

Notes to the consolidated financial statements

General notes

1. Basic information on the Group

The Group's parent company is Hamburger Hafen und Logistik Aktiengesellschaft, Bei St. Annen 1, 20457 Hamburg (in the following, HHLA or the Group), registered in the Hamburg Commercial Register under HRB 1902. The holding company above the Group is HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, Hamburg (HGV).

Since 1 January 2007, the Group has consisted of the Port Logistics subgroup (A division) and the Real Estate subgroup (S division). The part of the Group that deals with the property in Hamburg's Speicherstadt historical warehouse district and Fischmarkt Hamburg-Altona GmbH is allocated to the Real Estate subgroup (S division). All other parts of the company are allocated together to the Port Logistics subgroup (A division). Individual financial statements are prepared for each division to determine the shareholders' dividend entitlements; these, in line with the company's articles of association, form part of the notes to the annual financial statements of the parent company.

Information concerning the segments in which the HHLA Group operates is provided in [Note 44](#).

When the shareholders' dividend entitlements are being determined, the expenses and income of HHLA which cannot be attributed directly to one subgroup are divided between the two subgroups according to their shares of revenue. All transfer pricing for services between the two subgroups takes place on an arm's length basis. Interest must be paid at market rates on liquid funds exchanged between the two subgroups. A notional taxable result is calculated for each subgroup to allocate the taxes paid. The resulting notional tax payment represents the amount of tax which would have been paid had each of the subgroups been separately liable for tax.

To illustrate the earnings, net assets and financial position of the subgroups, the annex to these notes contains the income statement, the statement of comprehensive income, the balance sheet, the cash flow statement and the statement of changes in equity for each subgroup.

HHLA's consolidated financial statements for the 2018 financial year were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and applicable in the European Union. The provisions contained in Section 315e (1) of the German Commercial Code (HGB) and additional commercial law regulations were also taken into account. The IFRS requirements have been met in full and result in a true and fair view of the earnings, net assets and financial position of the Group.

For the most part, the accounting and valuation policies, notes and disclosures about the consolidated financial statements for the 2018 financial year are based on the same accounting and valuation principles used for the 2017 consolidated financial statements. Exceptions are the effects of new IFRS accounting standards stated in [Note 5](#). Use of the latter became mandatory for the Group on 1 January 2018. The accounting and valuation principles applied are explained in [Note 6](#).

The financial year as reported by HHLA and its consolidated subsidiaries is the calendar year. The consolidated financial statements and the disclosures in the notes have been prepared in euros. Unless otherwise stated, all amounts are in thousands of euros (€ thousand). Due to the use of rounding procedures, it is possible that some figures do not add up to the stated sums.

These HHLA consolidated financial statements for the financial year ending 31 December 2018 were approved by the Executive Board on 1 March 2019 for presentation to the Supervisory Board. It is the Supervisory Board's responsibility to examine the consolidated financial statements and to state whether or not it approves them.

2. Consolidation principles

The consolidated financial statements include the financial statements of HHLA and its significant subsidiaries as of 31 December of each financial year. The assets and liabilities of the domestic and foreign companies consolidated in full or using the equity method are recognised in accordance with the uniform accounting and valuation principles applied in the HHLA Group.

Capital is consolidated at the time of acquisition by setting off the acquisition costs of the investment against the pro rata fair values of the assets acquired and the liabilities and contingent liabilities assumed by the subsidiaries. Previously unreported intangible assets, which can be included in the accounts under IFRS 3 in conjunction with IAS 38, and contingent liabilities are recognised at fair value.

Any positive difference arising in the course of this initial consolidation is capitalised as goodwill and subjected to an annual impairment test. Following a critical assessment, any negative difference is posted to profit and loss. For a detailed explanation of the impairment testing procedure used, please refer to [Note 6](#) and [Note 7](#).

Equity interests held by third parties outside the Group are shown in the balance sheet under the item non-controlling interests within equity capital, see also [Note 3](#) and [Note 35](#).

The acquisition of additional non-controlling interests in consolidated companies is treated as an equity transaction in line with the entity concept and therefore set off directly against equity, taking into account the reduction in interests.

Gains or losses from the disposal of non-controlling interests in consolidated companies are likewise recognised directly in equity without effect on profit and loss insofar as the transaction does not lead to a loss of control. In the case of a loss of control, the remaining interests are measured at fair value or, if applicable, using the equity method.

The effects of intragroup transactions are eliminated in full.

3. Make-up of the Group

Group of consolidated companies

The group of consolidated companies at HHLA comprises a total of 27 domestic and 15 foreign companies. For a complete list of equity investments in accordance with Section 313 (2) HGB, see also [Note 48](#). The information provided here about the equity and annual net profit recorded by the various companies is taken from the respective annual financial statements, which were prepared in line with national accounting regulations. Information required under IFRS 12.10 and IFRS 12.21 is also included in the details of shareholdings.

Consolidated companies

	Domestic	Foreign	Total
HHLA AG and fully consolidated companies			
1 January 2018	20	14	34
Additions	1	1	2
Disposals	1	0	1
Mergers	1	0	1
31 December 2018	19	15	34
Companies reported using the equity method			
1 January 2018	8	0	8
31 December 2018	8	0	8
Total 31 December 2018	27	15	42

Subsidiaries

The consolidated financial statements comprise the financial statements for Hamburger Hafen und Logistik Aktiengesellschaft (HHLA) and its significant subsidiaries. Subsidiaries are companies controlled by the Group. The Group is deemed to control a company if it has a risk exposure or right to fluctuating returns resulting from its involvement in the investee and if it can also use its power over the investee to affect these returns. In particular, HHLA controls an investee if – and only if – all of the characteristics listed in IFRS 10.7 apply. Subsidiaries' financial statements are included in the consolidated financial statements from the time control begins until the time control ends.

Non-controlling interests are valued at the time of acquisition using the relevant share of the acquired company's identifiable net assets. Changes in the Group's shareholding in a subsidiary which do not lead to a loss of control are recorded in the balance sheet as equity transactions.

Subsidiaries with substantial non-controlling interests

Subsidiary	Headquarters	Segment	Equity stake	
			2018	2017
HHLA Container Terminal Altenwerder GmbH	Hamburg, Germany	Container	74.9 %	74.9 %
METRANS a.s.	Prague, Czech Republic	Intermodal	100.0 %	90.0 %

HHLA has held all shares in Metrans a.s. since the end of the first quarter of 2018. For further details, please refer to this Note under [Company acquisitions, disposals and other changes to the group of consolidated companies](#).

