

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

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

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

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

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

Corporate Strategy

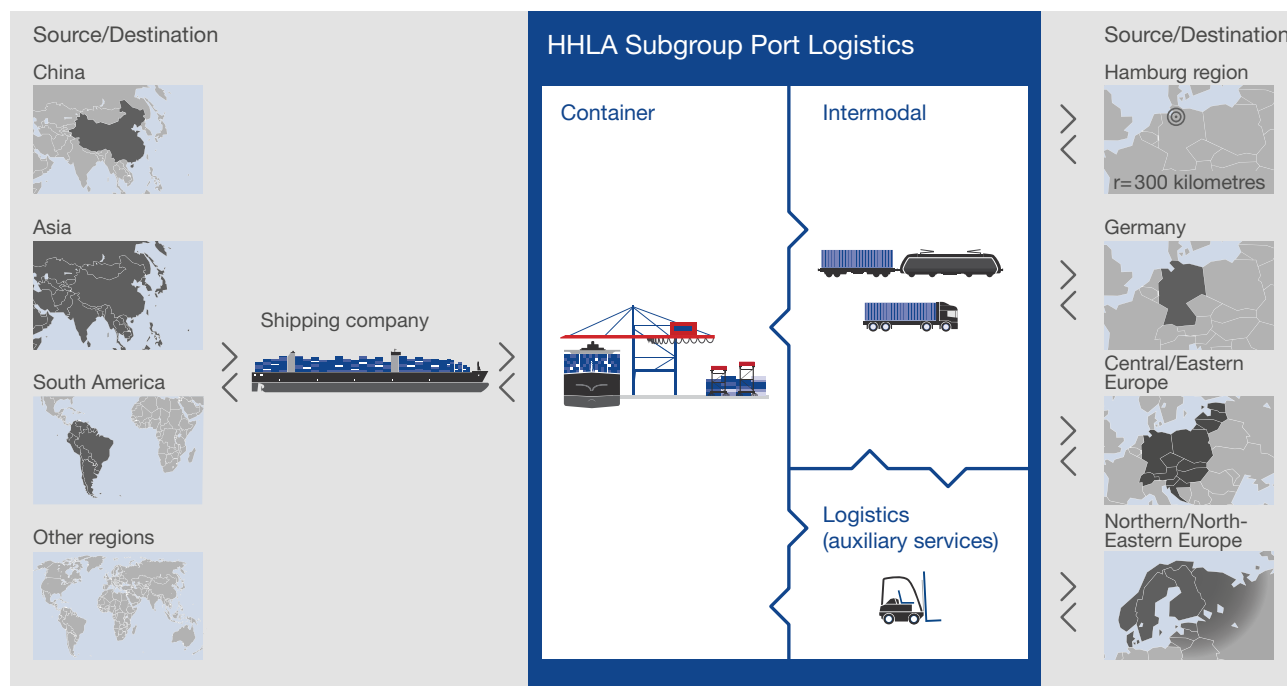
HHLA's strategy is aimed at assuming a leading position as a **port logistics provider** and thus achieving sustainable growth in its enterprise value. With its business model of vertical integration along the transport chain between the international seaport and its European hinterland, HHLA believes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

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

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

Vertical Integration

HHLA's strategic foundation



Establishing and Enhancing Quality and Efficiency Leadership

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

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

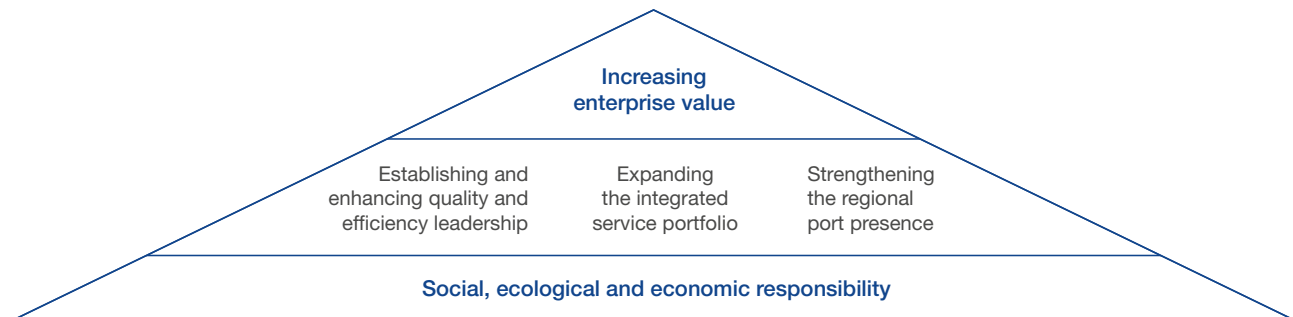
Expanding the Integrated Service Portfolio

