

Combined management report

The combined management report covers the course of business at the HHLA Group and Hamburger Hafen und Logistik Aktiengesellschaft (HHLA AG).

Group overview



Holding/Other

- || Strategic corporate development
- || Functional management of the Container segment
- || Management of resources and processes
- || Provision of shared services
- || Floating crane operations
- || Development and letting of port-related real estate

Port Logistics

Subgroup

Listed class A shares

Real Estate

Subgroup

Non-listed class S shares

Container Segment

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

Intermodal Segment

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

Logistics Segment

- || Specialist handling of dry bulk, general cargo, vehicles, fruit, etc.
- || Airborne logistics services
- || Consulting and training

Real Estate Segment

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

Shareholder Structure

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

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

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

31.6 %

68.4 %

100 %

Free float

22,128,334 class A shares

Free and Hanseatic City of Hamburg

Shareholding: 47,920,500 class A shares
+ 2,704,500 class S shares

Group structure

Hamburger Hafen und Logistik AG (HHLA) is one of Europe's leading logistics companies. The Group is operated as a strategic management holding company divided into two subgroups, Port Logistics and Real Estate. The class A shares, which are listed on the stock exchange, relate to the Port Logistics subgroup and entitle shareholders to participate in the result and net assets of these operations. The Real Estate subgroup includes those HHLA properties that are not specific to port handling. The performance and economic result of the Real Estate subgroup, which also follows urban development objectives, are represented by the class S shares. These shares are not traded on the stock exchange and are held solely by the Free and Hanseatic City of Hamburg (FHH). In the unlikely and unprecedented event of the Real Estate subgroup reporting a loss, this would be indirectly transferred to the Free and Hanseatic City of Hamburg in line with a separate agreement to assume losses.

The HHLA Group's operations are conducted by the 27 domestic and 15 foreign subsidiaries and associated firms that make up the consolidated group. [Notes to the consolidated financial statements, no. 3 Composition of the Group](#) In the 2018 financial year, HHLA acquired the Estonian terminal operator Transidikeskuse AS, took over the outstanding shares in METRANS a.s. in the Intermodal segment and reorganised its Polish rail activities. No other significant legal or organisational changes were made.

Management structure

As a German stock corporation (Aktiengesellschaft), HHLA has a dual structure consisting of an Executive Board and a Supervisory Board. The Executive Board manages the company on its own responsibility. The Supervisory Board appoints and advises the members of the Executive Board and monitors the Executive Board's work. In the 2018 financial year, the Executive Board of HHLA comprised four members, whose areas of

responsibility are defined by their specific tasks and operating segments. The HHLA Executive Board is jointly responsible for the Container segment. Torben Seebold will be appointed as a member of the Executive Board as of 1 April 2019. He succeeds Heinz Brandt, who will leave the Executive Board as of 31 March 2019.

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

Operating activities

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

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

Organisational structure

Supervisory Board

Executive Board

Angela Titzrath Chairwoman of the Executive Board	Heinz Brandt Chief Human Resources Officer	Jens Hansen Chief Operating Officer	Dr. Roland Lappin Chief Financial Officer
Responsibilities	Responsibilities	Responsibilities	Responsibilities
Corporate development	Human resources	Container operations	Finance and controlling (including organisation)
Corporate communications	Purchasing and materials management	Container engineering	Investor relations
Sustainability	Health and safety in the workplace	Information systems	Internal audit
Container sales	Legal and insurance		Real Estate segment
Intermodal segment			
Logistics segment			

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

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

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

The Real Estate segment corresponds to the **Real Estate subgroup**. Its business activities encompass the development, letting and commercial and technical facility management of properties in the Port of Hamburg's peripheral area. These include the Speicherstadt historical warehouse district. The world's largest traditional warehouse quarter is a UNESCO World Heritage Site. In this central location, HHLA offers some 300,000 m² of commercial space. Other prime properties totalling approximately 63,000 m² are managed at the Fischmarkt Hamburg-Altona in the exclusive fish market area on the river Elbe's northern banks.

