position as Europe's second-largest container port. Following a double-digit decline in 2016, throughput at Belgium's second port, Zeebrugge, recovered to 1.5 million TEU in the reporting period – an increase of 8.7 % on the previous year. With total throughput of 5.5 million TEU, the Bremen ports experienced slight year-on-year growth of 0.5 %. Thanks to its stronger integration into the 2M alliance route network, the JadeWeser-Port in Wilhelmshaven recorded throughput of 0.6 million TEU – 15.1 % more than in the previous year. The port of Gdansk once again achieved strong growth in container throughput of 21.6 % to 0.6 million TEU.

By contrast, the volume of containers handled in Gothenburg fell by 19.3 % year-on-year to 0.6 million TEU. There was a strong increase in container throughput at Russia's Baltic Sea ports. The total volume of containers at the ports of St. Petersburg, Ust-Luga and Kaliningrad rose by 10.7 % year-on-year in 2017.

Development of Container Throughput at Northern European Ports

in million TEU	2017	2016	Change
Rotterdam	13.7	12.4	10.9 %
Antwerp	10.5	10.0	4.1 %
Hamburg	8.8	8.9	- 1.0 %
Bremen ports	5.5	5.5	0.5 %
Zeebrugge	1.5	1.4	8.7 %
Gdansk	1.6	1.3	21.6 %
Gothenburg	0.6	0.8	- 19.3 %
Wilhelmshaven	0.6	0.5	15.1 %

Source: Port Authorities

The market research institute AXS Alphaliner estimates that the carrying capacity of the global **container ship fleet** increased by 3.8 % to 21.1 million TEU in 2017 (previous year: 1.5 %). This means that transport capacity rose at a considerably slower rate than transport demand. Nevertheless, the increase in ship sizes remains unbroken. The number of ultra large vessels with a capacity of more than 10,000 TEU increased particularly strongly, with growth of 16.8 % to 453. This means that some 80 % of the ships delivered in 2017 can carry in excess of 10,000 TEU. The shipping companies MSC and CMA CGM recently ordered additional vessels with a carrying capacity of 22,000 TEU. In view of the modest ordering activities of shipping lines, shipyards around the world currently have an aggregate order backlog of 2.7 million TEU. This corresponds to 12.7 % of the total carrying capacity of the fleet in use at present.

Rail freight traffic in Germany declined over the course of the year. Compared with the previous year, transport volumes fell by 3.3 % in the first ten months of 2017. However, traffic performance – transport volume multiplied by the distance travelled – decreased by only 2.5 % in the same period. The trend in intermodal traffic was also weak. In the period from January to October 2017, 5.1 million TEU was transported by rail, corresponding to a 5.1 % decrease year-on-year.

At a **European level**, however, the upward trend in rail freight traffic which began in late 2016 continued in the reporting period. Transport demand for rail traffic increased substantially in the first three quarters of 2017, both in Europe as a whole and in those markets of Central and Eastern Europe of particular relevance to HHLA. Whereas transport volumes rose by 4.9 % year-on-year across Europe as a whole, growth in Central and Eastern Europe was even stronger at 9.2 %. However, trends varied considerably in the individual markets. While Poland recorded a 17.0 % rise in rail freight in the first nine months, transport volumes in the Czech Republic fell by 1.6 %. In line with rising transport volumes, traffic performance across Europe was up by 4.2 % and by as much as 9.1 % in Central and Eastern Europe.

Course of Business and Economic Situation

Key Figures

in € million	2017	2016	Change
Revenue	1,251.8	1,177.7	6.3 %
EBITDA	295.8	286.4	3.3 %
EBITDA margin in %	23.6	24.3	- 0.7 pp
EBIT	173.2	164.0	5.6 %
EBIT margin in %	13.8	13.9	- 0.1 pp
Profit after tax and minority interests	81.1	73.0	11.0 %
At-equity earnings	4.8	4.7	2.2 %
ROCE in %	13.1	12.4	0.7 pp

Overall View

The HHLA Group's performance in the 2017 financial year was very encouraging. Thanks to sales activities and an investment policy aligned with trends in ship sizes, the HHLA Group succeeded in capitalising on the positive economic environment while the consolidation trend among its clients continued. These efforts led to a marked increase in container throughput in the Container segment. At the same time, container transport in the Intermodal segment rose noticeably. Developments at HHLA's two largest segments led to moderate growth in both revenue and the operating result at Group level.

