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

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 dry bulk, general cargo, vehicles, fruit, etc.
- Airborne logistics services
- 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 –

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 logistics companies. The Group is operated as a strategic management holding company 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 economic 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 27 domestic and 15 foreign subsidiaries and associated firms that make up the consolidated group. Notes to the consolidated financial statements, no. 3 Composition of the Group In the 2018 financial year, HHLA acquired the Estonian terminal operator Transiidikeskuse AS, took over the outstanding shares in METRANS a.s. in the Intermodal segment and reorganised its Polish rail activities. No other significant legal or organisational changes were made.

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 and advises the members of the Executive Board and monitors the Executive Board's work. In the 2018 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. Torben Seebold will be appointed as a member of the Executive Board as of 1 April 2019. He succeeds Heinz Brandt, who will leave the Executive Board as of 31 March 2019.

The Supervisory Board of HHLA has twelve members in all, with six representing the shareholders and six representing the employees. Notes to the consolidated financial statements, no. 49 Board members and mandates

Operating activities

As an integrated provider of container handling, transport and logistics services, the **Port Logistics subgroup** offers services along 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 further container terminals in Odessa, Ukraine (CTO) and Tallinn, Estonia (HHLA TK Estonia). The portfolio is rounded off by supplementary container services, such as maintenance and repairs.

Organisational structure

Supervisory Board

Executive Board

Angela Titzrath Chairwoman of the Executive Board	**Heinz Brandt** Chief Human Resources Officer	**Jens Hansen** Chief Operating Officer	**Dr. Roland Lappin** Chief Financial Officer
Responsibilities	Responsibilities	Responsibilities	Responsibilities
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	Container operations Container engineering Information systems	Finance and controlling (including organisation) Investor relations Internal audit Real Estate segment

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 METRANS 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 transfer 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 (including airborne 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 at the Fischmarkt Hamburg-Altona in the exclusive fish market area on the river Elbe's northern banks.

Further information on the performance of each segment can be found in segment performance.

Market position

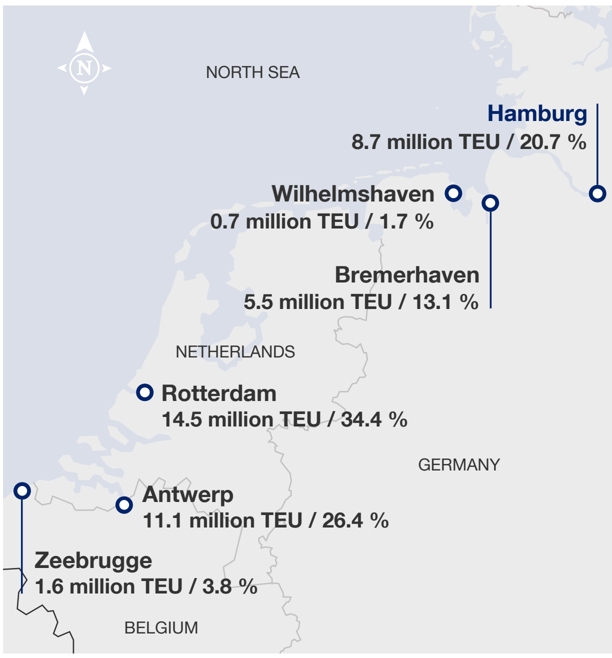
With its listed core business Port Logistics, HHLA operates on the European market for sea freight services. This market offers long-term growth prospects as a number of key Central European countries strengthened their competitiveness after the debt crisis, thereby paving the way for a further increase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

It is expected that the increasing barriers to global trade will impede global supply chains and thus have a negative impact on imports and exports. As a result, initial forecasts of the International Monetary Fund (IMF) indicate that global economic growth in 2018 will have been slightly weaker than in the previous year. Protectionist trade barriers in particular are having an effect on containerised trade and transport volumes. Nevertheless, it is anticipated that global growth will continue to develop positively in 2019.

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

Container throughput at the North Range ports

Volumes and market shares in 2018



Source: Port Authorities / market shares according to own calculation considerably smaller in terms of their capacity and/or current freight volume. At present, the Baltic Sea ports are served by high feeder traffic operating via central distribution points in the North Range. The practice of ocean-going vessels calling directly at ports such as Gdansk and Gothenburg, however, is also changing goods flows. Gdansk is exhibiting particularly strong growth and is therefore increasingly competing with this network system. Adriatic ports, such as Koper and Trieste, and the Polish ports have also improved their infrastructure and are competing with the Port of Hamburg for freight in the hinterland.

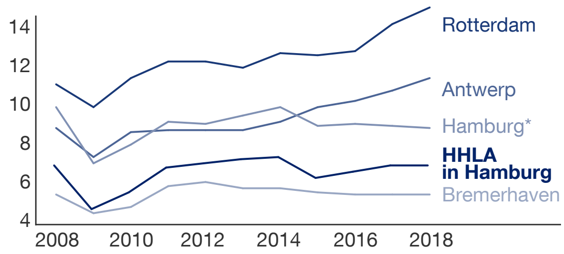
As well as the geographical position and hinterland links of a port, its accessibility from the sea affects the competitive position of terminal operators. Local freight volume in the direct catchment area of each port location plays an important role. Other key competitive factors that influence the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

In the 2018 financial year, CMA CGM acquired a 10 % interest in the container terminal in Zeebrugge. Otherwise, there were no changes at competitor ports during the reporting period. Competition remains extremely fierce and the ports are increasingly dependent on changing shipping company constellations. The resulting shifts of 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 longstanding 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 8.7 million TEU, Hamburg ranked 18th among the world's ports in 2018 and is thus the third-largest European container port after Rotterdam and Antwerp.

Container throughput at the largest North Range ports

in million TEU

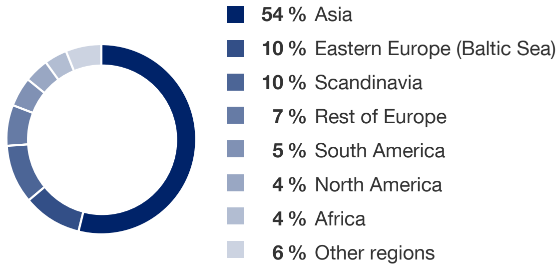


Source: Port Authorities; * incl. HHLA

In Hamburg, HHLA expanded its position as the largest container handling firm with a throughput volume of 6.9 million TEU in 2018. The HHLA container terminals achieved a slight year-on-year increase in their market share for handling at the Port of Hamburg to approximately 79 % (previous year: 78 %). Asia, Eastern Europe and Scandinavia were the most important shipping regions.

Container throughput by shipping region

in the Port of Hamburg, 2018

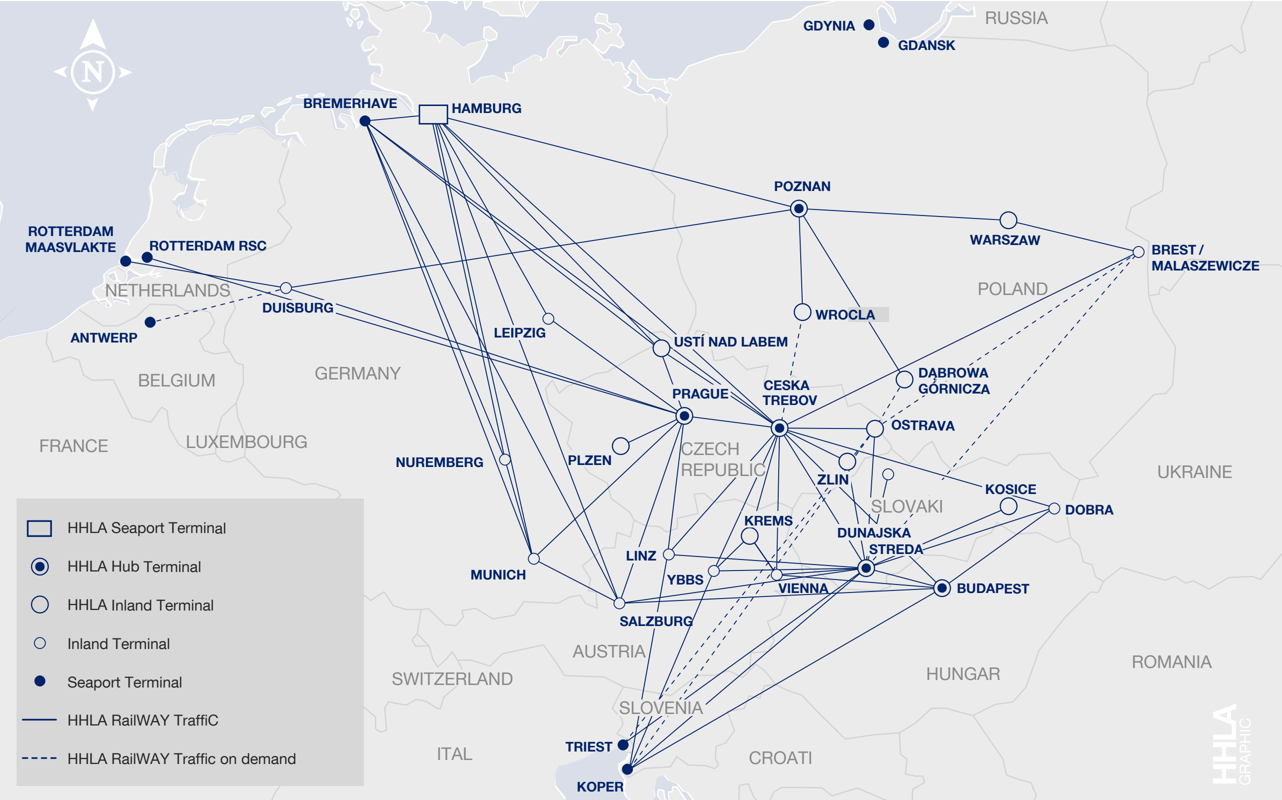


Source: Hamburg Hafen Marketing e.V.

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 2.4 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 a variety of other rail operators and intermodal transport firms, 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, punctuality and infrastructural capacity. The importance of these factors is growing as ports compete with one another.

Intermodal network of HHLA

Selected connections



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.

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 plants (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. The **HHLA customer base** remains in a state of flux on account of the ongoing consolidation in the container shipping segment. The acquisition of UASC by Hapag-Lloyd was already completed in the previous year, as was the acquisition of Hamburg Süd by Maersk Line. The acquisition of OOCL by the Chinese line COSCO Shipping was finalised in 2018. The merger of three Japanese shipping companies – NYK Line, MOL and K Line – to create Ocean Network Express (ONE) was also completed. ONE launched operations in April 2018.

In the reporting year, HHLA's customer base included all of the world's top ten container shipping companies. HHLA therefore considers itself well placed to also meet the future requirements of its clients in the shipping sector. Business forecast

Top 10 shipping companies

by carrying capacity in thousand TEU as of 31.12.2018

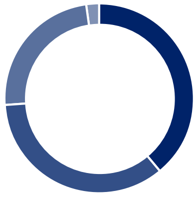
Shipping company	Alliance 2018	2018
1. APM-Maersk	2M	4,065
2. MSC	2M	3,313
3. COSCO Group (inkl. OOCL)	Ocean Alliance	2,772
4. CMA CGM Group	Ocean Alliance	2,665
5. Hapag-Lloyd	THE Alliance	1,652
6. ONE (MOL, NYK, K Line)	THE Alliance	1,515
7. Evergreen	Ocean Alliance	1,192
8. Yang Ming	THE Alliance	632
9. PIL	–	418
10. HMM	2M - associated	413

Source: Alphaliner Monthly Monitor, January 2019

The major shipping line alliances formed in 2017 – 2M, Ocean Alliance and THE Alliance – remain in place. In addition, Ocean Alliance has extended its existing contract until 2027.

Capacity breakdown by shipping line alliances

on Far East–Europe services as of 31.12.2018



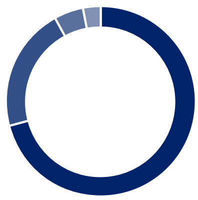
Source: Alphaliner Monthly Monitor, January 2019

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 segment revenue attributable to HHLA's five most important customers in the Container segment rose strongly again in the 2018 financial year, taking it to 71 % in total (previous year: 60 %). Due to the wave of consolidation, also the share of segment revenue of the ten most important customers rose slightly to 92 % (previous year: 89 %). The share of the 15 most important customers was only marginally higher than in the previous year at 97 % (previous year: 96 %). HHLA has maintained commercial relationships with the majority of its most important customers for well over two decades.

Revenue distribution by customer

in the Container segment at the main hub of Hamburg in 2018



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). 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 long-term lease agreements 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 regulations concerning the handling, storage and transport of environmentally harmful substances and hazardous goods, as well as rules concerning 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, this 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), which, 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 increased sensitivity with regard to safety and environmental concerns, among other issues. In the 2018 financial year, significant legislative procedures for HHLA included the continued modernisation of the Union Customs Code at European level, as well as the corresponding delegated regulations. In Germany, the proposed draft legislation to accelerate the planning and construction of infrastructure projects as well as initiatives to improve the process for levying import VAT and to reduce route prices for using rail infrastructure were of relevance for HHLA. In the reporting period, 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 is one of Europe's leading port and logistics companies with activities stretching beyond the Port of Hamburg into many parts of Europe. Together with its customers, HHLA develops logistical and digital hubs for the transport flows of the future. As a result, HHLA is paving the way for sustainable growth in its enterprise value.

In 2017, the HHLA Executive Board launched a business development process with the aim of strengthening the company's future viability and dynamism over the long term. The necessary changes are linked across all segments and underpinned by numerous measures. The defined objectives are pursued consistently.

HHLA's market environment is changing at an ever-greater pace. HHLA aims to harness this change quickly and successfully and in a determined and focused manner. To this end, HHLA is paying increasing

- attention to identifying and interpreting relevant trends, in order to derive value-adding initiatives.
- Flexibility with the aim and benefit of acting and evolving quickly.
- Efficiency and networking in order to remain ahead of the competition and generate added value.
- Search for, and integration of, new ideas.