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

Market position

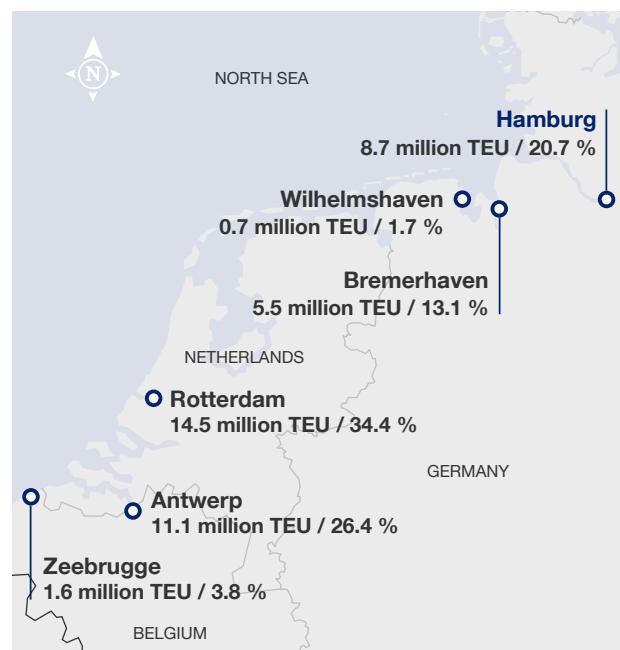
With its listed core business Port Logistics, HHLA operates on the European market for sea freight services. This market offers long-term growth prospects as a number of key Central European countries strengthened their competitiveness after the debt crisis, thereby paving the way for a further increase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

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

The market for port services on the Northern European coast (the North Range) of relevance for HHLA is characterised by its high concentration of ports. Competition is particularly strong between the four major North Range ports of Hamburg, HHLA's main hub, Bremerhaven, Rotterdam and Antwerp. Other handling sites – such as Wilhelmshaven and Zeebrugge – are

Container throughput at the North Range ports

Volumes and market shares in 2018



Source: Port Authorities / market shares according to own calculation

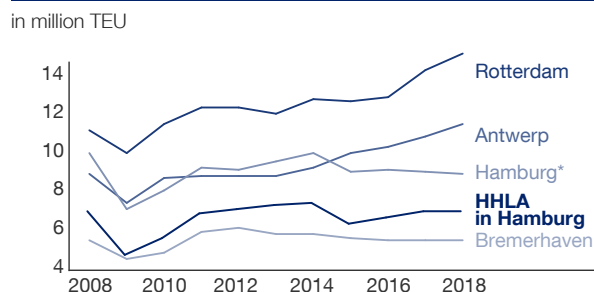
considerably smaller in terms of their capacity and/or current freight volume. At present, the Baltic Sea ports are served by high feeder traffic operating via central distribution points in the North Range. The practice of ocean-going vessels calling directly at ports such as Gdansk and Gothenburg,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

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

In the 2018 financial year, CMA CGM acquired a 10 % interest in the container terminal in Zeebrugge. Otherwise, there were no changes at competitor ports during the reporting period. Competition remains extremely fierce and the ports are increasingly dependent on changing shipping company constellations. The resulting shifts of more geographically flexible feeder traffic is having a significant impact on handling volumes. By contrast, the market position for handling volumes that are tied to the natural catchment area onshore is largely stable – given that it is vital to take the shortest route for the disproportionately more expensive land-bound transportation.

The **Container segment** benefits from the Port of Hamburg's position as the most easterly North Sea port, which makes it the ideal hub for the entire Baltic region and for hinterland traffic to and from Central and Eastern Europe. Furthermore, the long-standing trading relationships between the Port of Hamburg and the Asian markets are advancing Hamburg's role as an important European container hub. With a container throughput of 8.7 million TEU, Hamburg ranked 18th among the world's ports in 2018 and is thus the third-largest European container port after Rotterdam and Antwerp.

