Combined Management Report

The Combined Management Report covers the course of business at the HHLA Group and Hamburger Hafen und Logistik Aktiengesellschaft (HHLA AG).

Group Overview

HHLA

Holding/Other
- Strategic corporate development
- Functional management of the Container segment
- Management of resources and processes
- Provision of shared services

- Floating crane operations
- Development and letting of port-related real estate

Port Logistics
Subgroup
Listed Class A shares

Container
Segment
- Container handling
- Container transfer between modes of transport (ship, rail, truck)
- Container-related services (e.g. storage, maintenance, repair)

Intermodal
Segment
- Container transport in the ports' hinterland
- Loading and unloading of carriers
- Operation of inland terminals

Logistics
Segment
- Special handling of bulk cargo, general cargo, vehicles etc.
- Handling cruise ships
- Warehousing and contract logistics
- Consulting and training

Real Estate
Subgroup
Non-listed Class S shares

Real Estate
Segment
- Management of real estate in Hamburg's Speicherstadt historical warehouse district and Fischmarkt Hamburg-Altona
- Development
- Tenancy
- Facility management

Shareholder Structure
Share capital: total of 72,753,334 no-par-value registered shares (no-par-value shares)

of which 70,048,834
Class A shares – listed –

31.6 %	68.4 %

Free float
22,128,334 Class A shares

Free and Hanseatic City of Hamburg
Shareholding: 47,920,500 Class A shares + 2,704,500 Class S shares

of which 2,704,500
Class S shares – non-listed –

100 %

Group Structure

Hamburger Hafen und Logistik AG (HHLA) is one of Europe's leading port logistics groups. It is operated as a strategic management holding company and divided into two subgroups, Port Logistics and Real Estate. The Class A shares, which are listed on the stock exchange, relate to the Port Logistics subgroup and entitle shareholders merely to participate in the result and net assets of these operations. The Real Estate subgroup includes those HHLA properties which are not specific to port handling. The performance and financial result of the Real Estate subgroup, which also follows urban development objectives, are represented by the Class S shares. These shares are not traded on the stock exchange and are held solely by the Free and Hanseatic City of Hamburg (FHH). In the unlikely and unprecedented event of the Real Estate subgroup reporting a loss, this would be indirectly transferred to the Free and Hanseatic City of Hamburg in line with a separate agreement to assume losses.

The HHLA Group's operations are carried out by the 30 domestic and nine foreign subsidiaries and associated firms which make up the company. In the 2015 financial year, the divisional functions and management responsibilities previously held by the operative holding HHLA Container Terminals GmbH (Container segment) were transferred to the holding company and are therefore the direct responsibility of the Executive Board. No other significant legal or organizational changes were made to the company structure in the 2015 financial year.

Management Structure

As a German stock corporation (Aktiengesellschaft), HHLA has a dual structure consisting of an Executive Board and a Supervisory Board: the Executive Board manages the company on its own responsibility, while the Supervisory Board appoints, advises and monitors the Executive Board. In 2015, the Executive Board of HHLA comprised four members, whose areas of responsibility are defined by their specific tasks and operating segments. The HHLA Executive Board, under the direction of the Chairman of the Executive Board, is now jointly responsible for the Container segment. The divisional responsibility held by the operative holding HHLA Container Terminals GmbH was replaced by a functional management structure. The Container Sales and Container Operations functions, which were previously held by the operative holding, are now managed directly by the holding company. The Supervisory Board has twelve members in all, with six representing the shareholders and six representing the employees, ▶ see Note 49 of the Notes to the Consolidated Financial Statements, Board Members and Mandates, page 146

Business Activities

As an integrated handling, transport and logistics provider, the **Port Logistics subgroup** offers services along the logistics chain between international ports and their European hinterland. The geographical focus of its operating activities is on the Port of Hamburg and its hinterland. The Port of Hamburg is an international hub for container transport by sea and land, with an optimal hinterland link to the economies of Central and Eastern Europe, Scandinavia and the Baltic region. The company's core lines of business are represented by the Container, Intermodal and Logistics segments.

