Combined Management Report

The Combined Management Report covers the course of business at the HHLA Group and Hamburger Hafen und Logistik Aktiengesellschaft (HHLA AG).

Group Overview

HHLA

Holding/Other
- Strategic corporate development
- Functional management of the Container segment
- Management of resources and processes
- Provision of shared services

- Floating crane operations
- Development and letting of port-related real estate

Port Logistics
Subgroup
Listed Class A shares

Container
Segment
- Container handling
- Container transfer between modes of transport (ship, rail, truck)
- Container-related services (e.g. storage, maintenance, repair)

Intermodal
Segment
- Container transport via rail and truck in the ports' hinterland
- Loading and unloading of carriers
- Operation of inland terminals

Logistics
Segment
- Specialist handling of bulk cargo, general cargo, vehicles, fruit, etc.
- Consulting and training

Real Estate
Subgroup
Non-listed Class S shares

Real Estate
Segment
- Management of real estate in Hamburg's Speicherstadt historical warehouse district and Fischmarkt Hamburg-Altona
- Development
- Tenancy
- Facility management

Shareholder Structure
Share capital: total of 72,753,334 no-par-value registered shares (no-par-value shares)

of which 70,048,834 Class A shares
– listed –

of which 2,704,500 Class S shares
– non-listed –

31.6 %	68.4 %	100 %

Free float
22,128,334 Class A shares

Free and Hanseatic City of Hamburg
Shareholding: 47,920,500 Class A shares + 2,704,500 Class S shares

Group Structure

Hamburger Hafen und Logistik AG (HHLA) is one of Europe's leading port and transport logistics groups. It is operated as a strategic management holding company and divided into two subgroups, Port Logistics and Real Estate. The Class A shares, which are listed on the stock exchange, relate to the Port Logistics subgroup and entitle shareholders to participate in the result and net assets of these operations. The Real Estate subgroup includes those HHLA properties that are not specific to port handling. The performance and financial result of the Real Estate subgroup, which also follows urban development objectives, are represented by the Class S shares. These 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.

The HHLA Group's operations are conducted by the 28 domestic and 14 foreign subsidiaries and associated firms that make up the consolidated group. ▶ see also Note 3 of the Notes to the Consolidated Financial Statements, page 81 No significant legal or organisational changes were made to the company structure in the 2017 financial year.

Management Structure

As a German stock corporation (Aktiengesellschaft), HHLA has a dual structure consisting of an Executive Board and a Supervisory Board. The Executive Board manages the company on its own responsibility. The Supervisory Board appoints, advises and monitors the Executive Board's work. In the 2017 financial year, the Executive Board of HHLA comprised four members, whose areas of responsibility are defined by their specific tasks and operating segments.

The HHLA Executive Board is jointly responsible for the Container segment. Angela Titzrath took over as Chairwoman of the Executive Board of Hamburger Hafen und Logistik AG as of 1 January 2017. Jens Jansen was appointed to HHLA's Executive Board with effect from 1 April 2017. He succeeds Dr. Stefan Behn, who left the Executive Board as of 31 March 2017.

The Supervisory Board of HHLA has twelve members in all, with six representing the shareholders and six representing the employees. ▶ see also Note 49 of the Notes to the Consolidated Financial Statements, page 143

Business Activities

As an integrated handling, transport and logistics provider, the **Port Logistics subgroup** offers services throughout the logistics chain between international ports and their European hinterland. The geographical focus of its operating activities is on the Port of Hamburg and its hinterland. The Port of Hamburg is an international hub for container transport by sea and land, with an optimal link to the economies of Central and Eastern Europe, Scandinavia and the Baltic region. The company's core lines of business are represented by the Container, Intermodal and Logistics segments.

The **Container segment** pools the Group's container handling operations and is the largest business unit in terms of revenue and earnings. Its activities consist primarily of handling container ships (loading and discharging containers) and transhipping containers to other carriers (rail, truck, feeder ship or barge). HHLA operates three container terminals in Hamburg – Altenwerder (CTA), Burchardkai (CTB) and Tollerort (CTT) – and another container terminal in Odessa, Ukraine (CTO). The portfolio is rounded off by supplementary container services, such as maintenance and repairs.

Organisational Structure

Supervisory Board

Executive Board

Angela Titzrath Chairwoman	**Heinz Brandt** Chief Human Resources Officer	**Jens Hansen**[1] Chief Operating Officer	**Dr. Roland Lappin** Chief Financial Officer
Responsibility	Responsibility	Responsibility	Responsibility
Corporate Development Corporate Communications Sustainability Container Sales Intermodal Segment Logistics Segment	Human Resources Purchasing and Materials Management Health and Safety in the Workplace Legal and Insurance (including Compliance)	Container Operations Container Engineering Information Systems	Finance and Controlling Investor Relations Internal Audit Real Estate Segment

1 Member of the Executive Board since 1 April 2017

The **Intermodal segment** is the second-largest of HHLA's segments in terms of revenue and earnings. As a further key element of HHLA's business model, which is vertically integrated along the transport chain, the segment provides a comprehensive rail and truck network for seaport-hinterland traffic and, increasingly, continental traffic. HHLA's rail companies operate regular direct connections between the ports on the North and Baltic seas and between the Northern Adriatic and its hinterland, as well as inland terminals to provide a comprehensive range of services for maritime logistics. In addition to transshipment services at the Port of Hamburg, the trucking subsidiary CTD transports containers by road, both locally and over long-haul distances within Europe.

The **Logistics segment** encompasses a wide range of complementary specialist handling services and consulting. Its service portfolio comprises both stand-alone logistics services and entire process chains for the international procurement and distribution of merchandise, including the operation of handling facilities for dry bulk, motor vehicles and fruit. In this segment, the company also provides consulting and management services for clients in the international port and transport industry. Some of these logistics services are provided together with partner companies.

The **Holding/Other** division is also part of the Port Logistics subgroup, although it does not constitute a separate segment as defined by the International Financial Reporting Standards (IFRS). The Holding division is responsible for strategic corporate development, the functional management of the Container segment, the central management of resources and processes, and the provision of shared services for the operating companies. It also includes the properties specific to HHLA's port handling business and the Group's floating crane operations.

The Real Estate segment corresponds to the **Real Estate subgroup.** Its business activities encompass the development, letting and commercial and technical facility management of properties in the Port of Hamburg's peripheral area. These include the Speicherstadt historical warehouse district. The world's largest traditional warehouse quarter is a UNESCO World Heritage Site. In this central location, HHLA offers some 300,000 m^2 of commercial space. Other prime properties totalling approximately 63,000 m^2 are managed by Fischmarkt Hamburg-Altona GmbH in the exclusive fish market area on the river Elbe's northern banks.

For further information on the performance of each segment, ▶ see also Segment Performance, page 34.

Market Position

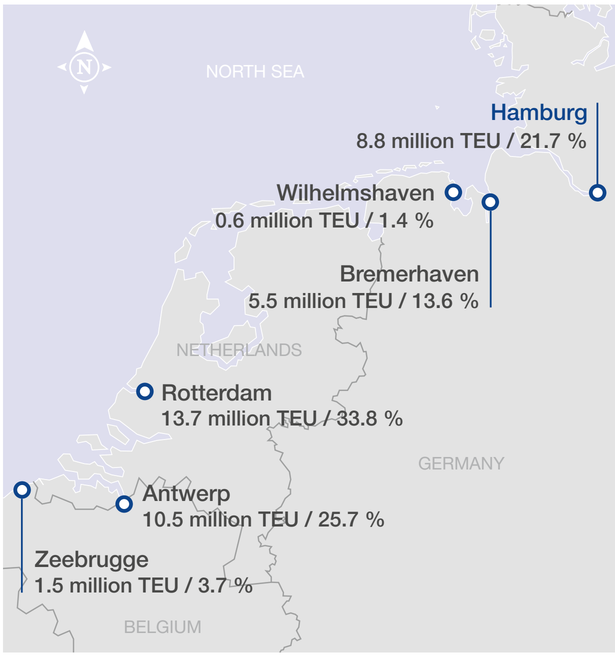
With its listed core business Port Logistics, HHLA operates on the European market for sea freight services. This market offers long-term growth prospects as a number of key Central European countries strengthened their competitiveness after the debt crisis, thereby paving the way for a further increase in foreign trade and consumer spending. Eastern Europe also offers growth potential and stable forecasts. Whether these positive trends materialise depends on the resolution of regional conflicts and the development of fuel and energy prices.

The relevant economic indicators suggest that the European Union can expect a steady increase in gross domestic product. Due to the persistently high debt rate, however, stronger growth is only expected in the medium and long term. In the short term, external factors and unresolved structural problems will impact containerised trade and transport volumes.

The market for port services on the Northern European coast (the North Range) of relevance for HHLA is characterised by its high concentration of ports. Competition is particularly strong between the four major North Range ports of Hamburg, HHLA's main hub, Bremerhaven, Rotterdam and Antwerp. Other handling sites – such as Wilhelmshaven and Zeebrugge – are considerably smaller in terms of their capacity and/or current freight volume. At present, the Baltic Sea ports are primarily served by feeder traffic operating via central distribution points in the North Range. The practice of ocean-going vessels calling directly at ports such as Gdansk or Gothenburg has also estab-

Throughput at the North Range Ports

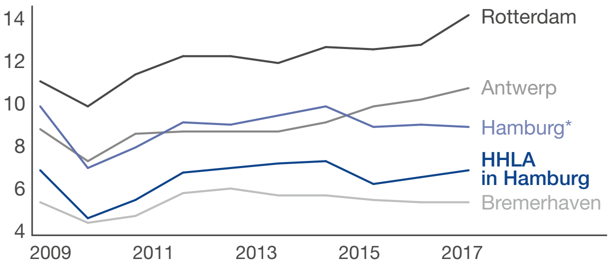
Volumes and market shares, 2017



Source: Port Authorities / own calculation (market share)

Container Throughput at the Largest North Range Ports

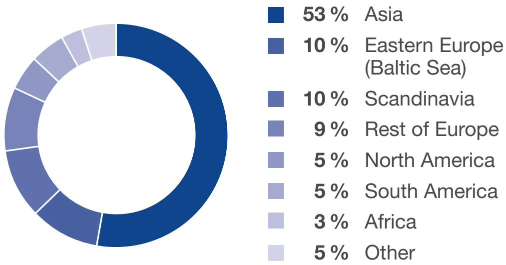
in million TEU



*Source: Port Authorities; *incl. HHLA*

Seaborne Container Throughput by Shipping Region

in the Port of Hamburg, 2017



Source: Hamburg Hafen Marketing e.V.

lished itself, however, and is increasingly competing with this network system. Adriatic ports, such as Koper, and the Polish ports have also improved their infrastructure and are competing with the Port of Hamburg for freight in the hinterland.

As well as the geographical position and hinterland links of a port, its accessibility from the sea affects the competitive position of terminal operators. Local freight volume in the direct catchment area of each port location plays an important role. Other key competitive factors that influence market position include the reliability and speed of ship handling, the scope and quality of container handling services, as well as the performance of pre- and onward-carriage rail systems serving the hinterland (e.g. frequency, punctuality, pricing).

Apart from a change in the ownership structure at the remaining terminal in Zeebrugge, there were no changes at the rival ports in 2017. Competition remains extremely fierce and the ports are increasingly dependent on changing shipping company constellations. The resulting shift towards more geographically flexible feeder traffic is having a significant impact on handling volumes. By contrast, the market position for handling volumes that are tied to the natural catchment area onshore is largely stable – given that it is vital to take the shortest route for the disproportionately more expensive land-bound transportation.

The **Container segment** benefits from the Port of Hamburg's position as the most easterly North Sea port, which makes it the ideal hub for the entire Baltic region and for hinterland traffic to and from Central and Eastern Europe. Furthermore, the long-standing trading relationships between the Port of Hamburg and the Asian markets are advancing Hamburg's role as an important European container hub. With a container throughput of 8.8 million TEU, Hamburg ranked 18th among the world's ports in 2017 and is thus the third-largest European container port after Rotterdam and Antwerp.

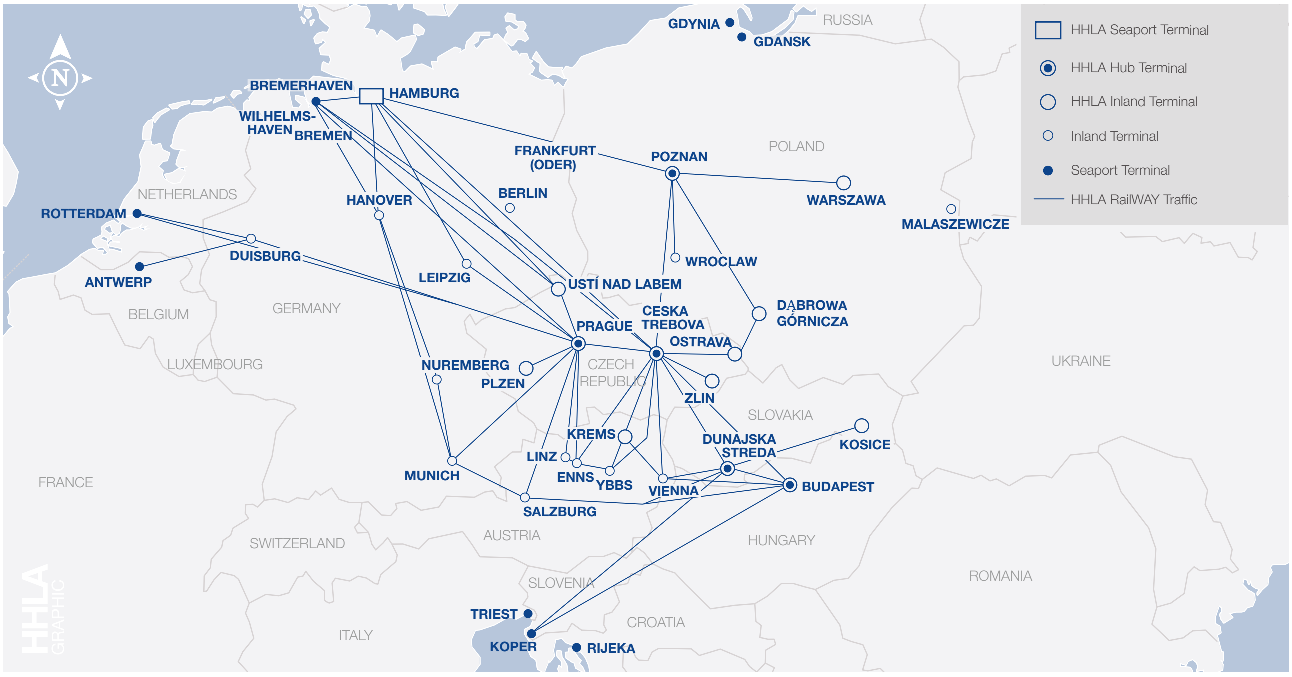
In Hamburg, HHLA expanded its position as the largest container handling firm with a throughput volume of 6.9 million TEU in 2017. The HHLA container terminals significantly increased their market share for handling at the Port of Hamburg to approximately 78 % (previous year: 73 %). Asia, Eastern Europe and Scandinavia were the most important shipping regions.

In the **Intermodal segment**, HHLA primarily utilises the advantages of the Port of Hamburg's rail infrastructure – Europe's most important rail traffic hub handling approximately 2.3 million TEU a year. HHLA's Intermodal network also comprises further ports along the North Sea and Baltic Sea coasts as well as the northern Adriatic and, increasingly, continental traffic. The companies that transport containers by train compete with other rail operators and intermodal transport firms in Germany and abroad, but also with other carriers such as trucks and feeder ships. As the rail infrastructure is for the most part publicly owned, various national authorities guard against discrimination in both access and usage fees. In addition to the density of the available network, key competitive factors include the frequency of departures, opportunities for freight pooling and storage in the hinterland, the geographical distance to destinations, on-schedule operation and infrastructural capacity. The importance of these factors is growing as ports compete with one another.

HHLA has proprietary inland terminals in Central and Eastern Europe along with its own container wagons and traction fleet (locomotives). All of these factors play a major role in the company's service offer. This is necessary to enable it to run direct trains with frequent departures and to allow the efficient pooling of rail freight transported via the port, which is efficiently distributed by central handling facilities. HHLA occupies relevant market positions in the majority of the regions it serves. HHLA has a sound market position in the greater Hamburg metropolitan region in the delivery and collection of containers by truck.

Intermodal Network of HHLA

Selected connections



The **Logistics segment** serves various market sectors, some of them heavily specialised. With its multi-function terminal, HHLA is the leading provider of specialist handling services in Hamburg. Via Hansaport, HHLA has a stake in Germany's biggest seaport terminal for handling iron ore and coal. HHLA also provides fruit handling services for Northern Europe with its Frucht- und Kühl-Zentrum. In the field of consultancy, work is conducted on pioneering development projects around the world.

With a population of approximately 1.8 million and its significance as an economic centre, Hamburg is one of the largest property markets in Germany for the **Real Estate segment**. What makes the portfolio particularly attractive are its unique buildings and favourable locations in Hamburg's Speicherstadt historical warehouse district and on the northern banks of the river Elbe/fish market area. The company has built up a wealth of development and implementation expertise dedicated to finding the right balance between market-based tenant demands and the careful handling of its landmarked buildings with world heritage status. The properties compete with German and international investors marketing high-quality properties in comparable locations.

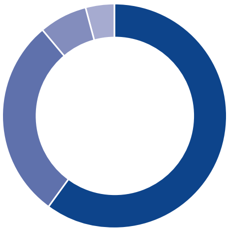
Customer Structure and Sales

The customer base in the Container and Intermodal segments consists mainly of shipping companies and freight forwarders. The services provided in the Logistics segment are aimed at various customer groups, ranging from steel companies and power stations (in the field of bulk cargo handling) to international operators of ports and other logistics centres (in the field of port consulting). The Real Estate segment lets its office space and commercial premises to German and international customers from a variety of sectors, ranging from logistics and trading companies to media, consulting and advertising agencies, fashion labels, hotels and restaurants, and companies from the creative industries.

