HANIEL

Franz Haniel & Cie. GmbH
Financial Statements
2017

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Contents

THOMAS SCHMIDT STEPHAN GEMKOW DR FLORIAN FUNCK

CORPORATE GOVERNANCE

THE MANAGEMENT BOARD

STEPHAN GEMKOW
CHAIRMAN OF THE MANAGEMENT BOARD
born 1960

Stephan Gemkow has been Chairman of Haniel's Management Board and Chief Human Resources Officer since 1 August 2012. He is responsible not only for overall strategy, but also for Corporate Development/M & A, Human Resources, Corporate Legal, Internal Audit, Shareholders and Communications. After spending the first years of his career as a management consultant for BDO Deutsche Warentreuhand AG, the business graduate has held various management positions at the Lufthansa Group since 1990, most recently spending six years as a member of the Executive Board responsible for Finance and, since 2009, for Aviation Services as well. Gemkow is Chairman of the Supervisory Board of TAKKT AG. He is also a member of the Board of Directors of Flughafen Zürich AG as well as the Board of Directors of JetBlue Airways Corporation, New York.

DR FLORIAN FUNCK
born 1971

Dr Florian Funck has been a member of Haniel's Management Board since 1 September 2011. He is responsible for Corporate General Services, Corporate Controlling, Strategic Planning & Accounting, Corporate Finance and Corporate Tax. As a doctor of business administration, he began his career at the Haniel Holding Company in 1999. In June 2004, he was appointed to the TAKKT Managing Board in Stuttgart, where he was responsible for Controlling and Finance. Funck is a member of the Supervisory Boards of CECONOMY AG, METRO AG, TAKKT AG and Vonovia SE.

THOMAS SCHMIDT
born 1971

Thomas Schmidt was appointed to Haniel's Management Board on 30 January 2017 and will be involved in the portfolio management and enhancement process. He is also Managing Director of the CWS-boco division. The engineering graduate began his career in 1996 with various positions at the US group General Electric (GE). Schmidt subsequently performed management duties as General Manager of various regions before moving to TE Connectivity Ltd. in mid-2008. He initially served there as Vice President EMEA with responsibility for Communications & Industrial Solutions, and became President of TE Industrial in July 2010.

FRANZ M. HANIEL
Chairman of the Supervisory Board

OPENNESS AND TRUST AT HANIEL

REPORT **OF THE SUPERVISORY BOARD**

DEAR SIR OR MADAM,

The Haniel portfolio met two strategic milestones in 2017, which had already been announced the previous year. Following approval by antitrust authorities, in the middle of the year Haniel realised the joint venture with Rentokil Initial under the CWS-boco umbrella. Thomas Schmidt, appointed by the Supervisory Board in its first meeting in January as the third Haniel board member, is concentrating on the further development of the joint venture. Also during the course of the summer, the METRO GROUP was demerged into two listed German stock corporations, which also resulted in increased diversification of the Haniel portfolio. Additional important steps in this direction were the two acquisitions that the Holding Company realised in November and December: First, the acquisition of ROVEMA, a leading manufacturer of packaging machines and equipment for food products. And second, the takeover of Optimar, an established provider of automated fish handling systems. These investments should contribute to the further success of our family-equity company and its ability to pay dividends.

DIGITAL TRANSFORMATION REMAINS IN FOCUS

As in years past, the cooperation between the Supervisory Board and the Management Board was characterised by an atmosphere of great openness and mutual trust. The Management Board informed us regularly about the status of the Haniel Holding Company and the Group as a whole – also with regard to important individual events. This applies to the digital transformation as well. In addition to their own projects, all divisions also worked with Schacht One on new digital solutions and some were brought to market. We consider these innovations as opportunities for securing the future of the portfolio companies and are pleased that the digital initiative remains the focus of the further strategic development of the Haniel Group.

In accordance with my duty as Chairman of the Supervisory Board of Franz Haniel & Cie. GmbH, beyond the normal meetings, I have also been in regular contact with the Chairman of the Management Board primarily, but also with the other board members. We discussed important business and strategic issues affecting the Group. The Supervisory Board continually and carefully monitored the group of companies' management and business development based on regular written and oral reports of the Management Board. We examined in depth all the decisions requiring our consent and passed the necessary resolutions at four regular and three extraordinary meetings.

The Audit Committee held four meetings in the 2017 reporting period. It monitored the accounting process and the effectiveness of the internal control system, the risk management system, the Internal Auditing office, and the compliance management system. Moreover, the committee examined and confirmed the independence of the auditor of the financial statements, and resolved, in its meeting on 17 March 2017, to recommend to the Supervisory Board that it propose to the Shareholders' Meeting that the previous auditor be reappointed.

ANNUAL SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS APPROVED

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Essen, audited the annual financial statements of Franz Haniel & Cie. GmbH and the report of the Management Board for the 2017 financial year. The

auditors confirmed that the annual financial statements and Report of the Management Board comply with legal provisions and the Company's articles of association. The auditors issued an unqualified auditors' report on the annual financial statements and the report of the Management Board. The auditors also issued an unqualified auditors' report on the consolidated financial statements and the Group report of the Management Board. The auditors participated in the Supervisory Board's meeting on the financial statements and in all meetings of the Audit Committee. Furthermore, the Supervisory Board again engaged the auditors to assess the Haniel Group's early risk identification system. This voluntary examination was conducted in accordance with section 317 (4) of the German Commercial Code (Handelsgesetzbuch, "HGB"). The auditors verified the suitability of the system to detect early any risks endangering the going concern assumption.

The Management Board submitted the consolidated financial statements, the Group report of the Management Board and the Group auditors' report for 2017 to the Supervisory Board for its examination. Following an in-depth examination, the Supervisory Board approved the consolidated financial statements and the Group report of the Management Board. The Supervisory Board also approved the annual financial statements of Franz Haniel & Cie. GmbH and the Management Board's profit appropriation proposal. The annual financial statements are thereby adopted and the consolidated financial statements approved.

THANKS FOR OUTSTANDING COMMITMENT

At the forefront for Haniel, in addition to investments in additional sustainable business segments, is above all the integration of newly acquired companies and their development. The Supervisory Board wishes to thank the Management Board and employees for their commitment and hard work over this past year. We look forward to working together with them to further advance the long-term value enhancement of our portfolio as part of a coordinated strategic plan. We will continue to advise, monitor and support the Management Board with great care in the year to come.

Duisburg, 10 April 2018

FRANZ M. HANIEL
Chairman of the Supervisory Board

THE SUPERVISORY BOARD

SHAREHOLDER REPRESENTATIVES

FRANZ M. HANIEL | Chairman, Graduate engineer

DR GEORG F. BAUR | Deputy Chairman, Businessman

THOMAS GEITNER | Graduate engineer

DR PAUL-BERNHARD KALLEN | Graduate economist

DR MICHAEL SCHÄDLICH | Graduate physicist

PROF. DR KAY WINDTHORST | University professor

EMPLOYEE REPRESENTATIVES

GERD HERZBERG | Deputy Chairman, Former trade union secretary (Ver.di)

RALF FRITZ | Maintenance man

BERND HERGENRÖTHER | Electrician

FADI KAMAL | Design engineer

IRINA PANKEWITZ | Textile cleaner

HANS WETTENGL | Trade union secretary (IG Metall)

CORPORATE MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Distinct responsibility structures and cooperation based on partnership: These are the principles that distinguish Corporate Governance at Haniel. One essential element is the strict separation of corporate management and control, in line with the requirements for exchange-listed companies. Both sides engage in trusting dialogue, which is also how the Company communicates with its partners on the financial market.

FREE FROM CONFLICTS OF INTEREST

One characteristic sets Haniel apart from many other family-owned companies: Since the start of the 20th century, managers from outside the family have been responsible for the Corporate Governance. No family members work in the Haniel Group. Entrepreneurial decisions can be made free from familial obligations. The family attaches importance to sustainable growth and value enhancement. The steps to be taken along the way are at the discretion of the Management Board, which confers with the board of the Company. The basic structure of Corporate Governance at Haniel thus adheres to the standards set out in the German law governing stock corporations.

The roughly 690 shareholders are organised in the Shareholders' Meeting. It meets once a year and elects from its midst six shareholder representatives to serve five years on the Supervisory Board. The shareholder representatives and six employee representatives on the Supervisory Board help to shape the fundamental business policies of the Company and influence the corporate strategy. The Supervisory Board has equal representation as a co-determined monitoring body; it is always chaired by a member of the family. Shareholder and employee representatives jointly appoint and dismiss members of the Management Board, monitor their work and support them in an advisory capacity. Four members of the Supervisory Board form the Audit Committee, which also has equal representation. This committee monitors the accounting process and the effectiveness of the internal control system, the risk management system, the Internal Auditing office, and the compliance management system. Furthermore, the Committee discussed the independence and selection of the auditor and approved permitted non-audit services. In addition, there is a Personnel Committee which discusses the composition of the Management Board, Management Board remuneration and other matters relating to the Management Board. Details of the work of the Supervisory Board in the 2017 financial year are contained in the Report by the Supervisory Board starting on page 6. The Shareholders' Meeting elects also from its midst 30 members for the Advisory Board, which facilitates communication between the executive bodies of the Company (Supervisory Board and Management Board) and the members of the family.

BINDING PRINCIPLES OF CONDUCT

The Haniel Holding Company itself, as well as through its divisions, is active in many different economic and social systems, and thus encounters differing cultural and national standards as well as legal regulations. It is precisely this that makes it essential that all employees at every level of the Company share the same values of openness and integrity. Essential components of the Haniel culture are the principles of legality, incorruptibility and fair competition. Haniel expressly commits itself to fair competition in its Code of Conduct. The Code also contains principles of conduct for employees of the Holding Company, pursuant to which they neither offer nor accept favours, reject all forms of discrimination, and disclose conflicts of interest between their business and private affairs. Such principles of conduct are in place Group-wide. In addition, all previous divisions have a compliance management system that assists in preventing, detecting and eliminating abuses. At the recently acquired companies ROVEMA and Optimar, the structure of an appropriate compliance system is in planning.

EASY ACCESS TO INFORMATION

For Haniel as a family-equity company, a solid equity base plays an important role. In addition, Haniel also uses borrowed capital in its financial strategy. To gain the trust of potential investors and to maintain the appreciation of its current investors, Haniel focuses on transparency and fairness in its financial communication: Every capital market participant, including banks, investors and analysts, are provided with the same information needed to assess the Company's performance. This applies in equal measure to the family shareholders as providers of equity. The corporate website represents a broad information platform where, among other things, the corporate group's portfolio and strategy are elucidated. Haniel also publishes its annual and half year financial reports there, as well as the latest press releases. In addition, presentations, information on the investment strategy and additional separate and consolidated subgroup financial statements can be accessed online under the "Creditor Relations" heading. A financial calendar contains early announcements of important events for the Holding Company and the divisions. Moreover, Haniel publicly declares how the Holding Company is rated by the credit

rating agencies Standard & Poor's, Moody's and Scope. Haniel submits itself to external ratings voluntarily in order to be able to use all the available financing options. For Haniel, transparent and fair financial communication is inseparably connected with continuity. The Company informs its partners at regular intervals and in a consistent manner about current developments. Thus, financial reports are always published in the customary place and in the customary form in order to make it easier for the reader to find and analyse the information. Haniel draws attention to any deviations from the preceding years.

GROUP ORGANISATION

The family and the Company – distinct responsibility structures and cooperation based on partnership

FAMILY

COMPANY

SHAREHOLDERS' MEETING

ABOUT 690 FAMILY MEMBERS
- Meets once a year

ELECTS MEMBERS

ELECTS 4 FAMILY AND 2 EXTERNAL MEMBERS

EMPLOYEES

ABOUT 18,500 EMPLOYEES[1]

ELECT 6 EMPLOYEE REPRESENTATIVES

ADVISORY BOARD

UP TO 30 MEMBERS

- Appointed for 5 years
- Communication between the family and the executive bodies of the Company

SUPERVISORY BOARD

12 MEMBERS

- Chaired by a family member
- Helps to shape the fundamental business policies of the Company
- Forms an Audit Committee and a Personnel Committee

[1] Annual average (headcount); see also explanations on page 33. The German employees elect the employee representatives to the Supervisory Board.

APPOINTS / DISMISSES / SUPERVISES / ADVISES

MANAGEMENT BOARD OF THE HOLDING COMPANY

3 MEMBERS

DIVISIONS AND FINANCIAL INVESTMENTS

6 DIVISIONS
2 FINANCIAL INVESTMENTS

ONLINE

Watch this film to learn more about Corporate Governance at Haniel.

AN INTEGRAL COMPONENT AT EVERY STAGE OF ADDED VALUE

CORPORATE RESPONSIBILITY

As a family-equity company, Haniel's objective is to systematically anchor Corporate Responsibility (CR) within all phases of value creation. On the basis of a shared understanding of values and in a mutual dialogue, the Holding Company and the divisions continually push forward with their commitment to CR.

SHARED CANON OF VALUES

THINKING IN GENERATIONS

Our history as a family enterprise that has been successful for centuries shapes our long-term thoughts and actions.

CREATING VALUE

Our sustained value-enhancing corporate management ensures our economic success – which both obliges and enables us to create social value.

ASSUMING RESPONSIBILITY

We consider it our duty to bring economic, environmental and social objectives into harmony.

ACTING IN AN ENTREPRENEURIAL MANNER

We stand out at all corporate levels by acting in a forward-looking manner with a pronounced desire to create.

SHAPING CHANGE

We see change as an opportunity for sustained growth – but instead of allowing ourselves to be led by events, we actively shape markets.

SUPPORT OUR STAFF

To enable our staff to contribute their creativity and skills to corporate success in the best possible manner, we both challenge and encourage them by means of trusting dialogue.

Increasing value, living values – for over 260 years, Haniel has combined entrepreneurial drive with a stable framework of values in line with this principle. Accordingly, Corporate Responsibility is firmly anchored in the Company's DNA and is embodied in equal part by the owner family as well as by the management. The aim is to combine economic success with responsibility for employees, society and the environment, thereby creating value for generations. The shared understanding of values is expressed in Haniel's Code of Conduct, which defines principles of conduct in business dealings at all levels. In its Code, Haniel commits among other things to environmental responsibility, fair and safe working conditions, combating corruption and to compliance with internationally recognised human rights. At the same time, these are in line with the principles of the UN Global Compact. As a signatory to the United Nations initiative, Haniel has committed to uphold and spread the principles and ensure transparent reporting. The divisions are also members of the UN Global Compact or adhere to the principles underpinning it; they have also issued their own codes of conduct based on Haniel's Code of Conduct.

RESPONSIBILITY AS A FAMILY-EQUITY COMPANY

SUSTAINABLE INVESTMENT

The Haniel Holding Company is building a diversified portfolio. The objective of active portfolio management is to sustainably increase enterprise value. Haniel strives to achieve this economic goal in harmony with ecological and social goals. This approach is applied along the entire value chain – from the investment phase to portfolio management through to divestment. The Haniel Holding Company has established a variety of processes and tools for investment decisions and integrated CR into its existing principles. When looking into potential acquisition targets, social and ecological criteria are also examined using Haniel's investment filter in order to enable it to assess the candidate's CR profile. Only those business models that are able to make a positive contribution to sustainability, both now and in the future, are considered. After the completion of an acquisition, CR becomes a component of the integration plan. Depending on previously existing activities, structures and processes are first expanded to anchor CR in the core business. The Holding Company decides on the divisions' investments and acquisition projects on the basis of the Capital Expenditure and Valuation Guidelines: These guidelines require all investments and acquisitions which are subject to the requisite approvals process be analysed in detail with respect to the positive and any negative implications for the CR strategy. The Holding Company's decision-making process relating to investments in financial assets also takes CR aspects into account.

CR ASPIRATION AS AN OWNER

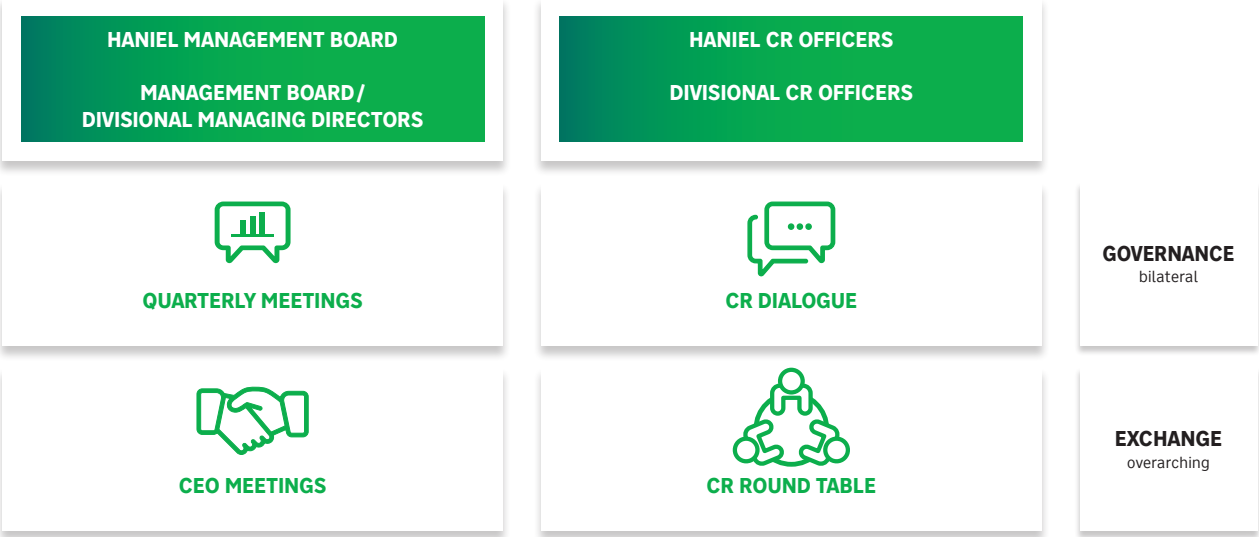
The Holding Company places its focus where it has leverage: In developing and managing equity investments. Haniel lays down guidelines and principles for CR management. Rules of procedure which set out the framework for collaboration on the basis of statutory provisions stipulate that the Holding Company be involved in the development of the divisions' CR strategies. This is because it has an interest in all equity investments prioritising those CR issues which are relevant to them on the basis of stakeholder expectations, developing on that basis an individual CR programme for each business model with objectives and measures, and implementing them by establishing a CR organisation. At the management and departmental levels, there are Corporate Responsibility officers and a regular CR dialogue between the Holding Company and the other divisions. Group-wide Corporate Responsibility initiatives are discussed if necessary at meetings with the CEO, to which Haniel's Management Board regularly invites decision-makers from the divisions. In addition, the Holding Company organises the Group CR Round Table, where CR experts exchange information and experience.