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

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

Corporate Strategy

Sustainably increasing enterprise value at HHLA



Strengthening the Regional Port Presence

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

Corporate and Value Management

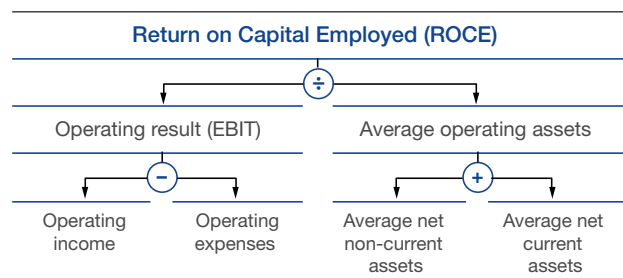
HHLA's primary financial objectives include the long-term, sustainable growth of its enterprise value. HHLA uses a Group-wide value management system for the planning, management and monitoring of its commercial activities. No changes were made to this system in the 2016 financial year.

Financial Performance Indicators

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

Value Management

ROCE – defining parameters and influential factors



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

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 collabora-

tion 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 quay-side 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 prod-

ucts 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.

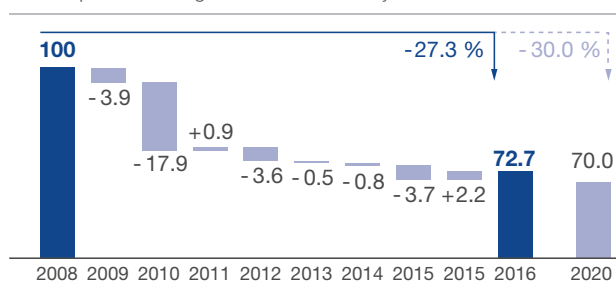
HHLA calculates its **CO₂ emissions** on the basis of the Greenhouse Gas Protocol Corporate Standard (revised edition), a global standard for recording greenhouse gas emissions. Within the HHLA Group, emissions mainly relate to CO₂. These are primarily influenced by throughput and transport volumes, 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 CO₂ emissions in line with the recommendations of the European Economics Environment Group (EEEG).

HHLA has set itself the target of reducing **specific CO₂ emissions** – the CO₂ 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 CO₂ emissions by 27.3 % per container handled. Specific CO₂ emissions increased by 2.2 percentage points in the year under review.

Absolute CO₂ 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.

Reduction in Specific CO₂ Emissions since 2008

Climate protection target: 30 % reduction by 2020



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.

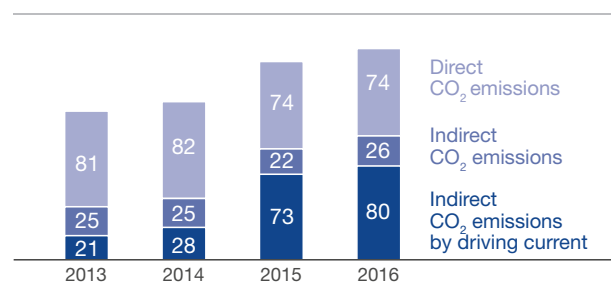
¹ Electricity without traction current

HHLA conducted various **CO₂ reduction projects** to decrease CO₂ 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 CO₂ 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 CO₂-free electricity in the year under review.

Direct and Indirect CO₂ 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 CO₂ 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.

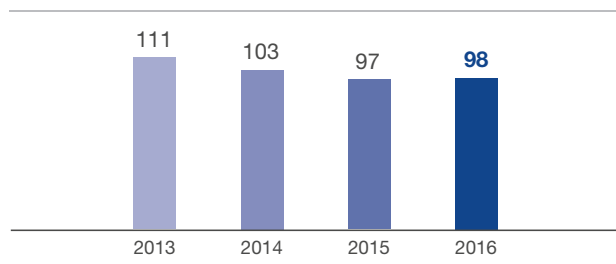
The **energy management system** that was certified according to DIN ISO 50001 for Hamburger Hafen und Logistik AG and HHLA Personal Service GmbH in the previous year was successfully expanded to additional HHLA companies.