Globally operating container shipping companies account for the largest share of HHLA's revenue. In ship handling, HHLA's container terminals work with shipping companies on a neutral basis (multi-user principle) and offer a wide range of high-quality services. Due to the wave of consolidation in the container shipping segment, **HHLA's customer base** changed again in 2017. Hapag-Lloyd completed its purchase of the Middle Eastern UASC in May. However, most of the effects of this deal will only be felt in the course of 2018. The takeover of the Hamburg-based shipping company Hamburg Süd by Denmark's Maersk Line, already announced in December 2016, was finalised in late 2017. In addition, the planned purchase of OOCL by the Chinese line COSCO Shipping is currently being examined by the anti-trust authorities. The merger of three Japanese shipping companies – NYK Line,

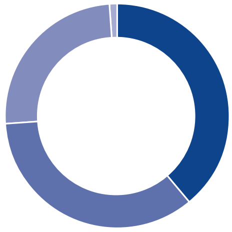
Revenue Distribution Split by Customers

in the Container segment at the main hub of Hamburg in 2017



Capacity Breakdown by Shipping Line Alliances

on Far East–Europe services as of 31 December 2017



Source: Alphaliner Monthly Monitor, January 2018

MOL and K Line – to create Ocean Network Express (ONE for short) was approved by the anti-trust authorities. The new company is due to start operating in April 2018. In the reporting year, HHLA's customer base included all of the world's top 15 container shipping companies. HHLA therefore believes it is well placed to also meet the future requirements of its clients in the shipping sector. ▶ see also Business Forecast, page 36

Mergers in container shipping have reduced the number of large shipping line alliances from four to three.

Top 15 Shipping Companies

by carrying capacity as of 31 December 2017

Shipping company	Alliance 2017	in thousand TEU
1. APM-Maersk	2M	4,152
2. MSC	2M	3,148
3. CMA CGM Group	Ocean Alliance	2,514
4. COSCO Shipping	Ocean Alliance	1,801
5. Hapag-Lloyd (incl. UASC)	THE Alliance	1,548
6. Evergreen	Ocean Alliance	1,060
7. OOCL	Ocean Alliance	689
8. Yang Ming	THE Alliance	595
9. MOL	THE Alliance	584
10. NYK Line	THE Alliance	558
11. PIL	–	385
12. Zim	–	366
13. Hyundai M.M.	2M - associated	347
14. K Line	THE Alliance	341
15. Wan Hai	–	236

Source: Alphaliner Monthly Monitor, January 2018

Sales activities in the Container segment are organised by means of key account management. In the Intermodal and Logistics segments, sales are generally managed locally by the individual companies. As far as possible, all activities follow the strategic approach of vertical integration, i.e. offering comprehensive transport and logistics services from a single source. The Real Estate segment's sales team offers potential clients and tenants a wide range of services for properties in its two main districts – Hamburg's Speicherstadt historical warehouse district and the northern banks of the river Elbe/fish market area – as well as for logistics properties in and around the port.

The share of revenue attributable to HHLA's five most important customers in the Container segment rose again in the 2017 financial year, taking it to 60 % (previous year: 57 %). The ten most important customers accounted for 89 % of revenue (previous year: 82 %) generated by HHLA's container terminals in Hamburg – up markedly on the previous year's figure due to the wave of consolidation. Meanwhile, the figure for the 15 most important customers edged up to 96 % (previous year: 94 %). HHLA has maintained commercial relationships with the majority of its most important customers for well over two decades.

HHLA concludes framework contracts with its shipping customers that set out both the scope and remuneration of services. As the usage volume for these services is not fixed, there is no order backlog in the traditional sense for the specific services provided by HHLA.

Legal Framework

In its business operations, HHLA is subject to numerous German and foreign statutory provisions and regulations such as public law, trade, customs, labour, capital market and competition regulations.

The regulatory environment for HHLA's commercial activities in and around the Port of Hamburg is largely determined by the Hamburg Port Development Act (Hamburgisches Hafenentwicklungsgesetz – HafenEG) which formulates the structural framework for the reliable development of commercial activity in the Hamburg port area. HafenEG's objectives are to maintain the Port of Hamburg's competitiveness as an international all-purpose port, to safeguard freight volumes and to use the public infrastructure as efficiently as possible. To this end, the Port of Hamburg employs a "landlord model", by which the Hamburg Port Authority (HPA) owns the port area and is responsible for building, developing and maintaining the infrastructure, while the privately owned port operators are responsible for the development and maintenance of the suprastructure (buildings and facilities). HHLA has concluded a long-term lease agreement with HPA for those port areas of importance for its business operations. Lease agreements are based on HPA's general terms and conditions for port-related real estate (AVB-HI).

For the construction, alteration and operation of its handling facilities, HHLA is reliant on the issuance and continued existence of authorisations under public law, especially official authorisations in accordance with the German Federal Emissions Control Act (Bundesimmissionsschutzgesetz – BImSchG), the applicable local building regulations and water and waterways laws. All construction and extension measures require separate authorisations by the respective authorities, irrespective of the plan approval procedure for the expansion of the handling areas. HHLA's affiliated companies are subject to a number of strict regulatory requirements, especially if they are involved in the handling of materials that can have damaging effects on people or the environment. These include, for example, the handling, storage and transportation of environmentally dangerous materials and hazardous goods. However, these regulatory requirements also include regulations on technical safety, health and safety in the workplace and environmental protection.

HHLA's commercial activities are governed predominantly by the provisions of German and European competition law. This means that its pricing is determined by the market and is, as a matter of principle, not regulated.

Due to the dangers posed by international terrorism, there are strict security precautions at all ports. An essential component of these precautions is the International Ship and Port Facility Security Code (ISPS Code), which requires the internationally standardised installation of measures to prevent terrorist attacks on ocean-going vessels and port facilities. For the operators of port facilities, compliance with the code involves observing strict access control and implementing numerous other measures for averting danger. In the area of the Port of Hamburg, the aforementioned international provisions are implemented and specified by the German Port Security Act (Hafensicherheitsgesetz – HafenSG).

The regulatory environment for business activities in the Intermodal segment is largely determined by the EU directive establishing a single European railway area (Directive 2012/34/EU) and the national implementing legislation. In particular, these include regulations governing the licensing of rail companies, the use of railway infrastructure, the associated charges as well as rail operation. The main legislation in Germany are the General Railways Act (Allgemeines Eisenbahngesetz – AEG), which sets out the requirements for rail operation, and the Railway Regulation Act (Eisenbahnregulierungsgesetz – ERegG) that replaced the previous Railway Infrastructure Usage Regulation (Eisenbahn-Infrastrukturverordnung – EIBV) in September 2016 and in particular contains provisions on network access and route pricing. In addition, there are further national, European and – especially for transnational rail transport – international regulations.

The legal framework for HHLA is subject to constant change at national, European and international level in order to keep pace with technical progress and increasing sensitivity with regard to safety and environmental concerns, among other issues. In the 2017 financial year, significant legislative projects for HHLA at a European level included the passing of the EU regulation to establish a framework for market access to port services and the financial transparency of ports (the so-called "Port Package III"), as well as amendments to the EU support scheme for ports by means of the amended General Block Exemption Regulation (Allgemeine Gruppenfreistellungsverordnung – AGVO). At a national level, significant legislative projects included the revision of the Regulation on Installations for the Handling of Substances Hazardous to Water (Verordnung über Anlagen zum Umgang mit wassergefährdenden Stoffen – VAwS). In the 2017 financial year, however, there were no amendments to the legal framework with a significant impact on the Group's operating activities or its assets, financial or earnings position.

Corporate Strategy

HHLA's strategy is aimed at taking a leading position as a port logistics provider and thus achieving sustainable growth in its enterprise value. With its business model of vertical integration throughout the transport chain between the international seaport and its European hinterland, HHLA believes it is favourably positioned to benefit from the expected growth in trade. Hamburg's role as a logistics hub plays a key role here. Sustainable business practices form an integral part of the corporate strategy.

HHLA's Executive Board initiated a business development process at the beginning of 2017 with the aim of strengthening HHLA's future viability and dynamism over the long term. The necessary changes are linked across all segments and underpinned by a series of measures. The defined objectives are pursued systematically.

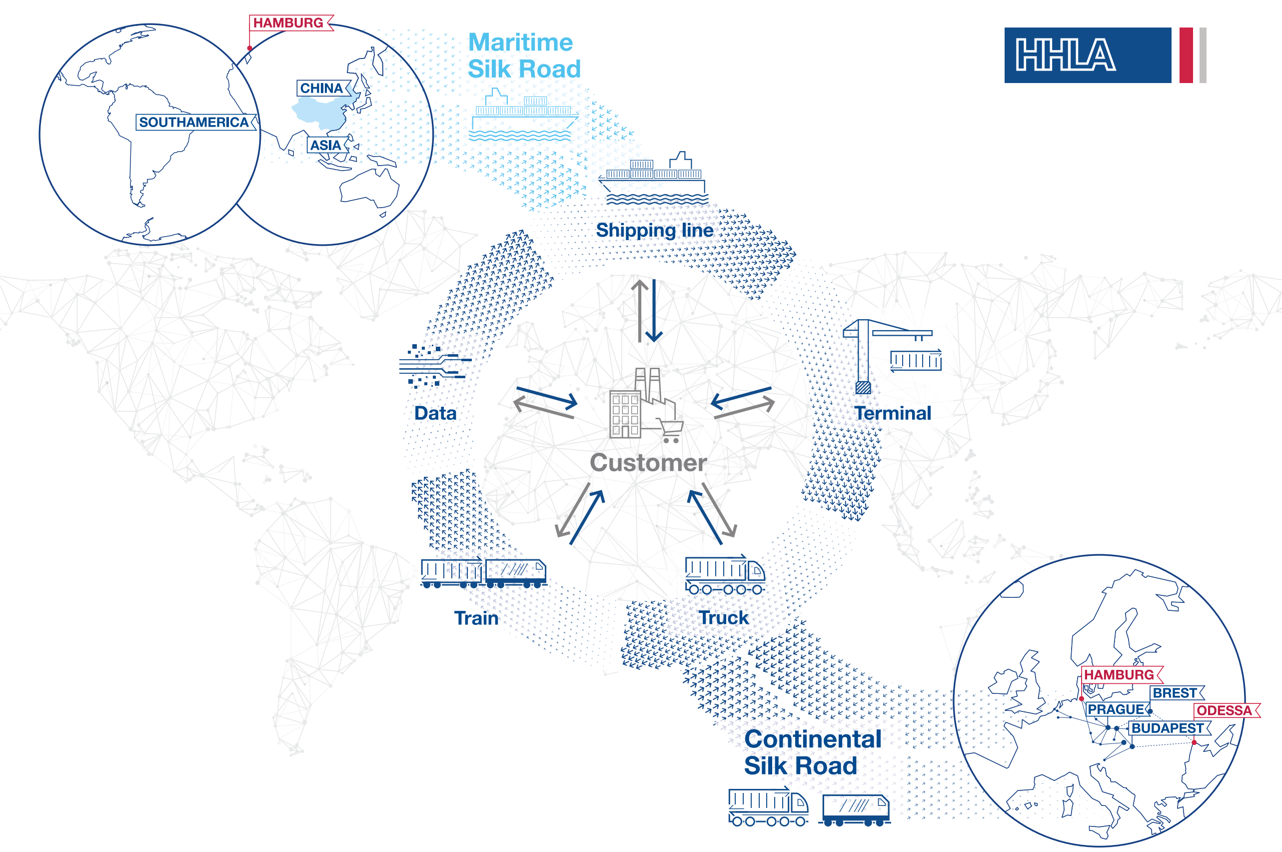
The permanent nature of the process enables the company to react swiftly and in a targeted manner to the increasing pace of change. It focuses on paying close attention to relevant market trends, safeguarding efficiency and forging links within the company, with customers and partners, and also with the forwarding industry and trade, while ensuring that all corporate activities are agile, flexible and effective.

Logistical and Digitally Innovative Hub on the Silk Road

With its prime objective of making HHLA a logistical and digitally innovative hub on the emerging "New Silk Road", the business development process is focusing on the following navigation milestone: HHLA comes from Hamburg and is at home in Europe. As a gateway to the future, it offers its customers the best way to transport their goods safely, quickly and efficiently.

HHLA's Service Network

HHLA connects its customers with the maritime and continental Silk Road:



Corporate Strategy

Sustainably increasing enterprise value at HHLA

Meet the Challenges of Tomorrow

HHLA is developing its existing core business for the challenges of tomorrow.

Exploiting Additional Growth Areas

HHLA is focusing on profitable growth areas of tomorrow.

Organisation and Corporate Culture

HHLA is aligning its organisation and corporate culture for tomorrow.

Investments and Finance

HHLA is aligning its investments and operating results for sustained and profitable growth of tomorrow.

Four initiatives have been identified to achieve this objective:

- **Fit for tomorrow’s world**: Our core business is being strengthened to enable sustainable, profitable trading in tomorrow’s world. A corresponding programme for the future is being implemented. This programme aims to enhance competitiveness, quality and profitability.
- **Tapping new growth areas**: HHLA is tapping growth potential along the transport flows of the future, along the logistics value chain and in new, digital business models.
- **Organisation and corporate culture**: The company organisation and culture are being aligned with tomorrow’s world. The client is being placed more than ever at the centre of all activity.
- **Investments and finance**: The company will continue to gear its investments and operating results towards sustainable, profitable growth.

The core of our business is dominated by the subgroups Real Estate and Port Logistics.

In its non-listed **Real Estate subgroup**, HHLA pursues a long-term and demand-oriented approach to developing districts and properties. The main focus is on developing existing properties, many of which are designated as historical landmarks.

In order to consolidate and further expand the Group’s market position, HHLA is currently pursuing the following guidelines for the **listed Port Logistics subgroup**:

HHLA strives to constantly improve its competitiveness by further enhancing its service quality and technological capabilities. It concentrates both on retaining its broad customer base and attracting new clients.

In the **Container segment**, HHLA will continue to pursue its strategy of providing a neutral service to as many shipping companies as possible in the handling of ships and the coordination of berths, thus ensuring a high quality of service for all customers. HHLA also aims to become a quality and efficiency leader in the activities of its **Intermodal segment** by continuing to invest in its own facilities and equipment, such as inland terminals, container-carrying rail wagons and locomotives. Due to its consistent establishment and expansion of pre- and onward-carriage rail systems and their integration into maritime transport chains, HHLA is able to offer its customers a perfectly coordinated range of services.

HHLA plans to continuously improve the services it provides by expanding intermodal transport between the international port and the hinterland. Besides enhancing the scope and range of its services, HHLA also focuses on increasing its vertical integration.

HHLA therefore intends to further expand the market position of its Intermodal subsidiaries. Investments here will concentrate on inland terminals and connecting them to international ports via direct links. By acquiring its own rolling stock (container wagons) and expanding its own traction fleet (locomotives), the company is gradually increasing vertical integration so that it can largely operate independently on the market. HHLA is accompanying these measures by expanding its trucking services.

In addition to purely organic growth, HHLA is examining opportunities for acquisitions. Potential acquisitions and equity investments focus on port projects and shareholdings in attractive growth markets. HHLA’s interest is based on the economies of scope offered by the existing network and the opportunities it presents to tap additional potential.

Corporate and Value Management

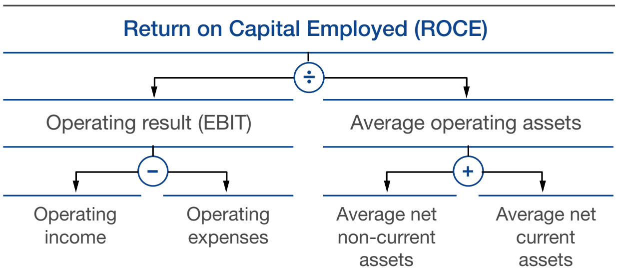
HHLA's primary financial objectives include the long-term, sustainable growth of its enterprise value. HHLA uses a Group-wide value management system for the planning, management and monitoring of its commercial activities. No changes were made to this system in the 2017 financial year.

Financial Performance Indicators

The key performance measures for operations used by the HHLA Group are the operating result (EBIT) and the average operating assets (capital employed). EBIT and capital expenditure as key drivers of capital employed are the main intra-year and short-term performance measures. Return on capital employed (ROCE) is calculated for the measurement of long-term, value-oriented performance and is also used to determine the annual value added. The HHLA Group calculates ROCE as a ratio of the operating result (EBIT) and the average operating assets used.

Value Management

ROCE – defining parameters and influential factors



Commercial activities are generally regarded as value-generating if ROCE exceeds the cost of capital and they make a positive value contribution. Such capital costs correspond to the weighted average of equity costs and the cost of borrowed capital. As in the previous year, HHLA used a weighted average cost of capital of 8.5 % before tax to calculate value growth at Group level in the 2017 financial year. This minimum interest rate reflects the Executive Board's assessment of a medium- to long-term rate of return arising from a balanced relationship between equity and borrowed capital. This approach avoids short-term fluctuations in interest rates on the capital markets that may distort the information provided by the value management system.

The HHLA Group succeeded in increasing its operating result (EBIT) significantly in the 2017 financial year. EBIT rose by 5.6 % year-on-year to € 173.2 million (previous year: € 164.0 million). ▶ see also Group Performance, page 37 With average operating assets virtually unchanged at € 1,321.2 million (previous year: € 1,317.6 million), the return on capital employed was up 0.7 percentage points on the prior-year figure of 13.1 %. The minimum ROCE of 8.5 % was therefore comfortably exceeded again – by 4.6 percentage points – in the 2017 financial year. The HHLA Group generated a positive value added of € 60.9 million in the reporting period (previous year: € 52.0 million).

Key Figures Value Added

in € million	2017	2016	Change
Operating income	1,296.4	1,241.9	4.4 %
Operating expenses	- 1,123.2	- 1,077.9	4.2 %
EBIT	173.2	164.0	5.6 %
Ø Net non-current assets	1,217.4	1,211.1	0.5 %
Ø Net current assets	103.8	106.5	- 2.6 %
Ø Operating assets	1,321.2	1,317.6	0.3 %
ROCE in %	13.1	12.4	0.7 pp
Capital costs before tax[1] in %	8.5	8.5	0.0 pp
Capital costs before tax	112.3	112.0	0.3 %
Value added in %	4.6	3.9	0.7 pp
Value added	60.9	52.0	17.1 %

1 Of which 5.0 % for the Real Estate subgroup

Non-Financial Performance Indicators

The main non-financial performance indicators are container throughput and container transport volumes. In addition to the continuous dialogue that HHLA maintains with its customers, the company makes extensive use of macroeconomic forecasts as early indicators for volume trends and its operating activities. These include the anticipated development of gross domestic product for important trading partners and the subsequent estimates for foreign trade and import/export flows, as well as for container traffic on relevant routes and changes in the correlation between gross domestic product and containerised trading volumes.

