Real Estate Segment

Key Figures

in Mio. €	2015	2014	Change
Revenue	36.5	33.5	9.0 %
EBITDA	20.2	17.9	12.7 %
EBITDA margin in %	55.4	53.6	1.8 pp
EBIT	15.2	13.4	13.2 %
EBIT margin in %	41.5	40.0	1.5 pp

Hamburg's office rental market stabilised considerably over the course of the year. According to the market overview by Grossmann & Berger, 540,000 m^2 of space was let in 2015 – a slight increase of almost 3 % over the prior-year figure. Even taking into account the relatively high proportion of owner-occupied properties, the total amount of space let exceeded that of 2014.

According to Jones Lang LaSalle, Hamburg's vacancy rate at the end of the fourth quarter of 2015 was 5.9 %, and thus significantly below the prior-year figure (6.8 %). In view of the completion of numerous larger projects, however, the trend forecast anticipates an increase in the vacancy rate for the first time in several quarters.

HHLA's properties in the Speicherstadt historical warehouse district and the fish market area continued their positive revenue development in this market environment. In 2015, revenue was increased by 9.0 % year-on-year to € 36.5 million (previous year: € 33.5 million). Ongoing project developments in the Speicherstadt historical warehouse district and consistently high occupancy rates in both districts continued to pave the way for this success.

The operating result (EBIT) increased strongly by 13.2 % year-on-year to € 15.2 million (previous year: € 13.4 million). Due to planned maintenance work, earnings growth slowed slightly in the fourth quarter. Earnings for the past financial year include extraordinary income of € 0.9 million. The EBIT margin of 41.5 % achieved in the reporting period (previous year: 40.0 %) is once again testimony to the economic success of HHLA's long-term, value-oriented portfolio development strategy.

The company has owned the Speicherstadt historical warehouse district for more than 130 years. In July 2015, this historical warehouse district – along with the Kontorhaus area – was designated as a UNESCO World Heritage Site. This provides exceptional confirmation of HHLA's strategy of further developing the Speicherstadt whilst maintaining its historical and cultural heritage.

Events after the Balance Sheet Date

The Ukrainian currency – the hryvnia – depreciated by approximately 10 % against the euro between the reporting date and the end of February. In addition to these exchange rate effects, which could have a negative impact on the HHLA Group's financial position and performance, adjustments to the carrying amounts of assets can still not be excluded due to the economic trend and deterioration of economic conditions in Ukraine.

There were no other transactions of special significance after the balance sheet date 31 December 2015.

Business Forecast

Macroeconomic Environment

The global economy is experiencing moderate growth. Although many early indicators signal a revival of the global economy in the forecast period, the International Monetary Fund (IMF) believes that this upturn will be weaker than forecast in October 2015. The institute has therefore lowered its forecast for global GDP in 2016 by 0.2 percentage points and now expects growth of 3.4 %. The IMF has also downgraded its current forecast for global trade by 0.7 percentage points and now expects more moderate growth of 3.4 %.

Growth Expectations for GDP

in %	2016	Trend vs. 2015
World	3.4	↗
Advanced economies	2.1	↗
USA	2.6	↗
Emerging economies	4.3	↗
China	6.3	↘
Russia	- 1.0	↗
Eurozone	1.7	↗
Central and Eastern Europe (emerging european economies)	3.1	↘
Germany	1.7	↗
World trade	3.4	↗

Source: International Monetary Fund (IMF); as of January 2016

Sentiment indicators in the advanced economies point to a slight economic upturn. The upturn is expected to be driven above all by an expansionary monetary policy and low oil prices. However, low commodity prices – combined with structural problems in the producing countries – are at the same time slowing economic development in the emerging economies, though the fundamental trend remains positive. According to the IMF, the Chinese economy will continue to slow down as a result of politically initiated structural changes. In light of the revenue shortfalls from crude oil exports, isolation from the global capital markets and restricted trade due to sanctions, the Russian economy is mired in crisis. The IMF has lowered its forecast by 0.4 percentage points since its outlook in October 2015. Driven by consumer spending, GDP in the eurozone is expected to maintain its upward trajectory. Although growth in the emerging economies of Central and Eastern Europe is likely to fall below the prior-year figure in 2016, the IMF has upgraded its forecast for this region by 0.1 percentage points since October due to positive sentiment indicators. The IMF's experts anticipate further growth for the German economy with a slight improvement on the previous year.