Financial information about the subsidiaries with substantial non-controlling interests

in € thousand	HHLA Container Terminal Altenwerder GmbH	
	2018	2017
Percentage of non-controlling interests	25.1 %	25.1 %
Non-current assets	83,638	81,535
Current assets	186,990	180,120
Non-current liabilities	61,336	53,938
Current liabilities	131,189	131,106
Net assets	78,103	76,611
Book value of non-controlling interests	- 14,117	- 4,466
Revenue	260,624	275,022
Annual net profit	1,413	828
Other comprehensive income	124	- 506
Total comprehensive income	1,537	322
of which attributable to non-controlling interests	386	81
of which attributable to shareholders of the parent company	1,151	241
Cash flow from operating activities	108,616	108,708
Settlement obligation to holders of non-controlling interests	- 28,656	- 30,900

Interests in joint ventures

The Group holds interests in joint ventures. As per IFRS 11, a joint venture is subject to a joint contractual agreement between two or more parties to carry on an economic activity which is subject to joint control. Joint control is the contractually agreed division of managerial responsibilities for this arrangement. It only exists if the decisions associated with this business activity require the unanimous consent of the parties involved in joint management.

The HHLA Group holds more than half of the voting rights in the companies HHLA Frucht, STEIN and Hamburg Vessel Coordination Center, yet has no controlling influence as the companies are effectively jointly managed. This is due primarily to the equal representation of the essential corporate bodies (management and/or Supervisory Board).

Aggregate financial information about individually not material joint ventures

in € thousand	2018	2017
Group share of profit or loss	4,443	3,917
Group share of other comprehensive income	77	5
Group share of comprehensive income	4,520	3,922

No unrecorded losses relating to joint ventures were incurred either in the reporting year or on a cumulative basis.

Aggregate book value of joint ventures

in € thousand	31.12.2018	31.12.2017
Aggregate book value	12,212	11,243

Interests in associated companies

Companies designated as associated companies are those over which the shareholder has a material influence. At the same time, it is neither a subsidiary nor an interest in a joint venture. A material influence is assumed when it is possible to be involved in the associated company's financial and commercial decisions without exercising a controlling influence. This is generally the case when 20 % to 50 % of the voting rights are held, either directly or indirectly.

HHLA does not provide information on associated companies as per IFRS 12 because the relevant companies are of minor importance overall for the Group. HHLA does not believe that this has a negative impact on the statement concerning the nature of interests in other companies and the associated risks. The effects of these interests on the HHLA Group's earnings, net assets and financial position are likewise insignificant.

Accounting for interests in joint ventures and associates

Interests in joint ventures and associates are accounted for using the equity method. With the equity method, the share in each joint venture and/or associated company is first stated at acquisition cost. Instead of being amortised, any goodwill recognised within the carrying amount of the investment when it is reported in the balance sheet for the first time is subject to an impairment test for the entire carrying amount of the investment if there are any indications of possible impairment.

As from the acquisition date, HHLA's interest in the results of the joint venture or associated company is recorded in the consolidated income statement, while its interest in changes in equity is recorded directly in consolidated equity. These cumulative changes affect the carrying amount of the interest in the joint venture or associated company. As soon as HHLA's share in the company's losses exceeds the carrying amount of the investment, however, HHLA records no further shares in the losses unless HHLA has entered into obligations to that effect or has made payments for the joint venture or associated company.

Significant results from transactions between HHLA and the joint venture or associated company are eliminated in proportion to the interest in the company.

Company acquisitions, disposals and other changes to 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 the shares in POLZUG Intermodal Polska 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.

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 %. The purchase price for these shares was taken directly to equity in accordance with the entity concept with a corresponding reduction in non-controlling interests.

HHLA signed a contract dated 26 March 2018 for the acquisition of 100 % of the 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) has been paid in euros. The company was renamed HHLA TK Estonia AS as of 24 September 2018.

Fair value of assets and liabilities

in € thousand	adjusted	preliminary
Cash and cash equivalents	2,190	2,190
Property, plant and equipment	66,050	62,301
Customer relationships	7,361	6,775
Other intangible assets	647	647
Short-term assets	3,044	3,044
Long-term liabilities	- 9,199	- 9,199
Short-term liabilities	- 3,480	- 3,480
Acquired identifiable net assets	66,613	62,278
Plus goodwill	7,587	11,922
Sum of transferred consideration	74,200	74,200

The derived goodwill amounting to € 7,587 thousand comprises the value of the workforce of the acquired company and the opportunities arising from the business model, such as expansion of operations in the Baltic region, operations in Russia and the establishment of RoRo services. The goodwill has been allocated to the Container segment. Customer-related intangible assets (customer relations) include an amount of € 7,361 thousand relating to the acquired company's simplified access to an existing customer base. It is not anticipated that a portion of the recorded goodwill will be tax deductible.

The fair value of current assets is € 3,044 thousand and includes trade receivables of € 2,590 thousand. The gross amount of due contractual trade receivables totals € 3,875 thousand, with € 1,285 thousand of this figure expected to be irrecoverable.

Due to the proximity of the acquisition date to the balance sheet date of 30 June 2018, no interim financial statements were prepared as of 27 June 2018. Had the acquisition taken place as of 1 January 2018, the Executive Board estimates that Group revenue would have been € 10.8 million higher and that Group profit after tax would have been € 1.5 million higher. When calculating these amounts, the Executive Board assumed that the adjustments to fair values performed as of the acquisition date would still have remained valid in the event of an acquisition on 1 January 2018.

HHLA set up the company HHLA Sky GmbH, based in Hamburg, on 24 July 2018. The company was included in the group of consolidated companies at HHLA as of the end of the financial year. The primary purpose of the company is to develop, organise, manage, operate, monitor and distribute air-assisted logistics services.

With the 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 into 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 did not previously fall within the group of consolidated companies at HHLA, was merged with Metrans a.s., Prague, Czech Republic, as of 1 January 2018 upon entry into 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.

4. Foreign currency translation

Monetary assets and liabilities in the separate financial statements for the consolidated companies which are prepared in a foreign currency are converted to local currency at the rate applicable on the balance sheet date. The resulting currency differences are recognised in the result for the period.

Non-monetary items held at historical cost in a foreign currency are translated at the applicable rate on the transaction date. Non-monetary items held at fair value in a foreign currency are translated at the rate applicable on the date fair value was measured.

Exchange rate gains and losses recognised in the income statement on foreign currency items resulted in a profit of € 35 thousand in the financial year, largely due to the exchange rate movements of the Czech koruna and the Polish zloty (previous year: profit of € 2,604 thousand, largely due to the appreciation of the Czech koruna).

The concept of functional currency according to IAS 21 is applied when translating all annual financial statements of foreign affiliates prepared in a foreign currency. As the subsidiaries in question are generally independent in terms of their financial, economic and organisational activities, the functional currency is the respective national currency. As of the balance sheet date, the assets and liabilities of these subsidiaries are converted to euros at the rate prevailing on the reporting date. Income and expenses are translated at the weighted average rate for the financial year. Equity components are converted at their respective historical rates when they occur. Any translation differences are recognised as a separate component of equity without effect on profit and loss. If Group companies leave the group of consolidated companies, the associated translation difference is reversed through profit and loss.

The proportion of equity attributable to shareholders of the parent company rose, with the change recognised directly in equity, by € 1,617 thousand (previous year: a reduction of € 5,446 thousand), largely due to the appreciation of the Ukrainian currency in the amount of € 1,761 thousand (previous year: depreciation of € 5,831 thousand).

