Business development

Course of business and economic situation

Key figures

in € million	1–3 | 2019	1–3 | 2018	Change
Revenue	347.6	315.2	10.3 %
EBITDA	98.4	77.8	26.5 %
EBITDA margin in %	28.3	24.7	3.6 pp
EBIT	59.7	47.9	24.5 %
EBIT margin in %	17.2	15.2	2.0 pp
Profit after tax and minority interests	29.4	23.7	24.3 %
ROCE in %	13.8	14.5	- 0.7 pp

Significant events and transactions

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 retained earnings (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 € 3.5 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.

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 three months of 2019 and HHLA's actual economic performance were largely in line with the performance forecast in the 2018 Annual Report. Earnings position, Financial position

Earnings position

HHLA posted generally positive performance data in the first quarter of 2019. **Container throughput** rose slightly by 2.2 % year-on-year to 1,865 thousand TEU (previous year: 1,824 thousand TEU). This was influenced in particular by the positive growth of the international terminals, which is largely due to the takeover of the container terminal in Tallinn at the end of the second quarter of 2018. The Hamburg container terminals were slightly down on the previous year. **Container transport** increased considerably by 13.7 % to 398 thousand TEU (previous year: 350 thousand TEU). Both rail and road transport contributed to this growth.

The HHLA Group's **revenue** rose markedly by 10.3 % to € 347.6 million during the reporting period (previous year: € 315.2 million). In addition to the increases in volume described, the higher proportion of hinterland traffic in container throughput and container transport also had a positive effect.

Other operating income amounted to € 8.4 million (previous year: € 8.0 million).

With an increase of 7.5 % to € 298.1 million (previous year: € 277.3 million), **operating expenses** rose more slowly than revenue. While lower route prices for German rail freight had a positive effect on cost structures, increased personnel and material expenses due to a rise in container transport volumes and the integration of HHLA TK Estonia led to a year-on-year increase.

There was a strong increase in the **operating result (EBIT)** of € 11.8 million or 24.5 % to € 59.7 million during the reporting period (previous year: € 47.9 million). The effects of the initial application of IFRS 16 amounted to € 3.5 million. The **EBIT margin** amounted to 17.2 % (previous year: 15.2 %). In the Port Logistics subgroup, EBIT rose by 26.1 % to € 55.7 million (previous year: € 44.2 million). The Real Estate subgroup achieved EBIT growth of 6.4 % to € 3.9 million (previous year: € 3.6 million).

Net expenses from the **financial result** increased by € 4.3 million or 116.6 % to € 7.9 million (previous year: 3.7 million). This was largely due to the changes in lease accounting from the initial apllication of IFRS 16 (Leases).

Profit after tax and minority interests was up considerably on the previous year at € 29.4 million (previous year: € 23.7 million). **Earnings per share** amounted to € 0.40 (previous year: € 0.33). The listed Port Logistics subgroup achieved earnings per share of € 0.39 (previous year: € 0.31). Earnings per share of the non-listed Real Estate subgroup were up on the prior-year figure at € 0.83 (previous year: € 0.79). **Return on capital employed (ROCE)** reached 13.8 % (previous year: 14.5 %).

Financial position

Balance sheet analysis

Compared with year-end 2018, the HHLA Group's **balance sheet total** grew by a total of € 631.9 million to € 2,604.8 million as of 31 March 2019 (31 December 2018: € 1,972.9 million).

Balance sheet structure

in € million	31.03.2019	31.12.2018
Assets		
Non-current assets	2,027.8	1,446.9
Current assets	577.0	526.0
	2,604.8	**1,972.9**
Equity and liabilities		
Equity	571.0	614.8
Non-current liabilities	1,731.0	1,114.7
Current liabilities	302.8	243.4
	2,604.8	**1,972.9**

On the assets side of the balance sheet, **non-current assets** rose by € 580.9 million to € 2,027.8 million (31 December 2018: € 1,446.9 million). This was primarily due to the 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** increased by € 51.0 million to € 577.0 million (31 December 2018: € 526.0 million). This was largely attributable to the increase in cash, cash equivalents and short-term deposits of € 45.8 million.

On the liabilities side, **equity** fell by € 43.8 million to € 571.0 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 interest rate adjustments to pension provisions. Profit for the period under review of € 38.4 million had an opposing effect. The equity ratio decreased to 21.9 % (31 December 2018: 31.2 %).

Non-current liabilities rose by € 616.3 million to € 1,731.0 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. As a result of the interest rate adjustments, pension provisions increased by € 41.1 million compared to 31 December 2018. **Current liabilities** rose by € 59.4 million to € 302.8 million (31 December 2018: € 243.4 million), also primarily due to the effects from the initial application of IFRS 16 amounting to € 40.3 million.

Investment analysis

Capital expenditure in the reporting period totalled € 35.4 million, well above the prior-year figure of € 21.4 million. The acquisition by METRANS of container wagons and the procurement of storage cranes and large-scale equipment for horizontal transport at the HHLA container terminals in the Port of Hamburg accounted for a major share of capital expenditure in the first quarter of 2019.

Liquidity analysis

Cash flow from operating activities rose by € 39.8 million to € 94.4 million as of 31 March 2019 (previous year: € 54.6 million). This was due to the improvement in EBIT, as well as to the lower year-on-year increase in trade receivables and other assets.

