such early repayment if the parties cannot come to an agreement regarding the continuation of the respective loan, and the lender concerned cannot be reasonably expected – taking into account HHLA's legitimate interests – to accept the continuation of the unchanged loan agreement. A change of control can be said to have taken place if the Free and Hanseatic City of Hamburg directly holds less than 50.1 % of the voting rights in HHLA.

The service contracts valid during the reporting period for Executive Board members also contain a regulation that states they have a right to severance pay if their membership of the Executive Board is terminated due to a change of control or comparable circumstances (see item 9 below).

9. The service contracts of the members of the Executive Board contain a clause that provides for the payment of compensation to the respective Executive Board member in the event of them losing their Executive Board seat without good cause – including termination due to a change of control which may happen, for instance, following a voluntary or mandatory takeover offer. In line with the recommendations of the German Corporate Governance Code, the compensation is limited to a maximum of two annual salaries (including other benefits) and not more than the total remuneration for the remaining term of the service contract.

The provisions described above correspond to the legal situation and are standard practice at comparable listed companies. Their intention is not to complicate any possible takeovers.

Notes to the Separate Financial Statements for HHLA Prepared in Line with the German Commercial Code (HGB)

Unlike the Consolidated Financial Statements, the Annual Financial Statements for Hamburger Hafen und Logistik Aktiengesellschaft (HHLA AG) are not prepared in accordance with International Financial Reporting Standards (IFRS). Instead, they are based on the regulations contained in the German Commercial Code (HGB).

Company Overview

Structure and Commercial Activities

Hamburger Hafen und Logistik AG (HHLA AG) is a leading European port logistics group. HHLA AG is the parent company of the HHLA Group and runs the Group as a strategic management holding company. Its operations are carried out by the 28 domestic and 14 foreign subsidiaries that make up the consolidated Group. No significant legal or organisational changes were made to the company structure in the 2017 financial year.

HHLA AG is a legally independent company and was split into two divisions – the A division and the S division – as part of the initial public offering on 2 November 2007.

The A division represents the Port Logistics subgroup. The Class A shares, which are listed on the stock exchange, entitle shareholders merely to participate in the result and net assets of these commercial operations. The performance and financial result of the Real Estate subgroup are attributed to the S division. Class S shares are not traded on the stock exchange and are held solely by the Free and Hanseatic City of Hamburg (FHH). In the unlikely and unprecedented event of the Real Estate subgroup reporting a loss, this would be indirectly transferred to the Free and Hanseatic City of Hamburg in line with a separate agreement to assume losses.

Employees

HHLA AG had a total of 1,073 employees as of 31 December 2017 (previous year: 1,190). Of this number, 303 received wages (previous year: 349), 725 received a salary (previous year: 774) and 45 were apprentices (previous year: 67). Of the 1,073 staff members, 502 were assigned to companies within the HHLA Group in the reporting year.

Economic Environment

Industry and macroeconomic developments are largely in line with those at the HHLA Group.

Earnings Position

Key Figures

in € million	2017	2016	Change
Revenue	127.6	157.9	- 19.2 %
Other income and expenses	- 164.9	- 179.2	7.9 %
Operating result	- 37.3	- 21.3	- 75.0 %
Financial result	- 22.4	- 6.9	neg.
Result from equity investments	93.1	94.2	- 1.1 %
Income taxes	- 9.3	- 18.4	49.6 %
Net profit	24.1	47.6	- 49.4 %

The **revenue** recorded by HHLA AG resulted mainly from the charging of personnel expenses for holding company staff assigned to the spun-off Container and Logistics segments and from billing administrative services for IT systems which are pooled with HHLA AG. Revenue totalled € 127.6 million in the reporting year (previous year: € 157.9 million). The € 30.3 million decrease was largely due to the restructuring of the Logistics segment and the resulting income from the termination of the lease for the Übersee-Zentrum in the previous year.

Other income and expenses improved earnings by an additional € 14.3 million compared with the previous year. Following restructuring-related expenses in connection with the discontinuation of project and contract logistics in the previous year, the figure for the reporting year includes expenses for the reorganisation of the Container segment.

The year-on-year decrease in the **financial result** was mainly attributable to interest rate-related changes in provisions.

Income from equity investments remained virtually unchanged from the previous year. The net profits of HHLA AG's affiliates and equity investments recognised in profit or loss declined by € 1.1 million to € 93.1 million (previous year: € 94.2 million).

The € 9.1 million decrease in **income taxes** stemmed mainly from a significant reduction in the operating and financial result.

The company's **annual net profit** amounted to € 24.1 million in the reporting period (previous year: € 47.6 million). The A division accounted for € 14.7 million of this amount (previous year: € 38.8 million) and the S division for € 9.4 million (previous year: € 8.7 million).

Forecast and Actual Figures

in € million	Actual 2016	Forecast 2017	Actual 2017
Net profit	47.6	At previous year's level	24.1

The differences between forecast and actual figures were mainly due to those circumstances listed in the section on the Group's earnings position. In addition, an impairment on the amount reported for an investment and a merger loss led to a reduction in the annual net profit. ▶ see Course of Business and Economic Situation, page 27.

