

**Haniel successfully developing its portfolio**  
**Digitalisation making progress**  
**All divisions anticipate earnings growth**

Dear shareholders,

We look back on a year in which Haniel successfully implemented its buy-and-build strategy for its portfolio companies as a value developer: Bekaert Textiles acquired the DesleeClama Group in February and integrated it over the course of the year. The agreement to form a joint venture, signed by Haniel and Rentokil Initial on 15 December 2016, offers CWS-boco the opportunity to develop into a leading provider for workwear, cleanroom and hygiene services. BekaertDeslee and CWS-boco are both more strongly positioned in their respective markets following the transaction. We continued to systematically develop our digitalisation and innovation management initiatives throughout the Group, thus creating vital momentum for further progress in those areas.

**Creating a leading European workwear, cleanroom and hygiene services company**

On 15 December 2016, Haniel and the UK-based Rentokil Initial signed an agreement to form a joint venture <https://www.haniel.de/en/press/news-update/>. The objective is to create an innovative, leading European company that offers workwear, cleanroom and hygiene services. After Haniel takes over Rentokil Initial's continental European hygiene, workwear and cleanroom business, it will hold an approximately 82 per cent interest in the joint venture, with Rentokil Initial holding approximately 18 per cent. The parties aim to complete the process of forming the joint venture under the roof of CWS-boco International by mid-2017. This joining of forces will result in the creation of a leading product portfolio offering a range of services to business customers from the industrial, craft and service sectors. Going forward, approximately 10,800 employees will generate more than EUR 1.1 billion in revenue under one roof. Rentokil Initial's activities in France and in the United Kingdom, the company's home country, will not be part of the joint venture. Rentokil Initial will be given a six-month option to acquire CWS-boco Italy as well as certain activities in Ireland. Following its transformation, the company will offer comprehensive customer-oriented services and outstanding operating performance. Specific benefits of the deal include economies of scale in the area of procurement and expanded and optimised locations and logistics organisations. The entire transaction is still subject to approval by antitrust authorities. Both companies will continue to operate separately on the market until the implementation of the transaction, which is expected to take place in mid-2017.

**Bekaert Textiles becomes BekaertDeslee: integration and innovation**

Bekaert Textiles, the leading specialist for the development and manufacturing of woven and knitted mattress textiles, acquired the DesleeClama Group with the support of the Holding Company in February 2016, thus significantly strengthening its market position. The company has since been operating under the name BekaertDeslee, and has been making progress with comprehensive integration measures. BekaertDeslee operates on a highly promising growth market in which it profits from global megatrends such as population growth, increasing health-consciousness and rising prosperity in the emerging economies. Technological innovations can also offer further opportunities to increase profitability in the future, not only in the area of product development but also in the manufacturing process.

### **Investment-grade ratings maintained, financial leeway leveraged**

The European rating agency Scope assessed Haniel's creditworthiness for the first time in February 2016. Haniel received a long-term issuer rating of BBB- with a stable outlook, with Scope therefore classifying it as investment grade. In April 2016, Standard & Poor's (S&P) raised its Long and Short Term Corporate Credit Rating from BB+/B (positive outlook) to BBB-/A-3 (stable outlook). This improved rating also corresponds to an investment-grade rating. Both ratings are a result of our Company's sustained conservative financial policy.

Haniel has significant financial resources at its disposal, which have been invested at short notice in highly liquid assets. These financial resources are intended primarily for the acquisition of additional divisions or – as in 2016 – the expansion of existing ones. In addition to the transactions mentioned above, we have looked into attractive sectors and a large number of specific companies over the course of the year. Many of them did not meet our standards. Furthermore, the market environment for mergers and acquisitions is characterised by a large pool of prospective buyers and high valuations. We are thus all the more pleased to have completed the two successful transactions. We will continue to search for new, attractive investments and support our divisions in the search for complementary acquisition opportunities.

### **Digital initiative implemented**

The Holding Company has been focusing closely on digitalisation since the spring of 2015. Digitalisation offers excellent prospects for sustainably increasing the value of the portfolio and thus securing the future of each and every portfolio company. Haniel

applies a holistic approach to the Group's digital transformation that comprises several interwoven elements:

Each division has worked closely with Haniel to take stock and develop a Digital Agenda, setting out their strategies for digitalisation. While the primary aim is to transform the portfolio companies' existing value chains, the strategies also offer sufficient latitude to develop innovative, unconventional, digital-based business ideas. "The focus is on the customer" – this lies at the heart of every digital strategy. Given the heterogeneity of the business models, the strategies vary sharply depending on the company.

In April 2016, Haniel formed Schacht One GmbH, a digital workbench aimed at supporting and accelerating the implementation of the Digital Agendas. At Schacht One, digital ideas – fitting for each individual business model and tailored to suit customer needs – are developed, tested under genuine market conditions and implemented as soon as they reach the minimum viable product stage (MVP, 80 per cent solutions).