Forecast and Actual Figures

	Actual 31.12.2016	Forecast 30.03.2017	Forecast 05.05.2017	Forecast 14.08.2017	Actual 31.12.2017
Container throughput	6.7 million TEU	At previous year's level	Significant increase	Significant increase	7.2 million TEU
Container transport	1.4 million TEU	Moderate increase	Moderate increase	Moderate increase	1.5 million TEU
Revenue	€ 1,177.7 million	At previous year's level	Moderate increase	Moderate increase	€ 1,251.8 million
EBIT	€ 164.0 million	In a range of € 130 to 160 million before possible one-off expenses of up to € 15 million	In the upper half of a range of € 140 to 170 million before possible one-off expenses of up to € 15 million	In a range of € 150 to 170 million after possible one-off expenses of up to € 15 million[1]	€ 173.2 million
Capital expenditure	€ 138.3 million	In the range of € 160 million (incl. previous year's surplus)	In the range of € 160 million (incl. previous year's surplus)	In the range of € 160 million (incl. previous year's surplus)	€ 142.6 million

1 Specification 14.11.2017: Including additional expenditure of up to € 10 million for the harmonisation of existing pension schemes

Container throughput was well in excess of guidance for the 2017 financial year stated in the prior-year report. The Executive Board therefore issued an ad hoc announcement on 5 May 2017 with more specific guidance on anticipated volume and earnings trends in the Container segment and thus on the Group's expected earnings in 2017. As the Container segment's performance in the first half of 2017 exceeded expectations, further specific guidance on the Group's 2017 earnings was issued in August. Despite additional expenses announced in November 2017 in connection with the harmonisation of the existing pension schemes, this more specific guidance was confirmed by actual developments. Capital expenditure came in below the communicated figure.

As a result of the business trend in 2017, HHLA's financial position at the end of the reporting period on 31 December 2017 remained stable. The equity ratio increased by 1.3 percentage points to 32.8 % (previous year: 31.5 %) while liabilities remained largely unchanged from the previous year. Aided by sufficient liquidity, HHLA was able to reduce its gearing ratio from 2.6 to 2.3. The company still has no significant refinancing requirements.

Notes on the Reporting

Due to the high level of flexibility required in the sector, handling and transport services are not generally ordered or arranged months in advance. Consequently, an order backlog and order trends do not serve as reporting indicators as they do in other industries.

Changes to the consolidated group in the 2017 financial year were dominated by the merger of three companies in the Logistics segment and one company in the Container segment. This did not have any effect on the HHLA Group's revenue and earnings.

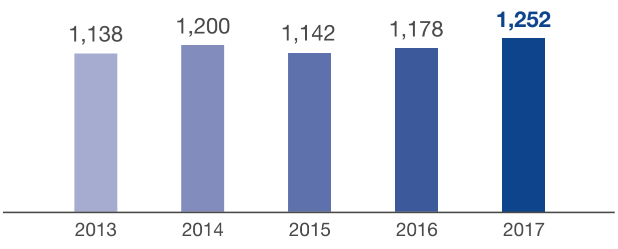
The 2017 Consolidated Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS) applicable in the European Union, taking into consideration the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). The Group Management Report was prepared in line with the requirements of German Accounting Standard no. 20 (GAS 20).

Earnings Position

HHLA's **performance data** developed positively in 2017. There was strong year-on-year growth in container throughput of 8.1 % to 7,196 thousand TEU (previous year: 6,658 thousand TEU). This rise resulted primarily from considerably higher volumes on the Asian trades and in feeder traffic with the Baltic ports. A further increase in transport volumes of 5.2 % to 1,480 thousand TEU was achieved (previous year: 1,408 thousand TEU). This trend was driven by growth in both rail and road transportation.

