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

HHLA

Holding/Other
- Strategic corporate development
- Functional management of the Container segment
- Management of resources and processes
- Provision of shared services

- Floating crane operations
- Development and letting of port-related real estate

Port Logistics
Subgroup
Listed Class A shares

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

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

Logistics
Segment
- Special handling of bulk cargo, general cargo, vehicles, fruit etc.
- Consulting and training

Real Estate
Subgroup
Non-listed Class S shares

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

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

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

31.6 %	68.4 %

Free float
22,128,334 Class A shares

Free and Hanseatic City of Hamburg
Shareholding: 47,920,500 Class A shares + 2,704,500 Class S shares

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

100 %

Group Structure

Hamburger Hafen und Logistik AG (HHLA) is one of Europe's leading port and transport logistics groups. It is operated as a strategic management holding company and 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 financial 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 32 domestic and 14 foreign subsidiaries and associated firms that make up the consolidated group. ▶ see also Note 3, page 83 of the Notes to the Consolidated Financial Statements No significant legal or organisational changes were made to the company structure in the 2016 financial year.

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, advises and monitors the Executive Board's work. In the 2016 financial year, the Executive Board of HHLA comprised five 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. Angela Titzrath took over as Chairwoman of the Executive Board of Hamburger Hafen und Logistik AG as of 1 January 2017. She was appointed to the company's Executive Board as of 1 October 2016.

The Supervisory Board of HHLA has twelve members in all, with six representing the shareholders and six representing the employees. ▶ see also Note 49, page 146 of the Notes to the Consolidated Financial Statements

Business Activities

As an integrated handling, transport and logistics provider, 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. The Group's activities in this segment consist primarily of handling container ships (the loading and discharging of containers) and transhipping containers to other carriers (rail, truck, feeder ship or barge). HHLA operates three container terminals in Hamburg – Altenwerder (CTA), Burchardkai (CTB) and Tollerort (CTT) – and another container terminal in Odessa, Ukraine (CTO). The portfolio is rounded off by supplementary container services, such as maintenance and repairs.

Organisational Structure

Supervisory Board

Executive Board

Klaus-Dieter Peters	Angela Titzrath[1]	Dr. Stefan Behn	Heinz Brandt	Dr. Roland Lappin
Chairman (until 31 December 2016)	Chairwoman (since 1 January 2017)			
Responsibility	Responsibility	Responsibility	Responsibility	Responsibility
Corporate Development Corporate Communications Sustainability Intermodal Segment Logistics Segment	Corporate Development Corporate Communications Sustainability Intermodal Segment Logistics Segment	Container Sales Container Operations Container Engineering Information Systems	Human Resources Purchasing and Materials Management Health and Safety in the Workplace Legal and Insurance (including Compliance)	Finance and Controlling (including Organisation) Investor Relations Internal Audit Real Estate Segment

1 Member of the Executive Board since 1 October 2016

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. The rail companies METRANS and POLZUG 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 transshipment 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 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 has been listed as a UNESCO World Heritage Site since 2015. In this central location, HHLA offers some 300,000 m^2 of commercial space. Other prime properties totalling around 63,000 m^2 are managed by Fischmarkt Hamburg-Altona GmbH in the exclusive fish market area on the river Elbe's northern banks.

For further information on the performance of each segment, ▶ see also Segment Performance, page 13.

Market and Competition

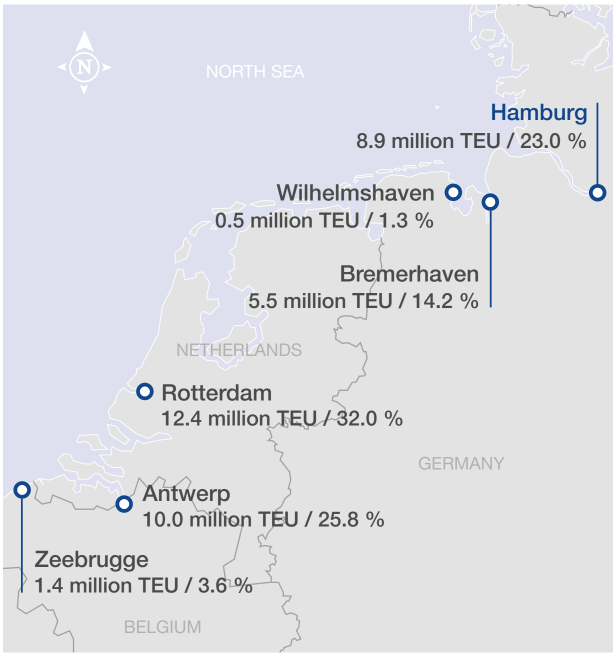
With its listed core business Port Logistics, HHLA operates on the European market for international sea freight services. This offers long-term growth prospects. Central European countries have strengthened their competitiveness and thus created the condititions for further growing foreign trade and consumption. The Eastern European region, particularly the Russian Federation and Ukraine, also provide growth potential. Whether these will develop positively depends on the solution of regional conflicts as well as the development of commodities and energy prices.

For the European Union, the relevant economic indicators point to a sustained increase of GDP. Due to the persistently high debt rate, however, stronger growth is only expected in the medium and long term. In the short term, exogenous conditions as well as unresolved structural problems affect the containerised trade and transport volume.

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 considerably smaller in terms of their capacity and/or current freight volume. At present, the Baltic Sea ports are primarily served by feeder traffic operating via central distribution points in the North Range. The practice of ocean-going vessels calling

Throughput at the North Range Ports

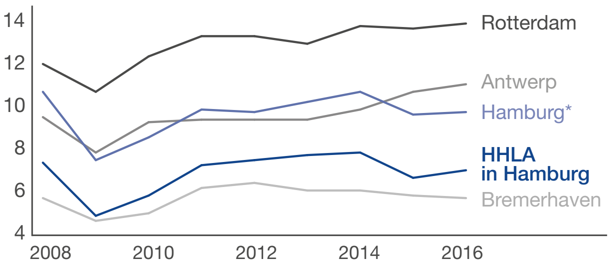
Volumes and market shares, 2016



Source: Port Authorities / own calculation (market share)

Container Throughput at the Largest North Range Ports

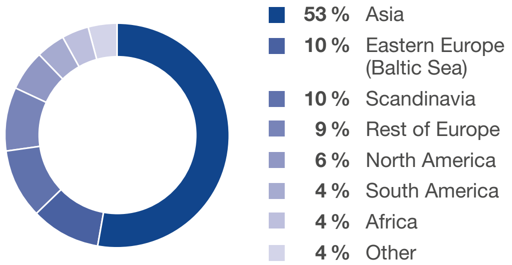
in million TEU



*Source: Port Authorities; *incl. HHLA*

Seaborne Container Throughput by Shipping Region

in the Port of Hamburg, 2016



Source: Hamburg Hafen Marketing e.V.

directly at ports such as Gdansk or Gothenburg has established itself over the past few years and is increasingly competing with this network system.

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, the scope and quality of container handling services, as well as the performance of pre- and onward-carriage rail systems serving the hinterland (e.g. frequency, punctuality, pricing).

New capacity was created in 2016 by relocating and expanding a terminal in Antwerp, while a further terminal was closed in Zeebrugge. Competition remains extremely fierce and the ports are increasingly dependent on changing shipping company constellations. The resulting shift 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 8.9 million TEU, Hamburg ranked an estimated 18th among the world's ports in 2016 and is thus the third-largest European container port after Rotterdam and Antwerp.

In Hamburg, HHLA maintained its position as the largest container handling firm with a throughput volume of 6.5 million TEU in 2016. As in the previous year, approximately 73 % of container traffic at the Port of Hamburg was handled by HHLA. Asia, Eastern Europe and Scandinavia remained the most important shipping regions.

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 other rail operators and intermodal transport firms in Germany and abroad, 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, on-schedule operation and infrastructural capacity. The importance of these factors is growing as ports compete with one another.

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.

Intermodal Network of HHLA

Selected connections

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 around 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 handing of its landmarked buildings with world heritage status. The properties compete with German and international investors marketing high-quality properties in comparable locations.

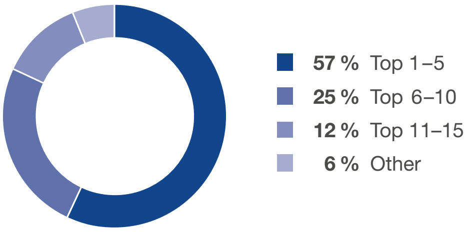
Customer Structure and Sales

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 stations (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. Due to the wave of consolidation in the container shipping segment, HHLA's customer base changed radically in 2016. Significant changes included the merger of China Shipping Container Lines and COSCO Container Lines, CMA CGM's acquisition of APL and the insolvency of Hanjin. In addition, Danish container shipping company Mærsk announced the takeover of Hamburg shipping company Hamburg Süd in December 2016. In the reporting year, HHLA's customer base included all of the world's top 15 container shipping compa-

Revenue Distribution Split by Customers

in the Container segment at the main hub Hamburg in 2016



nies. HHLA therefore believes it is well placed to also meet the future requirements of its clients in the shipping sector. ▶ see also Business Forecast, page 40

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.

Top 15 Shipping Companies

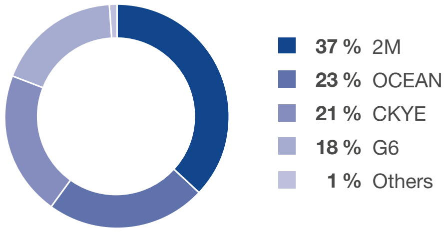
by carrying capacity as of 31 December 2016

	Shipping company	Alliance in 2016 / starting in April 2017	in thousand TEU
1.	APM-Mærsk	2M / 2M	3,273
2.	MSC	2M / 2M	2,839
3.	CMA CGM	OCEAN 3 / OCEAN ALLIANCE	2,131
4.	COSCO Shipping	CKYE / OCEAN ALLIANCE	1,621
5.	Evergreen	CKYE / OCEAN ALLIANCE	993
6.	Hapag-Lloyd	G6 / THE Alliance	950
7.	Hamburg Süd	–	604
8.	OOCL	G6 / OCEAN ALLIANCE	576
9.	Yang Ming	CKYE / THE Alliance	570
10.	UASC	OCEAN 3 / THE Alliance	527
11.	NYK	G6 / THE Alliance	519
12.	MOL	G6 / THE Alliance	495
13.	Hyundai M. M.	G6 / (2M associated)	456
14.	PIL	–	366
15.	K Line	CKYE / THE Alliance	351

Source: Alphaliner Monthly Monitor, January 2017

Capacity Breakdown by Shipping Line Alliances

on Far East–Europe services as of 31 December 2016



Source: Alphaliner Monthly Monitor, January 2017

The share of revenue attributable to HHLA's five most important customers again rose slightly to 57 % in the 2016 financial year (previous year: 55 %). The ten most important customers accounted for 82 % of revenue generated by HHLA's container terminals in Hamburg – also up slightly on the prior-year figure of 80 % – while the figure for the 15 most important customers was unchanged at 94 %. HHLA has maintained commercial relationships with the majority of its most important customers for well over two decades.

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

Legal Framework

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

The regulatory environment for HHLA's commercial activities in and around the Port of Hamburg is largely determined by the Hamburg Port Development Act (Hamburgisches Hafenentwicklungsgesetz – HafenEG). HafenEG formulates the structural framework for the ongoing development of commercial activity in the Hamburg port area. 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", under which the Hamburg Port Authority (HPA) owns the land at the port and is responsible for building, developing and maintaining the infrastructure (general and user-specific), while the privately owned port operators are responsible for the development and maintenance of the superstructure (buildings and facilities). HHLA has concluded a long-term lease agreement 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 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 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) 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.

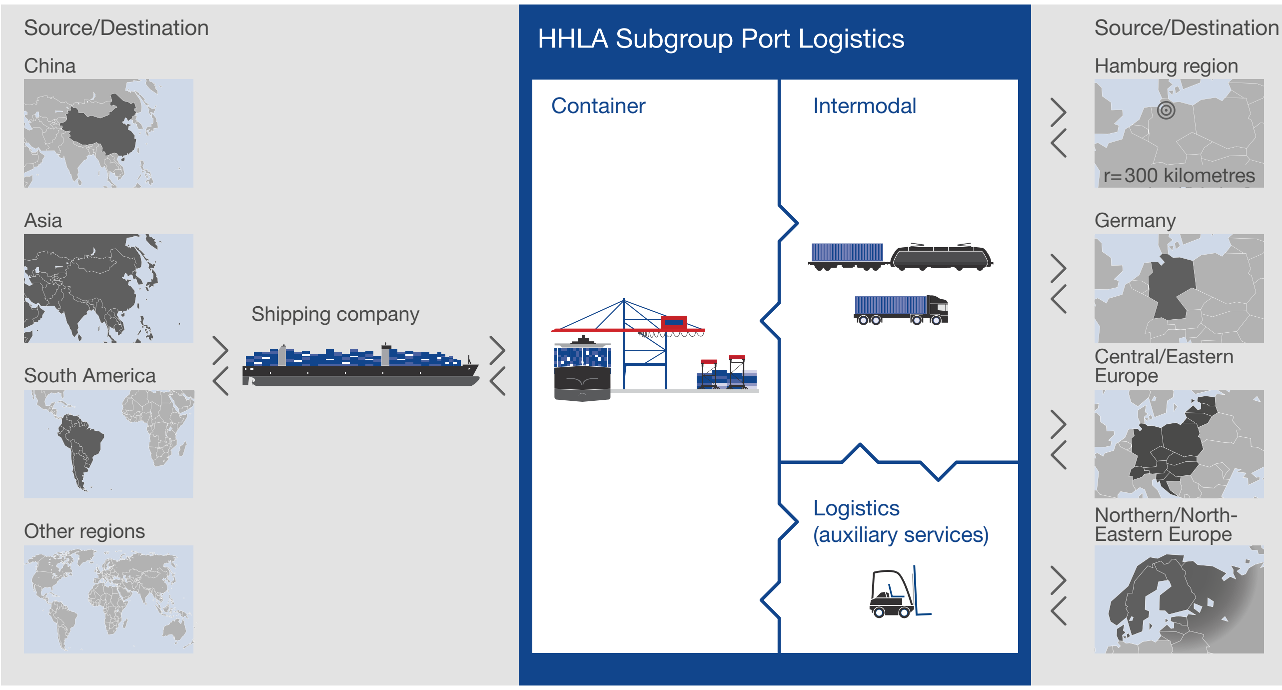
Corporate Strategy

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.

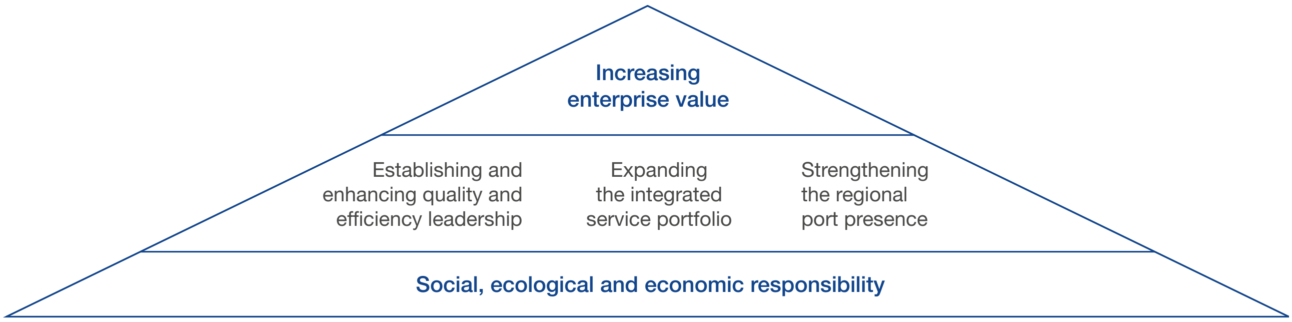
In the Container segment, HHLA will continue to pursue its strategy of providing a neutral service to as many shipping companies as possible in the handling of ships and the coordination of berths, thus ensuring a high quality of service for all customers. For HHLA, this concept will secure the long-term 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.

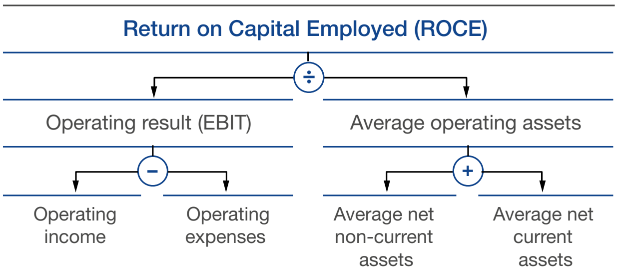
Corporate and Value Management

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 between equity and borrowed capital. This approach avoids short-term fluctuations in interest rates on the capital markets that may distort the information provided by the value management system.

The HHLA Group's operating result (EBIT) rose year-on-year by 4.8 % to € 164.0 million in the 2016 financial year (previous year: € 156.5 million). ▶ see also Group Performance, page 41 Average operating assets were up slightly at € 1,317.6 million (previous year: € 1,303.1 million) and the return on capital employed increased by 0.4 percentage points year-on-year to 12.4 %. The minimum ROCE of 8.5 % was therefore comfortably exceeded by 3.9 percentage points. The HHLA Group therefore generated a positive value added of € 52.0 million in the 2016 financial year (previous year: € 45.7 million).

Key Figures Value Added

in € million	2016	2015	Change
Operating income	1,241.9	1,191.0	4.3 %
Operating expenses	- 1,077.9	- 1,034.5	4.2 %
EBIT	164.0	156.5	4.8 %
Ø Net non-current assets	1,211.1	1,213.3	- 0.2 %
Ø Net current assets	106.5	89.8	18.6 %
Ø Operating assets	1,317.6	1,303.1	1.1 %
ROCE in %	12.4	12.0	0.4 pp
Capital costs before tax[1] in %	8.5	8.5	0.0 pp
Capital costs before tax	112.0	110.8	1.1 %
Value added in %	3.9	3.5	0.4 pp
Value added	52.0	45.7	13.7 %

1 Of which 5.0 % for the Real Estate subgroup

Non-Financial Performance Indicators

The main non-financial performance indicators are container throughput and container transport volumes. In addition to the continuous dialogue that HHLA maintains with its customers, the company makes extensive use of macroeconomic forecasts as early indicators for volume trends and its operating activities. These include the anticipated development of gross domestic product for important trading partners and the subsequent estimates for foreign trade and import/export flows, as well as for container traffic on relevant routes and changes in the correlation between gross domestic product and containerised trading volumes.

Research and Development

One of HHLA's strategic objectives is to continuously improve the efficiency of its operating systems, and consequently its competitiveness, by developing application-oriented technologies. The main focus of these activities is therefore on engineering and IT-based innovation projects. Due to close collaboration with technical universities, institutes, industry partners and government authorities, joint projects can be planned, managed and developed by task forces.

In the 2016 financial year, HHLA mainly focused its resources and available capacity on continuing its research in the area of battery-powered container vehicles for horizontal transport.

Battery-Powered Container Vehicles

Researching and developing eco-friendly drive systems is a key aspect of HHLA's sustainable business model. The BESIC project (Battery Electric Heavy Goods Transports within an Intelligent Container Terminal), which was funded by the German Federal Ministry of Economics and Energy and conducted by HHLA at the Container Terminal Altenwerder (CTA) in collaboration with Gottwald Port Technology, Vattenfall Europe Innovation and several research bodies, was successfully concluded in the year under review. As part of the project, a battery management system was developed that uses targeted data exchange between the energy supplier and the terminal to ensure that the batteries for the battery-operated automated guided vehicles (AGVs) are always charged at the best-possible time, from both an environmental and operational perspective.

Performance Certified

In order to document their performance, CTA and CTT once again received certification in accordance with the Container Terminal Quality Indicator (CTQI) in the reporting year. The standard, which was developed by the Global Institute of Logistics and Germanischer Lloyd, checks criteria such as the safety, performance level and efficiency of a terminal on both the quayside and in the hinterland, as well as its links to pre- and onward-carriage systems. With their successful certification, the terminals once again confirmed their high levels of performance and compliance with all quality standards.

Other Research Projects

The foundation for a further research project at CTA was also laid in the year under review. It is supported by the German Federal Ministry of Transport and Digital Infrastructure (BMVI) under the recently introduced Innovative Port Technologies (IHATEC) incentive scheme. The project promotes the development of solutions for man-machine interaction in shared working environments.

Purchasing and Materials Management

Purchasing is a shared service provided by the HHLA Group's management holding company in Hamburg. Important objectives are pooling and harmonising purchasing processes to meet internal customers' requirements in terms of service and performance as far as possible. The purchasing team focuses on standardising the supplier base to ensure that capital goods, raw materials, consumables, supplies, services and other products are provided reliably and on time, taking aspects such as cost, quality and sustainability into account. Market developments relating to new technologies, innovations and the service performance of specific suppliers are considered in close cooperation with the operations and technology departments.

Purchasing actively supports the review and adjustment of the Group's requirements and guidelines for purchasing processes and their mandatory fulfilment. All employees in the purchasing team are obliged to uphold HHLA's code of conduct. The compliance rate and purchase requisition rate are among the many methods used to monitor adherence to these requirements. The compliance rate measures the proportion of procurement orders handled by the Purchasing department. In 2016 this stood at 95.2 % (previous year: 94.5 %). The purchase requisition rate indicates the ratio of requisitions entered and authorised via the SAP enterprise resource planning system in compliance with regulations. At 99.6 %, it was roughly on a par with the prior year in 2016 (previous year: 99.7 %). The automation of purchasing processes to create efficient, transparent and uniform workflows remained a key objective for procurement in 2016. In the reporting period, approximately 14 % of all purchasing processes were handled fully automatically by means of e-procurement systems (previous year: approximately 13 %). The Group is deliberately diversifying its procurement activities and optimising its supplier base. As a result, there were no significant dependencies on individual suppliers in the 2016 financial year, as in the previous year, neither at Group nor at segment level. There were also no supply shortages during the reporting period. In 2016, equipment and energy accounted for 44.5 % of the Group-wide procurement volume, while construction accounted for 22.5 %, MRO (maintenance, repairs and operations) for 14.0 % and information technology (IT) for 19.0 %.

Taking competition law into account, systematic steps are being taken to enhance the way in which suppliers are involved in the development and optimisation of products, facilities and processes from a strategic and collaborative viewpoint. The aim is to safeguard the on-time completion of development and modernisation projects and the associated timely procurement of capital equipment, supplies and replacement parts. The focus here is on analysing and evaluating relationships with suppliers in terms of their reliability, quality, innovative strength, cost structures, economic stability and compliance. An IT-based supplier management system will be implemented in 2017 to support this process. Suppliers register on an internet portal, which uses questionnaires to cover topics such as occupational safety, sustainability and compliance. All content is coordinated with both the purchasing team and the relevant departments and is subsequently evaluated. Certain criteria may result in suppliers being excluded. These include entries in a state corruption register, insolvency proceedings, failure to pay minimum wages or operational restrictions (lack of certain licences etc.).

Registration is mandatory for all suppliers contacting HHLA for the first time as part of bidding processes, market enquiries or on their own initiative. Suppliers already listed in the company's own pool will be asked to complete the registration process successively. The need to register will be prioritised according to the supplier's strategic relevance in terms of revenue, market and/or product and service range.

Downstream supplier management thus allows continual internal evaluation. These strategic suppliers are evaluated annually by the internal customers and departments. The evaluations include experience on first contact, while project procurement and flow are also evaluated and documented. The content and scope of the evaluation criteria are regularly reviewed and adapted according to legal requirements, corporate guidelines and rules, as well as their importance for service performance.

