Interim Management Report

Economic Environment

Macroeconomic Development

Global economic growth was weaker in the first half of the year than in 2017. The slowdown in growth was particularly prevelant in the advanced economies, while the rate of expansion remained stable in emerging markets. This trend is reflected in **global trade**, which was down slightly year-on-year in the first four months.

Economic momentum in the **advanced economies** slowed noticeably, with good capacity utilisation. Exports in particular cooled off and there was a clear slowdown in capital spending after a period of strong growth. By contrast, the **emerging markets** experienced further solid growth in the first half of 2018, with countries that export raw materials profiting especially from the rise in commodity prices. In the second quarter, the **Chinese economy** displayed stable growth of 6.7 % – just 0.1 percentage point below the first quarter of 2018. In **Russia**, the recovery slowed somewhat in the first half of the year, but recent leading indicators point towards steady growth for the remaining months of the year. Economic growth in **Ukraine**, continued to be adversely affected by reform projects, the national debt and the increasingly problematic financial situation.

Despite the uncertainties surrounding Brexit and US trade policy, numerous indicators suggest **steady economic growth for the eurozone**. Macroeconomic activity in the eurozone is estimated to have expanded by 2.6 % in the first quarter of 2018 and by 2.2 % in the second quarter.

Outside the eurozone, there was particularly strong growth in Poland and Hungary among the economies of **Central and Eastern Europe** in the first quarter of 2018. In Romania and the Czech Republic, on the other hand, the economies slowed in the first three months of 2018 following strong growth in the previous quarter.

Economic growth in Germany was generally steady, but did experience a slightly weaker phase in the first half of the year. For the second quarter of 2018, however, the economic barometer issued by the German Institute for Economic Research (DIW) indicates renewed quarter-on-quarter growth in gross domestic product (GDP) of 0.4 %. Despite fears of a global trade war, **German foreign trade** gained momentum in the first five months of 2018. Exports increased by 3.2 % in the months from January to May 2018 compared to the same period of the previous year – and imports also climbed by 3.8 %.

Sector Development

Global container throughput maintained its strong growth of the previous year in the first half of 2018. Container throughput at global ports grew by 6.1 % year-on-year in the first quarter – significantly higher than the already optimistic 4.6 % increase forecast by the market research institute Drewry in April. Following a readjustment of their forecast models, the experts now anticipate a further acceleration in growth to 6.5 % for the second quarter.

Although the latest estimates for the container throughput at the **Chinese ports** indicate strong growth of 5.3 % in the first quarter, this was still slightly below the forecasts issued at the beginning of the year. For the second quarter, the experts expect a further reduction in the growth rate to 4.8 %. Following modest growth of 3.3 % in the first quarter, Drewry now anticipates a significant upturn for the **North-West Europe trade** in the second quarter: following readjustment of its forecast models, the company now projects growth of 6.1 %. With growth of 14.3 % in the first quarter of 2018 and of 12.9 % in the second quarter, container throughput in **Scandinavia and the Baltic Sea** was also more than twice as strong as forecast in April. The increase in container throughput was particularly strong at Russia's Baltic Sea ports.

Container throughput in **Rotterdam** of 7.1 million TEU in the reporting period was 6.2 % up on the first half of 2017. In **Antwerp**, 5.6 million TEU passed over the quayside in the first six months of the year, resulting in throughput growth of 8.3 %.

At the time of reporting, no half-year data was available for the **German ports** along the North Range. In the first five months of the year, throughput at the Bremen ports amounted to 2.2 million TEU – down 0.4 % on the previous year. Wilhelmshaven posted 252 thousand TEU for the same period, thus raising container throughput volume by 56.9 % year-on-year.

Container throughput at **HHLA's** Hamburg container terminals was raised by 0.9 % to 3.5 million TEU in the first six months.

