

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



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

Real Estate

Subgroup

Non-listed Class S 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 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 –

31.6 %

68.4 %

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

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

100 %

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 transshipping 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 Hansen¹ 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 m² of commercial space. Other prime properties totalling approximately 63,000 m² 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

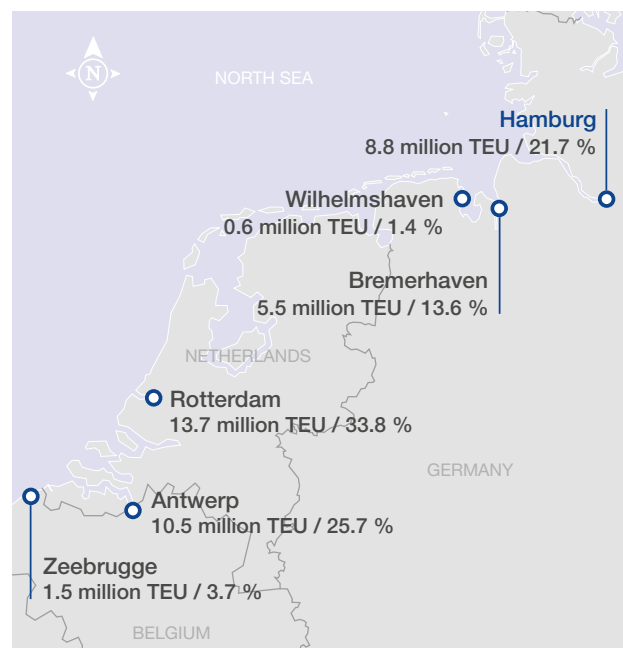
With its listed core business Port Logistics, HHLA operates on the European market for sea freight services. This market offers long-term growth prospects as a number of key Central European countries strengthened their competitiveness after the debt crisis, thereby paving the way for a further increase 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

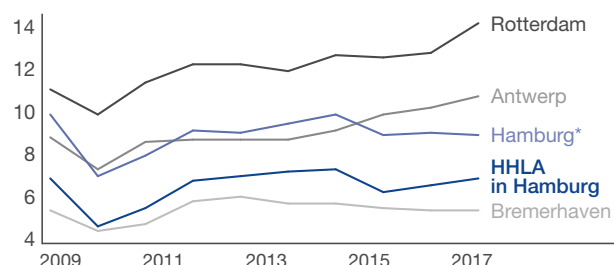
Volumes and market shares, 2017



Source: Port Authorities / own calculation (market share)

Container Throughput at the Largest North Range Ports

in million TEU



Source: Port Authorities; *incl. HHLA

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).

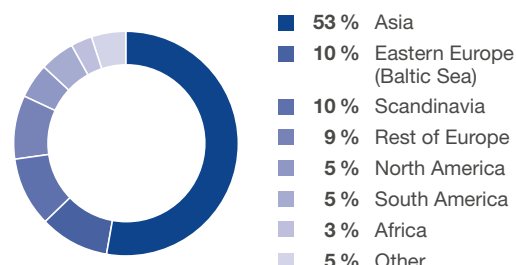
Apart from a change in the ownership structure at the remaining terminal in Zeebrugge, there were no changes at the rival ports in 2017. Competition remains extremely fierce and the ports are increasingly dependent on changing shipping company constellations. The resulting shift towards more geographically 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

Seaborne Container Throughput by Shipping Region

in the Port of Hamburg, 2017



Source: Hamburg Hafen Marketing e.V.

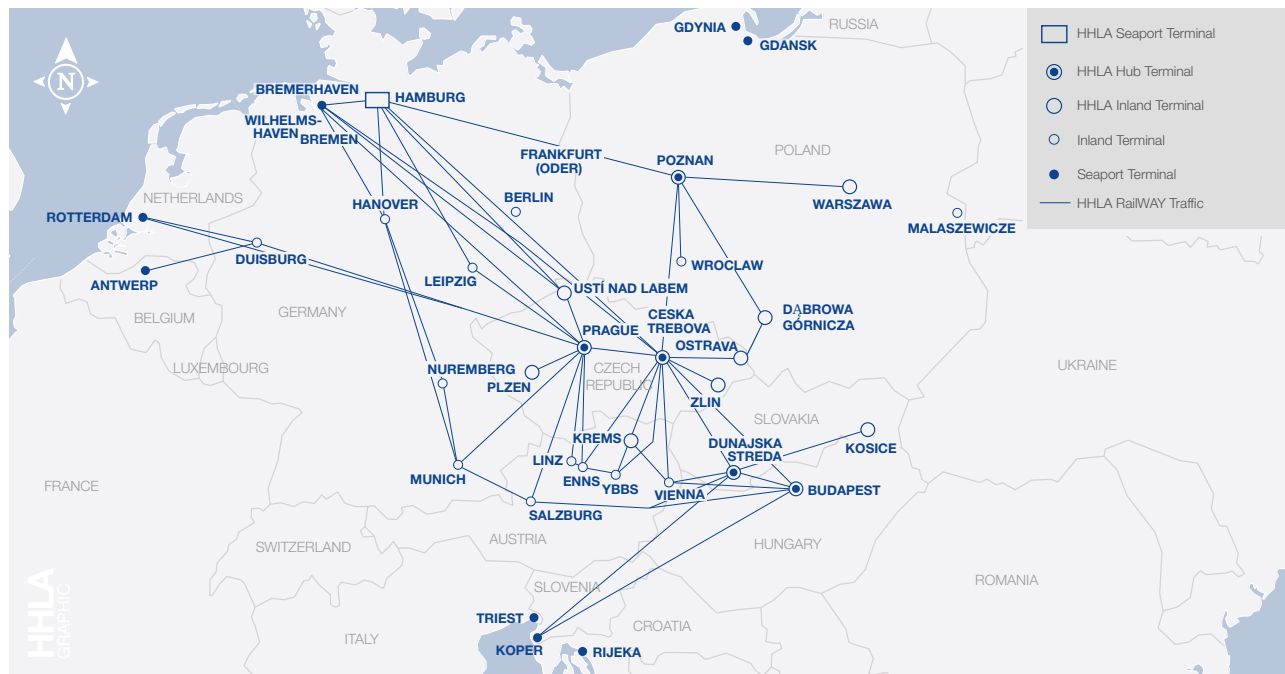
Hamburg to approximately 78 % (previous year: 73 %). Asia, Eastern Europe and Scandinavia were the most important shipping regions.

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.

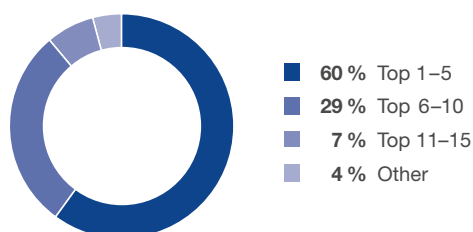
Customer Structure and Sales

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



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

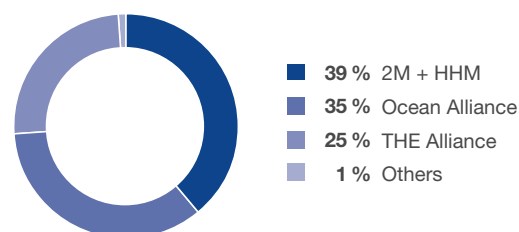
by carrying capacity as of 31 December 2017

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

Capacity Breakdown by Shipping Line Alliances

on Far East–Europe services as of 31 December 2017



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 Hafentwicklungsgesetz – 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 – VAWSt). 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.