Another key project was the introduction of an electronic tendering platform. Although only mandatory as of April 2018, Purchasing rolled out an e-tendering platform when the amendment of German public procurement legislation came into force in April 2016. The platform not only standardises and transparently documents the tendering processes, but also significantly improves process quality, reliability and efficiency. Secondly, the electronic process creates considerable added value for bidders, as a web-based platform ensures process reliability and fair competition. Premature adoption gives suppliers the time and opportunity to prepare for and adjust to the new process.

Sustainable Performance Indicators

HHLA's actions have always been guided by economic considerations and a sense of responsibility towards its employees, the environment and society as a whole. Due to high levels of capital intensity and long useful lives, those who build and operate port and hinterland terminals, intermodal networks and logistics centres are compelled to take a wider view and gear their business operations towards long-term success spanning several economic cycles. Ever since it was established, the company has therefore attached the utmost importance to sustainable practices.

Ecology

Emissions and Energy

HHLA has reported on its carbon footprint regularly since 2008 as part of the international Carbon Disclosure Project (CDP). The CDP is a non-profit initiative that manages one of the world's largest databases of corporate greenhouse gas emissions on behalf of institutional investors and makes this information available to the public.

HHLA calculates its **CO_2 emissions** on the basis of the Greenhouse Gas Protocol Corporate Standard (revised edition), a global standard for recording greenhouse gas emissions. Within the HHLA Group, emissions mainly relate to CO_2. These are primarily influenced by throughput and transport volumes, traction services provided by the Group's own locomotives and the use of electricity from renewable sources. In line with the Greenhouse Gas Protocol, electricity procured separately from renewable sources was classified as carbon-neutral. The power needed by a terminal depends largely on the number of seaborne containers it handles and the number of containers transported over land by rail and truck. HHLA uses seaborne and onshore throughput as an effective indicator to determine specific CO_2 emissions in line with the recommendations of the European Economics Environment Group (EEEG).

HHLA has set itself the target of reducing **specific CO_2 emissions** – the CO_2 emissions per container handled – by at least 30 % by 2020. The 2008 figures serve as the baseline here. In the period from 2008 to 2016, the company succeeded in reducing CO_2 emissions by 27.3 % per container handled. Specific CO_2 emissions increased by 2.2 percentage points in the year under review.

Absolute CO_2 emissions rose by 5.5 % or 9,378 tonnes year-on-year to 178,468 tonnes. This is mainly attributable to the higher utilisation of the company's own fleet of environmentally friendly electric multi-system locomotives. Traction-related emissions increased by 9.2 % or by 6,760 tonnes from 73,369 tonnes to 80,129 tonnes. Absolute emissions from all container terminals operated by HHLA rose by 4.6 % or 3,004 tonnes to 68,161 tonnes in the year under review.

Direct and Indirect Energy Consumption

	2013	2014	2015	2016
Diesel and heating oil in million litres	26.8	28.5	25.7	25.6
Petrol in million litres	0.1	0.1	0.1	0.1
Natural gas in million m^3	3.1	1.8	2.3	2.4
Electricity[1] in million kWh	148.7	154.4	138.3	139.6
thereof from renewable energies	78.2	84.0	76.0	73.1
Traction current in million kWh	37.9	51.7	130.3	150.0
District heating in million kWh	4.6	3.7	3.2	3.6

Consumption of natural gas, traction current and district heating in 2016 is based on preliminary and estimated figures.

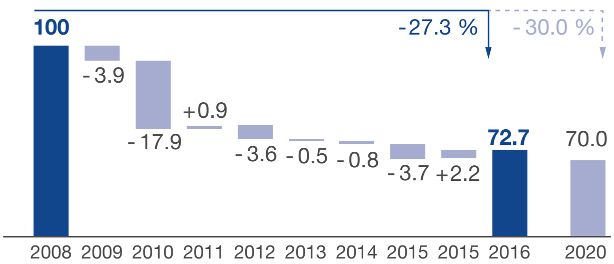
1 Electricity without traction current

HHLA conducted various **CO_2 reduction projects** to decrease CO_2 emissions at its companies in the reporting period. Examples include the optimization of energy-relevant system settings and the modernization of existing lighting systems. Further projects were set up and will start to bear fruit in 2017.

A long-term increase in the percentage of electricity used within the Group's energy mix will enable the company to **utilize more renewable energies** and thereby substantially reduce its carbon footprint. HHLA is therefore converting more and more of its equipment and machinery at the terminals to electricity. Such equipment and machinery produces fewer emissions and less noise and is also easier to service. The electricity required by all office buildings and workshops in Hamburg occupied by HHLA, the Container Terminal Altenwerder (CTA) and the all-electric yard crane system at the Container Terminal Burchardkai (CTB) comes from renewables. In the reporting period, these measures reduced CO_2 emissions by 23,190 tonnes (previous year: 24,108 tonnes). A photovoltaic system at the Container Terminal Tollerort (CTT) installed and operated by the energy supplier Hamburg Energie Solar produced 111,910 kWh of CO_2-free electricity in the year under review.

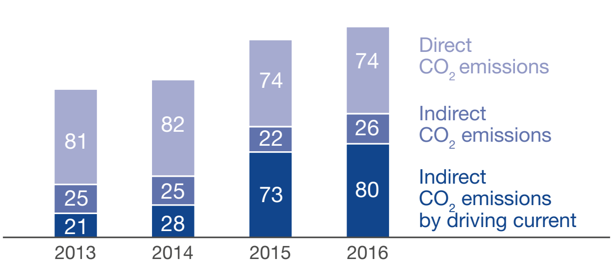
Reduction in Specific CO_2 Emissions since 2008

Climate protection target: 30 % reduction by 2020



Direct and Indirect CO_2 Emissions

in thousand tonnes



In addition to the active expansion of renewable energies, HHLA particularly promotes the **use of energy-efficient and low-emission machinery and equipment.** In the year under review, the fleet of all-electric cars grew by another 13 vehicles to 77. HHLA's electric vehicles are powered by renewable electricity and are a quiet, low-maintenance solution that does not generate any local emissions. The electric vehicles cover a distance of some 500,000 km each year and thus reduce CO_2 emissions by approximately 160 tonnes. In addition, the computer-aided optimisation of container storage positions minimises the distance travelled by transport equipment, thereby reducing energy consumption and noise pollution. The use of retreaded tyres for various container handling machines also helps to improve the company's use of resources.

Four new straddle carriers that comply with strict requirements of the European Union's Euro 4 emissions standard went into operation at CTB in the reporting year. With their extremely low emissions, these modern vehicles make an important contribution towards reducing pollution at the container terminal. The world's first shunting hybrid locomotive for heavy goods trains has been running on the tracks of the Hamburg port railway since summer 2016. The locomotive is used by HHLA subsidiary METRANS. The modern hybrid drive with an electric motor and diesel engine reduces consumption by over 50 %.

Several projects were also continued in the field of **energy-efficient lighting**. At CTA, the conversion of yard crane lighting to needs-based LED lighting was completed for all 52 yard cranes. As well as reducing lighting emissions, this system cuts electricity consumption by some 90 % compared with the previous, conventional lighting system.

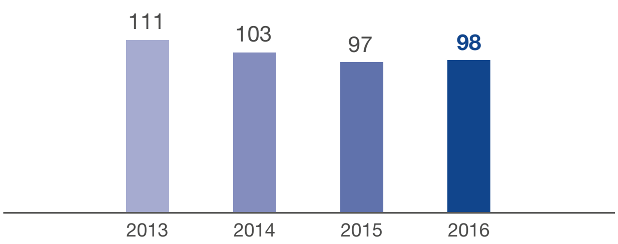
The **energy management system** that was certified according to DIN ISO 50001 for Hamburger Hafen und Logistik AG and HHLA Personal Service GmbH in the previous year was successfully expanded to additional HHLA companies.

Water Consumption

Water is mostly used in the HHLA Group to clean large-scale equipment and containers, as well as for employee hygiene. The **amount of water consumed** by operations in Germany, Poland, Slovakia, the Czech Republic and Ukraine was virtually unchanged year-on-year, rising by 0.5 % to 97,766 m^3 in 2016 (previous year: 97,305 m^3). HHLA's facilities in Hamburg draw water from the public supply network.

Developments in Water Consumption

in dam^3



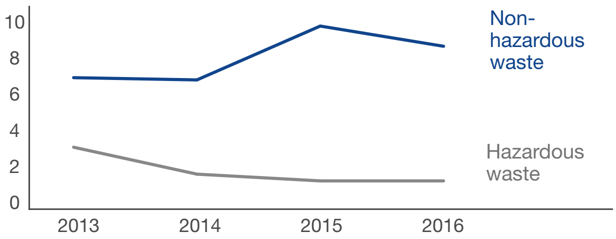
HHLA locations in Germany, Poland, the Czech Republic, Slovakia and Ukraine.

Waste and Recycling

HHLA reduces refuse and separates rubbish for recycling wherever possible so that reusable waste can be fed back into the resource cycle. Excluding soil and building rubble, the **amount of waste** produced at the sites in Germany decreased year-on-year by 9.6 % to 8,629 tonnes in the reporting period (previous year: 9,544 tonnes). This is mainly attributable to a 30.5 % decrease in the amount of foodstuffs no longer fit for consumption or further processing, such as bananas, pineapples and potatoes. HHLA has no influence on the amount of such waste, as it includes goods that were already unsuitable when they reached Hamburg. Adjusted for these amounts, the volume of waste at HHLA rose slightly by 1.7 % to 6,307 tonnes in the year under review (previous year: 6,200 tonnes). Hazardous waste declined by 1.6 % to 1,311 tonnes (previous year: 1,322 tonnes). This figure represents a decrease of 60 % compared to 2010. The decrease in hazardous waste is primarily due to the operational start-up of a chemical water treatment plant at CTB. The water used to clean large machinery is treated at the plant before being reintroduced into the cleaning cycle. Overripe bananas and other foodstuffs unsuitable for processing or consumption accounted for the largest proportion of waste in 2016. It declined year-on-year to 2,233 tonnes (previous year: 3,343 tonnes). A large proportion of this was recycled to generate biogas. Approximately 210,000 kWh of electricity was generated without CO_2 in this way in 2016, around 90,000 kWh less than in the previous year due to the decrease in these waste volumes. In addition, 0.3 % less commercial waste was generated in the reporting period. At 1,823 tonnes, this type of refuse represented the second-largest waste volume (previous year: 1,828 tonnes). Scrap metal, which was down 3 % on the previous year at 1,105 tonnes (previous year: 1,139 tonnes) was fed completely into the recycling system. There was a significant increase in scrap wood and building timber of 71 % to 691 tonnes, while paper and cardboard packaging rose by 10.9 % to 675 tonnes (previous year: 609 tonnes).

HHLA strives to conserve resources at its terminals, e.g. by using a total of 31,000 tonnes (previous year: 58,300 tonnes) of recycled building materials to maintain its terminal areas during 2016. Of this amount, slag from waste incineration and asphalt recycling accounted for the largest shares (11,000 tonnes each). 7,000 tonnes of electric furnace slag, which results from the melting of steel scrap and mineral additives in electric arc furnaces, was also recycled and will now be reused as aggregate at the terminals. The use of this recycled building material means that less natural stone needs to be mined. A further 2,000 tonnes of recycled concrete-mineral aggregates were used for site redevelopment.

Developments in the Volume of Waste
in thousand tonnes



Society

As well as its commitment to social responsibility, staff development and its employees' occupational health and safety are among HHLA's key fields of activity. ▶ see also Employees, page 26

Regional Responsibility

Approximately one in ten jobs in Hamburg has some connection with cargo handling at the Port of Hamburg. This means that the port and associated industries are major employers in the greater Hamburg metropolitan region. HHLA handles around three quarters of Hamburg's container throughput or more than half of the total throughput in tonnes. The company therefore sees itself as an integral part of economic development in the greater Hamburg metropolitan area. It is well aware of its responsibility towards society both here and at all its other sites.

Social Dialogue

HHLA engages in regular dialogue with its stakeholders. ▶ see also Report Profile, page 162 The company also promotes a number of educational projects focusing on the port and logistics.

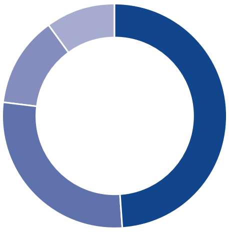
Recognising the link between the port, logistics and the water helps us understand the global division of labour and the importance of sustainable business activities. HHLA's support for educational projects focuses on two particular projects: "Hafen Scouts", a joint initiative of HHLA, which teaches schoolchildren about the transport of goods around the world, how the port functions and what careers the port offers. As well as "Hafen Scouts", the "Aqua-Agenten" project initiated by the Michael Otto Foundation is another cornerstone of HHLA's commitment to educational projects. This project has already received multiple awards (e.g. as an official project of the UN's World Decade "Education for Sustainable Development" and as a "Landmark in the Land of Ideas"). It takes a fun approach to teaching schoolchildren aged about eight or nine why water is important for people, nature and the economy. School classes learn about the significance of shipping and ports for world trade at HHLA's container terminals. In the reporting year, more than 1,200 schoolchildren visited HHLA facilities as part of these educational projects. Since the "Aqua-Agenten" project was launched in 2009, more than 10,000 children have been taught about the importance of water and ports.

Compliance

Compliance with legal requirements and internal company guidelines is a key part of HHLA's corporate governance policy. HHLA's compliance system centres on a code of conduct that formulates overriding principles on relevant topics for compliance, such as conduct in the competitive environment, prevention of corruption and conflicts of interest, and how to deal with sensitive corporate information. ▶ see also Corporate Governance Report and the Corporate Management Declaration, page 50

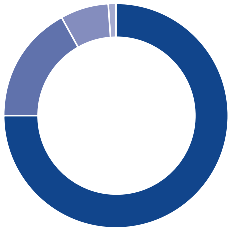
Source of Added Value

Production value 2016: € 1,240 million = 100 %



Application of Added Value

Net added value 2016: € 605 million = 100 %



Economy

Net added value rose by 10.9 % to € 605.3 million in the 2016 financial year. At 48.8 %, the added value ratio was slightly up on the previous year. Net added value serves as an indicator of the economic value creation of a business activity. It is calculated by taking the production value and deducting all intermediate inputs, depreciation and amortisation. Added value is shared between employees, shareholders, the state (taxes) and lenders. The largest proportion, 74.7 % or € 451.9 million, went to employees.

Value Added in the HHLA Group

in € million	2016	2015	Change
Employees	451.9	409.0	10.5 %
Shareholders	105.1	95.8	9.6 %
Public authorities	41.0	32.0	28.0 %
Lenders	7.3	8.7	- 16.0 %
Total	605.3	545.5	10.9 %

Employees

Strategic HR Management

HR Strategy

People and the organisation are at the heart of our personnel work. Highly competent and hard-working managers and employees form the foundation of our success. Long-term qualitative and quantitative personnel planning and development strategies for the entire company have been established in Hamburg. The ongoing development of specialist, management and project careers, and permeability between different career paths are the central aims of our personnel strategy. The numerous options to create a work-life balance according to the employee's current circumstances and the ongoing development of working-time systems form the cornerstone for long employee service at HHLA.

Organisation and Control

HR management is established as a central division at Executive Board level. This organisational structure ensures that strategic HR guidelines can also be implemented throughout the Group. The specialist department provides tailored HR and organisational development programmes for staff on all career paths and at all levels of the hierarchy within the German companies. The performance of both professionals and managers is systematically enhanced and developed and continuously overseen by the HR Management team. The same applies to all organisational development measures.

Diversity Management

Diversity management has been an integral part of strategic HR management for many years now. HHLA believes that a balanced mix of cultures, genders and age groups forms the foundation for commercial success. The company strives to achieve such diversity in all of its companies. This applies in particular to temporary cross-company working and project groups.

Headcount

HHLA had a total of 5,528 employees at the end of 2016. Compared with the previous year's total, the number of employees increased by 183, or 3.4 %. In addition, HHLA used an annual average of 558 employees of Gesamthafenbetriebs-Gesellschaft (GHB) (previous year: 562).

Employees

by segments	2016	2015	Change
Container	2,945	2,957	- 0.4 %
Intermodal	1,687	1,449	16.4 %
Holding/Others	651	668	- 2.5 %
Logistics	214	232	- 7.8 %
Real Estate	31	39	- 20.5 %
HHLA Group	5,528	5,345	3.4 %

Employees by Region

In geographical terms, the workforce was concentrated mainly in Germany, with 3,625 staff members (previous year: 3,656). This corresponds to a share of 65.6 % (previous year: 68.4 %), of whom the overwhelming majority worked in Hamburg. The number of staff employed abroad rose by 214 to 1,903 (previous year: 1,689). This is primarily due to the increase in staff at the Intermodal companies in the Czech Republic, Slovakia, Hungary and Slovenia, where headcount increased by 17.3 %

to 1,282 (previous year: 1,093). In Ukraine, the number of employees fell by 1.1 % to 440 (previous year: 445). The remaining 181 employees (previous year: 151) are spread across subsidiaries in Austria, Poland, Georgia and Turkey.

Employees by Segment

The number of employees in the Container segment as of 31 December 2016 was virtually unchanged compared to the previous year. Total headcount was down by twelve year-on-year in 2016 (previous year: 2,957). By contrast, total headcount in the Intermodal segment rose strongly by 238 or 16.4 % to 1,687 employees (previous year: 1,449). This was due to the expansion of services and increase in vertical integration. Headcount decreased in all other segments. The number of staff employed at the strategic management holding company declined by 2.5 % to 651 (previous year: 668). In the Real Estate segment, headcount fell by 20.5 % to 31 employees (previous year: 39). Employee numbers in the Logistics segment decreased to 214 in the reporting period (previous year: 232). This was mainly due to the discontinuation of operating activities in project and contract logistics.

Recruitment

Women accounted for 25.8 % of the 97 new employees who had not previously worked for HHLA in Germany, for example via Gesamthafenbetriebs-Gesellschaft (GHB). Over half of new hires were under the age of 30.

Since 2013, HHLA has been employing a self-developed **selection process** (assessment centre) that not only considers the applicant's personal and professional suitability, but also diversity aspects. These processes have been used for all blue-collar roles since the end of 2013 and at all container terminals in Hamburg as of 2014. Members of the company's staff selection panels receive special training. In addition, the selection panel must include at least one woman for all selection processes in which the pool of applicants includes women.

Recruitments

	Total	Females	Females in %
< 30 years	49	13	26.5
30 – 50 years	35	11	31.4
> 50 years	13	1	7.7
HHLA Group	97	25	25.8

At 4.8 %, the **fluctuation rate** (excluding internal transfers within the Group) in Germany was virtually unchanged year-on-year (previous year: 4.7 %). Of the total 175 people who left the company, 41.7 % were retirees.

Personnel Structure

The majority of jobs at HHLA are in a segment of the labour market in which men are traditionally employed and women are proportionately less represented. The positive trend of the previous years continued in 2016 and the ratio of women employed by HHLA in Germany increased once again (including apprentices). At 15.4 %, the ratio of women employed by the company was 0.2 percentage points higher than in the previous year (15.2 %).

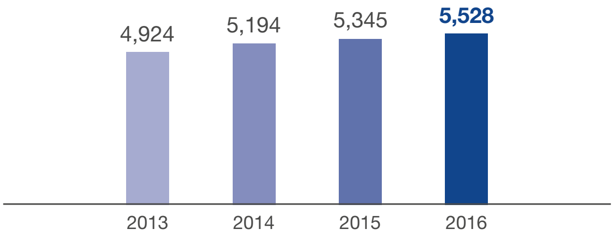
Based on the German Law for the Equal Participation of Women and Men in Leadership Positions, the Executive Board had already set a target quota of 25 % for women in first-level management positions directly beneath the Executive Board in the previous year (status as of 31 December 2016: 17 %; previous year: 15 %). A target of 30 % was set for second-level management positions (as of 31 December 2016: 26 %; previous year: 21 %). The date set for achieving these quotas is 30 June 2017. ▶ see also Corporate Governance, page 50

Age Structure

The average age of staff in Germany in the reporting period was 43.9 (previous year: 43.2). Male employees had an average age of 44.6, while female employees were 40.1 years old on average. Over half of all employees are aged between 30 and 50.

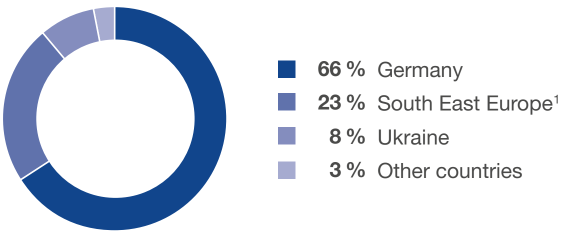
Development of Employees

HHLA Group as of 31.12.



Employees by Region

as of 31.12.2016



1 Czech Republic, Slovakia, Hungary, Slovenia

Age Structure of Employment

in %	31.12.2016	Thereof females	31.12.2015	Thereof females
< 30 years	12.0	27.5	13.4	26.5
30 – 50 years	53.1	16.0	54.0	15.5
> 50 years	34.9	10.1	32.5	9.7
HHLA Group	100.0	15.4	100.0	15.2

As in the previous year, the average length of service with the company in Germany was approximately 15 years.

Average Employment Period

in years	31.12.2016	31.12.2015
< 30 years	4.9	6.0
30 – 50 years	10.9	10.9
> 50 years	24.7	25.2
HHLA Group	15.0	14.9

The percentage of employees with a severe disability (including persons of an equivalent status) was 8.7 % at the end of the reporting period (previous year: 7.9 %).

Training and Professional Development

HHLA invested a total of € 4.5 million in educating and training staff from its locations in Hamburg in 2016 (previous year: € 5.4 million).

Vocational Training and Studying

As of 31 December 2016, 77 apprentices and 20 students were receiving training in Germany in ten different professions and nine dual study courses. 28 % of the 97 apprentices and students were female. The ratio of female students in 2016 was 50 % (previous year: 42 %).

All of the 40 apprentices (of which nine were on dual study courses) who successfully completed their training in the course of the year were given contracts. A total of 26 new apprentices were taken on at the company's Hamburg facilities in 2016, 31 % of whom were women. Four of the six places offered for dual study courses were awarded to women in 2016. At the start of the 2016 academic year, 30 % of blue-collar apprentices were women.

Cooperation agreements with technical colleges and specialised grammar schools were further intensified to maintain a steady flow of suitable candidates for professions with a focus on mathematics, IT, science and technology. Internships were offered to students studying technical professions in particular. The careers in which the company offers apprenticeships are presented at training fairs and schools by the respective departments with the aid of current apprentices. In 2016, the company participated in ten fairs in the greater Hamburg area.

Together with other Hamburg-based companies, HHLA is participating in the AvM Dual pilot project initiated by Hamburger Ausbildungszentrum e.V. (HAZ) to prepare immigrants for vocational training. HHLA played a key role in the development of the concept, which represents a pioneering and goal-oriented approach to integrating refugees into technical vocational training. The project is a response to both the social and civil responsibility to integrate refugees as well as the challenge of finding suitable applicants for technically demanding skilled jobs. In addition to classroom training, the concept includes three internship phases until August 2018. The young immigrants also receive support from specially trained apprentices at the participating companies.

Training and Qualification

Over 700 events lasting one or more days were held in the reporting period. These included over 600 internal vocational courses conducted by HHLA's own trainers over 2,335 training days. In addition, more than 100 one to several day events with 1,800 participant days were organised as part of the company's cross-segment seminar programme. As in the previous year, approximately 40 % of participants were female.

HHLA's internal seminars are designed to develop the professional, methodical and social skills of specialists and managers. All internal seminars are open to staff from various departments and companies. These seminars also help foster an understanding of the diverse tasks, roles and functions in the Group's various business fields.

Contracts, Remuneration and Additional Benefits

Collective Labour Agreements

Collective labour agreements govern pay and working conditions for approximately 89.5 % of employees in Germany (previous year: 88.0 %).