Course of Business and Economic Situation

Key Figures

in € million	1–6 | 2018	1–6 | 2017	Change
Revenue	633.0	622.8	1.6 %
EBITDA	157.7	158.5	- 0.5 %
EBITDA margin in %	24.9	25.5	- 0.6 pp
EBIT	99.9	98.8	1.1 %
EBIT margin in %	15.8	15.9	- 0.1 pp
Profit after tax and minority interests	52.4	52.6	- 0.5 %
ROCE in %	14.7	14.9	- 0.2 pp

Notes on the Reporting

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 Transiidikeskuse AS, a terminal operator based in Tallinn, Estonia. Upon fulfilment of the conditions precedent, HHLA acquired control on 27 June 2018.

There were no other particular events or transactions during the period under review, either in HHLA's operating environment or within the Group, that had a significant impact on its results of operations, net assets and financial position. Both the available key economic indicators and HHLA's actual economic performance were largely in line with the performance forecast in the 2017 Annual Report. ▶ See results of operations, page 5, net assets and financial position, page 6

There is normally no long-term order backlog for handling and transport services, and thus no use is made of this particular reporting figure.

Earnings Position

The economic development of HHLA in the first half of 2018 was encouraging. HHLA recorded a slight increase in **container throughput** of 1.2 % to 3,631 thousand TEU in the first half of the year (previous year: 3,586 thousand TEU). This growth was based on strong volumes in Far East services.

Transport volumes declined moderately by 4.2 % to 713 thousand TEU (previous year: 744 thousand TEU). This development is attributable to the realignment of rail transport in Poland and the fall in freight volume for road transport in Hamburg.

Revenue for the HHLA Group amounted to € 633.0 million in the reporting period and was thus up slightly by 1.6 % on the prior-year figure (previous year: € 622.8 million). This increase is partly due to a lower feeder ratio in container throughput and longer transport distances in the Intermodal segment.

In its Container, Intermodal and Logistics segments, the listed Port Logistics subgroup generated revenue of € 617.1 million in the reporting period (previous year: € 607.3 million). This 1.6 % increase almost matched the trend for the Group as a whole. At € 19.3 million, revenue at the non-listed Real Estate subgroup climbed by 3.0 % year-on-year (previous year: € 18.7 million).

As in the same period last year, **changes in inventories** of € 0.5 million (previous year: € 0.3 million) had no noticeable impact on the consolidated profit. **Own work capitalised** amounted to € 3.0 million (previous year: € 2.8 million).

Other operating income amounted to € 21.2 million (previous year: € 22.0 million).

Operating expenses rose in line with revenue by 1.6 % to € 557.7 million.

The **cost of materials** declined by 3.2 % in the reporting period to € 178.7 million (previous year: € 184.6 million). The cost of materials ratio decreased to 28.2 % (previous year: 29.6 %), due in part to falling volumes in the material-intensive Intermodal segment.

There was a year-on-year increase of 4.4 % in **personnel expenses**, taking the figure to € 237.6 million (previous year: € 227.5 million). In addition to wage increases, this was also due to greater use of employees from Gesamthafenbetriebs-Gesellschaft (GHB) at the Hamburg terminals and the growth in headcount following the opening of the terminal in Budapest. The personnel expense ratio rose to 37.5 % (previous year: 36.5 %).

Other operating expenses rose considerably in the reporting period by 8.2 % to € 83.7 million (previous year: € 77.3 million). The ratio of expenses to revenue rose from 12.4 % in the previous year to 13.2 %. There was a particularly strong increase in external maintenance services.

On the basis of these developments, the Group achieved an **operating result before depreciation and amortisation (EBITDA)** of € 157.7 million (previous year: € 158.5 million). The EBITDA margin amounted to 24.9 % in the reporting period (previous year: 25.5 %).

Depreciation and amortisation of € 57.8 million was recorded in the first half of the year (previous year: € 59.7 million). As a result, its ratio to revenue fell to 9.1 % (previous year: 9.6 %).

At Group level, the **operating result (EBIT)** improved slightly by 1.1 % to € 99.9 million (previous year: € 98.8 million) with an EBIT margin of 15.8 % (previous year: 15.9 %). The Port Logistics subgroup generated EBIT of € 91.4 million (previous year: € 90.6 million) with an EBIT margin of 14.8 %. The Real Estate subgroup reported EBIT of € 8.4 million (previous year: € 8.0 million).

Net expenses from the **financial result** increased by € 2.3 million to € 7.6 million (previous year: € 5.3 million), mainly due to exchange rate effects.

