Business Development

Course of Business and Economic Situation

Key Figures

in € million	1–9 I 2016	1–9 I 2015	Change
Revenue	871.0	868.9	0.2 %
EBITDA	218.4	214.4	1.9 %
EBITDA margin in %	25.1	24.7	0.4 pp
EBIT	126.9	123.9	2.4 %
EBIT margin in %	14.6	14.3	0.3 pp
Profit after tax and minority interests	60.9	55.9	9.0 %
ROCE in %	12.8	12.7	0.1 pp

Significant Events and Transactions

The negative impact of the virtually completed restructuring of the Logistics segment in the previous quarter was largely offset by a one-off effect from the termination of the lease for the Übersee-Zentrum in the third quarter. Above and beyond this, there were no particular events or transactions either in HHLA's operating environment or within the Group that had a significant impact on its results of operations, net assets and financial position. Both the economic indicators reported for the first nine months of 2016 and HHLA's actual economic performance were largely in line with the performance forecast in the 2015 Annual Report. However, a change in the interest rate used to calculate pension obligations led to a significant increase in pension provisions along with a corresponding reduction in equity. In addition, HHLA continues to be affected by exchange rate-related changes. ▶ See results of operations, net assets and financial position

Earnings Position

HHLA posted mixed performance data in the first nine months of 2016. At 4,924 thousand TEU, **container throughput** was down by 2.1 % year-on-year (previous year: 5,027 thousand TEU). However, the decline was significantly less pronounced than in the first half of the year. By contrast, **transport volumes** rose by 5.9 % to 1,055 thousand TEU (previous year: 996 thousand TEU).

The HHLA Group's **revenue** increased slightly by 0.2 % in the period under review to € 871.0 million (previous year: € 868.9 million). This was primarily due to the volume-related increase in revenue from rail transportation.

The performance of the listed **Port Logistics subgroup** largely mirrored that of the HHLA Group. Revenue rose by 0.2 % to € 847.5 million (previous year: € 845.6 million). The non-listed **Real Estate subgroup** saw revenue rise by 1.8 % to € 28.0 million (previous year: € 27.5 million).

The increase in **other operating income** to € 44.3 million (previous year: € 27.5 million) is mainly attributable to the one-off effect from the termination of the lease for the Übersee-Zentrum.

Operating expenses rose by 1.8 % to € 794.8 million (previous year: € 780.4 million). These include the one-off expenses already recognised in the second quarter in connection with the scaling back of project and contract logistics activities.

The **operating result (EBIT)** increased by 2.4 % to € 126.9 million in the period under review (previous year: € 123.9 million). The EBIT margin was 14.6 % (previous year: 14.3 %). In the **Port Logistics subgroup**, EBIT rose by 3.7 % to € 115.1 million (previous year: € 111.0 million). In the **Real Estate subgroup**, EBIT declined by 8.9 % to € 11.5 million (previous year: € 12.7 million) as a result of maintenance work, among other factors.

Net expenses from the **financial result** fell by 28.7 % or € 6.3 million to € 15.6 million (previous year: € 21.9 million). This was mainly due to a reduction of € 4.2 million in negative exchange rate effects, which resulted almost exclusively from the devaluation of the Ukrainian currency. Interest paid to banks and other lenders also decreased.

The **profit after tax and minority interests** increased by 9.0 % year-on-year to € 60.9 million (previous year: € 55.9 million). **Earnings per share** rose accordingly by 9.0 % to € 0.84 (previous year: € 0.77). The listed Port Logistics subgroup achieved a 9.2 % increase in earnings per share to € 0.77 (previous year: € 0.70). Earnings per share of the non-listed Real Estate subgroup were also up on the prior-year figure at € 2.61 (previous year: € 2.43). The **return on capital employed (ROCE)** was 12.8 % and thus on a par with the previous year.

Financial Position

Balance Sheet Analysis

Compared with year-end 2015, the HHLA Group's **balance sheet total** increased by a total of € 70.0 million to € 1,820.4 million as of 30 September 2016 (31 December 2015: € 1,750.4 million).

Balance Sheet Structure

in € million	30.09.2016	31.12.2015
Assets		
Non-current assets	1,357.9	1,305.8
Current assets	462.5	444.6
	1,820.4	1,750.4
Equity and liabilities		
Equity	544.8	580.6
Non-current liabilities	1,054.5	979.2
Current liabilities	221.1	190.6
	1,820.4	1,750.4

On the assets side of the balance sheet, non-current **assets** rose by € 52.1 million to € 1,357.9 million (31 December 2015: € 1,305.8 million). Current assets increased by € 17.9 million to € 462.5 million (31 December 2015: € 444.6 million).

On the liabilities side, **equity** declined by € 35.8 million as against the 2015 year-end to € 544.8 million (31 December 2015: € 580.6 million). The decrease was primarily due to the interest rate-related change of € 55.8 million in actuarial gains and losses, netted with deferred taxes, and the dividend distribution of € 46.8 million. The Group's profit after tax for the reporting period increased equity by € 83.3 million. The equity ratio decreased to 29.9 % (31 December 2015: 33.2 %).