The **Container segment** pools the Group's container handling operations and is the largest business unit in terms of revenue and earnings. The Group's activities in this segment consist primarily of handling container ships (the loading and discharging of containers) and transferring containers to other carriers (rail, truck, feeder ship or barge). HHLA operates three container terminals in Hamburg – Altenwerder (CTA), Burchardkai (CTB) and Tollerort (CTT) – and another container terminal in Odessa, Ukraine (CTO). The portfolio is rounded off by supplementary container services, such as maintenance and repairs.

Organisational Structure

Supervisory Board

Executive Board

Klaus-Dieter Peters Chairman	**Dr. Stefan Behn**	**Heinz Brandt**	**Dr. Roland Lappin**
Responsibility	Responsibility	Responsibility	Responsibility
Corporate Development Corporate Communications Sustainability Intermodal segment Logistics segment	Container Sales Container Operations Container Engineering Information Systems	Human Resources Purchasing and Materials Management Health and Safety in the Workplace Legal and Insurance (including Compliance)	Finance and Controlling (including Organisation) Investor Relations Internal Audit Real Estate segment

The **Intermodal segment** is the second-largest of HHLA's segments in terms of revenue and earnings. As a further key element of HHLA's business model, which is vertically integrated along the transport chain, the segment provides a comprehensive rail and truck network for seaport-hinterland traffic and, increasingly, continental traffic. While the two rail companies – Metrans and Polzug – operate regular direct connections between the ports on the North and Baltic seas and between the Northern Adriatic and its hinterland, the inland terminals provide a comprehensive range of services for maritime logistics. In addition to transshipment services at the Port of Hamburg, the trucking subsidiary CTD transports containers by road, both locally and over long-haul distances within Europe.

The **Logistics segment** encompasses a wide range of complementary contract and warehouse logistics, specialist handling services and consulting. Its service portfolio comprises both stand-alone logistics services and entire process chains for the international procurement and distribution of merchandise, including the operation of handling facilities for dry bulk, motor vehicles and fruit, as well as the processing of cruise ships. In this segment, the company also provides consulting and management services for clients in the international port and transport industry. Some of these logistics services are provided together with partner companies.

The **Holding/Other** division is also part of the Port Logistics subgroup, although it does not constitute a separate segment as defined by the International Financial Reporting Standards (IFRS). The Holding division is responsible for strategic corporate development, the functional management of the Container segment, the central management of resources and processes, and the provision of shared services for the operating companies. It also includes the properties specific to HHLA's port handling business and the Group's floating crane operations.

The **Real Estate segment** corresponds to the **Real Estate subgroup**. Its business activities encompass the development, letting and commercial and technical facility management of properties in the Port of Hamburg's peripheral area. These include the Speicherstadt historical warehouse district, the world's largest traditional warehouse quarter. In this central location, HHLA offers around 300,000 m^2 of commercial space. Other prime properties totalling around 63,000 m^2 are managed by Fischmarkt Hamburg-Altona GmbH in the exclusive fish market area on the river Elbe's northern banks.

For further information on the performance of each segment, see also ▶ Segment Performance, page 39

