Course of Business and Economic Situation

Key Figures

in € million	2016	2015	Change
Revenue	1,177.7	1,141.8	3.1 %
EBITDA	286.4	281.4	1.8 %
EBITDA margin in %	24.3	24.6	- 0.3 pp
EBIT	164.0	156.5	4.8 %
EBIT margin in %	13.9	13.7	0.2 pp
Profit after tax and minority interests	73.0	66.7	9.5 %
At-equity earnings	4.7	3.7	25.5 %
ROCE in %	12.4	12.0	0.4 pp

Overall View

The economic environment remained challenging throughout 2016. In addition to the dredging of the lower and outer stretches of the river Elbe, which has still not been commenced, HHLA suffered in particular from modest global economic growth, weak world trade and a constant low growth in global container throughput. Despite these challenging conditions, HHLA's performance over the course of 2016 was increasingly encouraging. There was a slight increase in container throughput at HHLA's terminals as well as strong growth in container transport. These trends in HHLA's two largest segments are also reflected in the moderate increase in revenue and the operating result at Group level.

One-off expenses incurred over the course of the year for the now-completed restructuring of the Logistics segment, which were initially included in EBIT guidance in the prior-year report – were largely offset by an unplanned one-off effect from the termination of the lease for the Übersee-Zentrum in the third quarter of 2016. Due to this effect and the positive volume trend in the Container and Intermodal segments over the course of the year, HHLA upgraded its earnings guidance for the Group during the year. Actual performance now confirms the guidance last updated in autumn 2016. HHLA continued to scale its capital expenditure programme to actual needs. Delays to individual projects resulted in postponements until 2017 and thus a deviation from the forecast figure.

HHLA's financial position remained stable as of the balance sheet date of 31 December 2016. Changes in capital structure resulted in part from negative effects from valuation adjustments to pension provisions triggered by interest rate differentials. The equity ratio declined by 1.7 percentage points to 31.5 % (previous year: 33.2 %) and the gearing ratio decreased slightly from 2.7 to 2.6. Due to the company's liquidity base as of the balance sheet date, it still has no significant refinancing requirements.

Notes on the Reporting

Due to the high level of flexibility required in the sector, handling and transport services are not generally ordered or arranged months in advance. Consequently, an order backlog and order trends do not serve as reporting indicators as they do in other industries. Changes to the consolidated group in the 2016 financial year resulted mainly from the addition of foreign companies in the Intermodal segment. This did not have a material effect on the HHLA Group's revenue and earnings.

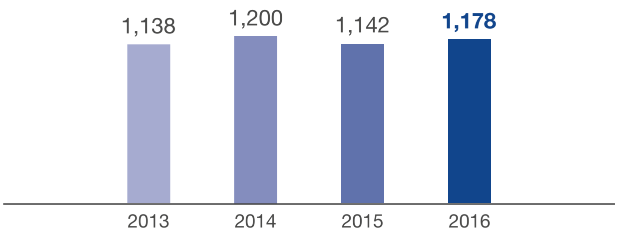
The 2016 Consolidated Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS) applicable in the European Union, taking into consideration the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The Group Management Report was prepared in line with the requirements of German Accounting Standard no. 20 (GAS 20).

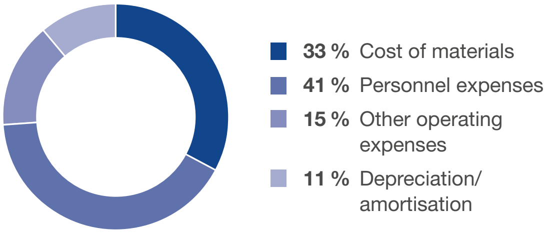
Forecast and Actual Figures

	Actual 31.12.2015	Forecast 30.03.2016	Forecast 10.11.2016	Actual 31.12.2016
Container throughput	6.6 million TEU	At previous year's level	At previous year's level	6.7 million TEU
Container transport	1.3 million TEU	Slight increase	Moderate increase	1.4 million TEU
Revenue	€ 1.141,8 million	At previous year's level	At previous year's level	€ 1,177.7 million
EBIT	€ 156.5 million	In a range between € 115 and € 145 million after one-off consolidation expenses	In a range between € 150 and € 160 million incl. all one-off consolidation effects in the Logistics segment	€ 164.0 million
Capital expenditure	€ 145.5 million	In the region of € 180 million	In the region of € 180 million	€ 138.3 million

Revenue
in € million



Operating Expenses
Expense structure 2016



Earnings Position

HHLA's **performance data** developed positively in 2016. Container throughput rose slightly year-on-year by 1.5 % to 6,658 thousand TEU (previous year: 6,561 thousand TEU). This was largely due to a stabilisation of volumes on Far East routes and the recovery of feeder volumes to and from Russia. Transport volumes increased significantly by 6.8 % to 1,408 thousand TEU (previous year: 1,318 thousand TEU). This trend was driven by growth in rail transportation.