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,

Developments in Water Consumption

in dam³



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

Poland, Slovakia, the Czech Republic and Ukraine was virtually unchanged year-on-year, rising by 0.5 % to 97,766 m³ in 2016 (previous year: 97,305 m³). HHLA's facilities in Hamburg draw water from the public supply network.

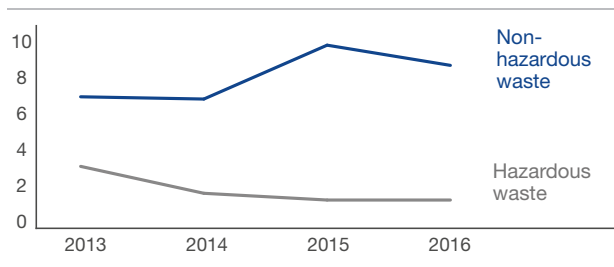
Waste and Recycling

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 CO₂ 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.

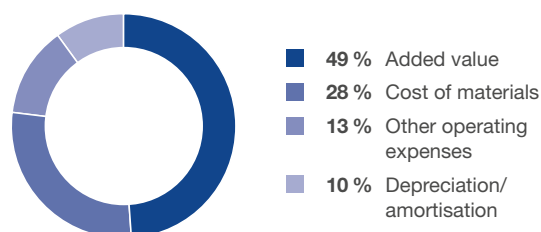
Recognising the link between the port, logistics and the water helps us understand the global division of labour and the importance of sustainable business activities. HHLA's support for educational projects focuses on two particular projects: "Hafen Scouts", a joint initiative of HHLA, which teaches 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

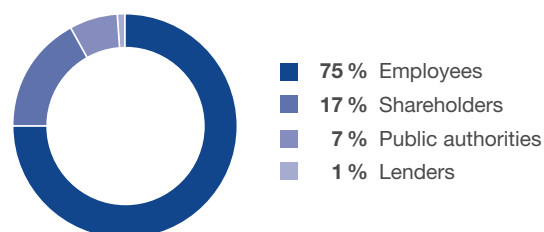
Source of Added Value

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.

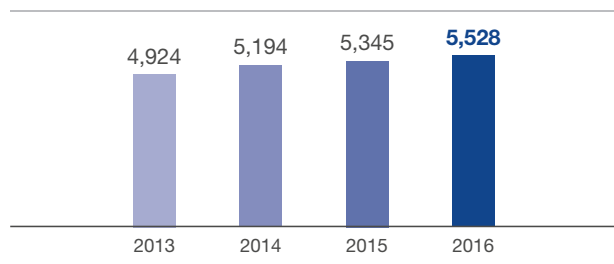
Recruitment

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.

Development of Employees

HHLA Group as of 31.12.



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 %).

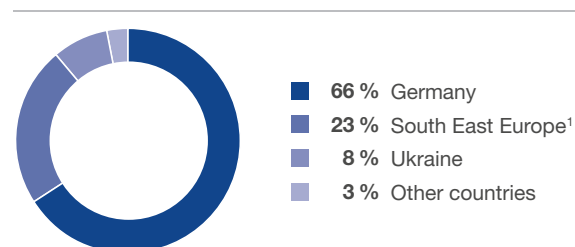
Based on the German Law for the Equal Participation of Women and Men in Leadership Positions, the Executive Board had already set a target quota of 25 % for women in first-level management positions directly beneath the Executive Board in the previous year (status as of 31 December 2016: 17 %; previous 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.

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
30 – 50 years	53.1	16.0	54.0
> 50 years	34.9	10.1	32.5
HHLA Group	100.0	15.4	100.0

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

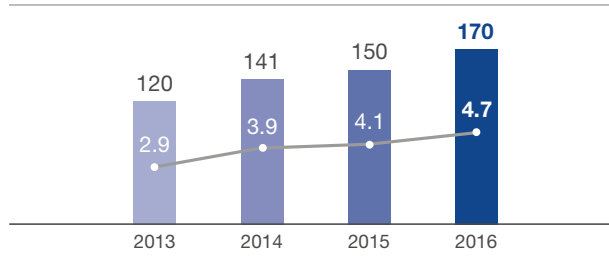
A growing number of people across all employee groups and hierarchy levels in Germany are taking up the option of working part-time to tailor their working hours to different life stages. Offering part-time work is therefore an important way of retaining staff at the company. Allowing staff to adapt 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