Against this background, **revenue** of the HHLA Group rose by 6.3 % to € 1,251.8 million (previous year: € 1,177.7 million) in the reporting period. This was primarily due to volume-related growth in the Container and Intermodal segments. The listed Port Logistics subgroup largely developed in line with the HHLA Group as a whole. Its Container, Intermodal and Logistics segments recorded an overall increase in revenue of 6.5 %

Revenue
in € million



to € 1,220.3 million (previous year: € 1,146.0 million). The non-listed Real Estate subgroup succeeded in raising revenue slightly by 0.6 % to € 37.9 million (previous year: € 37.7 million). The Real Estate subgroup thus accounted for 2.5 % of Group revenue.

At € -0.3 million, **changes in inventories** once again had no material impact in the reporting period (previous year: € 0.3 million). **Own work capitalised** decreased to € 5.4 million (previous year: € 6.5 million).

The reduction in **other operating income** to € 39.4 million (previous year: € 57.5 million) was mainly attributable to the termination of the lease for the Übersee-Zentrum in the previous year.

The 4.2 % increase in **operating expenses** to € 1,123.2 million (previous year: € 1,077.9 million), meaning that all expenditure types than growth in revenue.

The year-on-year rise in **cost of materials** of 5.9 % to € 370.5 million (previous year: € 350.0 million). The cost of materials ratio remained virtually unchanged at 29.6 % (previous year: 29.7 %).

Personnel expenses rose by 4.7 % to € 463.8 million (previous year: € 443.0 million). In addition to higher union wage rates, the reasons for this rise included increased headcount in the Intermodal segment due to the expansion of business and greater use of external staff at the container terminals in Hamburg as a result of volume trends. Following restructuring-related expenses in the previous year – particularly in connection with the discontinuation of project and contract logistics – this year's figure includes expenses for the organisational restructuring of the Container segment. The personnel expense ratio decreased to 37.1 % (previous year: 37.6 %).

Other operating expenses increased by 2.4 % in the reporting period to € 166.3 million (previous year: € 162.5 million). While the previous year's figure included expenses for provisions in connection with an onerous lease in the Intermodal segment and the insolvency of the container shipping company Hanjin, the current year also comprises expenses associated with the harmonisation of existing pension schemes. The ratio of expenses to revenue decreased to 13.3 % (previous year: 13.8 %).

Depreciation and amortisation rose slightly by 0.1 % year-on-year to € 122.6 million (previous year: € 122.4 million).

Against the background of these developments, the **operating result before depreciation and amortisation (EBITDA)** rose by 3.3 % to € 295.8 million (previous year: € 286.4 million) and thus more slowly than revenue. There was a corresponding moderate decrease in the EBITDA margin to 23.6 % (previous year: 24.3 %).

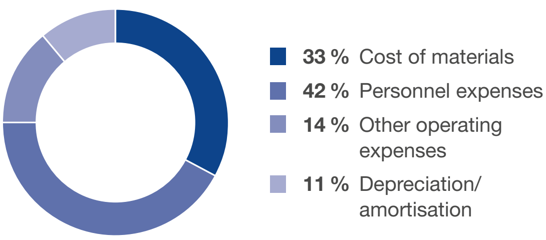
The **operating result (EBIT)** increased by 5.6 % to € 173.2 million in the reporting period (previous year: € 164.0 million). As this rise was broadly in line with revenue, the EBIT margin remained virtually unchanged at 13.8 % (previous year: 13.9 %). In the Port Logistics subgroup, EBIT rose by 6.1 % to € 156.6 million (previous year: € 147.6 million). As a result, the subgroup accounted for 90.4 % (previous year: 90.0 %) of the Group's operating result in the reporting period. In the Real Estate subgroup, EBIT grew by 1.5 % to € 16.3 million (previous year: € 16.0 million). 9.6 % of the Group's operating result was generated by this subgroup (previous year: 10.0 %).