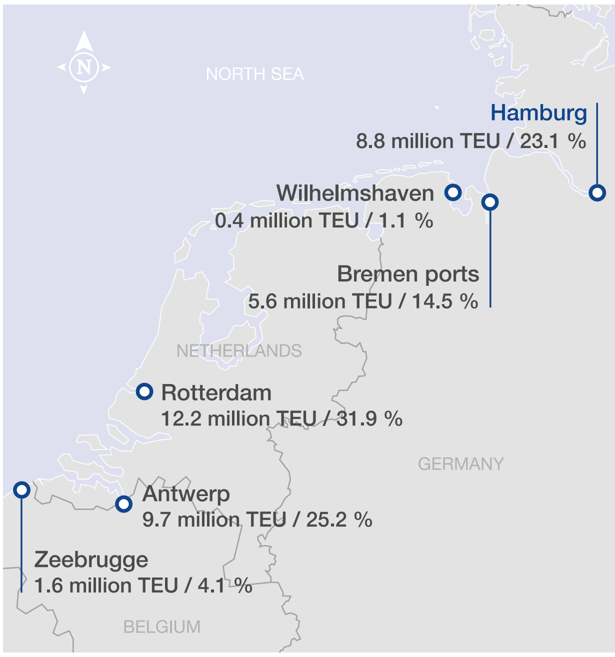
Market Position

With its listed core business Port Logistics, HHLA operates on the European market for international sea freight services. This continues to offer attractive long-term growth prospects, as the competitiveness achieved by key Central European countries in a global context provides the basis for further growth in trade volumes and consumption potential going forward. The ability to leverage the potential offered by the Eastern European markets, particularly the Russian Federation and Ukraine, is largely dependent on finding political solutions to existing regional conflicts as well as a return to more normal commodity and energy prices.

The relevant economic indicators point to a continued stabilisation of GDP growth in the eurozone. In view of the persistently high level of debt in the region, however, stronger growth is only expected in the medium to long term. For the short and medium term, on the other hand, there are indications of a fundamental reassessment of expected growth in containerised trade and transport volumes. This is primarily due to exogenous conditions and structural problems or crises, for which compelling solutions are still outstanding.

Throughput at the North Range Ports

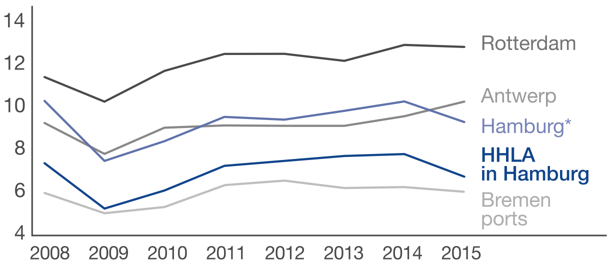
Volumes and market shares, 2015



Source: Port Authorities / own calculation (market share)

Container Throughput at the largest North Range Ports

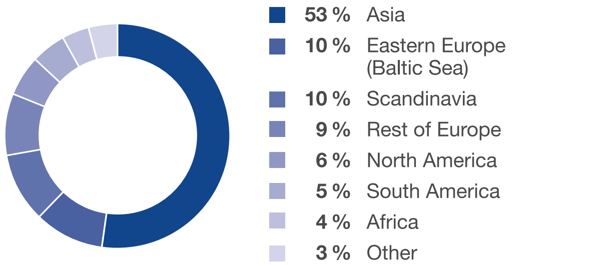
in TEU million



*Source: Port Authorities; *incl. HHLA*

Seaborne Container Throughput by Shipping Region

in the Port of Hamburg, 2015



Source: Hamburg Hafen Marketing e.V.

The market for port services on the Northern European coastline (the North Range) of relevance for HHLA is characterised by its high concentration of ports. Competition is currently strongest between the major North Range ports of Hamburg, HHLA's main hub, the Bremen ports, Rotterdam and Antwerp. Other handling sites – such as Wilhelmshaven, Le Havre and Zeebrugge – are considerably smaller in terms of their capacity and/or current freight volume. At present, the Baltic Sea ports are primarily served by feeder traffic operating via central distribution points in the North Range. Overseas services calling directly at ports, such as Gdansk (Poland) or Gothenburg (Sweden), are increasingly competing with this network system.

As well as the geographical position and hinterland links of a port, its accessibility from the sea affects the competitive position of terminal operators and thus local freight volumes. Other key competitive factors that influence market position include pricing, the reliability and speed of ship handling, the scope and quality of container handling services, as well as the performance of pre- and onward-carriage rail systems serving the hinterland (e.g. frequency, punctuality, pricing).

