

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 boards 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

Key elements of the risk management system are: identifying, assessing, managing, monitoring and reporting risks; clear responsibilities for process participants (managers of affiliates, Internal audit, Group controlling); incorporating all majority shareholdings and companies consolidated using the equity method into the risk consolidation group. The Executive Board bears overall responsibility. Its members deal with and assess the risk management reports on a quarterly basis.

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.

Categorisation of the probability of occurrence

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

Categorisation of the damage amount

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

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.

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 assessment 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. When planning, managing and controlling strategic projects for a specific segment or all segments, the Executive Board of HHLA primarily uses the proprietary resources of the holding company.

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

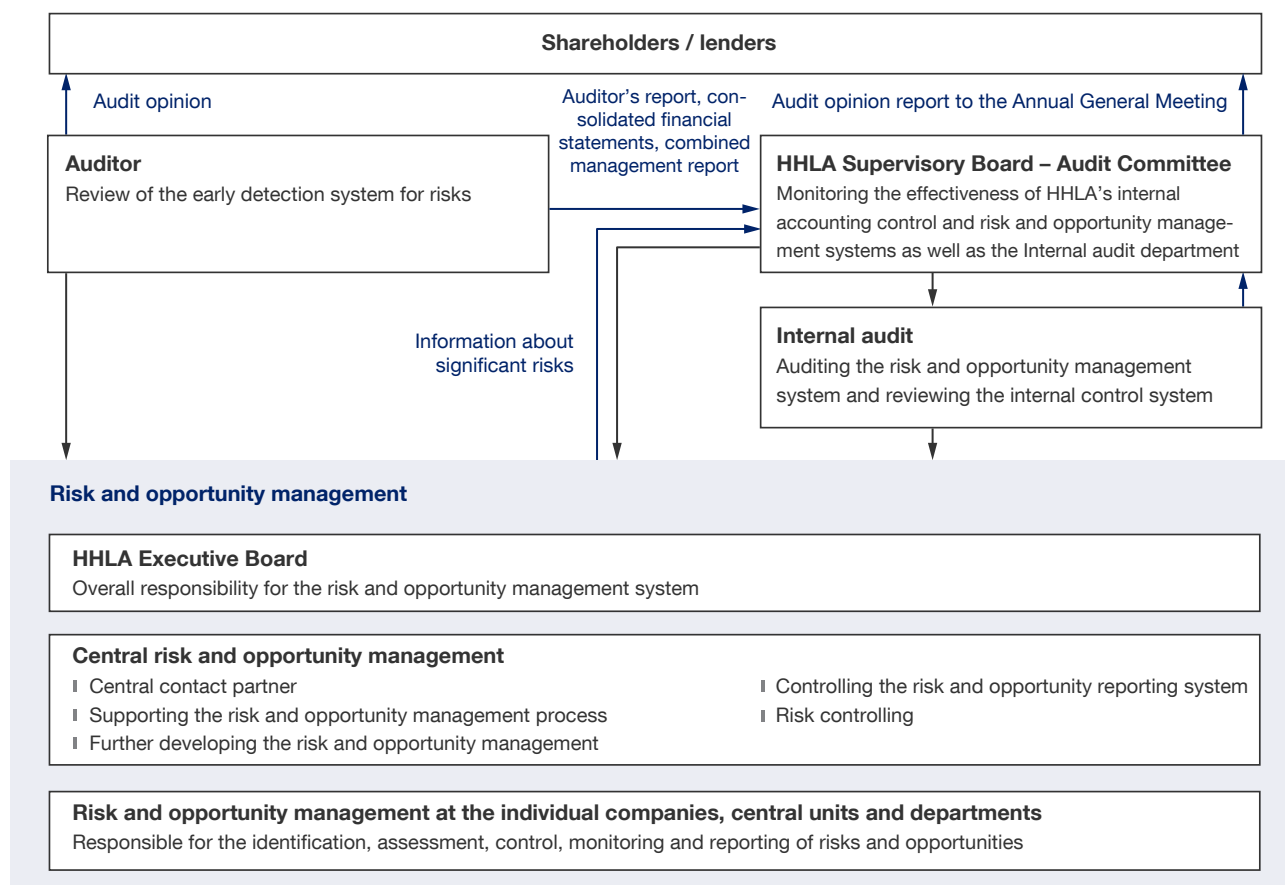
assessment regarding the possibility of fraud. Concluding unusual or complex transactions can lead to specific accounting risks. There is also a latent risk of error when processing non-routine transactions. Employees are by necessity given a certain amount of leeway when recognising and measuring balance 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,

Risk and opportunity management and the internal control system for accounting



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. These form part of a comprehensive IT security guideline, which regulates general access to the IT systems.