Net expenses from the **financial result** increased by € 7.9 million or 44.0 % to € 25.9 million (previous year: € 18.0 million). This was mainly due to the revaluation of an equalisation liability payable to a minority shareholder in conjunction with a profit and loss transfer agreement. Positive exchange rate effects from the appreciation of the Czech currency and a reduction in expenses due to trends in the Ukrainian currency had an opposing effect.

At 28.1 %, the Group's **effective tax rate** was on a par with the previous year.

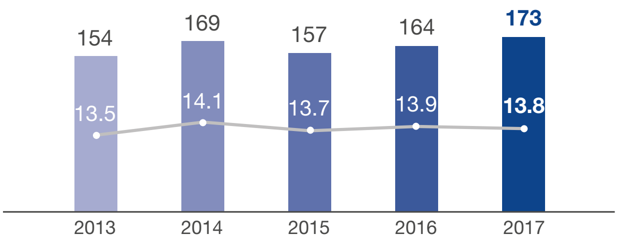
Operating Expenses

Expense structure 2017



Operating Result (EBIT)

in € million/EBIT margin in %



Profit after tax and minority interests increased by 11.0 % year-on-year to € 81.1 million (previous year: € 73.0 million). Non-controlling interests accounted for € 24.8 million in the 2017 financial year (previous year: € 32.0 million). From a financial point of view, this item includes the expenses mentioned in relation to the financial result associated with revaluing the settlement obligation to a minority shareholder. **Earnings per share** rose by 11.0 % to € 1.11 (previous year: € 1.00). The listed Port Logistics subgroup achieved an 11.7 % increase in earnings per share to € 1.02 (previous year: € 0.91). Earnings per share of the non-listed Real Estate subgroup were up on the prior-year figure at € 3.65 (previous year: € 3.44). As in the previous year, there was no difference between basic and diluted earnings per share in 2017. The return on capital employed (ROCE) was up 0.7 percentage points year-on-year at 13.1 % (previous year: 12.4 %). ▶ see also Corporate and Value Management, page 21

As in the previous year, HHLA's **appropriation of profits** is oriented towards the development of the HHLA Group's earnings in the financial year ended. The distributable profit and HHLA's stable financial position form the foundation of the company's consistent profit distribution policy. On this basis, the Executive Board and Supervisory Board will propose at the Annual General Meeting on 12 June 2018 a dividend distribution of € 0.67 per Class A share and € 2.00 per Class S share. Based on the number of shares with dividend entitlement as of 31 December 2017, the sum distributed for listed Class A shares would increase by 13.6 % to € 46.9 million (previous year: € 41.3 million). At € 5.4 million, the amount paid out for non-listed Class S shares would be unchanged from the previous year. In relation to the consolidated profit and earnings per share, the dividend payout ratio would reach a high figure of approximately 66 % for the Port Logistics subgroup (previous year: 65 %) and around 55 % for the Real Estate subgroup (previous year: 58 %).

Financial Position

Balance Sheet Analysis

Compared with the previous year, the HHLA Group's **balance sheet total** increased by a total of € 22.4 million to € 1,835.3 million as of 31 December 2017.

Balance Sheet Structure

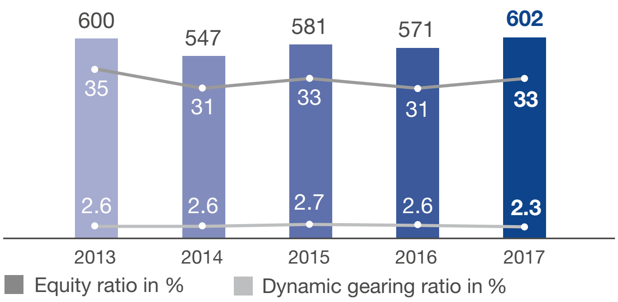
in € million	31.12.2017	31.12.2016
Assets		
Non-current assets	1,348.0	1,329.0
Current assets	487.3	483.9
	1,835.3	**1,812.9**
Equity and liabilities		
Equity	602.4	570.8
Non-current liabilities	993.8	1,028.1
Current liabilities	239.1	214.0
	1,835.3	**1,812.9**