Against this background, **revenue** of the HHLA Group rose by 3.1 % to € 1,177.7 million (previous year: € 1,141.8 million) in the reporting period. This was primarily due to volume-related growth in container throughput and container transport. The listed Port Logistics subgroup largely developed in line with the HHLA Group as a whole. Its Container, Intermodal and Logistics segments recorded an overall increase in revenue of 3.1 % to € 1,146.0 million (previous year: € 1,111.0 million). The non-listed Real Estate subgroup also succeeded in raising revenue by 3.2 % to € 37.7 million (previous year: € 36.5 million). The Real Estate subgroup thus accounted for 2.7 % of Group revenue.

Whereas **changes in inventories** in the previous year included expenses of € 1.4 million resulting primarily from consultancy activities, there was no significant effect in the reporting period. **Own work capitalised** decreased to € 6.5 million (previous year: € 9.3 million).

The increase in **other operating income** to € 57.5 million (previous year: € 41.2 million) is mainly attributable to the one-off effect from the termination of the lease for the Übersee-Zentrum.

The 4.2 % increase in **operating expenses** to € 1,077.9 million (previous year: € 1,034.4 million) was slightly above the increase in revenue. There were highly divergent trends across the different expenditure types.

The **cost of materials** declined by 3.2 % year-on-year to € 350.0 million (previous year: € 361.7 million). In addition to effects from the discontinuation of project and contract logistics activities, there were also effects from improved capacity utilisation and a better mix of import and export volumes in rail transportation. Additional savings were achieved through cheaper energy costs. The cost of materials ratio decreased to 29.7 % (previous year: 31.7 %).

Personnel expenses rose by 10.3 % to € 443.0 million (previous year: € 401.6 million). In addition to higher union wage rates and the inclusion of new companies in the consolidated group, the rise was also due to increased headcount in the Intermodal segment caused by growth and consolidation, greater demand for external staff at the container terminals in Hamburg as a result of volume growth, and one-off expenses relating to restructuring, especially in connection with the discontinuation of project and contract logistics activities. The personnel expense ratio rose by 2.4 percentage points to 37.6 % (previous year: 35.2 %).

Other operating expenses increased by 11.1 % in the reporting period to € 162.5 million (previous year: € 146.3 million). The rise is mainly attributable to provisions in connection with an onerous lease in the Intermodal segment as well as the insolvency of the container shipping company Hanjin. The ratio of expenses to revenue rose accordingly to 13.8 % (previous year: 12.8 %).

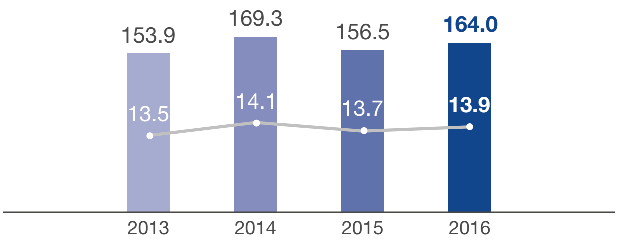
Depreciation and amortisation declined slightly by 1.9 % year-on-year and amounted to € 122.4 million (previous year: € 124.9 million).

Against the background of these developments, the **operating result before depreciation and amortisation (EBITDA)** rose by 1.8 % to € 286.4 million (previous year: € 281.4 million) and thus more slowly than revenue. There was a corresponding slight decrease in the EBITDA margin to 24.3 % (previous year: 24.6 %).

The **operating result (EBIT)** increased by 4.8 % to € 164.0 million in the reporting period (previous year: € 156.5 million). As this was faster than revenue growth, the EBIT margin rose by 0.2 percentage points to 13.9 % (previous year: 13.7 %). Both the Container segment and the Intermodal segment contributed to the increase in earnings, thus lifting the EBIT result of the Port Logistics subgroup by 4.7 % to

Operating Result (EBIT)

in € million / EBIT margin in %



€ 147.6 million (previous year: € 141.1 million). As a result, the subgroup accounted for 90.0 % (previous year: 90.1 %) of the Group's operating result in the reporting period. In the Real Estate subgroup, EBIT rose by 5.9 % to € 16.0 million (previous year: € 15.2 million). 10.0 % of the Group's operating result was generated by this subgroup (previous year: 9.9 %).