Non-current and current **liabilities** rose by € 105.8 million to € 1,275.6 million (31 December 2015: € 1,169.8 million). This is mainly attributable to the € 84.8 million increase in pension provisions.

Investment Analysis

The investment volume in the period under review totalled € 106.3 million, just short of the previous year's figure of € 111.8 million due to reporting date factors.

Capital expenditure in the first nine months of 2016 focused to a large extent on the expansion of the block storage facility at the Container Terminal Burchardkai, the purchase of container gantry cranes for the Burchardkai and Tollerort container terminals, the construction of the Budapest inland terminal and the purchase of wagons for the intermodal subsidiary Metrans.

Liquidity Analysis

Cash flow from operating activities rose year-on-year from € 139.8 million to € 184.7 million. The net increase is primarily attributable to higher trade liabilities and lower income tax payments as against the previous year.

At € 50.7 million, **cash flow from investing activities** was lower than in the previous year. The change was mainly due to the decline in capital expenditure.

Cash flow from financing activities was down € 40.7 million on 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.

Financial funds totalled € 190.3 million as of 30 September 2016 (30 September 2015: € 163.0 million). Including all short-term deposits, the Group's available liquidity at the end of the third quarter of 2016 amounted to € 229.2 million (30 September 2015: € 233.0 million).

Liquidity Analysis

in € million	1–9 I 2016	1–9 I 2015
Financial funds as of 01.01.	165.4	185.6
Cash flow from operating activities	184.7	139.8
Cash flow from investing activities	- 50.7	- 88.6
Free cash flow	134.0	51.2
Cash flow from financing activities	- 112.5	- 71.8
Change in financial funds	21.6	- 20.6
Change in financial funds due to exchange rates	- 1.2	- 2.0
Change in financial funds due to consolidation	4.5	0.0
Financial funds as of 30.09.	190.3	163.0

Container Segment

Key Figures

in € million	1–9 I 2016	1–9 I 2015	Change
Revenue	512.7	518.7	- 1.2 %
EBITDA	148.4	147.3	0.8 %
EBITDA margin in %	28.9	28.4	0.5 pp
EBIT	86.6	83.5	3.7 %
EBIT margin in %	16.9	16.1	0.8 pp
Container throughput in thousand TEU	4,924	5,027	- 2.1 %

Between January and September 2016, HHLA's container terminals handled a total of 4,924 thousand standard containers (TEU), 2.1 % fewer than in the prior-year period (previous year: 5,027 thousand TEU). Volumes recovered in the third quarter of 2016, growing by 5.6 % year-on-year after lower volumes continued to dominate the first half of 2016. This was due in part to the stabilisation of handling volumes in the Far East shipping region, although these volumes were again down on the prior-year level on a cumulative basis. Feeder traffic to and from Russia, which has gradually recovered over the course of the year following severe slumps in 2015, contributed to volume growth in the third quarter and rose by 10.5 % overall in the reporting period. By contrast, throughput to and from the other Baltic Sea ports, such as in Poland or Sweden, again fell short of the previous year due to mega-ship calls. As a result, **handling volumes** at the three container terminals in Hamburg were down 2.7 % on the previous year in the first nine months of 2016 at 4,711 thousand TEU (previous year: 4,840 thousand TEU). Container throughput at the Container Terminal Odessa was again very strong, rising by 13.4 % year-on-year to 213 thousand TEU (previous year: 188 thousand TEU) due to cyclical factors.

The fall in volumes led to a corresponding decrease in **revenue** – albeit at the proportionately slower rate of 1.2 % year-on-year to € 512.7 million (previous year: € 518.7 million). Despite a slightly higher feeder ratio of 23.5 % (previous year: 23.1 %), there was an increase in average revenue per container handled at the quayside.

The segment's EBIT costs were reduced in line with the lower seaborne throughput, despite the high proportion of fixed costs typical of the container business. In particular, personnel expenses per unit remained unchanged as against the previous year. The higher average revenue lifted the **operating result (EBIT)** by 3.7 % to € 86.6 million (previous year: € 83.5 million). Accordingly, the EBIT margin rose to 16.9 % (previous year: 16.1 %).

Intermodal Segment

Key Figures

in € million	1–9 I 2016	1–9 I 2015	Change
Revenue	289.5	272.8	6.1 %
EBITDA	67.7	61.1	10.7 %
EBITDA margin in %	23.4	22.4	1.0 pp
EBIT	50.0	44.0	13.8 %
EBIT margin in %	17.3	16.1	1.2 pp
Container transport in thousand TEU	1,055	996	5.9 %

In the first nine months of 2016, HHLA's transport companies achieved significant growth in the highly competitive market for container traffic in the hinterland of major seaports. **Transport volumes** rose by 5.9 % to 1,055 thousand standard containers (TEU), compared with 996 thousand TEU in the previous year. The trend was driven by growth in rail transportation, which again increased significantly year-on-year by 7.3 % to 818 thousand TEU (previous year: 762 thousand TEU). In a difficult market environment, road transport also made good progress with year-on-year growth of 1.3 % to 237 thousand TEU (previous year: 234 thousand TEU).

