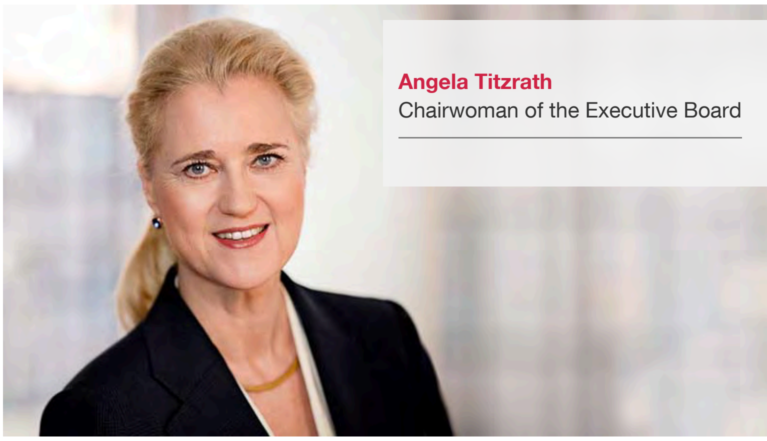
Sustainability



Angela Titzrath
Chairwoman of the Executive Board

Ladies and Gentlemen,

We pursue a sustainable business model by doing business responsibly and with a focus on the future. It is our firm belief that profitable growth and future business success depend to a great extent on acting in a forward-looking and responsible manner. We have enhanced our sustainability efforts by successfully implementing a number of economic, environmental and social measures. The use of state-of-the-art technology, compliance with best-practice social standards, the implementation of highly efficient business processes and value-based corporate governance are the core elements of our sustainability strategy. In other words, sustainability in thought and deed is at the heart of all HHLA's business decisions.

Ecologically sustainable transport chains lay the foundation for our economic success. This is why we have increased our investment in intermodal transport. We set standards in environmentally friendly transport with our value-adding investments in highly efficient hinterland terminals, eco-friendly electric locomotives, hybrid shunters and quiet container wagons. In this way, we have successfully transferred traffic from road to rail while attracting and retaining cargo for our seaport terminals. In 2016, we added two tracks to the rail terminal at our Container Terminal Altenwerder, taking the total to nine. This increased the terminal's capacity by 140,000 to 930,000 standard containers. HHLA has thus once again made an important contribution towards strengthening the Port of Hamburg, Europe's largest "rail port".

As well as transferring freight transport from road to more eco-friendly rail, the implementation of our sustainability strategy is also determined by the business processes at our terminals. Automated, electrified processes and equipment play a vital role in helping us reach our environmental and climate protection targets, while also improving space efficiency. The trend towards ever-larger ships and the subsequent increase in peak loads at our facilities requires greater energy consumption. We are combating this development by using energy-efficient devices and optimizing our processes. In addition, we are replacing our diesel-powered devices and equipment with electric technology. We use electricity from renewable sources in order to reduce CO_2 emissions. Based on the positive experience we have made so far with battery-operated automated guided vehicles (AGVs), we took the decision in 2016 to replace all remaining diesel-powered AGVs with electric AGVs. The uptake of e-mobility has been slower than expected in Germany – but not at HHLA. Our fleet of electric cars was expanded by 10 percent to 77 vehicles in the reporting period. This means that we now have the largest e-vehicle fleet of any European port.

In view of the measures implemented and resolved in the past financial year, we are confident of reaching the climate protection goal we set ourselves by 2020. Based on our 2008 figures, we aim to reduce our CO_2 emissions per container handled by at least 30 percent by 2020. At the end of 2016, we had already achieved a reduction of 27.3 percent. Our increased use of electric technology not only reduces climate-damaging CO_2 emissions, it also cuts local emissions of other harmful substances and noise. In this way, HHLA is making a measurable contribution towards improving local air quality.

HHLA operates in eleven European countries and approximately one third of its employees are based outside Germany. We offer our 5,500-plus employees a wide range of benefits and workplaces that meet the highest occupational health and safety standards. The modern business world is undergoing radical change. In order to meet this challenge, we strive to continuously enhance the skills of our employees. Specialised vocational training and professional development programmes help them acquire the necessary knowledge. Our employees are the foundation upon which we can build our long-term success. This belief is also reflected in our HR strategy, which considers such aspects as a healthy work-life balance and diversity criteria.