Research and Development

One of HHLA's strategic objectives is to continuously improve the efficiency of its operating systems and consequently its competitiveness, by developing application-oriented technologies. The main focus of these activities is therefore on engineering and IT-based innovation projects. Due to close collaboration with technical universities, institutes, industry partners and government authorities, joint projects can be planned, managed and developed.

In the 2017 financial year, HHLA mainly focused its resources and available capacity on continuing its research in the area of battery-powered container vehicles for horizontal transport.

Container Terminal 4.0

The Container Terminal Altenwerder (CTA) is one of the most highly automated container terminals in the world. Since it opened in 2002, HHLA has constantly been researching and working on improving and expanding automation at the site. Right at the start, a paradigm was established whereby automated work areas are separated, isolated and off-limits to staff in order to guarantee occupational safety. This principle has always been upheld. Today, however, this paradigm is preventing the company from ramping up its automated processes as it inevitably excludes them from areas used by people. The research project "Container terminal 4.0 – a paradigm shift in the automation of container terminals via human–machine interaction rather than separation" is to be conducted as part of the German government's Innovative Port Technologies (IHATEC) incentive scheme. The project's main objective is to develop automation solutions for various container crane systems used at the terminal in work areas shared by people and machines (e.g. alongside ships and trucks) and to implement them as prototypes. At the same time, the experience, knowledge and evidence gathered during this process should play a fundamental role in establishing the safety standards needed to create a reliable framework for future automation projects.

Further Development of HVCC Software

Also as part of the IHATEC incentive scheme, the Hamburg Vessel Coordination Center (HVCC) launched the project "HVCC software – further development of interface- and real time-based software for the cross-operator coordination of barges, feeder ships and mega-ships at a universal and multi-terminal port with nautical restrictions"). The aim is to expand the software to incorporate the various operators involved in ship calls. This could eliminate redundant working processes and improve data quality. The project's main aims are as follows: Adapt the port to the challenges posed by persistent growth in the volume and size of container vessels. Boost international competitiveness and avoid unnecessary and inefficient transport, thus reducing the environmental impact. Accelerate the use of digital networks in maritime logistics and the port industry while making more effective and efficient use of the infrastructure of the Port of Hamburg and its upstream waterways.

SustEnergyPort

SustEnergyPort is another IHATEC project being conducted by Hamburg Port Consulting GmbH (HPC) to enhance energy sustainability in the port sector. As part of this project, a structured, model-based process is to be developed and filled with content to enable port operators to identify suitable measures for improving their energy sustainability, thereby minimising their environmental impact and enhancing their profitability. The aim is to develop a structured process which will equip ports and terminals to achieve targeted improvements in their energy sustainability.

Performance Certified

In order to document their performance, the Container Terminals Altenwerder (CTA) and Tollerort (CTT) once again completed certification in accordance with the Container Terminal Quality Indicator (CTQI) in the reporting year. The standard, which was developed by the Global Institute of Logistics and Germanischer Lloyd, checks criteria such as the safety, performance level and efficiency of a terminal on both the water and onshore, as well as its links to pre- and onward-carriage systems. With their successful certification, the terminals once again confirmed their high levels of performance and compliance with all quality standards.

Purchasing and Materials Management

Purchasing activities of the HHLA Group are centrally organised at the management holding company in Hamburg. Important objectives are pooling and harmonising purchasing processes to meet internal customers' requirements in terms of service and performance as far as possible. The purchasing team focuses on standardising the supplier base to ensure that capital goods, raw materials, consumables, supplies, services and other products are provided reliably and on time, taking aspects such as cost, quality and sustainability into account. Market developments relating to new technologies, innovations and the service performance of specific suppliers are considered in close cooperation with the operations and IT departments.

The Purchasing department actively supports the review and adjustment of the Group's requirements and guidelines for purchasing processes and their mandatory fulfilment. All employees in the purchasing team are obliged to uphold HHLA's code of conduct. The compliance rate and purchase requisition rate are among the many methods used to monitor adherence to these requirements. The compliance rate measures the proportion of procurement orders handled by the Purchasing department. In 2017 this stood at 96.8 % (previous year: 95.2 %). The purchase requisition rate indicates the ratio of requisitions entered and authorised via the SAP enterprise resource planning system in compliance with regulations. At 99.7 % in 2017, it was roughly on a par with the prior year (previous year: 99.6 %). The automation of purchasing processes to create efficient, transparent and uniform workflows remained a key objective for procurement in 2017. In the reporting period, approximately 16 % of all purchasing processes were handled fully automatically by means of e-procurement systems (previous year: approximately 14 %). The Group is deliberately diversifying its procurement activities and optimising its supplier base. As a result, there were no significant dependencies on individual suppliers in the 2017 financial year, as in the previous year, neither at Group nor at segment level. There were also no supply shortages during the reporting period. In 2017, equipment and energy accounted for 43.5 % of the Group-wide procurement volume, while information technology (IT) accounted for 24.6 %, construction for 18.1 % and MRO (maintenance, repairs and operations) for 13.8 %.

Taking competition law into account, systematic steps are being taken to enhance the way in which suppliers are involved in the development and optimisation of products, facilities and processes from a strategic and collaborative viewpoint. The aim is to safeguard the on-time completion of development and modernisation projects and the associated timely procurement of capital equipment, supplies and replacement parts. The focus here is on analysing and evaluating relationships with suppliers in terms of their reliability, quality, innovative strength, cost structures, economic stability and compliance. An IT-based supplier management system was implemented in 2017 to support this process. Suppliers register on an internet portal, which uses questionnaires to cover topics relevant to procurement, as well as issues such as occupational safety, sustainability and compliance. All content is coordinated with both the purchasing team and the relevant departments and is subsequently evaluated. Certain criteria may result in suppliers being excluded. These include entries in a state corruption register, insolvency proceedings, failure to pay minimum wages or operational restrictions (lack of certain licences, etc.).

Registration is mandatory for all suppliers contacting HHLA for the first time as part of tenders, market reconnaissance or on their own initiative. Suppliers already listed in the company's own pool are asked to complete the registration process successively. The need to register is prioritised according to the supplier's strategic relevance in terms of revenue, market and/or product and service range.

Downstream supplier management thus allows continual internal evaluation. These strategic suppliers are evaluated annually by the internal customers and departments. The evaluations include experience on first contact along with information about project procurement and flow. These details are assessed and documented in an event-driven fashion. The content and scope of the evaluation criteria are regularly reviewed and adapted according to legal requirements, corporate guidelines and rules, as well as their importance for service performance.

Another key project was the introduction of an electronic tendering platform. Although only mandatory as of April 2018, Purchasing rolled out an e-tendering platform when the amendment of German public procurement legislation came into force in April 2016. The platform not only standardises and transparently documents the tendering processes, but also significantly improves process quality, reliability and efficiency. Secondly, the electronic process creates considerable added value for bidders, as a web-based platform ensures process reliability and fair competition. Early adoption gives suppliers the time and opportunity to prepare for and adjust to the new process.

Sustainable Performance Indicators

Direct and indirect energy consumption by HHLA and its companies were as follows in the year under review.

Direct and Indirect Energy Consumption

	2013	2014	2015	2016	2017
Diesel and heating oil in million litres	27.7	29.2	26.3	26.6	27.4
Natural gas in million m^3	3.1	1.8	2.3	2.4	3.6
Electricity[1] in million kWh	148.7	154.4	138.3	139.6	135.6
thereof from renewable energies	78.0	84.1	76.1	73.2	82.8
Traction current in million kWh	37.9	51.7	130.3	150.0	157.5
District heating in million kWh	4.6	3.7	3.2	3.6	3.6

Consumption of natural gas, traction current and district heating in 2017 is based on preliminary and estimated figures.

1 Electricity without traction current

For more information about sustainability, please refer to the "Sustainability" section of the Annual Report. ▶ see also Sustainability, page 158.

Non-Financial Report

HHLA reports on the Group and HHLA AG in the form of a combined separate Non-Financial Report, the contents of which are integrated into the "Sustainability" section. The non-financial report is also available as a separate PDF from the download centre of the online Annual Report. ▶ http://report.hhla.de/annual-report-2017/non-financial-report

Employees

Development of Headcount

HHLA aligns headcount planning with the economic development of its companies. It aims to provide the majority of its services using in-house staff. Employees of Gesamthafenbetriebs-Gesellschaft (GHB) are used by the container handling firms in Hamburg to cover peaks in operating manpower requirements. The recruitment processes used by the individual companies of HHLA AG are monitored by the HHLA manpower planning team. Proposals to create additional jobs are examined for their consideration of economic planning and operational necessity, as well as other options for filling positions internally or taking alternative action. This ensures that recruitment does not exceed the HR planning for individual companies approved by the Executive Board and can be synchronised with headcount trends at the affiliated companies with the possibility of synergy effects.

HHLA had a total of 5,581 employees at the end of 2017. Compared with the previous year's total, the number of employees increased by 53, or 1.0 %. In addition, HHLA used an annual average of 710 employees of Gesamthafenbetriebs-Gesellschaft (previous year: 558).

Employees by Segment

In the Container segment, the number of employees fell to 2,909 as of 31 December 2017. Total headcount was down by 36 year-on-year in the reporting period (previous year: 2,945). By contrast, total headcount in the Intermodal segment rose strongly again by 185 or 11.0 % to 1,872 employees (previous year: 1,687). This was due to the expansion of services and an increase in vertical integration. Headcount at the other segments decreased. The number of staff employed at the strategic management holding company declined by 2.3 % to 636 (previous year: 651). In the Real Estate segment, headcount remained virtually unchanged at 30 as of 31 December 2017 (previous year: 31). Employee numbers in the Logistics segment decreased to 134 in the reporting period (previous year: 214). This was mainly due to the discontinuation of operating activities in project and contract logistics.

Employees

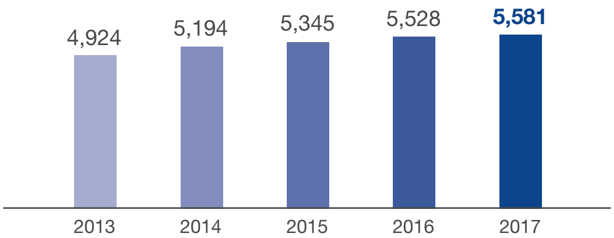
by segments	2017	2016	Change
Container	2,909	2,945	- 1.2 %
Intermodal	1,872	1,687	11.0 %
Holding/Others	636	651	- 2.3 %
Logistics	134	214	- 37.4 %
Real Estate	30	31	- 3.2 %
HHLA Group	5,581	5,528	1.0 %

Employees by Region

In geographical terms, the workforce was concentrated mainly in Germany, with 3,479 staff members (previous year: 3,625), the majority of whom worked in Hamburg. This corresponds to a share of 62.3 % (previous year: 65.6 %). The number of staff employed abroad rose by 10.5 % to 2,102 (previous year: 1,903). This was primarily due to increased staffing levels at the Intermodal companies in the Czech Republic, Slovakia, Hungary and Slovenia, where headcount grew by 14.3 % to 1,465 (previous year: 1,282). In Ukraine, the number of employees rose by 4.1 % to 458 (previous year: 440). The remaining 179 employees (previous year: 181) are spread across subsidiaries in Austria, Poland, Georgia and Turkey.

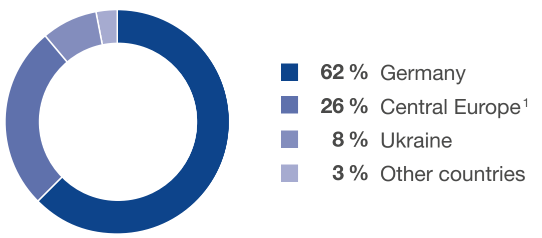
Development of Employees

HHLA Group as of 31.12.



Employees by Region

as of 31.12.2017



1 Czech Republic, Slovakia, Hungary, Slovenia

Recruitment

Women accounted for 31.4 % of the 86 new employees who had not previously worked for HHLA in Germany, for example via Gesamthafenbetriebs-Gesellschaft mbH Hamburg (GHB). More than 34 % of new hires were aged between 30 and 50.

Recruitments 2017

	Total	Females	Females in %
< 30 years	37	11	29.7
30 – 50 years	41	14	34.1
> 50 years	8	2	25.0
HHLA Group	86	27	31.4

Since 2013, HHLA has been employing a self-developed **selection process** (assessment centre) that not only considers the applicant's personal and professional suitability, but also diversity aspects. These processes have been used for all blue-collar roles since the end of 2013 and at the holding company and all container terminals in Hamburg since 2014. Members of the company's staff selection panels receive special training. In addition, the selection panel must include at least one woman for all selection processes in which the pool of applicants includes women.

At 4.7 %, the **fluctuation rate** (excluding internal transfers within the Group) in Germany was virtually unchanged year-on-year (previous year: 4.8 %). Of the 164 people who left the company, 40.2 % were retirees (previous year: 41.7 %).

Personnel Structure

The majority of jobs at HHLA are in a segment of the labour market in which men are traditionally employed and women are proportionately less represented. However, the positive trend seen in the previous years continued in 2017 and the ratio of women employed by HHLA in Germany increased once again (including apprentices). At 15.5 %, the ratio of women employed by the company was 0.1 percentage points higher than in the previous year (15.4 %).

Gender distribution on the Executive Board and the two management levels below the Executive Board is governed by the German Act on the Equal Participation of Women and Men in Leadership Positions and by the targets agreed by the Supervisory Board and where applicable, the Executive Board.
▶ see Corporate Governance/Corporate Governance Report, page 46

Age Structure

The average age of staff in Germany in the reporting period was 44.2 (previous year: 43.8). Male employees had an average age of 44.7, while female employees were 41.0 years old on average. Over half of all employees are aged between 30 and 50.

Age Structure of Employment

in %	31.12.2017	Thereof females	31.12.2016	Thereof females
< 30 years	10.9	27.3	12.0	27.5
30 – 50 years	53.5	16.2	53.1	16.0
> 50 years	35.6	10.8	34.9	10.1
HHLA Group	100.0	15.5	100.0	15.4

As in the two previous years, the average length of service with the company in Germany was approximately 15 years.

Average Employment Period

in years	31.12.2017	31.12.2016
< 30 years	5.1	4.9
30 – 50 years	11.3	10.9
> 50 years	24.1	24.7
HHLA Group	15.2	15.0

The percentage of employees with a severe disability (including persons of an equivalent status) was 8.8 % at the end of the reporting period (previous year: 8.7 %).

Staff Development

HHLA invested a total of € 4.2 million in educating and training staff from its locations in Hamburg in 2017 (previous year: € 4.5 million).

As of 31 December 2017, 67 apprentices and 12 students were receiving training in Germany in eight different professions and eight dual study courses. 29 % of the 79 apprentices and students were female. The share of female students in 2017 was 58 % (previous year: 50 %).

All of the 25 apprentices (of whom eight were on dual study courses) who successfully completed their training in the course of the year were given permanent employment contracts. A total of 17 new apprentices were taken on at the company's Hamburg facilities in 2017, approximately 41 % of whom were women. At the start of the 2017 academic year, 50 % of blue-collar apprentices were women (previous year: 30 %).

As in the previous year, over 700 events lasting one or more days were held in the reporting period. These included more than 650 internal vocational courses conducted by HHLA's own trainers over 3,089 training days. In addition, more than 70 one- to multi- day events with over 870 participant days were organised as part of the company's cross-segment seminar programme. 31 % of the participants were female.

Detailed workforce-related information on strategic HR management, staff development, occupational safety and health promotion, as well as contracts, remuneration and additional benefits can be found in the "Sustainability" section of the report. ▶ see also Sustainability/Employees, page 170.

Economic Environment

Macroeconomic Development

The global economy was on a strong upward trajectory in 2017 with estimates by the International Monetary Fund (IMF) putting year-on-year growth at 3.7 %. This is the most rapid increase since 2010. Despite uncertainty surrounding the future geopolitical and economic environment, macroeconomic growth picked up pace markedly. The most recent economic indicators signalled a significant increase in Germany's GDP of 2.5 %. According to the German Federal Statistical Office, exports rose strongly by 6.3 % year-on-year in 2017. There was also considerable growth in imports of 8.3 %. The Central and Eastern European economies experienced a noticeable upswing. Based on the data currently available, the IMF therefore expects economic output in Europe's emerging countries to rise strongly by 5.2 % in 2017. There was a slight upturn in the Russian economy again in 2017 but sanctions continued to prevent any significant momentum. Nevertheless, Russia's total economic output returned to growth for the first time with an increase of 1.8 %. China maintained its stable growth trajectory and even exceeded its government's own 6.5 % target slightly with growth of 6.8 % for the full year 2017. This economic upturn was also reflected in global trade volumes, which experts believe expanded by 4.7 % in 2017.

Development of Gross Domestic Product (GDP)

in %	2017	2016
World	3.7	3.2
Advanced economies	2.3	1.7
USA	2.3	1.5
Emerging economies	4.7	4.4
China	6.8	6.7
Russia	1.8	- 0.2
Eurozone	2.4	1.8
Central and Eastern Europe (emerging european economies)	5.2	3.2
Germany	2.5	1.9
World trade	4.7	2.5

Source: International Monetary Fund (IMF), January 2018

Sector Development

Given the persistently difficult conditions for container shipping in 2016, there was a surprisingly positive trend in global container throughput in 2017. According to recent estimates by Drewry, throughput increased by 6.0 % worldwide in the past year. This faster rate of throughput growth was mirrored by almost all shipping regions, albeit to different extents. In Europe, the ports in Scandinavia and the Baltic region, the Eastern Mediterranean and the Black Sea benefited most from the upturn. Nevertheless, volume growth at the Scandinavian and Baltic ports was less pronounced than expected as recently as October (forecast from Q3 2017: 8.4 %). Growth of 5.9 % was still slightly stronger than in the previous year, however. Although the strong upturn at the north-western European ports slowed somewhat in the course of the year, Drewry anticipates growth of approximately 4.2 % in the reporting period based on the figures currently available.

Development of Container Throughput by Region

in %	2017	2016
World	6.0	2.5
Europe as a whole	5.0	3.3
North-West Europe	4.2	1.8
Scandinavia and the Baltic region	5.9	5.5
Western Mediterranean	3.7	4.2
Eastern Mediterranean and the Black Sea	7.6	4.8

Source: Drewry Maritime Research, December 2017

The **trend among the major container ports of the North Range**, as well as the largest ports of the western Baltic Sea, was mixed. Hamburg recorded a slight loss in the period under review, with container throughput declining by 1.0 % to 8.8 million TEU. Europe's largest container port, Rotterdam, handled 13.7 million TEU, 10.9 % more than in the previous year. Container throughput in Antwerp was up 4.1 % year-on-year to 10.5 million TEU, thus bolstering the Belgian port's 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.