CLEAR DEFINITION OF HANIEL CR ACTION AREAS

The results of CR management are presented in a transparent, regular CR report. The Holding Company and the divisions prepare this report on the basis of the internationally recognised guidelines of the Global Reporting Initiative (GRI). The publication of the next GRI report for the Holding Company is planned for mid-2018, in which Haniel will report based on the three CR action areas – Employees, Value Chain and Innovation. These are based on the Holding Company's first stakeholder survey and materiality analysis from 2013, which is currently under review. This review is a result of the experiences and further developments collected by Haniel in recent years in the field of Corporate Responsibility, as well as a change in the CR organisation: The responsibility for coordinating CR activities in the Holding Company and the Haniel Group was transferred in 2017 from the "Shareholders and Sustainability" department to Strategic Investment Controlling. In addition, new external requirements make an adjustment necessary. This includes in particular the European Union's CSR Directive and the corresponding German implementing legislation. Based on the above, in 2017 the Holding Company initiated an additional process of determining the material topics with respect to environmental, employee and social issues, as well as respect for human rights and combating corruption and bribery. Starting from the materiality analyses already conducted, the CR experts in the Haniel Group identified these topics, which were then coordinated between top management at the divisions and the Haniel Management Board. The result is published online in the separate report on the non-financial statement at the corporate websites at:

www.haniel.de/en/responsibility/nonfinancialstatement2017

CR ORGANISATION AT THE HANIEL GROUP



The Holding Company continues to adhere to its proven CR management approach. While taking into account expectations placed on an appropriate CR organisation as well as those peculiarities of a diversified group of companies with decentralised management which make Haniel unique, content continues to be accentuated. Common CR action areas and individual initiatives are discussed in dialogue with the divisions. Haniel's Management Board and the management teams of the divisions agree on objectives and measures and discuss progress in regular top management meetings. In this way, the Holding Company ensures that the portfolio companies continually review how their business activities affect the environment and society.

SUSTAINABILITY AT THE HANIEL GROUP

CONTINUOUS COMMITMENT ON THE PART OF THE DIVISIONS

In 2017, the divisions continued to pursue the existing objectives set out in Haniel's Group-wide action areas.

For **BekaertDeslee**, taking responsibility means in particular offering safe, high-quality products and improving the customers' sleeping comfort. The division has launched a campaign as part of the new, customer-oriented mission statement – "Close to you" – in which employees serve as ambassadors for our corporate values and ethical principles. At the same time, the manufacturer of mattress textiles seeks to ensure that its business activities are socially responsible and environmentally friendly. BekaertDeslee is focusing on its collaboration with yarn suppliers – who represent the largest share of procurement volume – along the entire value chain. To that end, the first step was to develop a supplier declaration by which the yarn manufacturers pledge to comply with internationally recognised core labour standards and to respect human rights. By the end of 2017, 75 per cent of the Group's largest yarn suppliers have signed this declaration. In order to avoid waste in the production process, Bekaert-Deslee launched a pilot project at its largest location in Turkey. That project is aimed at raising employee awareness and thus reducing reject goods. In the area of textile finishing, the division also aims to use resources more efficiently: the implementation of an innovative finishing technique is intended to reduce the use of water, chemicals and energy over the medium term. Where employees are concerned, the focus lies squarely on health and safety: The previous DesleeClama locations were also integrated into the established reporting system in 2017 so that there is now Group-wide transparency with respect to accidents and absences. The Group had a 3.24 accident rate for the reporting period (accidents x 200,000/work hours) and a rate of days absent due to accident of 0.22 (days absent x 1,000/work hours). This means that the Group has achieved its objective of reducing the accident rate to 3.59 and the days-absent rate to 0.24. For 2018, the interdisciplinary CR team, which is tasked with integrating sustainability into core processes, is preparing to publish its first CR report for BekaertDeslee. More information at www.bekaertdeslee.com.

As a full-service vendor for textile services and washroom hygiene solutions, **CWS-boco** is committed to sustainable business, resource-sparing work and respect for people and the environment. This applies to the entire value chain, from production through to service. As of 30 June 2017, CWS-boco acquired significant Central European activities in the hygiene, workwear and clean room segments from Rentokil Initial. CWS-boco's business in 16 countries and Initial activities in 10 European countries were combined when the joint venture was established. A new company thus exists under the umbrella of the CWS-boco group, which requires an adjustment of the CR strategy: The division will validate focus areas, harmonise indicators and define new target levels in 2018. For this reason, the latter are set aside in the current report and the reported figures do not yet include Initial's activities.

CWS-boco operates its own laundries, at which hundreds of tonnes of textiles are washed daily. In particular, increasing resource efficiency by continually modernising the laundry network represents a vital ecological lever: Energy consumption in 2017 was 1.04 kWh per kilogramme of washed laundry. CWS-boco was thus able to achieve an increase in efficiency for the second year in a row. Water used per kilogramme of laundry also declined to 6.85 litres thanks to especially efficient technologies for multiple usage of water and recycling of waste water. CWS-boco also offers sustainable and innovative solutions in the product area, for example, the first workwear collection made from fair-trade-certified cotton. Since its introduction at the beginning of 2016, 160,000 items have been produced and three additional collections have been introduced. The company is also focusing on employee health and safety. Risk assessments of accident risks have been conducted for 90 per cent of the service and laundry employees. Workplace safety and health management systems in six national companies have been certified in accordance with the internationally recognised OHSAS standard since 2016. Extensive information on CWS-boco's commitment to sustainability is available in its CR report "Handle with Care" and on the website www.cws-boco.com/en-US/sustainability-0.

For more than 50 years, **ELG** has been active in the recycling and global trading of raw materials – particularly in the market segments stainless steel and superalloys. This means that sustainability is firmly anchored in ELG's business model and corporate philosophy. ELG and the Fraunhofer-UMSICHT research institution identified the ecological advantages to recycling in a joint project. ELG's major products such as stainless steel, titanium and carbon fibre were analysed to determine the carbon footprint. The results allow the division to quantify how much CO_2 can be saved at customers compared to the use of primary raw materials. ELG's recycling activities in 2017 resulted in a saving of 4,408 million tonnes of CO_2. At the same time, the study identified approaches for reducing CO_2 emissions resulting from ELG's own business activities. With respect to the health and safety of its employees, ELG rolled out the "Health & Safety plus" global reporting system, which records workplace accidents, absences and employee turnover. ELG is placing particular attention on industrial employees in this respect. Company-wide campaigns and location-specific measures intend to help steadily reduce the rate of accidents and absences. ELG reached the self-imposed goal for 2017 of reducing the number of days absent to 7.5 per full-time employee per year and is working continually on reducing the number of work accidents from 18 per million work hours in 2017 to 15 per million. ELG passed a milestone in the still-young market segment of carbon fibre recycling: After the British subsidiary, ELG Carbon Fibre, has worked successfully since 2016 on the development of carbon mats for the production of car bodies in the vehicles manufacturing industry, the first prototype containing materials from ELG Carbon Fibre was introduced in September 2017 at the "Goodwood Festival of Speed" automotive trade show. Further details are available in the CR Report and online at www.elg.de/en/sustainability.html.

At **TAKKT**, sustainability and growth go hand in hand: The leading B2B direct marketing specialist for business equipment created its group-wide SCORE "Sustainable Corporate Responsibility" programme, which lays the foundation for coordinating sustainable business management measures across all segments and for implementing those measures in the day-to-day business – for instance in procurement. With an expanded valuation programme for suppliers based on the internationally recognised EcoVadis platform, TAKKT aims to systematically map, document and improve sustainability in the supply chain. At the end of 2017, the share of procurement volume purchased from certified suppliers was 46.8 per cent. This commitment will be expanded in the future: By the end of 2020, 50 to 60 per cent of the procurement volume will be sourced from certified suppliers. In addition, TAKKT would like 30 to 40 per cent of the directly imported procurement volume to be certified. In 2017, this was 39.8 per cent. A further relevant lever is to reduce the resources used in marketing activities. The company is increasing the efficiency of customer-oriented marketing, while concurrently reducing the use of paper by systematically expanding e-commerce. In 2017, TAKKT used approximately 5.4 kg of paper per order, thus already reaching its goal for 2020 of 6.0 to 6.5 kg. In order to reduce emissions, the division drew up 13 climate balance sheets for material companies and thus created a strong foundation of data on which to build further measures. With respect to employees, the company is concerned with local social commitment: The share of employees who are able to take paid leave to do volunteer work amounted to 65.7 per cent in 2017. For more information, go to www.takkt.de/en/sustainability.

ROVEMA, the food packaging machinery manufacturer, has been part of Haniel's portfolio since November 2017, and **Optimar**, the manufacturer of automated fish handling systems, was added in December 2017. Both companies were screened prior to acquisition using the Haniel investment filter, which examines to what extent companies satisfy social and ecological criteria and thus fit with Haniel's core values. Based on the findings in the respective due diligence processes, the further integration of ROVEMA and Optimar also take into account the Haniel Holding Company's requirement that there be a professional CR management approach in place: prioritising the main CR issues, deriving on that basis an individualised CR programme with objectives and measures, and implementing that programme serve to ensure that an appropriate CR organisation is established.

No CR targets were agreed with the financial investments **CECONOMY** and **METRO** in the Group action areas. The companies continue to pursue their commitments independently and each have their own CR organisation and strategy. CECONOMY empowers life in the digital world. The sustainability approach adopted by the MediaMarktSaturn Retail Group, the largest investment, is closely tied to the vision and strategy of CECONOMY. MediaMarktSaturn derives sustainability goals in various dimensions of action from this mission. Since the demerger of the METRO GROUP, CECONOMY AG has been developing its own CR strategy. The results of this process will be included in the company's sustainability report. For more information, go to www.ceconomy.de/en/corporate-responsibility.

METRO's objective is to generate added value for its customers, while concurrently reducing negative impacts. At METRO, sustainability encompasses every individual aspect of behaviour and is firmly integrated into the corporate strategy. In order to live up to its objective the financial investment has embedded sustainability in its core business, thus ensuring that whenever economic and environmental or social considerations affect one another, overlaps are dealt with in an efficient, solution-oriented way. The retail group describes its broad CR commitment along the value chain in the Corporate Responsibility report and on its website www.metroag.de/en/responsibility.

FOCUS ON EMPLOYEES

ENCOURAGEMENT AND SUPPORT

As a family-owned company, the Haniel Holding Company assumes responsibility for its employees and takes care to ensure that they are able to develop their skills and realise their potential. The Haniel Academy provides momentum within the Group and serves as a platform where experience can be exchanged. Its role is to support the professionalisation, development and networking of the Group's employees – for instance with the "Haniel Leadership Curriculum". The tailored development programmes assist ambitious Haniel Group employees with potential along their path from their first leadership role through to top management, and prepare them for new entrepreneurial challenges. In addition, the "Haniel Management School" provides experienced executives with a format that examines not only current management methods and concepts but also issues of the future. The Haniel Academy's curriculum is primarily designed for specialists and managers of the Group and addresses current challenges. Major topics in 2017 in particular were agility and flexibility of companies in a dynamic environment in light of digital transformation.

EMPOWERING EMPLOYEES

The ideas, abilities and commitment of employees are crucial to the Group's success. Haniel maintains regular dialogue with employees, which is characterised by openness and mutual respect. The Group has established a variety of formats to that end. For instance, personal development interviews between employees and their superiors ensure individualised, targeted continuing development. During the annual dialogue, the employee's strengths and potential for development are identified and development measures, such as participation in seminars and programmes at the Haniel Academy, are agreed. At Haniel, all employees are given the opportunity for professional and individual development – regardless of their gender, age or nationality.

RESPONSIBLE EMPLOYER

The aim of company health management is to safeguard the health and productivity of employees. The Haniel Holding Company offers, among other things, a series of preventative check-ups and sport offerings such as fitness classes or back and spine exercise courses, some of which are free of charge. In addition, the Haniel Academy offers seminars on health and stress management. In 2017, the focus was on the provision of healthcare for employees over 50. Each participant received individual recommendations as a result of a diagnostics process tailored especially for this age group.

Haniel helps its employees to strike a balance between their professional and private lives, and gives them a high degree of flexibility. A variety of working models enables employees to bring their professional activities into harmony with their respective life situations. These include flex-time and part-time models as well as partial early retirement models. Employees who work in an area where telecommuting is a possibility can work from their home office on an alternating schedule. In addition, they are granted paid leave to care for family members. Haniel has entered into a partnership with a family service that provides individual advice to employees to meet their diverse needs.

SOCIAL COMMITMENT

HAND IN HAND FOR MORE SOCIAL INNOVATION

In keeping with Haniel's values, the companies of the Haniel Group are actively committed to creating added value for society and the environment – in those areas where its competencies make this possible. The Holding Company sees itself as a "corporate citizen" and has traditionally provided not only financial but also material and conceptual support to promote education and culture, as well as a sense of responsibility for its hometown, Duisburg. Since April 2016, Haniel has been working with the KfW Foundation, the Prof. Otto Beisheim Foundation and Social Impact gGmbH to encourage innovation and a spirit of entrepreneurship in the region: The Social Impact Lab Duisburg at the Group Headquarters in Ruhrort is the first centre for social innovation to open in North Rhine-Westphalia. The Lab supports business founders who want to use their ideas to solve pressing social challenges; it connects them with other stakeholders and establishes them in the region. The commitment has an additional local form in the "Haniel Klassik Open Air" – a concert that is jointly organised every two years with Deutsche Oper am Rhein, the city of Duisburg, and the Duisburg Philharmonic. In 2017, this allowed the Holding Company to offer the residents of Duisburg free access once again to high culture and allowed the music companies to reach new target groups.

MORE INFORMATION ON CORPORATE RESPONSIBILITY

at Haniel, the separate report on the non-financial statement in compliance with CSR Directive Implementing Act pursuant to section 289b of the German Commercial Code and the 2017 UN Global Compact Communication of Progress are available at the Company's website at www.haniel.de/en/responsibility.

Report of the Management Board

Franz Haniel & Cie. GmbH
Business performance

Business model of Franz Haniel & Cie. GmbH
Franz Haniel & Cie. GmbH is pursuing its objective of developing a diversified portfolio of well positioned companies in market-leading positions.

In financial year 2017, Franz Haniel & Cie. GmbH succeeded in further developing its portfolio. The formation of a joint venture between the CWS-boco division and Rentokil Initial opened up new opportunities for sustainable growth. By acquiring new divisions – ROVEMA and Optimar – Haniel expanded its portfolio to include two fast-growing companies which operate in different segments of the field of mechanical engineering, thus increasing the level of diversification in its portfolio. Furthermore, Franz Haniel & Cie. GmbH continues to systematically support its divisions in implementing their Digital Agendas.

In the years to come, the investment portfolio will continually grow as further divisions are acquired and existing ones are expanded.

The most important indicator for Franz Haniel & Cie. GmbH is the net income for the year under German commercial law, which serves as the basis for calculating the distribution.

Earnings performance of Franz Haniel & Cie. GmbH
Franz Haniel & Cie. GmbH's annual financial statements report net income of EUR 121 million in financial year 2017 (previous year: EUR 91 million). This development is in line with expectations and was influenced primarily by the increase in the investment result from EUR 159 million to EUR 179 million and the improvement in net financial income. The improvement in other net financial income from EUR –12 million (previous year: EUR –36 million) was attributable to the scheduled repayment of a bond at the beginning of the 2017 financial year and currency translation gains.

Net assets of Franz Haniel & Cie. GmbH
Total assets as at the reporting date amounted to EUR 4,156 million and consisted primarily of long-term financial assets of EUR 2,743 million and receivables from affiliates of EUR 1,369 million. The changes were attributable primarily to the development of the portfolio. Long-term financial assets increased by EUR 733 million. The increase resulted mainly from the provision of further loans to affiliates amounting to EUR 400 million and capital increases amounting to EUR 334 million carried out by affiliates. The decrease in current receivables from affiliates by EUR 846 million was attributable primarily to the financing for these investments and the scheduled repayment of a bond. The funds used for this were temporarily invested by an affiliate on the capital market and made available by it.

Financial position of Franz Haniel & Cie. GmbH
On the liabilities side of the statement of financial position, EUR 3,556 million relates to equity and EUR 600 million to provisions and liabilities. The equity ratio is thus at 86 per cent and reflects the sound financing of Franz Haniel & Cie. GmbH.

The financial management activities of the Company are focused on securing the Company's long-term financial flexibility. Emphasis is placed on a sound balance of financial instruments, a broad basis of reputable banks and investors and a balanced maturity structure of financial liabilities. The Company has issued a bond on the capital market with a nominal volume of EUR 196 million and an original term of six years, which matures in 2018.

Franz Haniel & Cie. GmbH furthermore has access to confirmed lines of credit amounting to EUR 853 million, EUR 66 million of which has been drawn down by affiliates as at 31 December 2017.

Opportunities and risk situation of Franz Haniel & Cie. GmbH
The business and earnings performance of Franz Haniel & Cie. GmbH as a holding company is closely linked to the performance of the Haniel Group. As a consequence, the opportunities and risks faced by the Haniel Group give rise to opportunities and risks for Franz Haniel & Cie. GmbH. The Report of the Management Board for the separate financial statements is therefore essentially identical to the Group report of the Management Board that follows. While the Group's accounting and financial reporting is in accordance with IFRSs, the annual financial statements of the holding company, Franz Haniel & Cie. GmbH, are prepared in accordance with the German Commercial Code (HGB).

Outlook for Franz Haniel & Cie. GmbH
In general, the earnings performance of Franz Haniel & Cie. GmbH is particularly dependent on dividends and profit transfers from the companies in its portfolio as well as on the results from the financing function. The net income for 2018 is expected to remain at the same level as in financial year 2017 against the backdrop of the stable dividends and profit transfers from the portfolio companies and the improved net financial income.

Group structure and business models

The Haniel Group combines six divisions and two financial investments. Franz Haniel & Cie. GmbH functions as a strategic management Holding Company and is responsible for portfolio management. The operating business is in the hands of the divisions which act independently of one another and which each occupy a leading market position.

Active portfolio management
Franz Haniel & Cie. GmbH is a tradition-steeped German family-equity company whose objective is to sustainably increase the value of its investment portfolio over the long term. Since the family shareholders have provided equity for an unlimited term, Haniel can pursue a long-term investment strategy. This strategy is aimed towards generating returns which permanently exceed the cost of capital. Haniel strives to achieve this economic goal in harmony with ecological and social goals. The company pursues this goal by following the guiding principal of the "honourable businessman". In addition, capital and management are separated as a matter of principle at Haniel: Although the Company is 100 per cent family-owned, no shareholder works at the Company.