Our real estate experts continue to drive the sustainable development of Hamburg's Speicherstadt historical warehouse district – designated a UNESCO World Heritage Site – taking into account its listed status and the unique characteristics of this district.

HHLA takes social responsibility by supporting various projects that focus on maritime economics and environmental topics at primary schools in Hamburg. For as the events of 2016 have shown, education is a vital prerequisite for public debate and cohesion in a democratic society.

A. Titzrath

Angela Titzrath
Chairwoman of the Executive Board

Sustainability Strategy

Sustainable business practices have long been an integral part of HHLA's business model. The company connects port terminals with hinterland networks to transport chains for environmentally friendly global flows of goods that conserve resources in an exemplary fashion. Corporate management is also geared towards the principle of sustainable value creation. In this way, HHLA demonstrates how environmental and economic targets can be reconciled with one another.

HHLA's sustainability strategy is based on three pillars: the environment, society and the economy. Ten fields of activity and guidelines have been defined and implemented in HHLA's sustainability initiative. The fields of activity focus on environmentally friendly transport chains, climate protection and efficient land use. This lays the foundations for HHLA to take a leading role in the area of sustainability.

Sustainability Organisation and Dialogue

A Sustainability Council headed by the Chairman of the Executive Board is responsible for the sustainability strategy. The Council comprises managers from within the Group as well as the external expert Prof. Schaltegger from the Leuphana University of Lüneburg. This body provides a forum for discussing and approving sustainability issues and measures across the Group, as well as for regularly evaluating and updating the existing stakeholder structure. At Group level, the sustainability team reports directly to the Chairman of the Executive Board.

HHLA engages in regular dialogue with its stakeholders, including customers (e.g. shipping companies), customers' customers (e.g. forwarders), employees, suppliers, potential and existing shareholders and investors, associations and institutions, research institutes, political decision makers, NGOs, local residents close to the terminals and interested members of the public. The Annual Report is an established medium that supplements this regular dialogue and takes the stakeholder groups' interests into account. ▶ see Materiality Analysis, page 159

Principles and Reporting Standards

HHLA's commitment to sustainability is binding, transparent, measurable and comparable. The company applies the Global Reporting Initiative (GRI 4 standard) guidelines on sustainability reporting, the most commonly used standard of its kind in the world. In doing so, HHLA also facilities comparison at an international level.

Furthermore, HHLA was the first maritime company to issue a declaration of compliance with the German Sustainability Code (GSC). This declaration of compliance is available at www.nachhaltigkeitsrat.de. The GSC lists 20 different criteria relating to environmental, social and corporate governance aspects, each with up to two performance indicators. Issues such as the resource consumption, compliance, equal opportunities and health protection for employees play an important role in the code. Companies are also expected to provide clear sustainability targets.

Sustainability Initiative

	Fields of activity	Guidelines
Ecology	Ecological transport chains	Actively liaise with other logistics operators and create sustainable, environmentally friendly transport chains
	Land conservation	Increase the efficient use of port and logistics areas
	Nature protection	Minimise impact on nature and actively protect natural habitats
	Climate protection	Utilise technically and economically viable methods to reduce CO_2
Society	Occupational safety / health promotion	Safety, appropriate working conditions and promotion of health-conscious behaviour
	Staff development	Vocational education, training and CPD as well as tailored staff development programmes
	Social responsibility	Intensify dialogue with society; information and discussions regarding port logistics
Economy	Added value	Make an ongoing and significant contribution to added value and thus raise prosperity at all locations
	Business partners	Tailor-made customer solutions and reliable cooperation with suppliers
	Shareholders	Long-term increase in enterprise value and transparency for investors

Materiality Analysis

The nature of HHLA's business means it has a large number of stakeholders with a variety of expectations and demands. In order to understand these expectations and demands more fully, HHLA conducted a materiality analysis in 2015 as part of its sustainable management activities, in which sustainability topics of political relevance to its internal and external stakeholders were examined. The collection and evaluation of the data was based on the Global Reporting Initiative (GRI) guidelines. HHLA performs a stakeholder survey every two years in order to review the results of the materiality analysis and to enable early recognition of changes in stakeholder expectations.