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 overview below summarises the main individual risks faced by the HHLA Group, classifies them according to risk areas and lists them in order of decreasing significance.

Ranking of HHLA Group's material risks

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

Since the economic prospects, in particular, are 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.

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. The following section describes the key risks and opportunities identified at Group level, taking into account any measures which have been put in place. No other significant risks have currently been identified, while those that do exist are largely insured against.

Risks and opportunities

1. Market environment

Developments in container throughput, transport volumes 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 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. As a result of the stable forecast for volumes and earnings, the risk assessment remains unchanged for the subsequent year.

Research institutes continue to expect moderate global economic growth in the coming years, although the latest forecasts for 2019 have already been downgraded by most research institutes. The current global economic and political developments are thus already beginning to have an impact. In Europe, for example, the main source of uncertainty is the impact of a possible no-deal Brexit and the development of the Italian debt crisis. The direct impact of a possible Brexit are not significant for HHLA as both the proportion of containers handled by our Hamburg terminals coming from or going to the UK and the potential impact on earnings of HHLA's minority stake in CuxPort are very low. Due to protectionist tendencies already evident from the trade conflicts between the US and the EU and China, the future development of global trade flows is uncertain. Furthermore, the global economic climate will also be burdened by global geopolitical risks, such as the recent withdrawal from the INF Treaty, as well as financial risks resulting from – in some cases significant – interest rate increases. Further factors include additional or extended sanctions against Iran and Russia, as well as currency crises and the volatility of the oil price. Economic growth in China is expected to be slightly slower in 2019, albeit still at an average of around 6 %. More significantly, however, this growth will be primarily driven by domestic demand and will only support global trade to a minor extent.

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 not insignificant proportion of their intercontinental 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 enhancing 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.

The market research institute Drewry estimates that growth in container traffic will slow. Although Drewry anticipates an increase in global container throughput in 2019, it will be below the levels forecast for 2018. Following the marked slump in 2018, the North-West Europe shipping region is set to experience an upturn in throughput in 2019, although the figures are not expected to reach the throughput levels of 2017. Throughput forecasts for the Scandinavian and Baltic ports in 2019 have been dampened and the increase in transshipment volumes is now expected to be slower. The associated volume and capacity risks thus remain relevant for HHLA but are still classed as unlikely.

Throughput and transport volumes in the markets of relevance for HHLA are monitored closely to ensure trends are recognised at an early stage. Where 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 location, the scope and quality of their hinterland links and their accessibility from the sea. The price sensitivity of shipping company customers, particularly for transshipment, may increase further, which could lead to a shift in volumes to competing ports.

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.

In addition to this, regulatory measures may increase the competitiveness of rail transportation in the intermodal marketplace.

Customer structure

HHLA's shipping company customers have operated in a tough competitive environment for container liner shipping for several years now. This is mainly due to structurally related idle capacities and low freight rates. Cost pressure and the resulting consolidation pressure on shipping companies will thus remain high in future.

Even after the restructuring of significant services and key clients on the Asia–Europe trades in 2017, there are still risks and opportunities for HHLA from temporary or structural shifts in services between the North Range ports. As volumes per service and ship call increase with the use of ever-larger vessels, the impact on capacity utilisation at the seaport terminals also grows. However, major changes in the service structure are considered unlikely at present.

In the field of ship handling, HHLA cooperates with many shipping companies on a neutral basis ("multi-user principle"). This enables HHLA to respond flexibly to changes in the container liner shipping sector. In addition, HHLA aims to further 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.

Depending on the customer structure, smaller affiliates may become reliant on individual clients. Various steps are taken to counteract this reliance, such as optimising service quality. At the same time, efforts are made to attract new clients.

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.

Traction costs

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.

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. The subsidy for route prices in freight traffic (TraFöG) introduced in late 2018 by the Federal Ministry of Transport and Digital Infrastructure (BMVI) aims to subsidise rail freight by partly financing track prices. The subsidy applies retroactively from July 2018, with the programme initially set to last for five years. This will also result in opportunities for the HHLA companies in terms of volume and earnings growth.

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. Providing end-to-end transport services using the company's own operating assets guarantees high quality throughout 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.