In May 2016, the parties to the labour agreement – the Association of German Seaport Operators (Zentralverband der deutschen Seehafenbetriebe e.V. or ZDS) and the trade union ver.di – agreed wage table increases of 2.5 % from 1 June 2016 with a twelve-month term for port workers at companies that operate at German seaports. Similar deals have been reached for further wage agreements of the HHLA Group. One component of the labour agreements is a collective demographic fund financed by HHLA to actively address demographic change and ensure age-, ageing- and performance-appropriate working conditions. Funds can only be withdrawn from the fund from 2021 onwards.

Appraisal and Remuneration Systems

The appraisal systems at the German companies contain both bottom-up and top-down components. Some of them are laid out in collective labour agreements, comprise variable remuneration components and are linked with training requirements for the company and staff.

The return on capital employed (ROCE) is also a significant parameter for determining variable remuneration components for executives and employees not covered by collective labour agreements. Performance-related remuneration components at executive level are calculated over a period of several years. This further enhances the focus on sustainable, long-term targets.

Flexible Working Models

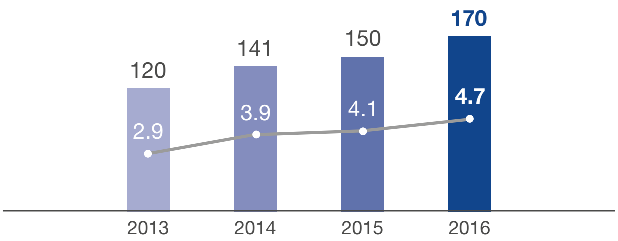
A growing number of people across all employee groups and hierarchy levels in Germany are taking up the option of working part-time to tailor their working hours to different life stages. Offering part-time work is therefore an important way of retaining staff at the company. Allowing staff to adapt their working hours helps them to reconcile their professional and family commitments, look after close relatives or do charity work. In 2016, a total of 170 employees were in part-time employment positions – 20 more than in 2015 (previous year: 150). At the end of 2016, the ratio of part-time workers at HHLA in Germany increased to 4.7 % (31 December 2015: 4.1 %). The percentage of men in part-time employment rose to 28.8 % (previous year: 26.0 %). At the holding company, where most roles are clerical, the ratio of part-time workers (excluding apprentices) was approximately 15.4 % (previous year: 13.7 %).

Working Lifetime Accounts

As well as various company pension schemes, HHLA offers employees at eight affiliated companies working lifetime accounts. The aim is to enable employees to retire from active employment earlier without having their statutory pension reduced. In order to attract new employees, HHLA therefore offers attractive options that enable individuals to actively shape their own working lifetimes. Participation was mandatory for employees joining the company after 1 January 2005. This was amended in the collective labour agreement in 2016 and employees can now opt out of the scheme. Approximately 60 % of eligible employees have taken the opportunity to opt out of the mandatory contribution of additional working days. As of 31 December 2016, 1,134 employees had a working lifetime account (previous year: 1,121). This represents a participation ratio of 31.3 % in Germany (previous year: 30.7 %).

Developments in HHLA's Part-time Employees

in Germany as of 31.12.



Part-time share in %

Occupational Safety and Health Promotion

Occupational Safety

Numerous preventive measures and guidelines are in place to ensure that staff from both HHLA and external companies, customers, suppliers and visitors do not come to bodily harm, which is a key concern for HHLA. The company strives to continually improve health and safety in the workplace and considers this an important task for its managers. These measures are geared towards specific needs at the sites. The issues of all employees in Hamburg are represented by occupational safety committees. Key measures are evaluated at the statutory meetings of these occupational safety committees, which are held four times a year.

HHLA uses modern technologies to achieve constant improvements. For example, HHLA uses an occupational safety management system to monitor the fulfilment of its goals. In 2016, it started transferring the majority of mandatory training to an e-learning system. The aim is to further reduce the risk of accidents and raise employee awareness of occupational safety.

In order to create meaningful accident statistics, accidents at all HHLA companies in Hamburg are taken into account and recorded using a standardised reporting system. These also include accidents not directly linked to container handling (e.g. in workshops). The reasons for changes and/or fluctuations are carefully analysed in order to quickly initiate structured preventive measures. Several companies started developing and submitting paperless accident reports in 2016 in order to improve the accident investigation process and the procedure for reporting accidents to the authorities.

In 2016, there were 99 notifiable accidents (excluding accidents when commuting) at the companies in Hamburg in which HHLA owns a stake of over 50 %. This represents a decline of 10.8 % (previous year: 111).

Health Management

Together with the universities of Hamburg and Kiel, as well as other cooperation partners from the business world, HHLA is developing a Group-wide occupational health management system as part of the GESIOP project. This joint initiative on “preventive measures for the safe and healthy workplace of tomorrow” is funded by the German Federal Ministry of Education and Research. The project aims to systematically develop and steer existing or newly introduced occupational health promotion activities. As a result, HHLA’s strong commitment to occupational health and safety is becoming an integral part of the consistent efforts it is already making in the field of sustainability management.

Economic Environment

Macroeconomic Development

Global economic growth continued to slow in 2016. According to estimates of the International Monetary Fund (IMF), it was down 0.1 percentage points on the previous year at 3.1 % – the lowest rate of growth since the 2008/2009 financial crisis. Despite a slight upward trend at the end of the year, the advanced economies as a whole failed to provide any momentum. Similarly, growth in the emerging economies was no more than stagnant at the prior-year level. In addition, political decisions such as the United Kingdom’s vote to leave the European Union (EU) or the election of Donald Trump as president of the USA triggered significant economic uncertainty. Against this background, world trade was even weaker than global gross domestic product (GDP) and grew by just 1.9 % – 0.8 percentage points below the prior-year figure.

Development of Gross Domestic Product (GDP)

in %	2016	2015
World	3.1	3.2
Advanced economies	1.6	2.1
USA	1.6	2.6
Emerging economies	4.1	4.1
China	6.7	6.9
Russia	- 0.6	- 3.7
Eurozone	1.7	2.0
Central and Eastern Europe (emerging european economies)	2.9	3.7
Germany	1.7	1.5
World trade	1.9	2.7

Source: International Monetary Fund (IMF), January 2017

Whereas the advanced economies experienced a significant slowdown in economic growth to 1.6 %, the emerging economies appeared to shake off their economic weakness over the course of the year. Rather than slowing down further, the rate of expansion stabilised at the prior-year level of 4.1 %. The Chinese economy weakened slightly once more in 2016 but performed better than forecast with growth of 6.7 %. After suffering a strong decline of 3.7 % in the previous year, the Russian economy is only expected to contract by 0.6 % in 2016. The Ukrainian economy also appears to be slowly finding its way out of the crisis following a marked decline in the previous year. According to IMF estimates from October 2016, economic output in Ukraine is likely to expand by 1.5 % in 2016 as a whole. Despite the economic uncertainty surrounding the UK’s plans to leave the EU, growth in the eurozone was surprisingly stable and is expected to reach 1.7 % – down 0.3 percentage points on the previous year. GDP in the emerging economies of Central and Eastern Europe slowed even further, declining by 0.8 percentage points to 2.9 %.

The latest economic indicators for the German economy continue to suggest solid growth of 1.7 %, representing a year-on-year improvement of 0.2 percentage points. At the same time, growth in German foreign trade was slowed by economic uncertainty and weak global trade over the course of the year. According to Destatis, exports grew by 1.2 % and German imports by 0.6 % in 2016.

Sector Development

The situation in the container shipping segment remained challenging in 2016. Market research institute Drewry expects global container throughput in the reporting period to remain at a weak growth level of 1.3 % as in the previous year. By contrast, the European shipping regions regained momentum following stagnation and, in some areas, severe slumps in the previous year. Drewry anticipates throughput growth of 1.5 % in 2016 for the north-western European ports. At the same time, the severe drop in throughput at the Scandinavian and Baltic Sea ports has been stopped and experts are also forecasting throughput growth of 1.5 % for this region in the reporting period.

Development of Container Throughput by Region

in %	2016	2015
World	1.3	1.3
Europe as a whole	1.9	- 1.7
North-West Europe	1.5	0.1
Scandinavia and the Baltic region	1.5	- 12.2
Western Mediterranean	2.9	1.3
Eastern Mediterranean and the Black Sea	1.9	- 4.1

Source: Drewry Maritime Research, December 2016

The trend among the major container ports of the North Range, as well as the largest ports of the western Baltic Sea (Gdansk, Gothenburg), was mixed. The Port of Hamburg recorded slight growth of 1.0 % in the year under review. Europe's largest container port, Rotterdam, handled 12.4 million TEU, 1.2 % more than in the previous year. Throughput in Antwerp rose by 4.0 % year-on-year to exceed 10 million TEU for the first time, thus extending its position as Europe's second largest container port. By contrast, throughput volumes continued to decline at Zeebrugge – the second Scheldt port in Belgium – and were down 10.8 % on the previous year at 1.4 million TEU in the reporting period. This was due to volume shifts and the closure of a further terminal. Bremerhaven stemmed the downward trend of the previous years somewhat in 2016 but was again down on the previous year with a decline of 1.0 % to 5.5 million TEU. Growth at the nearby JadeWeserPort in Wilhelmshaven was spurred by its increased integration into the 2M alliance route network. It handled a total of 0.5 million TEU, 12.9 % more containers than in the previous year. Gdansk increased container throughput by 19.1 % to 1.3 million TEU in the reporting period and thus more than offset the cargo losses caused by the Russian crisis in 2015. By contrast, the volume of containers handled in Gothenburg fell by 2.7 % against the previous year to 0.8 million TEU.

Development of Container Throughput at Northern European Ports

in million TEU	2016	2015	Change
Rotterdam	12.4	12.2	1.2 %
Antwerp	10.0	9.7	4.0 %
Hamburg	8.9	8.8	1.0 %
Bremen ports	5.5	5.6	- 1.0 %
Zeebrugge	1.4	1.6	- 10.8 %
Gdansk	1.3	1.1	19.1 %
Gothenburg	0.8	0.8	- 2.7 %
Wilhelmshaven	0.5	0.4	12.9 %

Source: Port Authorities

Despite the modest growth in container throughput, market research institute AXS Alphaliner estimates that the carrying capacity of the global container ship fleet increased by 1.5 % to 20.3 million TEU in 2016. The number of ultra large vessels with a capacity of more than 10,000 TEU increased particularly strongly, with growth of 16.1 % to total 388. This means that some 69 % of the ships delivered in 2016 can carry in excess of 10,000 TEU.

Rail freight traffic in Germany recorded modest growth over the course of the year. Compared with the previous year, transport volumes only rose by 0.3 % in the first ten months of 2016. However, traffic performance – transport volume multiplied by the distance travelled – increased slightly by 1.6 % in the same period.

Rail freight traffic declined across Europe. Transport demand for rail traffic was already diminished in the first three quarters, both at European level and in those markets of Central and Eastern Europe of particular relevance to HHLA. Whereas transport volumes fell by 1.3 % year-on-year across Europe as a whole, the decline of 4.7 % recorded in Central and Eastern Europe was considerably stronger. However, trends varied strongly in the individual markets. Transport volumes in Poland and Hungary fell year-on-year by 4.2 % and 1.7 % respectively in the first nine months of 2016. By contrast, rail cargo in the Czech Republic rose by 1.2 %. The decrease in traffic performance across Europe was less pronounced than the decline in transport volumes. However, the decline in traffic performance in Central and Eastern Europe was comparably strong.

Course of Business and Economic Situation

Key Figures

in € million	2016	2015	Change
Revenue	1,177.7	1,141.8	3.1 %
EBITDA	286.4	281.4	1.8 %
EBITDA margin in %	24.3	24.6	- 0.3 pp
EBIT	164.0	156.5	4.8 %
EBIT margin in %	13.9	13.7	0.2 pp
Profit after tax and minority interests	73.0	66.7	9.5 %
At-equity earnings	4.7	3.7	25.5 %
ROCE in %	12.4	12.0	0.4 pp

Overall View

The economic environment remained challenging throughout 2016. In addition to the dredging of the lower and outer stretches of the river Elbe, which has still not been commenced, HHLA suffered in particular from modest global economic growth, weak world trade and a constant low growth in global container throughput. Despite these challenging conditions, HHLA's performance over the course of 2016 was increasingly encouraging. There was a slight increase in container throughput at HHLA's terminals as well as strong growth in container transport. These trends in HHLA's two largest segments are also reflected in the moderate increase in revenue and the operating result at Group level.

One-off expenses incurred over the course of the year for the now-completed restructuring of the Logistics segment, which were initially included in EBIT guidance in the prior-year report – were largely offset by an unplanned one-off effect from the termination of the lease for the Übersee-Zentrum in the third quarter of 2016. Due to this effect and the positive volume trend in the Container and Intermodal segments over the course of the year, HHLA upgraded its earnings guidance for the Group during the year. Actual performance now confirms the guidance last updated in autumn 2016. HHLA continued to scale its capital expenditure programme to actual needs. Delays to individual projects resulted in postponements until 2017 and thus a deviation from the forecast figure.

HHLA's financial position remained stable as of the balance sheet date of 31 December 2016. Changes in capital structure resulted in part from negative effects from valuation adjustments to pension provisions triggered by interest rate differentials. The equity ratio declined by 1.7 percentage points to 31.5 % (previous year: 33.2 %) and the gearing ratio decreased slightly from 2.7 to 2.6. Due to the company's liquidity base as of the balance sheet date, it still has no significant refinancing requirements.

Notes on the Reporting

Due to the high level of flexibility required in the sector, handling and transport services are not generally ordered or arranged months in advance. Consequently, an order backlog and order trends do not serve as reporting indicators as they do in other industries. Changes to the consolidated group in the 2016 financial year resulted mainly from the addition of foreign companies in the Intermodal segment. This did not have a material effect on the HHLA Group's revenue and earnings.

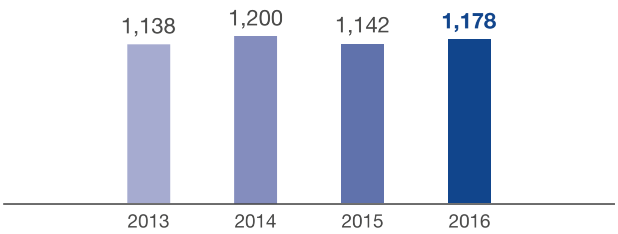
The 2016 Consolidated Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS) applicable in the European Union, taking into consideration the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The Group Management Report was prepared in line with the requirements of German Accounting Standard no. 20 (GAS 20).

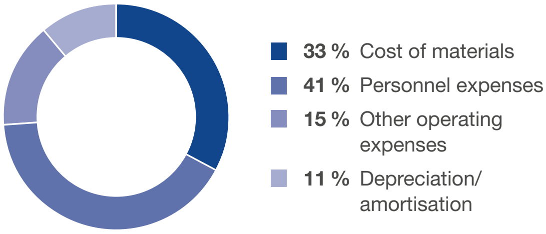
Forecast and Actual Figures

	Actual 31.12.2015	Forecast 30.03.2016	Forecast 10.11.2016	Actual 31.12.2016
Container throughput	6.6 million TEU	At previous year's level	At previous year's level	6.7 million TEU
Container transport	1.3 million TEU	Slight increase	Moderate increase	1.4 million TEU
Revenue	€ 1.141,8 million	At previous year's level	At previous year's level	€ 1,177.7 million
EBIT	€ 156.5 million	In a range between € 115 and € 145 million after one-off consolidation expenses	In a range between € 150 and € 160 million incl. all one-off consolidation effects in the Logistics segment	€ 164.0 million
Capital expenditure	€ 145.5 million	In the region of € 180 million	In the region of € 180 million	€ 138.3 million

Revenue
in € million



Operating Expenses
Expense structure 2016



Earnings Position

HHLA's **performance data** developed positively in 2016. Container throughput rose slightly year-on-year by 1.5 % to 6,658 thousand TEU (previous year: 6,561 thousand TEU). This was largely due to a stabilisation of volumes on Far East routes and the recovery of feeder volumes to and from Russia. Transport volumes increased significantly by 6.8 % to 1,408 thousand TEU (previous year: 1,318 thousand TEU). This trend was driven by growth in rail transportation.

Against this background, **revenue** of the HHLA Group rose by 3.1 % to € 1,177.7 million (previous year: € 1,141.8 million) in the reporting period. This was primarily due to volume-related growth in container throughput and container transport. The listed Port Logistics subgroup largely developed in line with the HHLA Group as a whole. Its Container, Intermodal and Logistics segments recorded an overall increase in revenue of 3.1 % to € 1,146.0 million (previous year: € 1,111.0 million). The non-listed Real Estate subgroup also succeeded in raising revenue by 3.2 % to € 37.7 million (previous year: € 36.5 million). The Real Estate subgroup thus accounted for 2.7 % of Group revenue.

Whereas **changes in inventories** in the previous year included expenses of € 1.4 million resulting primarily from consultancy activities, there was no significant effect in the reporting period. **Own work capitalised** decreased to € 6.5 million (previous year: € 9.3 million).

The increase in **other operating income** to € 57.5 million (previous year: € 41.2 million) is mainly attributable to the one-off effect from the termination of the lease for the Übersee-Zentrum.

The 4.2 % increase in **operating expenses** to € 1,077.9 million (previous year: € 1,034.4 million) was slightly above the increase in revenue. There were highly divergent trends across the different expenditure types.

The **cost of materials** declined by 3.2 % year-on-year to € 350.0 million (previous year: € 361.7 million). In addition to effects from the discontinuation of project and contract logistics activities, there were also effects from improved capacity utilisation and a better mix of import and export volumes in rail transportation. Additional savings were achieved through cheaper energy costs. The cost of materials ratio decreased to 29.7 % (previous year: 31.7 %).

Personnel expenses rose by 10.3 % to € 443.0 million (previous year: € 401.6 million). In addition to higher union wage rates and the inclusion of new companies in the consolidated group, the rise was also due to increased headcount in the Intermodal segment caused by growth and consolidation, greater demand for external staff at the container terminals in Hamburg as a result of volume growth, and one-off expenses relating to restructuring, especially in connection with the discontinuation of project and contract logistics activities. The personnel expense ratio rose by 2.4 percentage points to 37.6 % (previous year: 35.2 %).

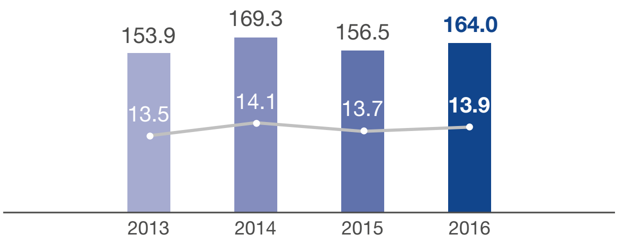
Other operating expenses increased by 11.1 % in the reporting period to € 162.5 million (previous year: € 146.3 million). The rise is mainly attributable to provisions in connection with an onerous lease in the Intermodal segment as well as the insolvency of the container shipping company Hanjin. The ratio of expenses to revenue rose accordingly to 13.8 % (previous year: 12.8 %).

Depreciation and amortisation declined slightly by 1.9 % year-on-year and amounted to € 122.4 million (previous year: € 124.9 million).

Against the background of these developments, the **operating result before depreciation and amortisation (EBITDA)** rose by 1.8 % to € 286.4 million (previous year: € 281.4 million) and thus more slowly than revenue. There was a corresponding slight decrease in the EBITDA margin to 24.3 % (previous year: 24.6 %).

The **operating result (EBIT)** increased by 4.8 % to € 164.0 million in the reporting period (previous year: € 156.5 million). As this was faster than revenue growth, the EBIT margin rose by 0.2 percentage points to 13.9 % (previous year: 13.7 %). Both the Container segment and the Intermodal segment contributed to the increase in earnings, thus lifting the EBIT result of the Port Logistics subgroup by 4.7 % to

Operating Result (EBIT)
in € million / EBIT margin in %



€ 147.6 million (previous year: € 141.1 million). As a result, the subgroup accounted for 90.0 % (previous year: 90.1 %) of the Group's operating result in the reporting period. In the Real Estate subgroup, EBIT rose by 5.9 % to € 16.0 million (previous year: € 15.2 million). 10.0 % of the Group's operating result was generated by this subgroup (previous year: 9.9 %).

Net expenses from the **financial result** fell by € 10.7 million or 37.3 % to € 18.0 million (previous year: € 28.7 million). This was mainly due to a reduction in negative exchange rate effects to € 2.2 million (previous year: € 8.0 million), which resulted almost entirely from the devaluation of the Ukrainian currency. The revaluation of a settlement obligationn payable to a minority shareholder in conjunction with a profit and loss transfer agreement also led to a reduction in net expenses.

At 28.1 %, the Group's **effective tax rate** was higher than in the previous year (25.0 %). The main reasons for this are a one-off tax expense for prior years in the Port Logistics subgroup, as well as the absence of tax effects that had reduced the tax rate in the previous year.

Profit after tax and minority interests increased by 9.5 % year-on-year to € 73.0 million (previous year: € 66.7 million). Non-controlling interests accounted for € 32.0 million in the 2016 financial year (previous year: € 29.2 million). From a financial point of view, this item also includes the effects mentioned in relation to the financial result associated with the settlement obligation to a minority shareholder. **Earnings per share** rose accordingly by 9.5 % to € 1.00 (previous year: € 0.92). The listed Port Logistics subgroup achieved a 8.1 % increase in earnings per share to € 0.91 (previous year: € 0.84). Earnings per share of the non-listed Real Estate subgroup were up on the prior-year figure at € 3.44 (previous year: € 2.86). As in the previous year, there was no difference between basic and diluted earnings per share in 2016. The return on capital employed (ROCE) was up 0.4 percentage points year-on-year at 12.4 % (previous year: 12.0 %). ▶ see also Corporate and Value Management, page 20

As in the previous year, HHLA's **appropriation of profits** is oriented towards the development of earnings in the HHLA Group in the financial year ended. The distributable profit and HHLA's stable financial position form the foundation of the company's consistent profit distribution policy. On this basis, the Executive Board and Supervisory Board will propose at the Annual General Meeting on 21 June 2017 a dividend distribution of € 0.59 per Class A share and € 2.00 per Class S share. Based on the number of shares with dividend entitlement as of 31 December 2016, the sum distributed for listed Class A shares would total € 41.3 million, as in the previous year, while the amount for non-listed Class S shares would rise by 14.3 % to € 5.4 million. In relation to the consolidated profit and the earnings per share, the dividend payout ratio would reach a high figure of approximately 65 % for the Port Logistics subgroup (previous year: 70 %) and around 58 % for the Real Estate subgroup (previous year: 61 %).

Financial Position

Balance Sheet Analysis

Compared with the previous year, the HHLA Group's **balance sheet total** increased by a total of € 62.5 million to € 1,812.9 million as of 31 December 2016.

Balance Sheet Structure

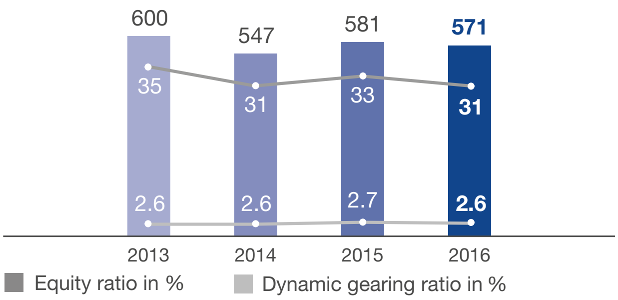
in € million	31.12.2016	31.12.2015
Assets		
Non-current assets	1,329.0	1,305.8
Current assets	483.9	444.6
	1,812.9	1,750.4
Equity and liabilities		
Equity	570.8	580.6
Non-current liabilities	1,028.1	979.2
Current liabilities	214.0	190.6
	1,812.9	1,750.4

On the assets side of the balance sheet, **non-current assets** rose by € 23.2 million. This increase is largely attributable to the € 21.3 million rise in deferred taxes to € 82.7 million (previous year: € 61.4 million), due mainly to the interest rate-related change in actuarial gains and losses on pension obligations. Capital expenditure led to an increase in property, plant and equipment of € 3.8 million to € 950.9 million (previous year: € 947.1 million), while investment property declined by € 6.6 million to € 184.0 million due to scheduled depreciation.