When structuring the portfolio, Haniel concentrates on business models that are supported by global megatrends and therefore have a high potential for increases in value over the long term. Promising markets and business models are analysed continually in order to detect growth opportunities. For example, Haniel added two corporate groups to its portfolio in 2017: ROVEMA and Optimar. Haniel also supports the divisions with their further growth, both organically and through acquisitions, by using a buy&build strategy. This was clearly demonstrated in the past year primarily by the further development of CWS-boco. Haniel and Rentokil Initial formed a joint venture on 30 June 2017, in which the CWS-boco business and significant parts of Initial's European activities were combined. In addition, Haniel's support of the demerger of the METRO GROUP into CECONOMY and METRO further diversified the portfolio.

Holding Company as strategic catalyst
In addition to portfolio management, the Holding Company is also responsible for the strategic guidelines for the operating divisions – in this respect the Holding Company considers itself as a strategic catalyst. Strategic initiatives are agreed on in discussions with the divisions, and then implemented by the divisions under their own responsibility. The divisional management teams report regularly to Haniel's Management Board on their progress. The Haniel Holding Company is also responsible for selecting and developing top executives for the divisions and offering tools and selected services to the companies. The social and economic significance of digitalisation has prompted Haniel to use the opportunities it presents as a growth lever. The divisions' Digital Agendas, which factor in the varying general conditions and depth of value creation of each division, determine the direction of digital transformation. Haniel's Schacht One digital unit provides relevant offerings and networks for the transformation. Haniel has also made investments in various venture capital funds. Independent venture capital activities by the divisions supplement the involvement in start-ups. Comprehensive training offerings by Haniel Academy covering all facets of digital transformation and corresponding dialogue and informational offerings by the Holding Company round out Haniel's approach. The intent is to ensure that all divisions use their respective business models to contribute to increasing the value of the investment portfolio over the long term.

Diversified business models
Haniel's divisions act just as independently of one another in their respective markets as the CECONOMY and METRO financial investments. Except for BekaertDeslee and Optimar, all divisions are headquartered in Germany. The business models differ from one another with respect to their sector, business drivers, customer structure and strategy, which results in a significant diversification of the Haniel portfolio.

BekaertDeslee is a globally leading specialist for the development and manufacturing of mattress textiles.

From its headquarters in Belgium, the company has been operating a global network of 22 facilities in 15 countries since the acquisition of the DesleeClama Group in 2016. Its product range primarily consists of woven and knitted textiles and ready-made covers that are sold to mattress manufacturers in the Americas, Europe and the Asia-Pacific region. BekaertDeslee profits from the continuous growth of the market for mattresses which is driven by sustainable global megatrends such as population growth, a growing awareness of the positive impact of good sleep on human health and the increasing standard of living in emerging markets.

BekaertDeslee works together with its customers to customise and produce mattress textiles to the customers' standard of quality in terms of both design and product features. The centralised development team is constantly working to further refine products in order to enable the company to offer its customer base a broad and innovative product range. Thanks to BekaertDeslee's global production network, customers also benefit from extremely short lead times.

The BekaertDeslee division is continuing its growth path as part of the Haniel Group. The company aims to expand its market position in the Americas, in Europe and the Asia-Pacific region. BekaertDeslee is focused on continuously improving its product quality, designs and delivery times. In addition to organic growth in existing markets, it is constantly searching for opportunities to tap into new markets and reviewing potential acquisition targets to accelerate its growth. BekaertDeslee's customers are increasingly buying ready-made covers for mattresses. For that reason, the company continued to systematically expand its business with products characterised by a greater depth of value added. Buyers in this segment include the so-called "bed-in-a-box" companies, i.e., online mattress retailers.

Additional strategic emphasis rests on raising operational excellence, optimising procurement processes and ensuring continuous improvement. These initiatives are vital to ensuring that the company will be able to expand its market position in the long-term by offering competitive prices while at the same time realising attractive margins. BekaertDeslee's strategy revolves around the standardisation of production processes, which enable the company to manage regional facilities as a global "virtual" plant. Above all, the procurement initiative will standardise the quality of the yarns to be purchased and centralise their procurement in order to generate economies of scale.

CWS-boco ranks among the leading European full-service providers of professional solutions in the segments for washroom hygiene products, dust control mats, workwear and textile services. In order to strengthen its market

Haniel portfolio

Divisions

BekaertDeslee	CWS-boco	ELG	Optimar	ROVEMA	TAKKT
100% **Equity interest** BekaertDeslee is a globally leading specialist for the development and manufacturing of woven and knitted mattress textiles and ready-made mattress covers.	**82.19%** **Equity interest** CWS-boco ranks among the leading international full-service providers of individual washroom hygiene and textile solutions.	**100%** **Equity interest** ELG is a global leader in the trading, processing and recycling of raw materials for the stainless steel industry as well as high performance materials such as superalloys, titanium and carbon fibres.	**100%** [1] **Equity interest** Optimar is a global leader for automated fish handling systems for use on ships, on land and for fish farms.	**100%** **Equity interest** ROVEMA is a global leader in the manufacturing of packaging machines and equipment for a wide variety of products and applications.	**50.25%** **Equity interest** TAKKT bundles a portfolio of B2B direct marketing specialists for business equipment in Europe and North America in a single company.

Financial investments

CECONOMY	METRO
25.00% **Equity interest** CECONOMY is Europe's leading platform for companies, concepts and brands in the sector of consumer electronics.	**22.50%** **Equity interest** METRO is one of the leading international companies in the wholesale and food service sector.

[1] Management plans on an equity investment in 2018.

position, Haniel and Rentokil Initial formed a joint venture on 30 June 2017, which combined CWS-boco's business in 16 countries with Initial's activities in 10 European countries. At the same time, CWS-boco sold its Italy business to Rentokil Initial. This gave rise to a highly innovative and leading European company under the aegis of the CWS-boco Group, in which Haniel holds 82.19 per cent of the shares and Rentokil Initial holds 17.81 per cent, and which will generate sales of about EUR 1.1 billion in 2018. The optimisation of and synergies in the laundry and warehousing network were worked on during integration in 2017.

CWS-boco focuses on the rental business. The offerings range primarily from collections of workwear to protective and safety clothing, modern hygiene solutions such as towel, soap and fragrance dispensers, as well as dust control mats. The textiles are properly prepared in the division's own laundries using environmentally friendly processes, and the dispensers are regularly serviced, both under long-term service contracts. The rental business is supplemented by the sale from consumables, additional washroom hygiene products and workwear. In recent years, CWS-boco has also expanded its offering in the cleanroom business. In this field, the company offers customers professional processing of cleanroom clothing, while satisfying the high certification standards, particularly with respect to sterility and the absence of particulates. In addition, CWS-boco further developed its business with service offerings under the "loovio by CWS" brand relating to high-quality public washrooms that are available to users for a fee. CWS-boco's customers, companies of various sizes and industries, benefit from a comprehensive service network as well as sustainable products and processes. Customers can optimise their carbon footprint through CWS-boco's reusable strategy and its preparation of textiles in a manner that saves resources. This sustainable approach is a cornerstone of the business: CWS-boco Germany was awarded the gold rating, the highest award from the international scoring platform EcoVadis, for the third time in a row.

Implementation of the new divisional structure, which was accelerated in 2017 in the course of the integration of the Rentokil-Initial activities, was fully completed at the beginning of 2018. CWS-boco now has two divisions across all countries: The Hygiene Solutions division will provide washroom hygiene solutions and dust control mats, while the Textile Solutions division's service portfolio will cover renting and sale of textiles, cleanroom, health and health care products. The new structure makes it possible to address customer needs more individually across Europe.

CWS-boco is tapping additional potential by taking over regional companies that supplement and expand the existing service network. The specialist for washroom hygiene and textile solutions is also working on the introduction of a new IT system during the course of a multi-year project.

The **ELG** division is a global leader in the trading, processing and recycling of raw materials for the stainless steel industry as well as high performance materials such as superalloys, titanium and carbon fibres. With 50 locations in North America, Europe, Asia and Australia, the division has one of the industry's largest global networks.

ELG's customers receive the material in exactly the composition they need for further processing – just in time and in accordance with the high quality standards as certified by the customer. The product line primarily comprises stainless steel scrap and superalloys. Superalloys concern high-alloy, nickel-containing scrap and titanium scrap; business with this scrap is conducted under the name ELG Utica Alloys. ELG delivers secondary raw materials that are checked for quality and adapted to the customer's needs. The recycling business is a material part of the service spectrum: Production waste is recycled and returned to the customer in optimal quality within a closed-loop cycle.

ELG laid the groundwork for dynamic growth through acquisitions and capacity expansion in the past. In order to be able to meet customer requirements in the future as well, the company intends to further optimise its international presence. This will make it possible to tap into additional procurement sources for stainless steel scrap and superalloys and to win over new customers in growth markets.

In addition to the trading in and recycling of stainless steel scrap and superalloys, ELG is active in the Carbon Fibre business segment, the recycling of carbon fibres.

The **Optimar** division, a globally leading company for automated fish handling systems, has been part of the Haniel Group since 20 December 2017. The company manufactures high-quality automated systems for handling fish on ships, on land and for aquaculture. These systems are installed as turnkey projects, either independently or in connection with third-party solutions. As a full-service provider, Optimar also offers ancillary products and services. Aside from its headquarters and manufacturing facility in Ålesund on Norway's west coast, Optimar operates other locations in Norway, the United States, Spain and Romania. The company delivers to international customers in more than 30 countries.

The market for automated fish handling systems benefits from several long-term megatrends and therefore offers great potential. The rising demand for protein by a growing world population, a higher level of prosperity and ongoing automation within industrial value chains are megatrends which are helping to propel the company's sustainable, dynamic growth. In addition, ageing fishing fleets offer further growth momentum.

Optimar offers its customers innovative solutions – including, if necessary, an end-to-end range of products and solutions from a single source, from transport to handling through to palletising. Its products can be supported by supplementary project and IT solutions as required. This enables customers from the fishing industry and aquaculture operators to optimise their production processes and thus also the quality of their products. Optimar's solutions take up less space and thus help improve systems capacity utilisation on ships while shortening processing times. At the same time, more careful fish handling results in increased efficiency for customers.

Optimar places great value in research and development. Ålesund, Norway – the location of company's headquarters – is an international fishing industry cluster. Close contact with all relevant market players ensures that Optimar can quickly offer solutions to issues faced by its own customers in the fishing industry which also take into account environmental and consumer interests. Take the development of OptiLice, for example: this solution was developed by Optimar to handle pest infestations affecting salmon populations without the use of medication.

On 30 November 2017, Haniel acquired the **ROVEMA** division. The company is headquartered in Fernwald in Hesse and is a premium manufacturer of packaging machines and equipment with a broad product portfolio and a global presence with locations in more than 50 countries.

The packaging market overall and the market for vertical packaging solutions in particular is supported by a number of trends. The demand for ready-to-use foodstuffs is rising, and Western consumption patterns are being increasingly adopted in emerging markets. Packaging serves increasingly as a marketing and differentiation tool to increase sales. The significance of food safety is growing and can often only be ensured by appropriate packaging. Demand for high-quality products is increasing worldwide, whereby a corresponding signal effect can be attained by high-quality packaging. Additionally, ROVEMA also sees opportunities in regional expansion as well as the increasing automation and digitalisation in packaging processes (Industry 4.0). ROVEMA's position in the value chain and the corresponding application knowledge surrounding the core competencies of product, packaging and machines gives rise to numerous contact points to the digital transformation.

From consulting and project design, through development and construction, and on to installation and acceptance, ROVEMA is in a close dialogue with its customers. The company's product portfolio includes solutions for the entire spectrum of primary and secondary packaging: dosing, vertical form fill and seal (VFFS), cartoning and final packaging machines. The internal technical centre, founded in 1992, conducts pure research and also ensures rapid knowledge transfer from theory into practice. Multifaceted service offerings supplement the offer. The company's product portfolio comprises of trading, refurbishment and service offerings for all facets of used, high quality packaging machines. The vertical packaging machines in the premium segment are made available for sale with a modular design and a strong focus on service. The primary fields of application for ROVEMA products to date are in the safe and hygienic packaging of foodstuffs in a wide variety of forms and consistencies: powders, chunky products, frozen goods, and liquid products. An expansion of applications beyond the food industry is possible and is being pursued. ROVEMA's diversified customer structure includes multinational corporate groups as well as regional specialists.

The **TAKKT** division bundles a portfolio of B2B direct marketing specialists for business equipment in Europe and North America. Each company follows an essentially comparable business model, but with a different focus with respect to customer groups, product lines, regions or distribution channels. The sales brands concentrate mainly on the sale of durable stable-priced equipment as well as special items for recurring use to corporate customers. The product range comprises operating and warehouse equipment, office furniture, transport packaging, display products as well as equipment for the restaurant sector and retail grocery trade.

In its sales approach, TAKKT follows a multi-brand strategy that comprises multi-channel and web-focused brands and which is based on the different requirements of the respective customer groups. Multi-channel brands focus on discerning customers from mid-sized and larger companies. To that end they combine a broad online offering, from the online shop to customer-specific e-procurement solutions, with the classic catalogue business and – where sensible – with employees for telephone sales and field representatives in an integrated approach. TAKKT uses web-focused brands to address smaller and more transaction-oriented customers. When a customer has ordered the desired product via one of the channels, TAKKT offers fast delivery and complementary services.

At the centre of TAKKT's additional growth is the expansion of e-commerce activities as well as even better dovetailing of the various channels in integrated multi-channel sales. TAKKT developed Vision 2020 to advance the digital transformation of the business. A long-term change in organisation as well as investments in employees and new technologies is expected to increase organic sales growth and double the e-commerce business. The company has identified six focus areas and initiated specific action plans within these areas in all of the TAKKT Group's segments in order to implement the digital transformation throughout the company.

As of 1 January 2018, the web-focused brands Certeo, BiGDUG and Mydisplays within the TAKKT EUROPE division were transferred to a newly-founded division called newport. OfficeFurnitureOnline, acquired at the beginning of 2018, will also be integrated into the newport group. By founding the division, these activities can use their brand management, infrastructure, and product range to position themselves more strongly and more independently in the market. In addition, TAKKT Beteiligungsgesellschaft, founded in 2016, and its investments in innovative start-ups will also be brought into the newport group. TAKKT Beteiligungsgesellschaft's objective is to make strategic equity investments in newly-founded, strong growth companies that specialise in the B2B direct marketing segment or in services along the value chain of the TAKKT companies. The portfolio comprised seven investments already at the end of 2017.

The division also requires promising companies to complement existing business activities. TAKKT looks for established companies with a scalable business model in B2B direct marketing with positive growth prospects. Acquisitions offer TAKKT the opportunity to extend its product portfolio, develop new customer groups or expand regionally and thus further diversify. TAKKT's acquisitions are also aimed at gaining new expertise if possible.

Following approval by the METRO GROUP Annual General Meeting on 6 February 2017, the demerger of the company was completed on 12 July 2017. The company that focuses on consumer electronics operates under the CECONOMY brand. The wholesale and food business has since operated under the METRO brand. Both companies are managed as separate German stock corporations with independent corporate profiles and their own listings on the stock exchange. This means Haniel has two financial investments.

With more than 2 billion customer contacts per year, the **CECONOMY** financial investment is the leading European platform for companies, concepts and brands in the field of consumer electronics. CECONOMY's companies aim to provide guidance to customers and offer them solutions for exploiting the possibilities of innovative technologies in the best manner possible. With its two strong brands, MediaMarkt and Saturn, the company is represented in 15 European countries, and is number one in consumer electronics retailing in nine countries – measured by sales, market share, selling space and number of employees. Customers can use the offering on MediaMarktSaturn's markets and online channels in any desired combination at home and on the go. To enable that, the advantages of modern technologies have been integrated in all locations – with more than 1,000 digitally-optimised and multi-channel-capable markets in Europe.

METRO, the wholesale and grocery specialist, consists primarily of the METRO Wholesale and Real segments. The METRO Wholesale segment comprises the METRO/ MAKRO Cash & Carry wholesale markets and the delivery business. It is aimed primarily at commercial customers, in particular hotels, restaurants and catering companies. The Real segment concentrates on retail business in Germany and thus to consumers. Real is one of the leading hypermarket companies in Germany and offers an extensive and wide-ranging product line. METRO is active in 35 countries with local wholesale companies and delivery specialists – among others, METRO Lieferservice (delivery service), Classic Fine Foods, Pro à Pro and Rungis Express. This business is very well positioned in its markets – through both wholesale sales as well as the growing presence in the delivery business. In view of the changing buying habits among its customers, the delivery business in wholesale sales and multi-channel sales is being further expanded. Real has created new store concepts following a consolidation phase. In addition, the company has offered a large number of items for purchase online using a new marketplace format since February 2017.

Furthermore, the HoReCa Digital business unit, founded in 2015, bundles the Group's digital initiatives such as the METRO Accelerator powered by Techstars. There are also various service companies that provide comprehensive services throughout the Group.

Value-oriented management system

Sustainably increasing shareholder value is at the core of the activities of the divisions and the Haniel Holding Company. In order to ensure that the conduct of all participants is oriented on this goal, financial and non-financial indicators are utilised within the divisions and the Haniel Holding Company. At Group level, the Management Board uses, in addition to revenue, operating profit to assess the development of the divisions. Additionally, the profit before taxes is used as an indicator, which includes the investment result and the result from financing activities in addition to the operating profit.

A benchmark for value contribution in the Haniel Group is the Haniel value added (HVA). This indicator illustrates whether the Haniel Group or its divisions are generating results that at least cover the cost of capital. The cost of capital comprises the yield required by debt and equity providers and reflects the risk attributable to the Company's business activities. The return on capital employed (ROCE) is also used as a yield indicator in addition to Haniel value added. Recognised investments in non-current assets as well as the Haniel cash flow, in the sense of a cash-earnings indicator, are used to manage liquidity.

The indicators used for Group management are also used in the Haniel Group's compensation systems.

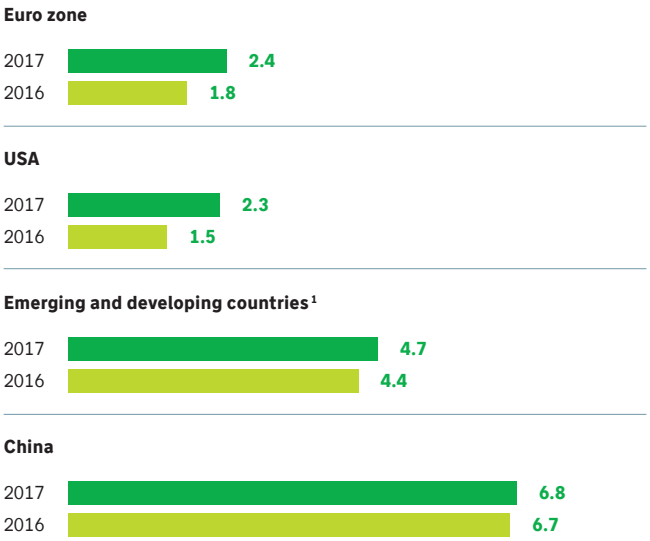
Report on the non-financial statement released

The management approach of Franz Haniel & Cie. GmbH to Corporate Responsibility (CR), consisting of the Haniel Group's CR organisation, CR targets as well as significant initiatives by the divisions and the Holding Company in this area are presented in the Corporate Responsibility section starting on page 10 of this annual report. Comprehensive detailed information on sustainability is also available on Haniel's website. The separate voluntary report on the non-financial statement pursuant to the CSR Directive Implementing Act (CSR-Richtlinie-Umsetzungsgesetz) pursuant to section 289b of the German Commercial Code (Handelsgesetzbuch, "HGB") as regards disclosure of non-financial and diversity information can be found at the following website:
www.haniel.de/en/responsibility/nonfinancialstatement2017

Haniel Group
Revenue and earnings performance

The Haniel Group posted double-digit sales growth in 2017. The ELG division and the Initial activities at CWS-boco, which were first included in the second half of 2017, made particular contributions to this growth. As expected, operating profit declined, primarily due to the costs for integrating the Initial activities at CWS-boco. The Haniel Group increased both before- and after-tax profit significantly.