Foreign currency translation

Currency	ISO-Code	Spot rate = 1€		Average annual rate = 1€	
		31.12.2018	31.12.2017	2018	2017
Czech crown	CZK	25.724	25.535	25.664	26.345
Georgian lari	GEL	3.070	3.104	3.003	2.855
Hungarian forint	HUF	320.980	310.330	319.097	309.321
Polish zloty	PLN	4.301	4.177	4.260	4.256
Ukrainian hryvnia	UAH	31.714	33.495	32.350	30.087

5. Effects of new accounting standards

Revised and new IASB/IFRIC standards and interpretations that were mandatory for the first time in the financial year under review.

Standard	Content and significance
Amendments to IAS 40 Transfers of Investment Property	The IASB published amendments to IAS 40 Investment Property in December 2016. The amendments clarify transfers of investment property to or from the portfolio in the case of a change of use. They are expected to be applicable for financial years beginning on or after 1 January 2018. Earlier adoption is permitted, provided they are first enacted in EU legislation. First-time application had no impact on the consolidated financial statements.
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	The IASB published amendments to IFRS 2 Share-based Payment in June 2016. The amendments relate to the inclusion of vesting conditions in the measurement of cash-settled share-based payment transactions and amendments relating to the classification of share-based payments that provide for net settlement for taxes to be withheld. The standard also deals with the accounting treatment of the amendments. The amendments were adopted into EU law with Commission Regulation (EU) 2018/289 on 26 February 2018. These amendments apply to financial years beginning on or after 1 January 2018. Application had no impact on the consolidated financial statements.
IFRS 9 Financial Instruments	<p>IFRS 9 Financial Instruments was finalised by the IASB in July 2014. This standard aims to simplify the requirements for reporting financial instruments in the balance sheet. IFRS 9 amends the reporting standards for the classification and measurement of financial assets, impairments of financial assets and the reporting of hedging relationships. The amendments were enacted in EU law with Commission Regulation (EU) 2016/2067 dated 22 November 2016. The amendments apply to financial years beginning on or after 1 January 2018. In accordance with the transition guidance of IFRS 9, HHLA declined to adjust the prior-year figures and recognised the transition effects on a cumulative basis in revenue reserves as of 1 January 2018.</p> <p>The main financial assets reported by the Group include cash, cash equivalents, trade receivables and receivables from related parties (public-sector companies). Cash and cash equivalents are generally only invested with counterparties with very good credit ratings. The actual default risk associated with these investments is very low, see Note 47. The new impairment model does not have any material impact on the financial assets.</p> <p>The effects arising from first-time application of IFRS 9 are shown at the end of this table.</p>
IFRS 15 Revenue from Contracts with Customers	<p>The IASB adopted the standard IFRS 15 Revenue from Contracts with Customers in May 2014. This stipulates the amount and timing of revenue reporting and what information must be disclosed. It replaces the existing guidelines on revenue recognition, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The EU enacted this standard in its legislation with Commission Regulation (EU) 2016/1905 dated 22 September 2016. Adoption is mandatory for financial years beginning on or after 1 January 2018. There are no effects on the opening balance sheet values as of 1 January 2018 as a result of first-time application of IFRS 15. Comparative figures from the prior-year period have not been restated. With its first-time application, revenue from customer-specific ancillary transport services is no longer recognised with the corresponding expenses in the income statement, a change from the prior-year period. This approach resulted in a reduction of € 1,348 thousand in revenue and cost of materials in the 2018 financial year. Without the offsetting described in the reporting year, revenue would amount to € 1,292,484 thousand (previous year: € 1,251,806 thousand) and cost of materials would amount to € 368,451 thousand (previous year: € 370,491 thousand). Furthermore, there were no differences between the revenue recognised pursuant to IFRS 15 and the revenue recognised pursuant to IAS 18 and IAS 11.</p> <p>HHLA has no contract assets. The contractual liabilities identified play a subordinate role and are not shown separately.</p> <p>Overall, the effects on the Group's earnings, net assets and financial position are immaterial.</p>
Amendments to IFRS 15 Clarifications	The final amendments to IFRS 15 were published by the IASB in April 2016. For the most part, the amendments to this standard are clarifications and additional simplifications for the transition to IFRS 15. The amendments were enacted in EU law with Commission Regulation (EU) 2017/1987 dated 31 October 2017. The effective date is 1 January 2018.
IFRIC 22 Foreign Currency Transactions and Advance Consideration	In December 2016, the IASB published its interpretation IFRIC 22 clarifying at what point in time the exchange rate should be established for translating foreign currency transactions containing incoming or outgoing payments on account. IFRIC 22 is applicable as of 1 January 2018. Early adoption is permitted. The impact on HHLA's consolidated financial statements is immaterial.
Improvements to IFRS 2014–2016 Cycle	<p>The 2014–2016 annual round of improvements to IFRS was published by the IASB in December 2016. Three standards are affected in total. The amendment to IAS 28 Investments in Associates and Joint Ventures clarifies that a different valuation option can be used for each interest in a joint venture or an associated company.</p> <p>Temporary provisions were deleted from IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendments to IFRS 12 Investment Entities clarify that the regulations contained in the standard also apply to interests covered by IFRS 5. The amendments were enacted in EU law with Commission Regulation (EU) 2018/182 dated 7 February 2018. The effective date for IFRS 1 and IAS 28 is 1 January 2018. The amendments had no effect on the present consolidated financial statements.</p>

The following table shows the reconciliation of financial assets from IAS 39 to IFRS 9:

Reconciliation of carrying amounts from IAS 39 to IFRS 9

in € thousand	Carrying amounts according to IAS 39 as at 31.12.2017	Reclassifications	Valuation effects	Carrying amounts according to IFRS 9 as at 01.01.2018
Financial assets measured at cost				
Financial assets	11,834			11,834
Trade receivables	149,115		- 291	148,824
Receivables from related parties	81,527			81,527
Other financial receivables	1,974			1,974
Cash, cash equivalents and short-term deposits	201,514			201,514
Total	445,964	0	- 291	445,673
Financial assets available for sale				
Financial assets (securities)	6,227	- 6,227		0
Financial assets	3,518	- 3,518		0
Other financial receivables	677	- 677		0
Total	10,422	- 10,422	0	0
Financial assets at fair value through other comprehensive income				
Financial assets (securities)	0	6,227		6,227
Financial assets	0	2,901	302	3,203
Total	0	9,128	302	9,430
Financial assets at fair value through profit or loss				
Financial assets	0	617		617
Other financial receivables	0	677		677
Total	0	1,294	0	1,294

Initial application effects of IFRS 9 on Group equity

in € thousand	Retained consolidated earnings of the parent company	Non-controlling interests
Equity in accordance with IAS 39 as of 31 December 2017	469,672	30,790
Increase in valuation allowances on trade receivables	- 273	- 18
Reclassification of financial assets from "available for sale" to "through other comprehensive income"	257	45
Deferred taxes on initial effects	84	7
Equity in accordance with IFRS 9 as of 1 January 2018	469,740	30,823