Current assets rose by € 39.3 million to € 483.9 million (previous year: € 444.6 million). The increase was mainly due to growth in trade receivables of € 32.3 million to € 160.4 million (previous year: € 128.1 million) and receivables from related parties, which rose by € 23.2 million to € 81.7 million (previous

Developments in Group Equity

in € million



year: € 58.5 million) as the result of the increased investment of liquid funds from cash clearing with HGV. By contrast, cash and cash equivalents fell by € 17.4 million to € 177.2 million.

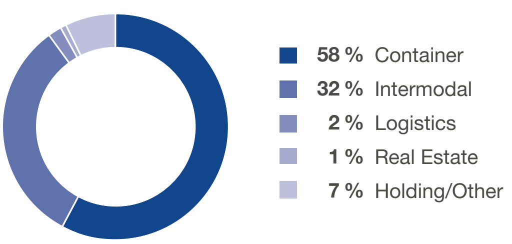
On the liabilities side, **equity** declined by € 9.8 million compared to year-end 2015 to stand at € 570.8 million (previous year: € 580.6 million). The decrease is primarily attributable to dividends distributed and the reclassification of a future financial settlement totalling € 67.4 million as a non-current financial liability. A change in actuarial gains and losses due to interest rate differentials, netted with deferred taxes, reduced equity by an additional € 30.8 million. Consolidated net income for the reporting period of € 105.1 million had a positive effect. The equity ratio decreased to 31.5 % (previous year: 33.2 %).

Non-current liabilities rose by € 48.9 million to € 1,028.1 million (previous year: € 979.2 million), This was mainly due to the interest-related increase in pension provisions of € 44.9 million. The € 35.7 million increase in non-current provisions to € 102.6 million (previous year: € 66.9 million) was largely offset by the € 32.2 million decrease in financial liabilities to € 339.2 million (previous year: € 371.4 million).

Current liabilities rose by € 23.4 million to € 214.0 million (previous year: € 190.6 million). This was primarily attributable to trade liabilities, which grew by € 16.1 million to € 68.1 million (previous year: € 52.0 million).

Investments

by segment in 2016



Investment Analysis

Capital expenditure in the past financial year totalled € 138.3 million (previous year: € 145.5 million). This figure includes additions of € 4.1 million from finance leases not recognised as a direct cash expense (previous year: € 3.8 million). In 2016, capital expenditure focused on extending the Hamburg container terminals and expanding intermodal transport and handling capacities. Investment projects were largely funded by the operating cash flow generated in the financial year.

Property, plant and equipment accounted for € 123.2 million (previous year: € 135.9 million) of capital expenditure, while intangible assets accounted for € 12.3 million (previous year: € 8.8 million) and investment property for € 2.8 million (previous year: € 0.8 million).

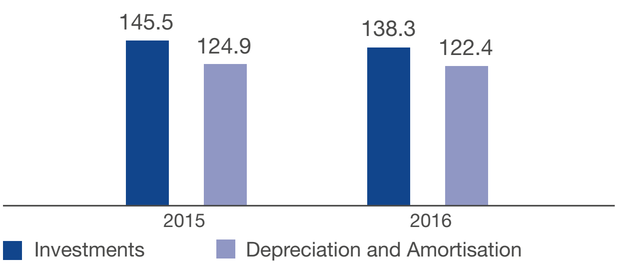
Investments amounting to € 81.3 million were made in the **Container segment** (previous year: € 61.0 million). Capital expenditure in this segment was dominated by the procurement of handling equipment, as well as storage capacities and throughput areas at the Hamburg container terminals. The **Intermodal segment** invested € 44.1 million (previous year: € 77.1 million). Investments were primarily made by the METRANS Group, and mainly in the construction of the Budapest inland terminal and the purchase of wagons. Capital expenditure in the **Logistics segment** came to € 2.4 million (previous year: € 2.8 million). The **Holding/Other segment** invested a total of € 10.3 million (previous year: € 6.4 million). Investment activities focused on the migration to a new terminal operating system.

Investments in the Container segment focus on enhancing the productivity of existing terminal areas by using state-of-the-art handling technology and developing berth places for the trend in ship sizes. The primary objective in the Intermodal segment is to increase the depth of value added to further improve the performance and range of its hinterland connections.

As of year-end, there were other financial liabilities for outstanding purchase commitments totalling € 56.8 million (previous year: € 134.4 million). This figure includes € 34.2 million (previous year: € 88.0 million) for the capitalisation of property, plant and equipment.

Investments, Depreciation and Amortisation

in € million



Liquidity Analysis

Cash flow from operating activities rose year-on-year from € 195.3 million to € 234.6 million. The increase of € 39.3 million is mainly attributable to higher provisions, which rose by € 34.4 million, the € 15.7 million increase in trade and other liabilities, the € 9.4 million decrease in income tax payments and the € 7.5 million year-on-year increase in EBIT. The € 36.2 million increase in trade receivables had an opposing effect.

Cash flow from investing activities (outflow) of € 48.9 million, was down on the prior-year figure of € 130.2 million. This € 81.3 million decline in cash outflows was mainly the result of higher proceeds from short-term deposits in the amount of € 54.3 million (previous year: € 17.0 million). At the same time, payments for investments in property, plant and equipment and investment property declined from € 150.8 million in the previous year to € 117.9 million in the reporting period.

Free cash flow – the total cash flow from operating and investing activities – increased to € 185.6 million (previous year: € 65.1 million).

Cash flow from financing activities (outflow) amounted to € 122.4 million in the reporting period (previous year: € 82.7 million), down € 39.7 million below the prior-year figure. In addition to the acquisition of non-controlling interests, the net result of a decline in new borrowing and lower principal repayments on loans led to an increase in net cash outflow from financing activities.

The HHLA Group had sufficient liquidity as of 2016 year-end. There were no liquidity bottlenecks in the course of the financial year. **Financial funds** totalled € 232.4 million as of 31 December 2016 (31 December 2015: € 165.4 million). Including all short-term deposits, the Group's **available liquidity** as of the 2016 year-end came to a total of € 251.2 million (previous year: € 238.5 million).

Liquidity Analysis

in € million	2016	2015
Financial funds as of 01.01.	165.4	185.6
Cash flow from operating activities	234.6	195.3
Cash flow from investing activities	- 48.9	- 130.2
Free cash flow	185.7	65.1
Cash flow from financing activities	- 122.4	- 82.7
Change in financial funds	63.2	- 17.6
Change in financial funds due to exchange rates	- 1.0	- 2.6
Change in financial funds due to consolidation	4.8	0
Financial funds as of 31.12.	232.4	165.4
Short-term deposits	18.8	73.1
Available liquidity	251.2	238.5

Financing Analysis

Financial management at the HHLA Group is managed centrally and serves the overriding objective of ensuring the Group's long-term financial stability and flexibility. Group clearing pools the Group's financial resources, optimises net interest income and substantially reduces dependency on external sources of funding. Derivative financial instruments can be used to reduce the risk of changes in interest rates and, to a minor extent, to reduce currency and commodity price risks.

HHLA's business model is dominated by a large proportion of property, plant and equipment with long useful lives. For this reason, HHLA mainly uses medium and long-term loans and finance leases to achieve funding with matching maturities. Pension provisions are also available for long-term internal financing.

At € 298.4 million as of the balance sheet date, amounts due to banks were below the prior-year figure of € 329.6 million. The Group drew on additional external financing totalling € 10.0 million (previous year: € 121.3 million). New borrowing was offset by loan repayments amounting to € 42.8 million (previous year: € 59.0 million). In the previous year, a promissory note loan was used to replace a shareholder loan. Due to the maturities agreed and its stable liquidity position, the company had no significant funding requirements.

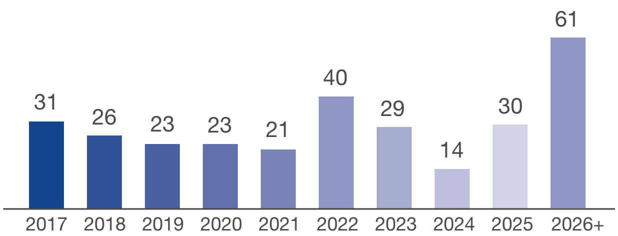
The majority of the liabilities from loans are denominated in euros, with a small proportion in US dollars. In terms of conditions, approximately 58 % have fixed interest rates and some 42 % have floating interest rates. As a result of borrowing, certain affiliated companies had covenants linked to key balance sheet figures, which mostly require a minimum equity ratio to be met. Covenants are currently in place for around 22 % of bank loans. These covenants were met at all agreed audit points throughout the reporting year. As of the balance sheet date, HHLA disclosed non-current liabilities to related parties totalling € 105.9 million (previous year: € 106.3 million). These resulted from the recognition of the leasing liability to the Hamburg Port Authority (HPA) in connection with quay walls for the mega-ship berths at the HHLA Container Terminal Burchardkai (CTB) and the HHLA Container Terminal Tollerort (CTT).

With the exception of operating leases, there are no significant off-balance sheet financial instruments. These operating leases relate primarily to long-term agreements between the HHLA Group and either the Free and Hanseatic City of Hamburg or the HPA for leasing land and quay walls in the Port of Hamburg and the Speicherstadt historical warehouse district.

Cash, cash equivalents and short-term deposits, the bulk of which is held centrally by the holding company, totalled € 177.2 million (previous year: € 194.6 million). These funds are mainly invested at German financial institutions with verified

Maturities of Bank Loans

by year and in € million



high credit ratings as demand deposits, call money and short-term deposits. Current credit lines play a subordinate role due to HHLA having sufficient liquid funds. As of the balance sheet date, the Group had unused credit facilities amounting to some € 0.2 million (previous year: € 1.2 million). The credit line utilisation rate was 96.8 % in the period under review (previous year: 83.9 %). In HHLA's view, the Group's solid balance sheet structure would enable more substantial credit facilities to be arranged at any time if its medium-term liquidity planning were to reveal a need. Of the total cash and cash equivalents, € 16.2 million (previous year: € 10.7 million) was subject to restrictions in Ukraine relating to the transfer of currency abroad as of the reporting date.

As HHLA has a large number of borrowing options at its disposal outside of the capital market, the Group currently sees no need for an external rating. Instead, it provides existing and potential creditors with comprehensive information to ensure that they can derive appropriate internal credit ratings.

Public subsidies awarded for individual development projects that are subject to specific conditions are of minor importance in terms of their volume at Group level.

Acquisitions and Disposals of Companies

HHLA increased its interest in METRANS a.s., Prague, Czech Republic, from 86.5 % to 90.0 % with the share purchase and transfer contracts dated 28 June 2016 after METRANS a.s. acquired treasury shares from its non-controlling interests. 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 and retained earnings.

Changes in the Group of Consolidated Companies

METRANS Danubia Krems GmbH, Krems an der Donau, Austria, and METRANS Railprofi Austria GmbH, Krems an der Donau, Austria, were fully consolidated and included in HHLA's Consolidated Financial Statements for the first time as of 31 March 2016. As of 30 June 2016, METRANS Adria D.O.O., Koper, Slovenia, METRANS Danubia Kft., Gyor, Hungary, and METRANS ISTANBUL STI, Istanbul, Turkey, were fully consolidated for the first time and DHU Gesellschaft Datenverarbeitung Hamburger Umschlagsbetriebe mbH, Hamburg, was included in HHLA's Consolidated Financial Statements for the first time using the equity method. HHLA International GmbH, Hamburg, was fully consolidated for the first time as of 30 September 2016. Univer Trans Kft., Budapest, Hungary, was fully consolidated and included in HHLA's Consolidated Financial Statements for the first time as of 31 December 2016.

The effects of initial consolidation on HHLA's Consolidated Financial Statements were recognised directly in equity and were immaterial.

HHLA Intermodal Polska Sp. z o.o., Warsaw, Poland, was merged with POLZUG Intermodal Polska Sp. z o.o., Warsaw, Poland, in June 2016. The merger had no effect on HHLA's Consolidated Financial Statements.

There were no other acquisitions, purchases or disposals of shares in subsidiaries, or changes to the group of consolidated companies. ▶ see also Note 3 of the Notes to the Consolidated Financial Statements, page 83

Segment Performance

Container Segment

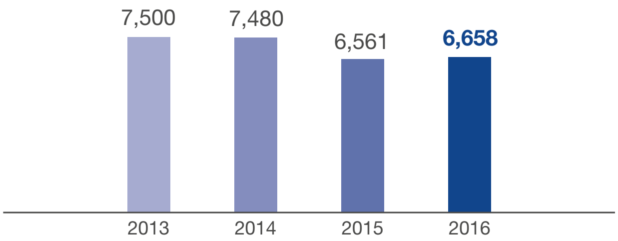
Key Figures

in € million	2016	2015	Change
Revenue	694.6	675.2	2.9 %
EBITDA	201.5	195.8	2.9 %
EBITDA margin in %	29.0	29.0	0.0 pp
EBIT	117.8	110.6	6.5 %
EBIT margin in %	17.0	16.4	0.6 pp
Container throughput in thousand TEU	6,658	6,561	1.5 %

HHLA's container terminals handled 6,658 thousand TEU in the 2016 financial year, 1.5 % more than in the previous year (6,561 thousand TEU). Although the negative trend of the previous year initially continued in the first two quarters, throughput volumes picked up again in second half of the year. Whereas container throughput rose slightly by 1.1 % to 6,375 thousand TEU at HHLA's three container terminals (previous year: 6,305 thousand TEU), there was significant growth in container throughput at the Container Terminal Odessa of 10.6 % to 283 thousand TEU (previous year: 256 thousand TEU).

Development in Container Throughput

in thousand TEU



The **volume trend** at the Hamburg terminals was primarily due to growth in feeder traffic with the Baltic sea ports, which picked up significantly in the second half of the year and rose by approximately 6 % year-on-year. Traffic to and from Russia in particular recovered strongly with year-on-year growth of around 15 %. As a consequence, the proportion of seaborne handling accounted for by feeders increased to 24.0 % in 2016 (previous year: 22.9 %). The decline in Asian routes (Far East–Northern Europe) slowed significantly compared with the previous year. However, container volumes to and from the Far East were still down almost 2 % year-on-year in 2016.

Despite an extremely dynamic volume trend at the Ukrainian ports, competition continued to intensify in 2016 as a result of existing overcapacities. After capturing significant market share in the previous year, the HHLA Container Terminal Odessa (CTO) lost ground in 2016 as its growth was slower than the market as a whole. Nevertheless, CTO still enjoys a dominant position in the regional market.

Revenue rose by 2.9 % year-on-year to € 694.6 million (previous year: € 675.2 million), faster than seaborne volumes. In addition to contractually agreed adjustments to individual handling rates, higher storage fees led to an increase in revenue per unit. Revenue per container handled at the quayside rose by 1.4 % year-on-year.

The segment's EBIT costs increased by 2.2 %, and thus slightly faster than seaborne handling volumes. The increase in personnel expenses was mainly due to higher union wage rates, as well as fluctuations in the utilisation of capacity at the facilities. In the second half of 2016 in particular, higher throughput was concentrated on fewer ship calls and thus required the increased use of external staff to handle peak loads. By contrast, material costs were reduced compared to 2015, supported above all by lower fuel prices. Targeted cost-cutting measures also helped reduce maintenance costs. All in all, these factors led to a 6.5 % increase in the **operating result (EBIT)** to € 117.8 million (previous year: € 110.6 million). There was a corresponding rise in the EBIT margin to 17.0 % (previous year: 16.4 %).

In view of the impending reorganisation of service structures with the new "OCEAN ALLIANCE" and "THE Alliance" consortia as of April 2017, as well as further new ship deliveries, the number of ultra large container ships calling at Hamburg is likely to increase further. HHLA is well prepared for this development and continued to drive the upgrades to its facilities in the reporting period. In late 2016, for example, three additional container gantry cranes for handling the largest container ships were delivered to the Container Terminal Burchardkai (CTB) and will be gradually put into operation in spring 2017. The addition of four automated blocks to the block storage facility is also due to be completed in the second quarter of 2017. In addition, the Container Terminal Tollerort (CTT) took delivery of two container gantry cranes to handle the latest generation of ships in early 2017. A further three have been ordered and are expected in late 2017.

Intermodal Segment

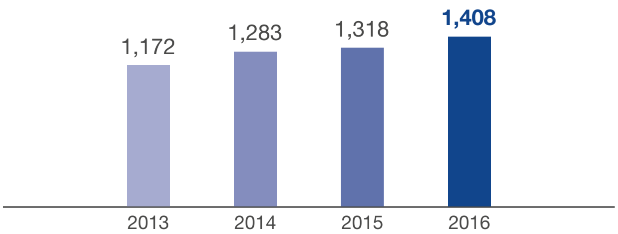
Key Figures

in € million	2016	2015	Change
Revenue	390.1	364.0	7.2 %
EBITDA	79.6	78.8	1.0 %
EBITDA margin in %	20.4	21.7	- 1.3 pp
EBIT	55.9	55.2	1.2 %
EBIT margin in %	14.3	15.2	- 0.9 pp
Container transport in thousand TEU	1,408	1,318	6.8 %

HHLA's transport companies achieved significant growth in the highly competitive market for container traffic in the hinterland of major seaports. In a subdued and, in some areas, declining market, **transport volumes** climbed by 6.8 % to 1,408 thousand standard containers (TEU) compared with 1,318 thousand TEU in the previous year. The trend was primarily driven by growth in rail transportation, which again increased significantly year-on-year by 8.0 % to 1,089 thousand TEU (previous year: 1,008 thousand TEU). In particular, there was above-average growth in connections between the Adriatic ports as well as north German seaports and the Central and Eastern European hinterland. In a difficult market environment, road transport also made good progress with year-on-year growth of 2.9 % to 319 thousand TEU (previous year: 310 thousand TEU).

Developments in Container Transport

in thousand TEU



Revenue performed slightly better than transport volumes with growth of 7.2 % to € 390.1 million (previous year: € 364.0 million). This positive trend was partly due to changes in the route mix, as rail's share of HHLA's total intermodal transportation rose from 76.5 % to 77.4 %.

The **operating result (EBIT)** rose year-on-year to € 55.9 million (previous year: € 55.2 million). This was primarily attributable to the increase in volumes. Better utilisation of trains and an improved mix of import and export volumes compared to last year also had a positive effect on segment earnings. This was partially offset by a one-off expense of € 7.2 million from an onerous lease for a terminal area in Poland. Its potential for expansion is currently limited given the highly competitive market environment. In a year-on-year comparison, it must also be taken into account that the 2015 figure included proceeds of € 4.3 million mainly from the disposal of assets.

HHLA continues to invest as needed in the expansion of its intermodal network. On delivery of its order for a further ten multi-system locomotives, which will be successively put into operation by spring 2017, and the acquisition of two hybrid shunting engines, HHLA's rail subsidiary METRANS will have over 60 shunting engines and locomotives as well as a fleet of more than 2,400 waggons. METRANS is also constructing a new rail hub terminal in the Hungarian capital of Budapest. Its location makes it the perfect interface between the North European seaports and South-East Europe. The terminal is expected to begin operations in spring 2017. Upon completion, the network of the two HHLA subsidiaries METRANS and POLZUG will consist of 13 terminals in the hinterland, of which five will function as large hub terminals.

Logistics Segment

Key Figures

in € million	2016	2015	Change
Revenue	55.0	65.1	- 15.6 %
EBITDA	2.4	4.6	- 48.2 %
EBITDA margin in %	4.3	7.0	- 2.7 pp
EBIT	- 1.7	- 0.8	neg.
EBIT margin in %	- 3.1	- 1.3	- 1.8 pp
At-equity earnings	3.7	3.0	23.6 %

The key financial figures for the Logistics segment include the vehicle logistics, project and contract logistics, consultancy activities and cruise logistics business divisions. The results from dry bulk and fruit logistics are included in earnings from associates.

Revenue generated by the fully consolidated companies of the Logistics segment declined over the course of 2016. At € 55.0 million, segment revenue was down 15.6 % on the prior-year figure of € 65.1 million. As well as the project-related decrease in revenue from consulting activities, this was primarily due to the discontinuation of business activities in the areas of contract and project logistics, as well as cruise logistics. The **operating result (EBIT)** for 2016 included one-off effects from the termination of the lease for the Übersee-Zentrum. These were almost offset in the reporting period by expenses for provisions recognised for the discontinuation of project and contract logistics activities. The termination of the cruise logistics activities did not have any significant effect on segment earnings. Despite a positive development in the fourth quarter, the segment's operating loss for the 2016 financial year rose to € - 1.7 million (previous year: € - 0.8 million). This was partly a result of the year-on-year decline in operating income from consulting activities and vehicle logistics.

The performance of those companies included in **at-equity earnings** varied. Total earnings from associates of € 3.7 million in the reporting period were up 23.6 % on the previous year (€ 3.0 million).

Real Estate Segment

Key Figures

in € million	2016	2015	Change
Revenue	37.7	36.5	3.2 %
EBITDA	21.1	20.2	4.4 %
EBITDA margin in %	56.0	55.4	0.6 pp
EBIT	16.0	15.2	5.9 %
EBIT margin in %	42.6	41.5	1.1 pp

The positive development on Hamburg's office rental market slowed slightly over the course of the year due in particular to a weaker fourth quarter. However, according to Grossmann & Berger's latest market report, approximately 2 % more office space was let in 2016 – 550,000 m^2 compared to 540,000 m^2. One reason for the increase was the relatively low proportion of owner-occupied properties.

The vacancy rate declined only marginally compared with the previous year from 5.2 % to 5.1 %. The HafenCity section of the market, which includes HHLA's properties in the Speicherstadt historical warehouse district, had a vacancy rate of 6.0 % as of year-end (previous year: 9.9 %).

Against this market background, HHLA's properties in the Speicherstadt historical warehouse district and the fish market area continued their positive revenue and earnings development. In 2016, **revenue** was increased by 3.2 % year-on-year to € 37.7 million (previous year: € 36.5 million). This success was underpinned by the high occupancy rates in both districts.

The **operating result (EBIT)** increased by 5.9 % year-on-year to € 16.0 million (previous year: € 15.2 million). When comparing with the previous year, it should be noted that earnings in 2015 included extraordinary income of € 0.9 million from an insurance refund. The EBIT margin of 42.6 % achieved in the 2016 financial year (previous year: 41.5 %) once again testifies to the economic success of HHLA's long-term, value-oriented portfolio development strategy.

Events after the Balance Sheet Date

For significant events after the balance sheet date of 31 December 2016, please refer to the Notes to the Consolidated Financial Statements. ▶ see also Note 52 of the Notes to the Consolidated Financial Statements, page 151

Business Forecast

Expected Macroeconomic Environment

After global economic growth stagnated at the prior-year level in 2016, the International Monetary Fund (IMF) expects increased momentum in the forecast period with global GDP growth of 3.4 % in 2017. This trend will be driven by both the advanced and the emerging economies, for which the IMF forecasts a positive economic development. However, the outlook is still subject to economic risks arising from the Brexit vote and the change of government in the USA, among other things. Despite this uncertain environment, the IMF expects world trade to pick up significantly. At 3.8 %, growth is likely to be twice as fast as in the previous year. This would match the 2014 level and global trade would outpace GDP growth for the first time in three years.