In order to create learning opportunities, Haniel has indirectly acquired interests in start-ups by investing in selected venture capital funds. The aim is to gain a better understanding of how start-ups work and become familiar with new digital business models. This expertise can spur on the innovation processes at the portfolio companies while providing momentum in the continued search for new investments.

Knowledge transfer and the exchange of ideas – both within and outside the Haniel Group – are an important aspect of the holistic approach to digitalisation. For instance, the Haniel Academy has included numerous tailored continuing education modules in its 2017 curriculum which deal with issues surrounding digital transformation. In 2016, a large number of executives took advantage of the educational sessions on offer which focussed on digitalisation, such as the Haniel Leadership Lab (formerly the Group Conference) and tailored seminars offered in collaboration with the renowned business school IESE.

### **Positive media coverage of Haniel's development**

Aside from the usual reporting on business performance, the media offered broad and highly positive coverage of the Group's portfolio and digitalisation strategy. In addition, our commitment to the region had a beneficial effect on the Group's image. Examples of this commitment include the Social Impact Lab Duisburg, an incubator for social entrepreneurs, and "We together – The integration initiative of the German economy" ("*Wir zusammen – Integrationsinitiativen der deutschen Wirtschaft*"). During the third quarter, we received an all-time record level of media feedback, as regularly analysed by a media monitoring firm. Haniel was well ahead of all DAX 30 companies in the analysis.

### **Performance of the divisions mainly positive**

The development of the **BekaertDeslee** division was highly encouraging in Europe as compared to the previous year, while business in the United States slowed somewhat. Revenue and operating profit for 2016 will be up significantly year on year. This development was bolstered in 2016 by the fact that procurement conditions for yarns

remained favourable. Work focussed on DesleeClama's integration during the year.

**CWS-boco** experienced good organic growth and continued to benefit from the long-term sales initiative in Germany. In addition, the company has realigned its operations to increase its focus on customers: as from this year, the business is no longer managed primarily by country but rather by division – organised into the washrooms and the workwear segments. Despite continued cost increases, including those resulting from investments in the sales initiative, CWS-boco anticipates a slightly higher operating profit.

In financial year 2016, **ELG's** business was marked by the low price level for all significant commodities, particularly the weak nickel and titanium prices. The business-relevant price of nickel will be down year on year by an average of 20 per cent over the year, and the price of titanium which cannot be hedged using derivatives will even be down by an average of some 30 per cent year on year. The price of nickel is currently trending upwards after a volatile year to date. ELG's tonnage will be down year on year due to the difficult conditions overall, particularly on the procurement markets. In general, ELG's revenue can be expected to fall significantly short of the previous year, while its operating profit will be up year on year, and is expected to be positive.

**TAKKT's** business performance was extremely good as compared to the previous year. The North American business continued to experience encouraging success, and TAKKT Europe is also growing. The companies acquired in 2015, Post-Up Stand and BiGDUG, contributed to revenue and earnings over a twelve-month period for the first time. In its report on the first nine months of 2016, TAKKT published its Digital Agenda and described in its Vision 2020 specific targets for stepping up its digital business: among other things, TAKKT aims to double its e-commerce business by 2020 and invest EUR 50 million over a period of five years in employees and new technologies. In addition, the division has formed its own venture capital firm to invest in start-ups in the mail-order business.

We expect the operating profit before one-off factors to be up slightly year on year for the **METRO GROUP**. The capital markets welcomed the announcement that the METRO GROUP would be spun off into two separate listed companies. Haniel supports the Metro management's activities in that regard. The aim is to create an internationally leading wholesale and food specialist (Metro Cash & Carry and Real), and the European market leader for consumer electronics (Media-Saturn). The Group has already been split *pro forma* into two units with separate organisations as at 30 September 2016. Due in particular to the preparations being made in advance of the planned spin-off, the METRO GROUP expects one-off expenses for financial year 2016 to be high. The Haniel Group anticipates that these one-off expenses and the absence of the disposal gains earned on the sale of Kaufhof in the previous year will result in a lower investment result from the METRO GROUP for financial year 2016 than it had received in the previous year.

**Operating profit expected to be up year on year**

The Haniel Group's operating profit for financial year 2016 will improve year on year thanks to the positive earnings development experienced by all divisions. However, profit before taxes will likely be lower than in the previous year, primarily as a result of the lower investment result the Haniel Group derives from the METRO GROUP.

The amount of the planned dividend will be determined based on the previous year's dividend as well as on the results for financial year 2016.

**Starting the new year with confidence**

We expect that all divisions will continue their positive development in 2017. At the level of the Holding Company, we will continue to concentrate our activities on the search for new business divisions. The long-term focus of our investments continues to require special care in selecting companies. We remain confident that we will be able to expand our investment portfolio in the coming year and strengthen our existing portfolio companies – as we did this past year – through the right acquisitions.

We would like to thank you for the trust you have placed in us and are looking forward to working with you again in the coming year. We wish you and yours a Merry Christmas, happy holidays and all the best for 2017!