The Group's **effective tax rate** amounted to 25.5 % (previous year: 24.8 %).

Profit after tax decreased by 2.2 %, from € 70.3 million to € 68.8 million. With a slight decline of 0.5 %, profit after tax and minority interests of € 52.4 million, was more or less on a par with the previous year (€ 52.6 million). At € 0.72, earnings per share were also unchanged from the previous year (€ 0.72). The listed Port Logistics subgroup reported a 1.6 % decrease in earnings per share to € 0.68 (previous year: € 0.69). Earnings per share of the non-listed Real Estate subgroup were up by 10.8 % year-on-year to € 1.87 (previous year: € 1.69). The return on capital employed (ROCE) declined by 0.2 percentage points to 14.7 % (previous year: 14.9 %).

Financial Position

Balance Sheet Analysis

Compared with year-end 2017, the HHLA Group's **balance sheet total** decreased slightly as of the reporting date to € 1,797.7 million.

Balance Sheet Structure

in € million	30.06.2018	31.12.2017
Assets		
Non-current assets	1,412.0	1,348.0
Current assets	385.7	487.3
	1,797.7	1,835.3
Equity and liabilities		
Equity	572.5	602.4
Non-current liabilities	1,012.3	993.8
Current liabilities	212.9	239.1
	1,797.7	1,835.3

Non-current assets rose by 4.7 % to € 1,412.0 million (31 December 2017: € 1,348.0 million). The increase is chiefly attributable to the first-time consolidation of Transiidikeskuse AS and the associated increase in property, plant and equipment of € 62.3 million, as well as the increase in intangible assets (including goodwill) of € 19.3 million. There was an opposing effect from the scheduled depreciation of property, plant and equipment. Financial assets also decreased by € 6.2 million.

At € 385.7 million as of 30 June 2018, **current assets** were € 101.6 million below the corresponding figure as of 31 December 2017 (€ 487.3 million). This decline resulted partly from a reduction of € 103.7 million in cash and cash equivalents, as well as a drop of € 42.2 million in receivables from related parties due to a reduction in overnight deposits available on demand. The decrease in cash and cash equivalents and the aforementioned overnight deposits available on demand is mainly due to the acquisition of Transiidikeskuse AS and the takeover of the remaining shares in the METRANS Group. This was offset by a rise of € 25.3 million in trade receivables, as well as an increase of € 18.9 million in other financial receivables.

Equity declined by € 29.9 million to € 572.5 million as of the reporting date (31 December 2017: € 602.4 million). This decrease resulted mainly from the payment for the acquisition of further shares in METRANS a.s. amounting to € 49.9 million, as well as the payment of dividends totalling € 52.3 million. Net profit in the reporting period of € 68.8 million made a positive contribution to equity. The equity ratio decreased to 31.8 % in total (31 December 2017: 32.8 %).

The € 18.5 million increase in **non-current liabilities** to € 1,012.3 million compared to the the year-end figure (31 December 2017: € 993.8 million) is chiefly due to an increase in pension provisions of € 15.1 million and an increase of € 5.6 million in non-current financial liabilities.

Current liabilities fell by € 26.2 million to € 212.9 million (31 December 2017: € 239.1 million). This was mainly due to the decrease in current financial liabilities of € 32.5 million and the decrease in other current provisions of € 13.3 million. There was an opposing effect from the increase in other liabilities of € 13.7 million, as well as from an increase in trade liabilities of € 8.7 million.

Investment Analysis

Capital expenditure in the reporting period totalled € 44.2 million, well below last year's figure of € 63.6 million. Property, plant and equipment accounted for € 37.8 million (previous year: € 61.4 million) of capital expenditure, while investments in intangible assets made up € 6.4 million (previous year: € 2.2 million). The majority of this capital expenditure was for replacement investments.

Capital expenditure in the first half of 2018 focused on the procurement of large-scale equipment for horizontal transport, the expansion of infrastructure at the HHLA container terminals in the Port of Hamburg and the acquisition of new wagons at METRANS.