HHLA draws on its considerable **creative power** to focus on the development of additional values. This also involves strengthening customer loyalty and its customer base.

HHLA is guided by key milestones as it builds its **future viability**. We come from Hamburg and are at home in Europe. As a gateway to the future, we offer our customers the best way to transport their goods safely, quickly and efficiently. We are currently sowing the seeds for additional, sustainable and profitable growth in our value creation to safeguard our future enterprise value.

Four initiatives have been identified to achieve these objectives:

- **Fit for the world of tomorrow:** Our core business is being strengthened to be able to enter the world of tomorrow sustainably and profitable. A corresponding programme for the future is being implemented. This programme aims to enhance competitiveness, quality and profitability.
- **Exploiting additional growth areas:** HHLA is tapping growth potential along the transport streams 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 activity.
- **Investments and finance:** The company will continue to gear its investments and operating results towards sustainable, profitable growth. HHLA applies a value-oriented approach to its strategic investments. The most important investment criteria are the growth prospects and anticipated return on capital of the investment projects.

The development of sustainable and profitable business is an integral component of HHLA. In particular, this includes the development of sustainable transport and logistics solutions that enable climate-friendly and space-saving operations while facilitating the conservation of resources and contributing to the economic result of HHLA.

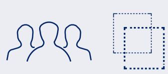
Corporate strategy

Sustainably increasing enterprise value at HHLA

Fit for the world 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.

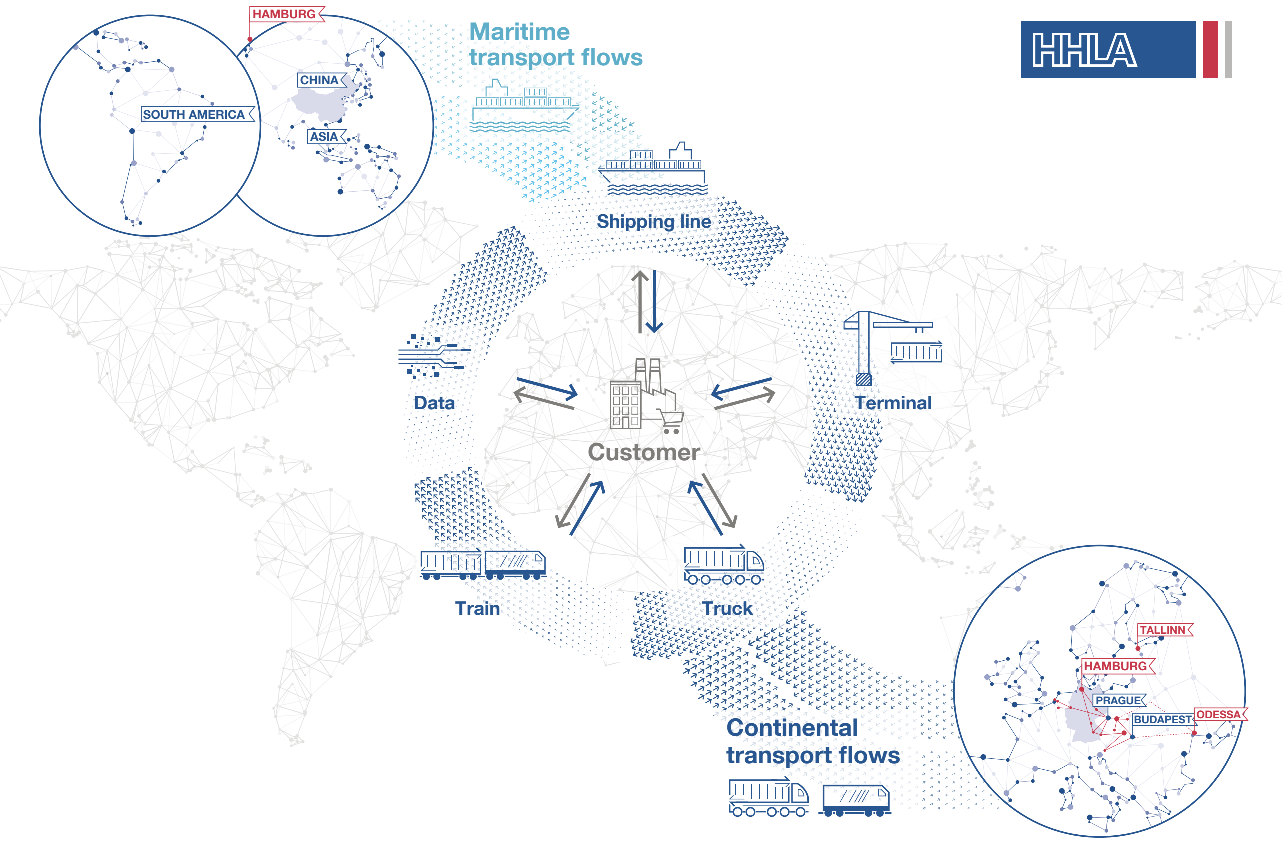
Organisation and corporate culture
HHLA is aligning its organisation and corporate culture for tomorrow.



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

The HHLA service network

HHLA connects its customers with maritime and continental transport streams



In the listed Port Logistics subgroup, activities to cement and expand the current market positioning are governed by the following guidelines:

In the **Container segment**, HHLA aims to be an efficient, highly automated and high-performance port service provider with a strong hinterland network and cutting-edge, digital customer solutions. In order to achieve this, the design and operation of HHLA's container terminals are systematically geared to maximum efficiency of space and manpower, while innovative technologies and processes are used to achieve continuous improvements in quality standards. Another area of focus is the mission to develop HHLA into a green port within a sustainable and emission-free transport chain. HHLA's container terminals are supposed to collaborate across all terminals wherever possible in order to benefit from each other and continuously boost the efficiency of handling services.

In the **Intermodal segment,** HHLA strives to be a quality and efficiency leader and aims to leverage this leading position in order to profit from the transport streams of the future. METRANS will play an important role along the hubs and connecting lines of the logistics network, both in Europe and beyond. Thanks to efficient networking between the Intermodal segment and the other activities of the HHLA Group, HHLA is able to offer its customers a perfectly coordinated range of services. Besides enhancing the scope and range of its services, HHLA also focuses on increasing its vertical integration.

With its **Logistics segment**, HHLA aims to strengthen Hamburg's all-purpose port and drive forward its future-oriented diversification. The business prospects of the Frucht- und Kühl-Zentrum, Ulrich Stein and UNIKAI are being further enhanced. HPC is positioning itself as a leading international specialist and strategic consultancy for the maritime industry. The segment's potential is being harnessed to develop further services in the logistical and digital value chains.

In addition to purely organic growth, HHLA examines opportunities for acquisitions in order to tap new growth areas along the logistical value chain. 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 growth potential along the transport flows of the future. In this way, the company aims to identify and occupy new digital business models.

In its non-listed **Real Estate subgroup**, HHLA pursues the objective of developing into an integrated, market-viable developer of specialist properties. The corporate unit HHLA Real Estate aims to be Hamburg's flagship provider of intelligent district management on the basis of a clear strategic alignment and reliable prioritisation. As such, HHLA Real Estate is a much sought-after specialist in its clearly defined areas of expertise.

Corporate and value management

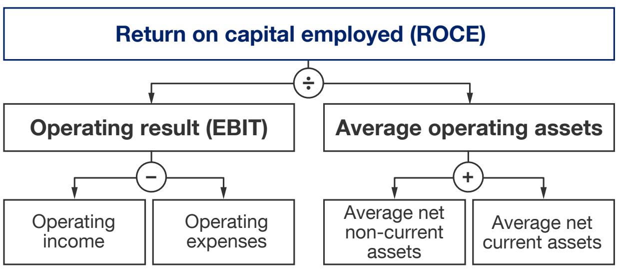
HHLA's primary financial objectives include the long-term, sustainable growth of its enterprise value. HHLA uses a Group-wide value management system for the planning, management and monitoring of its commercial activities. No changes were made to this system in the 2018 financial year.

Financial performance indicators

The key operational management parameters 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 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 2018 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's EBIT rose year-on-year by 17.9 % to € 204.2 million in the 2018 financial year (previous year: € 173.2 million). Group Performance With a moderate rise in average operating assets to € 1,383.9 million (previous year: € 1,321.2 million), the return on capital employed was up by 1.7 percentage points year-on-year at 14.8 % (previous year: 13.1 %). The minimum ROCE of 8.5 % was therefore comfortably exceeded by 6.3 percentage points. As a result, the HHLA Group generated a positive value added of € 86.6 million in the reporting period (previous year: € 60.9 million).

Key figures value added

in € million	**2018**	2017	Change
Operating income	1,338.2	1,296.4	3.2 %
Operating expenses	- 1,134.0	- 1,123.2	1.0 %
EBIT	204.2	173.2	17.9 %
Ø Net non-current assets	1,279.4	1,217.4	5.1 %
Ø Net current assets	104.5	103.8	0.7 %
Ø Operating assets	1,383.9	1,321.2	4.7 %
ROCE in %	14.8	13.1	1.7 pp
Capital costs before tax[1] in %	8.5	8.5	0.0 pp
Capital costs before tax	117.6	112.3	4.7 %
Value added in %	6.3	4.6	1.7 pp
Value added	86.6	60.9	42.2 %

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 by working groups.

In the 2018 financial year, HHLA mainly focused its resources and available capacity on research as part of the subsidy programme for Innovative Port Technologies (IHATEC).

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 ramping up of the 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 subsidy programme, the Hamburg Vessel Coordination Center (HVCC) continued 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.

Heat treatment unit

UNIKAI Lagerei- und Speditionsgesellschaft mbH has developed a worldwide unique technology for preparing vehicles for pest-free export to Australia and New Zealand. As of 1 September, goods being exported from Germany to Australia or New Zealand have to be fumigated or heat treated due to the appearance of the brown marmorated tree bug (Halyomorpha halys). This also includes all vehicles that UNIKAI sends to Oceania. The new process involves converting forty-foot reefer containers into heating containers – a flexible, mobile and ecologically sound solution that is also attracting great interest beyond Hamburg.

Hamburg TruckPilot

With the Hamburg TruckPilot field test, which is scheduled to run for the next two-and-a-half years, MAN Truck & Bus and HHLA are launching a highly innovative research and testing project to develop automation solutions in road transport. The aim is to analyse and validate the precise requirements for the customer-specific deployment and integration of self-driving trucks in the automated container handling process under realistic conditions. Initially, the project will involve two prototype trucks equipped with the corresponding electronic automation systems. In fully automated operation, they should be able to navigate the journey on the A7 from the Soltau-Ost junction and autonomously unload and reload within the Container Terminal Altenwerder. The project is split into three phases: in the preparation phase, which already began in 2018, the technical conditions must first be defined. The testing phase is scheduled to run from January 2019 to June 2020. It comprises the technical development of the system at MAN's testing centre in Munich in accordance with the specific requirements identified during the preparation phase. The structure of the subsequent field tests from July to December 2020 will be determined by the results of the preparation and testing phases and conducted under conditions similar to customer usage.

Hyperloop transport system

In December 2018, HHLA established a joint venture with the US-based research and development company Hyperloop Transportation Technologies (HTT) to explore possible applications of hyperloop technology for transporting shipping containers within the Port of Hamburg. The hyperloop concept is based on the idea of transporting people and goods at high speed through a tube. Using magnetic levitation technology, transport capsules are sent through a tunnel with a partial vacuum at speeds of up to 1,000 km/h or more. Initial plans are for the construction of a transfer station for testing purposes at an HHLA terminal in Hamburg, and the development of a transport capsule for standard shipping containers.

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 side 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 is a shared service provided by the HHLA Group's management holding company in Hamburg. HHLA Group purchasing supports corporate strategy by means of its professional management of procurement activities. The aim is to establish a consolidated supplier base that is characterised by maximum value added, top quality and optimum life cycle costs.

The strategic purchasing function supports and advises Group companies as part of its holistic management of product groups, suppliers and contracts so that the service and performance requirements of internal customers are met as completely as possible. Market developments relating to new technologies, innovations and the service performance of specific suppliers are considered in close cooperation with the operations and technology departments. In this regard, the purchasing department ensures that all Group requirements for the procurement processes are observed in accordance with the framework guidelines. These guidelines are binding for all employees.

In order to develop viable future solutions for port infrastructure, HHLA remains committed to its strategic and collaborative partnerships with selected suppliers while taking into account both economic and ecological aspects. Products, facilities and processes are systematically enhanced in order to increase the degree of digitalisation. When selecting partners, great importance is attached to reliability, quality, innovative strength, cost structure, economic stability, sustainability and compliance. Compliance with these criteria is monitored by an IT-based supplier management system. All suppliers undergo this process, especially when new potential suppliers are added. This also facilitates a continuous internal assessment. Strategic suppliers are evaluated annually by their internal customers and departments. The evaluations include experience on first contact as well as information about project procurement and processes.

We are continuing to drive the automation of purchasing processes for day-to-day requirements. In the reporting period, 25.2 % of all purchasing processes were handled fully automatically by means of e-procurement systems (previous year: 15.5 %). This enables us to streamline processes and ensure both non-bureaucratic procedures and compliance with process standards. The systematic continuation of optimisation and automation measures gives us the potential to increase the efficiency of, or fully automate, a further 14.7 % of managed processes in 2019. These steps will enable us to drive the further strategic alignment of our purchasing activities.

HHLA's supply chains comprise capital goods (such as port handling equipment) as well as consumables and other services (such as maintenance). The overwhelming majority of suppliers are from Germany and other European countries. In 2018, equipment and energy accounted for 51.0 % of the Group-wide procurement volume, while information technology (IT) accounted for 21.5 %, construction for 18.0 % and MRO (maintenance, repairs and operations) for 9.5 %. The total managed purchasing volume amounted to approximately € 294 million.

