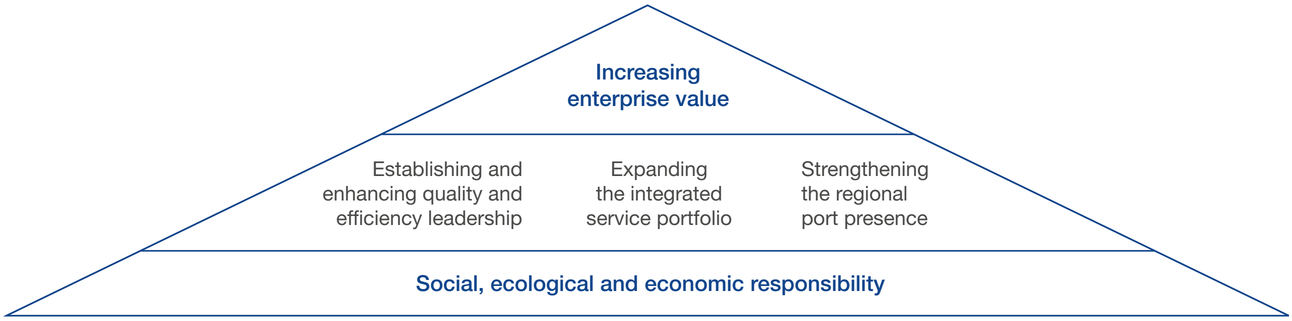
Corporate Strategy

Sustainably increasing enterprise value at HHLA



Strengthening the Regional Port Presence

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

Corporate and Value Management

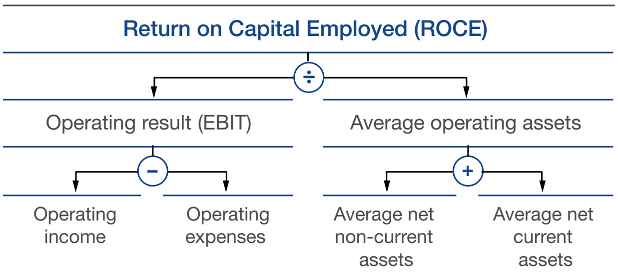
HHLA's primary financial objectives include the long-term, sustainable growth of its enterprise value. HHLA uses a Group-wide value management system for the planning, management and monitoring of its commercial activities. No changes were made to this system in the 2016 financial year.

Financial Performance Indicators

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

Value Management

ROCE – defining parameters and influential factors



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

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

Key Figures Value Added

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

1 *Of which 5.0 % for the Real Estate subgroup*

Non-Financial Performance Indicators

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

Research and Development

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

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

Battery-Powered Container Vehicles

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

Performance Certified

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

Other Research Projects

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

Purchasing and Materials Management

Purchasing is a shared service provided by the HHLA Group's management holding company in Hamburg. Important objectives are pooling and harmonising purchasing processes to meet internal customers' requirements in terms of service and performance as far as possible. The purchasing team focuses on standardising the supplier base to ensure that capital goods, raw materials, consumables, supplies, services and other prod-