Net expenses from the **financial result** fell by € 10.7 million or 37.3 % to € 18.0 million (previous year: € 28.7 million). This was mainly due to a reduction in negative exchange rate effects to € 2.2 million (previous year: € 8.0 million), which resulted almost entirely from the devaluation of the Ukrainian currency. The revaluation of a settlement obligationn payable to a minority shareholder in conjunction with a profit and loss transfer agreement also led to a reduction in net expenses.

At 28.1 %, the Group's **effective tax rate** was higher than in the previous year (25.0 %). The main reasons for this are a one-off tax expense for prior years in the Port Logistics subgroup, as well as the absence of tax effects that had reduced the tax rate in the previous year.

Profit after tax and minority interests increased by 9.5 % year-on-year to € 73.0 million (previous year: € 66.7 million). Non-controlling interests accounted for € 32.0 million in the 2016 financial year (previous year: € 29.2 million). From a financial point of view, this item also includes the effects mentioned in relation to the financial result associated with the settlement obligation to a minority shareholder. **Earnings per share** rose accordingly by 9.5 % to € 1.00 (previous year: € 0.92). The listed Port Logistics subgroup achieved a 8.1 % increase in earnings per share to € 0.91 (previous year: € 0.84). Earnings per share of the non-listed Real Estate subgroup were up on the prior-year figure at € 3.44 (previous year: € 2.86). As in the previous year, there was no difference between basic and diluted earnings per share in 2016. The return on capital employed (ROCE) was up 0.4 percentage points year-on-year at 12.4 % (previous year: 12.0 %). ▶ see also Corporate and Value Management, page 20

As in the previous year, HHLA's **appropriation of profits** is oriented towards the development of earnings in the HHLA Group in the financial year ended. The distributable profit and HHLA's stable financial position form the foundation of the company's consistent profit distribution policy. On this basis, the Executive Board and Supervisory Board will propose at the Annual General Meeting on 21 June 2017 a dividend distribution of € 0.59 per Class A share and € 2.00 per Class S share. Based on the number of shares with dividend entitlement as of 31 December 2016, the sum distributed for listed Class A shares would total € 41.3 million, as in the previous year, while the amount for non-listed Class S shares would rise by 14.3 % to € 5.4 million. In relation to the consolidated profit and the earnings per share, the dividend payout ratio would reach a high figure of approximately 65 % for the Port Logistics subgroup (previous year: 70 %) and around 58 % for the Real Estate subgroup (previous year: 61 %).

Financial Position

Balance Sheet Analysis

Compared with the previous year, the HHLA Group's **balance sheet total** increased by a total of € 62.5 million to € 1,812.9 million as of 31 December 2016.

Balance Sheet Structure

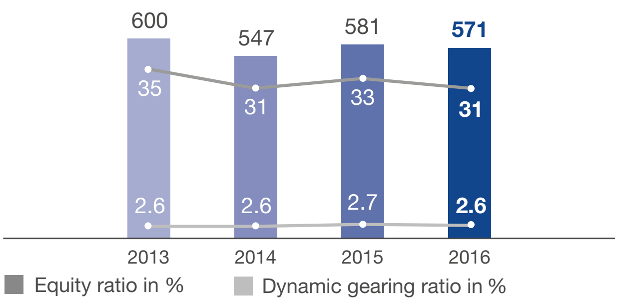
in € million	31.12.2016	31.12.2015
Assets		
Non-current assets	1,329.0	1,305.8
Current assets	483.9	444.6
	1,812.9	1,750.4
Equity and liabilities		
Equity	570.8	580.6
Non-current liabilities	1,028.1	979.2
Current liabilities	214.0	190.6
	1,812.9	1,750.4

On the assets side of the balance sheet, **non-current assets** rose by € 23.2 million. This increase is largely attributable to the € 21.3 million rise in deferred taxes to € 82.7 million (previous year: € 61.4 million), due mainly to the interest rate-related change in actuarial gains and losses on pension obligations. Capital expenditure led to an increase in property, plant and equipment of € 3.8 million to € 950.9 million (previous year: € 947.1 million), while investment property declined by € 6.6 million to € 184.0 million due to scheduled depreciation.