Container throughput at the largest North Range ports

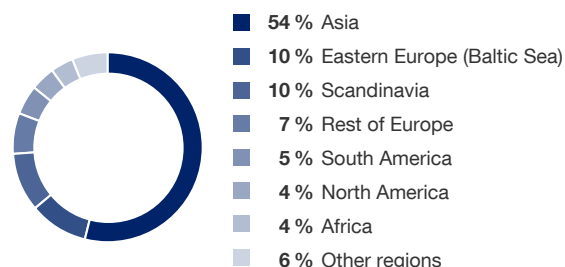


Source: Port Authorities; * incl. HHLA

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

Container throughput by shipping region

in the Port of Hamburg, 2018

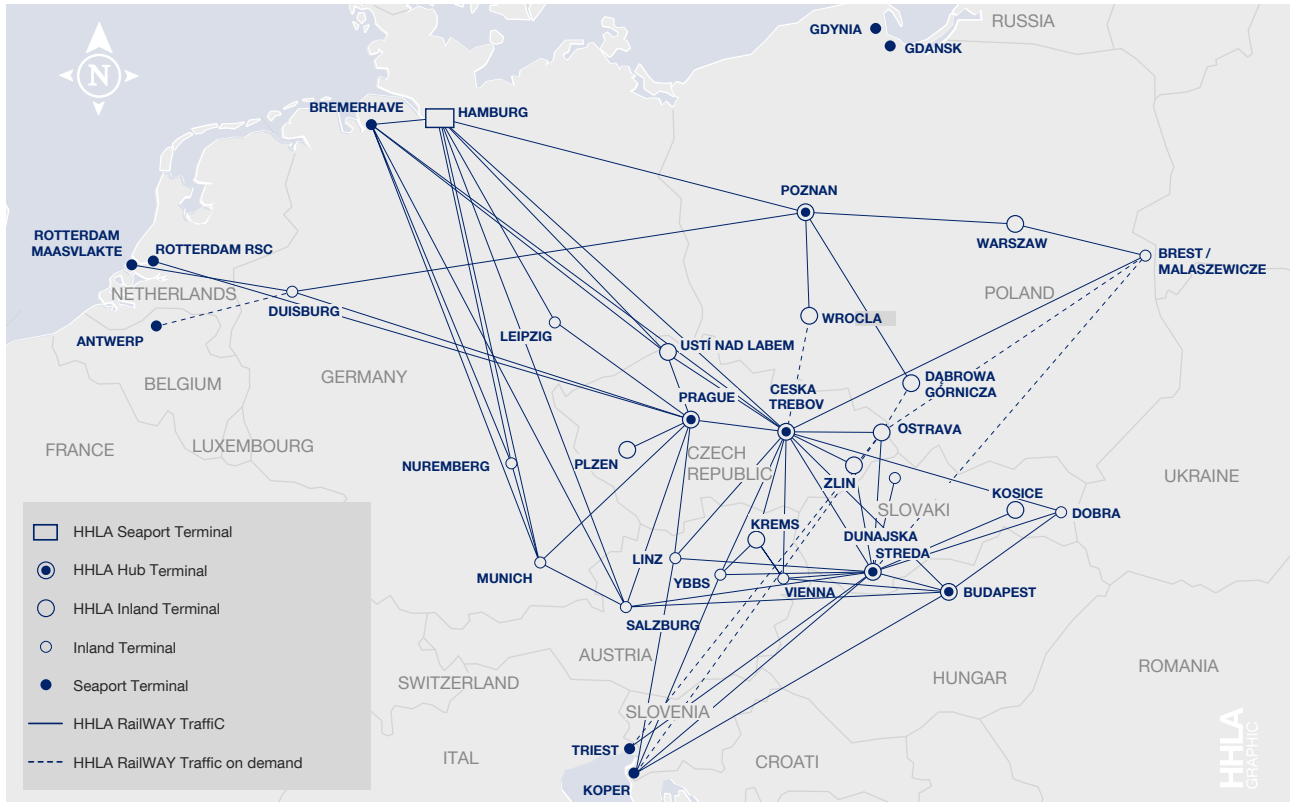


Source: Hamburg Hafen Marketing e.V.

In the **Intermodal segment**, HHLA primarily utilises the advantages of the Port of Hamburg's rail infrastructure – Europe's most important rail traffic hub handling approximately 2.4 million TEU a year. HHLA's Intermodal network also comprises further ports along the North Sea and Baltic Sea coasts as well as the northern Adriatic and, increasingly, continental traffic. The companies that transport containers by train compete with a variety of other rail operators and intermodal transport firms, but also with other carriers such as trucks and feeder ships. As the rail infrastructure is for the most part publicly owned, various national authorities guard against discrimination in both access and usage fees. In addition to the density of the available network, key competitive factors include the frequency of departures, opportunities for freight pooling and storage in the hinterland, the geographical distance to destinations, punctuality and infrastructural capacity. The importance of these factors is growing as ports compete with one another.

Intermodal network of HHLA

Selected connections



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

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

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

Customer structure and sales

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

Globally operating container shipping companies account for the largest share of HHLA's revenue. In ship handling, HHLA's container terminals work with shipping companies on a neutral basis (multi-user principle) and offer a wide range of high-quality services. The **HHLA customer base** remains in a state of flux on account of the ongoing consolidation in the container shipping segment. The acquisition of UASC by Hapag-Lloyd was already completed in the previous year, as was the acquisition of Hamburg Süd by Maersk Line. The acquisition of OOCL by the Chinese line COSCO Shipping was finalised in 2018. The merger of three Japanese shipping companies – NYK Line, MOL and K Line – to create Ocean Network Express (ONE) was also completed. ONE launched operations in April 2018.

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

Top 10 shipping companies

by carrying capacity in thousand TEU as of 31.12.2018

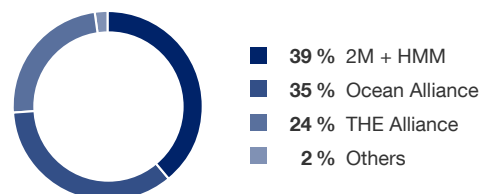
Shipping company	Alliance 2018	2018
1. APM-Maersk	2M	4,065
2. MSC	2M	3,313
3. COSCO Group (inkl. OOCL)	Ocean Alliance	2,772
4. CMA CGM Group	Ocean Alliance	2,665
5. Hapag-Lloyd	THE Alliance	1,652
6. ONE (MOL, NYK, K Line)	THE Alliance	1,515
7. Evergreen	Ocean Alliance	1,192
8. Yang Ming	THE Alliance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

Source: Alphaliner Monthly Monitor, January 2019

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

Capacity breakdown by shipping line alliances

on Far East–Europe services as of 31.12.2018



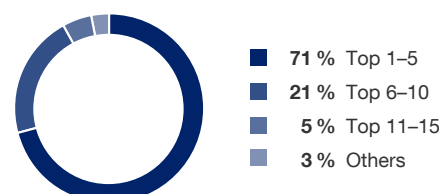
Source: Alphaliner Monthly Monitor, January 2019

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

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

Revenue distribution by customer

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



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

Legal framework

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

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

For the construction, alteration and operation of its handling facilities, HHLA is reliant on the issuance and continued existence of authorisations under public law, especially official authorisations in accordance with the German Federal Emissions Control Act (Bundesimmissionsschutzgesetz – BImSchG), the applicable local building regulations and water and waterways laws. All construction and extension measures require separate authorisations by the respective authorities, irrespective of the plan approval procedure for the expansion of the handling areas. HHLA's affiliated companies are subject to a number of strict regulatory requirements, especially regulations concerning the handling, storage and transport of environmentally harmful substances and hazardous goods, as well as rules concerning technical safety, health and safety in the workplace and environmental protection.

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

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

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

The legal framework for HHLA is subject to constant change at national, European and international level in order to keep pace with technical progress and increased sensitivity with regard to safety and environmental concerns, among other issues. In the 2018 financial year, significant legislative procedures for HHLA included the continued modernisation of the Union Customs Code at European level, as well as the corresponding delegated regulations. In Germany, the proposed draft legislation to accelerate the planning and construction of infrastructure projects as well as initiatives to improve the process for levying import VAT and to reduce route prices for using rail infrastructure were of relevance for HHLA. In the reporting period, however, there were no amendments to the legal framework with a significant impact on the Group's operating activities or its assets, financial or earnings position.