Growth Expectations for GDP

in %	2017	Trend vs. 2016
World	3.4	↗
Advanced economies	1.9	↗
USA	2.3	↗
Emerging economies	4.5	↗
China	6.5	↘
Russia	1.1	↗
Eurozone	1.6	↘
Central and Eastern Europe (emerging european economies)	3.1	↗
Germany	1.5	↘
World trade	3.8	↗

Source: International Monetary Fund (IMF), January 2017

Sentiment indicators in the advanced economies point to a slight economic upturn. The IMF has upgraded its forecast slightly and now expects total economic output to increase by 1.9 % in 2017. Growth will be driven by the USA in particular, where the newly elected government has announced a more expansive fiscal policy to stimulate the economy. The emerging economies should see stronger economic growth in 2017 but uncertainties remain. Although the IMF has lowered its economic outlook slightly by 0.1 percentage point, it still expects a significant 4.5 % increase in economic activity for 2017. According to IMF estimates, the downturn in the Chinese economy resulting from politically initiated structural changes will not continue as strongly as expected in October 2016. In view of this more stable trend, the IMF has lifted its outlook for 2017 slightly to 6.5 %. However, this is still 0.2 percentage points below the prior-year figure. Experts believe that the Russian economy will pull out of recession in the forecast period. Higher crude oil prices in particular will provide relief. However, structural bottlenecks and the restrictions on trade imposed by sanctions will prevent a stronger economic recovery. The IMF is therefore upholding its growth forecast of 1.1 %. The IMF assumes that GDP growth in the eurozone in 2017 will be stronger than forecast in October 2016, but still slightly down on the previous year at 1.6 %. After a slowdown in 2016, the IMF anticipates slightly stronger growth of 3.1 % in Central and Eastern Europe in the forecast period. The IMF's experts also anticipate further robust growth of 1.5 % for the German economy – albeit slightly below the prior-year level.

Expected Sector Development

The market research institute Drewry expects global container throughput to rise to 2.1 % in 2017 following weak growth in 2016 and the previous year. Momentum should come from the South Asia (+ 5.9 %), Central America (+ 4.0 %) and the US East Coast (+ 3.7 %) shipping regions in particular. Throughput growth of 2.4 % is forecast for China, the Port of Hamburg's most important shipping region. This represents a recovery of 0.5 percentage points after a significant downturn in 2016. Drewry expects slower growth of 1.6 % for the European ports in the forecast period. However, trends in the individual shipping regions will be mixed. Whereas Drewry's experts anticipate weaker throughput for the shipping regions of North-West Europe, the Eastern Mediterranean and the Black Sea, growth rates in Scandinavia and the Baltic region are expected to more than double. This could have a positive impact on transshipment volumes at the North Range ports, although some cargo will find its way to the Baltic Sea via direct routes.

Growth Expectations for Container Throughput

in %	2017	Trend vs. 2016
World	2.1	↗
Europe as a whole	1.6	↘
North-West Europe	1.2	↘
Scandinavia and the Baltic region	3.2	↗
Western Mediterranean	2.1	↘
Eastern Mediterranean and the Black Sea	1.4	↘

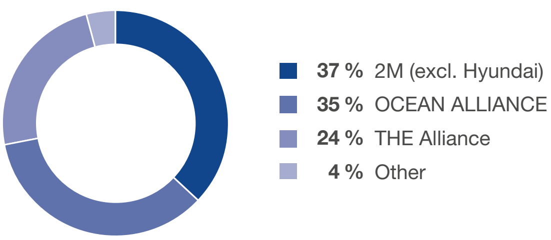
Source: Drewry Maritime Research, December 2016

However, in light of the subdued volume trend as a whole and existing terminal capacities in the North Range and Baltic Sea, competition between the ports is likely to remain fierce in 2017. The container shipping market will continue to see a structural surplus of ship space in 2017. According to estimates of market research institute Alphaliner, growth in total capacity of the container ship fleet will slow as a result of declining orders from shipping companies and delayed deliveries. However, at 3.4 %, growth in total capacity of the container shipping fleet will outpace global container volumes at the ports in the forecast period.

In order to stabilise the market amid this growing capacity surplus, the sector has been dominated by acquisitions and mergers as well as the formation of new alliances since 2015. After the world's two largest shipping companies – Maersk and MSC – launched joint operations as the 2M alliance in early 2015, two further newly formed alliances will begin operating in April 2017: Cosco, Evergreen, OOCL and CMA CGM will pool their services on the east–west trades under the name "OCEAN ALLIANCE". Hapag-Lloyd/UASC, K-Line, NYK, Yang Ming and MOL are combining their services as "THE Alliance". Maersk announced that Hamburg Süd will continue to operate as an independent brand following the planned takeover. However, exact details of the integration are not yet known. The takeover is currently being examined by the competition authorities. The ongoing concentration process and the formation of new consortia will lead to the pooling of container services and timetable changes.

Capacity Breakdown by Shipping Line Alliances Following Reorganisation

on Far East–Europe Services as of 31 December 2016



Source: own presentation, Alphaliner Monthly Monitor, January 2017

Despite the modest container throughput forecast for the north-western European ports, stable or rising transport volumes are expected for pre- and onward-carriage systems in hinterland traffic. Based on the throughput forecasts, hinterland traffic between the Northern Adriatic seaports and south-eastern Europe is also likely to increase. In light of the ongoing increase in ship sizes and the associated increase in container volumes per ship call, the pressure on terminals and hinterland transport systems will continue to rise.

According to the most recent medium-term forecast on cargo and passenger transport issued by the German Federal Ministry of Transport and Digital Infrastructure (BMVI) in summer 2016, transport volumes are expected to increase by 0.3 % and traffic performance (transport volume multiplied by the distance travelled) by 1.6 % in 2017.

Expected Group Performance

Comparison with the Forecast of the Previous Year

Developments in the 2016 financial year are in line with the guidance last updated in autumn 2016. Container transport slightly exceeded the prior-year forecast for the 2016 financial year. Due to an unplanned one-off effect in the Logistics segment from terminating the lease for the Übersee-Zentrum – as communicated in the third quarter of 2016 – the operating result (EBIT) forecast in the previous year's Annual Report was significantly exceeded. Delays in delivery and order execution meant that capital expenditure budgeted for the reporting period was not utilised in full. Some € 25 million was carried over into 2017. ▶ see Course of Business and Economic Situation, page 32.

Expected Earnings Position in 2017

The earnings forecast for the Group and the Port Logistics subgroup is primarily based on the anticipated macroeconomic and sector developments described above.

The formation of new consortia and the resulting changes to service structures during the year may lead to a shift in handling volumes between the ports and the container terminals. As negotiations between and with shipping customers were still ongoing during the preparation of this report, any assessment of throughput as of the second quarter of 2017 – which has a significant influence on earnings – is only possible to a limited extent. Against this background, HHLA initially expects **container throughput in 2017** to be on a par with the previous year. By contrast, moderate year-on-year growth is expected for **container transport**. At Group level, this is likely to result in **revenue** similar to that of the previous year.

The **operating result (EBIT) of the Port Logistics subgroup** is expected to be in the range of € 115 million to € 145 million in 2017. Potential one-off expenses for organisational restructuring in the Container segment would reduce this by up to € 15 million.

The range of expected earnings will largely be determined by volume and revenue growth in the Container segment. This is due to the limited visibility from the second quarter of 2017 onwards as a result of the formation of new consortia, as outlined above, and the resulting uncertainty.

In view of this fact, EBIT in the **Container segment** is expected to be in the range of € 65 million to € 95 million. The potential one-off expenses described above may need to be taken into account over the course of the year.

Volume trends in the **Intermodal segment** are expected to lead to strong year-on-year growth in EBIT.

A positive EBIT result is expected for the **Logistics segment** in 2017, since no further operating losses will be incurred following the discontinuation of project and contract logistics activities.

As the **operating result (EBIT) of the Real Estate subgroup** is expected to be on a par with 2016, **Group EBIT** before potential one-off expenses in the Container segment is likely to be between € 130 million and € 160 million. Earnings in the Port Logistics subgroup and at Group level may continue to be depressed by exchange rate effects reported below EBIT as part of the financial result.

The nautical accessibility continues to be necessary to the competitiveness of the Port of Hamburg and thus for HHLA. Future developments will be significantly affected by the dredging of the lower and outer stretches of the river Elbe, which is still outstanding. According to the ruling of the Federal Administrative Court on 9 February 2017, it is essential that the parties to the proceedings swiftly remedy the deficiencies identified by the court so that dredging of the navigation channel can commence as soon as possible. ▶ see Risk and Opportunity Report, page 42

Should the expectations outlined in this forecast fail to materialise and lead to a substantially worse Group earnings position than the one described above, this may result in the need for additional adjustments to the value of assets.

Expected Financial Position

In principle, HHLA's investment activities can be scaled in line with demand, particularly with respect to the potential consequences of changed service structures for shipping customers and the delays in dredging the lower and outer stretches of the river Elbe. Due to the ongoing trend in ship sizes, the Group also reserves the right to decide on investment activities that are not prompted purely by volume developments. Based on the measures described above to enhance productivity in the Container and Intermodal segments, capital expenditure at Group level in 2017 is expected to be in the region of € 160 million (including the amount carried over from the previous year). Most of this amount is attributable to the Port Logistics subgroup. Driven largely by the trend in ship sizes, key projects relate to the investment in container gantry cranes, portal cranes and ground-handling vehicles for the container terminals in Hamburg as well as the expansion of the railway station at the Container Terminal Burchardkai.

HHLA will continue to pursue its yield-orientated dividend distribution policy, which aims to pay out between 50 % and 70 % of net profit for the year after non-controlling interests in the form of dividends.

In order to achieve this objective and enable further value-oriented growth, the preservation of financial stability is the company's top priority. Based on available liquidity reserves and the positive cash flows generated by anticipated earnings, HHLA is confident that sufficient financial funds will continue to be available in future, which can be supplemented by borrowing where necessary.

Risk and Opportunity Report

Risk and Opportunity Management

All commercial activities inevitably entail both risks and opportunities. HHLA believes that the effective management of risks and opportunities is a significant success factor for the sustainable enhancement of enterprise value.

Managing risks and opportunities is a key component of the HHLA Group's management strategy. The planning and controlling process, the committees of the Group's affiliates and reporting are all cornerstones of this risk and opportunity management system. At regular business development meetings, HHLA's Executive Board discusses strategy, targets and control measures, with due consideration of the risk and opportunity profile.

HHLA's risk and opportunity management system fosters a keen awareness of dealing with corporate risks and opportunities. It aims to identify risks in good time and take steps to manage or avert them while exploiting opportunities and preventing situations that could jeopardise the continued existence of the HHLA Group. An important element of the system is the promotion of entrepreneurial thinking and independent, responsible action.

Risk and Opportunity Management System

In order to enable proactive steps to be taken to deal with the risk and opportunity profile, the risk and opportunity management system comprises the necessary organisational rules and procedures for identifying risks at an early stage and for reporting on opportunities. The work performed by the risk and opportunity management system is carried out according to systematic principles and is subject to a continual improvement process.

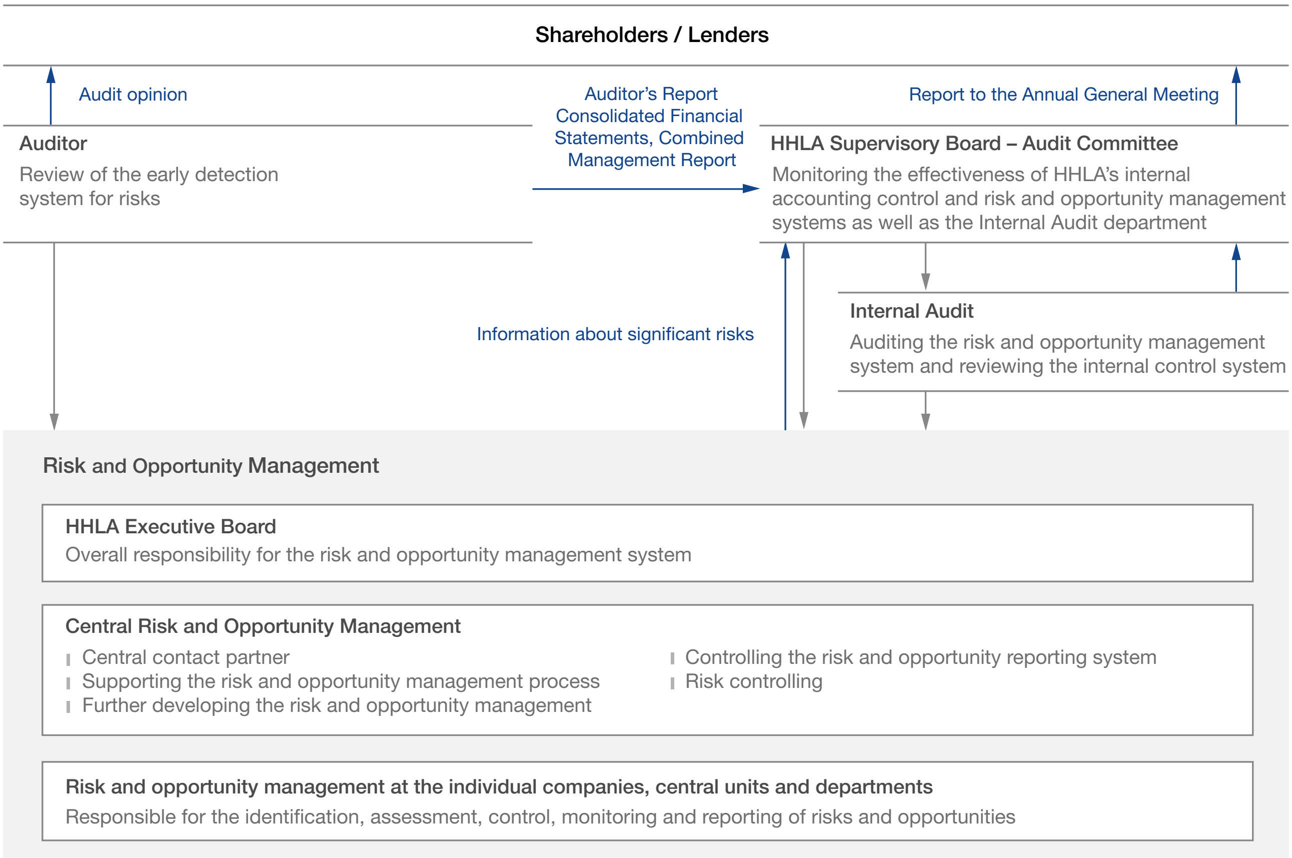
The Executive Board, Internal Audit and Controlling have worked together closely to establish clear lines of responsibility for the identification, assessment, control, monitoring and reporting of risks, as a key element of the risk management system. The Executive Board of HHLA bears overall responsibility for **risk management** within the HHLA Group. The risk consolidation group includes all of the majority shareholdings as well as all companies consolidated using the equity method.

Risks are catalogued regularly in the course of the annual planning process. All identified risks are described clearly and classified according to defined risk areas.

Risks are categorised by the likelihood of their occurrence and the scale of the potential damage. This reflects the anticipated reduction of the operating result or cash flow before taxes if the risk were to materialise.

Risks are assessed in the context of the existing circumstances or a realistic projection. In addition to estimates and economic or mathematical/statistical inferences, sensitivities derived from planning can be used as a basis for assessment. The Group's affiliates, divisions and corporate staff departments regularly coordinate with the central Risk Management unit of the holding company to ensure that all identified risks are mapped and assessed consistently throughout the Group.

Risk and Opportunity Management and the Internal Control System for Accounting



Categorization of the probability of occurrence

< 25 %	≥ 25 %	≥ 50 %	≥ 75 %
unlikely	possible	likely	most likely

Categorization of the damage amount

Equity of the Group				
< 1%	< 5 %	< 10 %	< 25 %	≥ 25 %
not significant	medium	significant	massiv	threatening

After identifying and assessing the risk, the company then defines control measures aimed at reducing the likelihood of its occurrence and/or the loss or damage. A distinction is made between the gross risk (excluding measures) and the net risk (including measures).

Risks are monitored continuously and any significant changes are reported and documented on a quarterly basis. Additional ad hoc reports are issued whenever significant risks emerge, cease to apply, or change. Risks are reported using standard Group-wide reporting formats in order to ensure a consistent overall picture of current risks.

Opportunity management is comparable to the risk management process. Opportunities are systematically identified and measures developed in an annual planning process. When opportunities are identified, there is no requirement for them to be quantified. Opportunity management focuses on the monitoring and analysis of individual markets and on the early recognition and identification of trends as a means of identifying opportunities. This includes developments affecting the overall economy or individual sectors as well as regional and local trends. The affiliates' responsibilities include identifying strategic opportunities in their core markets. HHLA's Executive Board defines the strategic framework for this objective. In addition, opportunity-oriented projects that affect more than one affiliate are centrally coordinated. HHLA's Corporate Development department assists the Executive Board with planning, controlling and monitoring multi-segment projects relating to the long-term development of the HHLA Group. Through its role as a link to the Executive Board, Corporate Development also helps divisions and affiliates with strategic issues such as market and competition analyses, business plans or product portfolio alignment.

The most important elements of the risk and opportunity management system and risk and opportunity reporting are described in a corporate guideline. The system remains unchanged from the previous year.

Accounting-Related Internal Control System

Structure of the Internal Control System

HHLA's internal control system is designed to ensure that the (financial) reporting processes used throughout the company are consistent, transparent and reliable. Furthermore, it makes sure they comply with legal standards and the company's own guidelines. It comprises principles, procedures and methods designed to reduce risk and ensure the effectiveness and propriety of HHLA's processes.

The internal control system is regularly monitored and assessed according to documented processes, risks and controls. It therefore ensures transparency with regard to its structure and functionality for the purposes of internal and external reporting.

HHLA's internal accounting control and risk and opportunity management system is based on the criteria set out in the "Internal Control – Integrated Framework" working paper published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Accounting processes are assessed to determine whether there is a risk posed to the existence, completeness, accuracy, valuation, ownership and reporting of transactions. The company also conducts a risk assessment regarding the possibility of fraud. Concluding unusual or complex transactions can lead to specific accounting risks. There is also a latent risk of error when processing non-routine transactions. Employees are by necessity given a certain amount of leeway when recognising and measuring balance sheet items, which can give rise to further risks.

Internal controls are intended to reduce accounting risks and make sure that transactions are documented, recorded, processed and assessed correctly in the balance sheet, as well as being quickly and correctly adopted in financial reporting. Controls are in place for all accounting processes.

The Internal Audit department is responsible for monitoring HHLA's internal control system and risk and opportunity management for its accounting processes. The external auditor also assesses the effectiveness of the accounting-related internal control system, primarily by carrying out spot checks.

The internal control and risk and opportunity management systems for accounting will always have certain limitations, regardless of how carefully they are designed. For this reason, it is impossible to fully guarantee that accounting standards will always be met or that every incorrect statement will always be avoided or identified.

Significant Regulations and Controls

Accounting tasks and functions are clearly defined within the Group. There is a clear functional demarcation between accounts payable and accounts receivable as well as the preparation of Separate Financial Statements and the preparation of Consolidated Financial Statements. There is also a clear demarcation between these departments and the respective segment accounting. Separating execution, settlement and authorisation functions and giving these responsibilities to different members of staff reduces the risk of fraud. Multi-stage approval and authorisation thresholds for ordering, payment transactions and accounting are employed across the Group. These include using the double-checking principle. There is a single accounting manual that covers the consistent application and documentation of accounting rules for the entire Group. Other accounting guidelines are also in place. Like the accounting manual, they are reviewed regularly and updated if necessary.

Most bookkeeping procedures are recorded using accounting systems developed by SAP. For the purpose of preparing HHLA's Consolidated Financial Statements, affiliates add more information to their Separate Financial Statements to form standardised report packages, which are then fed into the SAP ECCS consolidation module for all Group companies.

Measures are in place to protect the IT systems from unauthorised access. Access rights are granted in line with each user's role. Only those departments responsible for mapping transactions are given write access. Departments responsible for processing information use read access. The principles of function-related authorisations are defined in a set of SAP authorisation guidelines. IT security guidelines also cover access to IT systems in general.

External service providers are used for pension reports, fiscal issues and for other reports and projects if necessary.

The specific formal requirements for the consolidation process pertaining to the Consolidated Financial Statements are clearly defined. In addition to a definition of the consolidated group, there are also detailed rules requiring affiliates to use a standardised and complete report package. There are also specific provisions regarding the recording and handling of Group clearing transactions and subsequent balance reconciliations, or the determination of the fair value of shareholdings. As part of the consolidation process, the Group accounting team analyses the Separate Financial Statements submitted by affiliates and corrects them if necessary. Incorrect information is identified and corrected as necessary using control mechanisms already present in the SAP ECCS system or using system-based plausibility checks.

Independent Monitoring

Internal Audit is responsible for auditing the risk and opportunity management system and conducts regular checks to monitor compliance with the internal control system. HHLA's Supervisory Board monitors the effectiveness of the risk management system. The external auditors assess the early risk identification and monitoring system on behalf of the Supervisory Board as part of their audit of the Annual Financial Statements.

Overall Assessment of Risks and Opportunities

The risks and opportunities for the HHLA Group reflect possible positive or negative deviations from the reported forecast.

The HHLA Group's risk position is principally characterised by market risks. Major factors influencing the risk and opportunity profile are the global economic trend, ongoing geopolitical tensions, developments on the market and in the competitive environment as well as uncertainties regarding the implementation of infrastructure projects. The development of these factors is monitored closely, and controllable costs and capital expenditure – where scalable – are adjusted flexibly to foreseeable developments.

The following key risks and opportunities for the HHLA Group – with due consideration of relevant measures – have been identified as such based on the risk and opportunity management systems used for the Group's internal control purposes. Since the economic prospects, in particular, are highly unpredictable, this description of risks and opportunities merely serves as a snapshot. Changes in the HHLA Group's risk and opportunity profile are regularly reported in the half-yearly financial report and – where material – in the interim statements for the first and third quarters.

Ranking of HHLA Group's material risks

	Damage amount	Probability of occurrence	Trend vs. previous year
Market risks	significant	possible	↗
Other risks	significant	unlikely	↗
Financial risks	medium	possible	↘
Strategical risks	medium	possible	→
Legal risks	not significant	unlikely	→
Risks from the provision of services	not significant	unlikely	→

Largest individual risks within the respective risk class.

Above and beyond the risks mentioned, no further significant risks have currently been identified, while those that do exist are largely insured against.

There are no discernible risks at present that could jeopardise HHLA's continued existence. The Executive Board of HHLA is confident that it will be able to exploit any future opportunities while avoiding exposure to unacceptably high risks.

Risks and Opportunities

Strategic Environment

Infrastructure

HHLA's competitiveness largely depends on Hamburg's infrastructure as a port and logistics hub. Hamburg's offshore, onshore and regional transport networks must be able to cope with the flows of goods and their carriers. Infrastructural deficits could make it impossible to handle peak workloads in ship handling – arising from the ongoing trend towards a growing number of ever-larger vessels – with the same level of reliability for all carriers.

The Federal Administrative Court reached a decision regarding the dredging of the river Elbe on 9 February 2017. It does not revoke planning approval for the dredging of the river Elbe. According to the court's ruling, however, the latter is unlawful in part due to violations of habitat conservation law and is therefore not initially enforceable. Two points (a review of potential harm to the Elbe water dropwort due to a project-related increase in salt levels and provisions on coherence measures) that the Federal Administrative Court explicitly classifies as remediable must be revised. An approximate timeline for the practical and procedural implementation of the required remedial measures is not yet available. As such, no reliable forecasts of a possible starting date for construction can be made. As a result, shipping companies may reschedule their mega-ship liner services and traffic could bypass the Port of Hamburg – possibly permanently. This would result in a corresponding loss in earnings.