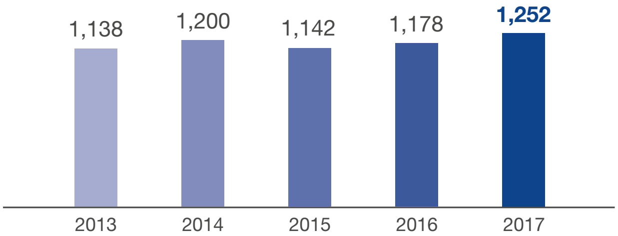
The 2017 Consolidated Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS) applicable in the European Union, taking into consideration the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). The Group Management 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 %).

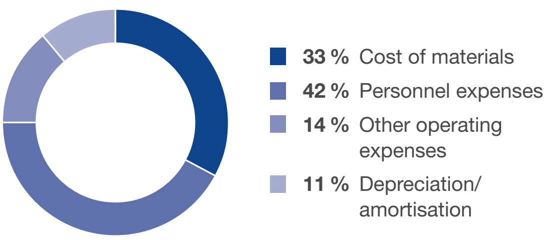
The **operating result (EBIT)** increased by 5.6 % to € 173.2 million in the reporting period (previous year: € 164.0 million). As this rise was broadly in line with revenue, the EBIT margin remained virtually unchanged at 13.8 % (previous year: 13.9 %). In the Port Logistics subgroup, EBIT rose by 6.1 % 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.

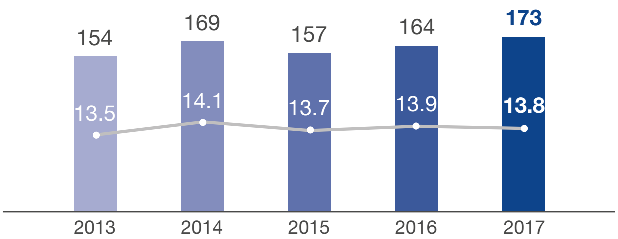
Operating Expenses

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

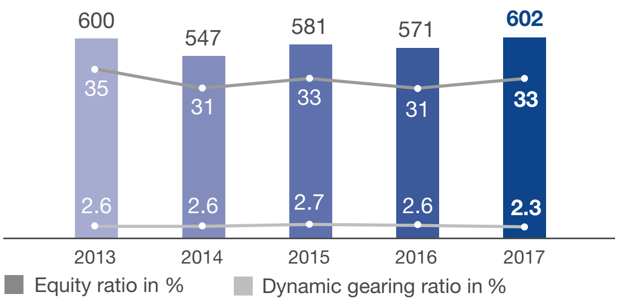
in € million	31.12.2017	31.12.2016
Assets		
Non-current assets	1,348.0	1,329.0
Current assets	487.3	483.9
	1,835.3	1,812.9
Equity and liabilities		
Equity	602.4	570.8
Non-current liabilities	993.8	1,028.1
Current liabilities	239.1	214.0
	1,835.3	1,812.9

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.

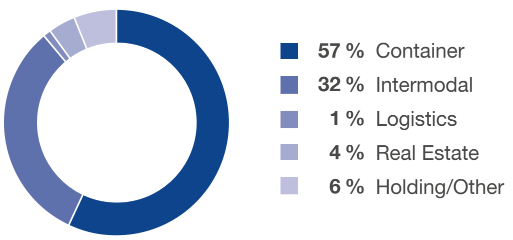
Investments in the Container segment focus on enhancing the productivity of existing terminal areas by using state-of-the-art handling technology and developing berth places for the trend in ship sizes. Meanwhile, in the Intermodal segment, the primary objective is to increase vertical integration to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

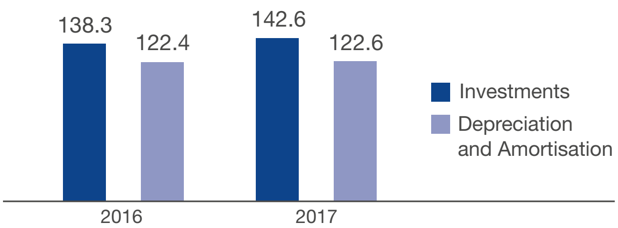
Liquidity Analysis

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.

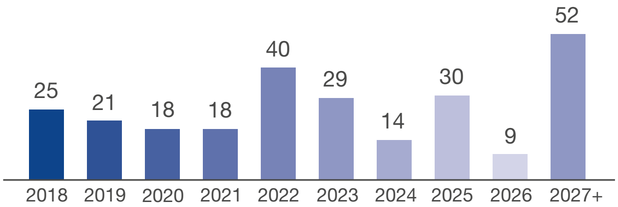
The majority of the liabilities from loans are denominated in euros, with a small proportion in US dollars. In terms of conditions, approximately 62 % have fixed interest rates and some 38 % have floating interest rates. As a result of borrowing, certain affiliated companies had covenants linked to key 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 Uniconsult 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

Segment Performance

Container Segment

Key Figures

in € million	2017	2016	Change
Revenue	746.6	694.6	7.5 %
EBITDA	194.7	201.5	- 3.3 %
EBITDA margin in %	26.1	29.0	- 2.9 pp
EBIT	109.4	117.8	- 7.2 %
EBIT margin in %	14.7	17.0	- 2.3 pp
Container throughput in thousand TEU	7,196	6,658	8.1 %

HHLA's container terminals handled 7,196 thousand TEU in the 2017 financial year, 8.1 % more than in the previous year (6,658 thousand TEU). The **volume development** in the reporting period was largely dominated by the realignment of shipping consortia and the resulting change in liner service structures. This positive development was facilitated by intensive sales activities and the provision of handling services in line with customer needs, especially with regard to ship sizes.

Container throughput at the three container terminals in Hamburg increased strongly by 8.3 % to 6,904 thousand TEU (previous year: 6,375 thousand TEU). This was mainly due to a 14.9 % year-on-year rise in Asia traffic (Far East–Northern Europe) and significant growth in feeder traffic in the Baltic region, especially to Sweden and Poland. By contrast, traffic to and from Russia was still affected by the EU's ongoing economic sanctions and only reached the prior-year level over the full twelve months, despite initial gains in the first half of 2017. The proportion of seaborne handling accounted for by feeders edged up to 24.5 % in 2017 (previous year: 24.0 %).

At the HHLA Container Terminal Odessa (CTO), container throughput rose slightly by 3.4 % to 292 thousand TEU (previous year: 283 thousand TEU). Due to overcapacities on the market, competition intensified further in 2017. Despite the slower volume trend, however, CTO continues to hold a dominant regional market position among the Ukrainian ports.

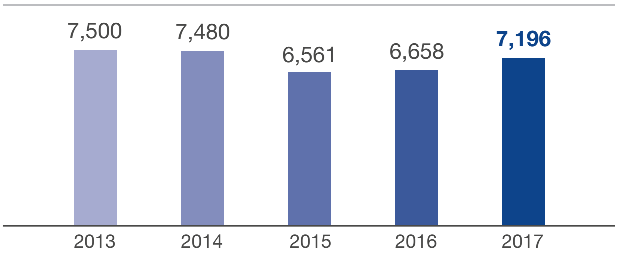
Revenue increased by 7.5 % year-on-year to € 746.6 million (previous year: € 694.6 million) and thus lagged somewhat behind the rise in seaborne volumes. Average revenue was affected by the slightly higher proportion of lower-margin feeder traffic, adjustments to individual handling rates due to the realignment of shipping consortia, and the temporary rise in storage charges. The average revenue per container handled at the quayside dipped by 0.6 % year-on-year in the 2017 financial year.

Changes in the segment's EBIT costs in the 2017 financial year stemmed largely from the increase in handling services and additional expenses. Total one-off expenses of approximately € 25 million related to measures for the organisational restructuring and harmonisation of existing pension schemes, which put further pressure on the cost structure in the 2017 financial year. The year-on-year increase in material costs was largely due to volume and price trends. IT costs increased due to the implementation of a new terminal operating system. All in all, EBIT costs were up by 10.5 %. Adjusted for the additional expenses, however, the increase was just 6.1 %. It should be noted that the anticipated utilisation-related economies of scale have not yet achieved their full impact on costs. The operating result (EBIT) amounted to € 109.4 million (previous year: € 117.8 million). The EBIT margin reached 14.7 % (previous year: 17.0 %). Adjusted by additional expenses, the operating result increased by 14.1 % year-on-year.

As shipping companies are still taking delivery of container mega-ships for the Far East–Europe trades, there is likely to be a further rise in the number of vessels of this size calling directly in Hamburg. With this in mind, the company continued to expand its facilities to cater for larger ships. Four additional automated storage blocks have been put into operation at the Container Terminal Burchardkai (CTB) and a further three container gantry cranes have been installed at the berth of the Container Terminal Tollerort (CTT).

Development in Container Throughput

in thousand TEU



Intermodal Segment

Key Figures

in € million	2017	2016	Change
Revenue	414.0	390.1	6.1 %
EBITDA	95.0	79.6	19.3 %
EBITDA margin in %	22.9	20.4	2.5 pp
EBIT	69.9	55.9	25.1 %
EBIT margin in %	16.9	14.3	2.6 pp
Container transport in thousand TEU	1,480	1,408	5.2 %

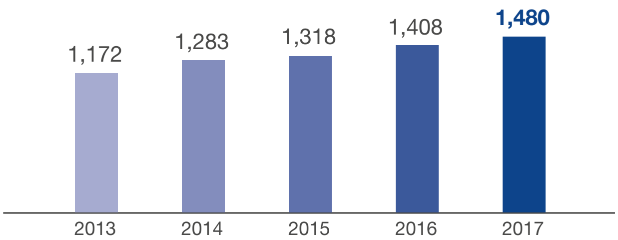
HHLA's transport companies achieved significant growth in the highly competitive market for container traffic in the hinterland of major seaports. **Transport volumes** rose by 5.2 % to 1,480 thousand standard containers (TEU), compared with 1,408 thousand TEU in the same period last year. This trend was driven by growth in both rail and road transportation. Compared with the previous year, rail transportation rose by a further 4.7 % to 1,140 thousand TEU (previous year: 1,089 thousand TEU). In particular, there was above-average growth in connections between the Adriatic ports and the Central and Eastern Europe hinterland. Continental cargo volumes rose strongly, too. Despite the challenging market environment, road transport also made very good progress with year-on-year growth of 6.8 % to 340 thousand TEU (previous year: 319 thousand TEU) due to strong freight volumes in the greater Hamburg area.

With growth of 6.1 % to € 414.0 million (previous year: € 390.1 million), **revenue** performed slightly better than transport volumes. The marginal decline in rail's share of HHLA's total intermodal transportation from 77.4 % to 77.0 % was more than offset by longer transport distances in rail transport.

The **operating result (EBIT)** increased year-on-year to € 69.9 million (previous year: € 55.9 million) and thus clearly outperformed the volume and revenue trend. The improvement in earnings was mainly due to increased transport volumes and further gains in train capacity utilisation. Earnings in the previous year were also depressed by additional expenses of € 7.2 million pertaining to a lease for a terminal site in Poland.

Development in Container Transport

in thousand TEU



HHLA continues to invest as needed in the expansion of its intermodal network. HHLA's rail subsidiary METRANS put six new multi-system locomotives into operation in the first half of 2017. It now has more than 70 shunters and locomotives and a fleet of over 2,500 waggons. In June 2017, the fourth METRANS hub terminal was also officially opened in Budapest. With this facility, HHLA is expanding its hinterland network to include another strategic hub. Its location in the heart of Europe makes it the perfect interface between the North European seaports, the Adriatic, and Central, East and South-East Europe. The network of the HHLA rail subsidiaries METRANS and POLZUG therefore consists of 13 terminals in the hinterland, five of which function as large hub terminals.

Work to integrate POLZUG's activities into the METRANS organisation commenced in the past financial year. By pooling activities, the company aims to streamline structures and processes, thereby enabling synergies to be realised.

Logistics Segment

Key Figures

in € million	2017	2016	Change
Revenue	50.8	55.0	- 7.6 %
EBITDA	6.9	2.4	pos.
EBITDA margin in %	13.7	4.3	9.4 pp
EBIT	2.6	- 1.7	pos.
EBIT margin in %	5.0	- 3.1	pos.
At-equity earnings	3.9	3.7	4.8 %

The key financial figures for the Logistics segment include the vehicle logistics and consultancy divisions. The results from dry bulk and fruit logistics are included in earnings from associates.

The companies of the Logistics segment once again made varying progress in 2017. The fully consolidated companies reported **revenue** of € 50.8 million, down 7.6 % on the prior-year figure (previous year: € 55.0 million). This was largely due to the discontinuation of project and contract logistics activities in the 2016 financial year. By contrast, revenue in the vehicle logistics division rose strongly.

The **operating result (EBIT)** increased to € 2.6 million in the reporting period, compared to an operating loss of € -1.7 million in the previous year due to project and contract logistics losses.

The performance of the companies included in **at-equity earnings** also varied during the reporting period. There was an upturn in dry bulk handling, while earnings from fruit logistics remained below the prior-year figure. Total earnings from associates rose by 4.8 % to € 3.9 million (previous year: € 3.7 million).

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.

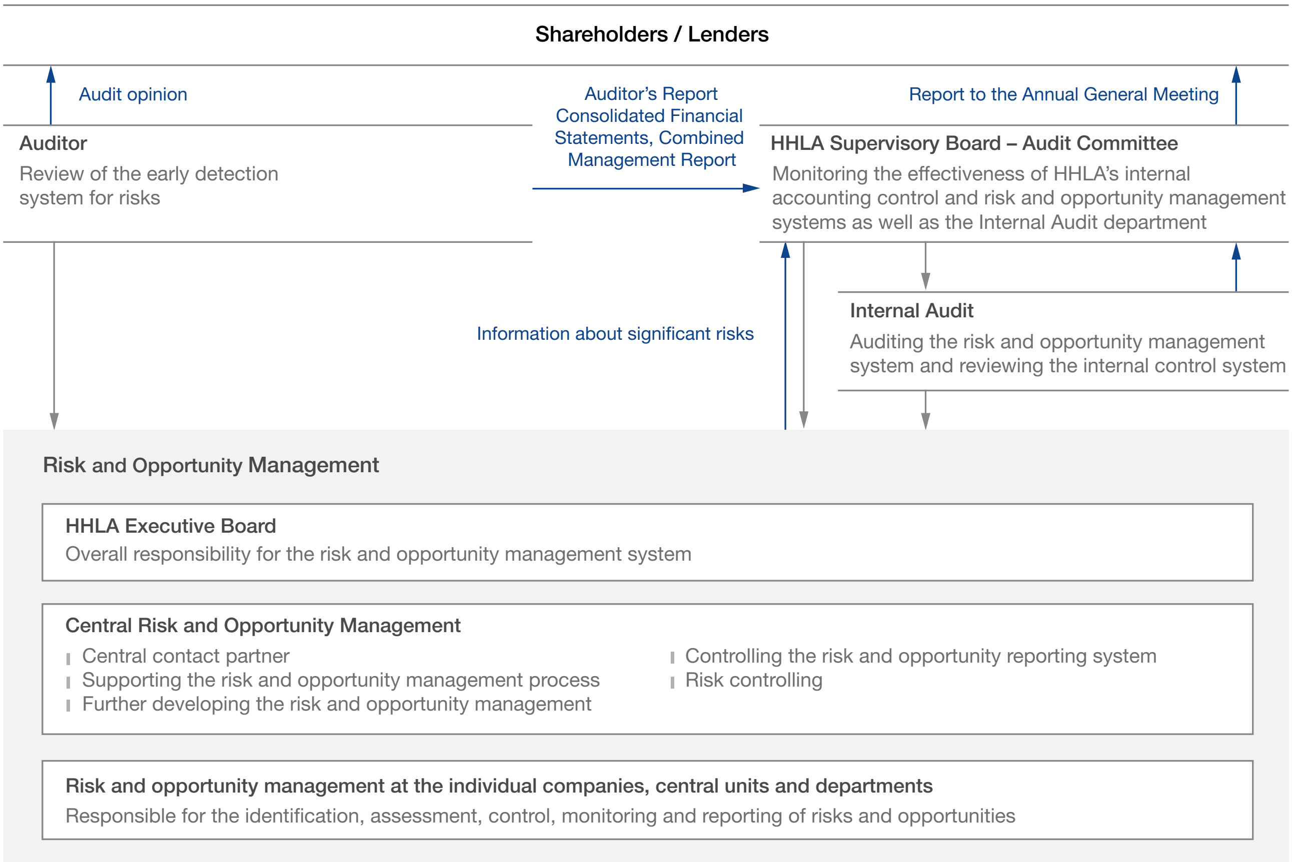
Categorisation of the probability of occurrence

< 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

Risk and Opportunity Management and the Internal Control System for Accounting



Risks are assessed in the context of the existing circumstances or a realistic projection. In addition to estimates and economic or mathematical/statistical inferences, sensitivities derived from planning can be used as a basis for assessment. The Group's affiliates, divisions and corporate staff departments regularly coordinate with the central Risk Management unit of the holding company to ensure that all identified risks are mapped and assessed consistently throughout the Group.

After identifying and assessing the risk, the company then defines control measures aimed at reducing the likelihood of its occurrence and/or the loss or damage. A distinction is made between the gross risk (excluding measures) and the net risk (including measures).

Risks are monitored continuously and any significant changes are reported and documented on a quarterly basis. Additional ad hoc reports are issued whenever significant risks emerge, cease to apply, or change. Risks are reported using standard Group-wide reporting formats in order to ensure a consistent overall picture of current risks.

Opportunity management is comparable to the **risk management** process. Opportunities are systematically identified and measures developed in an annual planning process. When opportunities are identified, there is no requirement for them to be quantified. Opportunity management focuses on the monitoring and analysis of individual markets and on the early recognition and assessment of trends as a means of identifying opportunities. This includes developments affecting the overall economy or individual sectors as well as regional and local trends. The affiliates' responsibilities include identifying strategic opportunities in their core markets. HHLA's Executive Board defines the strategic framework for this objective. When planning, managing and controlling strategic projects for a specific segment or all segments, HHLA's Executive Board primarily uses the proprietary resources of the holding company.

