## Real Estate Segment

### Key Figures

| in € million | 2017 | 2016 | Change |
|---|---|---|---|
| Revenue | 37.9 | 37.7 | 0.6 % |
| EBITDA | 21.3 | 21.1 | 0.9 % |
| EBITDA margin in % | 56.2 | 56.0 | 0.2 pp |
| EBIT | 16.3 | 16.0 | 1.5 % |
| EBIT margin in % | 43.0 | 42.6 | 0.4 pp |

Hamburg's office rental market made good progress in 2017. According to Grossmann & Berger's latest market report, 640,000 m$^2$ of office space was let in the reporting period, corresponding to year-on-year growth of 16 %. Due to high demand, Hamburg's vacancy rate fell by 0.8 percentage points to a new record low of 4.3 %.

Against this market background, HHLA's properties in the Speicherstadt historical warehouse district and the fish market area continued their positive revenue and earnings trend. As a result of virtually full occupancy in both areas, **revenue** rose by 0.6 % year-on-year to € 37.9 million (previous year: € 37.7 million) in 2017.

The **operating result (EBIT)** increased by 1.5 % year-on-year to € 16.3 million (previous year: € 16.0 million). This was largely due to increase in revenue from existing and newly developed properties while maintenance costs remained constant. The EBIT margin of 43.0 % achieved in the 2017 financial year (previous year: 42.6 %) once again testifies to the economic success of HHLA's long-term, value-oriented portfolio development strategy.

## Events after the Balance Sheet Date

No significance events occurred after the balance sheet date of 31 December 2017. ▶ See also Note 52 of the Notes to the Consolidated Financial Statements, page 148

# Business Forecast

## Macroeconomic Environment

Global economic momentum strengthened in 2017. Rising political uncertainty and existing structural problems have not adversely affected the stronger economic recovery as yet. The International Monetary Fund (IMF) expects this upward trend to continue in the regions relevant to HHLA during the forecast period. The IMF's experts believe that the German economy will maintain its robust upward trajectory with growth of 2.3 %. In the emerging economies of Central and Eastern Europe, the pace of expansion picked up markedly in 2017. The IMF anticipates economic growth of 4.0 % in 2018. Due in part to the sanctions still imposed on the Russian Federation, its economic output is likely to be largely unchanged from the previous year with GDP growth of 1.7 %. The IMF has upgraded its outlook for the Chinese economy slightly and now expects growth of 6.6 %. Meanwhile, the IMF's experts forecast a rise in global GDP of 3.9 % in 2018. Global trade volumes are expected to grow by 4.6 %.

### Growth Expectations for GDP

| in % | 2018 | Trend vs. 2017 |
|---|---|---|
| World | 3.9 | ↗ |
| Advanced economies | 2.3 | → |
| USA | 2.7 | ↗ |
| Emerging economies | 4.9 | ↗ |
| China | 6.6 | ↘ |
| Russia | 1.7 | → |
| Eurozone | 2.2 | ↘ |
| Central and Eastern Europe (emerging european economies) | 4.0 | ↘ |
| Germany | 2.3 | ↘ |
| World trade | 4.6 | → |

*Source: International Monetary Fund (IMF), January 2018*

## Sector Development

Following a significant increase in container throughput in 2017, the market research institute Drewry expects the momentum to slow in 2018 with growth of 4.3 %. Growth will be driven in particular by the shipping regions of Asia (+ 4.5 %), Latin America (+ 4.6 %) and especially Africa (+ 6.1 %). Throughput growth in China – the Port of Hamburg's most important shipping region – is expected to be slower than in the previous year but to remain robust at 5.5 %.

Container throughput growth in the European shipping regions is likely to remain moderate, but below the prior-year level. Scandinavia, the Baltic, the Eastern Mediterranean and the

Black Sea are regarded as the main drivers. Growth rates on the North-West Europe and Western Mediterranean trades are expected to be somewhat slower.

### Growth Expectations for Container Throughput

| in % | 2018 | Trend vs. 2017 |
|---|---|---|
| World | 4.3 | ↘ |
| Europe as a whole | 3.6 | ↘ |
| North-West Europe | 3.1 | ↘ |
| Scandinavia and the Baltic region | 4.9 | ↘ |
| Western Mediterranean | 2.9 | ↘ |
| Eastern Mediterranean and the Black Sea | 5.1 | ↘ |

*Source: Drewry Maritime Research, December 2017*

Considering the capacities available at container terminals in the North Range and the Baltic Sea, competition between ports is likely to remain fierce in 2018. The container shipping market will continue to see a structural surplus of cargo space. According to estimates of the market research institute AXS Alphaliner, growth in total capacity of the container ship fleet will slow somewhat in 2018 as a result of declining orders from shipping companies and delayed deliveries. However, at 5.3 %, growth in total capacity of the container ship fleet will outpace global container volumes at the ports in the forecast period.

In order to stabilise the market amid this growing capacity surplus, the sector has been dominated by acquisitions and mergers as well as the formation of new alliances since 2015. This concentration process will continue in 2018. Following approval from the competition authorities in late November 2017, Maersk completed its takeover of Hamburg Süd and will continue to operate the shipping company as a separate brand. Exact details of the integration are not yet known. The merger of three Japanese shipping companies – NYK Line, MOL and K Line – to create Ocean Network Express (ONE) was also approved by the relevant anti-trust authorities. The joint venture is expected to start operations in April 2018. The ongoing consolidation process will lead to the pooling of container services and timetable changes.