As well as swiftly dredging the navigation channel, the regional road and rail infrastructure must be modernised and expanded if the Port of Hamburg wants to retain and enhance its competitiveness and optimise its processes for the in- and outbound flows of goods in its hinterland. Projects of special significance for HHLA include constructing the port crossing and upgrading the Kiel canal, including its locks.

As an infrastructure-related operator, HHLA and its subsidiaries depend on prompt provision of the scheduled volume of public investments and services that are frequently necessary to support their own investments. Otherwise, HHLA's investment plans themselves or the expected economic results could also be delayed. This in turn could cause throughput and transport volumes to bypass HHLA's sites. Moreover, the risk to HHLA of having to fund the costs of individual projects cannot be excluded.

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

Market Environment

Developments in Container Throughput, Transport Volume and Logistics Services

The pace of growth in those economies whose flows of goods HHLA serves is a key precondition for the future development of container throughput, transport volumes and logistics services. If demand for these services fails to materialise as expected, the high level of fixed costs associated with this business model means that it might not be possible to compensate fully for divergences in earnings caused by underutilised capacity in the short and medium term. An economic trend that falls short of expectations may also require adjustments to the valuation of assets (mainly property, plant and equipment and financial assets). HHLA regularly checks for any impairment of its assets and makes adjustments where necessary.

Research institutes forecast moderate global economic growth for 2017 after a difficult year in 2016, which was dominated by largely stagnating global trade and political uncertainty, among other things. Although the advanced economies are expected to continue their stable but modest growth, uncertainty surrounds the possible consequences of Brexit in Europe and the further development of the US economy following the change of president. In China, economic growth is expected to slow slightly but remain at a high level. Planned protectionist measures, as recently resolved by decree in the USA, will impose strict limits on global growth. On the other hand, there are opportunities for a stronger volume trend in connection with the growth potential of Central and Eastern European economies such as Poland, the Czech Republic, Slovakia and Hungary, which use the Port of Hamburg for a large proportion of their transcontinental trade. Should the economic trend exceed expectations, prompting stronger volume growth, this could present an opportunity to profit from higher earnings by achieving economies of scale in handling and boosting volumes in downstream transport systems. A gradual lifting of the economic sanctions imposed on the Russian Federation could also have a positive impact on the volume trend.

For 2017, the market research institute Drewry expects slight growth in global container throughput and the Northern Europe–Asia trade route, which is particularly important to HHLA. The correlation factor between relevant GDP and containerised trading volumes is expected to remain unchanged at less than 1. In other words, the partial decoupling of economic growth and growth in container traffic is set to continue. The anticipated growth in the Northern Europe–Asia trade route is therefore expected to fall short of economic growth in the eurozone in 2017. Consequently, volume and capacity risks remain relevant to HHLA.

Throughput and transport volumes in the markets of relevance for HHLA are monitored closely to ensure trends are recognised at an early stage. Where they are scalable, controllable costs and investments – e.g. for the further expansion of the container terminals – are adjusted in line with the foreseeable level of demand.

Competitive Environment

In the area of container handling, HHLA competes directly with other terminal operators in Northern Europe. Primary competitive factors – apart from pricing – are reliability and quayside productivity as well as the scope and quality of container handling services. Other factors affecting the terminal operators' competitive position are the ports' geographical position, the scope and quality of their hinterland links and their accessibility from the sea.

Due to fierce competition for container transport by rail, HHLA's Intermodal subsidiaries also face the risk of volumes being rerouted with a resulting risk for revenue. However, these risks are countered by taking appropriate measures.

HHLA constantly improves its competitiveness by further enhancing its service quality and technological capabilities. Its ship handling activities focus primarily on increasing the efficiency of its handling services and addressing the increasing number of peak loads prompted by the handling of container mega-ships. HHLA is working on innovating its systems and optimising processes to further strengthen its position in handling technology. HHLA's rail companies also connect the European seaports with the Central and Eastern European hinterland via a growing number of highly frequent shuttle services and direct links. Investments in its own hub terminals further strengthen the performance of HHLA's hinterland network.

Customer Structure

HHLA's shipping company customers have operated in a tough competitive environment for container liner shipping for several years now. Reasons for this primarily include structurally related idle capacities and low freight rates, twinned with weak growth in the global container transport industry. This resulted in many shipping customers posting operating losses once again in the course of 2016. Moreover, Hanjin was forced to file for insolvency. The cost pressure on shipping customers will remain high in future. However, the initial outlook for 2017 indicates an increase in freight rates and an upturn in demand. HHLA's shipping customers are responding to the changed market situation with mergers, as well as by restructuring and reducing their services. One consequence of this ongoing process is a fundamental reorganisation of shipping company alliances and services, especially in the Asia–Europe shipping region. The temporary or structural re-routing of services between the North Range ports presents both risks and opportunities for HHLA. Furthermore, shipping company customers could become even more price-sensitive, especially for transshipment loads.

In the field of ship handling, HHLA cooperates with many shipping companies on a neutral basis ("multi-user principle"). In the 2016 financial year, HHLA's customer base included all major container shipping companies. This enables HHLA to respond flexibly to changes in the container liner shipping sector. In addition, HHLA aims to enhance added value for its customers by expanding its mega-ship handling activities, continuing to develop the quality of its services and its technological capabilities, and optimising client-specific processes.

Market Concentration in Procurement

Some of the handling equipment used by HHLA is highly specialised and this may result in a reliance on suppliers for maintenance or the procurement of replacement parts. Under certain circumstances, this may lead to operational restrictions. The corresponding risks are reduced to some extent by involving suppliers at a strategic and collaborative level and optimising the supplier base. This will be aided by the planned introduction of an IT-based supplier management system in 2017.

Provision of Services

Failure of Technical Equipment

In the case of equipment-based companies, there is a risk that a failure of central technical equipment may restrict the ability of these companies to render their services. Depending on the length of the downtime, unavailable equipment leads to additional costs for providing services. Preventive maintenance and repair, contingency plans and breakdown services, regular inspections and tests are performed to help identify possible faults before they happen and thus reduce risks.

Intermodal Services and Services Procurement

The HHLA companies operating in the Intermodal segment pay track fees to the national railway companies or network operators for their rail network usage and also purchase traction services in some cases.

As the rail infrastructure in Germany is largely publicly owned, various authorities monitor non-discriminatory access and carrier-neutral track fees. These authorities include the Federal Network Agency and the Federal Railway Authority in Germany and corresponding bodies abroad at EU level. Nevertheless, as the national rail network owners and operators have a monopoly, the profitability of rail firms may be impaired by a track pricing policy that does not take a neutral approach to carriers and distorts competition.

To reduce the level of dependency on national railway companies for traction services and to enhance production quality, HHLA is expanding its own facilities, rolling stock and locomotives in line with demand. As part of this strategy, it also purchases services from private suppliers. Providing end-to-end transport services using the company's own operating assets guarantees high quality along the process chain. HHLA's objective is to offer its customers a logistics chain of unparalleled quality and reliability. This will further strengthen Hamburg's appeal: high-performance seaport terminals promote higher volumes in the hinterland, while intelligent transport systems with low-cost structures boost container flows at the port.

Financial Risks

Currency Risks

As the bulk of HHLA's services are rendered within the eurozone, the majority of its invoices are issued in euros. The Logistics and Intermodal segments operate internationally, and a container terminal is operated in the Ukraine. Invoicing here is based primarily on euros or dollars. Currency or transfer risks therefore result primarily from exchange rate fluctuations affecting Central and Eastern European currencies. The value of the Ukrainian currency, the hryvnia, continued to fall in the first quarter of 2016 due to the ongoing crisis in Ukraine. Despite stabilizing somewhat over the rest of the year, the risk of further devaluation cannot be ruled out. It remains to be seen whether the political situation will stabilise in the short term.

All HHLA companies that operate with foreign currencies reduce the risk of exchange rate fluctuations by monitoring rates regularly and, where possible, transferring free liquidity in local currency to hard-currency accounts.

Bad Debt Losses

Freight rates remain low due to the ongoing disequilibrium between trading volumes and ship space. The liquidity and earnings position of shipping companies is thus expected to remain strained.

HHLA uses credit checks to reduce del credere collection risks. Active receivables management is used to enable the precise monitoring of receivables and payment patterns. HHLA has also taken out loan loss insurance to minimise default risks. Should the financial position of specific debtors change significantly, the insurer may limit the amount of cover it offers for new receivables payable by these debtors and/or no longer be able to provide coverage. This insurance cover is not extended to certain shipping customers. Moreover, Hanjin has filed for insolvency and will be liquidated in 2017.

Pension Obligations

The reference interest rate for measuring the necessary provisions for company pensions fell to a historically low level due to the continuation of the European Central Bank's (ECB) expansionary monetary policy. Any further reduction in interest rates would prompt another increase in pension provisions. Lower volatility is assumed than in the past financial year based on the interest rate levels. HHLA monitors interest trends so that it can adjust its provisions as necessary.

Please see the reporting on financial instruments in the Notes to the Consolidated Financial Statements for further details of downstream default risks, liquidity risks, interest and exchange rate risks, including risk mitigation measures and the management of these risks. ▶ see also Note 47 of the Notes to the Consolidated Financial Statements, Management of Financial Risks, page 136

Legal Risks

Compliance Incidents

Well-trained, motivated employees are the foundation for responsible business activities. The Group's relationship with its employees is dominated by its sense of social responsibility. Staff representatives are closely and actively involved in Group decision-making and take their responsibilities seriously. This paves the way for a successful working relationship.

However, it is impossible to completely rule out the risk of employees committing fraudulent acts or legal and competitive violations in the course of their work.

To reduce these risks, HHLA has introduced guidelines, manuals and double-checking, embedded controls in its processes and established spot checks as part of its compliance management system. Furthermore, the Group has issued a code of conduct that applies to all Group managers and staff. Training sessions are held regularly on the contents of this code of conduct. New employees and apprentices also receive training on the code. Regular induction and training sessions focusing on special topics – such as occupational health and safety, environmental protection, conduct in the competitive environment, preventing corruption and insider trading rules – are also held for those staff affected by these issues. All of these activities are supported by additional communication measures, for example via the HHLA intranet and staff newsletter. Should compliance violations occur, specific process adjustments may be undertaken to prevent them in future.

New Regulatory Requirements

Changes to legislation, regulatory reforms or amended requirements may necessitate changes to HHLA's internal processes or existing equipment. By ensuring a steady flow of information and cooperating closely with the relevant authorities, HHLA is able to make timely internal preparations and forward-looking investments aimed at reducing the associated costs.

Other Risk and Opportunity Factors

Flooding

As a result of the existing structural situation and the fact that HHLA's port facilities and buildings necessarily operate close to water, there is a fundamental risk of storm surges. However, flood protection work undertaken by HHLA and the Free and Hanseatic City of Hamburg in previous years has reduced this risk considerably.

Should this risk ever materialise, comprehensive emergency programmes have been put in place by public authorities and companies operating in the port to minimise the potential damage. In addition, the risk of damage to property is sufficiently covered by insurance policies.

Investment Options

In addition to organic growth, HHLA regularly examines and evaluates acquisition opportunities. Potential equity investments focus on port projects in attractive growth markets. In addition to strategic aspects and synergies with HHLA's existing activities, key decision-making criteria include growth prospects, the anticipated return on capital employed, and the assessment of commercial opportunities and risks. HHLA is in a sound financial position. It therefore has the financial means to make acquisitions.

Corporate Governance

Combined Corporate Management Declaration and Corporate Governance Report

The following declaration by the Executive Board and the Supervisory Board contains the combined Corporate Management Declaration for HHLA and the Group in accordance with Section 289a HGB or Section 315 (5) in conjunction with Section 289a HGB respectively, as well as the Corporate Governance Report in accordance with Section 3.10 of the German Corporate Governance Code (hereafter “the Code” or “GCGC”). It includes in particular the current declaration of compliance of the Executive Board and Supervisory Board, relevant practices of corporate management that go beyond the statutory requirements, details regarding the composition and functions of the Executive Board, the Supervisory Board and the Supervisory Board committees of HHLA, the targets to promote the participation of women in leadership positions in accordance with Section 76 (4) and Section 111 (5) AktG, the achievement of minimum quotas for the number of men and women on the Supervisory Board, as well as details regarding other material corporate governance structures.

Implementation of the Code

Corporate governance stands for the responsible management and control of a company aimed at creating sustainable value. The management and corporate culture of HHLA and the Group complies with statutory provisions and – with only a few exceptions – the recommendations and most of the suggestions contained in the Code. HHLA’s Supervisory Board and Executive Board expressly support the Code and the objectives and purposes that it pursues. Responsible and transparent corporate management geared towards sustainable creation of value has always been an essential foundation of HHLA’s commercial success.

The Executive Board and Supervisory Board once again took great care to ensure the Code’s standards were met in the 2016 financial year and submitted their annual declaration of compliance in accordance with Section 161 AktG after conducting the annual review of compliance with the recommendations and suggestions of the Code in December 2016. The current declaration of compliance is printed below. It can also be viewed by shareholders and the public on HHLA’s website at www.hhla.de/corporategovernance together with the declarations of compliance relating to previous years.

Declaration of Compliance in Accordance with Section 161 of the German Stock Corporation Act (AktG)

The Executive and Supervisory Board submitted the following joint declaration of compliance in accordance with Section 161 AktG in December 2016:

“The Executive Board and Supervisory Board of Hamburger Hafen und Logistik AG hereby state after due examination that since 9 December 2015 (the date on which the previous declaration of compliance was issued), HHLA complied and shall comply in the future with the recommendations of the German Corporate Governance Code (‘the Code’ or ‘GCGC’) in the version dated 5 May 2015 and published in the Federal Gazette on 12 June 2015 with the following exceptions:

a) Section 4.2.3 of the Code specifies that in concluding - Executive Board contracts care is to be taken to ensure that payments made to an Executive Board member on premature termination of contract without serious cause or as a result of change of control do not exceed certain levels (severance payment caps) and that the severance payment cap in question is based on the total remuneration for the previous year and, where applicable, on the probable total compensation for the current financial year. These recommendations have not yet been fully implemented in two of the Executive Board contracts currently in force until 31 December 2016. An adjustment of these old contracts appeared to be impracticable as the contracts were concluded for a fixed term and cannot be unilaterally modified. However, the requirements were observed in the course of all extensions of contracts and conclusions of new contracts. Therefore, upon the coming into force of the latest renewed Executive Board contracts on 1 January 2017, HHLA will fully comply with the recommendation.

b) Section 4.2.2 (2) sentence 3 of the GCGC recommends that the Supervisory Board, in determining the remuneration of the Executive Board, takes into account the relationship of the remuneration of the Executive Board to the remuneration of the senior management and the headcount in general, including its development over time. The Supervisory Board determines where to draw the line between the senior management and the relevant headcount for the sake of its comparison. Section 4.2.3 paragraph 2 sentence 6 GCGC requires that total remuneration for members of the Executive Board and the individual variable components of remuneration be capped. Furthermore, Section 4.2.3 (3) of the GCGC recommends that for pension schemes, the Supervisory Board shall establish the level of provision aimed for in each case – also considering the length of time for which the individual has been an Executive Board member – and take into account resulting annual and long-term expense for the company. These recommendations have also not yet been fully implemented in the two aforementioned Executive Board contracts for the above-mentioned reasons. However, these recommendations were also observed in the course of the extension of the contracts and new contracts, so that the recommendations are fully complied with as of 1 January 2017.

c) According to Section 7.1.2 of the Code, half-yearly and any quarterly financial reports shall be discussed by the Executive Board with the Supervisory Board or its Audit Committee prior to publication. HHLA does not comply with this recommendation because compiling the half-year financial report and the interim statements on the basis of individual segment reporting for the A and S divisions takes more time than for companies with only one type of shares. As a result, an effective prior discussion by the Supervisory Board or its Audit Committee cannot be assured at present. In order to increase the level of detail and frequency in which the company's reports are examined, the half-year financial report and the 'additional financial information' in the interim statements were reviewed by the auditors. It is intended to continue such reviews in the future.

Hamburg, 9 December 2016

Hamburger Hafen und Logistik Aktiengesellschaft
The Executive Board
The Supervisory Board"

Function of the Executive Board and the Supervisory Board

Division of Responsibilities between the Executive Board and the Supervisory Board

In accordance with the stipulations of German stock corporation law, HHLA has a dual system of management with an Executive Board and a Supervisory Board as management bodies, both of which have their own defined areas of competence. This system is characterised by having separate personnel to carry out the management and supervision functions: the Executive Board manages the company on its own responsibility, while the Supervisory Board monitors the Executive Board and advises the Executive Board on relevant management matters. Simultaneous membership in both bodies is not permissible. HHLA's Executive Board and Supervisory Board work closely together for the company's benefit in an atmosphere of mutual trust.

Composition and Function of the Executive Board

The Executive Board manages the company's business under the joint responsibility of its members. It determines the company's goals, its fundamental strategic orientation and Group policy and organisation. These tasks include, in particular, steering the Group and managing its financing, developing a personnel strategy, appointing and developing managers and representing the company before the capital markets and the general public. It is also responsible for appropriate risk management and controlling within the company.

HHLA's Executive Board currently consists of four members. In the period from 1 October 2016 (appointment of Ms. Titzrath) to 31 December 2016 (departure of Mr. Peters), the Executive Board temporarily had five members. ▶ see also Note 49 of the Notes to the Consolidated Financial Statements, Board Members and Mandates, page 146 In accordance with Article 8 of the articles of association, the Executive Board must consist of at least two members. The Executive Board's members are appointed by the Supervisory Board. The Executive Board assumes management responsibility as a collegial body. Regardless of the overall responsibility to manage the company, the individual members of the Executive Board also bear responsibility for the departments in accordance with Executive Board resolutions. The schedule of responsibilities states which Executive Board members are responsible for which departments. ▶ see also Group Structure, page 13

The **Executive Board provides the Supervisory Board** with regular, timely and comprehensive information on all matters that are relevant for the company or the Group. These include, in particular, the intended business policy, profitability, the current position and course of business, planning, the current risk position, risk management and compliance for both the Group and the company in each case. The Executive Board must notify the Chairman of the Supervisory Board without undue delay of any important events of fundamental significance for the assessment of the position and development or the management of the company or the Group, including between meetings. These include, inter alia, operational malfunctions and illegal actions that disadvantage the company or a Group affiliate. Certain decisions and transactions of fundamental importance require the approval of the Supervisory Board in accordance with the Executive Board's rules of procedure.

Conflicts of interests concerning members of the Executive Board must be immediately disclosed to the Supervisory Board. Other members of the Executive Board must also be informed. Executive Board members may only take on other duties, especially supervisory board posts at companies outside the Group, with the approval of the Supervisory Board. Transactions of material importance between Group companies and members of the Executive Board and parties and companies related to them also require the approval of the Supervisory Board. All such transactions must be performed on an arm's length basis. There were no transactions of this nature in the reporting period. There were also no conflicts of interest in the year under review.

The Executive Board's work is outlined in more detail in the **rules of procedure** compiled by the Supervisory Board for the Executive Board. The rules, inter alia, state that decisions on fundamental organisational questions, business policy and corporate planning are to be made by the Executive Board as a whole. The rules also provide that decisions and transactions of considerable importance for the company must be discussed and decided upon together and that certain decisions and transactions of fundamental importance require the prior approval of the Supervisory Board.

The company has taken out **D&O insurance** for the members of the Executive Board that meets the requirements of Section 93 (2) sentence 3 of the German Stock Corporation Act (AktG).

Composition and Function of the Supervisory Board

The Supervisory Board decides on the composition of the Executive Board, oversees the Executive Board's management of the company, advises it on company management, and is involved in fundamental and important decisions. Decisions and transactions of fundamental importance require the approval of the Supervisory Board in accordance with the Executive Board's rules of procedure. Its other main tasks include the examination and adoption of the Annual Financial Statements and the approval of the Consolidated Financial Statements. The tasks and the internal organisation of the Supervisory Board and its committees are based on the law, the articles of association, which are available on HHLA's website at www.hhla.de/corporategovernance, and the Supervisory Board's rules of procedure. In addition, the Code also contains recommendations on the Supervisory Board's work.

The **composition of the Supervisory Board** is based on the company's articles of association as well as Sections 95 and 96 of the German Stock Corporation Act (AktG) and Section 7 of the German Co-Determination Act (MitbestG): The Supervisory Board consists of six shareholder representatives elected by the Annual General Meeting and six employee representatives elected in accordance with the German Co-Determination Act (MitbestG). Unless the Annual General Meeting specifies a shorter period of office, **Supervisory Board members are elected** for a period ending with the Annual General Meeting that passes a resolution discharging the Board for the fourth financial year following the start of its term of office. The financial year in which the term of office begins is not included.

The Supervisory Board carries out its work both in full council and in **committees**. The individual committees and their responsibilities are laid down in the Supervisory Board's rules of procedure. The chairpersons of the committees regularly report on the work of their respective committees at the following Supervisory Board meeting. There are currently a total of six committees: the Finance Committee, the Audit Committee, the Personnel Committee, the Nomination Committee, the Arbitration Committee and the Real Estate Committee.

- The **Finance Committee** prepares Supervisory Board meetings and resolutions of major financial importance, such as resolutions to be adopted concerning significant borrowing and lending, the assumption of guarantees for third-party liabilities, financial investments and other financial transactions. It also deals with planning and investment issues, such as the budget and medium-term planning.
- The **Audit Committee** monitors accounting, the accounting process and the effectiveness of the audit of the financial statements. It also prepares the Supervisory Board's resolution proposal to the Annual General Meeting on the election of the auditor. The Audit Committee is responsible for the selection procedure if there are plans to rotate the auditor. After the auditor has been elected by the Annual General Meeting, it awards the audit assignment for the Consolidated Financial Statements and the Annual Financial Statements. It also deals with the fee agreements and determines which areas the audits should focus on. It continually monitors the independence of the auditor and discusses the risks to the auditor's independence as well as the prevention measures taken to mitigate these risks. In this connection, the Audit Committee is also responsible for monitoring and approving the additional services provided by the auditor in addition to the audit of the financial statements (non-audit services). Other focus areas of its work include monitoring the effectiveness of the internal control system, the risk management system, the internal audit system and the compliance management system.
- The **Personnel Committee** prepares the personnel decisions to be taken by the Supervisory Board, ensures together with the Executive Board that a long-term succession plan is in place and takes account of diversity considerations in the Executive Board's composition. It prepares the Supervisory Board resolution specifying the remuneration of the Executive Board and the examination of the remuneration system for the Executive Board and handles the Executive Board contracts, provided the German Stock Corporation Act (AktG) does not require the full council of the Supervisory Board to handle these responsibilities.
- The Personnel Committee also fulfils the role of **Nomination Committee**, which consists solely of its shareholders' representatives when performing this role. In line with the statutory requirements, the recommendations of the Code and the targets adopted by the Supervisory Board regarding its composition, the Nomination Committee proposes suitable candidates to the Supervisory Board to stand for election at the Annual General Meeting as shareholder representatives on the Supervisory Board. During its deliberations, the Nomination Committee also ensures that the candidate is able to devote the necessary amount of time to the role.

- The **Arbitration Committee** was constituted for the purposes laid down in Section 31 (3) of the German Co-Determination Act (MitbestG). Its task is to make proposals for appointing members of the Executive Board if the statutory majority of two thirds of the Supervisory Board members' votes is not reached after the first round of voting.
- As HHLA is divided into the two subgroups Port Logistics (A division) and Real Estate (S division), a **Real Estate Committee** was constituted for the latter. This committee receives all Executive Board reports on behalf of the Supervisory Board and is involved in discussing all affairs that relate to the Real Estate subgroup. It also decides on whether to grant Supervisory Board approval for all legal transactions that require such approval and all other matters that affect the Real Estate subgroup, either primarily or in their entirety. In addition, the Real Estate Committee is responsible for examining and preparing the Supervisory Board's decision on the adoption of the Annual Financial Statements and the approval of the Consolidated Financial Statements, insofar as these relate to the affairs of the Real Estate subgroup. It is also responsible for preparing the Supervisory Board's decision on appropriating the distributable profit of the Real Estate division based on the Executive Board's proposal.