The most important elements of the risk and opportunity management system and risk and opportunity reporting are described in a corporate guideline. The system remains unchanged from the previous year.

Accounting-Related Internal Control System

Structure of the Internal Control System

HHLA's internal control system is designed to ensure that the (financial) reporting processes used throughout the company are consistent, transparent and reliable. Furthermore, it makes sure they comply with legal standards and the company's own guidelines. It comprises principles, procedures and methods designed to reduce risk and ensure the effectiveness and propriety of HHLA's processes.

The internal control system is regularly monitored and assessed according to documented processes, risks and controls. It therefore ensures transparency with regard to its structure and functionality for the purposes of internal and external reporting.

HHLA's internal accounting control and risk and opportunity management system is based on the criteria set out in the "Internal Control – Integrated Framework" working paper published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Accounting processes are assessed to determine whether there is a risk posed to the existence, completeness, accuracy, valuation, ownership and reporting of transactions. The company also conducts a risk assessment regarding the possibility of fraud. Concluding unusual or complex transactions can lead to specific accounting risks. There is also a latent risk of error when processing non-routine transactions. Employees are by necessity given a certain amount of leeway when recognising and measuring balance sheet items, which can give rise to further risks.

Internal controls are intended to reduce accounting risks and make sure that transactions are documented, recorded, processed and assessed correctly in the balance sheet, as well as being quickly and correctly adopted in financial reporting. Controls are in place for all accounting processes.

The Internal Audit department is responsible for monitoring HHLA's internal control system and risk and opportunity management for its accounting processes. The external auditor also assesses the effectiveness of the accounting-related internal control system, primarily by carrying out spot checks.

The internal control and risk and opportunity management systems for accounting will always have certain limitations, regardless of how carefully they are designed. For this reason, it is impossible to fully guarantee that accounting standards will always be met or that every incorrect statement will always be avoided or identified.

Significant Regulations and Controls

Accounting tasks and functions are clearly defined within the Group. There is a clear functional demarcation between accounts payable and accounts receivable as well as the preparation of Separate Financial Statements and the preparation of Consolidated Financial Statements. There is also a clear demarcation between these departments and the respective segment accounting. Separating execution, settlement and authorisation functions and giving these responsibilities to different members of staff reduces the risk of fraud. Multi-stage approval and authorisation thresholds for ordering, payment transactions and accounting are employed across the Group. These include using the double-checking principle. There is a single accounting manual that covers the consistent application and documentation of accounting rules for the entire Group. Other accounting guidelines are also in place. Like the accounting manual, they are reviewed regularly and updated if necessary.

Most bookkeeping procedures are recorded using accounting systems developed by SAP. For the purpose of preparing HHLA's Consolidated Financial Statements, affiliates add more information to their Separate Financial Statements to form standardised report packages, which are then fed into the SAP ECCS consolidation module for all Group companies.

Measures are in place to protect the IT systems from unauthorised access. Access rights are granted in line with each user's role. Only the departments responsible for mapping transactions are given writing access. Departments responsible for processing information use read access. The principles of function-related authorisations are defined in a set of SAP authorisation guidelines. These form part of a comprehensive IT security guideline, which regulates general access to the IT systems.

External service providers are used for pension reports, fiscal issues and for other reports and projects if necessary.

The specific formal requirements for the consolidation process pertaining to the Consolidated Financial Statements are clearly defined. In addition to a definition of the consolidated group, there are also detailed rules requiring affiliates to use a standardised and complete report package. There are also specific provisions regarding the recording and handling of Group clearing transactions and subsequent balance reconciliations, or the determination of the fair value of shareholdings. As part of the consolidation process, the Group accounting team analyses the Separate Financial Statements submitted by affiliates and corrects them if necessary. Incorrect information is identified and corrected as necessary using control mechanisms already present in the SAP ECCS system or using system-based plausibility checks.

Independent Monitoring

Internal Audit is responsible for auditing the risk and opportunity management system and conducts regular checks to monitor compliance with the internal control system. HHLA's Supervisory Board monitors the effectiveness of the risk management system. The external auditors assess the early risk identification and monitoring system on behalf of the Supervisory Board as part of their audit of the Annual Financial Statements.

Overall Assessment of Risks and Opportunities

The risks and opportunities for the HHLA Group reflect possible positive or negative deviations from the reported forecast.

The HHLA Group's risk position is principally characterised by market risks. Major factors influencing the risk and opportunity profile are the global economic trend, ongoing geopolitical tensions, developments on the market and in the competitive environment as well as uncertainties regarding the implementation of infrastructure projects. The development of these factors is monitored closely, and controllable costs and capital expenditure – where scalable – are adjusted flexibly to foreseeable developments.

The overview below summarises the main individual risks faced by the HHLA Group, classifies them according to risk areas and lists them in order of decreasing significance.

Ranking of HHLA Group's material risks

	Damage amount	Probability of occurrence	Trend vs. previous year
Market risks	significant	unlikely	↘
Strategical risks	medium	possible	→
Financial risks	medium	unlikely	↘
Other risks	medium	unlikely	↘
Legal risks	not significant	unlikely	→
Risks from the provision of services	not significant	unlikely	→
IT risks	not significant	unlikely	–

Since the economic prospects in particular are highly unpredictable, this description of risks and opportunities merely serves as a snapshot. Changes in the HHLA Group's risk and opportunity profile are regularly reported in the half-yearly financial report and – where significant – in the Interim Statements for the first and third quarters.

There are no discernible risks at present that could jeopardise HHLA's continued existence. HHLA's Executive Board is confident that it will be able to exploit any future opportunities while avoiding exposure to unacceptably high risks. The following section describes the key risks and opportunities identified at Group level, taking into account any measures which have been put in place. No other significant risks have currently been identified, while those that do exist are largely insured against.

Risks and Opportunities

1. Market Environment

Developments in Container Throughput, Transport Volume and Logistics Services

The pace of growth in those economies whose flows of goods HHLA serves is a key prerequisite for the future development of container throughput, transport volumes and logistics services. If demand for these services fails to materialise as expected, the high level of fixed costs associated with this business model means that it might not be possible to fully compensate for divergences in earnings caused by underutilised capacity in the short term. An economic trend that falls short of expectations may also require adjustments to the valuation of assets (mainly property, plant and equipment and financial assets). HHLA regularly examines the intrinsic value of its assets and makes adjustments where necessary. As volumes in the Container segment are forecast to remain stable in the following year, the allowance for risks was reduced compared to the previous year.

Research institutes forecast moderate global economic growth for 2017 and the subsequent years. Although the advanced economies are expected to continue their stable growth, there are still uncertainties surrounding the consequences of Brexit in Europe and the further development of the US economy in the light of protectionist tendencies. Economic growth in China is expected to remain largely stable. On the other hand, there are opportunities for a stronger volume trend in connection with the growth potential of Central and Eastern European economies such as Poland, the Czech Republic, Slovakia and Hungary, which use the Port of Hamburg for a large proportion of their transcontinental trade. Should the economic trend exceed expectations, prompting stronger volume growth, this could present an opportunity to profit from higher earnings by achieving economies of scale in handling and boosting volumes in downstream transport systems. A gradual lifting of the economic sanctions imposed on the Russian Federation could also have a positive impact on the volume trend.

In view of the unexpectedly strong and consistent growth trend in 2017, the market research institute Drewry has also upgraded its forecasts for container traffic in 2018. Drewry now expects a further – albeit slightly smaller – increase in global container throughput and the Northern Europe-Asia trade route, which is particularly important for HHLA. Although the associated volume and capacity risks remain relevant for HHLA, they are less significant than they were in the previous year.

Throughput and transport volumes in the markets of relevance for HHLA are monitored closely to ensure trends are recognised at an early stage. Where scalable, controllable costs and investments – e.g. for the further expansion of the container terminals – are adjusted in line with the foreseeable level of demand.

Competitive Environment
In the area of container handling, HHLA competes directly with other terminal operators in Northern Europe. Primary competitive factors – apart from pricing – are reliability and quayside productivity as well as the scope and quality of container handling services. Other factors affecting the terminal operators' competitive position are the ports' geographical location, the scope and quality of their hinterland links and their accessibility from the sea.

Due to fierce competition for container transport by rail, HHLA's Intermodal subsidiaries also face the risk of volumes being rerouted with a resulting risk for revenue. However, these risks are countered by taking appropriate measures.

HHLA constantly improves its competitiveness by further enhancing its service quality and technological capabilities. Its ship handling activities focus primarily on increasing the efficiency of its handling services and addressing the increasing number of peak loads prompted by the handling of container mega-ships. HHLA is working on innovating its systems and optimising processes to further strengthen its position in handling technology. HHLA's rail companies also connect the European seaports with the Central and Eastern European hinterland via a growing number of highly frequent shuttle services and direct links. Investments in its own hub terminals, such as the fourth METRANS hub terminal officially opened in Budapest in June 2017, further strengthen the performance of HHLA's hinterland network.

The integration of POLZUG's activities into the METRANS organisation in 2018 is aimed at simplifying structures and processes, thereby enabling synergies to be realised.

Moreover, regulatory measures may increase the competitiveness of rail transportation in the intermodal marketplace.

Customer Structure
HHLA's shipping company customers have operated in a tough competitive environment for container liner shipping for several years now. This is mainly due to structurally related idle capacities and low freight rates. The cost pressure on shipping companies will remain high in future. However, the earnings position for shipping customers improved in 2017 with the upturn in global container traffic. The risk of a shipping customer filing for insolvency is therefore lower than it was in the previous year.

2017 saw the emergence of a new customer and service structure in the Asia–Europe trade route. Clients acknowledged the seaport terminals' capabilities, prompting a rise in capacity utilisation. In view of these developments, the temporary or structural re-routing of services between the North Range ports continues to present both risks and opportunities for HHLA. As volumes per service and ship call increase with the use of ever-larger vessels, the impact on capacity utilisation at the seaport terminals grows. However, no major changes in the service structure are anticipated at present. Furthermore, shipping customers could become even more price-sensitive, especially for transshipment loads.

In the field of ship handling, HHLA cooperates with many shipping companies on a neutral basis ("multi-user principle"). This enables HHLA to respond flexibly to changes in the container liner shipping sector. In addition, HHLA aims to further enhance added value for its customers by expanding its mega-ship handling activities, continuing to develop the quality of its services and its technological capabilities, and optimising client-specific processes.

Depending on the customer structure, smaller affiliates may become reliant on individual clients. Various steps are taken to counteract this reliance, such as optimising service quality. At the same time, efforts are made to attract new clients.

Market Concentration in Procurement
Some of the handling equipment used by HHLA is highly specialised and this may result in a reliance on suppliers for maintenance or the procurement of replacement parts. Under certain circumstances, this may lead to operational restrictions. The corresponding risks are reduced to some extent by involving suppliers at a strategic and collaborative level and optimising the supplier base. This was aided by the introduction of an IT-based supplier management system in 2017.

2. Strategic Environment

Infrastructure

HHLA's competitiveness largely depends on Hamburg's infrastructure as a port and logistics hub. Hamburg's offshore, onshore and regional transport networks must be able to cope with the flows of goods and their carriers. Infrastructural deficits could make it impossible to handle peak workloads in ship handling – arising from the ongoing trend towards a growing number of ever-larger vessels – with the same level of reliability for all carriers.

The Federal Administrative Court reached a decision on the dredging of the river Elbe on 9 February 2017. It does not revoke planning approval for the dredging of the river Elbe. According to the court's ruling, however, the latter is unlawful in part due to violations of habitat conservation law and is therefore not initially enforceable. Two points (a review of potential harm to the Elbe water dropwort due to a project-related increase in salt levels and provisions on coherence measures) that the Federal Administrative Court explicitly classifies as remediable must be revised. An approximate timeline for the practical and procedural implementation of the required remedial measures is not yet available. The Federal Administrative Court dismissed further appeals against the planning approval in November and December 2017. As a result, there are currently no appeals pending against the dredging proposals. However, as it is still impossible to reliably estimate when the potential construction work may begin, shipping companies may reschedule their mega-ship liner services and traffic could bypass the Port of Hamburg – possibly permanently. This would result in a corresponding loss in earnings.

As well as swiftly dredging the navigation channel, the regional road and rail infrastructure must be modernised and expanded if the Port of Hamburg wants to retain and enhance its competitiveness and optimise its processes for the in- and outbound flows of goods in its hinterland. Projects of special significance for HHLA include constructing the port crossing and upgrading the Kiel canal, including its locks.

As an infrastructure-related operator, HHLA and its subsidiaries depend on prompt provision of the scheduled volume of public investments and services that are frequently necessary to support their own investments. Otherwise, HHLA's investment plans themselves or the expected economic results could also be delayed. This in turn could cause throughput and transport volumes to bypass HHLA's sites. Moreover, the risk to HHLA of having to fund the costs of individual infrastructure projects cannot be excluded. The reassessment in 2017 concluded that this was no longer a material risk for the Group, unlike in the previous year.

HHLA closely cooperates with the relevant public institutions for these projects. It also safeguards its interests by participating in relevant committees and through lobbying and active public relations activities.

3. Financial Risks

Currency Risks

As the bulk of HHLA's services are rendered within the eurozone, the majority of its invoices are issued in euros. The Intermodal and Logistics segments operate internationally, and a container terminal is operated in the Ukraine. Invoicing here is based primarily on euros or dollars. Currency or transfer risks therefore result primarily from exchange rate fluctuations affecting Central and Eastern European currencies. As a result, it is impossible to rule out risks such as a further significant devaluation of the Ukrainian currency, the hryvnia, which may exceed the budget estimate. It still remains to be seen whether the political situation in Ukraine will stabilise in the short term.

All HHLA companies that operate with foreign currencies reduce the risk of exchange rate fluctuations by monitoring rates regularly and, where possible, transferring free liquidity in local currency to hard-currency accounts.

Bad Debt Losses

The upturn in global container traffic helped improve the liquidity and earnings position of shipping companies in 2017. As a consequence, HHLA will not take out loan loss insurance from 2018 onwards, which leads to a one-off increase in the level of risk after mitigation measures. Due to the ongoing disequilibrium between trading volumes and ship space, the risk of customers filing for insolvency – with the corresponding loss of throughput and receivables – remains relevant, especially in the Container segment. However, it is currently regarded as unlikely (previous year: possible).

HHLA uses credit checks to reduce del credere collection risks. Active receivables management is used to enable the precise monitoring of receivables and payment patterns.

Pension Obligations

The reference interest rate for measuring the necessary provisions for company pensions is expected to return to normal levels, but only in the medium to long term. Any further reduction in historically low interest rates would prompt another increase in pension provisions and a resulting decline in the equity ratio. In view of the anticipated interest rate trend, the risk assessment was reduced compared to the previous year. HHLA monitors interest trends so that it can adjust its provisions as necessary.

Further rises in pension provisions may prove necessary if additional vested rights in excess of the current regulations are recognised by the courts. This risk is currently regarded as low.

Please see the reporting on financial instruments in the Notes to the Consolidated Financial Statements for further details of downstream default risks, liquidity risks, interest and exchange rate risks, including risk mitigation measures and the management of these risks. ▶ See also Note 47 of the Notes to the Consolidated Financial Statements, Management of Financial Risks, page 133

4. Other Risk and Opportunity Factors

Flooding

As a result of the existing structural situation and the fact that HHLA's port facilities and buildings necessarily operate close to water, there is a fundamental risk of storm surges. However, flood protection work undertaken by HHLA and the Free and Hanseatic City of Hamburg in recent years has reduced this risk considerably.

Should this risk ever materialise, comprehensive emergency programmes have been put in place by public authorities and companies operating in the port to minimise the potential damage. In addition, the risk of damage to property is sufficiently covered by insurance policies.

Investment Options

In addition to organic growth, HHLA systematically examines and evaluates acquisition opportunities. Potential equity investments focus on port projects in attractive growth markets. Besides strategic aspects and synergies with HHLA's existing activities, key decision-making criteria include growth prospects, the anticipated return on capital employed, and the assessment of commercial opportunities and risks. HHLA is in a sound financial position. It therefore has the financial means to make acquisitions.

Digitisation

HHLA has digital expertise, as exemplified by the introduction of the slot-booking process for trucks in 2017. Based on HHLA's ambition to drive the port's digital transformation process, further innovations in the field of digitisation are to be initiated and implemented with the aim of enhancing the company's value. This may result in opportunities to generate additional value added.

5. Legal Risks

Compliance Incidents

Well-trained, motivated employees are the foundation for responsible business activities. The Group's relationship with its employees is dominated by its sense of social responsibility. Staff representatives are closely and actively involved in Group decision-making and take their responsibilities seriously. This paves the way for a successful working relationship. However, it is impossible to completely rule out the risk of employees committing fraudulent acts or legal and competitive violations in the course of their work.

To reduce these risks, HHLA has introduced guidelines, manuals and double-checking, embedded controls in its processes and established spot checks as part of its compliance management system. Furthermore, the Group has issued a code of conduct that applies to all Group managers and staff. Training sessions are held regularly on the contents of the code of conduct, as well as on other issues such as preventing corruption and conduct in the competitive environment. All of these activities are supported by additional communication measures, for example via the HHLA intranet and the HHLA team app. There are also opportunities for both employees and third parties to report violations (whistle-blower hotline). Should compliance violations occur, specific process adjustments may be undertaken to prevent them in future. For instance, in cases of theft, corresponding security measures are reviewed and possibly introduced to prevent as far as possible any further disappearance of such items.

New Regulatory Requirements

Changes to legislation, regulatory reforms or amended requirements may necessitate changes to HHLA's internal processes or existing equipment. By ensuring a steady flow of information and cooperating closely with the relevant authorities, HHLA is able to make timely internal preparations and forward-looking investments aimed at reducing the associated costs.

6. Provision of Services

Failure of Technical Equipment

In the case of equipment-based companies, there is a risk that a failure of central technical equipment may restrict the ability of these companies to render their services. Depending on the length of the downtime, unavailable equipment leads to additional costs for providing services. Preventive maintenance and repair, contingency plans and breakdown services, regular inspections and tests are performed to help identify possible faults before they happen and thus reduce risks.

Intermodal Services and Services Procurement
The HHLA companies operating in the Intermodal segment pay track fees to the national railway companies or network operators for their rail network usage and also purchase traction services in some cases.