2. Financial risks

Currency risks

As the bulk of HHLA's services are rendered within the euro-zone, the majority of its invoices are issued in euros. HHLA therefore remains unaffected by the hyperinflation in Argentina. The Intermodal and Logistics segments operate internationally, and a container terminal is operated in 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. As a result, it is impossible to rule out risks such as a further significant devaluation of the Ukrainian currency, the hryvnia, which may exceed the budget estimate. It still remains to be seen whether the political situation in Ukraine 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

Despite increased revenues, the liquidity and earnings position of shipping companies became slightly more strained in 2018 in comparison to the previous year. This was partly due to the high volatility of crude oil prices and higher cost pressure. Nevertheless, market research institutes such as Drewry still expect to see a positive result for the industry in 2018. Shipping companies are expected to increase their profitability in 2019. However, due to the ongoing disequilibrium between trading volumes and ship space, the risk of customers filing for insolvency – with the corresponding loss of throughput and receivables – remains relevant, especially in the Container segment. In view of the overwhelmingly positive earnings position of shipping companies, the risk assessment has been reduced as compared with the previous year and is still regarded as unlikely.

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.

Pension obligations

The reference interest rate for measuring the necessary provisions for company pensions is expected to continue its return to normal levels, but only in the medium to long term. Any further reduction in historically low interest rates would prompt another increase in pension provisions and a resulting decline in the equity ratio. In view of the anticipated interest rate trend, the risk assessment largely corresponds to that of the previous year. HHLA monitors interest trends so that it can adjust its provisions as necessary.

Further rises in pension provisions may prove necessary if additional vested rights in excess of the current regulations are recognised by the courts. The corresponding court case continues. The risk of litigation is still deemed low at present.

Please see the report 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. [Notes to the consolidated financial statements, no. 47 Management of financial risks](#)

3. Other risk and opportunity factors

Flooding

As a result of the existing structural situation and the fact that HHLA's Hamburg 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 systematically 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.

The acquisition of Transiidikeskuse AS (TK), Estonia's biggest container and multi-function terminal, incorporated as HHLA TK Estonia since September 2018, serves the strategic expansion of the HHLA network.

HHLA is in a sound financial position. It therefore has the financial means to make further acquisitions.

Digitalisation

HHLA has digital expertise, as exemplified by the introduction of the slot-booking process for trucks in 2017. Based on HHLA's ambition to drive the port's digital transformation process, further innovations in the field of digitalisation are to be initiated and implemented with the aim of enhancing the company's value. These include a Group-wide evaluation to identify digitalisation potential. Structured processes are being established in order to achieve this. Investments are also being made in accelerators such as the Next Logistics Accelerator and Next Commerce Accelerator, and direct equity stakes have been acquired in highly promising start-ups. This may result in opportunities to generate additional value added.

Technological innovations

One of HHLA's targets is to relieve the pressure on the transport infrastructure in and around the Port of Hamburg by seeking innovative and sustainable solutions and using the capacities of its terminals more efficiently. To this end, HHLA set up a joint venture with the US research and development company Hyperloop Transportation Technologies (HTT). The plan is to construct a transfer station at an HHLA container terminal, which can transport maritime containers – packed in the corresponding transportation pods – at high speed via a tube system (hyperloop). [Research and Development](#) The initiation of other projects will hopefully result in additional opportunities for boosting efficiency and value added.

4. 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. 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. 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. This in turn could cause throughput and transport volumes to bypass HHLA's sites.

The dredging of the lower and outer stretches of the river Elbe should enable ships with a draught of up to 14.50 m to use the Port of Hamburg, depending on the tide. Ships with a draught of up to 13.50 m should then be able to pass through the lower and outer stretches of the river Elbe regardless of the tide. This will play a major role in maintaining and boosting the competitiveness of the Port of Hamburg. Planning permission was obtained in August 2018, when the third supplementary planning decision was issued. The suit brought against the current planning decision by environmental associations in September 2018 has not delayed the project. The shipping companies may, however, continue to reschedule their mega-ship liner services during the construction phase and traffic could bypass the Port of Hamburg – possibly permanently. This would result in a corresponding loss in earnings. In the meantime, however, this is viewed as unlikely (previous year: possible).

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. Deficits and delays in the expansion of the rail network, for example, could lead to the weakening of Hamburg's competitiveness as a rail port. The short-term potential effects of this have been reassessed by the Hamburg container terminals but are still seen as unlikely. In the Intermodal segment, there may be additional costs or delays due to bottlenecks in the rail network. This may result from poor rail infrastructure or delays caused by construction work, for example. The flexibility offered by our own rolling stock helps to ensure that major impacts on our earnings are unlikely. Projects of special significance for HHLA include the future replacement of the Köhlbrand Bridge, whose useful life looks set to end in 2030, the construction of the port crossing (A 26) and the upgrading of the Kiel canal, including its locks.