GROWTH BY REGION
%



[1] 205 countries incl. China in total

Source: International Monetary Fund, World Economic Outlook Update, January 2018

Macroeconomic environment clearly revitalised
According to an estimate by the International Monetary Fund (IMF) the global economy grew strongly in 2017, gaining 3.7 per cent.

The upturn strengthened in the euro zone in 2017. Despite the political uncertainties from important elections in the reporting year and an unclear Brexit process, the euro zone countries again increased their growth rate to 2.4 per cent. The European Central Bank continued its expansive monetary policy. Broad domestic demand driven by consumers and investment as well as lively exports carried this upturn.

The economic upturn accelerated in the USA as well where, according to the estimate by the IMF, full year growth was 2.3 per cent following 1.5 per cent in the previous year. Consumer spending and business investments were lively. Industrial production also recovered. The energy sector, which had been very weak in the previous year, contributed to this recovery due to higher oil prices. As expected, the Federal Reserve Bank raised key interest rates further in several small steps.

The emerging and developing countries benefited from an uptick in global trade as well as the trend toward higher commodity prices. According to the IMF, on the aggregate these countries again grew at a somewhat faster pace of 4.7 per cent in 2017, although major regional differences remained. China's economic expansion was robust, gaining 6.8 per cent as a result of governmental support and also stimulated the Southeast Asian and other regions. Brazil again saw slight growth in 2017, while Russia's growth was moderate.

Relevant commodity prices at higher levels
In addition to the macroeconomic environment, the conditions in the stainless steel market segment are of great significance to the Haniel Group. The relevant commodity prices for ELG were higher in 2017 than in the previous year. A good economic outlook was one key factor behind this development. The price of nickel, the most significant price driver in stainless steel, was on average 8 per cent above the prior-year figure. The price level of commodities relevant for the superalloys business such as titanium ranged significantly below the previous year's level but increased during the course of the year.

The positive economic development in Europe and the improved conditions in the stainless steel and superalloys market segments had a favourable effect on the overall Haniel Group's revenue and earnings.

ELG and CWS-boco as sales drivers
Overall, the Haniel Group posted revenue of EUR 4,138 million in 2017, which corresponds to a significant increase of 14 per cent. Higher revenue at ELG in particular contributed to the gain. In addition, the first-time inclusion of Initial's activities in the second half of the year at CWS-boco contributed positively to revenue growth. Negative currency translation effects from the USD had a countereffect.

Adjusted for currency translation effects as well as company acquisitions and disposals, revenue increased by 11 per cent compared to the previous year. This is primarily attributable to the higher average price level of nickel and iron in 2017 and the ELG division's higher output tonnage. But the revenue of all other divisions also grew organically year-on-year, that is to say positively, when adjusted for currency translation effects and disposals of companies.

Operating profit weighed down by integration
The Haniel Group's operating profit declined slightly in the 2017 financial year to EUR 214 million. This resulted in particular from the one-off expenses for the integration of the Initial companies acquired at CWS-boco. The operating profit at TAKKT also slid below the previous year's level due to a higher expense for digitalisation, a weaker US business, and extraordinary income in 2016. BekaertDeslee's operating profit was at the previous year's level. In contrast, the ELG division increased its operating profit significantly year-on-year due to the more positive market environment; however, it was unable to fully compensate for the earnings development at other divisions.

REVENUE
EUR million

+14%

OPERATING PROFIT
EUR million

–7%

Profit before taxes increased
Profit before taxes increased from EUR 193 million in the previous year to EUR 235 million. The higher profit from the CECONOMY and METRO financial investments as well as the improved results from financing activities more than compensated for the slightly lower operating profit.

The investment result, primarily from the financial investments in CECONOMY and METRO, increased from EUR 46 million in the previous year to EUR 82 million in financial year 2017. Among others, it profited from slightly positive revenue growth in both companies as well as lower expenses for restructuring measures.

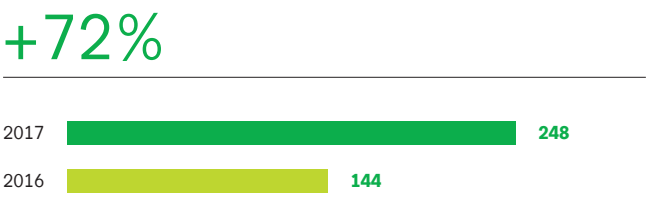
PROFIT BEFORE TAXES
EUR million

+22%

The result from financing activities, which is composed of finance costs and other net financial income, improved to EUR –61 million in the reporting period, following EUR –82 million in the previous year. Among other items, the scheduled repayment of the Haniel bond in February 2017 and the resulting lower interest cost contributed to this improvement.

Profit after taxes significantly higher
With a higher profit before taxes and a positive net tax income resulting from a significant income from deferred taxes compared to the previous year, the profit after taxes was significantly above that of 2016. Following EUR 144 million in the previous year, the profit after taxes came in at EUR 248 million in the 2017 financial year.

PROFIT AFTER TAXES
EUR million



Haniel value added significantly above the previous year's level
In addition to the revenue and earnings figures, the Haniel Group also uses Haniel value added (HVA) and the return on capital employed (ROCE) as value-oriented performance indicators[2]. HVA expresses the value contribution generated within a single year. The costs of equity and debt are determined each year, as is their weighting. As in the previous year, the weighted average cost of capital for measuring HVA in 2017 was 7.8 per cent.

EUR million	2016	**2017**
Return	230	**314**
– Cost of capital	495	**505**
Haniel value added (HVA)	**–265**	**–191**
Return	230	**314**
/ Average capital employed	6,347	**6,469**
Return on capital employed (ROCE)	**3.6%**	**4.9%**

HVA was EUR –191 million in 2017, significantly above the previous year's level of EUR –265 million. This was attained by a higher return with only slightly higher cost of capital compared to the previous year.

The performance indicator ROCE reflects the return realised on the average capital employed. The Haniel Group's ROCE increased through the higher 4.9 per cent return generated in 2017, compared to 3.6 per cent in the previous year. The return on the average capital employed in the 2017 financial year was thus below the weighted average cost of capital of 7.8 per cent.

Regarding the value-oriented performance indicators, it should be considered that both the available financial assets as well as the financial investments earn structural yields, which are below the total cost of capital. Against this backdrop, the value-based portfolio development remains a significant objective of the Haniel Holding Company.

Expectations exceeded
Adjusted for acquisitions and currency translation effects, the Haniel Group attained a significantly higher increase in sales than forecast. The main driver for this was stronger-than-expected revenue growth of the ELG division. Also with respect to operating profit, Haniel benefited at the Group level from the ELG division exceeding its operating profit projection significantly. On the other hand, the integration of Initial activities at CWS-boco proceeded at a faster pace than expected. This resulted in integration-related one-off expenses being incurred sooner than expected, which had a negative impact on CWS-boco's operating profit and at the Group level as forecast. Excluding earnings effects from the joint venture, an increase in operating profit was realised as expected.

The CECONOMY and METRO financial investments each posted a slight organic increase in sales as had been forecast for the METRO GROUP in the 2016 annual report – even excluding the demerger. Haniel's investment result from the CECONOMY and METRO financial investments was higher than expected due to lower expenses for restructuring measures and the demerger of the METRO GROUP.

On an aggregate basis, profits of the Haniel Group – both before and after taxes – came in better than forecast and were significantly above the previous year's level. Accordingly, the value-oriented performance indicators HVA and ROCE also surpassed projections. Haniel cash flow benefited from the contributions from the acquired Initial activities and rose more than expected compared to the previous year.

[2] For a detailed calculation of the HVA and ROCE indicators, see the explanations of the notes to the consolidated financial statements on page 105 in the Haniel annual report 2017.

Haniel Group
Financial position

Following the integration of substantial Central European parts of Initial at CWS-boco, Haniel successfully continued expanding its portfolio with the acquisition of ROVEMA and Optimar. Sufficient liquid assets are available for additional acquisitions, including from the Haniel cash flow, which increased significantly from the positive development of operating activities. The financial structure of the Group remains extremely solid and is reinforced by investment-grade ratings for the Haniel Holding Company.

Financial governance between the Holding Company and the divisions
The ultimate objective of financial management is to cover the financing and liquidity needs at all times while maintaining entrepreneurial independence and limiting financial risks. The Holding Company prescribes principles to the divisions to establish minimum organisational requirements and to govern the structure of key financial management processes, including financial risk management. These directives are documented in guidelines for the treasury departments of the Holding Company and the divisions. The Holding Company and the divisions use this basis to identify, analyse and evaluate the financial risks that each operating business is responsible for – in particular liquidity, credit, interest rate and currency risks – and take measures to avoid or limit these risks. In addition, the Holding Company sets the financing and financial risk management strategy and approves the financial counterparties and financial instruments used, as well as limits and reports.

While staying within these guidelines, the divisions manage their own financing based on their own financial and liquidity planning. Cash management is also the responsibility of the divisions. In order to leverage economies of scale, the Holding Company and its finance companies support the divisions and, together with partner banks, offer cash pools in various countries. Combining central directives with the autonomy of the divisions in terms of their financing takes into account the divisions' individual requirements for financial management.

Trusting collaboration
As a family business with stable, but limited equity financing, access to sources of debt capital are of high importance to Haniel. Accordingly, a good reputation with financial partners is essential. Significant aspects to this include timely and open information from rating agencies and business partners while observing equal treatment of banks and investors. When this can be guaranteed, a company can earn a high level of trust as a longstanding and reliable business partner for banks and investors.

Investment-grade ratings confirmed
Haniel Holding Company submits itself to external ratings voluntarily, thus ensuring broad access to capital markets. Haniel bases this on three rating assessments: Moody's supplemented its current rating of Ba1 with a "positive outlook" in January 2017. The European rating agency Scope classified Haniel as investment-grade with a BBB- rating, as did Standard & Poor's, who also put Haniel in this class with its BBB-rating.

Broad-based financing
The Haniel Group's financial management relies on diversification of financing: various financing instruments with a variety of business partners ensure access to liquidity at all times and reduce the dependency on individual financial instruments and business partners. Overall, the Haniel Group had used and unused credit facilities on the scale of EUR 2 billion as at 31 December 2017. This exemplifies the pursuit of security and independence.

A balanced maturity profile with an appropriate, long-term orientation guarantees additional financial stability. A further key pillar of financial management is the Haniel Holding Company's secured access to capital markets via the current commercial paper programme of EUR 500 million.

Overall, the financial liabilities reported in the Haniel Group statement of financial position declined to EUR 1,495 million as at 31 December 2017, compared to EUR 1,750 million as at 31 December 2016. Of that amount, EUR 992 million is due in less than one year, EUR 458 million is due in one to five years, and EUR 45 million is due in more than five years. The majority of liabilities are denominated in euros. Liabilities in foreign currencies are primarily in US dollars. The decline in financial liabilities resulted from the scheduled repayment of a bond of EUR 247 million. This bond was repaid without refinancing due to sufficient liquidity. The current financial liabilities, that is with maturities of less than one year, remained stable despite the bond repayment. This resulted from the reclassification of another bond maturing in February 2018. The decrease in financial liabilities in the maturity category of between one and five years arose from the reclassification of the previously mentioned bond of EUR 195 million that matured in February 2018. In addition, of the liabilities reported as current, EUR 483 million are attributable to the exchangeable bond linked to ordinary shares of CECOMOMY AG. Although this does not reach maturity until 2020, it is reported as a current liability due to the right of the bondholders to exchange the bond for shares, which can be exercised at any time.

The carrying amount of outstanding bonds as at 31 December 2017 of EUR 678 million following the bond repayment is below the level of EUR 918 million at the end of 2016. In addition, the CWS-boco, ELG and TAKKT divisions have also financed themselves on the market for promissory loan notes in recent years and thus broadened their financing base. As at 31 December 2017, the value of promissory loan notes, commercial paper and other securitised liabilities in the Haniel Group amounted to EUR 223 million – and was thus above the level reported as at 31 December 2016. Individual divisions also maintain programs for the ongoing sale of trade receivables to third parties.

Solid financial buffer

The net financial liabilities of the Haniel Group, i.e., financial liabilities less cash and cash equivalents, declined to EUR 1,427 million as at 31 December 2017 compared to EUR 1,485 million at the end of 2016. The use of cash for the repayment of the bond did not result in a larger reduction of net financial liabilities. The net financial position in the Haniel Group increased to EUR 1,331 million as at 31 December 2017, following EUR 575 million as at 31 December 2016. The net financial position equals the net financial liabilities less the investment position of the Haniel Holding Company – excluding current and non-current receivables from affiliates. The increase in net financial position is attributable in particular to the use of financial resources for the expansion of the portfolio by the establishment of the joint venture at CWS-boco as well as the acquisition of ROVEMA and Optimar.

Haniel cash flow increased significantly through positive development of operating activities.

Net financial liabilities at the level of the Haniel Holding Company also increased, from EUR 917 million as at 31 December 2016 to EUR 1,040 million as at 31 December 2017. That is because the Haniel Holding Company provided financial resources to the divisions and acquired two new divisions with ROVEMA and Optimar. This resulted in a reduction of the balance of cash and cash equivalents. Additionally, the CWS-boco division was able to establish the joint venture with Rentokil Initial through the financial support of the Haniel Holding Company.

The net financial liabilities at the Holding Company level are offset by a portfolio of financial assets that will be used in the coming years for the acquisition of additional divisions as well as for the redemption of outstanding bonds. Including current and non-current receivables from affiliates, the Haniel Holding Company had financial assets valued at EUR 908 million as at 31 December 2017.

Haniel cash flow increased

The Haniel Group uses the performance indicator Haniel cash flow to assess the strength of its liquidity position in its current business activities. Haniel cash flow is first and foremost available for financing current net assets[1] and investments. Haniel cash flow increased from EUR 374 million in the previous year to EUR 487 million in 2017. The primary causes for the increase were the first-time contributions by the Initial companies as well as the overall positive development of the operating activities in the divisions.

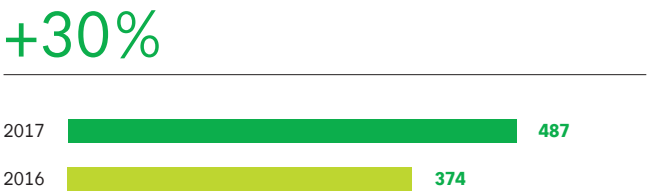
[1] Current net assets essentially comprise trade receivables and inventories less trade payables.

Cash flow from operating activities, which supplements Haniel cash flow in depicting the change in current net assets, amounted to EUR 462 million in 2017, and was thus also somewhat less than Haniel cash flow. The discontinuance of sales of receivables at CWS-boco contributed to this. In the previous year, cash flow from operating activities amounted to EUR 253 million, which was also less than the Haniel cash flow. The cause was the commitment of financial resources, in particular through the increase in trade receivables and inventories, as a result of a higher nickel price at year's end at ELG and larger business volume in the fourth quarter.

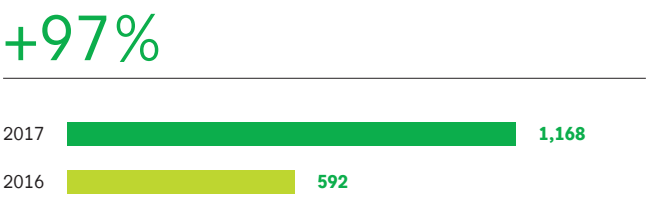
Acquisition of Initial units, ROVEMA and Optimar drives total investment

Cash flow from investing activities, that is the balance of payments for investing activities and proceeds from divestment activities, was EUR –303 million in 2017. In addition to the investments by the divisions in property, plant and equipment and intangible assets, the most significant investments were the acquisition of the Initial companies by CWS-boco as well as the takeover of both ROVEMA and Optimar. Payments of EUR 1,168 million were offset by proceeds from divesting activities of EUR 865 million. These were primarily attributable to the decrease of financial investments by the Haniel Holding Company. In the previous year, the cash flow from investing activities was

HANIEL CASH FLOW
EUR million



CAPITAL EXPENDITURE
EUR million



EUR –286 million. Payments amounting to EUR 592 million – including for the acquisition of the DesleeClama Group and financial assets at the level of the Holding Company – were offset by proceeds amounting to EUR 306 million. This resulted in particular from the scheduled maturity of financial assets which had been acquired in prior years by the Haniel Holding Company.

EUR million	2016	**2017**
Haniel cash flow	374	**487**
Cash flow from operating activities	253	**462**
Cash flow from investing activities	–286	**–303**
Cash flow from financing activities	–44	**–353**

Cash flow from financing activities in 2017 were EUR –353 million, following EUR –44 million in 2016. Significantly more funds were thus used for the repayment of financial liabilities than in the previous year. As in the previous year, a dividend of EUR 50 million was paid to the shareholders of Franz Haniel & Cie. GmbH in 2017.

Haniel Group
Assets and liabilities

The equity ratio of the Haniel Group remained high with higher total assets. This underscores the further investment potential of the Haniel Group, even after 2017's successful investments.

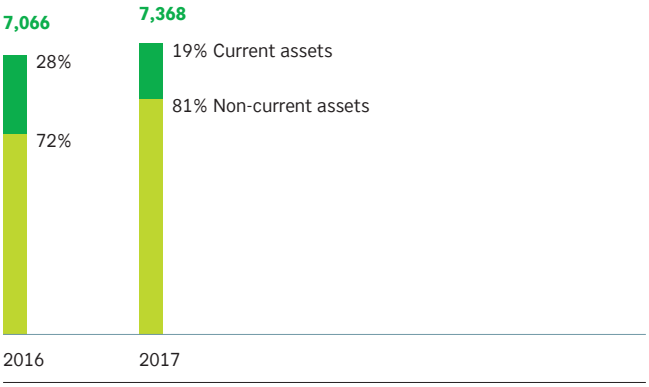
Higher total assets
The Haniel Group's total assets increased from EUR 7,066 million as at 31 December 2016 to EUR 7,368 million as at 31 December 2017. Non-current assets increased at the expense of current assets. This increase resulted from CWS-boco's founding of the joint venture with the Initial activities in Central Europe as well as the acquisition of ROVEMA and Optimar. Countering this, non-current financial assets declined in particular because bonds were disposed of by the Haniel Holding Company to finance the acquisitions. Total non-current assets of the Group amounted to EUR 5,977 million as at 31 December 2017, – following EUR 5,122 million as at 31 December 2016. Current assets declined due to the reduction of current financial assets from EUR 1,944 million as at 31 December 2016 to EUR 1,391 million as at 31 December 2017.