Current assets rose by € 39.3 million to € 483.9 million (previous year: € 444.6 million). The increase was mainly due to growth in trade receivables of € 32.3 million to € 160.4 million (previous year: € 128.1 million) and receivables from related parties, which rose by € 23.2 million to € 81.7 million (previous

Developments in Group Equity

in € million



year: € 58.5 million) as the result of the increased investment of liquid funds from cash clearing with HGV. By contrast, cash and cash equivalents fell by € 17.4 million to € 177.2 million.

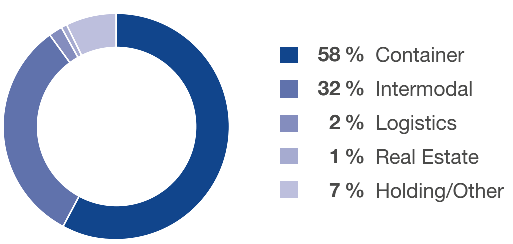
On the liabilities side, **equity** declined by € 9.8 million compared to year-end 2015 to stand at € 570.8 million (previous year: € 580.6 million). The decrease is primarily attributable to dividends distributed and the reclassification of a future financial settlement totalling € 67.4 million as a non-current financial liability. A change in actuarial gains and losses due to interest rate differentials, netted with deferred taxes, reduced equity by an additional € 30.8 million. Consolidated net income for the reporting period of € 105.1 million had a positive effect. The equity ratio decreased to 31.5 % (previous year: 33.2 %).

Non-current liabilities rose by € 48.9 million to € 1,028.1 million (previous year: € 979.2 million), This was mainly due to the interest-related increase in pension provisions of € 44.9 million. The € 35.7 million increase in non-current provisions to € 102.6 million (previous year: € 66.9 million) was largely offset by the € 32.2 million decrease in financial liabilities to € 339.2 million (previous year: € 371.4 million).

Current liabilities rose by € 23.4 million to € 214.0 million (previous year: € 190.6 million). This was primarily attributable to trade liabilities, which grew by € 16.1 million to € 68.1 million (previous year: € 52.0 million).

Investments

by segment in 2016



Investment Analysis

Capital expenditure in the past financial year totalled € 138.3 million (previous year: € 145.5 million). This figure includes additions of € 4.1 million from finance leases not recognised as a direct cash expense (previous year: € 3.8 million). In 2016, capital expenditure focused on extending the Hamburg container terminals and expanding intermodal transport and handling capacities. Investment projects were largely funded by the operating cash flow generated in the financial year.

Property, plant and equipment accounted for € 123.2 million (previous year: € 135.9 million) of capital expenditure, while intangible assets accounted for € 12.3 million (previous year: € 8.8 million) and investment property for € 2.8 million (previous year: € 0.8 million).

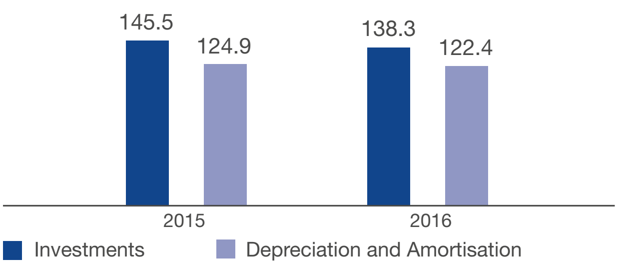
Investments amounting to € 81.3 million were made in the **Container segment** (previous year: € 61.0 million). Capital expenditure in this segment was dominated by the procurement of handling equipment, as well as storage capacities and throughput areas at the Hamburg container terminals. The **Intermodal segment** invested € 44.1 million (previous year: € 77.1 million). Investments were primarily made by the METRANS Group, and mainly in the construction of the Budapest inland terminal and the purchase of wagons. Capital expenditure in the **Logistics segment** came to € 2.4 million (previous year: € 2.8 million). The **Holding/Other segment** invested a total of € 10.3 million (previous year: € 6.4 million). Investment activities focused on the migration to a new terminal operating system.

Investments in the Container segment focus on enhancing the productivity of existing terminal areas by using state-of-the-art handling technology and developing berth places for the trend in ship sizes. The primary objective in the Intermodal segment is to increase the depth of value added to further improve the performance and range of its hinterland connections.

As of year-end, there were other financial liabilities for outstanding purchase commitments totalling € 56.8 million (previous year: € 134.4 million). This figure includes € 34.2 million (previous year: € 88.0 million) for the capitalisation of property, plant and equipment.