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

5. 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 the code of conduct, as well as on other issues such as the prevention of corruption and conduct in the competitive environment, in line with the current risk profile. All of these activities are supported by additional communication measures, for example via the HHLA intranet and the HHLA team app. There are also opportunities for both employees and third parties to report violations (whistle-blower hotline). Should compliance violations occur, specific process adjustments may be undertaken to prevent them in future. For instance, in cases of theft, corresponding security measures are reviewed and possibly introduced to prevent as far as possible any further disappearance of such items. The introduction of a system-based business partner screening is also being prepared in order to facilitate standardised, risk-oriented screening of HHLA's business partners across the Group.

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.

6. IT risks

In the event of a cyber attack, temporary restrictions or failures in IT applications, e.g. due to the destruction or ransomware of data, cannot be ruled out. However, extensive measures are in place to protect against attacks and/or significantly reduce any negative consequences. These include prevention measures

using tools such as specific filter mechanisms, maintaining backup systems (above all for data and information sharing) and communicating closely with business partners.

7. Service provision risks

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 or repair, contingency plans and breakdown services, regular inspections and tests are performed to help identify possible faults before they happen. This significantly lowers the risk.

The strategy of increasingly using our own locomotives and wagons has proven effective for HHLA's rail subsidiaries. For this reason, the potential losses from performance deficits caused by external service providers reported in the previous year are no longer regarded as significant. The focus of this risk has now been transferred to infrastructural risks (see above).

In contrast to the previous year, therefore, the risks relating to the provision of services are no longer considered as major risks for the HHLA Group but will continue to be tracked and observed.

Corporate governance

Combined corporate management declaration and corporate governance report

The following section contains the **combined corporate management declaration** for HHLA and the Group in accordance with Section 289f HGB and Section 315d in conjunction with Section 289f HGB, as well as the **corporate governance report** by the Executive Board and Supervisory Board in accordance with Section 3.10 of the German Corporate Governance Code (hereinafter "the Code" or "GCGC").

Implementation of the Code

Responsible and transparent corporate management geared towards creating sustainable value has always been a main foundation of HHLA's commercial success. HHLA therefore expressly supports the Code and the objectives and purposes that it pursues. The Executive Board and Supervisory Board once again took great care to ensure the recommendations and suggestions of the Code were met in the 2018 financial year and submitted their annual declaration of compliance in accordance with Section 161 AktG in December 2018. This confirms that the management and corporate culture of HHLA and the Group comply with the recommendations and most of the suggestions contained in the Code, with only a few exceptions. 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 AktG

The Executive and Supervisory Boards of HHLA submitted the following joint declaration of compliance in accordance with Section 161 AktG on the recommendations of the Government Commission on the German Corporate Governance Code on 7 December 2018: "The Executive Board and Supervisory Board of Hamburger Hafen und Logistik AG hereby state after due examination that in the period starting 18 December 2017 (the date on which the previous declaration of compliance was issued), HHLA complied with the recommendations of the German Corporate Governance Code ("the Code" or "GCGC") in the version dated 7 February 2017 with the following exceptions. Furthermore, HHLA shall comply with the Code in the future with the following exceptions:

In February 2017, sentence 2 was added to Section 4.2.3 (2) GCGC, which recommends that the long-term assessment basis used for variable executive remuneration should fundamentally be forward-looking. However, the variable remuneration policy which applies to HHLA's Executive Board is fundamentally based on the achievement of certain key figures and/or targets for a three-year average comprising the current financial year and the two previous financial years. The Supervisory Board is of the opinion that the variable remuneration of the HHLA Executive Board is already geared towards sustainable development in its current form. Regardless of this, the Supervisory Board will also address whether the variable remuneration of the Executive Board should be adjusted in future in its next review of the Executive Board remuneration system.

Hamburg, 7 December 2018
Hamburger Hafen und Logistik Aktiengesellschaft
The Executive Board
The Supervisory Board"

Information about corporate governance practices

Structure and management of the Group

HHLA acts as the strategic management holding company for the Group. Its operating business is primarily conducted by domestic and foreign subsidiaries and associated firms. **Group Structure** 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 and provisions in the articles of association and rules of procedure for the subsidiaries and