As the rail infrastructure in Germany is largely publicly owned, various authorities monitor non-discriminatory access and carrier-neutral track fees. These authorities include the Federal Network Agency and the Federal Railway Authority in Germany and corresponding bodies abroad at EU level. Nevertheless, as the national rail network owners and operators have a monopoly, the profitability of rail firms may be impaired by a track pricing policy that does not take a neutral approach to carriers and distorts competition. During the 2017 general election campaign, a cross-party promise was made that Germany's future government would reduce track fees. It remains to be seen whether this will be introduced.

To reduce the level of dependency on national railway companies for traction services and to enhance production quality, HHLA is expanding its own facilities, rolling stock and locomotives in line with demand. As part of this strategy, it also purchases services from private suppliers. Providing end-to-end transport services using the company's own operating assets guarantees high quality throughout the process chain. HHLA's objective is to offer its customers a logistics chain of unparalleled quality and reliability. This will further strengthen Hamburg's appeal: high-performance seaport terminals promote higher volumes in the hinterland, while intelligent transport systems with low-cost structures boost container flows at the port.

7. IT Risks
Due to the heightened threat posed by cybercrime, the associated IT risks have been reassessed and are now classed among the HHLA Group's key risks. It is impossible to rule out the possibility of IT applications being temporarily restricted or unavailable in the case of an attack. However, extensive measures are in place to protect against attacks and/or significantly reduce any negative consequences. These include prevention measures using tools such as specific filter mechanisms, maintaining backup systems (above all for data and information sharing) and communicating closely with business partners.

Corporate Governance

Combined Corporate Management Declaration and Corporate Governance Report

The following section contains the **combined Corporate Management Declaration** for HHLA and the Group in accordance with Section 289f HGB and Section 315d in conjunction with Section 289f HGB, as well as the **Corporate Governance Report** by the Executive Board and Supervisory Board in accordance with Section 3.10 of the German Corporate Governance Code (hereafter "the Code" or "GCGC").

Implementation of the Code

Responsible and transparent corporate management geared towards creating sustainable value has always been a main foundation of HHLA's commercial success. HHLA therefore expressly supports the Code and the objectives and purposes that it pursues. The Executive Board and Supervisory Board once again took great care to ensure the recommendations and suggestions of the Code were met in the 2017 financial year and submitted their annual declaration of compliance in accordance with Section 161 AktG in December 2017. This confirms that the management and corporate culture of HHLA and the Group comply with the recommendations and most of the suggestions contained in the Code, with only a few exceptions. The current declaration of compliance is printed below. It can also be viewed by shareholders and the public on HHLA's website at ▶ www.hhla.de/corporategovernance together with the declarations of compliance relating to previous years.

Declaration of Compliance in Accordance with Section 161 of the German Stock Corporation Act (AktG)

The Executive and Supervisory Boards of HHLA submitted the following joint declaration of compliance in accordance with Section 161 AktG on 18 December 2017:

"The Executive Board and Supervisory Board of Hamburger Hafen und Logistik AG hereby state after due examination that in the period starting 9 December 2016 (the date on which the previous declaration of compliance was issued), HHLA complied with the recommendations of the German Corporate Governance Code ("the Code" or "GCGC") in the version dated 5 May 2015 and – subsequent to its taking effect – the version dated 7 February 2017 with the following exceptions. Furthermore, HHLA shall comply with the Code in the future with the following exceptions.

a) In February 2017, sentence 2 was added to Section 4.2.3 (2) GCGC, which recommends that the long-term assessment basis used for variable executive remuneration should fundamentally be forward-looking. However, the variable remuneration policy which applies to HHLA's Executive Board is fundamentally based on the achievement of certain key figures and/or targets for a three-year average comprising the current financial year and the two previous financial years. It did not appear practicable to amend the Executive Board contracts to reflect the new recommendation as they were concluded for a fixed term and cannot be changed unilaterally. Irrespective of this, the variable remuneration of the HHLA Executive Board is already geared towards sustainable development in its current form.

b) Section 5.4.1 (2) sentence 1 GCGC was also amended and now recommends that the Supervisory Board draw up a skills matrix for the board as a whole, as well as identifying concrete targets for its overall composition. Proposals made to the Annual General Meeting regarding the Supervisory Board should take into account the targets agreed for its overall composition but should also strive to fulfil the board's skills matrix (Section 5.4.1 [4] sentence 1 GCGC). Furthermore, as per section 5.4.1 (5) sentence 2 clause 2 GCGC, curricula vitae for all Supervisory Board members should be published on the company's website and updated every year. These should be supplemented by an overview of each member's main activities in addition to their Supervisory Board mandate. Once these recommendations had taken effect, the re-elections had been held and the Supervisory Board had been reconstituted, the Supervisory Board drafted a comprehensive skills matrix or requirement profile which it approved at its meeting on 18 December 2017. The Supervisory Board members' curricula vitae were also updated and published on the company's website, ▶ www.hhla.de. This means that the company now complies with these recommendations.

c) According to Section 7.1.2 of the Code, interim financial information is to be discussed by the Executive Board with the Supervisory Board or its Audit Committee prior to publication. HHLA has not complied with this recommendation to date because compiling the half-yearly financial report and the interim statements on the basis of individual segment reporting for the A and S divisions takes more time than for companies with just one type of share. Furthermore, the additional financial information contained in these reports is reviewed by the auditors in order to increase the level of detail and frequency with which the company's reports are examined. However, the company intends to amend its processes in the near future to enable this information to be discussed with the Audit Committee before publication. The recommendation will therefore be met in the future.

Hamburg, 18 December 2017
Hamburger Hafen und Logistik Aktiengesellschaft
The Executive Board
The Supervisory Board"

Information about Corporate Governance Practices

Structure and Management of the Group

HHLA acts as the strategic management holding company for the Group. Its operating business is conducted by domestic and foreign subsidiaries and associated firms. ▶ see also Group Structure, page 13 Operating activities are managed and monitored by the Executive Board of HHLA and its central departments, such as Purchasing, Finance, Legal and HR. Compliance with the management's corporate governance requirements is ensured by internal company guidelines, provisions in the articles of association and rules of procedure for the subsidiaries and associated firms. Most subsidiaries also have their own supervisory or advisory boards that monitor and advise the executive boards of the respective companies.

Compliance

Compliance with corporate guidelines and the statutory provisions relevant to the company's activities (hereinafter also referred to as "compliance") is regarded as an essential part of corporate governance at HHLA. The management team in each corporate unit is therefore responsible for working to achieve compliance with the regulations that are relevant for their field of activity and area of responsibility. Workflows and processes must be structured in line with these regulations. The cornerstone of HHLA's compliance management system (CMS) is a code of conduct, which formulates overriding principles on topics with special relevance for compliance, such as conduct in the competitive environment, the prevention of corruption, discrimination and conflicts of interest, and how to deal with sensitive corporate information, especially insider information. ▶ see also www.hhla.de/compliance The code of conduct also sets out the whistleblowing channels available to employees and third parties for reporting evidence of misconduct in the company. The code of conduct is supplemented by further Group guidelines on such matters as the prevention of corruption and conduct in the competitive environment. A further element of the CMS is the systematic, ongoing analysis of compliance risks and the introduction of corresponding measures – such as staff training and process adjustments to minimise the respective risks. The overall coordination of the CMS is performed by the HHLA Group's Compliance Officer, who reports directly to the Executive Board and synchronises their activities with those of Internal Audit and Risk Management departments, among others. There are also compliance managers or officers at the various corporate units in Germany and abroad. The responsibilities of compliance officers include advising employees on all compliance-related issues and investigating any indications of breaches. The Audit Committee monitored the effectiveness of the CMS in the reporting period by means of regular reports from the Executive Board and the Compliance Officer. The system will continue to be optimised on an ongoing basis.

Sustainability

Sustainability has been an integral part of HHLA's business model since the company was established. ▶ see also Sustainability, page 158 and ▶ www.hhla.de/en/sustainability

Risk Management

The HHLA Group's risk management system is described in detail in the Risk and Opportunity Report, which forms part of the Group Management Report. ▶ see Risk and Opportunity Report, page 38

Function and Composition of the Executive Board and the Supervisory Board

In accordance with the stipulations of German stock corporation law, HHLA has a dual system of management with an Executive Board and a Supervisory Board as management bodies, both of which have their own defined areas of competence. This system is characterised by having separate personnel to carry out the management and supervision functions: the Executive Board manages the company on its own responsibility, while the Supervisory Board monitors the Executive Board and discusses relevant matters with it. HHLA's Executive Board and Supervisory Board work closely together for the company's benefit in an atmosphere of mutual trust.

Function of the Executive Board

The Executive Board manages the company's business. It determines the company's goals, its fundamental strategic orientation and Group policy and organisation. These tasks include, in particular, steering the Group and managing its financing, developing a personnel strategy, appointing and developing managers and representing the company before the capital markets and the general public. It is also responsible for appropriate risk management and controlling within the company.

The Executive Board assumes management responsibility as a **collegial body**. Regardless of the overall responsibility to manage the company, the individual members of the Executive Board also bear responsibility for the departments assigned to them by Executive Board resolutions. The **schedule of responsibilities** states which Executive Board members are responsible for which departments. ▶ see also Group Structure, page 13

The **Executive Board provides the Supervisory Board** with regular, timely and comprehensive information on all matters that are relevant for the company or the Group. These include, in particular, the intended business policy, profitability, the current position and course of business, planning, the current risk position, risk management and compliance for both the Group and the company in each case. The Executive Board must notify the Chairman of the Supervisory Board without undue delay of any important events of fundamental significance for the assessment of the position and development or the management of the company or the Group, including between meetings. These include, for example, operational malfunctions and illegal actions that disadvantage the company or a Group affiliate.

Conflicts of interests concerning members of the Executive Board must be immediately disclosed to the Supervisory Board. Other members of the Executive Board must also be informed. Executive Board members may only take on other duties, especially supervisory board posts at companies outside the Group, with the approval of the Supervisory Board. Transactions of material importance between Group companies and members of the Executive Board and parties and companies related to them also require the approval of the Supervisory Board. All such transactions must be performed on an arm's length basis. There were no transactions of this nature in the reporting period. There were also no conflicts of interest in the year under review.

The Executive Board's work is outlined in more detail in the Executive Board's **rules of procedure**. The rules state, inter alia, that decisions on fundamental organisational questions, business policy and corporate planning are to be made by the Executive Board as a whole. The rules also state that decisions and transactions of considerable importance for the company must be discussed and decided upon together and that certain decisions and transactions of fundamental importance require the prior approval of the Supervisory Board.

The company has taken out **D&O insurance** for the members of the Executive Board that meets the requirements of Section 93 (2) sentence 3 of the German Stock Corporation Act (AktG).

Composition of the Executive Board and Diversity

In accordance with Article 8 of the articles of association, HHLA's Executive Board must consist of at least two members. At present, there are four member of the Executive Board. ▶ see also Notes to the Consolidated Financial Statements, Note 49, Board Members and Mandates, page 143 The Executive Board's members are appointed by the Supervisory Board which, together with the Executive Board, ensures there is a long-term succession plan in place and that diversity considerations are taken into account in the Executive Board's composition. In the interests of outlining diversity aspects more precisely, the Supervisory Board approved a **Diversity Concept for the Executive Board** in December 2017.

Objective of the Diversity Concept

Along with the professional skills and experience of the Executive Board members, the Supervisory Board believes that diversity aspects play an important role in the sustainable development of the company. Different personalities, experiences and expertise prevent group thinking and facilitate a more holistic approach, thereby enriching the work of the Executive Board. The objectives below serve as guidelines for long-term succession planning and the selection of suitable candidates.

Diversity Aspects

The Supervisory Board strives to ensure that the Executive Board is composed of members whose personal and professional backgrounds, experience and expertise complement one another so that the Executive Board as a whole can draw on the widest possible range of experience, knowledge and skills.

Proportion of Women on the Executive Board

When appointing Executive Board members, the Supervisory Board is guided by the model of equal participation by women and men and actively pursues this objective, e.g. by specifically looking for female candidates to join the Executive Board. However, given that the Executive Board is small and there is usually a limited number of suitable candidates, it is not always possible to ensure that women and men are represented equally. With this in mind, the Supervisory Board has set a target quota of 25 % for women on the HHLA Executive Board. It has specified 30 June 2022 as the deadline for achieving this target.

Qualifications and Professional Background

Diversity in the Executive Board is also reflected by members with different qualifications and career paths who can draw on a wide range of different experiences (such as industry background). Members with different qualifications, professional backgrounds and experiences are therefore actively welcomed. However, each Executive Board member must have the personal and professional skills and experience necessary to fulfil the responsibilities of an Executive Board member at an international, listed company and protect the HHLA Group's public image. The members of the Executive Board should also have an in-depth understanding of HHLA's business activities and are usually required to have several years of managerial experience.

Furthermore, with a view to HHLA's business model, at least one member should have specialist expertise in each of the following areas:

- strategy and strategic management;
- the logistics business, including the relevant markets and client needs;
- sales;
- operations and technology, including IT and digitisation;
- the real estate business;
- legal affairs, corporate governance and compliance;
- human resources, especially HR management and staff development, as well as experience of co-determined structures;
- finance, including financing, accounting, controlling, risk management and internal control processes.

International Orientation
As the Group's activities are international by their very nature, at least some of the members should have considerable international experience.

Age
The age limit for Executive Board members is 67. There is no minimum age. However, Executive Board members are generally expected to have several years of managerial experience when they are appointed, which presupposes a certain amount of professional experience. Within this framework, a varied age structure within the Executive Board is targeted – in the interests of diversity and long-term succession planning – although age is deemed less important than the other criteria.

Progress to Date and Future Applicability
The Executive Board's current composition fulfils the targets set out above. The Executive Board is composed of people with different career paths, a wide range of experience and varying expertise, including members with considerable international experience. The target quota of 25 % for female executives has also been met. The age limit is not exceeded by any member. The Supervisory Board and its Personnel Committee will continue to take the above objectives into account during their long-term succession planning and when searching for suitable candidates for HHLA's Executive Board.

Function of the Supervisory Board
The Supervisory Board decides on the composition of the Executive Board, oversees the Executive Board's management of the company, advises it on company management and is involved in fundamental and important decisions. Decisions and transactions of fundamental importance require the approval of the Supervisory Board in accordance with the Executive Board's rules of procedure. Its other main tasks include the examination and adoption of the Annual Financial Statements and the approval of the Consolidated Financial Statements. The tasks and internal organisation of the Supervisory Board and its committees are based on the law, the articles of association, which are available on HHLA's website at ▶ www.hhla.de/corporategovernance, and the Supervisory Board's rules of procedure. The Code also contains recommendations on the Supervisory Board's work.

The Supervisory Board carries out its work both in full council and in **committees**. The individual committees and their responsibilities are laid down in the Supervisory Board's rules of procedure. The chairpersons of the committees regularly report on the work of their respective committees at the following Supervisory Board meeting. There are currently a total of six committees: the Finance Committee, the Audit Committee, the Personnel Committee, the Nomination Committee, the Arbitration Committee and the Real Estate Committee.

- The **Finance Committee** prepares Supervisory Board meetings and resolutions of major financial importance, such as resolutions to be adopted concerning significant borrowing and lending, the assumption of guarantees for third-party liabilities, financial investments and other financial transactions. It also deals with planning and investment issues, such as the budget and medium-term planning.
- The **Audit Committee** monitors accounting, the accounting process and the effectiveness of the audit of the financial statements. It also prepares the Supervisory Board's resolution proposal to the Annual General Meeting on the election of the auditor. The Audit Committee is responsible for the selection procedure if there are plans to rotate the auditor. After the auditor has been elected by the Annual General Meeting, it awards the audit assignment for the Consolidated Financial Statements and the Annual Financial Statements. It also deals with the fee agreements and determines which areas the audits should focus on. It continually monitors the independence of the auditor and discusses the risks to the auditor's independence as well as the prevention measures taken to mitigate these risks. In this connection, the Audit Committee is also responsible for monitoring and approving the additional services provided by the auditor in addition to the audit of the financial statements (non-audit services). Other focus areas of its work include monitoring the effectiveness of the internal control system, the risk management system, the internal audit system and the compliance management system.

- The **Personnel Committee** prepares the personnel decisions to be taken by the Supervisory Board, ensures together with the Executive Board that a long-term succession plan is in place and takes account of diversity considerations in the Executive Board's composition. It prepares the Supervisory Board resolution specifying the remuneration of the Executive Board and the examination of the remuneration system for the Executive Board and handles the Executive Board contracts, provided the German Stock Corporation Act (AktG) does not require the full council of the Supervisory Board to handle these responsibilities.
- The Personnel Committee also fulfils the role of **Nomination Committee**, which consists solely of shareholders' representatives when performing this role. In line with the statutory requirements, the recommendations of the Code, the skills matrix agreed by the Supervisory Board for the Executive Board, and the targets adopted regarding its composition, the Personnel Committee proposes suitable candidates to the Supervisory Board to stand for election at the Annual General Meeting as shareholder representatives on the Supervisory Board. In each case, it also ensures that the candidate is able to devote the necessary amount of time to the role.
- The **Arbitration Committee** performs the duties defined in Section 31 (3) of the German Co-Determination Act (MitbestG). This entails making proposals for appointing members of the Executive Board if the statutory majority of two thirds of the Supervisory Board members' votes is not reached after the first round of voting.
- As HHLA is divided into the two subgroups Port Logistics (A division) and Real Estate (S division), a **Real Estate Committee** was constituted for the latter. This committee receives all Executive Board reports on behalf of the Supervisory Board and is involved in discussing all affairs that relate to the Real Estate subgroup. It also decides on whether to grant Supervisory Board approval for all legal transactions that require such approval and all other matters that affect the Real Estate subgroup, either primarily or in their entirety. In addition, the Real Estate Committee is responsible for examining and preparing the Supervisory Board's decision on the adoption of the Annual Financial Statements and the approval of the Consolidated Financial Statements, insofar as these relate to the affairs of the Real Estate subgroup. It is also responsible for preparing the Supervisory Board's decision on appropriating the distributable profit of the Real Estate division based on the Executive Board's proposal.

The company has arranged for **D&O insurance** for the members of the Supervisory Board which complies with Section 3.8 of the Code.

Composition of the Supervisory Board and Diversity

The **composition of the Supervisory Board** is based on the company's articles of association as well as Sections 95 and 96 of the German Stock Corporation Act (AktG) and Section 7 of the German Co-Determination Act (MitbestG). The Supervisory Board consists of six shareholder representatives elected by the Annual General Meeting and six employee representatives elected in accordance with the German Co-Determination Act (MitbestG).