Investments, Depreciation and Amortisation

in € million



Liquidity Analysis

Cash flow from operating activities rose year-on-year from € 195.3 million to € 234.6 million. The increase of € 39.3 million is mainly attributable to higher provisions, which rose by € 34.4 million, the € 15.7 million increase in trade and other liabilities, the € 9.4 million decrease in income tax payments and the € 7.5 million year-on-year increase in EBIT. The € 36.2 million increase in trade receivables had an opposing effect.

Cash flow from investing activities (outflow) of € 48.9 million, was down on the prior-year figure of € 130.2 million. This € 81.3 million decline in cash outflows was mainly the result of higher proceeds from short-term deposits in the amount of € 54.3 million (previous year: € 17.0 million). At the same time, payments for investments in property, plant and equipment and investment property declined from € 150.8 million in the previous year to € 117.9 million in the reporting period.

Free cash flow – the total cash flow from operating and investing activities – increased to € 185.6 million (previous year: € 65.1 million).

Cash flow from financing activities (outflow) amounted to € 122.4 million in the reporting period (previous year: € 82.7 million), down € 39.7 million below the prior-year figure. In addition to the acquisition of non-controlling interests, the net result of a decline in new borrowing and lower principal repayments on loans led to an increase in net cash outflow from financing activities.

The HHLA Group had sufficient liquidity as of 2016 year-end. There were no liquidity bottlenecks in the course of the financial year. **Financial funds** totalled € 232.4 million as of 31 December 2016 (31 December 2015: € 165.4 million). Including all short-term deposits, the Group's **available liquidity** as of the 2016 year-end came to a total of € 251.2 million (previous year: € 238.5 million).

Liquidity Analysis

in € million	2016	2015
Financial funds as of 01.01.	165.4	185.6
Cash flow from operating activities	234.6	195.3
Cash flow from investing activities	- 48.9	- 130.2
Free cash flow	185.7	65.1
Cash flow from financing activities	- 122.4	- 82.7
Change in financial funds	63.2	- 17.6
Change in financial funds due to exchange rates	- 1.0	- 2.6
Change in financial funds due to consolidation	4.8	0
Financial funds as of 31.12.	232.4	165.4
Short-term deposits	18.8	73.1
Available liquidity	251.2	238.5

Financing Analysis

Financial management at the HHLA Group is managed centrally and serves the overriding objective of ensuring the Group's long-term financial stability and flexibility. Group clearing pools the Group's financial resources, optimises net interest income and substantially reduces dependency on external sources of funding. Derivative financial instruments can be used to reduce the risk of changes in interest rates and, to a minor extent, to reduce currency and commodity price risks.

HHLA's business model is dominated by a large proportion of property, plant and equipment with long useful lives. For this reason, HHLA mainly uses medium and long-term loans and finance leases to achieve funding with matching maturities. Pension provisions are also available for long-term internal financing.

At € 298.4 million as of the balance sheet date, amounts due to banks were below the prior-year figure of € 329.6 million. The Group drew on additional external financing totalling € 10.0 million (previous year: € 121.3 million). New borrowing was offset by loan repayments amounting to € 42.8 million (previous year: € 59.0 million). In the previous year, a promissory note loan was used to replace a shareholder loan. Due to the maturities agreed and its stable liquidity position, the company had no significant funding requirements.

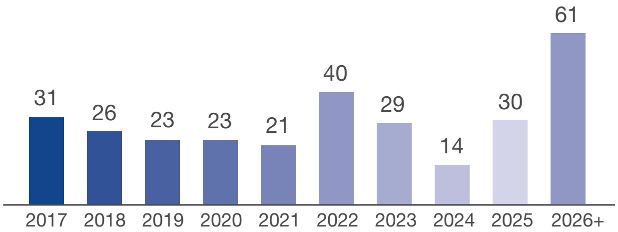
The majority of the liabilities from loans are denominated in euros, with a small proportion in US dollars. In terms of conditions, approximately 58 % have fixed interest rates and some 42 % have floating interest rates. As a result of borrowing, certain affiliated companies had covenants linked to key balance sheet figures, which mostly require a minimum equity ratio to be met. Covenants are currently in place for around 22 % of bank loans. These covenants were met at all agreed audit points throughout the reporting year. As of the balance sheet date, HHLA disclosed non-current liabilities to related parties totalling € 105.9 million (previous year: € 106.3 million). These resulted from the recognition of the leasing liability to the Hamburg Port Authority (HPA) in connection with quay walls for the mega-ship berths at the HHLA Container Terminal Burchardkai (CTB) and the HHLA Container Terminal Tollerort (CTT).