The following balance sheet table shows the impacts of the amended IFRS 9 financial reporting standard on the opening balance sheet values, as well as the measurement categories pursuant to IAS 39 and IFRS 9:

Valuation categories and reconciliation of the carrying amounts from IAS 39 to IFRS 9

in € thousand	Valuation categories according to IAS 39	Valuation categories according to IFRS 9	Carrying amount according to IAS 39 for 31.12.2017	Adjustment effects	Carrying amount according to IFRS 9 as of 01.01.2018
Financial assets	Available for sale	Fair value (through other comprehensive income)	9,128	302	9,430
Financial assets	Available for sale	Fair value (profit or loss)	617		617
Financial assets	Loans and receivables	At cost	11,834		11,834
Trade receivables	Loans and receivables	At cost	149,115	- 291	148,824
Receivables from related parties	Loans and receivables	At cost	81,527		81,527
Other financial receivables	Available for sale	Fair value (profit or loss)	677		677
Other financial receivables	Loans and receivables	At cost	1,974		1,974
Cash, cash equivalents and short-term deposits	Loans and receivables	At cost	201,514		201,514
Deferred taxes (assets)			87,093	91	87,184
Equity			602,359	102	602,461
thereof retained consolidated earnings of the parent company			469,672	68	469,740
thereof non-controlling interests			30,790	34	30,823

Amendments to standards that can be applied on a voluntary basis for the financial year under review which were not adopted by HHLA:

Standard	Content and significance
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	<p>The aim of the amendments, which were published in October 2017, is to clarify that an entity must apply IFRS 9 Financial Instruments to all long-term interests in an associate or joint venture, irrespective of the accounting method. The EU enacted this clarification in its legislation with Commission Regulation (EU) 2019/237 dated 8 February 2019. The amendments take effect for reporting periods that begin on or after 1 January 2019. Early adoption is permitted.</p>
IFRS 16 Leases	<p>The IASB published IFRS 16 Leases in January 2016. This standard supersedes the previously valid IAS 17 Leases and introduces significant accounting changes for lessees. In general, all leases are now to be recognised as rights of use for accounting purposes. Under IFRS 16, lessors will continue to classify leases as operating or finance in line with IAS 17. The new rules aim to help improve the transparency of financial reporting and break down existing information imbalances. The EU enacted this standard in its legislation with Commission Regulation (EU) 2017/1986 dated 31 October 2017. The effective date is 1 January 2019.</p> <p>The HHLA Group will apply the standard for the financial year beginning on 1 January 2019 using the modified retrospective approach. With this method, the comparative prior-year figures are not adjusted; changeover effects must therefore be recognised as adjustments to revenue reserves as of 1 January 2019. As part of the modified retrospective approach, an incremental borrowing rate as of 1 January 2019 has been used to calculate the lease liability. In respect of many of the contracts, HHLA will recognise the usage rights for leased assets in the amount of the corresponding lease liabilities at first-time application, meaning that no equity effects will arise at this time. Due to their material importance, usage rights for rental agreements for space at the Port of Hamburg, which were previously recognised as operating leases, will be recognised at their carrying amounts, as though IFRS 16 had applied since the start of the lease. This results in significant changeover effects as of 1 January 2019, which are shown as adjustments to revenue reserves.</p> <p>As a lessee, HHLA takes the opportunity not to recognise usage rights and lease liabilities for short-term leases or leases where the underlying asset is of low value. For these leases, lease payments are recorded as expenses instead. The new lease standard was implemented via a Group-wide project.</p> <p>Balance sheet total and equity ratio</p> <p>The increase in the balance sheet total triggered by the new rules of IFRS 16 will be largely prompted by capitalising the right of use. On the liabilities side, this is countered by the adjustments to revenue reserves and the recognition of the leasing liability. On the basis of the contracts currently concluded and what is still a provisional valuation, the HHLA Group expects the balance sheet total to increase by approx. € 0.6 billion as of 1 January 2019. Given this increased balance sheet total and taking into account the changeover effects in equity, the current status of contracts will lead to a reduction in the equity ratio in the upper single-digit range as of 1 January 2019.</p> <p>Income statement</p> <p>Until now, expenses from operating leases had always been recognised under other operating expenses on the income statement. In future, however, depreciation and amortisation on the right of use and interest expenses will be shown for the lease liability.</p> <p>In the 2019 financial year, this change in terms of recognition will result in an increase in EBIT in the mid-single-digit percent range as compared with the 2018 financial year.</p> <p>Cash flow statement</p> <p>In the cash flow statement, there will be a shift between cash flow from operating activities and cash flow from financing activities. While EBIT and thus operating cash flow will increase, the capital outflows from financing activities will also rise because higher redemptions of lease liabilities will have to be accounted for.</p>
Amendments to IFRS 9 Prepayment Features with Negative Compensation	<p>The IASB published these amendments to IFRS 9 in October 2017. They are designed to facilitate measurement at amortised cost/at fair value through other comprehensive income even for financial assets that do not meet the SPPI criterion. These relate to financial assets with prepayment features that involve one party receiving or paying appropriate compensation in the event of termination (appropriate negative fee). The EU enacted this standard in its legislation with Commission Regulation (EU) 2018/498 dated 22 March 2018. The amendments are to apply to financial years beginning on or after 1 January 2019. Early adoption is permitted.</p>
IFRIC 23 Accounting for Uncertainties in Income Taxes	<p>The interpretation published in June 2017 clarifies the accounting treatment of uncertainties relating to income tax treatment under IAS 12. The interpretation is to be applied to taxable profit (tax loss), unused tax losses, unused tax credits and tax rates. The EU enacted this standard in its legislation with Commission Regulation (EU) 2018/1595 dated 23 October 2018. The provisions will come into force for financial years starting on 1 January 2019. Early adoption is permitted.</p>

Standards and interpretations that have been passed by the IASB but not yet adopted by the EU and are not applied by HHLA.