With an increase of 6.1 % to € 289.5 million (previous year: € 272.8 million), **revenue** performed slightly better than transport volumes. This positive trend was partly due to changes in the route mix, as rail's share of HHLA's total intermodal transportation rose from 76.5 % to 77.5 %.

The **operating result (EBIT)** rose year-on-year to € 50.0 million (previous year: € 44.0 million) and significantly outperformed volume and revenue growth. This was primarily attributable to the higher volumes. Better utilisation of trains and an improved mix of import and export volumes compared to last year also had a positive effect on segment earnings. In a year-on-year comparison, it must be taken into account that the third quarter of 2015 contained positive one-off effects in the amount of € 2.5 million from the sale of a property in Poland.

Logistics Segment

Key Figures

in € million	1–9 I 2016	1–9 I 2015	Change
Revenue	40.5	48.9	- 17.1 %
EBITDA	0.4	2.5	- 83.2 %
EBITDA margin in %	1.0	5.1	- 4.1 pp
EBIT	- 2.6	- 0.6	neg.
EBIT margin in %	- 6.4	- 1.3	- 5.1 pp
At-equity earnings	3.0	2.7	8.1 %

The key financial figures for the Logistics segment include the vehicle logistics, project and contract logistics, consultancy activities and cruise logistics business divisions. The results from dry bulk and fruit logistics are included in at-equity earnings.

Revenue generated by the consolidated companies of the Logistics segment declined in the first nine months of 2016. At € 40.5 million, segment revenue was down 17.1 % on the prior-year figure (€ 48.9 million). In addition to the successive scaling back of project and contract logistics activities, this was also due to lower revenue from consulting activities for project-related reasons. The **operating result (EBIT)** in the third quarter of 2016 included one-off effects from the termination of the lease for the Übersee-Zentrum. These were offset in the reporting period as a whole by expenses for provisions recognised in the second quarter for the discontinuation of project and contract logistics activities, which is now largely complete. Compared with the previous year, the segment's operating loss grew to € - 2.6 million in the first nine months (previous year: € - 0.6 million). This was partly a result of the year-on-year decline in operating income from consulting activities and vehicle logistics.

The companies included in **at-equity earnings** turned in a mixed performance. At-equity earnings totalled € 3.0 million in the reporting period, up 8.1 % on the previous year (€ 2.7 million).

Real Estate Segment

Key Figures

in € million	1–9 I 2016	1–9 I 2015	Change
Revenue	28.0	27.5	1.8 %
EBITDA	15.3	16.4	- 6.6 %
EBITDA margin in %	54.8	59.7	- 4.9 pp
EBIT	11.5	12.7	- 8.9 %
EBIT margin in %	41.2	46.0	- 4.8 pp

HHLA's properties in the Speicherstadt historical warehouse district and the fish market area continued their positive revenue trend in the third quarter of 2016 amid virtually full occupancy. This is reflected by the 1.8 % increase in **revenue** to € 28.0 million (previous year: € 27.5 million).

By contrast, the **operating result (EBIT)** declined by 8.9 % year-on-year to € 11.5 million (previous year: € 12.7 million), primarily due to higher maintenance expenses for the necessary refurbishment of rental space in the Speicherstadt historical warehouse district. In addition, the prior-year figure included extraordinary income of € 0.9 million from an insurance refund.

Changes in Business Forecast

Based on business developments in the first nine months of 2016 and in light of the unplanned one-off effect in the Logistics segment described above (termination of the lease for the Übersee-Zentrum), the Executive Board of HHLA is elaborating its earnings forecast for the Group in 2016.

While HHLA continues to anticipate container throughput and Group revenue on a par with the previous year, it now expects a moderate increase in container transport (previously: slight increase) compared with the previous year.

An operating result (EBIT) in the range of € 135 million to € 145 million (previously: in the range of € 100 million to € 130 million) is now forecast for the Port Logistics subgroup. As the operating result for the Real Estate subgroup is still expected to be on a par with the previous year, Group EBIT should now be between € 150 million and € 160 million (previously: € 115 million to € 145 million). Due to the one-off effect described above, the expected decline in the operating result for the Logistics segment will not be as large as previously forecast.

All other disclosures made in the 2015 Annual Report about the expected course of business in 2016 continue to apply.

Hamburg, 31 October 2016

Hamburger Hafen und Logistik Aktiengesellschaft
The Executive Board

Klaus-Dieter Peters | Dr. Stefan Behn

Heinz Brandt | Dr. Roland Lappin | Angela Titzrath