Course of Business and Economic Situation

Key Figures

in € million	1–6 | 2017	1–6 | 2016	Change
Revenue	622.8	573.5	8.6 %
EBITDA	158.5	125.8	26.0 %
EBITDA margin in %	25.5	21.9	3.6 pp
EBIT	98.8	66.9	47.8 %
EBIT margin in %	15.9	11.7	4.2 pp
Profit after tax and minority interests	52.6	25.8	103.9 %
ROCE in %	14.9	10.1	4.8 pp

The prior-year earnings include one-off expenses of 14.9 million from the restructuring of project and contract logistics.

Notes on the Reporting

There were no particular events or transactions during the period under review either in HHLA's operating environment or within the Group that had a significant impact on its earnings position and financial position. Both the key economic indicators and HHLA's actual performance in the first six months of 2017 are above the projections made in the 2016 Annual Report – due in particular to the performance of the Container segment in the second quarter of 2017. ▶ See results of operations, net assets and financial position

There is normally no long-term order backlog for handling and transport services, and thus no use is made of this particular reporting figure.

Earnings Position

The economic development of HHLA in the first half of 2017 was very encouraging. HHLA saw a strong increase of 11.8 % in **container throughput** in the first half of the year, taking it to 3,586 thousand TEU (previous year: 3,209 thousand TEU). This was attributable to a recovery in traffic to and from Asia and feeder volumes for the Baltic Sea ports, coupled with market share gains resulting from the reorganisation of shipping alliances.

Transport volumes increased significantly by 7.2 % to 744 thousand TEU (previous year: 694 thousand TEU) due to growth in both rail and road transport.

Revenue for the HHLA Group amounted to € 622.8 million in the reporting period and was thus 8.6 % up on the prior-year figure (previous year: € 573.5 million). This rise stems primarily from developments in throughput and transport volumes.

In its Container, Intermodal and Logistics segments, the listed Port Logistics subgroup generated revenue of € 607.3 million in the reporting period (previous year: € 557.8 million). This increase almost matched the trend for the Group as a whole. At € 18.7 million, revenue at the non-listed Real Estate subgroup was unchanged from the previous year: € 18.7 million).

As in the same period last year, **changes in inventories** of € 0.3 million (previous year: € 0.9 million) had no noticeable impact on consolidated profit. **Own work capitalised** amounted to € 2.8 million (previous year: € 3.5 million).

Other operating income amounted to € 22.0 million (previous year: € 16.1 million).

Operating expenses rose by 4.2 % in total to € 549.1 million. This increase was mainly attributable to a rise in the cost of materials due to higher volumes.

The 9.5 % increase in **cost of materials** to € 184.6 million during the reporting period (previous year: € 168.6 million). The cost of materials ratio edged up slightly to 29.6 % (previous year: 29.4 %).

There was a slight year-on-year increase of 1.6 % in **personnel expenses**, taking the figure to € 227.5 million (previous year: € 224.0 million). The discontinuation of project and contract logistics activities in the previous year was offset in the reporting period by union wage increases, greater use of external staff from Gesamthafenbetriebs-Gesellschaft (GHB) at the Hamburg terminals and growth in the workforce due to the expansion of the rail transport business. The marked decline in the personnel expenses ratio to 36.5 % (previous year: 39.1 %) was primarily attributable to one-off expenses arising from the restructuring of project and contract logistics in the previous year.

Other operating expenses rose slightly by 2.3 % in the reporting period to € 77.3 million (previous year: € 75.6 million). The company succeeded in reducing the ratio of expenses to revenue from 13.2 % in the previous year to 12.4 %.

Due in particular to one-off expenses of € 14.9 million in connection with the restructuring of project and contract logistics in the previous year and the encouraging increase in volumes, the **operating result before depreciation and amortisation (EBITDA)** rose strongly by 26.0 % to € 158.5 million (previous year: € 125.8 million). The EBITDA margin increased to 25.5 % in the reporting period (previous year: 21.9 %).

The expansion of the rail transport business led to a slight increase of 1.3 % in **depreciation and amortisation** to € 59.7 million (previous year: € 58.9 million) in connection with the expansion of the rail transport business. However, its ratio to revenue fell to 9.6 % (previous year: € 10.3 %).

At Group level, the **operating result (EBIT)** improved by 47.8 % to € 98.8 million (previous year: € 66.9 million incl. one-off expenses of € 14.9 million for restructuring). The EBIT margin rose to 15.9 % (previous year: 11.7 %). The Port Logistics subgroup generated EBIT of € 90.6 million (previous year: € 58.8 million incl. one-off expenses for restructuring). Meanwhile, the Real Estate subgroup's EBIT was marginally up on the previous year at € 8.0 million (previous year: € 7.9 million).

Net expenses from the **financial result** fell by € 5.1 million to € 5.3 million (previous year: € 10.4 million). This was partly due to a positive change in exchange rate effects of € 2.7 million resulting mainly from the valuation of the Ukrainian currency. Interest paid to banks and other lenders also decreased.

At 24.8 %, the Group's **effective tax rate** was below the prior-year figure (previous year: 27.9 %). This was largely due to the inclusion of one-off effects in the calculation of the tax rate for the Hamburger Hafen und Logistik AG tax entity in both the current and the previous year, along with the consideration of factors relating to the foreign subsidiaries which reduced the tax rate.