Standard	Content and significance
Amendments to IAS 1 and IAS 8 Definition of Materiality	In October 2018, the IASB published amendments with regard to the definition of the materiality of information in financial statements in IAS 1 Presentation of Financial Statements and in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. With these changes, a consistent and precisely defined understanding of the materiality of information in financial statements has been created and supplemented with examples. The amendments are to be observed as of 1 January 2020. Early adoption is permitted.
Amendments to IAS 19 Plan Amendment, Curtailment or Settlement	In accordance with IAS 19, pension obligations are to be measured based on updated assumptions in the event of a plan amendment, curtailment or settlement. This amendment clarifies that, after such an event, the past service cost and net interest for the remainder of the period must be taken into account based on updated assumptions. The amendments are to be applied with effect from 1 January 2019. Early adoption is permitted.
Amendments to IFRS 3 Definition of a Business	In October 2018, the IASB published an amendment to IFRS 3 Business Combinations with regard to the definition of a business. With this amendment, the IASB clarifies that a business consists of a group of activities and assets that covers at least one resource input and a substantial process that, together, result in output. Furthermore, with regard to performance (output), the definition is narrowed to focus on goods and services provided to customers and excludes the reference to cost reductions. The new provisions also include an optional "concentration test", which aims to facilitate the identification of a business. The amendment is applicable to business combinations where the date of acquisition is either on or after 1 January 2020. Early adoption is permitted.
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The IASB approved amendments to IFRS 10 consolidated financial statements and IAS 28 Investments in Associates and Joint Ventures in September 2014. These clarify how unrealised gains from transactions between an investor and a joint venture or an associate should be reported. The EFRAG announced in February 2015 that the process of endorsing these amendments had been suspended for the time being because inconsistencies had been identified between the amended standard and the existing IAS 28. The effective date – previously 1 January 2016 – has been postponed indefinitely until the inconsistencies have been resolved.
Amendments to References to the Conceptual Framework in IFRS standards	In March 2018, the IASB published its revised conceptual framework for financial reporting. The revised version contains extensive amendments to the earlier conceptual framework. The standards affected by the amendments are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32. Amendments to the references within the IFRS listed above are particularly affected by the endorsement process, which has an editorial character. The endorsement is not expected to have any effect on the consolidated financial statements.
Improvements to IFRS 2015–2017 Cycle	<p>These clarifications were published in December 2017 and apply to four standards.</p> <p>Based on the amendments to IFRS 3 Business Combinations, the principles governing successive business combinations are to be applied when an entity obtains control over a business operation in which it previously held an interest as part of a joint operation.</p> <p>Based on the amendments to IFRS 11 Joint Arrangements, a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.</p> <p>The amendments to IAS 12 Income Taxes deal with the income tax consequences of dividend payments.</p> <p>The amendments to IAS 23 Borrowing Costs clarify that, in connection with the calculation of the capitalisation rate, the cost associated with debt taken out specifically in connection with the acquisition of the qualifying assets is not to be included until the asset is completed if a company has generally borrowed funds to purchase qualifying assets.</p> <p>The amendments are to be applied with effect from 1 January 2019. Early adoption is permitted.</p>

Standards and interpretations that have no relevance for HHLA's consolidated financial statements.

Standard	Content and significance
Amendments to IFRS 4	Insurance Contracts
IFRS 17	Insurance Contracts

6. Accounting and valuation principles

The annual financial statements of the companies included in the consolidated financial statements are based on uniform accounting and valuation principles. The following specific accounting and valuation principles were applied.

Intangible assets

Intangible assets are capitalised if the assets are identifiable, a future inflow of benefits can be expected and the acquisition and production costs can be ascertained reliably. Intangible assets acquired in return for payment are recognised at acquisition cost. Intangible assets with a finite useful life are amortised over their useful life on a straight-line basis. The Group reviews the underlying amortisation methods and the useful lives of its intangible assets with a finite useful life as of each balance sheet date.

Intangible assets with an indefinite useful life are subjected to an impairment test at least once a year. If necessary, value adjustments are made in line with future expectations. In the reporting period, there were no intangible assets with an indefinite useful life apart from derivative goodwill.

Internally generated intangible assets are recognised at the costs incurred in their development phase between the time when technological and economic feasibility is determined and production. Costs include all directly attributable costs incurred during the development phase.

The capitalised amount of development costs is subject to an impairment test at least once per year if the asset is not yet in use or if there is evidence of impairment during the course of the year.

Useful life of intangible assets

in years	2018	2017
Software	3 – 7	3 – 7

Property, plant and equipment

Property, plant and equipment is reported at the acquisition or production cost less accumulated depreciation, amortisation and impairment. The costs of ongoing maintenance are recognised immediately in profit and loss. The production costs include specific expenses and appropriate portions of attributable production overheads. Demolition obligations are included in the acquisition or production costs at the present value of the obligation as of the time when it arises and an equivalent provision is recognised at the same time. The HHLA Group does not use the revaluation method of accounting. The carrying amounts for property, plant and equipment are tested for impairment if there is evidence that the carrying amount exceeds the recoverable amount.

Depreciation is carried out on a straight-line basis over an asset's useful life.

During the reporting period, the useful lives of certain assets in the asset classes "Technical equipment and machinery" and "Other plant, operating and office equipment" were remeasured. The range of useful lives shown in the following table only changed in respect of the asset class "Other plant, operating and office equipment". The positive effect arising from the adjustment of useful lives amounts to € 3,399 thousand for "Technical equipment and machinery" and € 3,216 thousand for "Other plant, operating and office equipment". These adjustments do not have a material impact on the Group's earnings, net assets and financial position.

The following table shows the principal useful lives which are assumed:

Useful life of property, plant and equipment

in years	2018	2017
Buildings	10 – 70	10 – 70
Technical equipment and machinery	5 – 25	5 – 25
Other plant, operating and office equipment	3 – 20	3 – 15

Borrowing costs

According to IAS 23, borrowing costs which can be directly attributed to the acquisition or production of a qualifying asset are capitalised as a component of the acquisition or production cost of the asset in question. Borrowing costs which cannot be directly attributed to a qualifying asset are recognised as an expense at the time they are incurred.

Investment property

Investment property consists of buildings held for the purpose of generating rental income or for capital gain, and not for supplying goods or services, for administrative purposes or for sale as part of normal business operations.

IAS 40 stipulates that investment property be held at acquisition or production cost less accumulated depreciation and accumulated impairment losses. Subsequent expenses are capitalised if they result in an increase in the investment property's value in use. The useful lives applied are the same as those for property, plant and equipment used by the Group.

The fair values of these properties are disclosed separately in [Note 24](#).

The carrying amounts for investment property are tested for impairment if there is evidence that the carrying amount exceeds the recoverable amount.

Impairment of assets

As of each balance sheet date, the Group determines whether there are any indications that an asset may be impaired. If there are such indications, or if an annual impairment test is required, as in the case of goodwill, the Group estimates the recoverable amount. This is ascertained as the higher of the fair value of the asset less selling costs and its value in use. The recoverable amount must be determined for each asset individually unless the asset does not generate cash inflows which are largely independent of those generated by other assets or groups of assets. In this case, the recoverable amount of the smallest cash-generating unit (CGU) must be determined. If the carrying amount of an asset exceeds its recoverable amount, the asset is deemed to be impaired and is written down to its recoverable amount. The recoverable amount is generally calculated based on the fair value less selling costs of the cash-generating unit or asset using the discounted cash flow method. This involves discounting estimated future cash flows to their present value using a discount rate after tax which reflects current market expectations of the interest curve and the specific risks of the asset. As of the balance sheet date, the interest rate for discounting was between 4.8 and 5.8 % p.a. (previous year: 4.7 to 5.4 % p.a.). The cash flow forecasts in the Group's current plans for the next five years are used to determine future cash flows. If new information is available when the financial statements are produced, it is taken into account. Growth factors of 1.0 % (previous year: 1.0 %) were applied in the reporting year. When forecasting cash flows, the Group takes future market and sector expectations as well as past experience into account in its planning. Cash flows are primarily determined on the basis of anticipated volumes and income along with the cost structure arising from the level of capacity utilisation and the technology used.

