

Corporate and Value Management

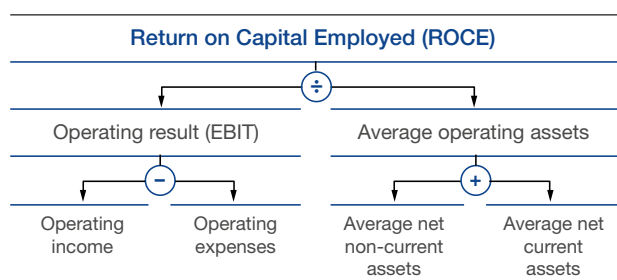
HHLA's primary financial objectives include the long-term, sustainable growth of its enterprise value. HHLA uses a Group-wide value management system for the planning, management and monitoring of its commercial activities. No changes were made to this system in the 2017 financial year.

Financial Performance Indicators

The key performance measures for operations used by the HHLA Group are the operating result (EBIT) and the average operating assets (capital employed). EBIT and capital expenditure as key drivers of capital employed are the main intra-year and short-term performance measures. Return on capital employed (ROCE) is calculated for the measurement of long-term, value-oriented 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 2017 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 succeeded in increasing its operating result (EBIT) significantly in the 2017 financial year. EBIT rose by 5.6 % year-on-year to € 173.2 million (previous year: € 164.0 million).

► see also Group Performance, page 37 With average operating assets virtually unchanged at € 1,321.2 million (previous year: € 1,317.6 million), the return on capital employed was up 0.7 percentage points on the prior-year figure of 13.1 %. The minimum ROCE of 8.5 % was therefore comfortably exceeded again – by 4.6 percentage points – in the 2017 financial year. The HHLA Group generated a positive value added of € 60.9 million in the reporting period (previous year: € 52.0 million).

Key Figures Value Added

in € million	2017	2016	Change
Operating income	1,296.4	1,241.9	4.4 %
Operating expenses	- 1,123.2	- 1,077.9	4.2 %
EBIT	173.2	164.0	5.6 %
Ø Net non-current assets	1,217.4	1,211.1	0.5 %
Ø Net current assets	103.8	106.5	- 2.6 %
Ø Operating assets	1,321.2	1,317.6	0.3 %
ROCE in %	13.1	12.4	0.7 pp
Capital costs before tax ¹ in %	8.5	8.5	0.0 pp
Capital costs before tax	112.3	112.0	0.3 %
Value added in %	4.6	3.9	0.7 pp
Value added	60.9	52.0	17.1 %

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.

In the 2017 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.

Container Terminal 4.0

The Container Terminal Altenwerder (CTA) is one of the most highly automated container terminals in the world. Since it opened in 2002, HHLA has constantly been researching and working on improving and expanding automation at the site. Right at the start, a paradigm was established whereby automated work areas are separated, isolated and off-limits to staff in order to guarantee occupational safety. This principle has always been upheld. Today, however, this paradigm is preventing the company from ramping up its automated processes as it inevitably excludes them from areas used by people. The research project "Container terminal 4.0 – a paradigm shift in the automation of container terminals via human-machine interaction rather than separation" is to be conducted as part of the German government's Innovative Port Technologies (IHATEC) incentive scheme. The project's main objective is to develop automation solutions for various container crane systems used at the terminal in work areas shared by people and machines (e.g. alongside ships and trucks) and to implement them as prototypes. At the same time, the experience, knowledge and evidence gathered during this process should play a fundamental role in establishing the safety standards needed to create a reliable framework for future automation projects.

Further Development of HVCC Software

Also as part of the IHATEC incentive scheme, the Hamburg Vessel Coordination Center (HVCC) launched the project "HVCC software – further development of interface- and real time-based software for the cross-operator coordination of barges, feeder ships and mega-ships at a universal and multi-terminal port with nautical restrictions"). The aim is to expand the software to incorporate the various operators involved in ship calls. This could eliminate redundant working processes and improve data quality. The project's main aims are as follows: Adapt the port to the challenges posed by persistent growth in the volume and size of container vessels. Boost international competitiveness and avoid unnecessary and inefficient transport, thus reducing the environmental impact. Accelerate the use of digital networks in maritime logistics and the port industry while making more effective and efficient use of the infrastructure of the Port of Hamburg and its upstream waterways.

SustEnergyPort

SustEnergyPort is another IHATEC project being conducted by Hamburg Port Consulting GmbH (HPC) to enhance energy sustainability in the port sector. As part of this project, a structured, model-based process is to be developed and filled with content to enable port operators to identify suitable measures for improving their energy sustainability, thereby minimising their

environmental impact and enhancing their profitability. The aim is to develop a structured process which will equip ports and terminals to achieve targeted improvements in their energy sustainability.

Performance Certified

In order to document their performance, the Container Terminals Altenwerder (CTA) and Tollerort (CTT) once again completed 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 water and onshore, 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.

Purchasing and Materials Management

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

The Purchasing department 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 2017 this stood at 96.8 % (previous year: 95.2 %). The purchase requisition rate indicates the ratio of requisitions entered and authorised via the SAP enterprise resource planning system in compliance with regulations. At 99.7 % in 2017, it was roughly on a par with the prior year (previous year: 99.6 %). The automation of purchasing processes to create efficient, transparent and uniform workflows remained a key objective for procurement in 2017. In the reporting period, approximately 16 % of all purchasing processes were handled fully automatically by means of e-procurement systems (previous year: approximately 14 %). The Group is deliberately diversifying its procurement activities and