With the exception of operating leases, there are no significant off-balance sheet financial instruments. These operating leases relate primarily to long-term agreements between the HHLA Group and either the Free and Hanseatic City of Hamburg or the HPA for leasing land and quay walls in the Port of Hamburg and the Speicherstadt historical warehouse district.

Cash, cash equivalents and short-term deposits, the bulk of which is held centrally by the holding company, totalled € 177.2 million (previous year: € 194.6 million). These funds are mainly invested at German financial institutions with verified

Maturities of Bank Loans

by year and in € million



high credit ratings as demand deposits, call money and short-term deposits. Current credit lines play a subordinate role due to HHLA having sufficient liquid funds. As of the balance sheet date, the Group had unused credit facilities amounting to some € 0.2 million (previous year: € 1.2 million). The credit line utilisation rate was 96.8 % in the period under review (previous year: 83.9 %). In HHLA's view, the Group's solid balance sheet structure would enable more substantial credit facilities to be arranged at any time if its medium-term liquidity planning were to reveal a need. Of the total cash and cash equivalents, € 16.2 million (previous year: € 10.7 million) was subject to restrictions in Ukraine relating to the transfer of currency abroad as of the reporting date.

As HHLA has a large number of borrowing options at its disposal outside of the capital market, the Group currently sees no need for an external rating. Instead, it provides existing and potential creditors with comprehensive information to ensure that they can derive appropriate internal credit ratings.

Public subsidies awarded for individual development projects that are subject to specific conditions are of minor importance in terms of their volume at Group level.

Acquisitions and Disposals of Companies

HHLA increased its interest in METRANS a.s., Prague, Czech Republic, from 86.5 % to 90.0 % with the share purchase and transfer contracts dated 28 June 2016 after METRANS a.s. acquired treasury shares from its non-controlling interests. The purchase price for these shares was taken directly to equity in accordance with the entity concept with a corresponding reduction in non-controlling interests and retained earnings.

Changes in the Group of Consolidated Companies

METRANS Danubia Krems GmbH, Krems an der Donau, Austria, and METRANS Railprofi Austria GmbH, Krems an der Donau, Austria, were fully consolidated and included in HHLA's Consolidated Financial Statements for the first time as of 31 March 2016. As of 30 June 2016, METRANS Adria D.O.O., Koper, Slovenia, METRANS Danubia Kft., Gyor, Hungary, and METRANS ISTANBUL STI, Istanbul, Turkey, were fully consolidated for the first time and DHU Gesellschaft Datenverarbeitung Hamburger Umschlagsbetriebe mbH, Hamburg, was included in HHLA's Consolidated Financial Statements for the first time using the equity method. HHLA International GmbH, Hamburg, was fully consolidated for the first time as of 30 September 2016. Univer Trans Kft., Budapest, Hungary, was fully consolidated and included in HHLA's Consolidated Financial Statements for the first time as of 31 December 2016.

The effects of initial consolidation on HHLA's Consolidated Financial Statements were recognised directly in equity and were immaterial.

HHLA Intermodal Polska Sp. z o.o., Warsaw, Poland, was merged with POLZUG Intermodal Polska Sp. z o.o., Warsaw, Poland, in June 2016. The merger had no effect on HHLA's Consolidated Financial Statements.

There were no other acquisitions, purchases or disposals of shares in subsidiaries, or changes to the group of consolidated companies. ▶ see also Note 3 of the Notes to the Consolidated Financial Statements, page 83

Segment Performance

Container Segment

Key Figures

in € million	2016	2015	Change
Revenue	694.6	675.2	2.9 %
EBITDA	201.5	195.8	2.9 %
EBITDA margin in %	29.0	29.0	0.0 pp
EBIT	117.8	110.6	6.5 %
EBIT margin in %	17.0	16.4	0.6 pp
Container throughput in thousand TEU	6,658	6,561	1.5 %

HHLA's container terminals handled 6,658 thousand TEU in the 2016 financial year, 1.5 % more than in the previous year (6,561 thousand TEU). Although the negative trend of the previous year initially continued in the first two quarters, throughput volumes picked up again in second half of the year. Whereas container throughput rose slightly by 1.1 % to 6,375 thousand TEU at HHLA's three container terminals (previous year: 6,305 thousand TEU), there was significant growth in container throughput at the Container Terminal Odessa of 10.6 % to 283 thousand TEU (previous year: 256 thousand TEU).