On the assets side of the balance sheet, **non-current assets** rose by € 19.0 million. This increase stemmed largely from growth in property, plant and equipment due to capital expenditure, which rose by € 23.7 million to € 974.6 million (previous year: € 950.9 million). There was an opposing trend for both intangible assets, which fell by € 6.0 million year-on-year to € 69.7 million (previous year: € 75.7 million) due to scheduled depreciation, and investment property, which decreased by € 4.1 million to € 179.9 million (previous year: € 184.0 million).

Current assets grew by € 3.4 million to € 487.3 million (previous year: € 483.9 million). The increase resulted mainly from a rise in cash and cash equivalents and short-term deposits of € 24.3 million to € 201.5 million (previous year: € 177.2 million). By contrast, trade receivables fell by € 11.3 million to € 149.1 million (previous year: € 160.4 million), while other assets were down by € 13.1 million to € 26.8 million (previous year: € 39.9 million).

On the liabilities side, **equity** rose by € 31.6 million compared to year-end 2016, taking it to € 602.4 million (previous year: € 570.8 million). This growth was mainly attributable to positive comprehensive income of € 104.2 million. This was offset by the dividends distributed and the reclassification of a future financial settlement totalling € 72.7 million as a non-current financial liability. The equity ratio increased to 32.8 % (previous year: 31.5 %).

Developments in Group Equity
in € million



Non-current liabilities fell by € 34.3 million to € 993.8 million (previous year: € 1,028.1 million). This reduction was mainly due to a decrease in non-current financial liabilities of € 34.5 million to € 304.7 million (previous year: € 339.2 million), as well as a reduction in pension provisions of € 11.6 million to € 448.9 million (previous year: € 460.5 million). By contrast, other non-current provisions rose by € 10.3 million to € 112.9 million (previous year: € 102.6 million).

Current liabilities grew by € 25.1 million to € 239.1 million (previous year: € 214.0 million). This was primarily attributable to other current provisions, which rose by € 16.9 million to € 34.6 million (previous year: € 17.7 million) and an increase in trade liabilities of € 9.1 million to € 77.2 million (previous year: € 68.1 million).

Investment Analysis

Capital expenditure in the past financial year totalled € 142.6 million (previous year: € 138.3 million). This figure includes additions of € 4.2 million from finance leases not recognised as a direct cash expense (previous year: € 4.1 million). In 2017, capital expenditure focused on extending the Hamburg container terminals and expanding intermodal transport and handling capacities.

Investment projects were largely funded by the operating cash flow generated in the financial year.

Property, plant and equipment accounted for € 131.6 million (previous year: € 123.2 million) of capital expenditure, while intangible assets accounted for € 5.5 million (previous year: € 12.3 million) and investment property for € 5.5 million (previous year: € 2.8 million).

Investments amounting to € 81.2 million were made in the **Container segment** (previous year: € 81.3 million). Capital expenditure was dominated by the procurement of handling equipment and storage capacities at the Hamburg container terminals. The **Intermodal segment** invested € 45.7 million (previous year: € 44.1 million). The METRANS Group accounted for most of this investment volume, mainly for locomotives. Capital expenditure in the **Logistics segment** came to € 1.4 million (previous year: € 2.4 million). The **pro forma Holding/Other segment** invested a total of € 8.4 million (previous year: € 10.3 million). A large proportion of capital expenditure was for the migration to a new terminal management system and for equipment to operate a power barge.

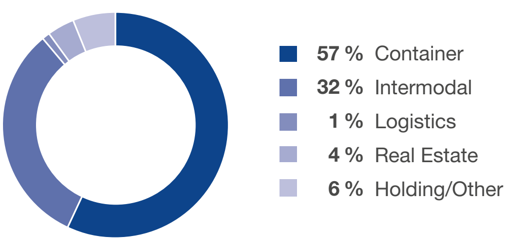
Investments in the Container segment focus on enhancing the productivity of existing terminal areas by using state-of-the-art handling technology and developing berth places for the trend in ship sizes. Meanwhile, in the Intermodal segment, the primary objective is to increase vertical integration to further improve the performance and range of its hinterland connections.