A major project in 2018 was the review of existing structures, processes and procurement systems within the purchasing department with the support of an external partner. By forming project groups, purchasing employees were closely involved in this process and helped define the requirements for HHLA's purchasing organisation in the areas of digitalisation, training concepts, KPI systems and catalogue management. In this way, the groups were able to harness existing knowledge and experience as fully as possible. The initial results of this work have already been implemented and have led, for example, to a strengthening of personal responsibility.

On the basis of these findings, we will continue to optimise processes and expenditure. Purchasing initiatives with a wide range of objectives have already been defined. Corporate departments will be involved even more closely in procurement processes in future, and cooperation between internal customers will be further intensified. The aim is to optimise procurement costs, to boost efficiency by streamlining the management of product groups and contracts, and to review and harmonise the IT systems used. The aim of harmonisation is to establish an integrated process – from initial need to the point of payment (P2P - purchase-to-pay).

Moreover, purchasing also makes a contribution to the Group's ongoing internationalisation by supporting foreign affiliates with specific services. Among other things, the department's objectives are to harmonise structures, exploit economies of scope, and offer the widespread use of available IT systems. From a purchasing standpoint, it is particularly important to strengthen the market position of individual companies.

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

	2014	2015	2016	2017	**2018**
Diesel, petrol and heating oil in million l	29.2	26.3	26.6	27.4	28.4
Natural gas in million m³	1.8	2.3	2.4	3.6	4.4
Electricity[1] in million kWh	154.4	138.3	139.6	135.6	135.9
thereof from renewable energies	84.1	76.1	73.2	82.8	78.9
Traction current in million kWh	51.7	130.3	150.0	157.5	181.4
District heating in million kWh	3.7	3.2	3.6	3.6	3.7

Consumption of natural gas, traction current and district heating in 2018 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.

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 for the online Annual Report: report.hhla.de/annual-report-2018/non-financial-report

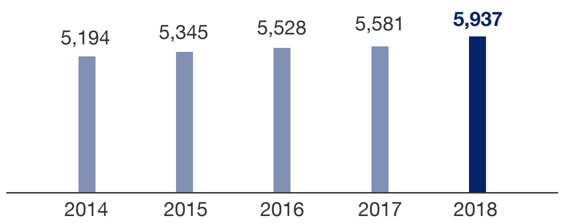
Employees

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 other firms with the possibility of synergy effects.

Employees at the HHLA Group

as of 31.12



HHLA had a total of 5,937 employees at the end of 2018. This figure rose by 356, or 6.4 %, compared to the previous year. The increase is chiefly attributable to the acquisition of Estonia's largest terminal operator. In addition, HHLA used an annual average of 760 employees of Gesamthafenbetriebs-Gesellschaft (previous year: 710).

Employees by segment

In the Container segment, the number of employees rose to 3,134 as of 31 December 2018. Total headcount was up by 225 year-on-year in the reporting period (previous year: 2,909). This corresponds to an increase of 7.7 %, which is chiefly attributable to the first-time consolidation of Transiidikeskuse AS. Due to the expansion of services and the increase in vertical integration, headcount in the Intermodal segment also rose by a further 130 employees in total to 2,002 (previous year: 1,872). Employee numbers in the Logistics segment increased to 141 in the reporting period (previous year: 134). By contrast, the number of employees at the strategic management holding company declined by 1.3 % to 628 (previous year: 636). In the Real Estate segment, headcount remained virtually unchanged at 32 as of 31 December 2018 (previous year: 30).

Employees by segment

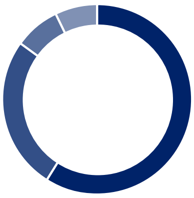
	2018	2017	Change
Container	3,134	2,909	7.7 %
Intermodal	2,002	1,872	6.9 %
Holding/Others	628	636	- 1.3 %
Logistics	141	134	5.2 %
Real Estate	32	30	6.7 %
HHLA Group	**5,937**	**5,581**	**6.4 %**

Employees by region

In geographical terms, the workforce was concentrated mainly in Germany, with 3,489 employees (previous year: 3,479), the majority of whom worked in Hamburg. This corresponds to a share of 58.8 % (previous year: 62.3 %). The number of staff employed abroad rose by 16.5 % to 2,448 (previous year: 2,102). This is mainly due to the first-time consolidation of HHLA TK Estonia, with 220 employees. As a result, the share of employees at subsidiaries in Austria, Poland, Georgia and Estonia climbed to 429 people (previous year: 179). In South-East Europe, headcount grew by 6.3 % to 1,558 (previous year: 1,465). In Ukraine, the number of employees rose by 0.7 % to 461 (previous year: 458).

Employees by region

as of 31.12.2018



59 % Germany
26 % Central Europe[1]
8 % Ukraine
7 % Other countries

1 Czech Republic, Slovakia, Hungary, Slovenia

Recruitment

Of the 121 new employees who had not previously worked for HHLA in Germany, for example via Gesamthafenbetriebs-Gesellschaft mbH Hamburg (GHB), 40 % were under 30 years of age.

Recruitments 2018

	Total	thereof females	thereof females
< 30 years	49	15	30.6 %
30 – 50 years	59	15	25.4 %
> 50 years	13	1	7.7 %
HHLA Group	**121**	**31**	**25.6 %**

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 4.2 %, the **fluctuation rate** (excluding internal transfers within the Group) in Germany declined slightly year-on-year (previous year: 4.7 %). Of the 148 people who left the company, 41.2 % were retirees (previous year: 40.2 %).

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 under-represented. However, the positive trend seen in the previous years continued in 2018 and the ratio of women employed by HHLA in Germany increased once again (including apprentices). At 15.7 %, the ratio of women employed by the company was 0.2 percentage points higher than in the previous year (15.5 %).

Gender distribution on the Executive Board and in 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.
Corporate governance, Corporate governance report

Age structure

The average age of staff in Germany in the reporting period was 44.6 (previous year: 44.2). Male employees had an average age of 45.3, while female employees were 41.2 years old on average. Over half of all employees are aged between 30 and 50.

Age structure of employment

in %	31.12.2018	thereof females	31.12.2017	thereof females
< 30 years	10.3	28.1	10.9	27.3
30 – 50 years	52.9	16.8	53.5	16.2
> 50 years	36.8	10.6	35.6	10.8
HHLA Group	**100.0**	**15.7**	**100.0**	**15.5**

The average length of service with the company in Germany is approximately 15.5 years.

Average employment period

in years	31.12.2018	31.12.2017
< 30 years	5.2	5.1
30 – 50 years	11.6	11.3
> 50 years	23.9	24.1
HHLA Group	**15.5**	**15.2**

The percentage of employees with a severe disability (including persons of an equivalent status) was 9.8 % at the end of the reporting period (previous year: 8.8 %).

Personnel development

HHLA invested a total of € 4.6 million in educating and training staff at its locations in Hamburg in 2018 (previous year: € 4.2 million).

As of 31 December 2018, 59 apprentices and 13 students were receiving training in Germany in six different professions and seven dual study courses. 33 % of the 72 apprentices and students were female. The ratio of female students in 2018 was 54 % (previous year: 58 %).

27 of the 29 apprentices (of whom four were on dual study courses) who successfully completed their training in the course of the year were given permanent contracts. A total of 23 new apprentices were taken on at the company's Hamburg facilities in 2018, of whom around 30 % were women. At the start of the 2018 academic year, women accounted for 29 % of technical apprentices and 30 % of industrial apprentices.

In total, over 630 events lasting one or more days were held in the reporting period. These included more than 550 internal vocational courses conducted by HHLA's own trainers over 2,673 training days. In addition, more than 80 one- to multi-day events with over 960 participant days were organised as part of the company's cross-segment seminar programme. 36 % of the participants were women (previous year: 31 %).

Detailed workforce-related information on strategic HR management, personnel development, occupational safety and health promotion, as well as contracts, remuneration and additional benefits can be found in the Sustainability, Human resources section of the report.

Economic environment

Macroeconomic development

According to estimates of the International Monetary Fund (IMF, January 2019), global economic growth was slightly weaker in 2018 than in the previous year. There was thus a slight slowdown in the dynamic trend of the past five years. Economic growth was hampered in particular by political conflicts, such as the ongoing trade dispute between the US and China, the uncertain outcome of Brexit and the budget debate between the Italian government and the European Union.

Development of gross domestic product (GDP)

in %	2018	2017
World	3.7	3.8
Advanced economies	2.3	2.4
USA	2.9	2.2
Emerging economies	4.6	4.7
China	6.6	6.9
Russia	1.7	1.5
Eurozone	1.8	2.4
Central and Eastern Europe (emerging european economies)	3.8	6.0
Germany	1.5	2.5
World trade	4.0	5.3

Source: International Monetary Fund (IMF), January 2019

As a result, the IMF expects growth in global gross domestic product (GDP) of 3.7 % for 2018. Growth in the advanced economies was more or less on a par with the previous year; the pace was only higher in the United States as a result of temporary fiscal incentives. Although the emerging economies maintained their stable growth trajectory, it came under pressure as the year progressed. China slightly exceeded its target of 6.5 %, but this growth rate was its slowest in almost three decades. Despite continuing its upwards trend, the Russian economy suffered from the effects of the sanctions still in place. Economic growth in Ukraine was held back by the sluggish pace of reform and the conflict surrounding East Ukraine. Should recently passed reforms take effect in the fourth quarter, however, the World Bank regards growth of 3.3 % as possible. According to preliminary figures, the Estonian economy expanded by 3.7 % in 2018 – 1.2 percentage points down on the previous year's growth (as of October 2018). Due to political factors, the eurozone economy experienced a noticeable loss of momentum. By contrast, there was particularly dynamic growth in Slovakia and the non-eurozone economies of Poland and Hungary. Overall, however, the underlying economic momentum slowed in the countries of Central and Eastern Europe, mainly due to economic turbulence in Turkey. Following an upturn lasting more than five years, economic growth in Germany began to falter during the course of the year. The lack of economic momentum is reflected in global trade volumes, which are expected to have grown by a mere 4.0 % in 2018 (1.3 percentage points down on the previous year).

Sector development

Growth in global **container throughput** cooled in 2018. According to the most recent estimates by Drewry, global throughput climbed by 4.7 % last year. This is well below expectations, as throughput of 6.5 % for 2018 was still being forecast midway through the year.

Development of container throughput by region

in %	2018	2017
World	4.7	6.3
Europe as a whole	5.0	5.7
North-West Europe	2.6	4.9
Scandinavia and the Baltic region	10.7	9.3
Western Mediterranean	7.0	2.3
Eastern Mediterranean and the Black Sea	5.6	9.6

Source: Drewry Maritime Research, December 2018

The weakening of throughput growth was observed in almost all **shipping regions**, albeit to different extents. In Europe, growth momentum from the Western Mediterranean as well as Scandinavia and the Baltic was unable to offset the weaker trend in the regions of North-West Europe, the Eastern Mediterranean and the Black Sea. There was even a noticeable year-on-year slowdown in growth in the world's highest-throughput region, Asia. In China, the pace of throughput growth almost halved to 3.6 %, partly as a consequence of the trade conflict with the United States.

Development of container throughput at Northern European ports

in million TEU	2018	2017	Change
Rotterdam	14.5	13.7	5.7 %
Antwerp	11.1	10.5	6.2 %
Hamburg	8.7	8.8	- 1.0 %
Bremen ports	5.5	5.5	- 0.6 %
Gdansk	1.9	1.6	23.3 %
Zeebrugge	1.6	1.5	5.2 %
Wilhelmshaven	0.7	0.6	18.3 %

Source: Port Authorities

The **trend among the major container ports of the North Range**, as well as the largest ports of the western Baltic Sea, was mixed. In the Port of Hamburg, throughput volume of 8.7 million TEU in the reporting period was nearly on the same level as in the previous year (previous year: (8.8 million TEU). As a result, Hamburg continues to rank third among European container ports, despite the delays in dredging the river Elbe.

Europe's largest container port, Rotterdam, handled 14.5 million TEU in 2018, 5.7 % more containers than in the previous year. With container throughput of 11.1 million TEU, year-on-year growth in Antwerp of 6.2 % was slower than in 2017. Overall, throughput at the German Bay ports remained more or less stable, while the Benelux ports experienced growth. Container throughput at the Polish and Russian Baltic Sea ports increased significantly once again.

According to the most recent estimates from September 2018, freight traffic across all modes in Germany will continue its upwards trend from the previous year. Transport volumes are expected to be up slightly by 2.0 % year-on-year, while the rise in traffic performance – transport volume multiplied by the distance travelled – is likely to be somewhat stronger than in 2017 at 2.8 %. Growth in road traffic will only be slightly weaker than in the previous year, at 2.3 %. Traffic performance is forecast to be exactly on a par with the previous year, at 3.4 %. Due to a marked decline in coal transport, the volume of rail transport increased more than in the previous year, albeit at a modest rate of 0.7 %. At 1.6 %, the growth in traffic performance will be up slightly on the previous year. Multi-modal traffic is expected to benefit from the robust performance in other classes of goods, with strong growth in volume and performance of 4.3 % and 3.8 %, respectively.

Course of business and economic situation

Key figures

in € million	2018	2017	Change
Revenue	1,291.1	1,251.8	3.1 %
EBITDA	318.5	295.8	7.7 %
EBITDA margin in %	24.7	23.6	1.1 pp
EBIT	204.2	173.2	17.9 %
EBIT margin in %	15.8	13.8	2.0 pp
Profit after tax and minority interests	112.3	81.1	38.5 %
At-equity earnings	5.3	4.8	11.9 %
ROCE in %	14.8	13.1	1.7 pp

Overall view

Despite a gloomier market environment in the second half of the year, the HHLA Group developed very successfully in 2018. There was a slight increase in container throughput due to the consistently positive trend in Far East volumes and the successful integration of Estonia's largest terminal operator, TK Estonia, acquired during the reporting period. Container transport managed to repeat the strong results of the previous year, driven mainly by rail transport. Developments at HHLA's two largest segments led to moderate growth in revenue at Group level. The operating result (EBIT) was well above the prior-year figure, as around € 25 million was expensed in the previous year for organisational restructuring and the harmonisation of pension schemes. But even adjusted for this effect, there was still moderate growth in the operating result (EBIT) above the level of revenue growth.