Liquidity Analysis

Cash flow from operating activities declined by € 52.2 million to € 95.9 million as of 30 June 2018 (previous year: € 148.1 million). The changes in trade receivables and in other financial receivables led to a decrease in operating cash flow.

Liquidity Analysis

in € million	1–6 | 2018	1–6 | 2017
Financial funds as of 01.01.	255.5	232.4
Cash flow from operating activities	95.9	148.1
Cash flow from investing activities	- 84.8	- 56.3
Free cash flow	11.1	91.8
Cash flow from financing activities	-140.1	- 93.6
Change in financial funds	- 128.1	- 2.3
Financial funds as of 30.06.	127.4	230.1
Short-term deposits	0.0	10.0
Available liquidity	127.4	240.1

Investing activities led to cash outflows of € 84.8 million (previous year: € 56.3 million). The increase in payment volumes of € 28.5 million was primarily attributable to the acquisition of all shares in Transiidikeskuse AS, which totalled € 72.0 million excluding acquired cash and cash equivalents. This was offset by reduced investments in property, plant and equipment, as well as increased proceeds from short-term deposits.

Free cash flow, which is the total cash flow from operating and investing activities, amounted to € 11.1 million at the end of the reporting period (previous year: € 91.8 million) and was therefore down by € 80.7 million year-on-year.

The cash outflow from **financing activities** amounted to € 140.1 million as of 30 June 2018 (previous year: € 93.6 million), an increase of € 46.5 million. A payment was made to acquire minority interests in METRANS a.s., Prague, Czech Republic, in the current reporting year. However, proceeds from new loans had the opposing effect in the reporting period.

As of the reporting date, the changes described above resulted in **financial funds** of € 127.4 million (30 June 2017: € 230.1 million), which were thus considerably lower than at the beginning of the year (31 December 2017: € 255.5 million). The Group's available liquidity as of 30 June 2018 totalled € 127.4 million (30 June 2017: € 240.1 million, including short-term deposits).

Segment Performance

Container Segment

Key Figures

in € million	1–6 | 2018	1–6 | 2017	Change
Revenue	380.3	372.3	2.2 %
EBITDA	106.9	109.9	- 2.7 %
EBITDA margin in %	28.1	29.5	- 1.4 pp
EBIT	68.2	68.2	0.0 %
EBIT margin in %	17.9	18.3	- 0.4 pp
Container throughput in thousand TEU	3,631	3,586	1.2 %

In the first half of 2018, HHLA's container terminals handled a total of 3,631 thousand standard containers (TEU). This is 1.2 % more than in the previous year (previous year: 3,586 thousand TEU). **Container throughput** at HHLA's three container terminals was raised by 0.9 % to 3,473 thousand TEU (previous year: 3,441 thousand TEU). This slight growth was mainly driven by the 4.1 % increase in Asia traffic. The rate of decline in feeder traffic was lower than in the first quarter. Compared with the same period last year, container throughput at the North Sea and Baltic Sea ports fell by 4.8 %. There was a corresponding decline in the feeder ratio of 1.4 percentage points to 23.6 % (previous year: 25.0 %). Container throughput at the Container Terminal Odessa continued to make good progress with year-on-year growth of 8.3 % to 158 thousand TEU in the first half of 2018 (previous year: 146 thousand TEU).

The slight volume growth of 1.2 % led to a 2.2 % increase in **revenue** to € 380.3 million compared with the first six months of 2017 (previous year: € 372.3 million). The slightly disproportional increase in relation to the volume trend is mainly attributable to increases in individual handling rates and to the lower feeder ratio. By contrast, the share of local cargo increased, especially rail-dependent throughput. Shorter container dwell times due to the improved punctuality of overseas services led to a slight fall in storage fees, which had risen significantly in the previous year due to the reorganisation of service structures. The average revenue per container handled at the quayside rose in total by 0.9 % year-on-year.

The segment's EBIT costs increased by 2.6 %, thus also outstripping throughput volume. This was caused by the additional use of resources due to ship delays, as well as the considerable variation in capacity utilisation at the container terminals in Hamburg. Nevertheless, the **operating result (EBIT)** of € 68.2 million was on a par with the previous year. The EBIT margin decreased slightly to 17.9 % (previous year: 18.3 %).