On each reporting date, an assessment is made as to whether an impairment loss recognised in prior periods no longer exists or has decreased. If there are such indications, the recoverable amount is estimated. Previously recognised impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is raised to its recoverable amount. This higher carrying amount may not exceed the amount which would have been determined, less depreciation or amortisation, if no impairment losses had been recognised in prior years. Any such reversals must be recognised immediately in profit and loss for the period. Following a reversal, the amount of depreciation or amortisation must be adjusted in subsequent periods in order to write down the adjusted carrying amount of the asset, less any residual value, systematically over its remaining useful life.

Impairment losses on goodwill are not reversed.

Financial assets

HHLA is applying IFRS 9 for the first time on the financial year beginning 1 January 2018. Depending on the business model under which assets are held and the composition of related payment flows, financial assets are classified at amortised costs, at fair value through other comprehensive income or at fair value through profit and loss.

Business models

IFRS 9 distinguishes between three kinds of business model:

Hold to collect

The objective of this business model is to hold debt instruments, generate contractual cash flows (e.g. interest income) and, upon maturity, to collect the nominal value. In this business model, subsequent measurement is performed at amortised cost, applying the effective interest rate method.

Hold to collect and sell

If debt instruments are held under this business model, the objective is to collect contractual cash flows or to sell the debt instruments. The debt instruments are measured at fair value, with market value fluctuations recorded in equity.

Hold for trading

If debt instruments are held primarily to generate short-term price gains, they are to be assigned to this business model. This category also includes financial assets that do not meet the requirements of the two business models outlined above. Consequently, the debt instruments are measured at fair value through profit and loss.

Nature of payment flows

Alongside the business model, the nature of the contractual cash flows is material. These should only reflect the time value of money and the credit risk of the counterparty. If the interest payments do not meet these criteria, the related debt instruments are assigned to the business model "Other".

Classification of financial assets

Classification in accordance with IFRS 9

	Business model	Measurement categories
Financial assets (securities)	Hold to collect and sell	Fair value through profit or loss (no recycling)
Financial assets	Hold for trading	Fair value through profit or loss
Financial assets	Hold to collect	Amortised cost
Trade receivables	Hold to collect	Amortised cost
Receivables from related parties	Hold to collect	Amortised cost
Other financial receivables	Hold for trading	Fair value through profit or loss
Other financial receivables	Hold to collect	Amortised cost
Cash, cash equivalents and short-term deposits	Hold to collect	Amortised cost

Impairment of financial assets

As a result of IFRS 9, there will be a change in reporting on the impairment all financial assets that are measured either at amortised cost or at fair value through other comprehensive income. As a result, losses will not only be recorded once they occur, but also as soon as they are expected, depending on whether the default risk of financial assets has worsened significantly since their acquisition. If there is a significant deterioration and if the default risk is not to be classified as "low" on the balance sheet date, all expected losses over the entire term are to be recorded from this point. Otherwise, only the expected losses over the term of the instrument need to be taken into account that result from potential future loss events within the next twelve months.

Exceptions apply in respect of trade receivables and leasing receivables. For these assets, all expected losses over the entire term must (i.e. without a significant financing component) or may (i.e. with a significant financing component) be taken into account, regardless of the change in the default risk.

On each balance sheet date, the Group determines whether a financial asset or a portfolio is impaired. For a detailed description of this method, please see [Note 47](#).

Inventories

Inventories include raw materials, consumables and supplies, work in progress, finished products and merchandise. They are initially recognised at acquisition or production cost. Measurement at the balance sheet date is made at the lower of cost and net realisable value. Standard sequence of consumption procedures are not used for valuation. Work in progress is valued using the percentage of completion method if the result of the service transaction can be estimated reliably. Net realisable value corresponds to the estimated sales proceeds in the course of normal operations less estimated costs until completion and sale.

Liabilities

All financial liabilities are to be measured at amortised cost, applying the effective interest rate method. As soon as HHLA becomes a contracting party, financial liabilities are to be recognised. A liability is derecognised as a result of repayment, buy-back or debt relief. The liability is measured at fair value at the time of acquisition, with acquisition costs constituting the most suitable valuation benchmark. Subsequent measurement of financial liabilities is performed at amortised cost, applying the effective interest rate method.

Throughput-dependent share of earnings attributable to non-controlling interests

Background

In the 2010 financial year, profit and loss transfer agreements were signed between the subsidiaries HHLA Container-Terminal Altenwerder GmbH, Hamburg (CTA), and HHLA CTA Besitzgesellschaft mbH, Hamburg (CTAB), on the one hand and HHLA Container Terminals GmbH, Hamburg (HHCT), on the other. In the profit and loss transfer agreements, HHCT pledges to pay a financial settlement to the non-controlling interest in the above-mentioned companies for the duration of the agreement. The amount of the financial settlement is based largely on earnings and the throughput handled. Should throughput reach a certain level, it is possible for the proportion of earnings allocated to the financial settlement to exceed the share which would result from the non-controlling shareholder's stake in the companies. Unless the profit and loss transfer agreement is terminated, it will be extended for a further year at a time. CTA merged with CTAB with retroactive effect as of 1 January 2014 based on a merger agreement dated 5 August 2014. As a result, there is now just one profit and loss transfer agreement. On the same date, CTA Besitzgesellschaft mbH was renamed HHLA Container Terminal Altenwerder GmbH. As a result of the merger of HHTC with Hamburger Hafen und Logistik Aktiengesellschaft (HHLA), a profit and loss transfer agreement with effect as of 1 January 2017 was transferred to HHLA in August 2017.

Classification as a compound financial instrument

As profit and loss transfer agreements have been concluded, the interest held by the non-controlling shareholder is classified as a compound financial instrument as per IAS 32.28 because it contains both debt and equity components. These components must be split and entered as either equity or borrowed capital depending on their classification.

Initial measurement

When it was first entered in 2010, the amount of equity to be reported for the non-controlling interests was calculated by deducting the fair value of the debt component. The fair value of the debt component in the form of these financial settlements was established by discounting the anticipated resulting cash outflows during the five-year term of the profit and loss transfer agreement.

When this debt component was first recorded under other financial liabilities [Note 38](#), it was recognised directly in equity and reduced non-controlling interests within equity as a result [Note 35](#).

From the 2014 financial year onwards, extending the profit and loss transfer agreement gives rise to an obligation to pay a financial settlement for the following year. The profit and loss transfer agreement was not terminated in 2018. This means the company has a further obligation to pay a financial settlement for the 2019 financial year. This obligation must also be reported at fair value directly in equity within other financial liabilities by discounting the anticipated cash outflows in the year under review. It reduces non-controlling interests within equity accordingly.