As there were no significant events in the 2018 financial year, the disclosures made by the HHLA Executive Board in the 2017 Annual Report concerning the expected course of business in 2018 remained valid throughout the reporting period. Guidance was confirmed by and, in some cases, even exceeded by the actual figures. The HHLA Group continued to scale its capital expenditure to actual needs during the reporting period. Delays to individual projects resulted in postponements until 2019.

Forecast and actual figures

	Actual 31.12.2017	Forecast 28.03.2018	**Actual 31.12.2018**
Container throughput	7.2 million TEU	At previous year's level	7.3 million TEU
Container transport	1.5 million TEU	At previous year's level	1.5 million TEU
Revenue	€ 1,251.8 million	At previous year's level	€ 1,291.2 million
EBIT	€ 173.2 million	Significant increase	€ 204.2 million
Capital expenditure	€ 142.6 million	In the range of € 200 million	€ 141.3 million

As a result of its business trend in 2018, HHLA's financial position at the end of the reporting period on 31 December 2018 remained stable. Changes in the capital structure due to borrowing led to a decrease of 1.6 percentage points in the equity ratio to 31.2 % (previous year: 32.8 %), while the gearing ratio rose from 2.3 to 2.5. There were no further refinancing needs as of the balance sheet date.

Notes on the reporting

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

During the reporting period, HHLA increased its level of investment in METRANS a.s., Prague, Czech Republic, and now holds 100 % of shares in the company. On 26 March 2018, HHLA also signed an agreement to acquire 100 % of shares in the terminal operator HHLA TK Estonia (previously: Transiidikeskuse AS) based in Tallinn, Estonia. Upon fulfilment of the conditions precedent, HHLA acquired control on 27 June 2018.

The 2018 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).

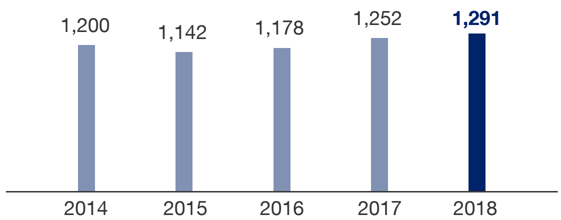
Earnings position

HHLA's **performance data** displayed a very stable development in 2018. At 7,336 thousand TEU, there was a slight rise of 1.9 % in container throughput (previous year: 7,196 thousand TEU). The increase was mainly due to the takeover of the container terminal in Tallinn and a rise in Asian traffic at the Port of Hamburg and was achieved in spite of the adverse effect from the takeover of Hamburg Süd by the shipping company Maersk and the resulting removal of a service from the HHLA terminals. At 1,480 thousand TEU, transport volume remained at the high level of the previous year. The decrease in road transport was offset by a rise in rail transport.

Against this background, **revenue** of the HHLA Group rose by 3.1 % to € 1,291.1 million (previous year: € 1,251.8 million) in the reporting period. All four segments of HHLA contributed to this rise. In particular, the increase was facilitated by a rise in rail's share and longer transport distances in the Intermodal segment, the revenues of the container terminal in Tallinn and temporary additional business in the area of vehicle logistics. 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 3.1 % to € 1,258.5 million (previous year: € 1,220.3 million). The non-listed Real Estate subgroup achieved a similar increase in revenue of 3.6 % to € 39.3 million (previous year: € 37.9 million). The Real Estate subgroup thus accounted for 2.5 % of Group revenue.

Revenue

in € million



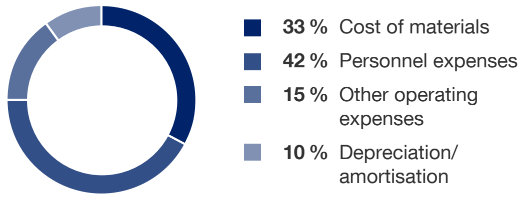
At € 0.4 million, **changes in inventories** once again had no material impact in the reporting period (previous year: € - 0.3 million). **Own work capitalised** decreased to € 5.2 million (previous year: € 5.4 million).

There was no significant year-on-year change in **other operating income**.

Due to opposing trends in the expenditure types, **operating expenses** rose slightly by 1.0 % to € 1,134.0 million (previous year: € 1,123.2 million).

Operating expenses

Expense structure 2018



Compared to the previous year, the **cost of materials** was reduced slightly by 0.9 % to € 367.1 million (previous year: € 370.5 million). The decline in the cost of materials ratio to 28.4 % (previous year: 29.6 %) resulted from an increase in vertical integration in rail transport, as well as from the decrease in track fees for German rail freight.

Personnel expenses rose by 3.6 % to € 480.6 million (previous year: € 463.8 million). In addition to higher union wage rates, other factors included the Budapest terminal put into operation in mid 2017 and the integration of the container terminal in Tallinn. The previous year's figure included expenses for organisational restructuring in the Container segment. The personnel expense ratio remained virtually unchanged at 37.2 % (previous year: 37.1 %).

Other operating expenses increased moderately by 3.5 % in the reporting period to € 172.1 million (previous year: € 166.3 million). The main causes were maintenance work on locomotives, consultancy services (including on HHLA's digital strategy) and increased rental and leasing expenses. The previous year's figure included expenses for the harmonisation of existing pension schemes. The ratio of expenses to revenue remained unchanged at 13.3 %.

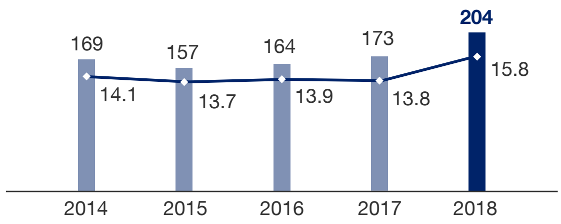
Depreciation and amortisation fell considerably by 6.8 % year-on-year to € 114.2 million (previous year: € 122.6 million). This was partly due to the revaluation of the useful lives of storage cranes and container wagons.

Against the background of these developments, the **operating result before depreciation and amortisation (EBITDA)** rose by 7.7 % to € 318.5 million (previous year: € 295.8 million) and thus more strongly than revenue. There was a corresponding moderate increase in the EBITDA margin to 24.7 % (previous year: 23.6 %).

The **operating result (EBIT)** was increased by 17.9 % to € 204.2 million in the reporting period (previous year: € 173.2 million). As a result of the significantly stronger rise compared to revenue, the EBIT margin increased considerably to 15.8 % (previous year: 13.8 %). In the Port Logistics subgroup, EBIT rose by 20.3 % to € 188.4 million (previous year: € 156.6 million). As a result, the subgroup accounted for 92.3 % (previous year: 90.4 %) of the Group's operating result in the reporting period. In the Real Estate subgroup, EBIT decreased 5.1 % to € 15.5 million due to scheduled large-scale maintenance work that does not qualify for capitalisation (previous year: € 16.3 million). 7.7 % of the Group's operating result was generated by this subgroup (previous year: 9.6 %).

Operating result (EBIT)

in € million / EBIT margin in %



Net expenses from the **financial result** fell by € 5.3 million, or 20.3 %, to € 20.6 million (previous year: € 25.9 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 of a subsidiary.

At 24.6 %, the Group's **effective tax rate** was lower than in the previous year (previous year: 28.1 %).

Profit after tax and minority interests increased by 38.5 % year-on-year to € 112.3 million (previous year: € 81.1 million). Non-controlling interests accounted for € 26.2 million in the 2018 financial year (previous year: € 24.8 million). From a financial point of view, this item includes the expenses mentioned in relation to the financial result associated with revaluing an equalisation liability payable to a minority shareholder. **Earnings per share** rose by 38.5 % to € 1.54 (previous year: € 1.11). The listed Port Logistics subgroup achieved a 44.5 % increase in earnings per share to € 1.47 (previous year: € 1.02). Earnings per share of the non-listed Real Estate subgroup were down on the prior-year figure at € 3.46 (previous year: € 3.65). As in the previous year, there was no difference between basic and diluted earnings per share in 2018. The return on capital employed (ROCE) was up 1.7 percentage points year-on-year at 14.8 % (previous year: 13.1 %). Corporate and Value Management

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 18 June 2019 a dividend of € 0.80 per class A share and € 2.10 per class S share. Based on the number of shares with dividend entitlement as of 31 December 2018, the amount to be distributed for listed class A shares would increase by 19.4 % to € 56.0 million (previous year: € 46.9 million). The amount to be distributed for non-listed class S shares would increase by 5.0 % year-on-year to € 5.7 million (previous year: € 5.4 million). In relation to the consolidated profit and earnings per share, the dividend payout ratio would reach a high level of approximately 54 % for the Port Logistics subgroup (previous year: 66 %) and around 61 % for the Real Estate subgroup (previous year: 55 %).

Financial position

Balance sheet analysis

Compared with the previous year, the HHLA Group's **balance sheet total** increased by a total of € 137.6 million to € 1,972.9 million as of 31 December 2018.

Balance sheet structure

in € million	**31.12.2018**	31.12.2017
Assets		
Non-current assets	1,446.9	1,348.0
Current assets	526.0	487.3
	1,972.9	**1,835.3**
Equity and liabilities		
Equity	614.8	602.4
Non-current liabilities	1,114.7	993.8
Current liabilities	243.4	239.1
	1,972.9	**1,835.3**

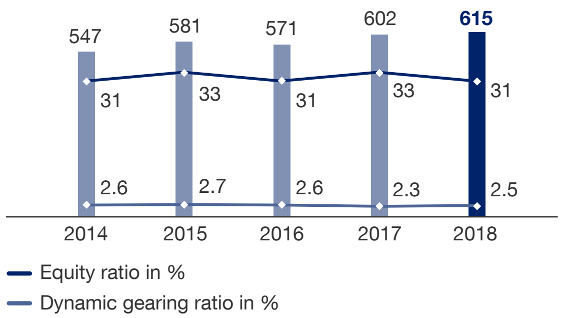
On the assets side of the balance sheet, **non-current assets** rose by € 98.9 million. Property, plant and equipment grew by € 85.7 million to € 1,060.3 million (previous year: € 974.6 million). Intangible assets rose by € 20.1 million year-on-year to € 89.8 million (previous year: € 69.7 million). The rise in both of these balance sheet items is mainly due to the first-time consolidation of HHLA TK Estonia AS, Tallinn, Estonia (previously Transiidikeskuse AS). Another factor was the increase in property, plant and equipment due to capital expenditure, less amortisation and depreciation.

Current assets grew by € 38.7 million to € 526.0 million (previous year: € 487.3 million). The increase was primarily attributable to trade receivables, which grew by € 30.7 million to € 179.8 million (previous year: € 149.1 million), and an increase in receivables from related parties of € 18.7 million to € 100.2 million (previous year: € 81.5 million). By contrast, cash, cash equivalents and short-term deposits fell by € 20.0 million to € 181.5 million (previous year: € 201.5 million).

On the liabilities side, **equity** rose by € 12.4 million compared to year-end 2017, taking it to € 614.8 million (previous year: € 602.4 million). This growth was mainly due to positive comprehensive income of € 147.9 million. It was offset by the distribution of dividends and the reclassification of a future financial settlement totalling € 85.3 million as a non-current financial liability, as well as the acquisition of the remaining shares in METRANS a.s., Prague, Czech Republic, amounting to € 49.9 million. The equity ratio decreased to 31.2 % (previous year: 32.8 %).

Group equity

in € million



Non-current liabilities rose by € 120.9 million to € 1,114.7 million (previous year: € 993.8 million). The increase was mainly due to a rise in non-current financial liabilities of € 125.2 million to € 429.9 million (previous year: € 304.7 million) from the issuance of promissory note loans.

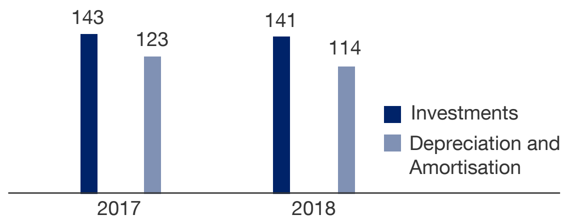
Current liabilities grew by € 4.3 million to € 243.4 million (previous year: € 239.1 million). This was primarily attributable to trade liabilities, which grew by € 9.8 million to € 87.0 million (previous year: € 77.2 million). By contrast, other current provisions fell by € 6.6 million to € 28.0 million (previous year: € 34.6 million).

Investment analysis

Capital expenditure in the 2018 financial year totalled € 141.3 million (previous year: € 142.6 million). This figure includes additions of € 2.4 million from finance leases not recognised as a direct cash expense (previous year: € 4.2 million). Capital expenditure focused on extending the Hamburg container terminals and expanding intermodal transport and handling capacities. Additionally, 100 % of the shares of HHLA TK Estonia AS were acquired. Investment projects were mainly funded by the operating cash flow generated in the financial year.

Investments, depreciation and amortisation

in € million

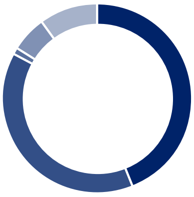


Property, plant and equipment accounted for € 117.3 million (previous year: € 131.6 million) of capital expenditure, while intangible assets accounted for € 11.1 million (previous year: € 5.5 million) and investment property for € 12.9 million (previous year: € 5.5 million).

Investments amounting to € 62.6 million were made in the **Container segment** (previous year: € 81.2 million). Capital expenditure was dominated by the procurement of handling equipment and storage capacities at the Hamburg container terminals. The **Intermodal segment** invested € 55.1 million (previous year: € 45.7 million). The METRANS Group accounted for most of this investment volume, mainly for wagons and locomotives. Capital expenditure in the **Logistics segment** came to € 1.4 million (previous year: € 1.4 million). The **pro forma Holding/Other segment** invested a total of € 14.1 million (previous year: € 8.4 million). A large proportion of capital expenditure was for the migration to a new terminal management system. The **Real Estate segment** invested a total of € 8.4 million (previous year: € 6.1 million) mainly for the development of the Speicherstadt historical warehouse district.