Intermodal Segment

Key Figures

in € million	1–6 | 2018	1–6 | 2017	Change
Revenue	208.0	206.2	0.9 %
EBITDA	51.5	46.9	9.8 %
EBITDA margin in %	24.8	22.7	2.1 pp
EBIT	38.6	34.9	10.7 %
EBIT margin in %	18.6	16.9	1.7 pp
Container transport in thousand TEU	713	744	- 4.2 %

In the first half of 2018, HHLA's transport companies posted a moderate decline of 4.2 % in the highly competitive market for container traffic in the hinterland of major seaports. **Transport volumes** declined from 744 thousand standard containers (TEU) in the same period last year to 713 thousand TEU. In addition to rail transport, there was also a marked decline in road transport. Rail transport was adversely affected by multiple factors, including the scheduled realignment of POLZUG activities as part of its integration into the METRANS organisation. Compared with the second quarter of 2017, rail transport was down slightly by 1.7 % to 558 thousand TEU (previous year: 568 thousand TEU). Due to a significant decrease in freight volume in the greater Hamburg area, road transport fell by 12.0 % year-on-year to 155 thousand TEU (previous year: 176 thousand TEU).

At € 208.0 million, **revenue** was up 0.9 % against the prior-year figure (previous year: € 206.2 million) and thus performed much better than transport volume. This stable revenue trend resulted from a slight increase in rail's share of HHLA's total intermodal transportation from 76.3 % to 78.3 %, in combination with longer transport distances.

The **operating result (EBIT)** increased year-on-year to € 38.6 million (previous year: € 34.9 million). In addition to a decrease in the cost of materials, this trend was due in particular to changes in the route mix. The terminal in Budapest, which started operations in mid-2017, also had a positive impact on the efficiency of HHLA's intermodal network.

Logistics Segment

Key Figures

in € million	1–6 | 2018	1–6 | 2017	Change
Revenue	25.2	24.7	2.0 %
EBITDA	3.3	2.8	15.3 %
EBITDA margin in %	13.0	11.5	1.5 pp
EBIT	1.0	0.7	58.0 %
EBIT margin in %	4.2	2.7	1.5 pp
At-equity earnings	2.3	2.6	- 10.9 %

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

The companies of the Logistics segment once again made varying progress in the first half of 2018. The consolidated companies reported **revenue** of € 25.2 million, up 2.0 % on the prior-year figure (previous year: € 24.7 million). This was due in particular to increases in volume and revenue in the vehicle logistics division.

The **operating result (EBIT)** of the Logistics segment amounted to € 1.0 million in the reporting period, compared to € 0.7 million in the prior-year period. This improvement resulted from the vehicle logistics division.

At-equity earnings declined by a total of 10.9 % to € 2.3 million in the first half of 2018. Both dry bulk handling and fruit logistics were down on their prior-year performance.

Real Estate Segment

Key Figures

in € million	1–6 | 2018	1–6 | 2017	Change
Revenue	19.3	18.7	3.0 %
EBITDA	10.9	10.5	3.5 %
EBITDA margin in %	56.5	56.2	0.3 pp
EBIT	8.4	8.0	4.9 %
EBIT margin in %	43.6	42.8	0.8 pp

The Hamburg office rental market performed modestly in the first half of 2018. According to Grossmann & Berger's latest market report, 250,000 m^2 of office space was let in the first half of 2018 – 17 % less than in the previous year (previous year: 300,000 m^2). The decline in available space, and the resulting decrease in the vacancy rate, is regarded as a key reason for the drop in turnover. Due to high demand, the vacancy rate in Hamburg fell to 3.9 % (previous year: 4.9 %) – and was thus below the 4 % mark for the first time. In view of the expected completions in the medium term, there are no signs of the current market situation easing.

HHLA's properties in the Speicherstadt historical warehouse district and the fish market area continued their positive revenue trend in the first half of 2018. Despite full occupancy in both quarters having been largely reached in the previous year, **revenue** still rose moderately by 3.0 % to € 19.3 million (previous year: € 18.7 million).