As of year-end, there were other financial liabilities for outstanding purchase commitments totalling € 110.6 million (previous year: € 56.8 million).This figure includes € 77.3 million (previous year: € 34.2 million) for the capitalisation of property, plant and equipment.

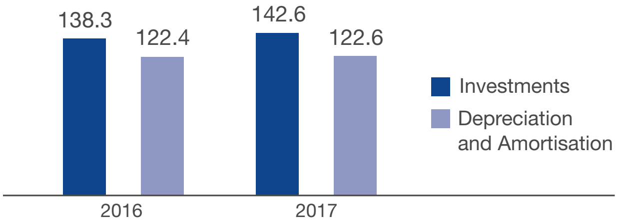
Liquidity Analysis

Cash flow from operating activities rose year-on-year from € 234.6 million to € 275.5 million. This increase of € 40.9 million is mainly due to a reduction in trade receivables and other assets of € 58.1 million. Increased EBIT also raised cash flow from operating activities by € 9.2 million. By contrast, a € 24.1 million rise in income tax payments had a negative effect on cash flow from operations.

Investments
by segment in 2017



Investments, Depreciation and Amortisation
in € million



Cash flow from investing activities (outflow) of € 131.2 million was above the prior-year figure of € 48.9 million. This € 82.3 million rise in cash outflows was mainly due to payments made (previous year: payments received) for short-term deposits (resulting increase in cash outflow: € 55.5 million). At the same time, payments received from the disposal of property, plant and equipment of € 2.0 million were considerably lower in the reporting period (previous year: € 27.0 million).

Free cash flow – the total cash flow from operating and investing activities – decreased to € 144.3 million (previous year: € 185.7 million).

Cash flow from financing activities (outflow) amounted to € 119.0 million in the reporting period (previous year: € 122.4 million) and was therefore € 3.4 million below the prior-year figure.

The HHLA Group had sufficient liquidity as of year-end 2017. There were no liquidity bottlenecks in the course of the financial year. **Financial funds** totalled € 255.6 million as of 31 December 2017 (31 December 2016: € 232.4 million). Including all short-term deposits, the Group's **available liquidity** as of year-end 2017 came to a total of € 275.6 million (previous year: € 251.2 million).

Liquidity Analysis

in € million	2017	2016
Financial funds as of 01.01.	232.4	165.4
Cash flow from operating activities	275.5	234.6
Cash flow from investing activities	- 131.2	- 48.9
Free cash flow	144.3	185.7
Cash flow from financing activities	- 119.0	- 122.4
Change in financial funds	25.3	63.2
Change in financial funds due to exchange rates	- 2.1	- 1.0
Change in financial funds due to consolidation	0.0	4.8
Financial funds as of 31.12.	255.6	232.4
Short-term deposits	20.0	18.8
Available liquidity	275.6	251.2

Financing Analysis

Financial management at the HHLA Group is handled centrally and serves the overriding objective of ensuring the Group's long-term financial stability and flexibility. Group clearing pools the Group's financial resources, optimises net interest income and substantially reduces dependency on external sources of funding. Derivative financial instruments can be used to reduce the risk of changes in interest rates and, to a minor extent, to reduce currency and commodity price risks.

HHLA's business model is dominated by a large proportion of property, plant and equipment with long useful lives. For this reason, HHLA mainly uses medium and long-term loans and finance leases to achieve funding with matching maturities. Pension provisions are also available for long-term internal financing.