The Stakeholder Survey Process

At a meeting of the Sustainability Council, HHLA's most significant stakeholders were first identified. This was initially based on internal sources, such as a list of key customers. The main stakeholders identified were customers (e.g. shipping companies), customers' customers (e.g. forwarders), employees, business partners and suppliers, the media, potential and existing shareholders, associations and institutions, research institutes, political decision makers, NGOs, and local residents close to the terminals.

Secondly, a list of topics known to be relevant to both internal and external stakeholders were was drawn up. The results from HHLA's sustainability initiative "On Course" were also included in the data collection as the initiative had already discovered relevant topics and determined the main fields of activity.
▶ see Sustainability Strategy, page 158

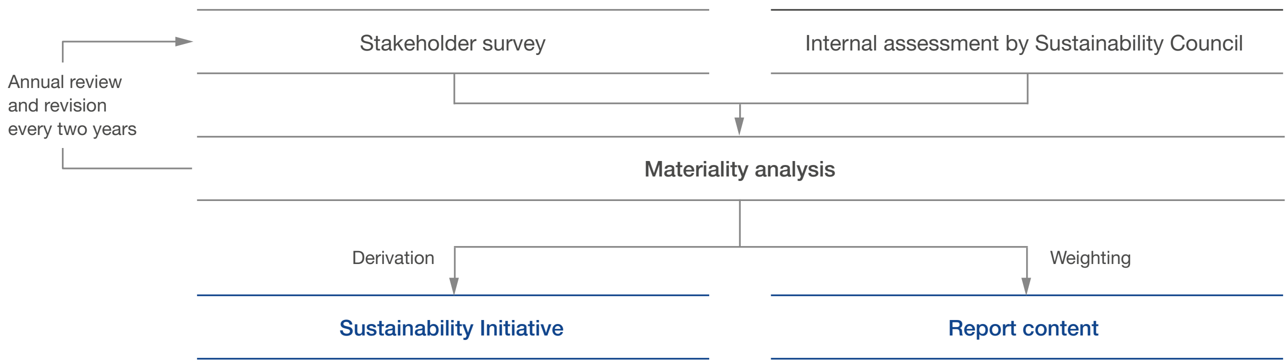
A two-week online survey using a standard questionnaire was then carried out worldwide. External stakeholders from all of the groups identified as well as managers from a number of different divisions took part. In total, approximately 100 people rated topics of potential relevance to HHLA, particularly customers, business partners, suppliers and HHLA staff. All stakeholder groups participated in the survey. Stakeholders also had the chance to rate the importance of topics, as well as add to them or make comments on them. The results of the stakeholder survey were discussed during a Sustainability Council meeting and presented to the Executive Board.

Results of the Stakeholder Survey

The materiality matrix shows the ranking of all sustainability topics. The assessments provided by external stakeholders are combined with those of internal stakeholders in the matrix. The result is a prioritisation of the topics. Key aspects are considered material if they are relevant from the point of view of internal and/or external stakeholders.