Equity ratio remains high
The equity of the Haniel Group increased from EUR 4,248 million as at 31 December 2016 to EUR 4,499 million as at 31 December 2017. This was due to in particular the profit after taxes and the inclusion of significant Central European Initial companies in CWS-boco as part of the establishment of the joint venture. The equity ratio increased slightly from 60 per cent to 61 per cent because not only did equity increase, but so did total assets. The continuing high level of the equity ratio underscores the investment potential of the Haniel Group.

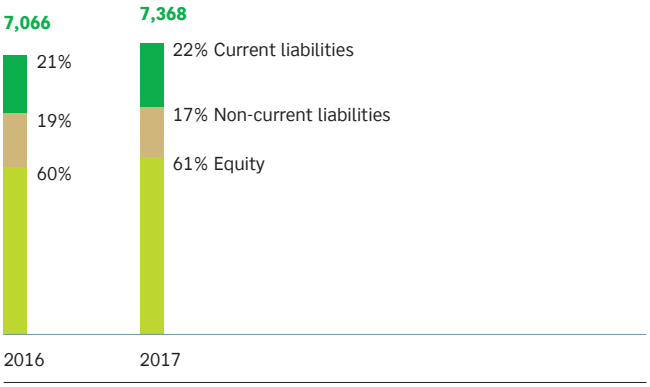
Non-current liabilities declined to EUR 1,236 million as a consequence of the reclassification to current liabilities of the bond of Franz Haniel & Cie. GmbH maturing in 2018. Current liabilities increased from the acquisition of ROVEMA and Optimar as well as the establishment of the joint venture. They amounted to EUR 1,633 million as at 31 December 2017, following EUR 1,504 million as at 31 December 2016.

Recognised investments significantly above the previous year due to acquisitions
The Haniel Group's recognised investments increased sharply from EUR 412 million in the previous year to EUR 1,600 million in the 2017 financial year. With the acquisition of significant Central European Initial companies as well as the new Optimar and ROVEMA divisions, both the value as well as the number of acquisitions in 2017 were significantly above those of 2016, in which DesleeClama represented the largest single investment. The recognised investments in the existing business for property, plant and equipment and other assets declined because the acquisition of financial assets by the Haniel Holding Company had greatly increased these items in the previous year.

ASSET STRUCTURE
EUR million



EQUITY AND LIABILITY STRUCTURE
EUR million



Haniel Group
Employees

The number of employees in the Haniel Group increased again in the 2017 financial year due to CWS-boco's joint venture with Rentokil Initial and the acquisition of ROVEMA and Optimar.

Staffing in the divisions increased
The average number of employees in the Haniel Group increased in 2017 by upwards of 33 per cent, from 13,882 in the previous year to 18,481. This is attributable in particular to the consistent implementation of the buy&build strategy.

BekaertDeslee had an average of 2,677 employees in 2017, following 2,340 employees in the previous year. The increase resulted above all from the demand for additional production staff in Mexico and Romania.

Business development at **CWS-boco** increased the most due to the establishment of the joint venture with Rentokil Initial for the takeover of Initial's activities in 10 European countries: from an average of 7,661 employees in 2016 to 10,768 employees in 2017. The increase was particularly high in Germany and Benelux.

Business development at the **ELG** division improved with higher output tonnage due to more favourable general market conditions caused by higher prices for relevant commodities. As a result, staffing in the ELG division increased slightly from an average of 1,181 to 1,240.

ROVEMA had an average of 649 employees in 2017; at **Optimar** the number of employees averaged 375.

The average number of employees at **TAKKT** also grew slightly year-on-year from 2,489 to 2,566 also due to the hiring of digital talent. TAKKT announced the hiring goal of up to 100 employees with excellent digital abilities; more than 70 positions have already been staffed. The division also established its own trainee programme for digital talents in order to prepare young managers specifically for the digital transformation.

EMPLOYEES
Annual average (headcount)

+33%

Digitalisation is impacting human resource requirements: Key positions such as Chief Digital Officer, Senior Digital Advisor, Digital Transformation Manager or User Experience Designer were created and staffed group-wide.

Digitalisation affects human resource requirements
Digitalisation is changing the corporate culture over the long-term and affecting collaboration. It has a significant influence on quantitative and qualitative human resource requirements. The effects of digital transformation on organisation and collaboration in the divisions vary greatly depending on the business model. The Haniel Group couples this topic with a clear strategic focus. The Haniel Academy, which trains and develops managers and employees of the Haniel Group, provides a number of offerings covering all manner of issues related to digital transformation. In addition, Haniel has established initiatives to promote dialogue and provide information to address this trend and has also established the Schacht One digital unit.

Abbreviated Corporate Governance Declaration: Promote diversity
Haniel's Management Board acknowledges that diversity is a strategic success factor for the future viability of Haniel. Depending on the department and location, there are various offerings in the companies of the Haniel Group that open opportunities for improving the compatibility of career and family. These opportunities are being further expanded. Shaping general conditions represents a focus of activity here in particular, also in the light of the German Act to Promote Equal Participation of Women and Men in Management Positions. Nevertheless, qualification remains the decisive criterion for staffing positions. Appropriate actions will therefore lead to a corresponding increase in the percentage of women in the Haniel Group in the foreseeable future. As resolved by the Management

Board of Franz Haniel & Cie. GmbH in accordance with, and in the same scope as an abbreviated Corporate Governance Declaration pursuant to statutory requirements for Franz Haniel & Cie. GmbH, the target levels for the percentage of women for the Haniel Holding Company until 31 December 2021 are 10 per cent for the first management level and 6.25 per cent for the second management level. The minimum quota for the Management Board is zero and the minimum quota is 8.3 per cent for the Supervisory Board.

Holding Company Franz Haniel & Cie.

The Haniel Holding Company[1] continued to successfully develop its portfolio in 2017: Together with the CWS-boco division, the family-equity company established a joint venture with Rentokil Initial, thus opening long-term prospects for growth for the division. Haniel diversified its portfolio with the acquisitions of ROVEMA and Optimar, two fast-growing companies which operate in different segments of the field of mechanical engineering. The Holding Company is also continuing its work to systematically implement the digital transformation strategy.

Portfolio further strengthened and diversified
Together with the CWS-boco division, the Haniel Holding Company established a joint venture with Rentokil Initial on 30 June 2017, thus strengthening the division's market position for the long term. The joint venture creates an innovative, leading European company that offers workwear, cleanroom and hygiene services. In addition to a capital increase, the Holding Company provided the division an additional EUR 500 million as interim financing. Following the acquisition of Rentokil Initial's Central European activities, the Haniel Holding Company holds 82.19 per cent of shares in the joint venture, and Rentokil Initial holds 17.81 per cent.

ROVEMA, a recognised premium manufacturer of packaging machines and equipment, has been a part of the Haniel Group since 30 November 2017. Optimar, a leading manufacturer of high-quality, automated fish handling systems for use on ships, on land and for aquaculture, has belonged to the Haniel Group since 20 December 2017.

The strategic decision by Metro's management regarding the demerger of the METRO GROUP, which became effective on 12 July 2017 upon entry in the commercial register, resulted in a splitting of the group into CECONOMY, which is focused on consumer electronics, and METRO, the wholesale and grocery specialist. This gives rise to new prospects for growth and development for both financial investments. In addition, the split results in a greater diversification of Haniel's portfolio.

The value of Haniel's investment portfolio as at 31 December 2017 amounted to EUR 5,624 million.

Following the successful portfolio measures, Haniel has financial resources on the scale of more than EUR 800 million for the acquisition of additional business segments. As a family-equity company, Haniel follows a long-term investment approach with respect to acquisitions. Its focus lies on well-positioned medium-sized companies which operate in attractive niches which can expand their market-leading position with the help of Haniel, contributing to the diversification of the portfolio. In addition, Haniel gives preference to the acquisition of controlling interests in non-listed companies, which can also take place in stages. In line with Haniel's objective of being "enkelfähig", particular emphasis is placed on companies which are able to make a positive contribution to long-term value creation through their sustainable actions. In addition to the acquisition of new business segments, Haniel will also emphasise the expansion and further development of the existing divisions as part of its buy&build strategy.

In a challenging market environment, Haniel will continue to find the right companies by patiently and prudently weighing options as they arise.

Value of the portfolio up slightly
The value of the investment portfolio increased from EUR 5,284 million at the end of 2016 to EUR 5,624 million as at 31 December 2017. It is calculated as the sum of the valuations of the divisions, the CECONOMY and METRO financial investments, the financial assets as well as other assets less net financial liabilities at the Holding Company level. The listed division and the financial investments are valued on the basis of three-month average share prices, while the remainder of the divisions are valued on the basis of market multiples, and for the financial assets on the basis of fair values as at the reporting date.

[1] Including the Holding Company's equity investment, financing and service companies. You can find the financial statements of the Franz Haniel & Cie. subgroup under "Creditor Relations" at www.haniel.de/en.

Digital transformation further advanced
Promoting the divisions' digital transformation aligns with Haniel's objective of acting as a value developer for the divisions, keeping the focus both on value and values. Haniel applies a holistic approach to the Group's digital transformation that comprises several interwoven elements: The divisions have developed Digital Agendas, the primary aim of which is to transform the portfolio companies' existing value chains. The strategies also offer sufficient latitude to develop innovative, unconventional, digital-based business ideas.

Schacht One, Haniel's digital workbench, coordinates, supports and accelerates the implementation of the Digital Agendas. Schacht One has already worked with the divisions on 50 corresponding projects as of 2017.

Haniel's investments in venture capital investment funds give it a very strong basis for better understanding the business models of start-ups and learning about new innovative business models at an early stage. As at 31 December 2017, Haniel had committed a total of EUR 42 million for six different investment funds which in turn want to invest in a total of well over 200 young companies. This network also has the potential to inspire internal innovation processes and provide momentum for the continued search for new companies to invest in. Moreover, the Holding Company supports its divisions in making their own investments in young and innovative start-ups.

Knowledge transfer and the exchange of ideas – both within and outside the Haniel Group – are an important aspect of the holistic approach to digitalisation. This is also the focus of the Haniel Leadership Lab, the Group-wide management conference. The Holding Company also coordinates trips by employees of the Haniel Group to hotspots such as Berlin and Stockholm where they expand their external networks in the digital and start-up scene. In addition, the Haniel Academy offers a comprehensive programme of seminars on digitalisation, which is continually being expanded.

Financial assets used for portfolio development
Haniel used some of its financial assets in 2017 to execute a capital increase at CWS-boco during the course of the joint venture with Rentokil Initial and to acquire ROVEMA and Optimar. In addition, financial assets are loaned to the divisions and invested in interest-bearing financial investments. As at 31 December 2017, taking into account current and non-current receivables from and liabilities to affiliates, there were financial assets valued at EUR 908 million versus net financial liabilities amounting to EUR 1,040 million. The net financial position of the Haniel Holding Company, defined as net financial liabilities less financial assets, was thus EUR –132 million as at 31 December 2017. Based on the self-imposed limit for net financial liabilities of EUR 1 billion, Haniel therefore has more than EUR 800 million to further develop and expand the portfolio. Planned returns from internal loans will reduce the external indebtedness and thus create additional latitude. The Haniel Holding Company also has firmly committed long-term lines of credit of EUR 667 million available and is therefore in a comfortable aggregate liquidity situation.

Sufficient liquidity is available for the acquisition of additional divisions.

The non-interest bearing exchangeable bond issued in 2015 and linked to shares in METRO AG, which became CECONOMY after the demerger, represents a key element of financing. Haniel has used this to secure excellent financing terms until 2020. In addition, funding has been secured over the long term by way of the aforementioned credit facility and shareholder and employee loans. However, the most important part of financing is and remains the equity made permanently available by the Haniel family.

The debt target is regularly analysed against the development of the Holding Company's cash flows and development of the portfolio's market value. Even after the planned acquisition of new divisions, Haniel will continue to keep net financial liabilities at about EUR 1 billion, appropriate for an investment-grade rating.

S&P and Scope with investment-grade ratings
In January 2017, Moody's raised its outlook on Haniel's rating to "positive" and confirmed the Ba1 rating. Moody's thus acknowledged the steps taken at Bekaert-Deslee and CWS-boco as part of the investment strategy as well as the effects on the Haniel portfolio from the demerger of the METRO GROUP. Haniel voluntarily submits to external rating assessments with the objective of obtaining a stable long-term investment-grade

rating. Two of the three ratings of the Haniel Holding Company are currently ranked investment grade. Since February 2016, the Holding Company has had a long-term investment-grade issuer rating of BBB- with a stable outlook from the European rating agency, Scope. In April 2016, Standard & Poor's Ratings Services (S&P) had raised its long- and short-term corporate credit rating to BBB-/A-3 (stable outlook). Haniel is thus also classified as investment grade at S&P.

Earnings contribution of the Holding Company down on prior year

The Haniel Holding Company's contribution to the Group's operating profit in 2017 was below the previous year's level. In 2016 higher income from the reversal of provisions no longer needed contributed to operating profit.

Responsibility for the region and society

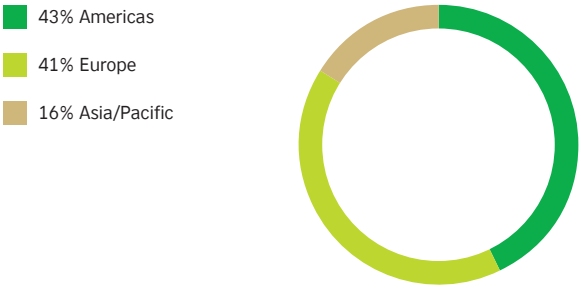
The CR commitment of the Haniel Holding Company is based on two pillars: First, as a family-equity company Haniel takes responsibility along its own value-added chain. Second, Haniel systematically pursues its social commitment while focusing on promoting education, site responsibility and employee commitment. Responsibility for the region is supported by numerous initiatives and projects at the corporate headquarters – be it materially, non-materially, or financially.

Together with the KfW Foundation, the Prof. Otto Beisheim Foundation and Social Impact gGmbH, the Haniel Holding Company operates Social Impact Lab Duisburg. This incubator for social entrepreneurs supports business founders who want to use their ideas to solve pressing social challenges; it connects them with other stakeholders and establishes them in the region. As of 31 December 2017, 46 teams had already commenced or completed this programme. 24 companies have resulted from this incubator, 21 of which are still on the market. Individual teams have been successful throughout Germany and internationally. In addition, substantive offerings such as a mentoring programme and specialist workshops promote an exchange of ideas between the start-up teams and Haniel employees.

BekaertDeslee

BekaertDeslee generated a revenue increase of 9 per cent in 2017. Organically, revenue rose by 8 per cent. In particular, business with ready-made mattress covers was highly positive. Operating profit was on par with the prior-year level. The company has completed the comprehensive integration measures as planned following the acquisition of the DesleeClama Group. The division is working continually to expand its global market position.

REVENUE
by region



Integration successfully completed

BekaertDeslee is a growth-oriented company that aims to expand its global market position through both organic growth and acquisitions. The acquisition of the DesleeClama Group strengthened the division's leading position in the market significantly. The combined company's broad market coverage and high degree of customer proximity give it a strong competitive position. In the course of the consolidation, among other successes, the Belgian headquarters of both companies were combined in Waregem. In addition, the division relocated DesleeClama's production activities in the United States to Bekaert Textiles' existing production locations in the United States and Mexico. At its headquarters in Waregem, BekaertDeslee began efforts to establish an innovation centre that bundles the development and design departments and other central company functions under one roof.

REVENUE
EUR million

+9%

Long-term trend toward upmarket materials

BekaertDeslee continues to benefit from long-term megatrends. With regard to organic growth, this made a considerable contribution to the further expansion of BekaertDeslee's position in the market for mattress textiles. The market for mattress textiles is characterised by a long-term trend toward higher-value materials, which is attributable in particular to an increasing readiness to purchase higher-priced mattresses. Specifically, these materials include knitted mattress textiles. This is because these textiles make it possible to realise not only sophisticated, three-dimensional designs but also additional functions which improve the quality of sleep. BekaertDeslee can benefit from this trend due to its many years' experience with knitted textiles.

The integration measures served to strengthen the division's leading position in the market significantly.

Increased demand for mattress covers

Among BekaertDeslee's core customer groups, the emerging trend is for their procurement departments to purchase prefabricated mattress covers. On the one hand, this is because cost and efficiency considerations are increasingly motivating long-established mattress manufacturers to shift to a business model where they merely "combine" individual components. On the other hand, the new group of "bed-in-a-box" companies – i.e., primarily online mattress retailers – have other needs with respect to product characteristics. For instance, mattresses need to be wrinkle-free after having been folded and rolled

up for shipping. This is where BekaertDeslee can wield its expertise. As a consequence, sales of ready-made mattress covers were highly encouraging in 2017 and the company will continue to systematically expand its business with products characterised by a greater depth of value added.

Cost initiatives successfully continued
In 2017, BekaertDeslee successfully and systematically continued its work to implement both the procurement initiative and the Lean Manufacturing Initiative. In particular, the centralisation and standardisation of yarn purchasing resulted in a reduction in costs. The Lean Manufacturing Initiative is designed to standardise and improve production processes. The division is pursuing an overarching strategy to foster continuous improvement at all locations.

The business with products with a greater depth of value added – such as ready-made mattress covers – is increasing.

Strengthened market position after integration
BekaertDeslee generated EUR 337 million in revenue in 2017, compared with EUR 310 million in the previous year. The DesleeClama Group was acquired last year and made its first contributions to this positive revenue trend over the year. Organic revenue, i.e., adjusted for business combinations and disposals and currency translation effects, grew by 8 per cent. By regions, BekaertDeslee benefited from the positive development of business in Europe, whereas business activities in

OPERATING PROFIT
EUR million

+/–0%

EMPLOYEES
Annual average (headcount)

+14%

the USA were under pressure. Within the product portfolio, the growing demand for ready-made mattress covers continued to have a positive influence on revenue development.