Two additional container terminals in Rotterdam (Maasvlakte 2) officially commenced operations in spring and autumn 2015. This led to a significant increase in capacity on the market and fiercer competition, especially for freight volume with greater geographical flexibility such as feeder traffic. In contrast to this, the market position for handling volumes which are tied to the natural catchment area onshore is largely stable – given that it is vital to take the shortest route for the disproportionately more expensive land-bound transportation.

The market research institute AXS Alphaliner estimates that the carrying capacity of the global container ship fleet increased by 8.5 % to 19.9 million TEU in 2015. The number of ultra large vessels with a capacity of more than 10,000 TEU increased particularly strongly, with growth of 27.2 % to 337. This means that some 45 % of the ships delivered in 2015 can carry in excess of 10,000 TEU.

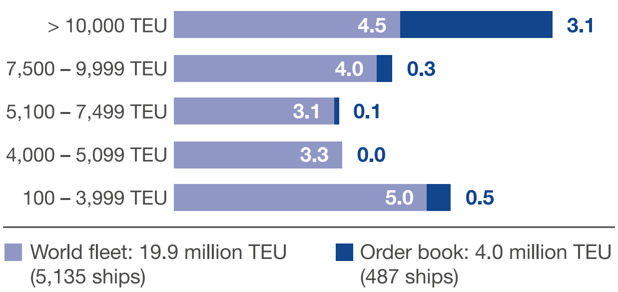
The **Container segment** benefits from the Port of Hamburg's position as the most easterly North Sea port, which makes it the ideal hub for the entire Baltic region and for hinterland traffic to and from Central and Eastern Europe. Furthermore, the long-standing trading relationships between the Port of Hamburg and the Asian markets are advancing Hamburg's role as an important European container hub. With a throughput of 8.8 million TEU, Hamburg ranked an estimated 19th among the world's leading international ports in 2015 and is currently the third-largest European container port after Rotterdam and Antwerp.

In Hamburg, HHLA maintained its position as the largest container handling company with a throughput volume of 6.4 million TEU in 2015. 73 % of container traffic (previous year: 75 %) at the Port of Hamburg was handled by HHLA. Asia, Eastern Europe and Scandinavia remained the most shipping regions.

In the **Intermodal segment**, HHLA primarily utilises the advantages of the Port of Hamburg's rail infrastructure – Europe's most important rail traffic hub handling more than 2 million TEU a year. HHLA's Intermodal network also comprises further ports along the North Sea and Baltic Sea coasts as well as the northern Adriatic and increasingly, continental traffic. The companies which transport containers by train compete with other