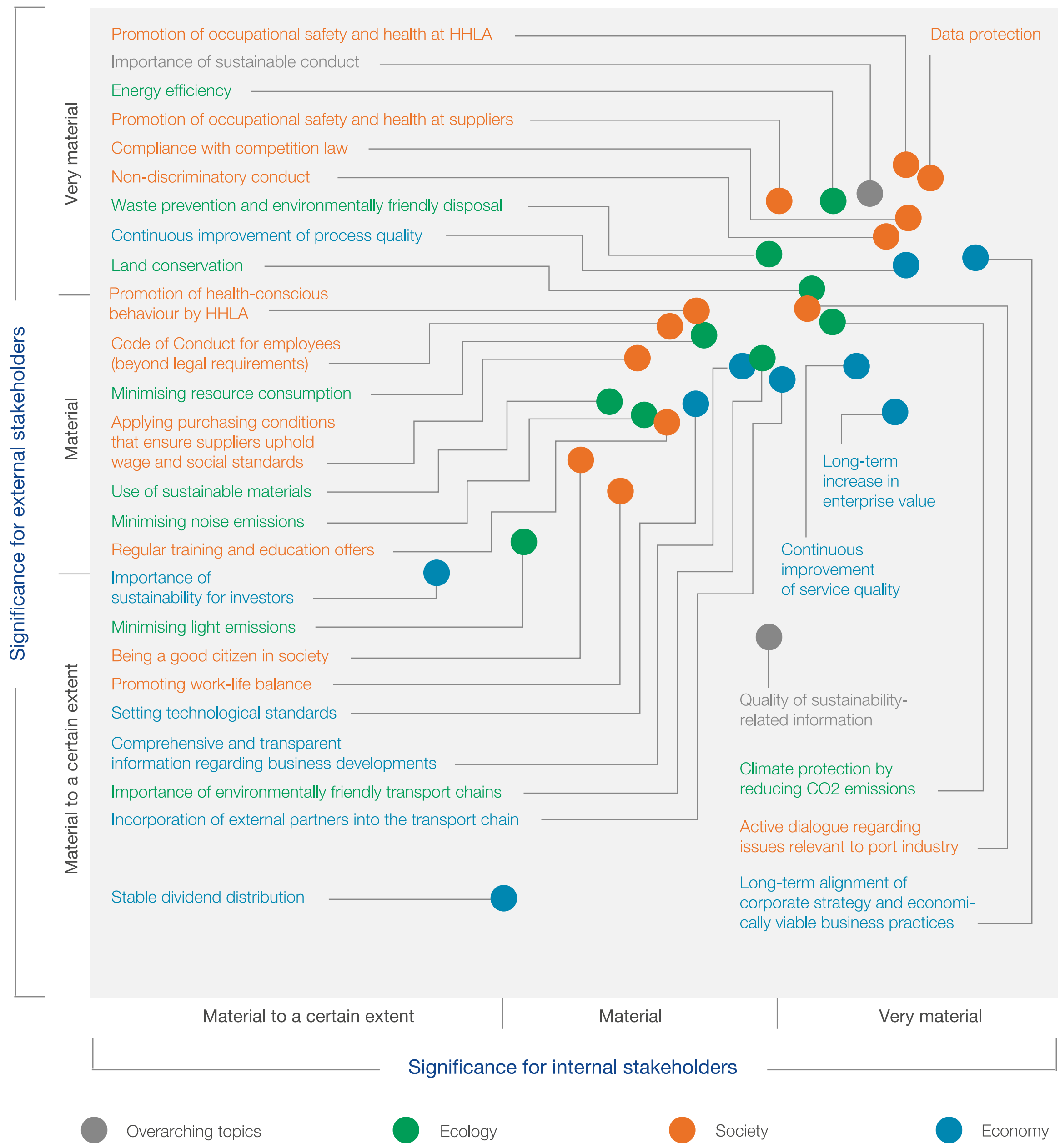
Ensuring a high level of data protection, high occupational safety standards, sustainable conduct, compliance, energy efficiency, continual improvements in quality, the long-term alignment of corporate strategy and the drafting of a Code of Conduct to ensure non-discriminatory behaviour amongst staff and towards third parties were all rated as very material. The topics of carbon emission reductions, occupational safety and health promotion at suppliers, waste prevention and environmentally appropriate disposal, as well as area optimisation and an active dialogue on topics relevant to port management were regarded as material by the survey participants. With a clear majority, the main reasons stated for HHLA's sustainable approach were a long-term, stable economic development and a reduction of environmental effects. The majority of those surveyed considered themselves generally well informed regarding sustainability topics.

The Materiality Analysis Process



Materiality Matrix

Evaluating the relevance of sustainability topics for HHLA



Due to the high correlation of external and internal stakeholders' ratings of potentially relevant topics, only slight adjustments had to be made to the weighting of topics compared with earlier reports. The main fields of activity defined during the sustainability initiative were also largely confirmed by the results: none of the potentially relevant topics were rated as immaterial or less material.

Materiality Analysis

In line with the new G4 guidelines of the Global Reporting Initiative, a comprehensive materiality analysis was carried out for the first time. The results are displayed in the following table. The topics have been assigned to the fields of activity determined by HHLA's sustainability initiative "On Course". The topics "stable dividend distribution" and "importance of sustainability for investors" were rated as "only material to a certain extent". None of the potentially relevant topics covered were rated as immaterial or not very material.