Capital expenditure

by segment in 2018



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 € 107.0 million (previous year: € 110.6 million). This figure includes € 69.6 million (previous year: € 77.3 million) for the capitalisation of property, plant and equipment.

Liquidity analysis

Cash flow from operating activities fell year-on-year from € 275.5 million to € 232.7 million. This decline of € 42.8 million is mainly due to an increase in trade receivables and other assets of € 53.0 million against previous year. At the same time, an increase of € 19.0 million in balances of provisions contributed to the decrease in cash flow from operating activities. There was an opposing effect from the increase in EBIT of € 31.0 million.

Cash flow from investing activities (outflow) of € 203.4 million was above the prior-year figure of € 131.2 million. This increase of € 72.2 million in cash outflow was mainly due to payments of € 72.0 million made for the acquisition of all shares in Transiidikeskuse AS, excluding acquired cash and cash equivalents.

Free cash flow – the total cash flow from operating and investing activities – decreased to € 29.3 million (previous year: € 144.3 million).

Cash flow from financing activities (outflow) amounted to € 31.5 million in the reporting period (previous year: € 119.0 million) and was therefore € 87.5 million below the prior-year figure. One of the main reasons for the lower cash outflow was proceeds from the issue of bonds and the raising of (financial) loans. This was offset by the payment made to acquire all minority interests in METRANS a.s., Prague, Czech Republic.

Liquidity analysis

in € million	2018	2017
Financial funds as of 01.01.	**255.6**	**232.4**
Cash flow from operating activities	232.7	275.5
Cash flow from investing activities	- 203.4	- 131.2
Free cash flow	**29.3**	**144.3**
Cash flow from financing activities	- 31.5	- 119.0
Change in financial funds	- 2.2	25.3
Change in financial funds due to exchange rates	0.6	- 2.1
Financial funds as of 31.12.	**254.0**	**255.6**
Short-term deposits	22.4	20.0
Available liquidity	276.4	275.6

The HHLA Group had sufficient liquidity as of year-end 2018. There were no liquidity bottlenecks in the course of the financial year. **Financial funds** totalled € 254.0 million as of 31 December 2018 (31 December 2017: € 255.6 million). Including all short-term deposits, the Group's **available liquidity** as of year-end 2018 came to a total of € 276.4 million (previous year: € 275.6 million).

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.

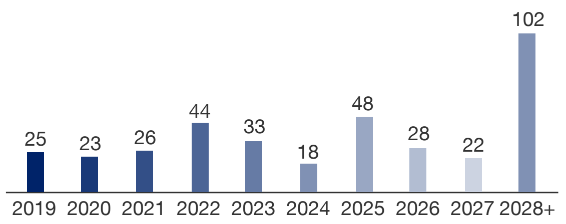
At € 369.7 million as of the balance sheet date, amounts due to banks were above the prior-year figure of € 256.9 million. The Group drew on additional external financing totalling € 136.9 million in the 2018 financial year (previous year: € 0.0 million). New borrowing was offset by loan repayments of € 27.9 million (previous year: € 41.9 million). A promissory note loan was the main reason for the increase in liabilities from bank loans. Due to the maturities agreed and its stable liquidity position, the company had no significant refinancing requirements.

The majority of the liabilities from bank loans are denominated in euros, with a small proportion in US dollars. In terms of conditions, approximately 76 % have fixed interest rates and some 24 % 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 23 % 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 € 105.0 million (previous year: € 105.5 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).

Maturities of bank loans

by year and in € million



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.

Cash, cash equivalents and short-term deposits, the bulk of which is held centrally by the holding company, totalled € 181.5 million as of the balance sheet date (previous year: € 201.5 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 € 2.7 million (previous year: € 3.2 million). The credit line utilisation rate was 72.9 % in the period under review (previous year: 67.9 %). 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, € 14.5 million as of the balance sheet date (previous year: € 10.4 million) was subject to restrictions in Ukraine relating to the transfer of currency abroad. In the previous year, € 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

With share purchase and transfer agreements dated 2 March 2018, HHLA acquired further shares in METRANS a.s., Prague, Czech Republic, thus increasing its stake from 90.0 % to 100 %. In accordance with the entity concept, the purchase price for these shares was taken directly to equity with a corresponding reduction in non-controlling interests.

HHLA signed a contract dated 26 March 2018 for the acquisition of 100 % of shares in terminal operator Transiidikeskuse AS, headquartered in Tallinn, Estonia, in order to further expand its existing transport and logistics network in Estonia. Upon the various conditions precedent being met, HHLA took control of the company on 27 June 2018 (acquisition date within the meaning of IFRS 3 (9)). The purchase price (transferred consideration) was paid in euros. The company was renamed HHLA TK Estonia as of 24 September 2018.

HHLA founded the company HHLA Sky GmbH, based in Hamburg, on 24 July 2018. The company was included in HHLA's group of consolidated companies as of the end of the financial year. The primary purpose of the company is to develop, organise, manage, operate, monitor and distribute airborne logistics services.

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

Changes in the group of consolidated companies

With the share purchase agreement dated 28 December 2017 and the agreement on the transfer of company shares dated 22 January 2018, METRANS a.s., Prague, Czech Republic, acquired 100 % of shares in POLZUG Intermodal Polka sp. z.o.o., Warsaw, Poland, and renamed the acquired company METRANS (Polonia) Sp. z.o.o. This transaction has no material impact on HHLA's consolidated financial statements.

On submission of the application for its removal from the commercial register on 25 May 2018, the company HCC Hanseatic Cruise Centers GmbH i. L., Hamburg, was deconsolidated as of 30 June 2018 and is therefore no longer included in HHLA's group of consolidated companies.

The company POLZUG Intermodal GmbH, Hamburg, was merged with HHLA International GmbH, Hamburg, as of 1 January 2018 upon entry in the commercial register on 31 August 2018. The merger had no impact on HHLA's consolidated financial statements.

The Czech company JPFE-07 INVESTMENTS s.r.o., Ostrava, Czech Republic, which was not previously included in HHLA's group of consolidated companies, was merged with METRANS a.s., Prague, Czech Republic, as of 1 January 2018 upon entry in the commercial register on 12 December 2018. The merger had no material impact 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. Notes to the consolidated financial statements, no. 3 Composition of the Group

Segment performance

Container segment

Key figures

in € million	2018	2017	Change
Revenue	758.9	746.6	1.7 %
EBITDA	209.8	194.7	7.7 %
EBITDA margin in %	27.6	26.1	1.5 pp
EBIT	131.6	109.4	20.3 %
EBIT margin in %	17.3	14.7	2.6 pp
Container throughput in thousand TEU	7,336	7,196	1.9 %

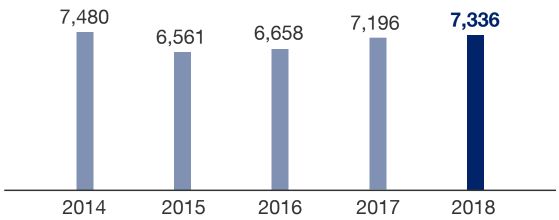
During the 2018 reporting year, the **volume development** at HHLA's container terminals increased slightly by 1.9 % to 7,336 thousand TEU (previous year: 7,196 thousand TEU).

The three **Hamburg container terminals** were almost able to match the strong prior-year figures with container throughput of 6,885 thousand TEU or - 0.3 % (previous year: 6,904 thousand TEU). Despite the loss of a South America service halfway through 2018 as part of the realignment of the shipping consortia, overseas traffic volumes remained stable with growth of 0.4 %. This was largely attributable to the 4.6 % increase in Asian traffic (Far East–Northern Europe) over the previous year. However, this was not sufficient to fully offset the 2.3 % decline in feeder traffic with the Baltic region. The proportion of seaborne handling by feeders decreased correspondingly to 24.0 % (previous year: 24.5 %).

Throughput at the **international container terminals** in Tallinn, Estonia, and Odessa, Ukraine, during the reporting period was 451 thousand TEU (previous year: 292 thousand TEU). It should be noted, that the figures for the previous year are only partly comparable as the container terminal in Tallinn was only integrated into the HHLA consolidated group at the end of the second quarter of 2018.

Container throughput

in thousand TEU



Revenue increased by 1.7 % year-on-year to € 758.9 million (previous year: € 746.6 million) and thus lagged slightly behind the rise in seaborne volumes. The share of local cargo increased, especially higher-margin, rail-bound throughput. After the temporary increase in storage fees of the past two years due to the realignment of shipping alliances, fees returned to their normal levels in 2018. Revenue generated by the international terminals came under pressure from competition. However, these negative effects were almost fully offset by the slightly decrease in the proportion of lower-margin feeder traffic and adjustments to individual handling rates. The average revenue per container handled at the quayside dipped slightly by 0.3 % year-on-year in the 2018 financial year.

EBIT costs for the segment decreased by 1.5 % in the 2018 financial year due to the absorption in the previous year of expenses for the organisational restructuring and harmonisation of pension systems amounting to around € 25 million. Adjusted for this effect, EBIT costs were 2.5 % higher than in the previous year. The main reasons for this were higher personnel expenses due to increased headcount following the integration of HHLA TK Estonia AS, union tariff rises in June 2018 and increased energy costs. The **operating result (EBIT)** improved strongly by 20.3 % to € 131.6 million (previous year: € 109.4 million). The EBIT margin rose by 2.6 percentage points to 17.3 % (previous year: 14.7 %).

During the reporting year, HHLA made further investments to ensure the future viability of its facilities. The main focus was on sustainable handling equipment and the promotion of transport by rail. Diesel-powered automatic guided vehicles (AGVs) at the Container Terminal Altenwerder (CTA) were replaced by battery-powered AGVs, which are practically emission-free. The rail station at the Container Terminal Buchardkai (CTB) was expanded from eight to ten platforms and equipped with two new rail-mounted gantry cranes. Additional storage areas will be developed at the Container Terminal Odessa (CTO).

Intermodal segment

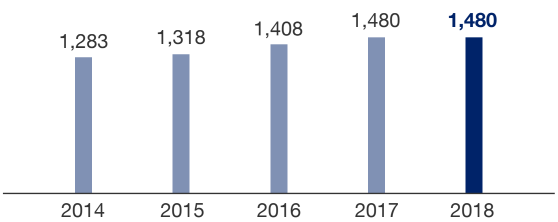
Key figures

in € million	2018	2017	Change
Revenue	433.8	414.0	4.8 %
EBITDA	112.7	95.0	18.7 %
EBITDA margin in %	26.0	22.9	3.1 pp
EBIT	89.1	69.9	27.5 %
EBIT margin in %	20.5	16.9	3.6 pp
Container transport in thousand TEU	1,480	1,480	0.0 %

In the highly competitive market for container traffic in the hinterland of major seaports, the **transport volumes** of HHLA's transport companies remained unchanged from the previous year at 1,480 thousand standard containers (TEU). Within the segment, however, the trend was uneven. Rail transportation rose year-on-year by a further 2.5 % to 1,168 thousand TEU (previous year: 1,140 thousand TEU). In particular, there was above-average growth in connections between the north German seaports, the Adriatic ports and the Central and Eastern Europe hinterland. There was also a further increase in continental cargo volumes. Transport volumes in Poland decreased significantly as a result of the scheduled realignment of POLZUG activities. Due to a significant decrease in freight volume in the greater Hamburg area, road transport fell by 8.3 % year-on-year to 312 thousand TEU (previous year: 340 thousand TEU).

Container transport

in thousand TEU



With growth of 4.8 % to € 433.8 million (previous year: € 414.0 million), **revenue** performed much better than transport volumes. This positive revenue trend resulted from a slight increase in rail's share of HHLA's total intermodal transportation from 77.0 % to 78.9 %, in combination with longer transport distances.

The **operating result (EBIT)** increased year-on-year to € 89.1 million (previous year: € 69.9 million). In addition to the positive trend in average revenues due to changes in the transport mix, the rise in EBIT was also attributable to lower depreciation and amortisation charges caused by an adjustment to the useful lives of container transport wagons. The terminal in Budapest, which started operations in mid-2017, also had a positive impact on the efficiency of HHLA's intermodal network. The EBIT margin rose by 3.6 percentage points to 20.5 % (previous year: 16.9 %).

HHLA continues to invest as needed in the expansion of its intermodal network. The decrease in route prices for German rail freight applied retroactively as of mid-2018 is bolstering the development of the intermodal service portfolio. HHLA's rail subsidiary METRANS put ten new multi-system locomotives into operation during 2018. It now has 85 shunters and locomotives as well as a fleet of over 2,800 container wagons. The network consists of 14 terminals in the hinterland, of which five function as large hub terminals.

In the past financial year, the activities of POLZUG (now METRANS Polonia) were fully integrated into the METRANS organisation. By pooling activities, the company was able to streamline its structures and processes, thereby enabling synergies to be realised. During the reporting period, HHLA also increased its stake in METRANS a.s., Prague, Czech Republic, and now holds 100 % of shares in the company.

Logistics segment

Key figures

in € million	2018	2017	Change
Revenue	59.8	50.8	17.7 %
EBITDA	10.0	6.9	44.0 %
EBITDA margin in %	16.7	13.7	3.0 pp
EBIT	5.6	2.6	120.0 %
EBIT margin in %	9.4	5.0	4.4 pp
At-equity earnings	4.4	3.9	13.2 %

The key financial figures for the Logistics segment include the vehicle logistics and consultancy divisions. In addition, the division for airborne logistics services was added in the fourth quarter of 2018. The results from dry bulk and fruit logistics are included in at-equity earnings.

The Logistics segment recorded significant sales growth in the fourth quarter, which was in particular due to temporary additional business in the field of vehicle logistics. For the year as a whole, the fully consolidated companies reported **revenue** of € 59.8 million, up 17.7 % on the prior-year figure (previous year: € 50.8 million).

The **operating result (EBIT)** far outstripped the increase in revenue and more than doubled during the reporting period, increasing by 120.0 % to € 5.6 million (previous year:

€ 2.6 million). Improved results for vehicle logistics and consultancy were opposed by losses in the newly consolidated airborne logistics services division.