Current World Fleet and Order Book until 2019

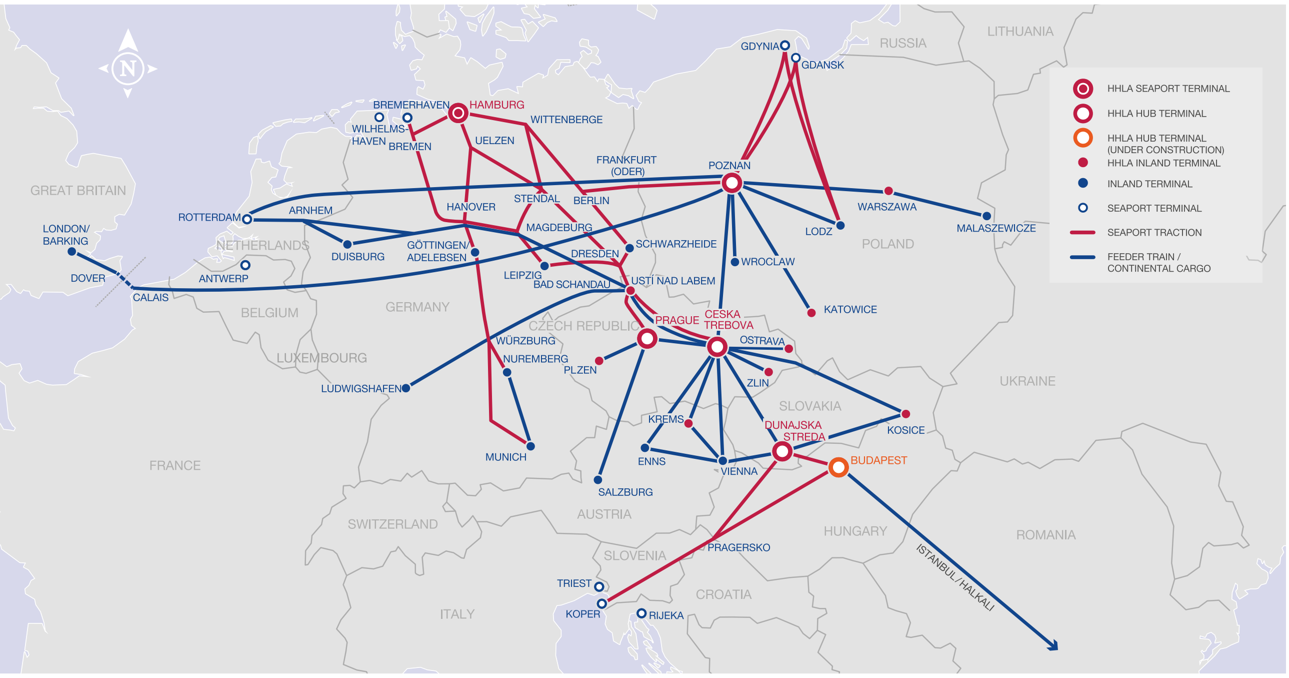
by vessel size categories in TEU million



Source: AXS Alphaliner

Intermodal Network of HHLA

Selected connections



rail operators and intermodal transport firms in Germany and abroad, but also with other carriers such as trucks and feeder ships. As the rail infrastructure is for the most part publicly owned, various national authorities guard against discrimination in both access and usage fees. In addition to the density of the available network, key competitive factors include the frequency of departures, opportunities for freight pooling and storage in the hinterland, the geographical distance to destinations, on-schedule operation and infrastructural capacity. The importance of these factors is growing as ports compete with one another.

HHLA has proprietary inland terminals in Central and Eastern Europe along with its own container wagons and traction (locomotives). All of these factors play a major role in the company's service offer. This is necessary to enable it to run direct trains with frequent departures and to allow the efficient pooling of rail freight transported via the port which is efficiently distributed by central handling facilities. HHLA occupies relevant market positions in the majority of the regions it serves. HHLA has a sound market position in the greater Hamburg metropolitan region in the delivery and collection of containers by truck.

The **Logistics segment** serves various market sectors, some of them heavily specialised. With its multi-function terminal, HHLA is the leading provider of specialist handling services in Hamburg. Via Hansaport, HHLA has a stake in Germany's biggest seaport terminal for handling iron ore and coal. HHLA also provides fruit handling services for Northern Europe with its Frucht- und Kühl-Zentrum. HHLA's complementary range of warehouse and contract logistics services supports the Group's market positions in the handling and transportation sectors. In the field of consultancy, work is conducted on pioneering development projects around the world.

With a population of around 1.8 million and its significance as an economic centre, Hamburg is one of the largest and most interesting property markets in Germany for the **Real Estate segment**. The Real Estate segment owes its outstanding market position to the special attractiveness of the properties it manages in Hamburg's Speicherstadt historical warehouse district and on the northern banks of the river Elbe, as well as their customer-specific and sustainable enhancement. The segment competes with German and international investors marketing high-quality properties in comparable locations.