In 2017, BekaertDeslee's operating profit remained stable, amounting to EUR 28 million, with all regions making a positive contribution to earnings. However, the efficiency gains realised and the inclusion of DesleeClama in the figures for the entire year were not sufficient to offset the loss of earnings due to a dip in sales to a major customer and increased energy costs in Mexico. The operating profit was weighed down by the amortisation of the purchase price allocation amounting to EUR 10 million. Adjusted for this, BekaertDeslee's operating profit was EUR 38 million in 2017.

Digital Agenda implemented
In 2017, BekaertDeslee worked on several projects relating to its Digital Agenda with the Haniel Group's digital workbench, Schacht One. The objective is to accelerate the digital transformation of the business. Under the Digital Agenda, BekaertDeslee systematically focuses on the needs of its target groups – from mattress manufacturers to retailers through to end consumers. The digitally assisted, automated quality assurance of ready-made textiles was successfully tested in 2017 as a prototype and is being introduced into the production process.

CWS-boco

The merger of Initial's Central European business on 30 June 2017 with the CWS-boco division opens attractive opportunities for further development in the hygiene, workwear and cleanroom segments. The consolidation resulted in a sharp increase in revenue to EUR 970 million. But CWS-boco also grew organically thanks to continuing positive impacts from the sales initiative. The operating profit was weighed down to a considerable extent by the expenses for integration and restructuring.

Joint venture opens up growth opportunities
On 30 June 2017, Haniel and Rentokil Initial agreed to form a joint venture, merging CWS-boco's business in 16 countries with Initial's activities in 10 European countries. At the same time, CWS-boco sold its Italy business to Rentokil Initial. This gave rise to an innovative and leading European company in the attractive market for workwear, cleanroom and hygiene services under the aegis of the CWS-boco Group. After the transaction Haniel holds 82.19 per cent of the share and Rentokil Initial holds 17.81 per cent. The two companies complement each other regionally and pool their longstanding expertise. The joint venture creates a state-of-the-art service platform enabling it to offer improved and more efficient customer solutions while safeguarding a consistently high level of quality. This platform benefits from increased efficiency in the supply chain, improved global sourcing and a broad range of innovative technology and other services. The integration of the two companies was

REVENUE
EUR million

+21%

REVENUE
by division

the focus in the second half of the year. CWS-boco has already implemented initial efficiency measures, in particular in the administrative area.

Successful integration of CWS-boco and Initial activities: One of the leading European service providers for workwear, washroom hygiene and cleanroom solutions has been created.

Establishment of new divisional structure
The implementation of the new divisional structure, which was accelerated in 2017 in the course of the integration of the Initial activities, was fully completed at the beginning of 2018. CWS-boco has established two divisions across all countries: The Hygiene Solutions division will provide washroom hygiene solutions and dust control mats, while the Textile Solutions division's service portfolio will cover the renting and sale of textiles and cleanroom, health, and health care products. The new structure allows the company to address customer needs more individually across Europe.

The division continued the project to revamp its IT systems in 2017. The objective of this project is to realise high, uniform standards of customer service and processes within the company. In addition, this is designed to support the cross-border integration of warehouse and service processes.

Focus on digitalisation
CWS-boco is working intensively to digitalise its products and services to meet customer needs. The company continued its work in 2017 on various projects based on its Digital Agenda with Haniel's Schacht One digital unit. For example, the division developed the new

"My CWS-boco" customer portal, which has been online in Germany since October 2017. The division expanded its digital service spectrum with fello.online. Since the fall of 2017, customers have been able to rent work clothes quickly, flexibly and at low cost using fello.online.

In addition, CWS-boco further developed its business with service offerings under the "loovio by CWS" brand relating to high-quality public washrooms that are available to users for a fee. Additional washrooms at rest stops and in retail shops were opened in 2017. The division also supplemented its network in the Textile Solutions division by adding an additional location near Dresden in 2017. The division's cleanroom laundries service the growing demand for cleanroom apparel primarily in the micro-electronics and pharmaceuticals industries.

Lower cancellation rates show high customer satisfaction.

Revenue increased

At EUR 970 million, CWS-boco's revenue in 2017 was up by 21 per cent year on year. This was primarily attributable to the inclusion of the Initial activities in the second half of the year. Adjusted for currency translation effects and acquisition effects, revenue increased by 5 per cent compared to the same period of the previous year. CWS-boco thus boosted revenue in both divisions. The Hygiene Solutions division generated growth of 2 per cent and the Textile Solutions division increased its revenue by 6 per cent compared to the previous year. This shows the positive effects from the sales initiative and the related internal "Sales Excellence" training programme, which has now also been introduced in Switzerland. This means the division has not only gained a significant number of new customers, but also improved support for existing customers. The cancellation rates at CWS-boco, which not only remain at a low level, but also declined year-on-year, are evidence of the high customer satisfaction.

OPERATING PROFIT
EUR million

−34%

EMPLOYEES
Annual average (headcount)

+41%

Operating profit weighed down by integration

The operating profit was weighed down in particular by one-off expenses for the integration of the Initial companies, location closings and planned staff reduction measures. In addition, the depreciation of the purchase price allocation in connection with the acquisition of the Initial companies already reduced profits in 2017 by EUR 15 million. The first-time, half-year contribution to earnings by the Initial companies of EUR 23 million could not fully compensate for the high charge in 2017. The operating profit therefore declined from EUR 77 million in the previous year to EUR 51 million.

ELG

ELG benefited from a significant relaxation of the market environment in 2017 and was able to increase output tonnage both at ELG Utica Alloys, the business with superalloys, as well as for stainless steel scrap. Higher commodity prices for stainless steel in particular, as well as increased availability of scrap increased revenue by 22 per cent. With a stable gross margin, the division generated a significant increase in operating profit, which was borne both by the stainless steel scrap segment as well as by ELG Utica Alloys.

Positive market environment in the stainless steel scrap business

Global production of stainless steel in 2017 was 6 per cent above the previous year's level. Regionally, this is primarily attributable to the Chinese market, which is responsible for more than 50 per cent of global production. Production in China again increased year on year: by more than 6 per cent. Stainless steel production also increased in the USA and Europe, the markets especially relevant to ELG, as a result of the improved market environment. In addition, the production of stainless steel also saw positive growth in India, Taiwan and Indonesia. Higher commodity prices led to a year-on-year increase in the availability of scrap in the procurement market.

Positive trend for commodity prices

Nickel, chrome and iron are the primary price drivers of the stainless steel scrap processed by ELG, which is why the price that the division obtains for its products is highly dependent on the prices for these raw materials. In anticipation of a marked shortage of supply, nickel began the year 2017 at prices above USD 10,000 per tonne, but was subjected to strong volatility however. During the first half of the year, a change in commodity policy in Indonesia and the Philippines for the export of nickel ore to China as well as other factors led to temporary declines in the nickel price, occasionally falling below USD 9,000 per tonne. Investor expectations with respect to the long-term success of electric mobility had a counter effect in the second half of the year. As a result, nickel saw a significant increase in demand as a component for drive batteries. In addition to the growth in stainless steel production previously mentioned, during the course of the year this led to an increase in the nickel price to above USD 12,000 per tonne.

REVENUE
EUR million

+22%

REVENUE
by sales region

Positive market environment with higher commodities prices in the stainless steel business compared to the previous year

On average, the price of nickel was just under USD 10,400 per tonne, which was nonetheless 8 per cent above the prior-year level. The average prices for iron and chrome reached a significantly higher level compared to those of the prior year.

Improved market environment in the superalloys business
ELG Utica Alloys, ELG's division specialising in superalloys, also benefited from an improved market environment in 2017 as far as prices and quantities were concerned. Among other things, the acquisition and integration processes for major customers, which had reduced demand in the same period of the previous year, were completed. Output tonnage increased significantly, in particular in trading, but also saw encouraging growth in recycling, which is largely independent of commodity prices. Demand from the aviation industry remained at a high level. The upturn of the trade business was also supported by the increase in the price of nickel and titanium during the course of the year, which are important for ELG Utica Alloys.

Growth in demand for recycling superalloys

Revenue and operating profit increased significantly
The overall improvement in the market environment had a positive effect on business development at ELG. While ELG's output tonnage of stainless steel increased by 5 per cent, the output tonnage of superalloy scraps at ELG Utica Alloys was up even more, 10 per cent over the value in the previous year. The higher average prices for nickel and other commodities relevant to ELG had a positive impact on revenue: this increased sharply by 22 per cent to EUR 1,696 million. ELG benefited from the supporting market environment, and as a result of a stable gross margin, from an improved absolute gross profit. Combined with a cost basis that rose at a slower pace, this led to a significant increase in operating profit in 2017, up EUR 31 million to EUR 49 million.

OPERATING PROFIT
EUR million

>+100%

EMPLOYEES
Annual average (headcount)

+5%

Strengthening for the future through digitalisation
ELG systematically continued to implement the digital transformation strategy developed in 2016 and stepped up its efforts to realise the innovation and digitalisation initiatives. The company is focusing on optimisation options along the value chain and on business model innovations. Initial solutions such as the "MyELG" app, which improves the interaction with stainless steel scrap suppliers, and the web-based "ATTIS" database at ELG Utica Alloys, are already in use internationally. The most recent digital projects by ELG's in-house innovation unit are "deinschrottplatz.de", a search portal for nearby scrap locations, and the remetal.de platform. Owners of scrap can use remetal.de to find suitable buyers for their waste metals at all times regardless of quantity, quality and location. Many projects are usually realised together with Schacht One and experienced partners.

Optimar

Optimar, one of the world's leading companies for automated fish handling systems, has been part of the Haniel Group since 20 December 2017. The Norwegian company develops, manufactures and installs onboard, onshore and aquaculture solutions.

International positioning
The company, which employs 375 people, is a leading manufacturer of high-quality automated systems for handling fish on ships, on land and for aquaculture. The company installs machinery and equipment as turnkey projects, either independently or in connection with third-party solutions. As a full-service provider, Optimar also offers ancillary products and services. Aside from its headquarters and manufacturing facility in Ålesund, the company operates other production locations in Norway, the United States, Spain and Romania. Optimar delivers to international customers in more than 30 countries.

The growing global population with its rising demand for protein, the continuing pace of automation in the fishing industry and the need to modernise the fishing fleet offer long-term support for the business model.

Customers benefit from Optimar solutions
Optimar is able to offer its customers an end-to-end range of products and solutions along the entire primary value chain from a single source: from transport to handling through to palletising. Its processing solutions are supported by supplementary project and IT solutions. This enables customers from the fishing industry and aquaculture operators to optimise their production processes and thus also the quality of their products. Optimar's solutions take up less space onboard and thus help improve systems capacity utilisation while reducing processing times. At the same time, fish are handled more carefully and this results in increased efficiency overall.

Long-term megatrends as growth drivers
The market for fish handling machinery and equipment benefits from several long-term megatrends and therefore offers great potential. The rising demand for protein by a growing world population, increasing prosperity and ongoing automation within industrial value chains are trends which can help to propel the company's sustainable, dynamic growth.

Development of digital solutions
As part of the digital transformation of its business, Optimar is already working to develop special offers and services. The increasing use of data analytics and augmented reality solutions makes it possible to better assist customers in maintaining their equipment, even at high sea, thus optimising operation times. In addition, Optimar is working to develop optical recognition systems to identify different types of fish in order to increase the level of automation and accelerate handling processes.

As Optimar was not included in the consolidated financial statements until the end of 2017, the division has not yet contributed to consolidated revenue and earnings.

ROVEMA

ROVEMA is a globally recognised premium manufacturer of packaging machines and equipment with a broad product portfolio and presence around the world. The company has been part of the Haniel Group since 30 November 2017. In addition to its headquarters in Fernwald in Hesse, ROVEMA has a presence in more than 50 countries and continued its previous dynamic development further in 2017.

Headquartered in Germany – globally active
The company has 649 employees worldwide and is a recognised premium manufacturer of packaging machines and equipment: From consulting and project design, through development and construction, and on to installation and acceptance, ROVEMA is in a close dialogue with its customers. Its expertise on the interaction of products, packaging and the corresponding machines has been expanded continually since ROVEMA was founded in 1957. The company's product portfolio includes solutions for the entire spectrum of primary and secondary packaging: dosing, vertical form fill and seal (VFFS), cartoning and final packaging machines. Multifaceted service offerings round off the product range. The packaging machines are available with a modular design and with a strong focus on service. ROVEMA is also active in the trading, overhaul and provision of services for all facets of used, high quality packaging machines under the Retrofit name. To date, 30,000 machines have been installed around the world.

Global megatrends such as the increasing level of prosperity, food safety, automation and digitalisation support the business model.

Broad range of applications
The primary fields of application for ROVEMA machines to date are in the safe and hygienic packaging of foodstuffs in a wide variety of forms and consistencies: powders, chunky products, frozen goods, and liquid products. An expansion beyond the current focus on the food industry is possible and is being pursued.

Customers benefit from ROVEMA solutions
ROVEMA's diversified customer structure includes multinational corporate groups and regional specialists. They benefit from turnkey equipment from a single source with machines that lead in performance and trustworthiness and a broad range of applications. The full service offering across the entire product life cycle of the machines also meets the demands of customers.

Long-term megatrends as growth drivers
The packaging market overall and the market for vertical packaging solutions is supported by a number of trends. In addition to the global rise in demand for ready-to-use foodstuffs, Western consumption patterns are being increasingly adopted in emerging markets. Packaging serves increasingly as a marketing and differentiation tool to increase sales of the products offered. The significance of food safety is growing and can often only be ensured by appropriate packaging. Demand for high-quality products is increasing worldwide, whereby a corresponding signal effect can be attained by high-quality packaging.

Industry 4.0 and regional expansion as additional opportunities

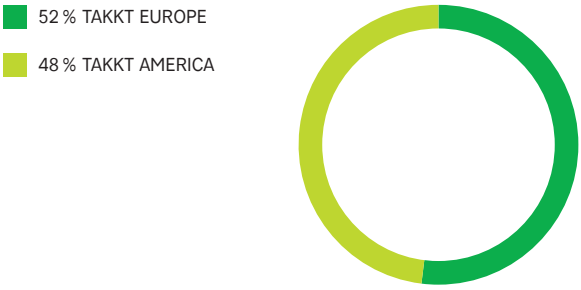
ROVEMA also has opportunities in regional expansion as well as the increasing automation and digitalisation in the packaging processes (Industry 4.0). In addition, ROVEMA's position in the value chain and the corresponding application knowledge surrounding product, packaging and machines give rise to numerous connecting factors to the digital transformation. For example, in 2017 ROVEMA brought to market P@ck-Control, the first control system with a fully-integrated robotics concept in control technology. ROVEMA also presented the new Human Machine Interface (HMI) in 2017. This user interface to machines is characterised by easily understandable operation. Among other things, it allows remote access to the machine and presents compacted information so that process parameters are available immediately.

Revenue and operating profit encouraging
ROVEMA earned revenue of EUR 20 million and an operating profit of EUR 2 million in the period from 30 November to 31 December 2017.

TAKKT

TAKKT continued its investment in digital transformation in 2017. The division realised slight organic growth. While revenue growth in Europe was satisfactory, a decrease was posted in America. Due to the planned increase in expenses for implementing the Digital Agenda and the one-off income in the prior-year period, operating profit declined as expected.

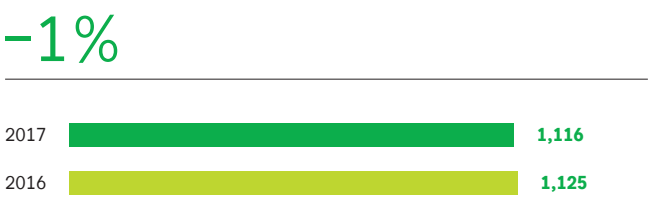
REVENUE
by division



Additional segments for establishing new business models
TAKKT renamed and supplemented its segments at the beginning of 2018: At TAKKT EUROPE the KAISER+KRAFT group was created from the Business Equipment group and the Packaging Solutions group became the Ratioform group. Additionally, the web-focused brands Certeo, BiGDUG and Mydisplays were transferred to a newly-founded segment called newport group within the TAKKT EUROPE division. The newport group was strengthened at the beginning of 2018 by the acquisition of the leading British online dealer, OfficeFurnitureOnline. By founding the segments, these activities can use their brand management, infrastructure, and product range to position themselves more strongly and more independently in the market. TAKKT expects the renaming of the segments based on the major sales brands as of 2018 to render external communications more straightforward.

In addition, TAKKT Beteiligungsgesellschaft, founded in 2016, and its investments in innovative start-ups will also be brought into the newport group. TAKKT Beteiligungsgesellschaft's objective is to make strategic equity investments in newly-founded, strong growth companies that specialise in the B2B direct marketing segment or in services along the value chain of the TAKKT companies. TAKKT Beteiligungsgesellschaft made additional investments in 2017: in Crowdfox the online marketplace, in Authentic Vision, a provider of counterfeit-proof digital fingerprints for products, in Book A Tiger, the online booking platform for facility services, as well as parcelLab, a provider of a technological solution for intelligent shipment monitoring and automated customer communications. It also invested in Cavalry Ventures, a venture capital fund. The portfolio comprised seven investments already at the end of 2017.

REVENUE
EUR million



Additional newport group division as basis for growth in European online-focused business models

At TAKKT AMERICA the Merchandising Equipment group was renamed the Hubert group, the Restaurant Equipment group became the Central group, the Displays group was renamed the D2G group, and the Office Equipment group became the NBF group.

Significant progress with digital transformation
TAKKT has made good progress in implementing the Digital Agenda. The position of Chief Digital Officer, CDO, as a member of executive management was staffed in all segments. TAKKT is hiring more than 100 new employees with pronounced digital abilities overall, of which more than 70 positions have already been staffed. In addition, the company has established a Digital Traineeship Programme designed to prepare talented candidates

to master future challenges. The holistic approach to digitalisation impressed the jury for the Digital Champions Award, which TAKKT received in June 2017 in the category Organisation & Processes.

Organic revenue increases slightly
TAKKT's revenue declined slightly by 1 per cent in 2017 to EUR 1,116 million. Negative currency translation effects, in particular the weakening of the USD during the course of the year, impacted revenue. Adjusted for currency translation and acquisition effects, revenue grew slightly compared to the previous year. The low growth rate is attributable above all to the revenue trend of the American companies.

Progress made with Digital Agenda

TAKKT EUROPE recorded organic revenue growth of 3 per cent. Within the European business, the Ratioform group saw somewhat stronger growth than the KAISER+KRAFT group, which sells operating, warehouse and office equipment. The German market and a British subsidiary made above-average contributions to growth in this segment. The Ratioform group posted stronger growth in foreign markets than in Germany.