The performance of those companies included in **at-equity earnings** showed significant revenue growth during the reporting period. Total at-equity earnings rose by 13.2 % to € 4.4 million (previous year: € 3.9 million) for 2018 as a whole.

Real estate segment

Key figures

in € million	2018	2017	Change
Revenue	39.3	37.9	3.6 %
EBITDA	20.7	21.3	- 2.9 %
EBITDA margin in %	52.7	56.2	- 3.5 pp
EBIT	15.5	16.3	- 5.1 %
EBIT margin in %	39.4	43.0	- 3.6 pp

In 2018, Hamburg's office rental market was unable to match the high revenue level of the previous year. According to Grossmann & Berger's latest market report, 590,000 m² of office space was let in the reporting period, corresponding to a year-on-year decrease of 8 % (previous year: 640,000 m²). One major reason for the decrease in revenue was the supply shortage.

At the end of the year, the vacancy rate for offices in Hamburg remained unchanged from the preceding quarter at 3.5 % but was 0.8 percentage points down on the previous year (4.3 %) as a result of high demand and a decline in available space. Despite the increase in the number of new-builds completed, no increase in the vacancy rate is expected in the medium term.

HHLA's properties in Hamburg's Speicherstadt historical warehouse district and the fish market area achieved a further moderate increase in revenue of 3.6 % to € 39.3 million in 2018 (previous year: € 37.9 million) – despite almost full occupancy as in the previous year.

Due to scheduled large-scale maintenance work that does not qualify for capitalisation, the **operating result (EBIT)** declined year-on-year by a moderate 5.1 % to € 15.5 million (previous year: € 16.3 million).

The long-term and value-oriented development of the real estate portfolio is a major pillar for the financial success of the segment. In order to ensure this remains so, HHLA will continue to invest in its property portfolio.

Events after the balance sheet date

There were no significant events after the balance sheet date of 31 December 2018. Notes to the consolidated financial statements, no. 52 Events after the balance sheet date

Business forecast

Macroeconomic environment

The economic outlook for 2019 is currently dominated by a high level of uncertainty. Specific risks to the global economy are posed by the further intensification of trade conflicts, the tightening of global financial conditions, concerns about Italy's debt crisis, the delay to reforms in France and, finally, a possible no-deal Brexit. In view of the tense global economic environment, the International Monetary Fund (IMF) downgraded its outlook for 2019 slightly in January compared to October 2018.

Growth expectations for GDP

Growth expectation in %	2019	Trend vs. 2018
World	3.5	↘
Advanced economies	2.0	↘
USA	2.5	↗
Emerging economies	4.5	→
China	6.2	↘
Russia	1.6	→
Eurozone	1.6	↘
Central and Eastern Europe (emerging european economies)	0.7	↘
Germany	1.3	↘
World trade	4.0	→

Source: International Monetary Fund (IMF), January 2019

Global economic output is likely to be slightly lower in 2019 than in the previous year. The outlook for 2019 in the economic regions of particular significance to HHLA is also slightly gloomier, with the IMF anticipating slower economic growth of 6.2 % for China. However, the People's Republic would thus remain the most important driver of global economic growth. Weaker forecasts for the crude oil market, structural bottlenecks and the hampering of trade by sanctions are likely to prevent any strong recovery of the Russian economy. By contrast, the economic outlook for the Commonwealth of Independent States (excluding Russia) has improved slightly: the IMF expects to see a steady expansion of total economic output of 3.7 %. According to the most recent estimates of October 2018, Estonian GDP is expected to achieve robust – albeit slightly slower – growth of 3.2 %. As a result of the tense political situation, a slowdown is also anticipated for the eurozone economy compared to 2018. Against the backdrop of the Turkish recession, the IMF has strongly downgraded its economic forecasts for Central and Eastern Europe by 1.3 percentage points and now expects much slower growth of 0.7 % for the economies of this region in 2019. The IMF also expects the pace of economic growth in Germany to slow slightly. Nevertheless, the IMF anticipates a steady increase of 4.0 % in global trade volumes for 2019.

Sector development

Following a moderate increase in container throughput in 2018, the market research institute Drewry expects the momentum to slow in 2019 with a decrease of 0.6 percentage points to 4.1 %.

Growth will be driven in particular by the shipping regions of Asia (+ 4.9 %), particularly South Asia (+ 8.0 %), and Latin America (+ 4.4 %). Drewry expects that container throughput growth in China – the Port of Hamburg's most important shipping region – will be stronger in 2019 than in the comparatively weak previous year, but still clearly below 5 %. The outlook for European shipping regions is also much less positive. Experts estimate that growth in the European shipping region in 2019 will be only half as strong as in the previous year. Drewry forecasts that only the North-West European ports will recover slightly compared with 2018. For all other shipping regions, estimates are up to 8.3 percentage points below the prior-year figures.

Expected container throughput by shipping region

Growth expectation in %	**2019**	Trend vs. 2018
World	4.1	↘
Asia	4.9	↘
China	4.2	↗
Europe as a whole	2.2	↘
North-West Europe	3.2	↗
Scandinavia and the Baltic region	2.4	↘
Western Mediterranean	1.2	↘
Eastern Mediterranean and the Black Sea	1.1	↘

Source: Drewry Maritime Research, December 2018

Considering the capacities available at container terminals in the North Range and the Baltic Sea, competition between ports is likely to remain fierce in 2019. However, as Drewry forecasts increased demand for the North European ports in 2019, the situation is expected to ease slightly. Nevertheless, the bargaining power of shipping companies in negotiations with the port operators has increased significantly as a result of mergers and acquisitions, as well as the formation of new alliances.

The situation on the container shipping market also looks set to ease slightly. Drewry expects the market conditions for shipping companies to brighten significantly in 2019, with growth in average freight rates of 6.5 % for the forecasting period. However, the development of freight rates is strongly dependent on the high volatility of crude oil prices, which makes it difficult to forecast bunker costs. According to estimates of the market research institute AXS Alphaliner, the growth in total capacity of the container ship fleet will continue its downward trend in 2019 as a result of declining orders from shipping companies and delayed deliveries. At 3.5 %, growth in total capacity of the container ship fleet is likely to be slower again than that of global demand in the forecasting period. 185 ships with a carrying capacity of around 1.2 million TEU are expected to be delivered in 2019. Of these, 21 ships will belong to the +18,000-TEU class.

In view of the steady increase in ship sizes and the resulting rise in container volumes per ship call, the pressure on terminals and hinterland transport systems will continue to grow. The most recent medium-term forecast for cargo and passenger transport in Germany issued by the Federal Ministry of Transport and Digital Infrastructure (BMVI) in September 2018 anticipates robust growth for the German freight market in 2019.

Expected freight traffic in Germany by modes of transport

Growth expectation in %	**2019**	Trend vs. 2018
Transport volumes	**2.3**	↗
Road traffic	2.3	→
Railway traffic	2.6	↗
Multi-modal traffic	5.7	↗
Traffic performance	**3.1**	↗
Road traffic	3.4	→
Railway traffic	3.4	↗
Multi-modal traffic	5.2	↗

Source: Floating medium-term forecast for freight and passenger transport on behalf of the Federal Ministry of Transport and Digital Infrastructure; September 2018

For all modes of freight traffic, experts expect a slight year-on-year increase in both transport volumes and traffic performance (transport volume multiplied by the distance travelled) of 0.3 percentage points. With regard to road freight, the increase in tolls is likely to result in similar growth rates to the previous year for transport volumes and traffic performance in 2019. Rail freight is expected to benefit from the increase in road tolls. As a result, 2.6 % more goods could be transported by rail during the forecasting period, more than doubling the growth in traffic performance from 1.6 % in the previous year to 3.4 %. Multi-modal traffic looks set to develop even more dynamically, with volume and performance likely to increase by 5.7 % and 5.2 %, respectively.

Expected Group performance

Comparison with the forecast of the previous year

The forecast published in the 2017 Annual Report was achieved and partially surpassed. In terms of container throughput, the guidance of last year's report was slightly exceeded due to the takeover of the container terminal in Tallinn. The figures for revenue and EBIT developed in line with expectations. Delays in delivery and order execution meant that capital expenditure budgeted for the reporting period was not utilised in full. Course of business and economic situation

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. Weaker global economic growth in general – caused in particular by the ongoing trade dispute between the US and China, the uncertain outcome of Brexit and the budget standoff between the Italian government and the European Union – and lower container throughput forecast by Drewry in particular will continue to be closely monitored.

Despite the restructuring of significant services and key clients on the Asia–Europe trades in 2017, there may be further changes in 2019, as well as temporary or structural shifts in services between the North Range ports. As a result of the takeover of North America services and the first full-year consolidation of throughput volumes of the TK Estonia container terminal (formerly Transiidikeskuse AS), HHLA expects a slight overall increase in **container throughput** in 2019. Slight year-on-year growth is also expected for **container transport**. At a Group level, this should lead to a slight increase in **revenue**.

The **operating result (EBIT) of the Port Logistics subgroup** is expected to rise significantly year-on-year in 2019, largely due to the changes in lease accounting (IFRS 16) as of 2019. Earnings for the subgroup will be shaped largely by the Container and Intermodal segments. Stable EBIT growth on a par with the previous year is expected for the Container segment, while significant growth is expected for the Intermodal segment.

The **operating result (EBIT) of the Real Estate subgroup** is expected to be around € 15 million due to scheduled, large-scale maintenance work that does not qualify for capitalisation. As a result of the effects described above, 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 impacted by exchange rate effects reported below EBIT as part of the financial result.

The conditions determining infrastructure are vital to the competitiveness of the Port of Hamburg. In addition to the swift implementation of dredging work in the lower and outer stretches of the river Elbe, the modernisation and expansion of regional road and rail infrastructure is essential. Delays to these expansion measures may have a crucial impact on Hamburg's competitive advantage as a rail port. Risk and opportunity report

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 2019 is expected to be in the range of € 200 million, most of which will be attributable to the Port Logistics subgroup. In the Container segment, investments 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 can be supplemented by borrowing 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.

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

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.

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, the Executive Board of HHLA 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.

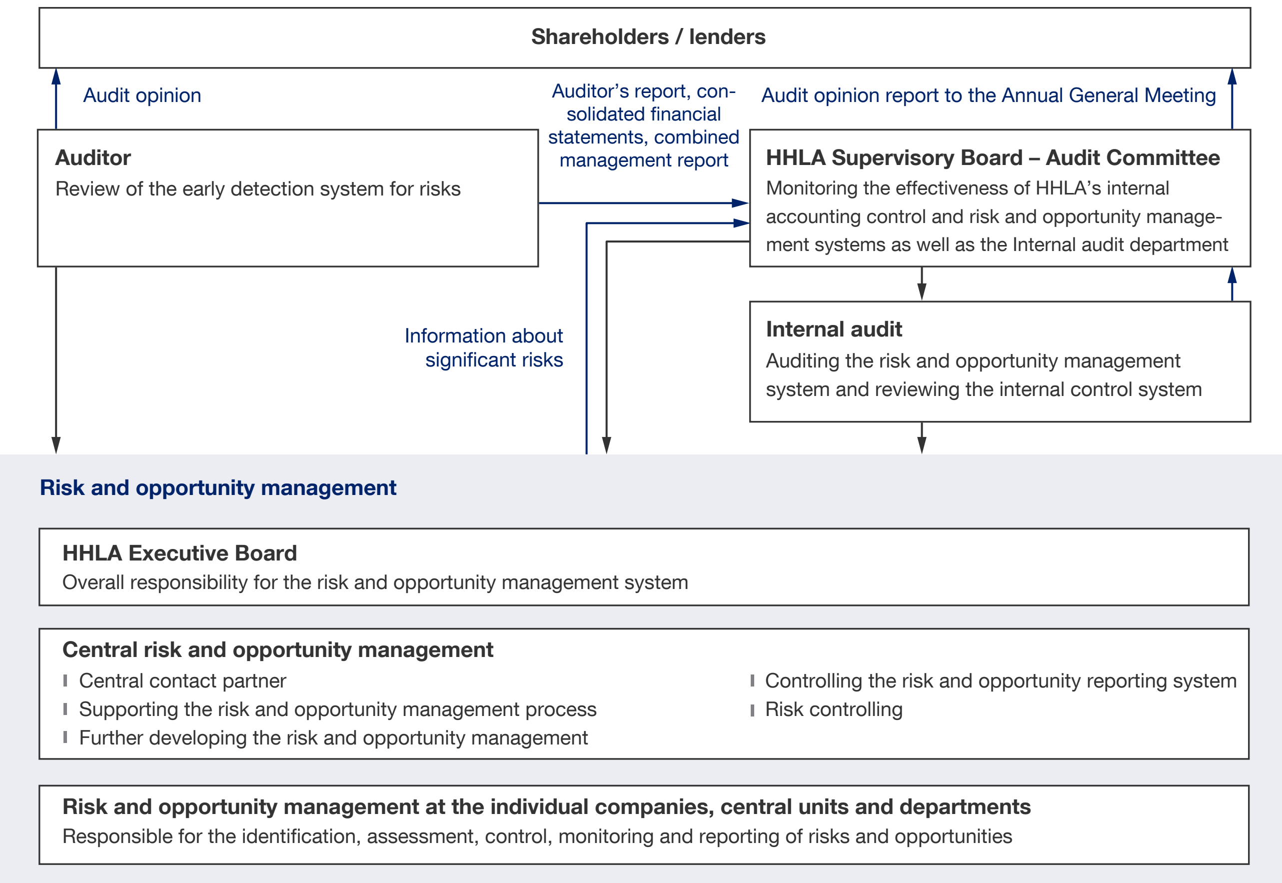
HHLA's internal accounting control and risk and opportunity management system is based on the criteria set out in the "Internal Control – Integrated Framework" working paper published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Accounting processes are assessed to 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,

Risk and opportunity management and the internal control system for accounting



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 those departments responsible for mapping transactions are given write 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	↗
Financial risks	medium	unlikely	↘
Other risks	medium	unlikely	↘
Strategical risks	medium	unlikely	↘
Legal risks	not significant	unlikely	→
IT risks (new)	not significant	unlikely	→
Risks from the provision of services	–	–	↓

Since the economic prospects, in particular, are 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 material – in the interim statements for the first and third quarters.