Largely due to increased revenue from existing and newly developed properties in the Speicherstadt historical warehouse district – and in spite of the implementation of planned maintenance work – there was a year-on-year growth in the cumulative **operating result (EBIT)** of 4.9 % to € 8.4 million, (previous year: € 8.0 million).

Employees

Employees

by segments	30.06.2018	31.12.2017	Change
Container	3,132	2,909	7.7 %
Intermodal	1,932	1,872	3.2 %
Holding/Others	618	636	- 2.8 %
Logistics	135	134	0.7 %
Real Estate	32	30	6.7 %
HHLA Group	5,849	5,581	4.8 %

At the end of the first half of 2018, HHLA employed a total of 5,849 people. Compared with the figure as of 31 December 2017, the number of employees rose by 268. This increase is mainly attributable to the first-time consolidation of Transiidikeskuse AS, which employed 219 people as of 30 June 2018.

Employees by Segment

In the Container segment, the number of employees increased by 223 people, mainly as a result of the first-time consolidation of Transiidikeskuse AS described above. Due to the expansion of services and the increase in vertical integration, headcount in the Intermodal segment rose by a further 60 employees to 1,932. By contrast, the number of staff exmployed at the strategic management holding company fell by 18. Headcount at the other segments at the end of the first half of 2018 was more or less on a par with year-end 2017: Headcount in the Logistics segment rose by just one; two new employees joined the Real Estate segment.

Employees by Region

In geographical terms, the workforce was concentrated mainly in Germany in the first half of 2018, with 3,466 staff members (31 December 2017: 3,479), the majority of whom worked in Hamburg. This corresponds to a share of 59.3 % (31 December 2017: 62.3 %). The number of staff employed abroad rose by 281, or 13.4 %, to 2,383 in the first half of 2018 (31 December 2017: 2,102), mainly attributable to the first-time consolidation of Transiidikeskuse AS. As a result, the number of employees in the subsidiaries in Austria, Poland, Georgia and Estonia has increased by 229, or 127.9 %, to 408 (31 December 2017: 179). At the Intermodal companies in the Czech Republic, Slovakia, Slovenia and Hungary headcount increased by 51, or 3.5 %, to 1,516 (31 December 2017: 1,465). In Ukraine, headcount remained more or less constant at 459 (31 December 2017: 458).

Business Forecast

Macroeconomic and Sector Outlook

In July 2018, the International Monetary Fund (IMF) largely confirmed its macroeconomic forecast from the beginning of the year and still anticipates a moderately positive economic trend for 2018 on the whole. The organisation only made a minor correction of 0.2 percentage points to its forecast for the eurozone, where it anticipates a robust growth rate of 2.2 %. Compared with its outlook as of April 2018, the IMF has also lowered its forecast for the development of global trade by 0.3 percentage points to 4.8 %.

Following a readjustment of its forecast models, the market research institute Drewry has upgraded its sector outlook considerably compared with the beginning of the year. Its growth forecast for global container throughput has risen from 4.5 % to 6.5 %. The experts now anticipate throughput growth of 4.6 % in North-West Europe in 2018 (previously: 3.2 %). The outlook for Scandinavia and the Baltic region has doubled from 6.0 % at the beginning of the year to 12.3 %.

This far more optimistic outlook is based on a more positive assessment of global economic growth and a revised data collection model for global and regional container throughput. The outlook does not factor in the potential effects of the punitive tariffs imposed and announced as a consequence of the USA's trade conflict with Europe and China, which Drewry currently believes will only have a negligible effect on container traffic. It believes that consumer goods have hardly been affected so far or would be imported by alternative trading partners.

Expected Group Performance

The economic development of HHLA in the first half of 2018 was in line with expectations. The disclosures made in the 2017 Annual Report regarding the expected course of business in 2018 therefore continue to apply.

Risk and Opportunity Report

With regard to the HHLA Group's risk and opportunity position, the statements made in the Management Report section of the 2017 Annual Report continue to apply, unless otherwise indicated in this report. This section of the Annual Report describes the risk and opportunity factors associated with the HHLA Group's business activities. The risks identified still do not threaten the ongoing existence of the Group. As far as the future is concerned, there are also no discernible risks at present that could jeopardise the continued existence of the company.