Investing activities led to cash outflow of € 47.9 million (previous year: € 20.5 million). This trend resulted mainly from payments for short-term deposits and a year-on-year increase in investments in property, plant and equipment.

Cash flow from financing activities was € 39.9 million lower than in the previous year. This was due to payments for the acquisition of the remaining shares in METRANS a.s., 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.

Financial funds totalled € 282.3 million as of 31 March 2019 (31 March 2018: € 231.4 million). Including all short-term deposits, the Group’s available liquidity at the end of the first quarter of 2019 amounted to € 322.3 million (31 March 2018: € 251.4 million).

Liquidity analysis

in € million	1–3 | 2019	1–3 | 2018
Financial funds as of 01.01.	**254.0**	**255.5**
Cash flow from operating activities	94.4	54.6
Cash flow from investing activities	- 47.9	- 20.5
Free cash flow	**46.5**	**34.1**
Cash flow from financing activities	- 18.7	- 58.6
Change in financial funds	28.3	- 24.1
Financial funds as of 31.03.	**282.3**	**231.4**
Short-term deposits	40.0	20.0
Available liquidity	322.3	251.4

HHLA segments

Container segment

Key figures

in € million	1–3 | 2019	1–3 | 2018	Change
Revenue	200.9	191.7	4.8 %
EBITDA	61.9	53.1	16.5 %
EBITDA margin in %	30.8	27.7	3.1 pp
EBIT	37.8	32.7	15.6 %
EBIT margin in %	18.8	17.1	1.7 pp
Container throughput in thousand TEU	1,865	1,824	2.2 %

During the first quarter of 2019, the **volume development** at **HHLA's container terminals** increased slightly by 2.2 % to 1,865 thousand standard containers (TEU) (previous year: 1,824 thousand TEU).

The three **Hamburg container terminals** showed a slight downward trend with a year-on-year decrease in throughput volume of 1.3 % to 1,722 thousand TEU (previous year: 1,744 thousand TEU). This was due to the changes of services (addition of several services to North America, disposal of a Far East service). Feeder traffic developed very heterogeneously in the various Baltic region routes but stagnated overall at the prior-year level. The proportion of seaborne handling by feeders increased slightly by 0.4 percentage points to 23.5 % (previous year: 23.1 %).

Throughput at the **international container terminals** in Odessa and Tallinn amounted to 143 thousand TEU in the reporting period (previous year: 81 thousand TEU). However, the prior-year figures are only comparable to a limited extent, as the container terminal in Tallinn was incorporated into HHLA's consolidated group at the end of the second quarter of 2018.

Revenue was increased year-on-year by 4.8 % to € 200.9 million in the first three months (previous year: € 191.7 million). The average revenue per container handled at the quayside rose by 2.5 % year-on-year. This was caused by a temporary increase in storage fees and a further rise in the rail share.

EBIT costs were influenced by ship delays and the costs of HHLA TK Estonia, consolidated since the end of the second quarter of 2018 and thus not included in the prior-year figures. The initial application of IFRS 16 led to a slight improvement. EBIT costs rose overall by 2.6 %.

The **operating result (EBIT)** increased by € 5.1 million or 15.6 % year-on-year to € 37.8 million (previous year: € 32.7 million). Of this increase, € 2.6 million is attributable to the application of IFRS 16. The EBIT margin rose by 1.7 percentage points to 18.8 %.

Intermodal segment

Key figures

in € million	1–3 | 2019	1–3 | 2018	Change
Revenue	123.9	101.6	22.0 %
EBITDA	34.8	25.1	38.3 %
EBITDA margin in %	28.1	24.8	3.3 pp
EBIT	25.3	18.7	35.1 %
EBIT margin in %	20.4	18.4	2.0 pp
Container transport in thousand TEU	398	350	13.7 %

In the first quarter of 2019, HHLA's transport companies achieved strong growth in the highly competitive market for container traffic in the hinterland of major seaports. **Transport volumes** rose by 13.7 % to 398 thousand standard containers (TEU), (previous year: 350 thousand TEU). This trend was driven by growth in both rail and road transport. Compared with the previous year, rail transport increased by 14.7 % to 310 thousand TEU (previous year: 270 thousand TEU). There was above-average growth in traffic between the north German seaports and the Central and Eastern European hinterland, as well as in traffic between the Adriatic ports and the Central and Eastern European hinterland. After a weak quarter in the previous year, road transport recovered well due to the strong increase in delivery volumes, and recorded year-on-year growth of 10.1 % to 88 thousand TEU (previous year: 80 thousand TEU) in a challenging market environment.

At € 123.9 million, **revenue** was up 22.0 % on the prior-year figure (previous year: € 101.6 million) and thus performed much better than transport volume. This strong growth in revenue was largely due to a further increase in rail's share of HHLA's total intermodal transportation from 77.2 % to 77.9 %, combined with a favourable transport mix and longer transport distances.

The **operating result (EBIT)** rose by 35.1 % to € 25.3 million in the reporting period (previous year: € 18.7 million). This marked increase is primarily due to the positive trend in volume and revenue. Additionally, lower route prices in Germany made it possible to increase further the capacity utilisation of train systems. The application of IFRS 16 did not have a major impact on the positive EBIT trend.