There are no discernible risks at present that could jeopardise HHLA's continued existence. The Executive Board of HHLA 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 volumes and logistics services

The pace of growth in those economies whose flows of goods HHLA serves is a key precondition 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 compensate fully 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 checks for any impairment of its assets and makes adjustments where necessary. As a result of the stable forecast for volumes and earnings, the risk assessment remains unchanged for the subsequent year.

Research institutes continue to expect moderate global economic growth in the coming years, although the latest forecasts for 2019 have already been downgraded by most research institutes. The current global economic and political developments are thus already beginning to have an impact. In Europe, for example, the main source of uncertainty is the impact of a possible no-deal Brexit and the development of the Italian debt crisis. The direct impact of a possible Brexit are not significant for HHLA as both the proportion of containers handled by our Hamburg terminals coming from or going to the UK and the potential impact on earnings of HHLA's minority stake in CuxPort are very low. Due to protectionist tendencies already evident from the trade conflicts between the US and the EU and China, the future development of global trade flows is uncertain. Furthermore, the global economic climate will also be burdened by global geopolitical risks, such as the recent withdrawal from the INF Treaty, as well as financial risks resulting from – in some cases significant – interest rate increases. Further factors include additional or extended sanctions against Iran and Russia, as well as currency crises and the volatility of the oil price. Economic growth in China is expected to be slightly slower in 2019, albeit still at an average of around 6 %. More significantly, however, this growth will be primarily driven by domestic demand and will only support global trade to a minor extent.

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 not insignificant proportion of their intercontinental 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 enhancing 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.

The market research institute Drewry estimates that growth in container traffic will slow. Although Drewry anticipates an increase in global container throughput in 2019, it will be below the levels forecast for 2018. Following the marked slump in 2018, the North-West Europe shipping region is set to experience an upturn in throughput in 2019, although the figures are not expected to reach the throughput levels of 2017. Throughput forecasts for the Scandinavian and Baltic ports in 2019 have been dampened and the increase in transhipment volumes is now expected to be slower. The associated volume and capacity risks thus remain relevant for HHLA but are still classed as unlikely.

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. The price sensitivity of shipping company customers, particularly for transhipment, may increase further, which could lead to a shift in volumes to competing ports.

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 further strengthen the performance of HHLA's hinterland network.

In addition to this, 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. Cost pressure and the resulting consolidation pressure on shipping companies will thus remain high in future.

Even after the restructuring of significant services and key clients on the Asia–Europe trades in 2017, there are still risks and opportunities for HHLA from temporary or structural shifts in services between the North Range ports. As volumes per service and ship call increase with the use of ever-larger vessels, the impact on capacity utilisation at the seaport terminals also grows. However, major changes in the service structure are considered unlikely at present.

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.

Traction costs

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.

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. The subsidy for route prices in freight traffic (TraFöG) introduced in late 2018 by the Federal Ministry of Transport and Digital Infrastructure (BMVI) aims to subsidise rail freight by partly financing track prices. The subsidy applies retroactively from July 2018, with the programme initially set to last for five years. This will also result in opportunities for the HHLA companies in terms of volume and earnings growth.

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. 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.

2. 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. HHLA therefore remains unaffected by the hyperinflation in Argentina. The Intermodal and Logistics segments operate internationally, and a container terminal is operated in 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

Despite increased revenues, the liquidity and earnings position of shipping companies became slightly more strained in 2018 in comparison to the previous year. This was partly due to the high volatility of crude oil prices and higher cost pressure. Nevertheless, market research institutes such as Drewry still expect to see a positive result for the industry in 2018. Shipping companies are expected to increase their profitability in 2019. However, 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. In view of the overwhelmingly positive earnings position of shipping companies, the risk assessment has been reduced as compared with the previous year and is still regarded as unlikely.

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 continue its 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 largely corresponds to that of 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. The corresponding court case continues. The risk of litigation is still deemed low at present.

Please see the report 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. Notes to the consolidated financial statements, no. 47 Management of financial risks

3. Other risk and opportunity factors

Flooding

As a result of the existing structural situation and the fact that HHLA's Hamburg 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 previous 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. In addition to 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.

The acquisition of Transiidikeskuse AS (TK), Estonia's biggest container and multi-function terminal, incorporated as HHLA TK Estonia since September 2018, serves the strategic expansion of the HHLA network.

HHLA is in a sound financial position. It therefore has the financial means to make further acquisitions.

Digitalisation

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 digitalisation are to be initiated and implemented with the aim of enhancing the company's value. These include a Group-wide evaluation to identify digitalisation potential. Structured processes are being established in order to achieve this. Investments are also being made in accelerators such as the Next Logistics Accelerator and Next Commerce Accelerator, and direct equity stakes have been acquired in highly promising start-ups. This may result in opportunities to generate additional value added.

Technological innovations

One of HHLA's targets is to relieve the pressure on the transport infrastructure in and around the Port of Hamburg by seeking innovative and sustainable solutions and using the capacities of its terminals more efficiently. To this end, HHLA set up a joint venture with the US research and development company Hyperloop Transportation Technologies (HTT). The plan is to construct a transfer station at an HHLA container terminal, which can transport maritime containers – packed in the corresponding transportation pods – at high speed via a tube system (hyperloop). Research and Development The initiation of other projects will hopefully result in additional opportunities for boosting efficiency and value added.

4. 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. 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. 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. This in turn could cause throughput and transport volumes to bypass HHLA's sites.

The dredging of the lower and outer stretches of the river Elbe should enable ships with a draught of up to 14.50 m to use the Port of Hamburg, depending on the tide. Ships with a draught of up to 13.50 m should then be able to pass through the lower and outer stretches of the river Elbe regardless of the tide. This will play a major role in maintaining and boosting the competitiveness of the Port of Hamburg. Planning permission was obtained in August 2018, when the third supplementary planning decision was issued. The suit brought against the current planning decision by environmental associations in September 2018 has not delayed the project. The shipping companies may, however, continue to reschedule their mega-ship liner services during the construction phase and traffic could bypass the Port of Hamburg – possibly permanently. This would result in a corresponding loss in earnings. In the meantime, however, this is viewed as unlikely (previous year: possible).

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. Deficits and delays in the expansion of the rail network, for example, could lead to the weakening of Hamburg's competitiveness as a rail port. The short-term potential effects of this have been reassessed by the Hamburg container terminals but are still seen as unlikely. In the Intermodal segment, there may be additional costs or delays due to bottlenecks in the rail network. This may result from poor rail infrastructure or delays caused by construction work, for example. The flexibility offered by our own rolling stock helps to ensure that major impacts on our earnings are unlikely. Projects of special significance for HHLA include the future replacement of the Köhlbrand Bridge, whose useful life looks set to end in 2030, the construction of the port crossing (A 26) and the upgrading of the Kiel canal, including its locks.

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

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 the prevention of corruption and conduct in the competitive environment, in line with the current risk profile. 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. The introduction of a system-based business partner screening is also being prepared in order to facilitate standardised, risk-oriented screening of HHLA's business partners across the Group.

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. IT risks

In the event of a cyber attack, temporary restrictions or failures in IT applications, e.g. due to the destruction or ransoming of data, cannot be ruled out. 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.

7. Service provision risks

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 or repair, contingency plans and breakdown services, regular inspections and tests are performed to help identify possible faults before they happen. This significantly lowers the risk.

The strategy of increasingly using our own locomotives and wagons has proven effective for HHLA's rail subsidiaries. For this reason, the potential losses from performance deficits caused by external service providers reported in the previous year are no longer regarded as significant. The focus of this risk has now been transferred to infrastructural risks (see above).

In contrast to the previous year, therefore, the risks relating to the provision of services are no longer considered as major risks for the HHLA Group but will continue to be tracked and observed.

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 (hereinafter "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 2018 financial year and submitted their annual declaration of compliance in accordance with Section 161 AktG in December 2018. 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 AktG

The Executive and Supervisory Boards of HHLA submitted the following joint declaration of compliance in accordance with Section 161 AktG on the recommendations of the Government Commission on the German Corporate Governance Code on 7 December 2018: "The Executive Board and Supervisory Board of Hamburger Hafen und Logistik AG hereby state after due examination that in the period starting 18 December 2017 (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 7 February 2017 with the following exceptions. Furthermore, HHLA shall comply with the Code in the future with the following exceptions:

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. The Supervisory Board is of the opinion that the variable remuneration of the HHLA Executive Board is already geared towards sustainable development in its current form. Regardless of this, the Supervisory Board will also address whether the variable remuneration of the Executive Board should be adjusted in future in its next review of the Executive Board remuneration system.

Hamburg, 7 December 2018
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 primarily conducted by domestic and foreign subsidiaries and associated firms. Group Structure 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 and 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 fair competition, the prevention of corruption, discrimination and conflicts of interest, as well as the handling of sensitive corporate information, particularly insider information, and information subject to data privacy, see www.hhla.de/compliance. The code of conduct also offers the opportunity for employees and third parties to provide information about misconduct within the company. The code of conduct is supplemented by further Group guidelines on such matters as the prevention of corruption and fair conduct. 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. 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 the 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 primarily 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. Sustainability
www.hhla.de/nachhaltigkeit

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. Risk and opportunity report

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 supervisory functions: the Executive Board manages the company on its own responsibility, while the Supervisory Board monitors the Executive Board and advises it on managing the company. 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

Business at the company is managed by the Executive Board. 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. Group Structure

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, profitability, the current position and course of business, strategy, 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 interest 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**. Among other things, the rules state that decisions on fundamental organisational matters, business policy and corporate planning are to be made by the Executive Board as a whole. The rules also state that measures and transactions of considerable importance for the company must be discussed and decided upon together and that – in accordance with Section 111 (4) AktG – certain measures 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 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 members of the Executive Board. Notes to the consolidated financial statements, no. 49 Board members and mandates 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 digitalisation;
- 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 – and its composition as of 1 April 2019 – 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. Measures 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 the 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 six committees: the Finance Committee, Audit Committee, Personnel Committee, Nomination Committee, Arbitration Committee and 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.
- 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.

- The **Real Estate 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 (S division). It also decides on whether to grant Supervisory Board approval for all legal transactions that require such approval and all other Supervisory Board resolutions 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 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.

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 289f (1) no. 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 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 digitalisation;
- 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 currently has two independent members from amongst the shareholders: the Supervisory Board Chairman Prof. Dr. Grube 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. This also applies to finding a successor for the position that has fallen vacant with the resignation of Mr. Westhagemann on 6 February 2019. The Supervisory Board will provide the Annual General Meeting with election proposals on 18 June 2019, following preparatory work by the Nomination Committee. However, the Annual General Meeting is under no obligation to observe the requirement profile or the Supervisory Board's election proposals when electing shareholder representatives. Furthermore, in the case of shareholder representatives, the Supervisory Board has no right to nominate candidates for election and the employees entitled to vote are also not obliged to observe the requirement profile.

Further information

Further information on the activities of the Supervisory Board and its committees, as well as on the Supervisory Board's cooperation with the Executive Board in the reporting period, can be found in the Report of the Supervisory Board. Further information on the composition of the Supervisory Board and its committees can be found in the notes to the consolidated financial statements, no. 49 Board members and mandates. 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.

Additional information in accordance with Section 289f (2) nos. 4 and 5 HGB

In accordance with Section 96 (2) AktG, the **Supervisory Board** of HHLA consists of at least 30 % women and 30 % men. Since the Supervisory Board re-elections in June 2017, there have been four female members of the Supervisory Board, two of whom are shareholder representatives and two of whom are employee representatives. As of 31 December 2018, women therefore now account for 33.3 % of both the shareholder representatives and the employee representatives on the Supervisory Board. As such, the legal requirements are met.

The Supervisory Board set a quota of 25 % for women on the **Executive Board** by 30 June 2022. This target has been met.

The Executive Board has set a target quota of 30 % for women in **both management levels below the Executive Board** and established a deadline for achieving this by 30 June 2022. As of 31 December 2018, women accounted for 27 % of the first management level and 22 % of the second management level. In both cases, the main reason for the targets not being achieved was that insufficient positions became vacant during the comparatively short period prior to the deadline.

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 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/hauptversammlung 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 in line with Section 6.2 GCGC. 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, General notes. The appropriation of profits is based solely on the separate financial statements.

The choice and appointment of the auditing firm, the monitoring of its independence and the additional services it provides are all 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 2018 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 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 2018 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, and 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 work force.

In accordance with the current remuneration system for the members of the Executive Board, which was last modified slightly in the 2015 financial year and has applied in this version for all members of the Executive Board since 1 January 2017, remuneration for the members of the Executive Board comprises a non-performance-related fixed salary, a performance-related bonus, pension entitlements 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 past 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.

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 2018 financial year amounted to approximately € 3.0 million (previous year: € 2.93 million). Former members of the Executive Board and their surviving dependants received benefits totalling € 1,008,923 (previous year: € 931,633). Total provisions of € 23,239,497 were recognised for pension obligations to former members of the Executive Board and their surviving dependants (previous year: € 24,241,804).

Level of remuneration for Executive Board members according to different scenarios

As of: 31 December 2018

	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

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).