Further information on the Supervisory Board work and the Supervisory Board committees, as well as the Supervisory Board's cooperation with the Executive Board in the reporting period, can be found in the Report of the Supervisory Board. ▶ see also Report of the Supervisory Board, page 4 Further information on the composition of the Executive Board, the Supervisory Board and the Supervisory Board committees can be found in the Notes to the Consolidated Financial Statements. ▶ see also Note 49 of the Notes to the Consolidated Financial Statements, Board Members and Mandates, page 146

Regulations on preventing and dealing with conflicts of interest are laid out in the Supervisory Board's rules of procedure. ▶ see also Objectives of the Supervisory Board The Supervisory Board provides information on conflicts of interest and their treatment in its report to the Annual General Meeting. ▶ see also Report of the Supervisory Board, page 4 No former members of HHLA's Executive Board sit on the Supervisory Board.

The company has arranged for **D&O insurance** for the members of the Supervisory Board that complies with Section 3.8 of the Code.

Objectives of the Supervisory Board for its composition
The HHLA Supervisory Board must always be composed in such a way that its members have the necessary knowledge, skills and industry expertise to fulfil their responsibilities properly. In addition, the members as a whole must be familiar with the sector in which the company operates and at least one member of the Supervisory Board must have expertise in the fields of accounting or the auditing of financial statements. The same applies to the composition of the Audit Committee. In addition, Section 5.4.1 of the Code (in the version dated 5 May 2015) calls for specific objectives to be defined regarding the Supervisory Board's composition. Whilst considering the specifics of the enterprise, these should take into account the international activities of the company, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of Section 5.4.2 of the Code, an age limit to be specified and a regular limit of length of membership to be specified for the members of the Supervisory Board, as well as diversity.

HHLA's Supervisory Board updated the corresponding targets at its meeting on 9 December 2015. The following objectives have been defined for the composition of the Supervisory Board:

- **Diversity** should be taken into account in the composition of the Supervisory Board. Diversity in the Supervisory Board is – inter alia – reflected by the different career paths and fields of activity of its members who can draw on a wide range of different experiences (such as industry experience). With regard to the appropriate inclusion of women on the Supervisory Board, the company continues to pursue the medium-term goal – beyond the statutory requirements – of increasing the proportion of female shareholder representatives to at least 40 %.
- **International orientation** also plays a role when appointing members to the Supervisory Board. Due to HHLA's business model, the company's operations have a predominantly regional and local focus, which means that it is currently not of paramount importance that members have extensive relevant experience of managing international companies. However, some of the members of the company's Supervisory Board are in possession of such experience. This will also be strived for the future.
- Regarding an **age limit** for members of the Supervisory Board, the rules of procedure of HHLA's Supervisory Board (Section 7 (1) sentence 3) stipulate that only candidates who are under the age of 70 at the time of election should stand for election or re-election as members of the company's Supervisory Board.
- According to Section 7 (1) sentence 5 of the rules of procedure, **membership** of the Supervisory Board should generally not exceed three terms of office.
- Regulations on how to prevent and deal with potential **conflicts of interest** can be found under Section 7 (2) and (3) of the Supervisory Board's rules of procedure. These stipulate that members of the Supervisory Board may not hold a

seat on an executive body of any organisation in direct competition with the company, nor fulfil an advisory role for such organisations. Moreover, Supervisory Board members that are on the executive board of a listed company may not serve on the supervisory boards of more than three listed companies (including HHLA) or on supervisory board committees at third-party companies with similar duties. Each member of the Supervisory Board is obliged to disclose any conflicts of interest to the Supervisory Board as a whole, especially conflicts that may arise as a result of an advisory role or seat on an executive body involving customers, suppliers, creditors or other third parties. If a member of the Supervisory Board has significant conflicts of interest that are not merely temporary, this should result in the termination of his/her period of office. The Supervisory Board notifies conflicts of interest that have arisen and on how these have been handled in its report to the Annual General Meeting. ▶ see also Report of the Supervisory Board, page 4

- Beyond the regulations listed in the rules of procedure regarding the prevention and treatment of potential conflicts of interest, the Supervisory Board should include **at least two independent members** from among the shareholder's representatives. In the view of the Supervisory Board, this currently corresponds to the structure of equity investments, business sectors and, by extension, HHLA's specific situation. Moreover, it is the opinion of the Supervisory Board that employee representatives should not automatically be considered independent either. It is important to consider the specific circumstances in each case.

The current **composition** basically fulfils the stated targets. The Supervisory Board comprises members with different career paths and a wide range of experience. The age limit was not exceeded by any member at the time of their election. No member has served more than three terms of office on the Supervisory Board. In addition to Prof. Dr. Peer Witten, Chairman of the Supervisory Board and long-serving former member of the Executive Board of the Otto Group, the Supervisory Board includes a further independent member in Dr. Norbert Kloppenburg. Dr. Kloppenburg also has expert knowledge and experience in the fields of accounting, auditing and internal control processes and therefore fulfils the requirements in Sections 100 (5) and 107 (4) AktG and Section 5.3.2 sentences 2 and 3 of the Code.

Shareholders and Annual General Meeting

Shareholders exercise their rights, in particular their voting rights, at the Annual General Meeting. The Annual General Meeting is held in Hamburg, another major German city or the seat of a German stock exchange to which the company's shares have been admitted for trading, within the first eight months of each financial year. Each share entitles its holder to one vote at the Annual General Meeting. There are no shares with multiple voting rights, no preference shares and no caps on voting rights.

Shareholders may exercise their voting rights at the Annual General Meeting in person, by appointing a representative of their choice or by giving voting instructions to a proxy designated by the company. The articles of association also authorise the Executive Board to allow shareholders to cast their vote in writing or by means of electronic communication (postal vote). The invitation to the Annual General Meeting includes explanations of the participation conditions, the voting procedure (including proxy voting) and the rights of shareholders. In addition, the company has a telephone hotline for shareholders' questions. The reports and documents required by law for the Annual General Meeting, including the Annual Report, are published on the company's website at www.hhla.de/agm together with the agenda. Information on attendance at the Annual General Meeting and the voting results can likewise be found on the company's website after the Annual General Meeting.

German Act on the Equal Participation of Women and Men in Leadership Positions

As a listed company with equal employee and shareholder representation, HHLA's Supervisory Board must consist of at least 30 % women and 30 % men. The Supervisory Board is also obliged to set a target quota for women on the Executive Board. In turn, the Executive Board itself is obliged to set target quotas for women in the two management levels below the Executive Board. Deadlines for achieving these targets must also be set in each case. The first target quotas for women on the Executive Board and women in the two management levels below the Executive Board were to be adopted by 30 September 2015, and the initial deadline for achieving these targets was 30 June 2017 at the latest. The gender quotas for the Supervisory Board apply to all members appointed from 1 January 2016 onwards. Every year, the Executive Board and the Supervisory Board must report in its declaration on corporate management on the achievement of the gender quotas for the Supervisory Board, the target quotas set for women on the Executive Board and women in the two management levels below the Executive Board, as well as the corresponding deadlines for achieving these targets and, if applicable, the reasons for not achieving the quotas within the stated deadlines.

There are currently two female shareholder representatives on the Supervisory Board. Consequently, the proportion of women on the Supervisory Board as a whole is 16.7 % and 33.3 % for the shareholder representatives. Despite the appointment of new members in the reporting period, it was not possible to increase the proportion of female employee representatives since both successors had already been elected as substitute members in the employee representative elections held in 2012. The minimum quota has already been met for the shareholder representatives.

At its meeting on 11 September 2015, the Supervisory Board set a target quota of 25 % for women on the Executive Board, which is to be met by 30 June 2017. Following the appointment of Ms. Titzrath and the departure of Mr. Peters, this target has been met since 1 January 2017.

The Executive Board has set a target quota of 25 % for women in the first management level below the Executive Board and a target quota of 30 % for the second management level. The deadline for achieving both of these targets is 30 June 2017. As of 31 December 2016, women accounted for 17 % of the first management level (as of 31 December 2015: 15 %) and 26 % of the second management level (as of 31 December 2015; 21 %).

Disclosures on Corporate Management Practices

Structure and Management of the Group

HHLA acts as the strategic management holding company for the Group. Its operating business is conducted by domestic and foreign subsidiaries and associated firms. ▶ see also Group Structure, page 13 Operating activities are managed and monitored by the Executive Board of HHLA and its central departments, such as Purchasing, Finance, Legal and HR. Compliance with the management's corporate governance requirements is ensured by internal company guidelines, provisions in the articles of association and rules of procedure for the subsidiaries and associated firms. Most subsidiaries also have their own supervisory or advisory boards that monitor and advise the management boards of the respective companies.

Compliance

Compliance with corporate guidelines and the statutory provisions relevant to the company's activities (hereinafter also referred to as "compliance") is regarded as an essential part of corporate governance at HHLA. The management team in each corporate unit is therefore responsible for working to achieve compliance with the regulations that are relevant for their field of activity and area of responsibility. Workflows and processes must be structured in line with these regulations. The cornerstone of HHLA's compliance management system (CMS) is a code of conduct, which formulates overriding principles on topics with special relevance for compliance, such as conduct in the competitive environment, the prevention of corruption, discrimination and conflicts of interest, and how to deal with sensitive corporate information, especially insider information, https://hhla.de/en/investor-relations/corporate-governance/compliance.html. The code of conduct also sets out the whistleblowing channels available to employees and third parties for reporting evidence of misconduct in the company. The code of conduct is supplemented by further Group guidelines on such matters as the prevention of corruption and conduct in the competitive environment. A further element of the CMS is the systematic, ongoing analysis of compliance risks. The overall coordination of the CMS is performed by a Compliance Officer, who reports directly to the Executive Board and synchronises his or her activities with those of Internal Audit and Risk Management departments, among others. In the 2016 financial year, further extensive steps were taken to enhance HHLA's compliance management system. These included the continuation of preventive work, e.g. the updating and supplementing of Group guidelines, and the compliance risk inventory, as well as training and other communication measures for staff at HHLA companies in Germany and abroad, such as a refresher course on the code of conduct and training on special issues like the prevention of corruption and conduct in the competitive environment. The Audit Committee monitored the effectiveness of the CMS in the reporting period by means of regular reports from the Executive Board and the Compliance Officer. The system will continue to be enhanced on an ongoing basis.

Sustainability

Sustainability has been an integral part of HHLA's business model since the company was established. ▶ see also Sustainability, page 157 and https://hhla.de/en/sustainability/overview.html

Risk Management

The HHLA Group's risk management system is described in detail in the Risk and Opportunity Report, which forms part of the Group Management Report. ▶ see Risk and Opportunity Report, page 42

Transparency

HHLA informs capital market participants and interested members of the general public about the position of the company and the Group and important company developments, particularly by means of its financial reporting (annual report, half-yearly financial report and interim statements), press conferences for analysts and financial press conferences, dialogue with analysts and the press, press releases and ad hoc announcements as required, and its Annual General Meetings. As a permanently available and up-to-date communication medium, the website www.hhla.de provides all the relevant information in both German and English. In addition to comprehensive information about the HHLA Group and the HHLA share, it contains a financial calendar, which provides an overview of the main events. Any enquiries over and above this from shareholders, investors and analysts can be addressed to the Investor Relations department.

Accounting and Auditing

The Separate Financial Statements of HHLA (parent company) are prepared in line with the accounting regulations of the German Commercial Code (HGB). The Consolidated Financial Statements and Interim Reports comply with International

Financial Reporting Standards (IFRS) as adopted by the European Union. This Annual Report provides further information on IFRS in the Notes to the Consolidated Financial Statements. ▶ see also Notes to the Consolidated Financial Statements, General Notes, page 82 The appropriation of profits is based solely on the Separate Financial Statements of HHLA.

The choice and appointment of the auditing firm, and the monitoring of its independence and the additional services it provides, are conducted in accordance with statutory provisions. In addition, arrangements have been made with the auditor of the Separate Financial Statements and Consolidated Financial Statements for the 2016 financial year – PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hamburg – for the Chairman of the Audit Committee to be informed immediately of any possible grounds for exclusion or bias arising during the audit, insofar as these are not rectified without delay. The auditor should also report immediately on any findings or incidents arising from the audit of the financial statements that are of significance for the Supervisory Board's remit. Furthermore, the auditor is to inform the Supervisory Board and/or record in its report if – when conducting the audit – it identifies facts that indicate that the declaration of compliance issued by the Executive Board and Supervisory Board as per Section 161 AktG is incorrect. The audit conducted includes an extended audit as stipulated under Section 53 of the German Budgetary Procedures Act (HGrG). This requires an audit and assessment of the propriety of the company's management and its financial situation as part of the audit of the Annual Financial Statements.

Directors' Dealings

In the 2016 financial year, the company did not receive any notifications regarding directors' dealings with HHLA shares or related financial instruments. As of 31 December 2016, the Executive Board and Supervisory Board as a whole did not possess more than 1 % of the shares issued by HHLA.

Remuneration Report

Executive Board Remuneration

Following preparatory work by its Personnel Committee, the Supervisory Board is responsible for setting remuneration for individual Executive Board members. The full Supervisory Board is also responsible for regularly examining and making decisions about adjustments to the remuneration system for the Executive Board, although the preparatory work is actually done by the Personnel Committee. When conducting their reviews, the Personnel Committee and the Supervisory Board take into account the recommendations of the German Corporate Governance Code, the responsibilities and performance of each member of the Executive Board, and in particular HHLA's size and activities, its financial and economic position, the amount and structure of executive board remuneration at comparable companies, and the relationship between the remuneration of the Executive Board and the remuneration of the upper levels of management and the staff in general.

The remuneration system for members of the Executive Board was approved by the company's Annual General Meeting on 14 June 2012. Under this system, remuneration for members of the Executive Board consists of a non-performance-related fixed component, a performance-related bonus, pension commitments and fringe benefits. Following a review in the 2015 financial year, the individual components of Executive Board remuneration were amended slightly and implemented in the contracts recently extended or drawn up. The amendments relate to a moderate increase in the fixed remuneration while capping the variable remuneration, as well as other adjustments in line with the recommendations of the German Corporate Governance Code. The modified provisions apply to all members since 1 January 2017.

Fixed remuneration amounts to € 350,000 p.a. for ordinary members of the Executive Board (prior to amendment: € 325,000) and is paid out in twelve monthly instalments. The chairperson of the Executive Board receives a higher basic salary. In addition, there are fringe benefits (non-monetary compensation) in the form of a right to use an appropriate company car (including for private purposes) and the payment of insurance premiums by the company. The members of the Executive Board pay tax on these benefits as components of their remuneration.

The performance-related bonus is set on the basis of a three-year assessment period and paid out once the Annual Financial Statements have been approved. The calculation is based on the average earnings before interest and taxes (EBIT) for the last three years (before additions to pension provisions and reduced by any extraordinary income from the disposal of real estate and companies), the average return on capital employed (ROCE) and the achievement of targets relating to environmental issues (reduction of the carbon footprint of each container handled and transported) and social issues (broken down into training and continuing professional development, health and employment) in the same period. Target ranges were set for each of the sustainability components. Achieving these targets triggers the payment of the relevant bonus. When making these calculations, roughly equal weight is given to EBIT on the one hand and the above-mentioned sustainability components on the other. As part of the amendments to Executive Board remuneration, variable remuneration was capped at 100 % of basic salary (previously: 150 %). The new cap was implemented in all Executive Board contracts as of 31 December 2016, with the exception of one old contract.

The company usually pays for an appropriate direct insurance policy on behalf of the Executive Board member on their appointment. Members of the Executive Board who are re-appointed on expiry of their initial appointment period are granted pension entitlements. Pensions are paid to entitled Executive Board members after a minimum of five or eight years' service on the Executive Board if they leave the Board for reasons unrelated to their person or for which they are not responsible, or as a result of incapacity or reaching retirement age. Pensions are calculated as a percentage of the entitlement salary, which in turn is based on the annual basic salary. This percentage is between 35 and 50 %. The actual amount depends on the Executive Board member's length of service, whereby adjustments are made not on a linear basis over the contract term, but rather in the case of contract extensions. Several different forms of income are taken into account on an individual basis, such as earnings from self-employment or employment and, in some cases, income from statutory pensions and related benefits from public funds. Surviving spouses of Executive Board members receive a widow(er)'s pension of 55 to 60 % of the pension entitlement and children receive an orphan's allowance of 12 to 20 % of the pension. Should the pension entitlement have been suspended or no longer apply, transitional or interim pay applies for a limited period on the basis of the fixed remuneration.

The service contracts of the members of the Executive Board contain a compensation provision that provides for the payment of compensation to the respective Executive Board member in the event of them losing their Executive Board seat due to a change of control or similar circumstances. The company was originally obliged to pay the respective Executive Board member any outstanding remuneration for the remaining term of the service contract in a lump sum, discounted by 2 % per annum, less certain other income earned by the Executive Board member until the end of the service contract. In the Executive Board contracts drawn up or extended in 2015 and 2016, the above entitlements were successively amended so that not more than two annual salaries (including fringe benefits) and not more than the total remuneration for the remaining term is payable in the event of premature termination of an Executive Board contract (including termination due to change of control). In addition, other amendments were made to the contracts to bring them in line with the recommendations of the German Corporate Governance Code. Should the service contracts be terminated prematurely for another reason without good cause, the payment of compensation shall be limited to the remaining term of the contract. The last contracts with the old provision expired on 31 December 2016. As of 1 January 2017, all service contracts now fully comply with the recommendations of the German Corporate Governance Code.

Level of Remuneration for Executive Board Members in 2016 Based on Different Scenarios

As of: 31 December 2016

	0 % minimum	The payment level of the variable remuneration is capped at 100% of the basic salary.[1]		100 % maximum
Performance-related components Calculated based on a three-year assessment period		**Average EBIT** (before pension provisions, less extraordinary income)		
		Sustainability targets		
		Economy	Average return on capital employed (ROCE)	
		Environment	CO_2 reduction[2]	
		Social	Continuing education and training, health and employment	
Non-performance related fixed salary Plus fringe benefits				

[1] In an old contract with a maturity term until 31 December 2016, the cap still amounted to 150 %.
[2] Per container handled and transported

The members of the Executive Board were not granted any loans or similar payments. Total remuneration disbursed to the members of the Executive Board for their services in the 2016 financial year amounted to approximately € 3.14 million (previous year: € 2.93 million). Former members of the Executive Board and their surviving dependants received total payments of € 692,224 (previous year: € 684,938). Total provisions of € 12,385,982 were recognised for pension obligations to former members of the Executive Board and their surviving dependants (previous year: € 11,398,460).

The service cost for the financial years 2015 and 2016 was impacted by additional one-off expenses. In the reporting period, these primarily relate to Dr. Behn’s decision to step down from the Executive Board as of 31 March 2017, which increased the service cost to € 688,121. The service cost for the 2015 financial year includes a past service cost of € 547,172 in connection with the increase in Dr. Lappin’s pension entitlements due to his length of service.

Individual Remuneration of the Executive Board

The following figures comply with the recommendations in Section 4.2.5 of the German Corporate Governance Code (GCGC).

Individual Remuneration of the Executive Board

	Klaus-Dieter Peters, Chairman of the Executive Board					
	Benefits granted (target)				Allocation (amount disbursed)	
in €	2016	2016 Minimum	2016 Maximum	2015	2016	2015
Fixed remuneration	465,000	465,000	465,000	465,000	465,000	465,000
Other benefits	13,772	13,772	13,772	13,772	13,772	13,772
Total	**478,772**	**478,772**	**478,772**	**478,772**	**478,772**	**478,772**
One-year variable remuneration[1,2]	447,244	0	697,500	453,755	463,860	463,072
Other	0	0	0	0	0	0
Total remuneration	**926,016**	**478,772**	**1,176,272**	**932,527**	**942,632**	**941,844**
Service cost[3]	376,568	376,568	376,568	357,978	376,568	357,978
Total expenses	**1,302,584**	**855,340**	**1,552,840**	**1,290,505**	**1,319,200**	**1,299,822**

	Angela Titzrath, Executive Board member (since 1 October 2016)					
	Benefits granted (target)				Allocation (amount disbursed)	
in €	2016	2016 Minimum	2016 Maximum	2015	2016	2015
Fixed remuneration	87,500	87,500	87,500	0	87,500	0
Other benefits	6,936	6,936	6,936	0	6,936	0
Total	**94,436**	**94,436**	**94,436**	**0**	**94,436**	**0**
One-year variable remuneration[1,2]	85,683	0	87,500	0	87,500	0
Other	0	0	0	0	0	0
Total remuneration	**180,118**	**94,436**	**181,936**	**0**	**181,936**	**0**
Service cost[3]	68,649	68,649	68,649	0	68,649	0
Total expenses	**248,767**	**163,084**	**250,584**	**0**	**250,584**	**0**

1 *Variable remuneration includes the elements of the performance-related bonus (EBIT and sustainability components), calculated on the basis of a three-year assessment period.*

2 *For each sustainability component was assumed a target achievement of 100 % and an average probability scenario was used for the EBIT figure based on the forecasts announced to the capital market at the start of each year (in accordance with the comments on model table 1 in the appendix to the GCGC).*

3 *Service expense as defined in IAS 19 service cost component (in accordance with the comments on model table 1 in the appendix to the GCGC).*

	Dr. Stefan Behn, Executive Board member					
	Benefits granted (target)				Allocation (amount disbursed)	
in €	2016	2016 Minimum	2016 Maximum	2015	2016	2015
Fixed remuneration	341,667	341,667	341,667	325,000	341,667	325,000
Other benefits	13,518	13,518	13,518	13,007	13,518	13,007
Total	355,185	355,185	355,185	338,007	355,185	338,007
One-year variable remuneration[1,2]	312,730	0	341,667	317,283	324,397	323,843
Other	0	0	0	0	0	0
Total remuneration	667,915	355,185	696,852	655,290	679,582	661,850
Service cost[3,4]	688,121	688,121	688,121	163,091	688,121	163,091
Total expenses	1,356,036	1,043,306	1,384,973	818,381	1,367,703	824,941

	Heinz Brandt, Executive Board member					
	Benefits granted (target)				Allocation (amount disbursed)	
in €	2016	2016 Minimum	2016 Maximum	2015	2016	2015
Fixed remuneration	325,000	325,000	325,000	325,000	325,000	325,000
Other benefits	12,812	12,812	12,812	12,812	12,812	12,812
Total	337,812	337,812	337,812	337,812	337,812	337,812
One-year variable remuneration[1,2]	312,730	0	325,000	317,283	324,397	323,843
Other	0	0	0	0	0	0
Total remuneration	650,542	337,812	662,812	655,095	662,209	661,655
Service cost[3]	245,705	245,705	245,705	277,763	245,705	277,763
Total expenses	896,247	583,517	908,517	932,858	907,914	939,418

	Dr. Roland Lappin, Executive Board member					
	Benefits granted (target)				Allocation (amount disbursed)	
in €	2016	2016 Minimum	2016 Maximum	2015	2016	2015
Fixed remuneration	341,667	341,667	341,667	325,000	341,667	325,000
Other benefits	10,989	10,989	10,989	10,869	10,989	10,869
Total	352,656	352,656	352,656	335,869	352,656	335,869
One-year variable remuneration[1,2]	312,730	0	341,667	317,283	324,397	323,843
Other	0	0	0	0	0	0
Total remuneration	665,386	352,656	694,322	653,152	677,052	659,712
Service cost[3,5]	178,719	178,719	178,719	707,216	178,719	707,216
Total expenses	844,104	531,374	873,041	1,360,368	855,771	1,366,928

1 *Variable remuneration includes the elements of the performance-related bonus (EBIT and sustainability components), calculated on the basis of a three-year assessment period.*

2 *For each sustainability component was assumed a target achievement of 100 % and an average probability scenario was used for the EBIT figure based on the forecasts announced to the capital market at the start of each year (in accordance with the comments on model table 1 in the appendix to the GCGC).*

3 *The maximum figure indicated corresponds to the maximum possible variable remuneration in line with the upper limit of 150 % indicated in the text.*

4 *The increase in Service costs for 2016 results from Dr. Behn's decision to leave the Management Board as of 31 March 2017.*

5 *The figure of 2015 included past service costs of € 547,172 million associated with the adjustment of the pensions comittment for Mr. Dr. Roland Lappin with effect from 1 May 2016.*

Supervisory Board Remuneration

In accordance with Article 16 of HHLA's articles of association, Supervisory Board members are remunerated as resolved by the Annual General Meeting. This remuneration is based on the scope of the Supervisory Board members' activities as well as on the company's financial position and results. The current remuneration was adopted at the Annual General Meeting held on 13 June 2013. The members of the Supervisory Board receive fixed remuneration of € 13,500 per financial year. The Chairman receives three times this amount and the Vice Chairman is paid one-and-a-half times the basic figure. Supervisory Board members who belong to a committee receive an additional € 2,500 per committee per financial year, while the Chairman of the respective committee receives € 5,000, but altogether no more than € 10,000. Supervisory Board members who have belonged to the Supervisory Board or a committee for less than one full financial year receive a corresponding pro rata payment. Furthermore, Supervisory Board members receive a meeting attendance fee of € 250 for each meeting of the Supervisory Board or one of its committees. There is no variable remuneration component.