	Fields of activity	Relevance for the stakeholders asked	
		Material	Very material
General		Quality of sustainability-related information	Importance of sustainable conduct
Ecology	Ecological transport chains	Importance of environmentally friendly transport chains	
	Land conservation		Land conservation
	Nature protection	Minimising resource consumption	Waste prevention and environmentally appropriate disposal
		Use of sustainable material	
		Minimising noise emission	
		Minimising light emission	
	Climate protection		Climate protection by reducing CO_2-emissions
			Energy efficiency
Society	Occupational safety/health promotion	Promotion of health-conscious behaviour by HHLA	Promotion of occupational safety and health at HHLA
			Promotion of occupational safety and health at suppliers
	Staff development	Promoting work-life balance	
		Regular training and education offers	
	Compliance	Code of Conduct for employees (beyond legal requirements)	Non-discriminatory dealings
			Data protection
		Applying purchasing conditions that ensure suppliers uphold wage and social standards	Competition compliant behavior
	Social responsibility	Being a good citizen in society	Active dialogue regarding issues relevant to port industry
Economy	Added value	Setting technological standards	Long-term alignment of corporate strategy and economically viable business practices
		Incorporation of external partners into the transport chain	
	Business partners		Continuous improvement of process quality
			Continuous improvement of service quality
	Shareholders	Comprehensive and transparent communication regarding business developments	Long-term increase in enterprise value

Report Profile

Report Framework

The reporting period is the 2016 financial year (1 January to 31 December 2016). The data presented generally refers to this period or the facts and figures at the end of the reporting period. If information refers to a different period of time, this is explicitly stated. The report is published once a year. The previous Annual Report was published on 30 March 2016.

Unless otherwise stated, the key figures and information in this report concern the entire Group including associated companies in which the company has a majority holding. Some sections contain forward-looking statements. These estimates and statements were made to the best of our knowledge and in good faith. Future global economic conditions, legislation, market conditions, competitors' activities and other factors are not within the control of HHLA.

Defining the Content for this Report

The content structure of this Annual Report is regulated by the disclosure obligation for public limited companies as defined by the German Commercial Code (HGB). In addition to details on the financial and economic situation of the company, the report also includes information from HHLA's sustainability programme, "On Course". The concept of an integrated report includes annual financial and sustainability reporting. It illustrates the interaction between economic, environmental and social factors and their relevance to the company's long-term success.

Every two years, HHLA carries out a materiality analysis to determine the most important sustainability topics. This was conducted by means of an international online survey of stakeholders in autumn 2015. The results of this survey were used to determine the key issues for sustainability reporting. It includes all topics identified as material. ▶ see Materiality Analysis, page 159

Data Collection and Calculation Methods

Financial Statements and Reports

All data and information was collected from the respective units responsible for such information using representative methods for the reporting period. HHLA prepares its Consolidated Financial Statements and its Interim Reports in accordance with International Financial Reporting Standards (IFRS). This Annual Report provides further information on IFRS in the Notes to the Consolidated Financial Statements. ▶ see Note 2, Consolidation Principles, page 83

The individual financial statements of HHLA Aktiengesellschaft are prepared in line with the accounting regulations of the German Commercial Code (HGB). The appropriation of profits is based solely on the individual financial statements.

Sustainability Performance Indicators

Sustainability-relevant key figures are input into the internal management information system on a monthly basis and analysed every six months. The Executive Board receives a corresponding report. The sustainability performance indicators are calculated every year and published in the Management Report section of the Annual Report, having been signed off by the auditors. This ensures the reliability of the data. Data comparability and consistency is guaranteed by complying with widely used international reporting standards (e.g. Greenhouse Gas Protocol). ▶ see Sustainable Performance Indicators, page 22

Risk and Opportunity Management

Opportunities and risks are analysed using a comprehensive risk management system. Compliance with corporate guidelines as well as with relevant and recognised national and international industry standards is regarded as an essential part of corporate governance at HHLA. Workflows and processes are structured in line with these regulations. External audits at various HHLA companies (including ISO 14001, ISO 9001, ISO 50001 and CTQI [Container Terminal Quality Indicator]) confirm compliance with recognised international standards. ▶ see Risk and Opportunity Report, page 42

External Audit

The Combined Management Report of the HHLA Group and HHLA Aktiengesellschaft, as well as the Consolidated Financial Statements and Notes, were audited by Price Waterhouse Coopers.

The 2016 Annual Report was prepared in accordance with the international G4 guidelines of the Global Reporting Initiative and meets the option "Comprehensive".

GRI Index

The GRI index refers to parts in this Annual Report or sections of the HHLA website that provide information about individual GRI indicators. The index is available exclusively at www.bericht.hhla.en/gri.