Assets

Balance Sheet Structure

in € million	31.12.2017	31.12.2016
Assets		
Intangible assets and property, plant and equipment	23.2	17.7
Financial assets	376.5	386.7
Other assets	625.9	654.8
Balance sheet total	1,025.6	1,059.2
Equity and liabilities		
Equity	474.3	496.9
Pension provisions	309.6	303.3
Other liabilities	241.7	259.0
Balance sheet total	1,025.6	1,059.2
Equity ratio in %	46.2	46.9
Intensity of investments in %	2.3	1.7

The carrying values of **intangible assets** and **property, plant and equipment** amounted to € 23.2 million at the end of the reporting period (previous year: € 17.7 million). Capital expenditure totalled € 8.3 million in the reporting period (previous year: € 10.3 million). Capital expenditure focused mainly on expanding the IT landscape.

The decline in **financial assets** of € 10.2 million to a total of € 376.5 million was largely due to the merger of HHLA Container Terminals Gesellschaft mit beschränkter Haftung and HHLA AG, as well as the impairment on the amount reported for an investment.

Development in Pension Provisions

in € thousand	2017	2016
Carrying amount on 1 January	303,327	313,095
Merger effect*	5,555	0
Expense recognised in profit and loss	19,891	8,754
Pension payments	- 19,198	- 18,522
Carrying amount on 31 December	309,575	303,327

* *In the year under review, HHLA Container Terminals Gesellschaft mit beschränkter Haftung merged with HHLA AG.*

HHLA AG uses the projected unit credit method to value entitlements associated with existing **pension obligations**. Future obligations are projected based on past service and possible future service prior to the insured event occurring. Anticipated future pension and pay increases are also taken into account. An average market interest rate for the past ten years of 3.68 % set by Deutsche Bundesbank was applied for the reporting year (previous year: 4.01 %).

In accordance with Section 253 (2) sentence 2 HGB, a remaining term of 15 years is used as a basis. Pension provisions amounted to € 309.6 million at the end of the reporting period (previous year: € 303.3 million).

Financial Position

Liquidity Analysis

in € million	2017	2016
Financial funds as of 01.01.	405.3	399.3
Merger effect*	4.6	0.0
Cash flow from operating activities	32.3	67.6
Cash flow from investing activities	- 7.1	- 9.6
Cash flow from financing activities	- 46.7	- 52.0
Financial funds as of 31.12.	388.4	405.3
of which receivables from subsidiaries	166.4	201.7
of which cash and cash equivalents	222.0	203.6

* *In the year under review, HHLA Container Terminals Gesellschaft mit beschränkter Haftung merged with HHLA AG.*

Cash flow from operating activities totalled € 32.3 million in the reporting year (previous year: € 67.6 million). It was dominated by the operating result. Cash flow in the reporting year was sufficient to fund capital expenditure.

In connection with existing cash pooling agreements, financial funds comprised receivables from subsidiaries in the amount of € 166.4 million (previous year: € 201.7 million), cash and cash equivalents in the form of bank balances totalling € 147.9 million (previous year: € 129.6 million) – of which € 20.0 million (previous year: € 10.0 million) was short-term bank deposits – and clearing receivables of € 74.0 million (previous year: € 74.0 million) from HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, Hamburg (HGV). The S division of Hamburger Hafen und Logistik AG (HHLA) participates in the cash clearing system operated by HGV. The A division also utilises the option of investing surplus liquidity with HGV whenever this is advantageous for HHLA AG.

As expected, the financial position remained stable in the reporting period.

Risk and Opportunity Report

Business developments at Hamburger Hafen und Logistik AG (HHLA AG) are mostly subject to the same risks and opportunities as those of the HHLA Group. HHLA AG shares in the risks of its subsidiaries and equity investments in line with its respective shareholding.

As the parent company of the HHLA Group, HHLA AG is incorporated into the Group-wide risk and opportunity management system. The Risk and Opportunity Report contained in the Combined Management Report provides a description of the internal control system as required by Section 289 (5) of the German Commercial Code (HGB). ▶ see Risk and Opportunity Report, page 38

Business Forecast

Outlook

Due to its close ties with the affiliated companies and its weight within the Group, the expectations for Hamburger Hafen und Logistik AG (HHLA AGA) are reflected in the business forecast for the Group as a whole. It is anticipated that the statements made for the HHLA Group regarding market and revenue developments will largely be mirrored by the revenue of HHLA AG. Furthermore, the income from equity investments is expected to make a substantial contribution towards HHLA AG's earnings. ▶ see Business Forecast, page 36

Expected Earnings Position in 2018

Based on the expected developments, HHLA AG expects a significant year-on-year improvement in its net profit for the year.

Expected Financial Position in 2018

Hamburger Hafen und Logistik AG (HHLA AG) expects its financial position to remain stable.

Dividend

As in the previous year, HHLA AG's appropriation of profits is oriented towards the development of earnings in the financial year ended. The distributable profit and stable financial position provide the foundation for a continuation of the company's consistent dividend policy.