At TAKKT AMERICA, revenue dropped organically by 2 per cent. Significant differences in growth were seen. The Hubert group, which specialises in the sales of items for sales promotion as well as commodities and equipment for the restaurant sector, posted significant revenue losses compared to the previous year. This was attributable primarily to weak demand in the American food service market and retail grocery trade as well as to a noticeably lower project business. The other segments posted slight organic revenue increases compared to the previous year. The D2G group, as a specialist for display products,

OPERATING PROFIT
EUR million

−13%

EMPLOYEES
Annual average (headcount)

+3%

achieved the highest growth. The NBF group, which specialises in the trading of office equipment, saw only a slight increase in its revenue level in 2017, following strong growth in previous years. The Central group also realised only small organic revenue increases following a strong previous year.

Weak business in the USA and expenses for Digital Agenda weigh on operating profit
TAKKT's operating profit decreased from EUR 142 million to EUR 123 million. It should be taken into account that in the same period of the previous year, non-recurring income was realised in relation to the adjustment through profit or loss of the variable purchase price liabilities for the acquisitions of Post-Up Stand and BiGDUG amounting to EUR 9 million. The scheduled higher forward-looking investments for implementing the digital transformation and the weaker business in the USA also had a negative impact on earnings.

CECONOMY and METRO financial investments

The demerger of the METRO GROUP into the two independent companies CECONOMY and METRO, each of which is exchange-listed, was completed in July 2017. Among other reasons, lower expenses for restructuring measures resulted in a higher contribution to earnings for Haniel from the investments in CECONOMY and METRO compared to the previous year's level.

Demerger of the METRO GROUP
On 6 February 2017, the Annual General Meeting of METRO AG approved the demerger of the METRO GROUP into two independent companies which specialise on their own market segment. Following the positive conclusion of the approval process initiated by METRO AG, the demerger was completed on 12 July 2017. The demerged wholesale and food business has since operated under the METRO brand. The remaining company, which focuses on consumer electronics, operates under the CECONOMY brand. Both companies are managed as separate German stock corporations with independent corporate profiles and their own listings on the stock exchange. In the course of the demerger, the share in METRO declined from 25.00 per cent to 22.50 per cent. This is attributable to the capital increase at METRO, which was undertaken to enable a reverse holding by CECONOMY in METRO.

CECONOMY and METRO show progress with strategic initiatives
Both companies achieved further progress with respect to their strategic initiatives in 2017. Delivery revenue increased sharply at METRO. This was also supported by the acquisition of Pro à Pro, a French specialist for food service distribution, which supplies various customer groups, including the hotel, restaurant and caterer (HoReCa) sector, with foodstuffs directly.

At CECONOMY, online revenue for the two brands MediaMarkt and Saturn was also encouraging. To strengthen its position as a leading European platform in consumer electronics, in August 2017 CECONOMY acquired a 24 per cent equity interest in Fnac Darty, a French retail company for consumer electronics, household devices and entertainment electronics with a presence in nine additional countries.

Both companies also drove forward their engagement in the start-up segment. METRO expanded its Accelerator Initiative for promoting innovative digital solutions for independent entrepreneurs in the hotel, restaurant and catering sector, by a separate programme for the retail segment. CECONOMY expanded its Spacelab accelerator to an open platform for retail companies and start-ups. Under the new name "Retailtech Hub", this platform is also open to partner companies from areas other than consumer electronics and is aimed at tech start-ups along the entire retail value-added chain.

Demerger into a wholesale and food specialist, METRO, and a consumer electronics company, CECONOMY, completed

METRO increases revenue and profits
In 2017, revenue at METRO amounted to EUR 37,147 million and was thus 2 per cent above the previous year's level. While revenue was increased in METRO's wholesale business, revenue in the food business at Real declined. The positive development at METRO Wholesale was caused in particular by organic growth of 1 per cent as well as the contribution of the acquired company, Pro à Pro. In contrast, at Real in addition to a slight decline in organics sales, location levies in particular had a negative impact. On the other hand, online revenue saw positive growth, in particular as a result of the integration of the acquired marketplace, Hitmeister. At EUR 857 million, METRO's operating profit was significantly above the previous year's level. In addition to revenue growth, lower expenses for restructuring measures in particular contributed to the earnings improvement.

Decline in earnings at CECONOMY
At CECONOMY revenue increased by 1 per cent to EUR 22,197 million in 2017. A significant driver was organic growth in Germany, which was supported by several campaigns, for example, the five-year anniversary of the MediaMarkt online shop. In addition, Spain and Turkey in particular made positive contributions to revenue growth. The operating profit was weighed down in particular by Black Friday price reductions throughout

the industry, which additionally led to negative impacts on the Christmas business. As a consequence, operating profit was EUR 281 million, down slightly year on year.

INVESTMENT RESULT FROM FINANCIAL INVESTMENTS
EUR million

+74%

Higher earnings contribution for Haniel
The operating profits from CECONOMY and METRO had a proportionately positive impact on Haniel's investment result. Additionally, improvements in the net financial income from METRO as well as in the net tax income from CECONOMY had a positive impact. At the level of Haniel, the share dilution at METRO AG caused by the demerger resulted in a charge against earnings. Despite this, the Haniel investment result from the financial investments in CECONOMY and METRO increased significantly from EUR 46 million in the previous year to EUR 80 million during the 2017 financial year.

Report on opportunities and risks

Being a successful entrepreneur means exploiting opportunities that present themselves and dealing with risk appropriately. The objective is to identify both opportunities and risks for the Haniel Group's business development early on, to analyse them in detail and take measures accordingly.

Exploiting opportunities to increase value

In the Haniel Group, opportunities are viewed as entrepreneurial courses of action that must be leveraged in order to attain additional profitable growth. Opportunities are identified primarily by continually observing markets. To that end, both the Holding Company and the operating divisions collect and analyse market, trend and competitor information. As a result, Haniel is in a position to identify trends and requirements on often fragmented markets early on and to advance innovations.

Opportunity management is closely integrated into the process of strategy development. As part of strategic planning, entrepreneurial options are systematically evaluated and initiatives are developed in order to use these options to increase value. In the next step, strategic initiatives are specified in detail in operational planning and actions are derived.

The strategy and its implementation are discussed in depth by the members of Haniel's Management Board with the management of the divisions in regularly scheduled discussions. Over and above that, the Holding Company's strategy is continuously reassessed. On that basis the Holding Company realigns its business portfolio by making acquisitions and disposals if necessary. To that end, the Management Board engages in regular dialogue with the Supervisory Board.

Options for sustainable and profitable growth

The Haniel Group enjoys a large number of options for entrepreneurial action. The Holding Company and divisions continually search for possibilities that secure sustainable and profitable growth. The opportunities identified in the Haniel Group are listed below:

Optimising the business portfolio: Haniel continually reviews the strategic alignment of its portfolio. The Haniel investment portfolio will be further developed in this manner by business acquisitions and disposals in order to enhance value creation sustainably. New divisions should be able to make a long-term value contribution to the economic success of the Group and be in accordance with its ecological and social values. The Holding Company follows two parallel approaches in this regard to identify suitable acquisition candidates. On the one hand, it analyses the potential of various sectors and markets on the basis of global megatrends with the objective of identifying and contacting attractive companies. On the other hand, the Holding Company reviews current takeover offers. This approach by the Holding Company is supplemented at the division level by the acquisition of companies with similar or supplementary products, customers or know-how, following a buy&build approach to further develop the divisions strategically.

International expansion: All Haniel divisions and the financial investments are widely represented in Europe, and BekaertDeslee, ELG, Optimar, ROVEMA and TAKKT in North America as well, and enjoy a strong position there with their various business models. Haniel sees opportunities for further growth by strengthening its presence in these markets and in the fast-growing economies throughout the world. These markets include those in eastern Europe, Latin America and Asia. Opportunities for expansion can be leveraged by founding new companies or acquiring existing ones.

Sustainability as a competitive factor: Corporate Responsibility has a long tradition in the Haniel Group. It is expressed in its striving to increase economic value in accordance with ecological and social contributions. In order to live up to this vision, Haniel has identified three action areas in the field of sustainability: employees, value chain and innovation. Each of the divisions and the Holding Company are responsible for improving on these areas of focus, regardless of their respective business model and in line with the specific features of the business with the overarching objective of developing potentials for increases in efficiency and additional profitable growth. This is because customers increasingly decide in favour of business partners with sustainable business

practices, whose products and services are differentiated from the competition by resource efficiency and social compatibility. For example, as a full service-provider of washroom hygiene, dust control mats and workwear, CWS-boco uses energy- and water-efficient technologies as part of its modernisation of the laundry network. These technologies cannot only save resources but reduce costs over the long term as well. You can find detailed information on the subject of sustainability in the Haniel Group in the Corporate Responsibility section starting on page 10.

Digitalisation: Digitalisation is profoundly changing the behaviour of private consumers and business customers. Buzzwords such as blockchain, Industry 4.0, virtual reality, big data and smart devices are signs of digital change. For the Haniel Group, digitalisation offers great opportunities along the value chain, at the customer interface and for developing new business models. As a current example, the settlement process for goods and services can now be completed automatically without corresponding delivery notes or invoices using cryptographically-related data records. The availability of large quantities of data opens opportunities to redesign value-added chains and improve the offering to customers. Each of the Haniel divisions have developed a Digital Agenda that will enable them to utilise the opportunities presented by digitalisation even better. In addition, with Schacht One Haniel has established its own company to act as a platform for implementing digital projects. The Company's investments in digitally-oriented venture capital funds also give it the ability to learn from and participate in developments on the start-up scene.

Multi-channel activities: Continuing digitalisation gives rise to growth opportunities through the consistent enhancement of CECONOMY's retail activities and of TAKKT's mail order business into a multi-channel business. At CECONOMY these growth opportunities reside in the even greater dovetailing of brick-and-mortar business with the e-commerce activities. CECONOMY can use this as a basis for creating true added value for the customer. Services play an important role here, for example, repairs or customer support with products that are becoming increasingly more complex. The DYNAMIC initiative by TAKKT, the direct marketing specialist, has already intensively advanced the linking of the catalogue, e-commerce/procurement, telephone marketing and external sales force distribution channels in recent years. That places TAKKT wherever customers inform themselves about products and make purchasing decisions. TAKKT's Digital Agenda is aimed at utilising the growth opportunities arising from this broad presence even better and improving its market position.

Increasing demand for raw materials: ELG's core business is the trading and recycling of raw materials, in particular for the stainless steel market segment. Growth opportunities for ELG result from increasing global demand for stainless steel products that is anticipated over the medium and long term. It must also be assumed that ELG Utica Alloys, the superalloys business, will continue to gain significance. In this sector, ELG recycles very high-grade materials. These include in particular titanium scrap and high-alloy, nickel-containing scrap which are used in, e.g., the aerospace industry and energy generation. In addition to trading in stainless steel scrap and superalloys, ELG is active in the nascent business of recycling carbon fibres, whose areas of application are steadily expanding.

Increasing standard of living: Demand for mattresses which promote health and well-being is expected to grow in markets with a high level of prosperity. The materials from BekaertDeslee for mattress covers make a significant contribution here through their design and product characteristics. For BekaertDeslee medium- and long-term growth opportunities arise from the increasing demand for mattresses in developing economies, in particular in Asia, due to increasing prosperity. ROVEMA will also be able to benefit in the future from the increasing level of prosperity in these markets by supplying high-quality packaging machines: Hygienically flawless, attractive and consumer-friendly packaging will become increasingly important in these markets in the medium and long term. Optimar will have further growth opportunities from the greater importance of fish for the health-conscious nutrition of the growing global population and increasing automation in the fishing industry.

Industry 4.0 and automation: The intelligent utilisation of data and the networking of production processes will fundamentally change the value chain in many industries in the future. Optimar and ROVEMA can both benefit from this by using and further strengthening their expertise as a systems integrator for production machinery. For example, service schedules in product lines could be optimised for customers through the interaction of hardware and software. Optimar and ROVEMA thus contribute to their customers' ability to operate their equipment better and more efficiently. Optimar and ROVEMA can obtain even greater customer loyalty with the concomitant expansion of the services and spare parts business.

From an overall perspective, several opportunities remain open to the Haniel Group for sustainable and profitable growth in the future. In particular, the Haniel Holding Company continues to have sufficient financial resources available to acquire new, attractive divisions – offering many new opportunities.

Systematic risk management

The objective of the risk management system at the Haniel Group is a forward-looking evaluation of risks with respect to the overriding corporate objectives of value creation, growth and liquidity. The purpose is to identify those risks at an early stage that negatively impact the implementation of strategic and operating initiatives and hence endanger the realisation of value and growth potential or having adequate liquidity available at all times. This does not mean avoiding all potential risks. Rather, risks should be identified early so that rapid and effective countermeasures can be taken, or conscious decisions can be made to take on manageable ones – thereby also to exploit entrepreneurial opportunities.

Haniel's risk management system is based on an integration concept and accordingly comprises multiple components. The Holding Company stipulates the scope of activities for the key components and sets minimum central requirements which must be implemented at the discretion of each of the divisions, as suiting the individual business models.

The **organisational structure for risk management** is defined throughout the Group and includes all divisions. At the level of the divisions, the controlling or Internal Auditing departments coordinate risk identification and are responsible for risk assessment as part of corporate planning. Identified risks are discussed by the Risk Management Board with the participation of the Management Board, and any need for additional action to manage risks is examined. Furthermore, there is also a Risk Management Committee at the Holding Company level in which the Management Board and the heads of all corporate and staff departments are represented. This body serves above all to foster a cross-disciplinary exchange of information on the risks faced by the Holding Company. The Risk Management Officer at the Holding Company level coordinates the risk identification process across all divisions and is responsible for further developing the early risk identification system.

In connection with the **strategic and operational planning** process, material risks and measures for their mitigation are identified. A risk is defined as the danger of a negative deviation from the planned or expected development. The identified risks are systematically assessed with regard to their probability of occurrence and amount of damage, with measures for avoiding or mitigating the risks and provisions already recognised incorporated as part of the assessment. The identified risks are discussed in the planning meetings by the Management Board of the Holding Company and the management of the divisions. The risks are subsequently discussed in greater detail in the Risk Management Board. In addition to this risk analysis, a risk inventory is conducted at the Holding Company level. The results are discussed by the Risk Management Committee. The Haniel Group risk report is prepared based on the divisions' risk reports and the Holding Company's risk inventory. The members of the Management Board discuss the findings and inform the Audit Committee about the Group's overall risk situation and about significant individual risks.

As part of their **reporting of revenue and results** during the period, the divisions submit not only key financial figures but also company-specific non-financial figures and issues to the Holding Company so that undesirable developments can be detected in good time. This reporting is supplemented by risks that exceed defined thresholds.

An additional element of risk management is the ongoing collection and **analysis of information on markets, trends and competitors**.

Investment controlling encompasses annual budgeting as well as the review of the capital spent. Capital spending projects are assessed using uniform discounted cash flow (DCF) calculations. Minimum risk-adequate rates of return are specified for each division and each strategic business unit.

Financial risk reporting and management include liquidity risks, default risks, risks resulting from changes in interest and exchange rates, and price fluctuations in the equity or commodity markets. The objective is to avoid or limit financial risks. To that end, the Holding Company has laid out general principles for financial risk management. These principles are prescribed in guidelines for the treasury departments of the Holding Company and the divisions. In addition, the Holding Company has special guidelines for the investment of financial resources. The management of financial risks is explained in detail in the notes to the consolidated financial statements starting on page 116 in the Haniel annual report 2017.

The **internal control system** is designed to ensure that existing regulations for risk reduction are adhered to at all levels within the Group. This is intended to ensure the functionality and cost-effectiveness of business processes and to counteract impairments of assets. The internal control system is implemented in the Holding Company and divisions according to their specific business models and incorporates both process-integrated and process-independent control measures. It covers all significant business processes including the accounting process.

The **compliance management system** comprises preventative measures designed to ensure compliance with statutory and internal corporate rules and regulations. To that end, Haniel has prescribed uniform minimum standards throughout the Group. Compliance risks in the Group are systematically captured and evaluated as part of the compliance management system, and discussed between the management of the divisions and the Management Board of the Holding Company. A hotline for reporting possible compliance violations is also a component of the compliance management system. In addition, training sessions with examinations are held on compliance issues. Furthermore, the divisions and the Holding Company each have compliance officers who serve as employee liaisons to help clarify potential issues.

The **Internal Auditing departments** in the divisions and the Holding Company are integrated into the risk management system. They monitor the processes within the companies of the Haniel Group, in particular from the perspectives of operating performance, cost-effectiveness and adherence to statutory regulations and internal guidelines. These efforts also include monitoring the implementation and effectiveness of the risk management system, including the internal control system and the compliance management system. In its risk-based audit plan, Internal Auditing also takes account of the information from the risk analysis and examines significant risk issues where necessary.

Corporate bylaws and regulations derived from them ensure that the elements of the risk management system are adhered to and applied in the intended manner in the Haniel Group in accordance with statutory provisions. Newly-acquired divisions are familiarised with the Haniel standards incrementally as part of their integration.

In addition to corporate bylaws and regulations, there are codes of conduct for the Holding Company and the divisions. They set forth the fundamental principles of conduct for employees, based on practised value concepts.

The effectiveness of the risk management system is monitored regularly and improvements are introduced where necessary.

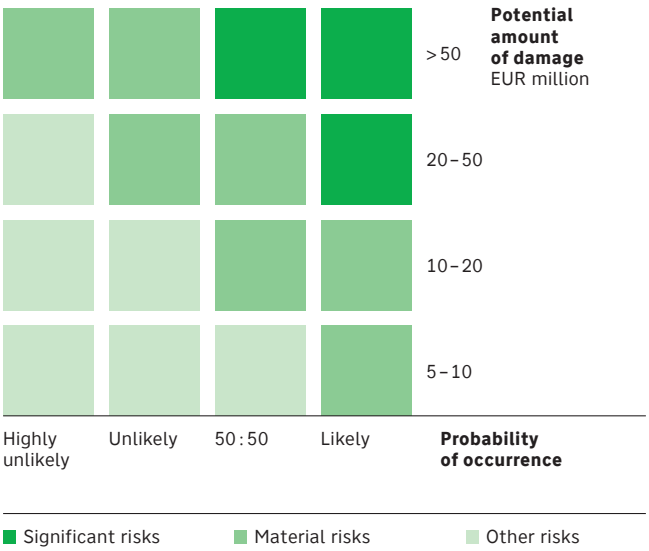
In 2017, the auditors were again commissioned by the Supervisory Board to subject the Group's early risk identification system to a voluntary audit analogously to section 317 (4) of the German Commercial Code (Handelsgesetzbuch, "HGB"). The auditor verified the suitability of this system overall.