Angela Titzrath, Chairwoman of the Executive Board

	Benefits granted (target)				Allocation (amount disbursed)	
in €	**2018**	2018 Minimum	2018 Maximum	2017	**2018**	2017
Fixed remuneration	450,000	450,000	450,000	450,000	450,000	450,000
Other benefits	13,859	13,859	13,859	12,248	13,859	12,248
Total	**463,859**	**463,859**	**463,859**	**462,248**	**463,859**	**462,248**
One-year variable remuneration[1, 2]	406,450	0	450,000	350,940	400,391	392,230
Other	0	0	0	0	0	0
Total remuneration	**870,309**	**463,859**	**913,859**	**813,188**	**864,250**	**854,478**
Service cost[3]	355,898	355,898	355,898	354,032	355,898	354,032
Total expenses	**1,226,207**	**819,757**	**1,269,757**	**1,167,220**	**1,220,148**	**1,208,510**

Heinz Brandt, Executive Board member

	Benefits granted (target)				Allocation (amount disbursed)	
in €	**2018**	2018 Minimum	2018 Maximum	2017	**2018**	2017
Fixed remuneration	350,000	350,000	350,000	350,000	350,000	350,000
Other benefits	13,359	13,359	13,359	13,215	13,359	13,215
Total	**363,359**	**363,359**	**363,359**	**363,215**	**363,359**	**363,215**
One-year variable remuneration[1, 2]	326,450	0	350,000	282,815	323,974	324,813
Other	0	0	0	0	0	0
Total remuneration	**689,809**	**363,359**	**713,359**	**646,030**	**687,333**	**688,028**
Service cost[3, 4]	269,655	269,655	269,655	265,932	269,655	265,932
Total expenses	**959,464**	**633,014**	**983,014**	**911,961**	**956,988**	**953,960**

Jens Hansen, Executive Board member (since 1 April 2017)

	Benefits granted (target)				Allocation (amount disbursed)	
in €	**2018**	2018 Minimum	2018 Maximum	2017	**2018**	2017
Fixed remuneration	350,000	350,000	350,000	262,500	350,000	262,500
Other benefits	18,624	18,624	18,624	10,081	18,624	10,081
Total	**368,624**	**368,624**	**368,624**	**272,581**	**368,624**	**272,581**
One-year variable remuneration[1, 2]	350,000	0	350,000	230,393	350,000	257,048
Other	0	0	0	0	0	0
Total remuneration	**718,624**	**368,624**	**718,624**	**502,974**	**718,624**	**529,629**
Service cost[3]	35,000	35,000	35,000	26,250	35,000	26,250
Total expenses	**753,624**	**403,624**	**753,624**	**529,224**	**753,624**	**555,879**

Dr. Roland Lappin, Executive Board member

	Benefits granted (target)				Allocation (amount disbursed)	
in €	**2018**	2018 Minimum	2018 Maximum	2017	**2018**	2017
Fixed remuneration	350,000	350,000	350,000	350,000	350,000	350,000
Other benefits	10,782	10,782	10,782	9,593	10,782	9,593
Total	**360,782**	**360,782**	**360,782**	**359,593**	**360,782**	**359,593**
One-year variable remuneration[1, 2]	326,450	0	350,000	282,815	323,974	324,813
Other	0	0	0	0	0	0
Total remuneration	**687,232**	**360,782**	**710,782**	**642,408**	**684,756**	**684,406**
Service cost[3]	207,878	207,878	207,878	205,008	207,878	205,008
Total expenses	**895,110**	**568,660**	**918,660**	**847,415**	**892,634**	**889,414**

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

2 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).

3 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)

4 As a result of Mr. Brandt's decision to leave the Executive Board at the end of March 31, 2019, additional actuarial losses of € 1,020,105 were incurred in the 2018 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, Supervisory Board members did not receive any other payment for services rendered. The total remuneration paid to members of the Supervisory Board during the reporting period amounted to € 309,292 (previous year: € 303,938).

Individual remuneration of Supervisory Board members

	Fixed remuneration		Remuneration for committee work		Meeting fee		Total	
in €[1]	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Prof. Dr. Rüdiger Grube[2]	40,500	23,625	5,000	0	3,500	750	49,000	24,375
Prof. Dr. Peer Witten[3]	0	20,250	0	5,000	0	3,000	0	28,250
Berthold Bose[2]	20,250	11,813	2,500	0	3,500	750	26,250	12,563
Wolfgang Abel[3]	0	10,125	0	1,250	0	2,500	0	13,875
Torsten Ballhause[3]	0	6,750	0	3,750	0	3,000	0	13,500
Petra Bödeker-Schoemann[4]	6,750	13,500	3,750	6,250	1,000	2,750	11,500	22,500
Dr. Rolf Bösinger[5]	4,500	13,500	833	2,500	0	3,500	5,333	19,500
Dr. Bernd Egert[3]	0	6,750	0	3,750	0	1,500	0	12,000
Holger Heinzel[3]	0	6,750	0	1,250	0	1,000	0	9,000
Dr. Norbert Kloppenburg	13,500	13,500	7,500	6,250	3,750	3,250	24,750	23,000
Andreas Kummer[3]	0	6,750	0	3,750	0	3,250	0	13,750
Thomas Lütje[2]	13,500	7,875	2,500	833	2,000	1,000	18,000	9,708
Dr. Wibke Mellwig[6]	3,375	0	0	0	250	0	3,625	0
Thomas Mendrzik[2]	13,500	7,875	10,000	2,500	4,750	1,750	28,250	12,125
Thomas Nahr[3]	0	6,750	0	2,500	0	1,500	0	10,750
Dr. Isabella Niklas[7]	7,875	0	3,125	0	1,750	0	12,750	0
Norbert Paulsen	13,500	13,500	10,000	5,000	5,250	3,500	28,750	22,000
Sonja Petersen[2]	13,500	7,875	5,000	1,667	3,000	250	21,500	9,792
Dr. Sibylle Roggencamp	13,500	13,500	10,000	8,750	5,000	4,500	28,500	26,750
Maya Schwiegershausen-Güth[2]	13,500	7,875	0	0	1,750	250	15,250	8,125
Dr. Torsten Sevecke[7]	7,875	0	1,458	0	2,250	0	11,583	0
Michael Westhagemann[2]	13,500	7,875	7,500	2,500	3,250	2,000	24,250	12,375
Total	**199,125**	**206,438**	**69,166**	**57,500**	**41,000**	**40,000**	**309,292**	**303,938**

1 All figures exclude VAT
2 Since 21 June 2017 (Annual General Meeting 2017)
3 Until 21 June 2017 (Annual General Meeting 2017)
4 Until 12 June 2018 (Annual General Meeting 2018)
5 Until 20 April 2018
6 21 April 2018 until 12 June 2018 (Annual General Meeting 2018)
7 Since 12 June 2018 (Annual General Meeting 2018)

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, while the class A shares constitute only shareholdings in the net profit/loss and net assets of the 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 make up the A division (Port Logistics subgroup). 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. Details on direct or indirect capital shareholdings which entitle the holder to more than 10 % of the voting rights can be found in the notes to the consolidated financial statements, no. 35 Equity and no. 48 Related party disclosures

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 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 AktG in conjunction with Section 31 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 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. Where the law prescribes a larger voting or capital majority for specific amendments to the articles of association, 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 rights of class S shareholders shall be excluded. The Executive Board is additionally authorised, subject to the approval of the Supervisory Board, to exclude the statutory subscription rights of class A shareholders in those cases covered in more detail in the resolution, such as issue for contributions in kind or issue in return for cash, provided the issue price 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 Article 3 [5] of the articles of association). The statutory subscription rights of 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 partial debentures 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 partial 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 outstanding 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. 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 to 10,000,000 new registered class A shares to be issued (see Article 3 [6] 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 market 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 of the authorisations stated in sections 7.1 to 7.4, particularly the conditions of purchase or issue, the possibilities to exclude subscription rights and their limits, can be found in the corresponding authorisation resolutions and – for the authorisations listed in sections 7.1 to 7.3 – in Article 3 of the articles of association.

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 million and issued a total of 44 registered bonds with a combined nominal value of € 22 million. 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.

In October 2018, the company took out three more promissory note loans with a total volume of € 80 million and issued a further 40 registered bonds with a combined nominal value of € 20 million. The individual promissory note loans will be due for repayment between 5 October 2025 and 5 October 2028. The registered bonds are due for repayment on 5 October 2033.

In the event of a change of control at HHLA, the holders of registered bonds and the creditors of promissory note loans or relevant tranches thereof are entitled to demand early repayment. In the case of debenture bonds and loans or relevant tranches thereof from 2015, however, the relevant bondholder or loan creditor is only entitled to demand such early repayment if continuation is deemed unreasonable. A change of control can be said to have taken place if the Free and Hanseatic City of Hamburg directly or indirectly 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. Section 9

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 Aktiengesellschaft (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 27 domestic and 15 foreign subsidiaries that make up the consolidated group. In the 2018 financial year, HHLA AG acquired the Estonian terminal operator Transiidikeskuse AS, took over the remaining shares in METRANS a.s. in the Intermodal segment and restructured its Polish rail business. No other significant legal or organisational changes were made.

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 economic 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 1,045 employees as of 31 December 2018 (previous year: 1,073). Of this number, 290 received wages (previous year: 303), 714 received a salary (previous year: 725) and 41 were apprentices (previous year: 45). Of the 1,045 staff members, 481 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	**2018**	2017	Change
Revenue	122.8	127.6	- 3.7 %
Other income and expenses	- 156.1	- 164.9	5.4 %
Operating result	- 33.3	- 37.3	10.8 %
Financial result	- 27.2	- 22.4	- 21.5 %
Result from equity investments	125.6	93.1	34.9 %
Income taxes	- 8.9	- 9.3	4.4 %
Net profit	56.2	24.1	133.1 %

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. Revenue totalled € 122.8 million in the reporting year (previous year: € 127.6 million). The decrease of € 4.8 million was mainly due to the reduced allocation of personnel expenses for holding company staff assigned to other segments.

Other income and expenses improved earnings by an additional € 8.8 million compared with the previous year. This was largely due to expenses in the previous year relating to the reorganisation of the Container segment.

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

The development of **income from equity investments** was mainly due to the performance of the Intermodal segment. The net profits of HHLA AG's affiliates and equity investments recognised in profit or loss rose year-on-year by € 32.5 million to € 125.6 million (previous year: € 93.1 million).

The € 0.4 million decline in **income taxes** stemmed mainly from the decrease in the operating and financial result.

The company's **annual net profit** amounted to € 56.2 million in the reporting period (previous year: € 24.1 million). The A division accounted for € 47.7 million of this amount (previous year: € 14.7 million) and the S division for € 8.5 million (previous year: € 9.4 million).

Forecast and actual figures

in € million	Actual 2017	Forecast 2018	**Actual 2018**
Net profit	24.1	Significantly improved	56.2

The company's annual net profit was therefore in line with guidance. Course of business and economic situation

Assets

Balance sheet structure

in € million	31.12.2018	31.12.2017
Assets		
Intangible assets and property, plant and equipment	29.8	23.2
Financial assets	424.8	376.5
Other assets	695.7	625.9
Balance sheet total	**1,150.3**	**1,025.6**
Equity and liabilities		
Equity	478.1	474.3
Pension provisions	323.9	309.6
Other liabilities	348.3	241.7
Balance sheet total	**1,150.3**	**1,025.6**
Equity ratio in %	41.6	46.2
Intensity of investments in %	2.6	2.3

The carrying values of **intangible assets** and **property, plant and equipment** amounted to € 29.8 million at the end of the reporting period (previous year: € 23.2 million). Capital expenditure totalled € 9.8 million in the reporting period (previous year: € 8.3 million). Capital expenditure focused mainly on expanding the IT landscape.

The increase in **financial assets** of € 48.3 million to € 424.8 million was primarily due to the above-mentioned takeover of the remaining shares in METRANS a.s.

Development in pension provisions

in € thousand	2018	2017
Carrying amount on 1 January	**309,575**	**303,327**
Transfer amount / Merger effect*	4,296	5,555
Expense recognised in profit and loss	29,210	19,891
Pension payments	- 19,193	- 19,198
Carrying amount on 31 December	**323,888**	**309,575**

* In the year under review, a transfer amount resulted from the harmonisation of the existing old-age provision systems. In the previous year, HHLA Container Terminals Gesellschaft mit beschränkter Haftung was 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 3.21 % set by Deutsche Bundesbank was applied for the reporting year (previous year: 3.68 %).

In accordance with Section 253 (2) sentence 2 HGB, a remaining term of 15 years is used as a basis. Pension provisions amounted to € 323.9 million at the end of the reporting period (previous year: € 309.6 million).

Financial position

Liquidity analysis

in € million	2018	2017
Financial funds as of 01.01.	**388.4**	**405.3**
Merger effect*	0.0	4.6
Cash flow from operating activities	38.2	32.3
Cash flow from investing activities	- 58.2	- 7.1
Cash flow from financing activities	47.7	- 46.7
Financial funds as of 31.12.	**416.1**	**388.4**
of which receivables from subsidiaries	192.3	166.4
of which cash and cash equivalents	223.8	222.0

* In the previous year, HHLA Container Terminals Gesellschaft mit beschränkter Haftung and HHLA Logistics GmbH were merged into HHLA AG.

Cash flow from operating activities totalled € 38.2 million in the reporting year (previous year: € 32.3 million). It was dominated by the operating result. Capital expenditure was funded by using cash flow from operating activities and by taking out a promissory note loan.

In connection with existing cash pooling agreements, financial funds comprised receivables from subsidiaries in the amount of € 192.3 million (previous year: € 166.4 million), cash and cash equivalents in the form of bank balances totalling € 128.8 million (previous year: € 147.9 million) – of which € 20.0 million (previous year: € 20.0 million) was short-term bank deposits – and clearing receivables of € 95.0 million (previous year: € 74.0 million) from HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, Hamburg (HGV). The S division of HHLA AG 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.

Risk and opportunity report

Business developments at 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) HGB. Risk and opportunity report

Business forecast

Outlook

Due to its close ties with the affiliated companies and its weight within the Group, the expectations for HHLA AG 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. Business forecast

Expected earnings position in 2019

Based on the expected developments, HHLA AG anticipates net profit for the year on a par with the previous year.

Expected financial position in 2019

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 AktG were carried out or actions were committed or omitted, the company received adequate consideration for the transactions and was not disadvantaged by committing or refraining from said actions.

In accordance with Article 4 of the articles of association, and with corresponding application of the provisions of Section 312 AktG, the Executive Board 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 2019

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.