Notes to the Segment Report

44. Notes to the Segment Report

The HHLA Group's segment report is prepared in accordance with the provisions of IFRS 8 Operating Segments and requires reporting on the basis of the internal reports to the Executive Board for the purpose of controlling the commercial activities. The segment performance indicator used is the internationally customary key figure EBIT (earnings before interest and taxes), which serves to measure the success in each segment and therefore aids the internal control function.

The accounting and valuation principles applied for internal reporting comply with the principles applied by the HHLA Group described in ▶ Note 6, page 91 "Accounting and Valuation Principles".

In line with the Group's reporting structure for management purposes and in accordance with the definition in IFRS 8, the following four independent segments were identified:

Container

The Container segment pools the Group's container handling operations. The Group's services in this segment consist primarily of handling container ships and transferring containers to other carriers (e.g. rail, truck or feeder ship). HHLA operates three container terminals in Hamburg (Altenwerder, Burchardkai and Tollerort) and another container terminal in Odessa, Ukraine. The portfolio is rounded off by supplementary container services, such as maintenance and repairs provided by its subsidiary HCCR.

Intermodal

As a core element of HHLA's business model, which is vertically integrated along the transportation chain, the Intermodal segment provides a comprehensive seaport-hinterland rail and truck network. The rail companies METRANS and POLZUG and the trucking firm CTD complete HHLA's range of services in this field.

Logistics

The Logistics segment encompasses specialist handling services and consulting. Its service portfolio comprises stand-alone logistics services and entire process chains for the international procurement and distribution of merchandise. The segment also provides consulting and management services for clients in the international port and transport sectors.

Real Estate

This segment is equivalent to the Real Estate subgroup. Its business activities encompass services such as the development, letting and management of properties. These include real estate in the Speicherstadt historical warehouse district and on the northern banks of the river Elbe (fish market area). Furthermore, industrial logistics properties and land in and around the Port of Hamburg are managed by the Holding/Other division.

The Holding/Other division used for segment reporting does not represent an independent business segment as defined by IFRS 8. However, it has been allocated to the segments within the Port Logistics subgroup in order to provide a complete and clear picture.

Due to the structure of the HHLA Group, it is necessary to issue a large number of invoices for inter-segmental services. These predominantly relate to the use of real estate, IT services, administrative services, workshop services and staff provided by the holding company. As a rule, services are valued at cost price. Transfer prices may not exceed the market price of the service in question. If the company providing the service predominantly sells the relevant service on the market outside the Group, it may charge the market price, even if the cost price is lower.

The details of the reconciliation of the segment variables with the corresponding Group variables are as follows:

Earnings

The reconciliation of the segment variable EBIT to consolidated earnings before taxes (EBT) incorporates transactions between the segments and the subgroups for which consolidation is mandatory, along with the proportion of companies accounted for using the equity method, net interest income and the other financial result.

Reconciliation of the Segment EBIT with Consolidated Earnings before Taxes (EBT)

in € thousand	2016	2015
Total segment earnings (EBIT)	162,726	168,919
Elimination of business relations between segments and subgroups	1,284	- 12,380
Group earnings (EBIT)	164,010	156,539
Earnings from associates accounted for using the equity method	4,677	3,728
Net interest	- 22,664	- 33,366
Other financial result	0	944
Earnings before tax (EBT)	146,023	127,845

Segment Assets

The reconciliation of segment assets to Group assets incorporates not only items and financial investments for which consolidation is mandatory, but also claims arising from current and deferred income taxes and financial funds which are not to be assigned to segment assets.

Reconciliation of the Segment Assets with Group Assets

in € thousand	31.12.2016	31.12.2015
Segment assets	1,640,634	1,550,807
Elimination of business relations between segments and subgroups	- 652,840	- 563,376
Current assets before consolidation	547,461	480,627
Financial assets	17,212	17,701
Deferred tax	82,720	61,396
Income tax receivables	488	8,644
Cash, cash equivalents and short-term deposits	177,192	194,565
Group assets	1,812,867	1,750,364

Other Segment Information

The reconciliation to Group investments totalling € - 1,170 thousand (previous year: € - 32,369 thousand) eliminates the inter-segmental sale of property, plant and equipment and internal invoices for services to generate intangible assets.

In relation to the reconciliation of depreciation and amortisation amounting to € - 2,200 thousand (previous year: € - 2,168 thousand), the entire amount is attributable to the elimination of inter-company profits between the segments and the subgroups.

The reconciliation of non-cash items amounting to € 2 thousand (previous year: € - 751 thousand) includes the elimination of inter-company profits and transactions between the segments and the subgroups for which consolidation is mandatory.

Information about Geographical Regions

For the information by region, the segment revenue and disclosures on non-current segment assets are broken down in accordance with the affiliates' respective locations.

Information about Geographical Regions

	Germany		EU		Outside EU		Total		Reconciliation with Group assets		Group	
in € thousand	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Segment income	794,038	785,109	326,858	316,446	56,772	40,263	1,177,668	1,141,818	0	0	1,177,668	1,141,818
Non-current segment assets	906,315	894,677	288,096	292,820	34,606	39,685	1,229,017	1,227,182	583,850	523,182	1,812,867	1,750,364
Investments in non-current segment assets	97,098	68,306	40,701	76,686	517	490	138,316	145,482	0	0	138,316	145,482

The reconciliation of long-term segment assets to Group assets includes, in addition to consolidation items between the segments, in particular current assets, financial assets as well as current and deferred income taxes.

Information about Key Clients

Revenue of € 128,220 thousand (previous year: € 130,825 thousand) from a single client exceeds 10 % of Group revenue and relates to the Container and Intermodal segments.