Sector Development

After a surprisingly weak 2015, the market research institute Drewry anticipates a slight recovery in global container throughput in 2016 with growth of 2.4 %. Momentum is expected to come from the US East Coast and Gulf Coast shipping regions (+5.0 % and +4.0 % respectively) as well as the Middle East and South Asia (+4.4 % and +4.3 % respectively). In line with the country's current economic slowdown, significantly lower throughput growth of 3.3 % is forecast for China – the Port of Hamburg's most important shipping region.

Following a strong fall in volumes at European ports in 2015, Drewry expects the situation to stabilise in the outlook period with slight growth of 0.2 %. However, container traffic is not expected to recover in all shipping regions. While the experts forecast an upturn in throughput for the shipping regions of North-West Europe, the Eastern Mediterranean and the Black Sea, further volume losses are expected for the Scandinavian and Baltic regions – although the expected decline of 6.5 % is much less than in the previous year (- 17.3 %).

Growth Expectations for Container Throughput

in %	2016	Trend vs. 2015
World	2.4	↗
Europe as a whole	0.2	↗
North-West Europe	0.9	↗
Scandinavia and the Baltic region	- 6.5	↗
Western Mediterranean	1.2	↗
Eastern Mediterranean and the Black Sea	0.2	↗

Source: Drewry Maritime Research; as of December 2015

In light of the overall subdued volume trend and increased terminal capacity in the North Range, competition between the ports is expected to become even fiercer in 2016. There is also a structural surplus of ship space on the container shipping market in 2016. According to estimates of the market research institute Alphaliner, the total capacity of the container ship fleet will grow by 4.5 % in the forecast period – despite declining orders and delayed delivery. This is still twice as fast as the growth in global container volumes. In order to stabilise the market, despite this growing idle capacity, the sector will continue to consolidate through acquisitions and mergers. This will lead to the formation of new consortia and the pooling of container services.

Despite the modest container throughput forecast for the north-western European ports, stable or rising transport volumes are expected for pre- and onward-carriage systems in hinterland traffic. In light of the ongoing increase in ship sizes, and the associated increase in container volumes per ship call, the pressure on terminals and hinterland transport systems will continue to rise.

Sentiment indicators for European rail freight in the first half of 2016 have picked up slightly. According to Prognos and the Centre for European Economic Research (ZEW), the transport sector is upbeat about future developments in Western Europe and Germany in particular. The outlook for rail freight traffic in Eastern Europe is slightly worse than for Western Europe.

A similar situation is expected in intermodal traffic: here, too, the outlook for transport volumes in the first six months of 2016 is cautiously optimistic. Expectations regarding volume were recently lowered for Eastern Europe, and are well below those for the Western European market.

Expected Group Performance

Comparison with the Forecast of the Previous Year

Developments in the 2015 financial year slightly exceeded the forecast last updated in autumn 2015. The forecast for the 2015 financial year given in the Annual Report 2014, however, was not achieved in revenue, EBIT and container throughput.
▶ see Course of Business and Economic Situation, page 33

Expected Earnings Position in 2016

The earnings forecast for the Group and the Port Logistics subgroup is primarily based on the anticipated macroeconomic and sector trends described above.

For container throughput, HHLA expects figures in 2016 to be on a par with those of the previous year. A slight increase compared to the previous year is expected for container transport. At Group level, this is likely to result in revenue which is similar to that of the previous year.

The operating result (EBIT) in the Port Logistics subgroup is expected to be in the range of € 100 million to € 130 million in the year 2016. This includes one-off expenses due to a planned consolidation in the field of project and contract logistics.