Customer Structure and Sales

The customer base in the Container and Intermodal segments consists mainly of shipping companies and freight forwarders. The services provided in the Logistics segment are aimed at various customer groups, ranging from steel companies and power stations (in the field of bulk cargo handling) to international operators of ports and other logistics centres (in the field of port consulting). The Real Estate segment lets its office space and commercial premises to German and international customers from a variety of sectors, ranging from logistics and trading companies to media, consulting and advertising agencies, fashion labels, hotel and restaurants, and the creative industries.

Globally operating container shipping companies are the customers which account for the largest share of HHLA's revenue. In ship handling, HHLA's container terminals work with shipping companies on a neutral basis (multi-user principle) and offer a wide range of high-quality services. In the 2015 financial year, HHLA's customer base included all of the top 20 container shipping companies. HHLA therefore believes that it is able to respond flexibly to changes in the consortia and alliances formed by its clients in the shipping sector.

Sales activities in the Container segment are organised by means of key account management. In the Intermodal and Logistics segments, sales are generally managed locally by the individual companies. As far as possible, all activities follow the strategic approach of vertical integration, i.e. offering comprehensive transport and logistics services from a single source. The Real Estate segment's sales team offers potential clients and tenants a wide range of services for properties in its two main districts – Hamburg's Speicherstadt historical warehouse district and the northern banks of the river Elbe – as well as for logistics properties in and around the port.

The share of revenue attributable to HHLA's five most important customers rose slightly to 55 % in the 2015 financial year (previous year: 52 %). The ten most important customers accounted for 80 % (previous year: 80 %) and the 15 most important customers for 94 % (previous year: 95 %) of revenue generated by the HHLA container terminals in Hamburg – nearly unchanged from the previous year. HHLA has maintained commercial relationships with the majority of its most important customers for well over two decades.

HHLA generally concludes framework contracts with its shipping customers. These contracts contain comprehensive descriptions of the services to be rendered and of the remuner-

Top 20 Shipping Companies

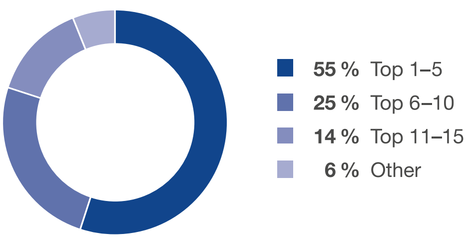
by transportation capacity as of 31 December 2015

	Shipping company	Alliance	in thousand TEU
1.	APM-Mærsk Line	2M	2,996
2.	MSC	2M	2,679
3.	CMA CGM	OCEAN THREE	1,821
4.	Evergreen	CKYHE	932
5.	Hapag-Lloyd	G6	930
6.	COSCO	CKYHE	862
7.	CSCL	OCEAN THREE	694
8.	Hamburg Süd	–	646
9.	Hanjin	CKYHE	626
10.	OOCL	G6	562
11.	MOL	G6	554
12.	APL	G6	535
13.	Yang Ming Line	CKYHE	531
14.	UASC	OCEAN THREE	513
15.	NYK	G6	496
16.	K Line	CKYHE	380
17.	Hyundai M.M.	G6	379
18.	PIL (Pacific Intl. Line)	–	360
19.	Zim	–	358
20.	Wan Hai Lines	–	213

Source: AXS Alphaliner

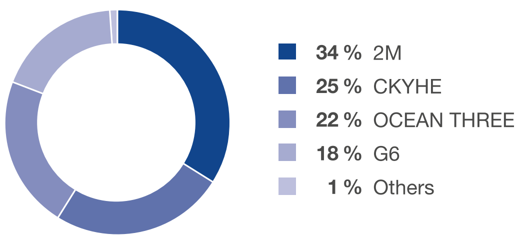
Revenue Distribution Split by Customers

in the Container segment at the main hub Hamburg, 2015



Capacity Breakdown by Shipping Line Alliances

on Far East – Europe services as of 31 December 2015



ation arrangements. As the usage volume for these services is not fixed, there is no order backlog in the traditional sense for HHLA's logistics services.