In view of the various requirements and recommendations relating to the composition of the Supervisory Board, the Supervisory Board approved a **requirement profile for HHLA's Supervisory Board** in December 2017. In addition to key legal requirements and the recommendations of the Code concerning the Supervisory Board's composition, this includes the Supervisory Board's own objectives for its composition, the skills matrix for the board as a whole as per Section 5.4.1 (2) GCGC, and the diversity concept for the Supervisory Board, including the disclosures pursuant to Section 289 et seq. (1) (6) of the German Commercial Code (HGB).

Objective of the Requirement Profile

The Supervisory Board strives for a composition which ensures it is capable of monitoring and advising the Executive Board professionally at all times. As well as ensuring its members fulfil professional and personal requirements, the Supervisory Board believes that diversity aspects play an important role for the effective work of the Supervisory Board and thus for the sustainable development of the company. Different personalities, experiences and expertise prevent group thinking and facilitate a more holistic approach, thereby enriching the Supervisory Board's work. The objectives below therefore serve as guidelines for long-term succession planning and the selection of suitable candidates. They also provide transparency with regard to the key appointment criteria.

Requirements for Individual Members

General Requirements

Each Supervisory Board member should have the personal and professional skills and experience necessary to fulfil the responsibilities of a Supervisory Board member at an international, listed company and protect the HHLA Group's public image. In view of this, each Supervisory Board member should fulfil the following requirements:

- sufficient professional knowledge, i.e. the ability to perform the duties which are normally handled by the Supervisory Board;
- commitment, integrity and personality;
- a general understanding of HHLA's business activities, including the market environment and clients' needs;

- corporate or operational experience – for shareholder representatives, this should ideally take the form of experience from working in company management teams, occupying a managerial position or sitting on supervisory bodies;
- compliance with the limits on mandates set out in Section 100 of the German Stock Corporation Act (AktG) and Section 5.4.5 sentence 2 GCGC.

Available Time
Each Supervisory Board member ensures that they have the time needed to properly fulfil a Supervisory Board mandate. In particular, it must be taken into account that there are usually four to six Supervisory Board meetings per annum, which each need adequate preparation – especially in the case of reviewing the documents relating to the Annual and Consolidated Financial Statements. Membership of one or more of the committees requires additional time for preparation and attendance of committee meetings. Lastly, additional extraordinary meetings of the Supervisory Board or the committees may become necessary to deal with special topics.

Duration of Membership and Age Limit
Candidates proposed for election to the Supervisory Board should be under the age of 70 at the time of the election. As a rule, members should not serve more than three full terms on the Supervisory Board.

Requirements and Objectives for the Supervisory Board as a Whole

With regard to the composition of the Supervisory Board as a whole, the Supervisory Board strives to ensure that it is composed of members whose personal and professional backgrounds, experience and expertise complement one another so that the Supervisory Board as a whole can draw on the widest possible range of experience and specialist knowledge. This also serves to promote diversity.

General Requirements
The Supervisory Board of HHLA must always be composed in such a way that its members have the necessary knowledge, skills and industry expertise to fulfil the Supervisory Board's responsibilities properly. Furthermore, the members of the Supervisory Board as a whole must be familiar with the logistics industry – especially the port logistics and intermodal sectors – and the real estate industry, and at least one member of the Supervisory Board must have expertise in the fields of accounting or the auditing of financial statements.

Specific Knowledge and Experience
The Supervisory Board of HHLA as a whole should cover all the areas of expertise necessary to perform its duties effectively. In line with the company's business model, this specifically includes in-depth knowledge and experience in:

- managing a large or medium-sized listed company which operates internationally;
- the logistics business, ideally in the port logistics and intermodal sectors, including the relevant markets and clients' needs;
- operations and technology, including IT systems and digitisation;
- the real estate business, specifically letting office space in the Hamburg area;
- legal affairs, corporate governance and compliance;
- controlling and risk management;
- applying accounting principles and internal control processes.

The Supervisory Board strives for a composition whereby at least one member is qualified to provide advice on each of the aspects listed above.

Independence and Conflicts of Interest
Given HHLA's specific commercial situation and ownership structure, the Supervisory Board should have at least two independent members from amongst the shareholders, as defined in Section 5.4.2 GCGC. Furthermore, the Supervisory Board assumes that the fact employee representatives speak for the staff and are employed by the company does not as such jeopardise their independence and that employee representatives should not therefore be viewed as dependent per se. Instead, they are expected to consider the material circumstances in each case.

To prevent potential conflicts of interest, no more than two former Executive Board members should sit on the Supervisory Board. In addition, the Supervisory Board should not include anyone who holds a seat on an executive body or performs an advisory role at any organisation in direct competition with the company.

Should any conflicts of interest arise – especially as a result of an advisory role or seat on an executive body involving customers, suppliers, creditors or other third parties – the Supervisory Board member in question is obliged to disclose these to the Supervisory Board. The Supervisory Board provides information on conflicts of interest and their treatment in its yearly report to the Annual General Meeting. If a member of the Supervisory Board has significant conflicts of interest that are not merely temporary, this should result in the termination of their period of office.

Diversity

HHLA's Supervisory Board consists of at least 30 % women and 30 % men. Furthermore, the Supervisory Board has set itself the medium-term goal of ensuring at least 40 % of its shareholder representatives are women.

In addition to this, diversity in the Supervisory Board is reflected by shareholder representatives with different career paths and fields of activity who can draw on a wide range of different experiences (such as industry background). In the interests of diversity, the Supervisory Board strives for a composition whereby its members complement one another with their backgrounds, experience and expertise. It also strives to ensure that some members have international experience.

Progress to Date and Future Applicability

The Supervisory Board's current composition fulfils the targets set out above. The Supervisory Board is composed of people with different career paths, a wide range of experience and varying expertise, including members with considerable international experience. The target quota of 30 % for female Supervisory Board members has been met. The age limit was not exceeded by any member at the time of their election. No member has served more than three terms of office on the Supervisory Board. The Supervisory Board has three independent members from amongst the shareholders: the Supervisory Board Chairman Prof. Dr. Grube, Mr. Westhagemann and Dr. Kloppenburg. Dr. Kloppenburg also has expert knowledge and experience in the fields of accounting, auditing and internal control processes and therefore fulfils the requirements in Sections 100 (5) and 107 (4) AktG and Section 5.3.2 (3) GCGC.

The Nomination Committee and the Supervisory Board will take the above requirements and objectives into account during their succession planning and when searching for suitable candidates and proposing them to the Annual General Meeting for election to the Supervisory Board. At the same time, they will strive to fulfil the skills matrix for the Supervisory Board as a whole. However, the Annual General Meeting is under no obligation to observe this requirement profile or the Supervisory Board's election proposals when electing shareholder representatives. Furthermore, in the case of employee representatives, the Supervisory Board has no right to nominate candidates for election and the employees entitled to vote are also not obliged to observe this requirement profile.

Further Information

Further information on the Supervisory Board and Supervisory Board committees, as well as the Supervisory Board's cooperation with the Executive Board in the reporting period, can be found in the Report of the Supervisory Board. ▶ see also Report of the Supervisory Board, page 4 Further information on the composition of the Supervisory Board and its committees can be found in the Notes to the Consolidated Financial Statements. ▶ see also Notes to the Consolidated Financial Statements, Note 49, Board Members and Mandates, page 143 Lastly, curricula vitae for the current members of the Supervisory Board are published on the company's website, ▶ www.hhla.de. These are updated each year.

Gender Representation on the Supervisory Board, Proportion of Women on the Executive Board and in the Two Management Levels Below the Executive Board

In accordance with Section 96 (2) of the German Stock Corporation Act (AktG), the **Supervisory Board** of HHLA consists of at least 30 % women and 30 % men. The gender quota applies to all members appointed since 1 January 2016. Until the Supervisory Board re-elections in June 2017, the Supervisory Board had two female shareholder representatives. Women therefore accounted for 33.3 % of the shareholder representatives and 16.7 % of the Supervisory Board as a whole. It was not possible to increase the proportion of women prior to the Supervisory Board re-elections as no positions were vacated. Before the Supervisory Board re-elections, Section 96 (2) sentence 3 AktG was not complied with in full, meaning that the respective minimum quotas for the shareholder and employee representatives on the Supervisory Board were to be met separately. In other words, at least two of the shareholder seats and two of the employee seats had to be filled by each gender. Since the Supervisory Board re-elections, there have been four female members of the Supervisory Board, two of whom are shareholder representatives and two of whom are employee representatives. Since then, women have therefore accounted for 33.3 % of both the shareholder representatives and the employee representatives on the Supervisory Board. The gender quota has therefore been fulfilled since the Supervisory Board re-elections.

In September 2015, the Supervisory Board set a target quota of 25 % for women on the **Executive Board**, which was to be met by 30 June 2017. This target has been met since 1 January 2017. Following the expiry of the initial deadline for target achievement, the Supervisory Board reaffirmed the 25 % target for a further five years, i.e. until 30 June 2022.

Regarding the two **management levels below the Executive Board**, the Executive Board originally set a target quota of 25 % for women in the first management level below the Executive Board and 30 % for the second management level. The deadline for fulfilling each of these targets was 30 June 2017. Following the expiry of the initial deadline for target achievement, the Executive Board set a target of 30 % for both management levels, to be met in both cases by 30 June 2022. As of 30 June 2017 and 31 December 2017, women accounted for 11 % of the first management level and 21 % of the second management level. In both cases, the main reason for the targets not being achieved by 30 June 2017 was that only a few positions were vacated during the comparatively short period prior to the deadline. Furthermore, in the first management level below the Executive Board, there are a number of vacancies which will not be occupied until after the beginning of 2018. Taking these new appointments into account would put the proportion of women in the first management level at 27 %.

Shareholders and Annual General Meeting

Shareholders exercise their rights, in particular their voting rights, at the Annual General Meeting. The Annual General Meeting is held in Hamburg, another major German city or the seat of a German stock exchange to which the company's shares have been admitted for trading, within the first eight months of each financial year. Each share entitles its holder to one vote at the Annual General Meeting. There are no shares with multiple voting rights, no preference shares and no caps on voting rights.

Shareholders may exercise their voting rights at the Annual General Meeting in person, by appointing a representative of their choice or by giving voting instructions to proxies designated by the company. The articles of association also authorise the Executive Board to allow shareholders to cast their vote in writing or by means of electronic communication (postal vote). The invitation to the Annual General Meeting includes explanations of the participation conditions, the voting procedure (including proxy voting) and the rights of shareholders. In addition, the company has a hotline for shareholders' questions. The reports and documents required by law for the Annual General Meeting, including the Annual Report, are published on the company's website at ▶ www.hhla.de/agm together with the agenda. Information on attendance at the Annual General Meeting and the voting results can likewise be found on the company's website after the Annual General Meeting.

Transparency

HHLA informs capital market participants and interested members of the general public about the position of the company and the Group and important company developments, particularly by means of its financial reporting (annual report, half-yearly financial report and interim statements), press conferences for analysts and financial press conferences, dialogue with analysts and the press, press releases and ad hoc announcements as required, and its Annual General Meetings. As a permanently available and up-to-date communication medium, the website ▶ www.hhla.de provides all the relevant information in both German and English. In addition to comprehensive information about the HHLA Group and the HHLA share, it contains a financial calendar, which provides an overview of the main events. Any enquiries over and above this from shareholders, investors and analysts should be addressed to the Investor Relations department.

Accounting and Auditing

The Separate Financial Statements of HHLA (parent company) are prepared in line with the accounting regulations of the German Commercial Code (HGB). The Consolidated Financial Statements and the Interim Reports comply with the International Financial Reporting Standards (IFRS) that apply in the European Union and the additional requirements of German commercial law pursuant to Section 315e (1) HGB. This Annual Report provides further information on IFRS in the Notes to the Consolidated Financial Statements. ▶ see also Notes to the Consolidated Financial Statements, General Notes, page 80
The appropriation of profits is based solely on the Separate Financial Statements of HHLA.

The choice and appointment of the auditing firm, and the monitoring of its independence and the additional services it provides, are conducted in accordance with statutory provisions. In addition, arrangements have been made with the auditor of the Separate Financial Statements and Consolidated Financial Statements for the 2017 financial year – PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hamburg – for the Chairman of the Audit Committee to be informed immediately of any possible grounds for exclusion or bias arising during the audit, insofar as these are not rectified without delay. The auditor should also report immediately on any findings or incidents that are of significance for the Supervisory Board's remit which come to its attention during the audit of the financial statements. Furthermore, the auditor is to inform the Supervisory Board and/or record in its report if – when conducting the audit – it identifies facts that indicate that the declaration of compliance issued by the Executive Board and Supervisory Board as per Section 161 AktG is incorrect. The audit conducted includes an extended audit as stipulated under Section 53 of the German Budgetary Procedures Act (HGrG). This requires an audit and assessment of the propriety of the company's management and its financial situation as part of the audit of the Annual Financial Statements.

Directors' Dealings

In the 2017 financial year, the company did not receive any notifications regarding directors' dealings with HHLA shares or related financial instruments as defined in the Market Abuse Regulation (Regulation [EU] No. 596/2014 of the European Parliament and of the Council).

Remuneration Report

Executive Board Remuneration

The remuneration system used for HHLA's Executive Board is designed to foster successful and sustainable corporate development. The Supervisory Board is responsible for defining the Executive Board's remuneration system, regularly reviewing and adjusting the remuneration system if necessary and setting the individual remuneration of executives, following preparatory work by the Personnel Committee. When making such decisions, the Personnel Committee and the Supervisory Board take into account the recommendations of the German Corporate Governance Code, the responsibilities and performance of each member of the Executive Board, in particular HHLA's size and activities, its financial and economic position, the amount and structure of executive board remuneration at comparable companies and the relationship between the remuneration of the Executive Board and the remuneration of the upper levels of management and the staff in general.

The remuneration system for members of the Executive Board was approved by the company's Annual General Meeting on 14 June 2012 and modified slightly during a review in the 2015 financial year. The modified provisions have applied to all members since 1 January 2017. Under this system, remuneration for members of the Executive Board consists of a non-performance-related fixed component, a performance-related bonus, pension commitments and fringe benefits.

Fixed remuneration amounts to € 350,000 p.a. for ordinary members of the Executive Board. This is paid in twelve monthly instalments. The chairperson of the Executive Board receives a higher basic salary. In addition, there are fringe benefits (non-monetary compensation) in the form of a right to use an appropriate company car (including for private purposes) and the payment of insurance premiums by the company. The members of the Executive Board pay tax on these benefits as components of their remuneration.

The performance-related bonus is set on the basis of a three-year assessment period and paid out once the Annual Financial Statements have been approved. The calculation is based on the average earnings before interest and taxes (EBIT) for the last three years (before additions to pension provisions and reduced by any extraordinary income from the disposal of real estate and companies), the average return on capital employed (ROCE) and the achievement of targets relating to environmental issues (reduction of the carbon footprint of each container handled and transported) and social issues (broken down into training and continuing professional development, health and employment) in the same period. Target ranges were set for each of the sustainability components. Achieving these targets triggers the payment of the relevant bonus. When making these calculations, roughly equal weight is given to EBIT on the one hand and the above-mentioned sustainability components on the other. The total variable remuneration is capped at 100 % of the fixed salary.

Level of Remuneration for Executive Board Members in 2017 Based on Different Scenarios

As of: 31 December 2017

	0 % minimum	← The payment level of the variable remuneration is capped at 100% of the basic salary. →		100 % maximum
Performance-related components Calculated based on a three-year assessment period		**Average EBIT** (before pension provisions, less extraordinary income)		
		Sustainability targets		
		Economy	Average return on capital employed (ROCE)	
		Environment	CO_2 reduction[1]	
		Social	Continuing education and training, health and employment	
Non-performance related fixed salary Plus fringe benefits				

1 Per container handled and transported

Pension entitlements exist for Executive Board members who have served on the Executive Board for more than three years. These entitlements grant Executive Board members a pension if they leave the Executive Board after a minimum of five or eight years' service for reasons unrelated to their person or for which they are not responsible, or as a result of incapacity or reaching retirement age. Pensions consist of a percentage of the entitlement salary, which in turn is based on the annual basic salary. Depending on the Executive Board member's length of service, this percentage is between 35 and 50 %, whereby adjustments are made not on a linear basis over the contract term, but rather in the course of contract extensions. Several different forms of income are taken into account on an individual basis, such as earnings from self-employment or employment and, in some cases, income from statutory pensions and related benefits from public funds. Surviving spouses of Executive Board members receive a widow(er)'s pension of 55 to 60 % of the pension entitlement and children receive an orphan's allowance of 12 to 20 % of the pension. Should the pension entitlement have been suspended or no longer apply, transitional or interim pay applies for a limited period on the basis of the fixed remuneration. During their first term (usually three years), Executive Board members do not generally accrue pension entitlements. Instead, individual arrangements are made, such as the payment of premiums for a direct insurance policy or the payment of a certain amount which is earmarked for a private pension.

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). 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 members of the Executive Board were not granted any loans or similar payments. Total remuneration disbursed to the members of the Executive Board for their services in the 2017 financial year amounted to approximately € 2.93 million (previous year: € 3.14 million). Former members of the Executive Board and their surviving dependants received benefits totalling € 931.633 (previous year: € 692,224). Total provisions of € 24,241,804 were recognised for pension obligations to former members of the Executive Board and their surviving dependants (previous year: € 12,385,982).

Individual Remuneration of the Executive Board

The following figures comply with the recommendations in Section 4.2.5 of the German Corporate Governance Code (GCGC).

