4.8 million). The majority of capital expenditure was for expansion work.

The acquisition by the METRANS Group of locomotives, container wagons and maintenance equipment, as well as the procurement of container gantry cranes, storage cranes and large-scale equipment for horizontal transport at the HHLA container terminals in the Port of Hamburg, and the development of the Hamburg Speicherstadt historical warehouse district accounted for a major share of capital expenditure in the first half of 2020.

Liquidity analysis

Cash flow from operating activities declined by € 13.3 million to € 159.8 million as of 30 June 2020 (previous year: € 173.1 million). This was primarily due to the decrease in EBIT. This was offset by a decrease (previous year: increase) in trade receivables and other assets, as well as lower tax payments than in the same period last year.

Investing activities led to a net cash outflow of € 77.2 million (previous year: € 90.2 million). This was largely due to payments for short-term deposits in the prior-year period. There was an opposing effect from the year-on-year increase in payments for investments in property, plant and equipment.

Cash flow from financing activities of € 38.4 million was € 89.2 million below the prior-year figure of € 127.6 million. This was primarily due to payments in the previous year for the dividend to shareholders of the parent company and for the settlement obligation to a minority shareholder.

Financial funds totalled € 251.1 million as of 30 June 2020 (30 June 2019: € 210.1 million). Including all short-term deposits, the Group's available liquidity at the end of the first half of 2020 amounted to € 296.1 million (30 June 2019: € 260.1 million).

Liquidity analysis

in € million	1–6 | 2020	1–6 | 2019
Financial funds as of 01.01.	**208.0**	**254.0**
Cash flow from operating activities	159.8	173.1
Cash flow from investing activities	- 77.2	- 90.2
Free cash flow	**82.6**	**82.9**
Cash flow from financing activities	- 38.4	- 127.6
Change in financial funds	43.0	- 43.9
Financial funds as of 30.06.	**251.1**	**210.1**
Short-term deposits	45.0	50.0
Available liquidity	296.1	260.1

Segment performance

Container segment

Key figures

in € million	1–6 | 2020	1–6 | 2019	Change
Revenue	363.4	401.7	- 9.6 %
EBITDA	84.2	120.5	- 30.1 %
EBITDA margin in %	23.2	30.0	- 6.8 pp
EBIT	36.8	71.8	- 48.7 %
EBIT margin in %	10.1	17.9	- 7.8 pp
Container throughput in thousand TEU	3,345	3,770	- 11.3 %

During the first six months of 2020, the **throughput volume** at **HHLA's container terminals** decreased by 11.3 % to 3,345 thousand standard containers (TEU) (previous year: 3,770 thousand TEU).

At 3,058 thousand TEU, throughput volume at the three **Hamburg container terminals**, was down 12.0 % on the same period last year (previous year: 3,476 thousand TEU). This was mainly due to blank sailings as a result of the coronavirus pandemic. These blank sailings led to a significant decline in cargo volumes from the Far East. Feeder traffic with the Baltic region decreased markedly and could not be offset by growth in the German and British shipping regions. There was a corresponding decline in the proportion of seaborne handling by feeders of 2.3 percentage points to 20.6 % (previous year: 22.9 %).

The **international container terminals** in Odessa and Tallinn recorded a slight decrease in throughput volume of 2.4 % to 286 thousand TEU (previous year: 293 thousand TEU). The decreases in volume primarily due to the coronavirus pandemic could not be offset by the additional traffic in the first quarter.

Revenue decreased year-on-year by 9.6 % to € 363.4 million in the first half of 2020 (previous year: € 401.7 million). This was primarily due to the decreases in volume caused by the