No loans or similar payments were granted to members of the Supervisory Board. Other than the usual market remuneration payable to the employee representatives under their contracts of employment, the members of the Supervisory Board did not receive any other payment for additional services rendered. The total remuneration paid to members of the Supervisory Board amounted to € 327,292 (previous year: € 299,625).

Individual Remuneration of Supervisory Board Members

	Fixed remuneration		Remuneration for committee work		Meeting fee		Total	
in €	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Prof. Dr. Peer Witten	40,500	40,500	10,000	5,000	5,000	2,250	55,500	47,750
Wolfgang Abel	20,250	20,250	2,500	2,500	4,250	2,250	27,000	25,000
Torsten Ballhause	13,500	13,500	6,250	5,000	5,250	3,250	25,000	21,750
Petra Bödeker-Schoemann	13,500	13,500	7,500	7,500	2,750	2,000	23,750	23,000
Dr. Rolf Bösinger (since 18.2.16)	12,375	0	4,167	0	4,250	0	20,792	0
Dr. Bernd Egert	13,500	13,500	7,500	2,500	3,750	2,000	24,750	18,000
Holger Heinzel	13,500	13,500	2,500	2,500	2,000	1,750	18,000	17,750
Dr. Norbert Kloppenburg	13,500	13,500	7,500	7,500	2,750	3,250	23,750	24,250
Andreas Kummer (since 15.7.16)	6,750	0	3,750	0	3,500	0	14,000	0
Frank Ladwig (until 25.7.16)	7,875	13,500	2,917	5,000	2,500	3,000	13,292	21,500
Stephan Möller-Horns (11.12.15 until 9.2.16)	2,250	1,125	0	0	0	0	2,250	1,125
Arno Münster (until 14.7.16)	7,875	13,500	5,833	10,000	3,250	4,750	16,958	28,250
Thomas Nahr (since 26.7.16)	6,750	0	2,500	0	1,500	0	10,750	0
Norbert Paulsen	13,500	13,500	5,000	5,000	2,750	2,250	21,250	20,750
Michael Pirschel (until 10.12.15)	0	13,500	0	7,500	0	3,500	0	24,500
Dr. Sibylle Roggencamp	13,500	13,500	10,000	10,000	6,750	2,500	30,250	26,000
Total	199,125	196,875	77,917	70,000	50,250	32,750	327,292	299,625

All figures excluding VAT.

Additional Information on Takeover Law and Explanatory Notes

1. The subscribed capital of the company amounts to € 72,753,334.00. It is divided into 72,753,334 registered no-par-value shares with a pro-rata share of the company's share capital of € 1.00 each. Of this amount, 70,048,834 are Class A shares and 2,704,500 are Class S shares (class of shares). The Class S shares only provide for participation in the net profit/loss and net assets of the S division, and the Class A shares only provide for participation in the net profit/loss and net assets of the remainder of the company (A division). The S division consists of the part of the company that deals with the acquisition, holding, selling, letting, management and development of properties not specific to port handling (Real Estate subgroup). All other parts of the company (Port Logistics subgroup) form the A division. The dividend entitlement of holders of Class S shares is based on the proportion of the distributable profit for the year attributable to the S division, and the dividend entitlement of holders of Class A shares is based on the remaining proportion of distributable profit for the year (Article 4 (1) of the articles of association). Each share entitles the holder to one vote at the Annual General Meeting (Article 20 (1) of the articles of association) and gives the holder the rights and responsibilities laid down in the German Stock Corporation Act (AktG) and the articles of association. If the statutory provisions require a special resolution to be adopted by holders of a given class of shares, only the holders of that class of shares shall be entitled to vote.

2. To the Executive Board's knowledge, there are no restrictions on voting rights or the transfer of shares, including those arising from agreements between shareholders.

3. For details on direct or indirect capital shareholdings, which entitle the holder to more than 10 % of the voting rights, see the ▶ Notes to the Consolidated Financial Statements, Note 35, page 117 and Note 48, page 142.

4. There are no shares with special rights granting powers of control.

5. Employees who hold stakes in the company's equity exercise their shareholders' rights at their own discretion. There is therefore no control of the voting rights.

6.1 As per Article 8 (1) of the articles of association of Hamburger Hafen und Logistik Aktiengesellschaft, the Executive Board consists of two or more people. Members of the Executive Board are appointed and dismissed by the Supervisory Board in accordance with Section 84 of the German Stock Corporation Act (AktG) in conjunction with Section 31 of the German Co-Determination Act (MitbestG) and Article 8 of the articles of association.

6.2 Amendments to the articles of association can be made by means of a resolution of the Annual General Meeting. In line with Sections 179 and 133 of the German Stock Corporation Act (AktG) and Article 22 of the articles of association, a simple majority of the votes cast at the Annual General Meeting is sufficient for amendments to the articles of association. If a capital majority is required in addition to a majority of the votes, a simple majority of the share capital represented when the resolution is passed is suffices. In the case of amendments to the articles of association for which the law prescribes a larger voting or capital majority, the legally required majority applies. In accordance with Article 11 (4) of the articles of association, the Supervisory Board is authorised to carry out amendments to the articles of association that relate only to the wording. If an amendment to the articles of association in connection with a capital increase or steps taken in accordance with the German Reorganisation of Companies Act (UmwG) is designed to change the relationship between Class A and Class S shares, special resolutions by the Class A and Class S shareholders affected are required as per Section 138 AktG. Amendments to the articles of association become effective when they are recorded in the commercial register.

7.1 Subject to the approval of the Supervisory Board, the Executive Board was authorised by the Annual General Meeting on 14 June 2012 to increase the company's share capital until 13 June 2017 by up to € 35,024,417.00, by issuing up to 35,024,417 new registered Class A shares for subscription in cash and/or kind in one or more stages (Authorised Capital I, see Article 3 (4) of the articles of association). The statutory subscription right of the holders of Class S shares shall be excluded. The Executive Board is additionally authorised, subject to the approval of the Supervisory Board, to exclude the statutory subscription rights of holders of Class A shares in those cases covered in more detail in the resolution, such as issue for contributions in kind.

7.2 Subject to the approval of the Supervisory Board, the Executive Board is additionally authorised under Article 3 (5) of the articles of association to increase the company's share capital until 13 June 2017 by up to € 1,352,250.00 by issuing up to 1,352,250 new registered Class S shares by subscription in cash and/or kind in one or more stages (Authorised Capital II). The statutory subscription right of the holders of Class A shares shall be excluded. The Executive Board is further authorised, with the approval of the Supervisory Board, to exclude the statutory subscription rights of holders of Class S shares as is necessary to equalise fractional amounts.

7.3 The Annual General Meeting on 16 June 2016 authorised the Executive Board, subject to the approval of the Supervisory Board, to issue on one or more occasions up to 16 June 2019 bearer or registered bonds with warrants or convertible bonds or combinations of these instruments (hereinafter known collectively as "debenture bonds") and to grant the bearers or creditors of the debenture bonds warrants or conversion rights for up to 10,000,000 new registered Class A shares in the company, each representing € 1.00 of the share capital, subject to the detailed terms of the debenture bonds. The total nominal amount of the debenture bonds issued under this authorisation may not exceed € 200,000,000.00. The debenture bonds are to be divided into separate securities of the same class, each with equal rights. The debenture bonds may be denominated in euros or in the legal currency of an OECD member state for up to an amount equivalent to the total nominal amount in euros. They may also be issued by companies in which the company indirectly or directly holds a majority interest. The respective terms may also provide for a warrant or conversion obligation as well as an issuer put option to provide Class A shares in the company as of the end of the term or at an earlier date. Class S shareholders' subscription rights are excluded. The Executive Board is also authorised, subject to the approval of the Supervisory Board, to exclude Class A shareholders' subscription rights to the separate securities in full or in part in order to equalise fractional amounts, to grant subscription rights to the holders or creditors of warrants and/or debenture bonds and to the extent that debenture bonds are issued for cash, whereby debenture bonds with rights, options or obligations to convert them into Class A shares or an issuer put option for Class A shares may account for no more than 10 % of the share capital attributable to Class A shares. Furthermore, the issue of debenture bonds while excluding the subscription rights of Class A shareholders is limited to a total of 20 % of the share capital attributable to Class A shares. All Class A shares issued or that are still to be issued under other authorisations with the exclusion of subscription rights count towards this 20 % limit. As per Article 3 (6) of the articles of association, contigent capital of € 10,000,000.00 is available to service warrants and conversion rights and obligations as well as any tender rights. This is made up of 10,000,000 new registered Class A shares.

Further details of the authorisations stated in sections 7.1 to 7.3, particularly the conditions of issue, the possibilities to exclude subscription rights and their limits, can be found in the corresponding authorisation resolutions as well as in Article 3 of the articles of association.

7.4 The Annual General Meeting held on 16 June 2016 authorised the company to purchase Class A treasury shares up to a maximum of 10 % of the company's share capital attributable to Class A shares at the time of the resolution or if lower, at the time that the authorisation is exercised, until 15 June 2021. This authorisation may be used for any legally permissible purpose, except for trading in treasury shares. At the discretion of the Executive Board, the purchase may be made via the stock exchange, by way of a public purchase offer made to all Class A shareholders or by way of a public invitation to submit sales offers. In addition to selling Class A shares in the company acquired under this authorisation via the stock exchange or offering them to all shareholders in proportion to their shareholdings, the Executive Board was also authorised – subject to the approval of the Supervisory Board – to use these shares for all legally permissible purposes. This includes in particular selling shares in exchange for cash consideration at a price that is not significantly lower than the price of shares in the company of the same rights at the time of the sale, using shares to settle rights or obligations of bearers or creditors resulting from convertible bonds or bonds with warrants issued by the company or by companies in which the company holds a majority stake, issuing or offering shares for sale to employees of the company or to employees or members of the executive bodies of an associated company, the sale of shares to third parties in return for contributions in kind, as well as cancelling shares, even in a simplified process in accordance with Section 237 (3–5) AktG. In the above cases – excluding cancellation – the rights of shareholders to subscribe for treasury shares are also excluded. With the exception of shares sold in return for contributions in kind or the cancellation of shares, the Class A shares sold or used while excluding subscription rights may not exceed 10 % of the share capital attributable to Class A shares.

Further details on the authorisation can be found in the corresponding resolution.

7.5 Under Article 6 of the articles of association and Section 237 (1) AktG, the company is authorised to cancel Class A or S shares against payment of appropriate compensation if the shareholders whose shares are to be cancelled have given their consent.

8. The following material agreements include regulations that apply in the case of a change of control, as may result from a takeover bid:

In September 2015, the company took out three promissory note loans with a total volume of € 53,000,000 and issued a total of 44 registered bonds with a combined nominal value of € 22,000,000. Partial repayments will be due between 30 September 2022 and 30 September 2025 for the promissory note loans and between 30 September 2027 and 30 September 2030 for the registered bonds. If there is a change of control at HHLA, the holders or creditors of registered bonds and promissory note loans and tranches thereof are entitled to demand early repayment. However, the creditors of promissory note loans and tranches thereof are only entitled to demand such early repayment if the parties cannot come to an agreement regarding the continuation of the respective loan, and the lender concerned cannot be reasonably expected – taking into account HHLA's legitimate interests – to accept the continuation of the unchanged loan agreement. A change of control can be said to have taken place if the Free and Hanseatic City of Hamburg directly or indirectly holds less than 50.1 % of the voting rights in HHLA.

The service contracts valid during the reporting period for Executive Board members also contain a regulation that states they have a right to severance pay if their membership of the Executive Board is terminated due to a change of control or comparable circumstances (see item 9 below).

9. The service contracts of Executive Board members valid during the reporting period contain clauses that provide for the payment of remuneration to the respective Executive Board members in the event of them losing their Executive Board seats due to a change of control or similar circumstances. The company was originally obliged to pay the respective Executive Board member any outstanding remuneration for the remaining term of the service contract in a lump sum, discounted by 2 % per annum, less certain other income earned by the Executive Board member until the end of the service contract. In the Executive Board contracts drawn up or extended in 2015 and 2016, the above entitlements were successively limited in all contracts – in line with the recommendations of the German Corporate Governance Code – so that not more than two annual salaries (including other benefits) and not more than the total remuneration for the remaining term is payable in the event of premature termination of an Executive Board contract (including termination due to change of control). The new provision applies to all Executive Board contracts since 1 January 2017.

The provisions described above correspond to the legal situation and are standard practice at comparable listed companies. Their intention is not to complicate any possible takeovers.

Notes to the Separate Financial Statements for HHLA Prepared in Line with the German Commercial Code (HGB)

Unlike the Consolidated Financial Statements, the Annual Financial Statements for Hamburger Hafen und Logistik Aktiengesellschaft (HHLA AG) are not prepared in accordance with International Financial Reporting Standards (IFRS). Instead, they are based on the regulations contained in the German Commercial Code (HGB).

Company Overview

Structure and Commercial Activities

Hamburger Hafen und Logistik AG (HHLA AG) is a leading European port logistics group. HHLA AG is the parent company of the HHLA Group and runs the Group as a strategic management holding company. Its operations are carried out by the 32 domestic and 14 foreign subsidiaries that make up the consolidated group. No significant legal or organisational changes were made to the company structure in the 2016 financial year.

HHLA AG is a legally independent company and was split into two divisions – the A division and the S division – as part of the initial public offering on 2 November 2007.

The A division represents the Port Logistics subgroup. The Class A shares, which are listed on the stock exchange, entitle shareholders merely to participate in the result and net assets of these commercial operations. The performance and financial result of the Real Estate subgroup are attributed to the S division. Class S shares are not traded on the stock exchange and are held solely by the Free and Hanseatic City of Hamburg (FHH). In the unlikely and unprecedented event of the Real Estate subgroup reporting a loss, this would be indirectly transferred to the Free and Hanseatic City of Hamburg in line with a separate agreement to assume losses.

Employees

HHLA AG had a total of 1,190 employees as of 31 December 2016 (previous year: 1,237). Of this number, 349 received wages (previous year: 363), 774 received a salary (previous year: 783) and 67 were apprentices (previous year: 91). Of the 1,190 staff members, 591 were assigned to companies within the HHLA Group in the reporting year.

Economic Environment

Industry and macroeconomic developments are largely in line with those at the HHLA Group.

Earnings Position

Key Figures

in € million	2016	2015	Change
Revenue	157.9	121.2	30.2 %
Other income and expenses	- 179.2	- 131.6	- 36.2 %
Operating result	- 21.3	- 10.4	neg.
Financial result	- 6.9	- 36.0	80.9 %
Result from equity investments	94.2	81.7	15.3 %
Income taxes	- 18.4	- 6.2	neg.
Net profit	47.6	29.1	63.5 %

The **revenue** recorded by HHLA AG resulted mainly from the charging of personnel expenses for holding company staff assigned to the spun-off Container and Logistics segments and from billing administrative services for IT systems which are pooled with HHLA AG. Revenue totalled € 157.9 million in the reporting year (previous year: € 121.2 million). The € 36.7 million increase was largely due to the restructuring of the Logistics segment and the resulting income from the termination of the lease for the Übersee-Zentrum.

Other income and expenses reduced earnings by an additional € 47.6 million compared with the previous year. This was mainly attributable to higher expenses in connection with restructuring measures in the Logistics segment as well as other income from the transfer of property, plant and equipment in the previous year.

The year-on-year improvement in the **financial result** resulted mainly from changes in provisions due to interest rate fluctuations.

The **change in income from equity investments** was mainly due to the performance of the Container segment. The net profits of HHLA's affiliates and equity investments recognised in profit or loss rose by € 12.5 million to € 94.2 million (previous year: € 81.7 million).

The € 12.2 million increase in **income taxes** resulted mainly from a significant improvement in the financial result and income from equity investments.

The company's **annual net profit** amounted to € 47.6 million in the reporting period (previous year: € 29.1 million). The A division accounted for € 38.8 million of this amount (previous year: € 22.5 million) and the S division for € 8.7 million (previous year: € 6.6 million).

Forecast and Actual Figures

in € million	Actual 2015	Forecast 2016	Actual 2016
Net profit	29.1	At previous year's level	47.6

The differences between forecast and actual figures were mainly due to those circumstances listed in the section on the Group's earnings position. In addition, the change to the regulation under commercial law regarding interest rates for calculating the present value of pension provisions led to a significant decline in interest expenses and therefore had a positive impact on net profit for the year. ▶ see Course of Business and Economic Situation, page 32

Assets

Balance Sheet Structure

in € million	31.12.2016	31.12.2015
Assets		
Intangible assets and property, plant and equipment	17.7	10.6
Financial assets	386.7	387.4
Other assets	654.8	641.3
Balance sheet total	1,059.2	1,039.3
Equity and liabilities		
Equity	496.9	495.4
Pension provisions	303.3	313.1
Other liabilities	259.0	230.8
Balance sheet total	1,059.2	1,039.3
Equity ratio in %	46.9	47.7
Intensity of investments in %	1.7	1.0

The carrying values of intangible assets and property, plant and equipment amounted to € 17.7 million at the end of the reporting period (previous year: € 10.6 million). Capital expenditure totalled € 10.3 million in the reporting period (previous year: € 4.2 million). Capital expenditure focused mainly on expanding the IT landscape.

Financial assets decreased slightly by € 0.7 million to € 386.7 million.

Development in Pension Provisions

in € thousand	2016	2015
Carrying amount on 1 January	313,095	293,516
Expense recognised in profit and loss	8,754	38,250
Pension payments	- 18,522	- 18,671
Carrying amount on 31 December	303,327	313,095

HHLA AG uses the projected unit credit method to value entitlements associated with existing pension obligations. Future obligations are projected based on past service and possible future service prior to the insured event occurring. Anticipated future pension and pay increases are also taken into account. For the first time, an average market interest rate for the past ten years of 4.01 % set by Deutsche Bundesbank was applied for the reporting year (previous year: average market interest rate for the past seven years of 3.89 %).

In accordance with Section 253 (2) sentence 2 HGB, a remaining term of 15 years is used as a basis. Pension provisions amounted to € 303.3 million at the end of the reporting period (previous year: € 313.1 million).

Financial Position

Liquidity Analysis

in € million	2016	2015
Financial funds as of 01.01.	399.3	368.7
Cash flow from operating activities	67.6	54.4
Cash flow from investing activities	- 9.6	7.6
Cash flow from financing activities	- 52.0	- 31.4
Financial funds as of 31.12.	405.3	399.3
of which receivables from subsidiaries	201.7	191.2
of which cash and cash equivalents	203.6	208.1

Cash flow from operating activities totalled € 67.6 million in the reporting year (previous year: € 54.4 million). It was dominated by income from equity investments. Cash flow in the reporting year was sufficient to fund capital expenditure.

In connection with existing cash pooling agreements, financial funds comprised receivables from subsidiaries in the amount of € 201.7 million (previous year: € 191.2 million), cash and cash equivalents in the form of bank balances totalling € 129.6 million (previous year: € 164.2 million) – of which € 10.0 million (previous year: € 70.0 million) was short-term bank deposits – and clearing receivables of € 74.0 million (previous year: € 43.9 million) from HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, Hamburg (HGV). The S division of HHLA AG participates in the cash clearing system operated by HGV. The A division also utilises the option of investing surplus liquidity with HGV whenever this is advantageous for HHLA AG.

As expected, the financial position remained stable in the reporting period.

Risk and Opportunity Report

Business developments at HHLA AG are mostly subject to the same risks and opportunities as those of the HHLA Group. HHLA AG shares in the risks of its subsidiaries and equity investments in line with its respective shareholding.

As the parent company of the HHLA Group, HHLA AG is incorporated into the Group-wide risk and opportunity management system. The Risk and Opportunity Report contained in the Combined Management Report provides a description of the internal control system as required by Section 289 (5) of the German Commercial Code (HGB). ▶ see Risk and Opportunity Report, page 42

Business Forecast

Outlook

Due to its close ties with the affiliated companies and its weight within the Group, the expectations for HHLA AG are reflected in the business forecast for the Group as a whole. It is anticipated that the statements made for the HHLA Group regarding market and revenue developments will largely be mirrored by the revenue of HHLA AG. Furthermore, the income from equity investments is expected to make a substantial contribution towards HHLA AG's earnings. ▶ see Business Forecast, page 40

Expected Earnings Position in 2017

Based on the expected developments, HHLA AG anticipates net profit for the year on a par with the previous year. Potential one-off expenses for organisational restructuring in the Container segment would reduce net profit after tax by up to € 10 million.

Expected Financial Position in 2017

HHLA AG expects its financial position to remain stable.

Dividend

As in the previous year, HHLA AG's appropriation of profits is oriented towards the development of earnings in the financial year ended. The distributable profit and stable financial position provide the foundation for a continuation of the company's consistent dividend policy.

Statement of the Executive Board

Under the circumstances known to the Executive Board at the time the transactions listed in the related parties report in accordance with Section 312 of the German Stock Corporation Act (AktG) were carried out or actions were committed or omitted, the company received adequate consideration for the transaction and was not disadvantaged by committing or refraining from said actions.

In accordance with Article 4 of the articles of association, the Executive Board, with analogous application of the provisions of Section 312 of the German Stock Corporation Act (AktG), must prepare a report on the relationships between the A division and the S division. Under the circumstances that were known to the Executive Board at the time when the legal transactions specified in the report on the relationships between the A division and the S division were completed, both divisions received appropriate consideration. Any expenses and returns that could not be attributed directly to one division were divided among the divisions in line with the articles of association. No steps were taken or omitted at the behest or in the interests of the other division in each case.

Hamburg, 2 March 2017

Hamburger Hafen und Logistik Aktiengesellschaft

The Executive Board

Angela Titzrath

Dr. Stefan Behn

Heinz Brandt

Dr. Roland Lappin

Some of the disclosures in the Management Report – including statements on revenue and earnings trends and on possible changes in the sector or the financial position – contain forward-looking statements. These statements are based on the current best estimates and assumptions of the company. Depending on whether uncertain events materialise, HHLA's actual results, including its earnings and financial position, may differ materially from those explicitly or implicitly assumed or described in these statements.