Individual Remuneration of the Executive Board

	Angela Titzrath, Chairwoman of the Executive Board					
	Benefits granted (target)				Allocation (amount disbursed)	
in €	2017	2017 Minimum	2017 Maximum	2016[1]	2017	2016[1]
Fixed remuneration	450,000	450,000	450,000	87,500	450,000	87,500
Other benefits	12,248	12,248	12,248	6,936	12,248	6,936
Total	**462,248**	**462,248**	**462,248**	**94,436**	**462,248**	**94,436**
One-year variable remuneration[2, 3]	350,940	0	450,000	85,683	392,230	87,500
Other	0	0	0	0	0	0
Total remuneration	**813,188**	**462,248**	**912,248**	**180,118**	**854,478**	**181,936**
Service cost[4]	354,032	354,032	354,032	68,649	354,032	68,649
Total expenses	**1,167,220**	**816,280**	**1,266,280**	**248,767**	**1,208,510**	**250,584**

	Dr. Stefan Behn, Executive Board member (until 31 March 2017)					
	Benefits granted (target)				Allocation (amount disbursed)	
in €	2017	2017 Minimum	2017 Maximum	2016	2017	2016
Fixed remuneration	87,500	87,500	87,500	341,661	87,500	341,667
Other benefits	6,940	6,940	6,940	13,518	6,940	13,518
Total	**94,440**	**94,440**	**94,440**	**355,185**	**94,440**	**355,185**
One-year variable remuneration[2, 3]	70,704	0	87,500	312,730	81,203	324,397
Other	0	0	0	0	0	0
Total remuneration	**165,143**	**94,440**	**181,940**	**667,915**	**175,643**	**679,582**
Service cost[4, 5]	0	0	0	688,121	0	688,121
Total expenses	**165,143**	**94,440**	**181,940**	**1,356,036**	**175,643**	**1,367,703**

Heinz Brandt, Executive Board member						
	Benefits granted (target)				Allocation (amount disbursed)	
in €	2017	2017 Minimum	2017 Maximum	2016	2017	2016
Fixed remuneration	350,000	350,000	350,000	325,000	350,000	325,000
Other benefits	13,215	13,215	13,215	12,812	13,215	12,812
Total	**363,215**	**363,215**	**363,215**	**337,812**	**363,215**	**337,812**
One-year variable remuneration[2, 3]	282,815	0	350,000	312,730	324,813	324,397
Other	0	0	0	0	0	0
Total remuneration	**646,030**	**363,215**	**713,215**	**650,542**	**688,028**	**662,209**
Service cost[4]	265,932	265,932	265,932	245,705	265,932	245,705
Total expenses	**911,962**	**629,146**	**979,146**	**896,247**	**953,960**	**907,914**

Jens Hansen, Executive Board member (since 1 April 2017)						
	Benefits granted (target)				Allocation (amount disbursed)	
in €	2017	2017 Minimum	2017 Maximum	2016	2017	2016
Fixed remuneration	262,500	262,500	262,500	0	262,500	0
Other benefits	10,081	10,081	10,081	0	10,081	0
Total	**272,581**	**272,581**	**272,581**	**0**	**272,581**	**0**
One-year variable remuneration[2, 3]	230,393	0	262,500	0	257,047	0
Other	0	0	0	0	0	0
Total remuneration	**502,974**	**272,581**	**535,081**	**0**	**529,629**	**0**
Service cost[4]	26,250	26,250	26,250	0	26,250	0
Total expenses	**529,224**	**298,831**	**561,331**	**0**	**555,879**	**0**

Dr. Roland Lappin, Executive Board member						
	Benefits granted (target)				Allocation (amount disbursed)	
in €	2017	2017 Minimum	2017 Maximum	2016	2017	2016
Fixed remuneration	350,000	350,000	350,000	341,667	350,000	341,667
Other benefits	9,593	9,593	9,593	10,989	9,593	10,989
Total	**359,593**	**359,593**	**359,593**	**352,656**	**359,593**	**352,656**
One-year variable remuneration[2, 3]	282,815	0	350,000	312,730	324,813	324,397
Other	0	0	0	0	0	0
Total remuneration	**642,408**	**359,593**	**709,593**	**665,386**	**684,406**	**677,052**
Service cost[4]	205,008	205,008	205,008	178,719	205,008	178,719
Total expenses	**847,415**	**564,600**	**914,600**	**844,104**	**889,414**	**855,771**

1 *In the period from 1 October 2016 until 31 December 2016, Ms. Titzrath was a full member of the Executive Board.*

2 *Elements of the performance-related bonus (EBIT and sustainability components), calculated on the basis of a three-year assessment period.*

3 *A level of goal achievement of 100 % was assumed for each sustainability component and an average probability scenario was used for the EBIT figure (based on the forecasts announced on the capital market at the start of each year).*

4 *Service costs in accordance with IAS 19 "Service Cost Components for Entitlements, Payments for Direct Insurance Policies or Earmarked Contributions for Pensions" (according to the comments on model table 1 in the appendix to the GCGC)*

5 *In light of Dr. Behn's decision to leave the Executive Board as of 31 March 2017, increased service costs were accrued to him for the 2016 financial year, while no additional service costs arose in the 2017 financial year.*

Supervisory Board Remuneration

In accordance with Article 16 of HHLA's articles of association, Supervisory Board members are remunerated as resolved by the Annual General Meeting. This remuneration is based on the scope of the Supervisory Board members' activities as well as on the company's financial position and results. The current remuneration clause was adopted at the Annual General Meeting held on 13 June 2013. The members of the Supervisory Board receive fixed remuneration of € 13,500 per financial year. The Chairman receives three times this amount and the Vice Chairman is paid one-and-a-half times the basic figure. Supervisory Board members who belong to a committee receive an additional € 2,500 per committee per financial year, while the Chairman of the respective committee receives € 5,000, but altogether no more than € 10,000. Supervisory Board members who have belonged to the Supervisory Board or a committee for less than one full financial year receive a corresponding pro rata payment. Furthermore, Supervisory Board members receive a meeting attendance fee of € 250 for each meeting of the Supervisory Board or one of its committees. There are no plans for a variable remuneration component.

No loans or similar payments were granted to members of the Supervisory Board. Other than the customary remuneration payable to the employee representatives under their contracts of employment, the members of the Supervisory Board did not receive any other payment for additional services rendered. The total remuneration paid to members of the Supervisory Board amounted to € 303,938 (previous year: € 327,292).

Individual Remuneration of Supervisory Board Members

	Fixed remuneration		Remuneration for committee work		Meeting fee		Total	
in €[1]	2017	2016	2017	2016	2017	2016	2017	2016
Prof. Dr. Rüdiger Grube[2]	23,625	0	0	0	750	0	24,375	0
Prof. Dr. Peer Witten[3]	20,250	40,500	5,000	10,000	3,000	5,000	28,250	55,500
Berthold Bose[2]	11,813	0	0	0	750	0	12,563	0
Wolfgang Abel[3]	10,125	20,250	1,250	2,500	2,500	4,250	13,875	27,000
Torsten Ballhause[3]	6,750	13,500	3,750	6,250	3,000	5,250	13,500	25,000
Petra Bödeker-Schoemann	13,500	13,500	6,250	7,500	2,750	2,750	22,500	23,750
Dr. Rolf Bösinger[4]	13,500	12,375	2,500	4,167	3,500	4,250	19,500	20,792
Dr. Bernd Egert[3]	6,750	13,500	3,750	7,500	1,500	3,750	12,000	24,750
Holger Heinzel[3]	6,750	13,500	1,250	2,500	1,000	2,000	9,000	18,000
Dr. Norbert Kloppenburg	13,500	13,500	6,250	7,500	3,250	2,750	23,000	23,750
Andreas Kummer[5]	6,750	6,750	3,750	3,750	3,250	3,500	13,750	14,000
Frank Ladwig[6]	0	7,875	0	2,917	0	2,500	0	13,292
Thomas Lütje[2]	7,875	0	833	0	1,000	0	9,708	0
Thomas Mendrzik[2]	7,875	0	2,500	0	1,750	0	12,125	0
Stephan Möller-Horns[7]	0	2,250	0	0	0	0	0	2,250
Arno Münster[8]	0	7,875	0	5,833	0	3,250	0	16,958
Thomas Nahr[9]	6,750	6,750	2,500	2,500	1,500	1,500	10,750	10,750
Norbert Paulsen	13,500	13,500	5,000	5,000	3,500	2,750	22,000	21,250
Sonja Petersen[2]	7,875	0	1,667	0	250	0	9,792	0
Dr. Sibylle Roggencamp	13,500	13,500	8,750	10,000	4,500	6,750	26,750	30,250
Maya Schwiegershausen-Güth[2]	7,875	0	0	0	250	0	8,125	0
Michael Westhagemann[2]	7,875	0	2,500	0	2,000	0	12,375	0
Total	206,438	199,125	57,500	77,917	40,000	50,250	303,938	327,292

1 *All figures exclude VAT*
2 *Since 21 June 2017 (day of the Annual General Meeting)*
3 *Until 21 June 2017 (day of the Annual General Meeting)*
4 *Since 18 February 2016*
5 *15 July 2016 until 21 June 2017*
6 *Until 25 July 2016*
7 *Until 9 February 2016*
8 *Until 14 July 2016*
9 *26 July 2016 until 21 June 2017*

Additional Information on Takeover Law and Explanatory Notes

1. The subscribed capital of the company amounts to € 72,753,334.00. It is divided into 72,753,334 registered no-par-value shares with a pro-rata share of the company's share capital of € 1.00. Of this amount, 70,048,834 are Class A shares and 2,704,500 are Class S shares (class of shares). The Class S shares constitute only shareholdings in the net profit/loss and net assets of the S division, and the Class A shares constitute only shareholdings in the net profit/loss and net assets of the remainder of the company (A division). The S division consists of the part of the company that deals with the acquisition, holding, selling, letting, management and development of properties not specific to port handling (Real Estate subgroup). All other parts of the company (Port Logistics subgroup) form the A division. The dividend entitlement of holders of Class S shares is based on the proportion of the distributable profit for the year attributable to the S division, and the dividend entitlement of holders of Class A shares is based on the remaining proportion of distributable profit for the year (Article 4 [1] of the articles of association). Each share entitles the holder to one vote at the Annual General Meeting (Article 20 [1] of the articles of association) and gives the holder the rights and responsibilities laid down in the German Stock Corporation Act (AktG) and the articles of association. If the statutory provisions require a special resolution to be adopted by holders of a given class of shares, only the holders of that class of shares shall be entitled to vote.

2. To the Executive Board's knowledge, there are no restrictions on voting rights or the transfer of shares, including those arising from agreements between shareholders.

3. For details on direct or indirect capital shareholdings which entitle the holder to more than 10 % of the voting rights, ▶ see the Notes to the Consolidated Financial Statements, Note 35, page 114 and ▶ Note 48, page 138.

4. There are no shares with special rights granting powers of control.

5. Employees who hold stakes in the company's equity exercise their shareholders' rights at their own discretion. There is therefore no control of the voting rights.

6.1 As per Article 8 sentence 1 of the company's articles of association, the Executive Board consists of two or more people. Members of the Executive Board are appointed and dismissed by the Supervisory Board in accordance with Section 84 of the German Stock Corporation Act (AktG) in conjunction with Section 31 of the German Co-Determination Act (MitbestG) and Article 8 of the articles of association.

6.2 Amendments to the articles of association can be made by means of a resolution of the Annual General Meeting. In line with Sections 179 and 133 of the German Stock Corporation Act (AktG) and Article 22 of the articles of association, a simple majority of the votes cast at the Annual General Meeting is sufficient for amendments to the articles of association. If a capital majority is required in addition to a majority of the votes, a simple majority of the share capital represented when the resolution is passed is adequate. In the case of amendments to the articles of association for which the law prescribes a larger voting or capital majority, the legally required majority applies. In accordance with Article 11 (4) of the articles of association, the Supervisory Board is authorised to carry out amendments to the articles of association that relate only to the wording. If an amendment to the articles of association in the event of a capital increase or steps taken in accordance with the German Reorganisation of Companies Act (UmwG) is designed to change the relationship between Class A and Class S shares, special resolutions by the Class A and Class S shareholders affected are required as per Section 138 AktG. Amendments to the articles of association become effective when they are recorded in the commercial register.

7.1 Subject to the approval of the Supervisory Board, the Executive Board was authorised by the Annual General Meeting on 21 June 2017 to increase the company's share capital until 20 June 2022 by up to € 35,024,417.00, by issuing up to 35,024,417 new registered Class A shares for subscription in cash and/or kind in one or more stages (Authorised Capital I, see Article 3 (4) of the articles of association). The statutory subscription right of the holders of Class S shares shall be excluded. The Executive Board is additionally authorised, subject to the approval of the Supervisory Board, to exclude the statutory subscription rights of holders of Class A shares in those cases covered in more detail in the resolution, such as issue for contributions in kind or issue in return for cash at a price which is not substantially lower than the stock exchange price of those Class A shares which are already listed at the time of the issue, and provided the new Class A shares do not account for more than 10 % of share capital. Furthermore, the issue of new Class A shares while excluding the subscription rights of Class A shareholders is limited to a total of 20 % of the share capital attributable to Class A shares. All Class A shares issued or that could be issued under other authorisations with the exclusion of subscription rights count towards this 20 % limit.

7.2 Subject to the approval of the Supervisory Board, the Executive Board is additionally authorised under Article 3 (5) of the articles of association to increase the company's share capital until 20 June 2022 by up to € 1,352,250.00 by issuing up to 1,352,250 new registered Class S shares by subscription in cash and/or kind in one or more stages (Authorised Capital II, see Section 3 [5] of the articles of association). The statutory subscription right of the holders of Class A shares shall be excluded. The Executive Board is authorised, with the approval of the Supervisory Board, to exclude the statutory subscription rights of holders of Class S shares as is necessary to equalise fractional amounts.

7.3 The Annual General Meeting on 16 June 2016 authorised the Executive Board, subject to the approval of the Supervisory Board, to issue on one or more occasions up to 16 June 2019 bearer or registered bonds with warrants or convertible bonds or combinations of these instruments (hereinafter known collectively as "debenture bonds") and to grant the bearers or creditors of the debenture bonds warrants or conversion rights for up to 10,000,000 new registered Class A shares in the company, each representing € 1.00 of the share capital, subject to the detailed terms of the debenture bonds. The total nominal amount of the debenture bonds issued under this authorisation may not exceed € 200,000,000.00. The debenture bonds are to be divided into separate securities of the same class, each with equal rights. The respective terms of the debenture bonds may also provide for a warrant or conversion obligation as well as an issuer put option to provide Class A shares in the company as of the end of the term or at an earlier date. Class S shareholders' subscription rights are excluded. Subject to the approval of the Supervisory Board, Class A shareholders' subscription rights to the debentures can also be excluded in full or in part in order to equalise fractional amounts, to grant subscription rights to the holders or creditors of warrants and/or debenture bonds and to the extent that debenture bonds are issued for cash, whereby debenture bonds with rights, options or obligations to convert them into Class A shares or an issuer put option for Class A shares may account for no more than 10 % of the share capital attributable to Class A shares. Furthermore, the issue excluding the subscription rights of Class A shareholders is limited to a total of 20 % of the share capital attributable to Class A shares. All Class A shares issued or that could still be issued under other authorisations with the exclusion of subscription rights count towards this 20 % limit. As per Article 3 (6) of the articles of association, conditional capital of € 10,000,000.00 is available to service warrants and conversion rights and obligations as well as any tender rights. This allows up of 10,000,000 new registered Class A shares to be issued.

Further details of the authorisations stated in sections 7.1 to 7.3, particularly the conditions of issue, the possibilities to exclude subscription rights and their limits, can be found in the corresponding authorisation resolutions as well as in Article 3 of the articles of association.

7.4 The Annual General Meeting held on 16 June 2016 authorised the company to purchase Class A treasury shares up to a maximum of 10 % of the company's share capital attributable to Class A shares at the time of the resolution or if lower, at the time that the authorisation is exercised, until 15 June 2021. This authorisation may be used for any legally permissible purpose, except for trading in treasury shares. At the discretion of the Executive Board, the purchase may be made via the stock exchange, by way of a public purchase offer made to all Class A shareholders or by way of a public invitation to submit sales offers. In addition to selling Class A shares in the company acquired under this authorisation via the stock exchange or offering them to all shareholders in proportion to their shareholdings, the Executive Board was also authorised – subject to the approval of the Supervisory Board – to use these shares for all legally permissible purposes. This includes in particular selling shares in exchange for cash consideration at a price that is not significantly lower than the price of shares in the company of the same rights at the time of the sale, using shares to settle rights or obligations of bearers or creditors resulting from convertible bonds or bonds with warrants issued by the company or by companies in which the company holds a majority stake, issuing or offering shares for sale to employees of the company or to employees or members of the executive bodies of an associated company, the sale of shares to third parties in return for contributions in kind, as well as redeeming shares, even in a simplified process in accordance with Section 237 (3–5) AktG. In the above cases – excluding redemption – the rights of shareholders to subscribe for treasury shares are also excluded. With the exception of shares sold in return for contributions in kind or the redemption of shares, the Class A shares sold or used while excluding subscription rights may not exceed 10 % of the share capital attributable to Class A shares.

Further details on the authorisation can be found in the corresponding resolution.

7.5 Under Article 6 of the articles of association and Section 237 (1) AktG, the company is authorised to redeem Class A or S shares against payment of appropriate compensation if the shareholders whose shares are to be redeemed have given their consent.

8. The following material agreements include regulations that apply in the case of a change of control, as may result from a takeover bid:

In September 2015, the company took out three promissory note loans with a total volume of € 53,000,000 and issued a total of 44 registered bonds with a combined nominal value of € 22,000,000. Partial repayments will be due between 30 September 2022 and 30 September 2025 for the promissory note loans and between 30 September 2027 and 30 September 2030 for the registered bonds. If there is a change of control at HHLA, the holders or creditors of registered bonds and promissory note loans and tranches thereof are entitled to demand early repayment. However, the creditors of promissory note loans and tranches thereof are only entitled to demand 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.

Statement of the Executive Board

Under the circumstances known to the Executive Board at the time the transactions listed in the related parties report in accordance with Section 312 of the German Stock Corporation Act (AktG) were carried out or actions were committed or omitted, the company received adequate consideration for the transaction and was not disadvantaged by committing or refraining from said actions.

In accordance with Article 4 of the articles of association, the Executive Board, with analogous application of the provisions of Section 312 of the German Stock Corporation Act (AktG), must prepare a report on the relationships between the A division and the S division. Under the circumstances that were known to the Executive Board at the time when the legal transactions specified in the report on the relationships between the A division and the S division were completed, both divisions received appropriate consideration. Any expenses and returns that could not be attributed directly to one division were divided among the divisions in line with the articles of association. No steps were taken or omitted at the behest or in the interests of the other division in each case.

Hamburg, 1 March 2018

Hamburger Hafen und Logistik Aktiengesellschaft
The Executive Board

Angela Titzrath
Heinz Brandt

Jens Hansen
Dr. Roland Lappin

Some of the disclosures in the Management Report – including statements on revenue and earnings trends and on possible changes in the sector or the financial position – contain forward-looking statements. These statements are based on the current best estimates and assumptions of the company. Depending on whether uncertain events materialise, HHLA's actual results, including its earnings and financial position, may differ materially from those explicitly or implicitly assumed or described in these statements.