Profit after tax increased by 72.6 %, from € 40.8 million to € 70.3 million. There was a disproportionately strong year-on-year increase in profit after tax and minority interests of 103.9 % to € 52.6 million (previous year: € 25.8 million). This was due in part to one-off expenses in the Logistics segment last year pertaining to a company owned entirely by HHLA. At € 0.72, earnings per share were also up 103.9 % on the prior-year figure of € 0.35. The listed Port Logistics subgroup achieved a 125.9 % increase in earnings per share to € 0.69 (previous year: € 0.30). Earnings per share at the non-listed Real Estate subgroup were on a par with the previous year at € 1.69 (previous year: € 1.68). The return on capital employed (ROCE) rose by 4.8 percentage points to 14.9 % (previous year: 10.1 %).

Financial Position

Balance Sheet Analysis

Compared with year-end 2016, the HHLA Group's **balance sheet total** decreased slightly as of the reporting date to € 1,789.0 million.

Balance Sheet Structure

in € million	30.06.2017	31.12.2016
Assets		
Non-current assets	1,329.6	1,329.0
Current assets	459.4	483.9
	1,789.0	**1,812.9**
Equity and liabilities		
Equity	602.5	570.8
Non-current liabilities	994.8	1,028.1
Current liabilities	191.7	214.0
	1,789.0	**1,812.9**

At € 1,329.6 million, **non-current assets** were virtually unchanged from the previous year (31 December 2016: € 1,329.0 million). Capital expenditure was roughly offset by depreciation of property, plant and equipment and investment properties and a reduction in the carrying amount of deferred tax assets due to interest rate-related changes in pension provisions.

At € 459.4 million as of 30 June 2017, **current assets** were € 24.5 million below the corresponding figure on 31 December 2016 (€ 483.9 million). This decrease was attributable to several factors, including a € 13.8 million reduction in other assets and an € 11.1 million fall in cash and cash equivalents.

Equity rose by € 31.7 million to € 602.5 million as of the reporting date (31 December 2016: € 570.8 million). This increase stemmed from net profit after tax of € 70.3 million in the reporting period and the change in actuarial gains and losses netted with deferred taxes totalling € 9.6 million. The distribution of dividends totalling € 46.7 million had an opposing effect. As a result, the equity ratio improved to 33.7 % (31 December 2016: 31.5 %).

The € 33.3 million decrease in **non-current liabilities** to € 994.8 million compared to the year-end figure (31 December 2016: € 1,028.1 million) resulted primarily from a € 14.8 million reduction in pension provisions due to the adjustment of actuarial parameters and a € 16.6 million fall in non-current financial liabilities.

Current liabilities fell by € 22.3 million to € 191.7 million (31 December 2016: € 214.0 million). This was due above all to a € 22.1 million reduction in current financial liabilities.

Investment Analysis

Capital expenditure in the reporting period totalled € 63.6 million, slightly below last year's figure of € 67.2 million. Property, plant and equipment accounted for € 61.4 million (previous year: € 59.2 million) of capital expenditure, while investments in intangible assets made up € 2.2 million (previous year: € 8.0 million). The majority of this capital expenditure was for replacement investments.

Capital expenditure in the first half of 2017 focused on the acquisition of container gantry cranes at the Container Terminals Burchardkai and Tollerort, large-scale equipment for horizontal transport at the Container Terminals Altenwerder and Burchardkai, and a storage crane system at the Container Terminal Burchardkai. Capital expenditure continues to focus on increasing productivity in the existing terminal areas and expanding the high-performance hinterland connections in line with market demands.

Liquidity Analysis

Cash flow from **operating activities** rose by € 35.6 million to € 148.1 million as of 30 June 2017 (previous year: € 112.5 million). With many items offsetting each other, this was largely due to the € 32.0 million improvement in EBIT.

Investing activities led to cash outflows of € 56.3 million (previous year: € 45.6 million). The € 10.7 million rise resulted from a year-on-year decrease in inflows from the reduction of short-term deposits and slightly higher investment outflows.

Free cash flow, which is the total cash flow from operating and investing activities, amounted to € 91.8 million at the end of the reporting period (previous year: € 66.9 million). It was therefore up € 24.9 million year on year.

The cash outflow from **financing activities** amounted to € 93.6 million as of 30 June 2017 (previous year: € 101.2 million), a decrease of € 7.6 million. Funds were paid out in the previous year to increase a shareholding. However, there were no proceeds from new loans in the reporting period, which had the opposing effect.

As of the reporting date, the changes described above resulted in **financial funds** of € 230.1 million (30 June 2016: € 135.4 million), which were thus down slightly on the beginning of the year (31 December 2016: € 232.4 million). Including short-term deposits, the Group's available liquidity as of 30 June 2017 totalled € 240.1 million (30 June 2016: € 192.0 million).

Liquidity Analysis

in € million	1–6 | 2017	1–6 | 2016
Financial funds as of 01.01.	232.4	165.4
Cash flow from operating activities	148.1	112.5
Cash flow from investing activities	- 56.3	- 45.6
Free cash flow	91.8	66.9
Cash flow from financing activities	- 93.6	- 101.2
Change in financial funds	- 2.3	- 30.1
Financial funds as of 30.06.	230.1	135.4
Short-term deposits	10.0	56.6
Available liquidity	240.1	192.0