Legal Framework

In its business operations, HHLA is subject to numerous German and foreign statutory provisions and regulations such as public law, trade, customs, labour, capital market and competition regulations. As the bulk of HHLA's commercial activities are concentrated in and around the Port of Hamburg, its regulatory environment is largely determined by the Hamburg Port Development Act (Hamburgisches Hafenentwicklungsgesetz – HafenEG). HafenEG formulates the structural framework for the sound development of commercial activity in the Hamburg port area. HafenEG's objectives are to maintain the Port of Hamburg's competitiveness as an international all-purpose port, to safeguard freight volumes and to use the public infrastructure as efficiently as possible. To this end, the Port of Hamburg employs a "landlord model", by which the Hamburg Port Authority (HPA) owns the port area and is responsible for building, developing and maintaining the infrastructure, while the privately owned port operators are responsible for the development and maintenance of the superstructure (buildings and facilities). HHLA has concluded a long-term lease agreement with HPA for those port areas of importance for its business operations. Lease agreements are based on HPA's general terms and conditions for port-related real estate (AVB-HI).

For the construction, alteration and operation of its handling facilities, HHLA is reliant on the issuance and continued existence of authorisations under public law, especially official authorisations in accordance with the German Federal Emissions Control Act (Bundesimmissionsschutzgesetz – BImSchG), the applicable local building regulations and water and waterways laws. All construction and extension measures require separate authorisations by the respective authorities, irrespective of the plan approval procedure for the expansion of the handling areas. HHLA's affiliated companies are subject to a number of strict regulatory requirements, especially if they are involved in the handling of materials which can have damaging effects on people or the environment. These include, for example, the handling, storage and transportation of environmentally dangerous materials and hazardous goods. However, these regulatory requirements also include regulations on technical safety, health and safety in the workplace and environmental protection.

HHLA's commercial activities are governed predominantly by the provisions of German and European competition law. This means that its pricing is determined by the market and is, as a matter of principle, not regulated.

Due to the dangers posed by international terrorism, there are strict security precautions at all ports. An essential component of these precautions is the International Ship and Port Facility Security Code (ISPS Code), which requires the internationally standardised installation of measures to prevent terrorist attacks on ocean-going vessels and port facilities. For the operators of port facilities, compliance with the code involves observing strict access control and implementing numerous other measures for averting danger.

The aforementioned international provisions are implemented in the Port of Hamburg's area by means of the German Port Security Act (Hafensicherheitsgesetz – HafenSG).

The legal framework for HHLA is subject to constant change at national and international level, particularly by the European Community, in order to keep pace with technical progress and increasing sensitivity with regard to safety and environmental concerns, among other issues. At national level, work is currently under way on the German "Regulation on Installations for the Handling of Substances Hazardous to Water", which may affect HHLA in the future depending on the form it takes. In the 2015 financial year, however, there were no amendments to the legal framework with a significant impact on the Group's operating activities or its assets, financial or earnings position.

Corporate Strategy

HHLA's strategy is aimed at assuming a leading position as a port logistics provider and thus achieving sustainable growth in its enterprise value. With its business model of vertical integration along the transport chain between the international seaport and its European hinterland, HHLA believes it is favourably positioned to exploit the intensification in global trade and achieve profitable growth. This is also based on Hamburg's role as a logistics hub linking the Far East, especially China and India, with the economies of Central and Eastern Europe. Sustainable business practices form an integral part of the corporate strategy. The focus here is on organising ecologically sound transport chains – especially by linking ships and rail logistics – operating terminals in an environmentally friendly manner which also uses land efficiently, and conserving resources.

In its non-listed Real Estate subgroup, HHLA pursues a long-term and demand-oriented approach to developing districts and properties. The main focus is on developing existing properties, many of which are designated as historical landmarks.

In order to consolidate and further expand the Group's market position, HHLA pursues the following strategic guidelines for the listed Port Logistics subgroup: