

For the construction, alteration and operation of its handling facilities, HHLA is reliant on the issuance and continued existence of authorisations under public law, especially official authorisations in accordance with the German Federal Emissions Control Act (Bundesimmissionsschutzgesetz – BImSchG), the applicable local building regulations and water and waterways laws. All construction and extension measures require separate authorisations by the respective authorities, irrespective of the plan approval procedure for the expansion of the handling areas. HHLA's affiliated companies are subject to a number of strict regulatory requirements, especially if they are involved in the handling of materials that can have damaging effects on people or the environment. These include, for example, the handling, storage and transportation of environmentally dangerous materials and hazardous goods. However, these regulatory requirements also include regulations on technical safety, health and safety in the workplace and environmental protection.

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

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

The regulatory environment for business activities in the **Inter-modal segment** is largely determined by the EU directive establishing a single European railway area (Directive 2012/34/EU) and the national implementing legislation. In particular, these include regulations governing the licensing of rail companies, the use of railway infrastructure, the associated charges as well as rail operation. The main legislation in Germany are the General Railways Act (Allgemeines Eisenbahngesetz – AEG), which sets out the requirements for rail operation, and the Railway Regulation Act (Eisenbahnregulierungsgesetz – ERegG) that replaced the previous Railway Infrastructure Usage Regulation (Eisenbahn-Infrastrukturverordnung – EIBV) in September 2016 and in particular contains provisions on network access and route pricing. In addition, there are further national, European and – especially for transnational rail transport – international regulations.

The legal framework for HHLA is subject to constant change at national, European and international level in order to keep pace with technical progress and increasing sensitivity with regard to safety and environmental concerns, among other issues. Potentially significant legislative projects at a European level in the period under review included work on an EU regulation to establish a framework for market access to port services and the financial transparency of ports (the so-called “Port Package III”), as well as amendments to the EU support scheme for ports. At a national level, there was work on the Regulation on Installations for the Handling of Substances Hazardous to Water (Verordnung über Anlagen zum Umgang mit wassergefährdenden Stoffen – VAWs), which may impact HHLA in the future depending on the form it takes. In the 2016 financial year, however, there were no amendments to the legal framework with a significant impact on the Group's operating activities or its assets, financial or earnings position.

Corporate Strategy

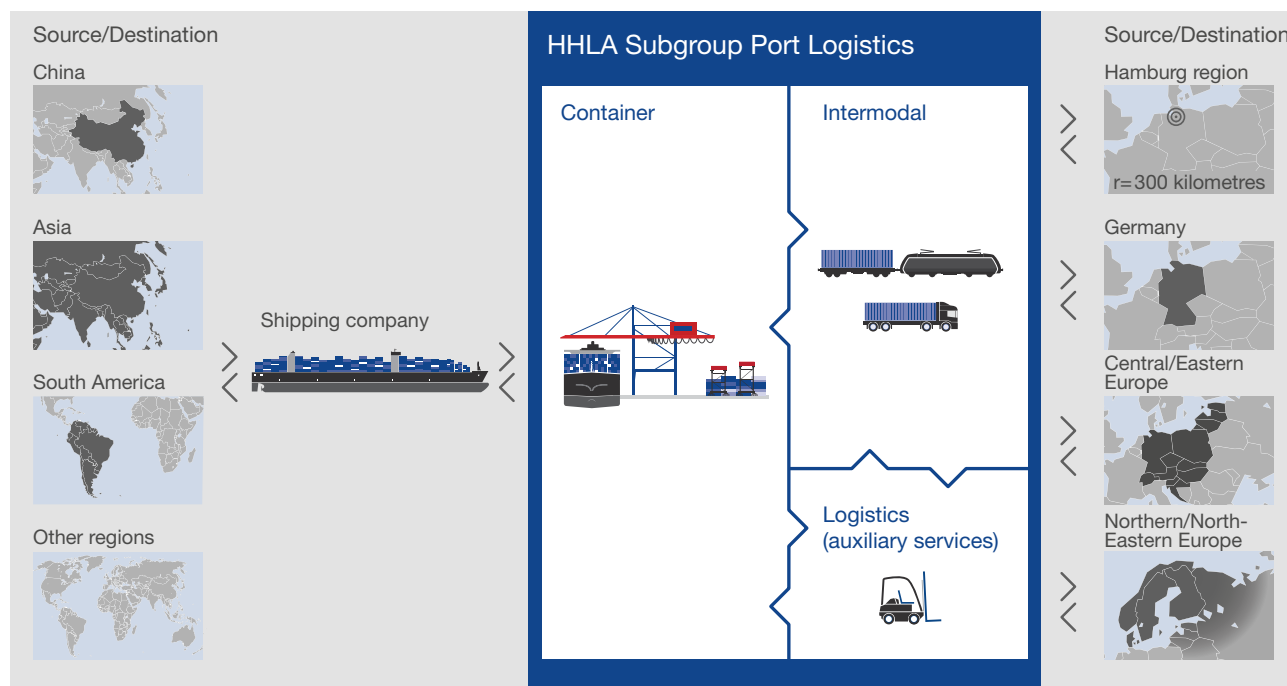
HHLA's strategy is aimed at assuming a leading position as a **port logistics provider** and thus achieving sustainable growth in its enterprise value. With its business model of vertical integration along the transport chain between the international seaport and its European hinterland, HHLA believes it is favourably positioned to benefit from the expected growth in trade. This is also based on Hamburg's role as a logistics hub linking the Far East, especially China and India, with the economies of Central and Eastern Europe. Sustainable business practices form an integral part of the corporate strategy. The focus here is on organising ecologically sound transport chains – especially by linking ships and rail logistics – and operating terminals in an environmentally friendly manner that uses land efficiently, as well as conserving resources.

In its non-listed **Real Estate** subgroup, HHLA pursues a long-term and demand-oriented approach to developing districts and properties. The main focus is on developing existing properties, many of which are designated as historical landmarks.

In order to consolidate and further expand the Group's market position, HHLA pursues the following strategic guidelines for the listed Port Logistics subgroup:

Vertical Integration

HHLA's strategic foundation



Establishing and Enhancing Quality and Efficiency Leadership

HHLA strives to constantly improve its competitiveness by further enhancing its service quality and technological capabilities. It concentrates both on retaining its broad customer base and attracting new clients.

In the **Container segment**, HHLA will continue to pursue its strategy of providing a neutral service to as many shipping companies as possible in the handling of ships and the coordination of berths, thus ensuring a high quality of service for all customers. For HHLA, this concept will secure the long-term existence of a balanced customer portfolio, the best possible capacity utilisation, and the profitability of its services. Ship handling activities focus primarily on improving the efficiency of handling services and responding to the requirements of container mega-ships that are increasingly prompting peak load conditions. This involves systematically gearing the design and operation of facilities towards maximising the productivity of land usage, manpower and capital. HHLA also aims to become a quality and efficiency leader in the activities of its **Intermodal segment** by continuing to invest in its own facilities and equipment, such as inland terminals, container-carrying rail wagons and locomotives. Due to its consistent establishment and expansion of pre- and onward-carriage rail systems and their integration into maritime transport chains, HHLA is able to offer its customers a perfectly coordinated range of services.

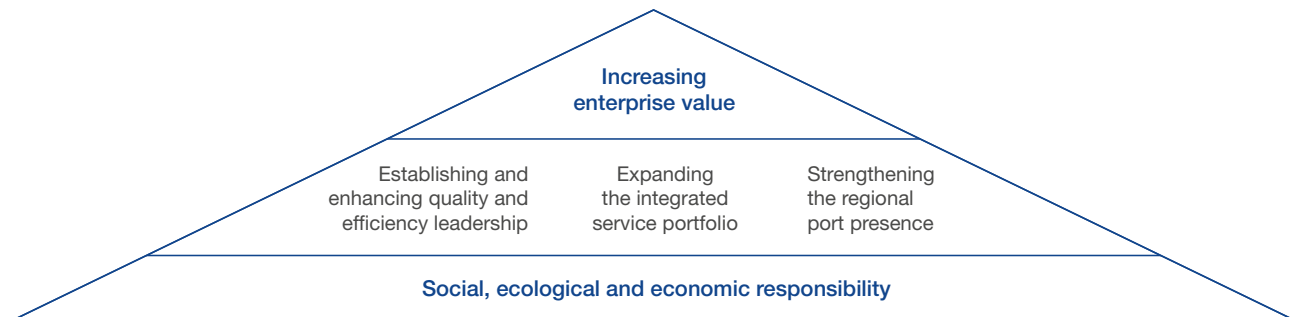
Expanding the Integrated Service Portfolio

HHLA plans to continuously improve the services it provides by expanding intermodal transport between the international port and the hinterland. Besides increasing the scope and range of its services, HHLA also focuses on increasing its value added. This approach is geared towards making effective use of the Port of Hamburg's advantageous geographical position in terms of transport links by utilising synergies between handling and transport services and by adding complementary services (container repairs, empty container storage facilities etc.). HHLA's activities are therefore mutually beneficial: greater handling volumes in the Port of Hamburg result in more traffic for hinterland transport and increased demand for logistics services. Conversely, the provision of efficient transport systems and high-quality logistics services generates additional handling volumes for the HHLA container terminals.

For this reason, HHLA will continue to expand the market position of its Intermodal subsidiaries with the main geographical focus on the growth markets of Central, Eastern and South-Eastern Europe, as well as Germany and Austria. Investments here will concentrate on inland terminals and connecting them to international ports via direct links. By gradually increasing vertical integration by acquiring its own rolling stock (container wagons) and expanding its own traction fleet (locomotives), the company will be able to operate largely independently on the market. HHLA is accompanying these measures by expanding its trucking services, which offer a comprehensive network for delivering and collecting sea containers over the "last mile" inland.

Corporate Strategy

Sustainably increasing enterprise value at HHLA



Strengthening the Regional Port Presence

In addition to purely organic growth, HHLA examines opportunities for acquisitions. Potential acquisitions and equity investments focus on port projects and shareholdings in attractive growth markets. Based on the economies of scope offered by the existing network and the opportunities it presents to tap additional potential, HHLA's primary interest is in the catchment area between the Baltic region, the Northern Adriatic and the Black Sea. However, projects and shareholdings in other high-growth regions are also being examined. Both the Group's international consultancy activities and its ongoing corporate development work can provide starting points for this approach. In addition to strategic compatibility, key decision-making criteria include growth prospects, the anticipated return on capital employed in the medium and long term, and the commercial opportunities and risks.

Corporate and Value Management

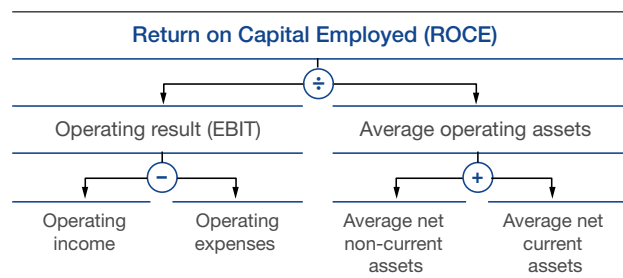
HHLA's primary financial objectives include the long-term, sustainable growth of its enterprise value. HHLA uses a Group-wide value management system for the planning, management and monitoring of its commercial activities. No changes were made to this system in the 2016 financial year.

Financial Performance Indicators

The key financial performance measures of the Group are the operating result (EBIT) as well as the average operating assets used (capital employed). EBIT and capital expenditure as key driver of the capital employed are the main intra-year and short term performance measures. In addition, return on capital employed (ROCE) is calculated for the measurement of medium and long term performance and is also used to determine the annual value added. The HHLA Group calculates ROCE as a ratio of the operating result (EBIT) and the average operating assets used.

Value Management

ROCE – defining parameters and influential factors



Commercial activities are generally regarded as value-generating if ROCE exceeds the cost of capital and they make a positive value contribution. Such capital costs correspond to the weighted average of equity costs and the cost of borrowed capital. As in the previous year, HHLA used a weighted average cost of capital of 8.5 % before tax to calculate value growth at Group level in the 2016 financial year. This minimum interest rate reflects the Executive Board's assessment of a medium-to long-term rate of return arising from a balanced relationship