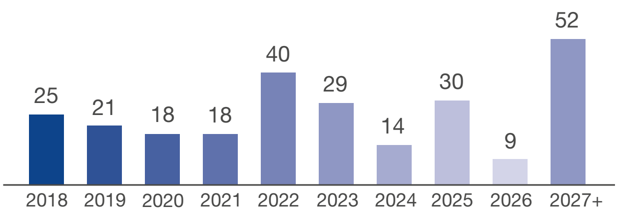
At € 256.9 million as of the balance sheet date, amounts due to banks were below the prior-year figure (€ 298.4 million). The Group did not draw on any additional external financing in the 2017 financial year (previous year: € 10.0 million). Loan repayments of € 41.9 million (previous year: € 42.8 million) were made in the year under review. Due to the maturities agreed and its stable liquidity position, the company had no significant funding requirements.

The majority of the liabilities from loans are denominated in euros, with a small proportion in US dollars. In terms of conditions, approximately 62 % have fixed interest rates and some 38 % have floating interest rates. As a result of borrowing, certain affiliated companies had covenants linked to key balance sheet figures, which mostly require a minimum equity ratio to be met. Covenants are currently in place for approximately 20 % of bank loans. These covenants were met at all agreed audit points throughout the reporting year.

As of the balance sheet date, HHLA disclosed non-current liabilities to related parties totalling € 105.5 million (previous year: € 105.9 million). These resulted from the recognition of the leasing liability to the Hamburg Port Authority (HPA) in connection with quay walls for the mega-ship berths at the HHLA Container Terminal Burchardkai (CTB) and the HHLA Container Terminal Tollerort (CTT).

With the exception of operating leases, there are no significant off-balance sheet financial instruments. These operating leases relate primarily to long-term agreements between the HHLA Group and either the Free and Hanseatic City of Hamburg or HPA for leasing land and quay walls in the Port of Hamburg and the Speicherstadt historical warehouse district.

Maturities of Bank Loans
by year and in € million



Cash, cash equivalents and short-term deposits, the bulk of which is held centrally by the holding company, totalled € 201.5 million (previous year: € 177.2 million). These funds are mainly invested at German financial institutions with verified high credit ratings as demand deposits, call money and short-term deposits. Current credit lines play a subordinate role due to HHLA having sufficient liquid funds. As of the balance sheet date, the Group had unused credit facilities amounting to approximately € 3.2 million (previous year: € 0.2 million). The credit line utilisation rate was 67.9 % in the period under review (previous year: 96.8 %). In HHLA's view, the Group's solid balance sheet structure would enable more substantial credit facilities to be arranged at any time if its medium-term liquidity planning were to reveal a need. Of the total cash and cash equivalents, € 10.4 million (previous year: € 16.2 million) was subject to restrictions in Ukraine relating to the transfer of currency abroad as of the reporting date. A further € 11.2 million served as collateral for working lifetime accounts.

As HHLA has a large number of borrowing options at its disposal outside of the capital market, the Group currently sees no need for an external rating. Instead, it provides existing and potential creditors with comprehensive information to ensure that they can derive appropriate internal credit ratings. Furthermore, Deutsche Bundesbank once again confirmed the Group's eligibility for central bank finance.

Public subsidies awarded for individual development projects that are subject to specific conditions are of minor importance in terms of their volume at Group level.

Acquisitions and Disposals of Companies

In the reporting year, there were no substantial acquisitions or disposals of shares in subsidiaries.

Changes in the Group of Consolidated Companies

In the third quarter of 2017, the companies HHLA Container Terminals Gesellschaft mit beschränkter Haftung, Hamburg, and HHLA Logistics GmbH, Hamburg, were merged into Hamburger Hafen und Logistik Aktiengesellschaft, Hamburg, with effect from 1 January 2017. The companies HPTI Hamburg Port Training Institute GmbH, Hamburg, and Unicon-sult Universal Transport Consulting Gesellschaft mit beschränkter Haftung, Hamburg, were also merged into HPC Hamburg Port Consulting GmbH, Hamburg, with effect from 1 January 2017.

The mergers had no effect on HHLA's Consolidated Financial Statements.

There were no other significant acquisitions, purchases or disposals of shares in subsidiaries, or changes to the group of consolidated companies. ▶ see also Note 3 of the Notes to the Consolidated Financial Statements, page 81