Subsequent measurement

From 2011 onwards, other financial liabilities arising from the obligation to pay this financial settlement are recorded in the balance sheet at amortised cost. Changes resulting from the expected cash outflows are recognised in profit and loss. The changes result from adjustments to reflect the actual shares in the CTA Group's earnings and changes in the anticipated future development of the CTA Group. An interest rate of 5.48 % is used for recognising the expected financial settlement for the 2019 financial year in the reporting year (previous year for the 2018 financial year: 5.44 %). Expenses recognised through profit and loss totalling € 6,036 thousand (previous year: € 12,855 thousand) are recorded in financial income [Note 16](#) and only impact non-controlling interests in the

CTA Group. This figure includes expenses of € 4,805 thousand (previous year: € 11,870 thousand) from an adjustment to reflect the actual share of earnings, and expenses of € 1,231 thousand arising from the discounting of the payment obligation recognised in the previous year (previous year: € 985 thousand).

Development in non-controlling interests held in the CTA Group

in € thousand

As of 31 December 2009 prior to conclusion of the profit and loss transfer agreement	44,617
As of 31 December 2016, taking actual share of earnings and adjustments to settlement obligation into account	172
Actual share in the CTA Group's earnings for 2017	30,900
Impact on financial income through profit and loss resulting from adjustment of the settlement obligation	- 12,855
Other adjustments	9
Comprehensive income reported in equity	18,054
Reclassification of the settlement obligation for 2018 to other financial obligations	- 22,620
As of 31 December 2017, taking actual share of earnings and adjustments to settlement obligation into account	- 4,394
Actual share in the CTA Group's earnings for 2018	28,656
Impact on financial income through profit and loss resulting from adjustment of the settlement obligation	- 6,036
Other adjustments	495
Comprehensive income reported in equity	23,115
Reclassification of the settlement obligation for 2019 to other financial obligations	- 32,645
As of 31 December 2018, taking actual share of earnings and adjustments to settlement obligation into account	- 13,924

Development in other financial liabilities arising from settlement obligations

in € thousand

As of 31 December 2016 with continuation of settlement obligation	40,647
Payment of actual share of earnings for 2016	- 22,603
Impact on financial income through profit and loss resulting from adjustment of the settlement obligation	12,855
Reclassification of settlement obligation for 2018 from non-controlling interests	22,620
As of 31 December 2017 with continuation of settlement obligation	53,519
Payment of actual share of earnings for 2017	- 30,900
Impact on financial income through profit and loss resulting from adjustment of the settlement obligation	6,036
Reclassification of settlement obligation for 2019 from non-controlling interests	32,645
As of 31 December 2018 with continuation of settlement obligation	61,300

Provisions

A provision is formed if the Group has a present (legal or factual) obligation arising from past events, the settlement of which is likely to result in an outflow of resources embodying economic benefits, and if the amount required to settle the obligation can be estimated reliably. The provision is formed for the amount expected to be necessary to settle the obligation, including future increases in prices and costs. If the Group anticipates at least a partial reimbursement of an amount made as a provision (e.g. in the case of an insurance contract), the reimbursement is recognised as a separate asset only if it is virtually certain. The expenses arising from recognising the provision are disclosed in the income statement after the reimbursement has been deducted. If the interest effect is substantial, non-current provisions are discounted before tax at an interest rate which reflects the specific risks associated with the liability. In the event of discounting, the increase in the amount of the provision over time is recognised under interest expenses.

Pensions and other retirement benefits

Pension obligations

Pensions and similar obligations include the Group's benefit obligations under defined benefit obligations. Provisions for pension obligations are calculated in accordance with IAS 19 (revised 2011) using the projected unit credit method. Actuarial gains and losses are taken directly to equity and recognised in other comprehensive income, after accounting for deferred taxes. Service expense affecting net income is recognised in personnel expenses and the interest proportion of the addition to provisions is recognised in the financial result.

Actuarial opinions are commissioned annually to measure pension obligations.

Phased early retirement obligations

The compensation to be paid in the release phase of the so-called block model is recognised as provisions for phased early retirement. It is recognised pro rata over the working period over which the entitlements accrue. Since 1 January 2013 and in accordance with IAS 19 (revised 2011), provisions for supplementary amounts have only been accrued pro rata over the required service period, which regularly ends when the passive phase begins.

Actuarial opinions are commissioned annually to measure compensation obligations in the release phase of the block model and supplementary amounts.

If payment obligations do not become payable until after twelve months' time because of entitlements in the block model or supplementary amounts, they are recognised at their present value.

Leases in which the Group is lessee

The question of whether an agreement is, or contains, a lease depends on the commercial content of the agreement and requires an assessment as to whether fulfilling the agreement depends on the use of a certain asset or assets and whether the agreement grants a right to use that asset.

Finance leases

Finance leases – in which virtually all of the risks and potential rewards associated with ownership of an asset are transferred to the Group – are capitalised at the start of the lease at the lower of the leased asset's fair value or the present value of the minimum lease payments. A lease liability is recognised for the same amount. Lease payments are divided into financing expenses and repayment of the lease liability, so that interest is paid on the remaining carrying amount of the lease liability at a constant rate. Financing expenses are recognised through profit and loss in the period in which they arise.

If the transfer of title to the Group at the end of the lease term is not sufficiently certain, capitalised leased assets are fully depreciated over the shorter of the lease term and the asset's useful life. Otherwise, the period of depreciation is the leased asset's useful life.

Operating leases

Lease instalments for operating leases are recognised as expenses in the income statement on a straight-line basis over the duration of the lease.

Leases in which the Group is lessor

The HHLA Group lets properties in and around the Port of Hamburg as well as office properties, warehouses and other commercial space. The rental contracts are classified as operating leases, as the main risks and potential rewards of the properties remain with the Group. The properties are therefore held as investment properties at amortised cost.

Rental income from investment properties is recognised on a straight-line basis over the term of the leases.

Recognition of income and expenses

Income is recognised when it is probable that the economic benefit will flow to the Group and the amount of income can be determined reliably. The following criteria must also be met for income to be recognised:

Sale of goods and merchandise

HHLA is applying IFRS 15 for the first time on the financial year beginning 1 January 2018. A five-step model – in which the contract with a customer, the performance obligation and the transaction price are identified – is used to determine the time and amount at which revenue is to be recorded. The model stipulates that revenue is to be recorded at the time control over goods or services passes from the company to the buyer and at the amount to which the company is expected to be entitled (acquisition of power of disposal).

Provision of services

Income from services is recognised in accordance with the extent to which the service has been provided over time or, if not applicable, at a point in time. If recorded over time, the extent to which the service has been provided is determined by the number of hours worked as of the balance sheet date as a percentage of the total number of hours estimated for the project. If the result of a service transaction cannot be estimated reliably, income is recognised only to the extent that the expenses incurred are eligible for reimbursement.

Interest

Interest income and interest expenses are recognised when they are accrued or incurred.