In light of the unrelenting growth 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. According to the most recent medium-term forecast on cargo and passenger transport in Germany issued by the Federal Ministry of Transport and Digital Infrastructure (BMVI) in summer 2017, the trend in 2018 will remain positive though somewhat less dynamic. The experts believe that transport volumes will increase by 0.8 % and traffic performance (transport volume multiplied by the distance travelled) by 1.3 %.

## Expected Group Performance

### Comparison with the Forecast of the Previous Year

The guidance last adjusted in autumn 2017 was fulfilled. Container throughput considerably exceeded guidance for the 2017 financial year contained in the previous year's Annual Report. The figures for revenue and operating result (EBIT) at Group level were therefore also better than anticipated. Delays in delivery and order execution meant that capital expenditure budgeted for the reporting period was not utilised in full. ▶ see Course of Business and Economic Situation, page 27

### Expected Earnings Position

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

Despite the restructuring of significant service and key clients on the Asia–Europe trades during the previous year, there may be further changes in 2018, as well as temporary or structural shifts in services between the North Range ports, especially for price-sensitive transshipment loads. Against this background, HHLA expects **container throughput** in 2018 to be at par with the previous year. **Container transport** volumes are also expected to be largely unchanged from the previous year as Polish intermodal traffic is being realigned in the course of its integration into METRANS. At Group level, this is likely to result in **revenue** similar to that of the previous year.

The **operating result (EBIT) of the Port Logistics subgroup** is expected to rise markedly year on year in 2018. Earnings will be shaped largely by the Container and Intermodal segments. The **operating result (EBIT) of the Real Estate subgroup** is expected to be around € 15 million due to planned, large-scale maintenance work that does not qualify for capitalisation. A substantial increase in the **operating result (EBIT)** is anticipated **at Group level**.

Earnings in the Port Logistics subgroup and at Group level may continue to be depressed by exchange rate effects reported below EBIT as part of the financial result.

Nautical accessibility continues to be vital to the competitiveness of the Port of Hamburg and thus for HHLA. Future developments will be significantly affected by the dredging of the lower and outer stretches of the river Elbe, which is still outstanding. According to the ruling of the Federal Administrative Court on 9 February 2017, it is essential that the parties to the proceedings swiftly remedy the deficiencies identified by the court so that dredging of the navigation channel can commence as soon as possible. ▶ see Risk and Opportunity Report, page 38

### Expected Financial Position

In principle, HHLA's major investment activities can be scaled in line with demand. Due to the ongoing trend in ship sizes, the Group reserves the right to decide on investment activities that are not prompted purely by volume developments. Capital expenditure at Group level in 2018 is expected to be in the region of € 200 million. Most of this amount is attributable to the Port Logistics subgroup. In the Container segment, investment will primarily focus on the purchase of container gantry cranes, storage cranes and ground-handling vehicles for the container terminals in Hamburg. In the Intermodal segment, funds will be used to renew and expand the company's own transportation and handling capacities.

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.

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 could be supplemented by debt where necessary.

## Risk and Opportunity Report

### Risk and Opportunity Management

All commercial activities inevitably entail both risks and opportunities. HHLA believes that the effective management of risks and opportunities is a significant success factor for the sustainable enhancement of enterprise value.

Managing risks and opportunities is a key component of the HHLA Group's management strategy. The planning and controlling process, the boards of the Group's affiliates and reporting are all cornerstones of this risk and opportunity management system. At regular business development meetings, HHLA's Executive Board discusses strategy, targets and control measures with due consideration of the risk and opportunity profile.

HHLA's risk and opportunity management system fosters a keen awareness of dealing with corporate risks and opportunities. It aims to identify risks in good time and take steps to manage or avert them while exploiting opportunities and preventing situations that could jeopardise the continued existence of the HHLA Group. An important element of the system is the promotion of entrepreneurial thinking and independent, responsible action.

### Risk and Opportunity Management System

Key elements of the risk management system are: identifying, assessing, managing, monitoring and reporting risks; clear responsibilities for process participants (managers of affiliates, Internal Audit, Group Controlling); incorporating all majority shareholdings and companies consolidated using the equity method into the risk consolidation group. The Executive Board bears overall responsibility. Its members deal with and assess the risk management reports on a quarterly basis.

Risks are catalogued regularly in the course of the annual planning process. All identified risks are described clearly and classified according to defined risk areas.

Risks are categorised by the likelihood of their occurrence and the scale of the potential damage. This reflects the anticipated reduction of the operating result or cash flow before taxes if the risk were to materialise.

**Categorisation of the probability of occurrence**

| < 25 % | ≥ 25 % | ≥ 50 % | ≥ 75 % |
|---|---|---|---|
| unlikely | possible | likely | most likely |

**Categorisation of the damage amount**

| | | Equity of the Group | | |
|---|---|---|---|---|
| < 1% | < 5 % | < 10 % | < 25 % | ≥ 25 % |
| not significant | medium | significant | massiv | threatening |