The range of expected earnings will largely be determined by the Container segment. Also in light of the ongoing uncertainties in Ukraine. Developments in volume and revenue will correlate with the forecast range of earnings.

The operating result in the Logistics segment is expected to fall approximately € 15 million below the previous year's result due to the consolidation mentioned earlier.

As the operating result of the Real Estate subgroup is expected to be on a par with 2015, Group EBIT is likely to be between € 115 million and € 145 million. Earnings in the Port Logistics subgroup and at Group level may continue to be burdened by exchange rate effects reported below EBIT as part of the financial result.

In a competitive environment of competing transport routes, the vertical dovetailing and optimisation of processes along the transport chain between the seaport and customers in the European hinterland will remain another key competitive factor for Hamburg as a logistics hub. HHLA is confident that the results achieved in 2015 confirm its strategy and will therefore continue to increase vertical integration by investing in its own rolling stock and facilities in 2016.

Despite the increasing handling demands caused by the trend in ship sizes, the company will strive to maintain high productivity in container handling. The focus will remain on improving operating performance by preparing the Container Terminal Burchardkai to handle container mega-ships and expanding block storage to cope with peak loads.

In order to achieve this, the necessary nautical accessibility is decisive for the competitiveness of the Port of Hamburg and thus for HHLA. Future developments will be hugely affected by the final decision of the Federal Administrative Court regarding the dredging of the lower and outer stretches of the river Elbe. The Federal Administrative Court will make its decision following a ruling by the European Court of Justice regarding the interpretation of the Water Framework Directive. The necessary planning supplement decision is expected to be submitted to the court in the first quarter of 2016. There have been no concrete statements made by either the court or those involved with the proceedings thus far about when a decision can be expected.

Should the expectations outlined in this forecast fail to materialise and lead to a substantially setback Group earnings position than the one described above, may result in additional value adjustments of assets.

Expected Financial Position

Due to the measures described above to increase value added in the Intermodal segment and to improve productivity in the Container segment, capital expenditure at Group level in 2016 is expected to be in the region of € 180 million, most of which will go towards the Port Logistics subgroup. HHLA's investment activities can generally be scaled in line with demand. Due to the ongoing trend in ship sizes, the Group reserves the right to decide on investment activities which are not purely driven by volume developments.

HHLA will continue to pursue its yield-orientated dividend distribution policy which aims to pay out between 50 and 70 % of net profit for the year after non-controlling interests in the form of dividends.

In order to achieve this objective and enable further value-oriented growth, the preservation of financial stability is the company's top priority. Based on available liquidity reserves and the positive cash flows generated by anticipated earnings, HHLA is confident that sufficient financial funds will continue to be available in future, which can be supplemented by borrowing where necessary.

Risk and Opportunity Report

Overall Assessment

The risks and opportunities for the HHLA Group reflect possible positive or negative deviations from the reported forecast.

The HHLA Group's risk position is characterised by market risks that have occurred. Major factors influencing the risk and opportunity profile are the global economic trend, ongoing geopolitical tensions, developments on the market and in the competitive environment as well as uncertainties regarding the implementation of infrastructure projects. The development of these factors is monitored closely, and controllable costs and capital expenditure – where scalable – are adjusted flexibly to foreseeable developments.

There are no discernible risks at present which could jeopardise HHLA's continued existence. The Executive Board of HHLA is confident that it will be able to exploit any future opportunities while avoiding exposure to unacceptably high risks. Since the economic prospects, in particular, are highly unforeseeable, this description of risks and opportunities merely serves as a snapshot. The HHLA Group's quarterly reports contain information on any changes to the company's risk and opportunity profile.

The following key risks and opportunities for the HHLA Group – with due consideration of relevant measures – have been identified as such based on the risk and opportunity management systems used for the Group's internal control purposes.

Above and beyond the risks mentioned, no further significant risks have currently been identified, while those that do exist are largely insured against.