Dividends

Income from dividends is recognised in profit and loss when the Group has a legal right to payment. This does not apply to dividends distributed by companies accounted for using the equity method.

Income and expenses

Operating expenses are recognised when the service is rendered or when the expense is incurred. Income and expenses resulting from identical transactions or events are recognised in the same period. Rental expenses are recognised on a straight-line basis over the lease term.

Government grants

Government grants are recognised when there is reasonable certainty that they will be granted and the company fulfils the necessary conditions. Grants paid as reimbursement for expenses are recognised as income over the period necessary to offset them against the expenses for which they are intended to compensate. If grants relate to an asset, they are deducted from the asset's cost of purchase and recognised in profit and loss on a straight-line basis by reducing the depreciation for the asset over its useful life. The conditions for the subsidies include obligations to operate the subsidised equipment for a retention period of 5 to 20 years, observe certain operating criteria and provide the subsidising body with evidence for the use of the funds.

There is sufficient certainty that all the conditions have been or will be fulfilled for the grants totalling € 49,740 thousand which were paid to HHLA in the period between 2001 and 2018. These grants have been deducted from the cost of purchasing the subsidised investments. The HHLA Group received € 6,311 thousand in government grants in the reporting year.

Taxes

Current claims for tax rebates and tax liabilities

Current claims for tax rebates and tax liabilities for the financial year and prior periods are measured at the amount for which a rebate is expected from, or payment must be made to, the tax authorities. The tax rates and tax legislation in force as of the balance sheet date are used to determine the amount.

Deferred taxes

Deferred taxes are recognised by using the balance sheet liabilities method on all temporary differences between the carrying amount of an asset or liability in the balance sheet and the amount for tax purposes, as well as on tax loss carry-forwards.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences and unused tax loss carry-forwards proportionate to the probability that taxable income will be available to offset against the deductible temporary differences and the unused tax loss carry-forwards.

The carrying amount of deferred tax assets is reviewed on each balance sheet date and reduced to the extent that it is no longer likely that sufficient taxable profits will be available to use against the deferred tax asset. Unrecognised deferred tax assets are reviewed on each balance sheet date and recognised proportionate to the likelihood that future taxable profits will make it possible to use deferred tax assets.

Deferred tax assets and liabilities are measured using the tax rates expected to apply in the period in which the asset is realised or the liability is met. Tax rates (and tax regulations) are applied if they have already been enacted as of the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity, likewise not affecting net income.

Deferred tax assets and liabilities are netted only if the deferred taxes relate to income taxes for the same tax authority and the current taxes may also be set off against one another.

Derivative financial instruments and hedging transactions

During the reporting period, the Group did not conduct any hedging transactions to hedge fair value or net investments in a foreign operation. Furthermore, no effective exchange rate transactions were concluded or conducted.

7. Significant assumptions and estimates

Preparing the consolidated financial statements in accordance with IFRS requires management to make estimates and assess individual facts and circumstances. The estimates made are based on past experience and other relevant factors and on a going concern basis.

The amounts which actually arise may differ from those resulting from estimates and assumptions.

The accounting and valuation principles applied are explained in [Note 6](#). Material assumptions and estimates affect the following issues:

Business combinations

The fair value of the assets acquired and liabilities and contingent liabilities assumed as a result of business combinations must be estimated. For this purpose, HHLA either makes use of opinions from independent external experts or calculates the fair value internally using suitable calculation models. These are normally based on discounted cash flows. Depending on the nature of the assets or the availability of information, market price, capital value and cost-oriented valuation methods are applied.

Goodwill

The Group tests goodwill for impairment at least once a year. This requires an estimate of the fair value generally used at HHLA less selling costs of the cash-generating units to which the goodwill has been allocated. To estimate the fair value, the Group must forecast the likely future cash flows from the cash-generating unit and also choose an appropriate discount rate with which to calculate the present value of these cash flows. Unforeseeable changes may mean that the assumptions used during planning are no longer appropriate, making it necessary to adjust plans. An impairment loss could be incurred as a result. For more information, please refer to [Note 22](#).

Investment property

The fair value of investment property must be disclosed in the notes. HHLA carries out its own calculations to determine the fair value of this property. Industry-standard discounted cash flow methods are applied. The calculations are based on assumptions about applicable interest rates and the amount and time frame of expected future cash flows which these assets can generate. Detailed information is available in [Note 24](#).

Pension provisions

Actuarial opinions are commissioned annually to determine the expenses for pensions and similar obligations. These calculations include assumptions about demographic changes, salary and pension increases, and interest, inflation and fluctuation rates. Because these assumptions are long term in nature, the observations are assumed to be characterised by material uncertainties. More detailed information is available in [Note 36](#).

Demolition obligations

Provisions for demolition obligations result from obligations to be met at the end of the lease term under long-term lease agreements with the Free and Hanseatic City of Hamburg. All HHLA Group companies in the Port of Hamburg are obliged to return leased land free of all buildings owned by them at the end of the lease term. To calculate the amount of the provision, it was assumed that the obligation would be carried out in full for all leased property, with the exception of buildings designated as historical landmarks in the Speicherstadt historical warehouse district. The calculations are based on assumptions concerning the amount of demolition work necessary, interest rates and inflation. For more information, please refer to [Note 37](#).

Provisions for phased early retirement

All employees who have signed, or are expected to sign, an agreement are taken into consideration when recognising and measuring provisions for phased early retirement. The number of employees expected to sign is an estimate. The appraisal reports are also based on actuarial assumptions. For more information, please refer to [Note 37](#).

Non-current and current financial liabilities

This item includes, amongst other things, financial settlement obligations to shareholders with non-controlling interests in consolidated subsidiaries. These liabilities exist because HHLA has concluded a profit and loss transfer agreement with a subsidiary, which entitles non-controlling interests to receive financial settlements, see [Note 6](#). The parameters used to calculate this amount are subject to significant uncertainties which can cause figures to fluctuate accordingly. More detailed information is available in [Note 38](#).

Calculating fair value

The fair value measured for financial and non-financial assets and liabilities is regularly reviewed by the Group.

The Group also regularly reviews key unobservable input factors and valuation adjustments. When the fair value of an asset or liability is calculated, the Group uses observable market data whenever possible. Based on the input factors used during valuation, the fair values calculated are classified as belonging to different levels of the fair value hierarchy:

Fair value hierarchy

	Content and significance
Level 1	Listed prices (non-adjusted) on active markets for identical assets or liabilities
Level 2	Valuation parameters which do not involve the listed prices included in level 1 but which are observable for the asset or liability either directly (i.e. as a price) or indirectly (i.e. as determined through prices)
Level 3	Valuation parameters for assets or liabilities which are not based on observable market data

The Group records any transfers between the various levels of the fair value hierarchy at the end of the reporting period in which the amendment was made.

For details of the valuation methods and input parameters used to measure the fair value of the various assets and liabilities, please see [Note 24](#) and [Note 47](#).