Clearly defined risk fields

A prerequisite of systematic risk management is that risks are identified in a timely fashion. The central risks identified as at 31 December 2017, to which the Haniel Group is anticipated to be exposed to over the short- and medium-term, are listed below. The identified risks are assigned to ranges in terms of their probability of occurrence and amount of damage, with the amount of damage presented as a possible impact on profit per year. Risk mitigation countermeasures are incorporated before assigning risks to the ranges. By combining the two criteria – probability of occurrence and amount of damage – the individual risks are allocated to the following categories in the Haniel risk matrix: "significant risks", "material risks" and "other risks". The central, identified risks are presented below, broken down by these categories, commencing with "significant":

Investments: Haniel holds significant equity investments in METRO AG and CECONOMY AG, in particular, which resulted from the demerger of the METRO GROUP in 2017. Factors that exert an unfavourable influence on the consolidated profit of METRO or CECONOMY also have a negative effect on the Haniel Group's investment result or could have a negative effect on the carrying amount of the investments. Due to the size of METRO AG, this risk in the Haniel Group must be classified as significant, while the risk in the Haniel Group resulting from the investment in CECONOMY AG must be classified as material due to the smaller size of the company. Risks that METRO or CECONOMY are subject to arise in particular from changes in consumer spending and customer expectations in the retail market, as well as increasing competitive pressure from online competitors. If these companies fail to react appropriately to these challenges and fail to successfully implement the transformation projects they have launched, this may have a detrimental impact on their business development. A deterioration in overall economic development as well as in the political and regulatory environment in individual countries could also have negative effects on business at METRO or CECONOMY. The task of managing these risks primarily falls to the management of the company in question. As the largest shareholder, Haniel supports management in managing these risks through representation on the Supervisory Board and by exercising ownership rights in the Annual General Meeting.

HANIEL RISK MATRIX



Corporate strategy: Corporate strategy risks can arise above all from the erroneous assessment of future developments in the market, technological and competitive environment. Erroneous assessments can also relate to the attractiveness of new regional markets or to the future feasibility of business models overall. The Haniel Group counters this risk through intensive analyses of the markets and competitors and by way of regular strategy discussions between the Management Board of the Holding Company and the management teams of the divisions. In addition, the diversified portfolio of business fields helps to mitigate the effects of adverse developments in individual sectors. However, the high relevance of strategic decisions to success means that the related risks in the Haniel Group count among the material risks.

General macroeconomic conditions: The demand for the services and products of the companies in the Haniel Group is also impacted by general macroeconomic conditions. However, the extent and timing of this economic dependency varies in the divisions: While ELG's business is especially cyclical as a consequence of the commodities markets, at CWS-boco a weakened economy is reflected to a comparatively lower extent and with some delay. This is due to the long-term contracts with customers in CWS-boco's core rental business. Overall economic development represents a material risk even though the diversification of the Haniel business portfolio and its presence in various regions mitigates the effects of economic fluctuations. The strong market position of the individual divisions, comprehensive product and service offerings, a heterogeneous customer base and flexible capacities and cost structures also mitigate risks.

Digitalisation: The digital transformation offers not only major opportunities for the Haniel Group, but also entails risks if the Group is not successful in adjusting business models to changed technological possibilities and market requirements. All divisions and financial investments are generally affected by this trend. However, the acceleration and intensification of the digital transformation is especially relevant for TAKKT and CECONOMY. The competitive conditions can change by pure online retailers gaining market share or the increasing significance of open Internet-based marketplaces, which could result in heightened pressure on margins and the loss of market shares. Both TAKKT and CECONOMY have initiated large-scale transformation programmes for their companies and are developing their business models into integrated multi-channel businesses. This increasingly also includes services that offer added value to the customer. In so doing CECONOMY and TAKKT are focusing even more strongly on customer requirements and can react to changes more quickly. Nevertheless, the far-reaching change resulting from digitalisation must be classified as a material risk for the Haniel Group.

Business acquisitions and disposals: In order to effectively counter risks associated with corporate transactions, investments and divestitures are carefully examined before their conclusion – including the assistance of qualified external consultants – and are evaluated using uniform DCF rate of return calculation methods. An acquired company is subsequently integrated into the Haniel Group based on detailed timetables and action plans as well as clearly defined responsibilities. Additionally, the success of previously executed business acquisitions is reviewed on a regular basis. If, despite all diligence, the objectives envisaged with an acquisition are not or only partially attained, impairment losses on goodwill and other assets may be necessary. In the case of business disposals, the resulting commitments remaining in the Group are regularly monitored and assessed. In connection with the disposal of the previous Xella division, this also includes claims asserted in litigation arising from allegedly defective sand-lime bricks from previous Haniel building materials plants. The risks resulting from business combinations and disposals are material risks due to the high significance of portfolio management in the Haniel Group and the inherently related imponderables.

Human resources: The corporate success of the Haniel Group is dependent largely on the expertise and commitment of its employees. Executives must exhibit the necessary competence, experience and personality in order to make and implement correct decisions in the sense of a value-driven and long-term development of their departments. Accordingly, the selection of executives who do not meet these requirements and who make poor decisions can noticeably impair the Company's successful development. This applies all the more so in a rapidly-changing corporate environment characterised by digitalisation. That is why the Haniel Group strives to recruit qualified staff, to provide them with continuing education and to foster their long-term loyalty to the Company. To that end the Haniel Group offers attractive compensation models and conducts regular succession planning aimed at filling jobs which become available with qualified internal candidates. But above all, the Haniel Group invests in the continual further education of its employees: The internal Haniel Academy offers specialists and managers from the Group seminars and modular programmes for interdisciplinary continuing education and to strengthen their leadership skills. The programmes in the Haniel Leadership Curriculum prepare emerging management talent, experienced executives and top managers for future challenges and management tasks. Detailed information on training and continuing education at the Haniel Group can be found in the "Corporate Responsibility" section beginning on page 10. Overall, risks from human resources are estimated to be material.

Information technology: Well-functioning IT systems tailored to strategy represent a necessary precondition for the Haniel Group's operating activities and administrative departments. Insufficient customisability of IT systems may entail significant competitive disadvantages when strategic requirements change. The Haniel Holding Company and the divisions therefore review their IT strategy regularly and modernise or replace systems if required. In order to counter risks that are inextricably linked with such projects, systematic and substantiated selection processes and modern project management methods are applied when introducing new IT systems. Furthermore, the ongoing use of IT systems entails the risk of an outage and the risk of unauthorised data access or manipulation. In addition to heightened security awareness of employees, professionally organised IT operations prevent such risks. There are uniform minimum standards throughout the Group for IT operations. In compliance with these standards, the Haniel Holding

Company and the divisions have additional emergency systems available, perform regular backups of relevant data and ensure that unauthorised persons cannot access IT systems. Overall, the risks resulting from information technology in the Haniel Group are considered material.

Commodities prices: The ELG division's performance in particular is considerably influenced by the price trend for commodities – above all for nickel, which is in turn affected by economic developments in the industry. Price hedges using derivative financial instruments stabilise business development at ELG, as does the broad geographic distribution of commodity flows in both procurement and distribution. In addition, the ELG division is further expanding the business with superalloys at ELG Utica Alloys, whose recycling business is less dependent on commodity prices. Nevertheless, fluctuations in commodity prices remain a material risk in the Haniel Group due to the business model.

Receivables: Given the nature of the sector in which it operates, ELG in particular delivers its products to a small number of very large customers. In some instances, this can lead to extensive receivables per customer. In order to limit the risks resulting from non-payment, ELG has a comprehensive receivables management system, that as far as possible systematically obtains default insurance to cover this risk and sells accounts receivables within the context of forfaiting programmes. Even after factoring in these countermeasures, the default on receivables represents a material risk.

Exchange rates: Because the Haniel Group has business activities of a considerable scope in countries that do not use the euro as the local currency, its operating business and financing transactions are subject to exchange rate fluctuations, which could have a negative impact on the Haniel Group's profit. On the one hand, this concerns transaction risks that arise primarily from earning revenue and incurring the accompanying costs in different currencies. On the other hand, there are translation risks that stem from translating income and expenses in other currencies into euros. While translation risks are generally not hedged against exchange rate fluctuations, the Group uses a variety of hedging instruments to limit transaction risks. These are explained in detail in the notes to the consolidated financial statements starting on page 118 in the Haniel annual report 2017. In the Haniel Group, exchange rate risks are among the material risks, in particular regarding the unhedged translation risks.

Interest rates and financing: Changes from interest rates can result in higher borrowing costs and thus have an adverse effect on profits. In this regard, changes in the market interest rate must be differentiated from the change in the margin that must be paid in addition to the market rate. The Group uses a variety of hedging instruments to limit the risks from fluctuations in market interest rates. These are explained in detail in the notes to the consolidated financial statements starting on page 117 in the Haniel annual report 2017. Long-term credit agreements, promissory loan notes and bonds are appropriate forms of financing for limiting the volatility of interest margins. In the case of such financing, the interest margin also depends on the Holding Company's rating. This is based on the market value gearing, that is, the ratio between net financial liabilities and the market value of the investment portfolio as well as cash flows at the Holding Company level. In addition, the number and weight of the individual equity investments in the Haniel investment portfolio influence the rating.

Financing requirements for the operating business are secured in the Haniel Group through equity and debt capital. When outside financing is used, the Company seeks to diversify its financing instruments and its circle of investors in order to be able to respond flexibly to developments on the capital markets and in the banking sector. In addition to committed bilateral lines of credit, which are drawn upon only to a limited extent, the Haniel Holding Company also has secured access to capital markets, for example via the current commercial paper programme and the existing external rating. When financing with borrowed capital, it is of benefit that the Holding Company and its divisions, both as established and reliable partners, enjoy a high degree of trust from banks and other investors. The Haniel Group is thus able to ensure the continuation of the operating business, even if for example economic conditions cause declines in incoming payments from business activities.

In the Haniel Group, risks from interest rates and financing are currently of comparatively minor significance and thus counted among the other risks.

Compliance: The Haniel Group's business activities are subject to statutory and internal corporate rules and regulations. A failure to comply with these rules and regulations may damage the Company's reputation and may jeopardise its economic success. In order to prevent compliance risks effectively, the Haniel Group has established a comprehensive compliance management system. For this reason, compliance risks are classified as other risks.

Litigation: Neither Franz Haniel & Cie. GmbH nor any of its current subsidiaries are involved in ongoing or currently foreseeable litigation that could have a significant impact on the Group's assets or financial position or performance.

No risks jeopardising the going concern assumption

Considered separately, the risks presented could have adverse effects on the Haniel Group. With regard to the overall risk situation however, the diversification of business models and regions has a positive effect: Many risks are restricted to individual divisions or regions and are therefore of comparatively minor significance in relation to the Group as a whole. Where risks inherently affect all divisions and the Holding Company it must be assumed that they do not hit all business units in the same manner and at the same time.

The diversification of business activities increased compared to the previous year due to the further development of the investment portfolio in 2017. The completed demerger of the METRO GROUP into METRO and CECONOMY, as well as the acquisition of the Optimar and ROVEMA divisions have contributed to diversification. By contrast, the takeover of significant parts of the Central European business from Rentokil Initial in the areas of hygiene, workwear and cleanroom have resulted in a greater weight for the risks affiliated with CWS-boco's business model. The addition of the risk from digitalisation as a material risk for the Group reflects the higher dynamic for change in the market, technological and competitive environment. From an overall perspective, the Haniel Group remains robust and well prepared with respect to recognisable risks.

There are no recognisable individual or aggregate risks which jeopardise the Group as a going concern, nor are there any noteworthy future risks beyond the normal entrepreneurial risk. For Haniel, the risks presented are also accompanied by numerous opportunities for sustainable, profitable growth.

Monitoring of the accounting processes

The Haniel Group applies an internal control and risk management system to its accounting processes. The purpose is to ensure that its financial reporting is reliable and that the risk of misstatements in the external and internal Group Reports is minimised. Misstatements are most likely to originate from complex transactions or consolidation procedures, mass transactions, the materiality of individual items of the financial statements, the use of discretion and estimates, unauthorised access to IT systems, and inadequately trained employees. Regular checks are performed to determine the extent to which these factors can jeopardise the integrity of the consolidated financial statements.

In order to counter potential risks, the Haniel Group has introduced an internal control system that seeks to ensure the reliability and propriety of the financial reporting processes, compliance with the relevant statutory and internal regulations, and the efficiency and effectiveness of procedures. However, even an appropriate and functional internal control system cannot guarantee that all risks will be identified and avoided.

The existing risk and control structure is systematically recorded and documented. For this purpose, the most important risk fields are regularly updated and checked on the basis of clearly defined qualitative and quantitative materiality criteria. In the event of changed or newly emerged accounting-related risks or identified control weaknesses, it is the divisions' responsibility, in coordination with Corporate Accounting, to implement appropriate control measures at the earliest possible opportunity. The effectiveness of the defined controls is checked and documented at regular intervals by means of self-assessment on the part of the controlling officers or their supervisors. The results of these self-assessments are subject to regular validation by independent third parties. Responsibility for establishing and supervising the internal control system lies with the Management Board. In addition, the Audit Committee monitors the system's effectiveness.

The Haniel Group is distinguished by its clear and decentralised management and corporate structure. The local accounting processes are managed by the divisions, each of which prepares its own subgroup financial statements. The management of the entities included in the subgroups controls and monitors the risks concerning the operational accounting processes. The Group companies are responsible for compliance with the guidelines and procedures that apply throughout the Group. They are also answerable for the proper and timely flow of their accounting processes. They are supported in that respect by Corporate Accounting.

Corporate Accounting prepares the consolidated financial statements. The Communications Department has lead responsibility for the Group report of the Management Board. The relevance of ongoing developments of the IFRS standards and other applicable statutory provisions and their impact on the consolidated financial statements and / or the Group report of the Management Board is continuously assessed. The Management Board and Group companies are informed, as necessary, of any consequences on consolidated reporting. Financial reporting is governed by accounting guidelines applicable throughout the Group, a uniform Group chart of accounts, and a financial statements calendar applicable throughout the Group. The accounting guidelines are updated annually, considering relevant changes in the law. There are binding provisions and uniform instruments for complex issues, such as goodwill impairment testing and the measurement of deferred taxes. External experts are brought in if required, for example, to measure pension obligations or to prepare expert opinions on the purchase price allocation for acquisitions.

The Haniel Group's formal analysis and reporting process seeks to ensure that the information contained in the published annual report is reliable and complete. Corporate Accounting performs analytical checks in order to identify potential errors in consolidated reporting. The checks are documented and reviewed according to the principle of dual control. A detailed timetable and fixed responsibilities apply for the preparation of accounts.

Standardised and centrally managed IT systems are used to prepare the consolidated financial statements. This applies to consolidation at all stages of the Haniel Group and to the process of preparing the notes to the financial statements. The closing process is supported by numerous validations. The IT systems used in the accounting department are protected against unauthorised access. Separations of functions and change management systems have been established.

As an important element of internal process monitoring that is independent of the relevant processes, the Internal Auditing departments are responsible for systematically auditing and independently assessing the internal control systems.

As part of the audit of the consolidated financial statements, external auditors report on their material audit findings and any weaknesses in the internal control system relating to the entities included in the financial statements.

Report on expected developments

Haniel expects an increase in revenue for the 2018 financial year. The first-time full-year inclusion of the Initial companies in CWS-boco as well as the new ROVEMA and Optimar divisions will contribute to this increase. In addition, Haniel also expects a significant increase in operating profit. It is also assumed that the investment result from the financial investments in CECONOMY and METRO will be significantly above the previous year's level, and correspondingly, that profit before taxes should also come in significantly higher.

Macroeconomic environment with tailwind

The International Monetary Fund (IMF) estimates that the global economy will grow by 3.9 per cent in 2018. The drivers are robust global trade, the stronger upward trend in the USA as well as greater momentum in the emerging and developing countries. The anticipated slightly weaker growth in China will dampen an even stronger upward trend for global economic output. However, according to the IMF a requirement of the overall positive global economic trend is that the risks from increasing protectionism, the Brexit negotiations and the uncertain geopolitical situation in many regions do not escalate and that there are no financial market corrections.

GROWTH FORECAST WORLD AND BY REGIONS
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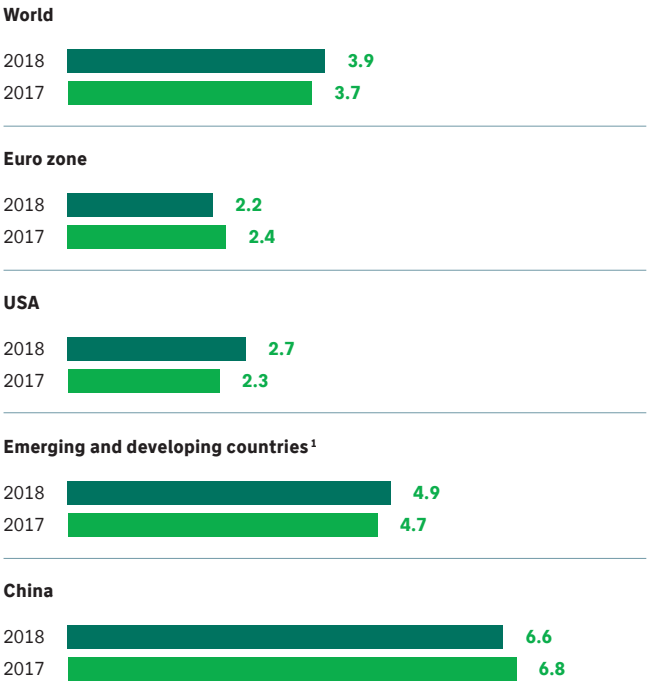

[1] 205 countries incl. China in total

Source: International Monetary Fund, World Economic Outlook Update, January 2018

The economy in the euro zone is expected to grow on a broad basis by 2.2 per cent in 2018. This is based on higher employment, stronger consumer spending as well as an increasing willingness by companies for capital spending. Demand from other regions will also provide stimulus. However, the European economy could be disrupted by Brexit or a realignment of the EU.

For the USA, the IMF expects a lively upturn, driven by robust consumer spending, more dynamic corporate spending and an upturn in capital spending. Additionally, the massive tax reductions should stimulate the US economy. According to the IMF projection, the US economy will grow by 2.7 per cent in 2018.

The IMF estimates that growth in emerging and developing countries in 2018 will be a combined rate of 4.9 per cent. While China's rate of expansion will slow somewhat to an estimated 6.6 per cent as a result of the now high indebtedness, India and the countries in Southeast Asia (ASEAN-5) will experience very strong growth. A solid economic recovery is looming for Brazil and Russia.

Higher long-term interest rates expected

Against the backdrop of the strong development of the economy in the USA, the Federal Reserve Bank has announced additional moderate interest rate increases for 2018. The European Central Bank (ECB) will dial back their bond purchases successively. Despite the robust upswing in the euro zone, the key interest rates should remain low in 2018 and the differences in interest rates between the USA and Europe will thus widen. Long-term interest rates can be expected to trend upward globally in the course of the continuing stable development of the global economy.

More pleasing development of relevant commodity prices

In addition to the general economy, the development of the stainless steel market segment is important for ELG in particular. In addition to general economic development,

global production of stainless steel is particularly dependent on demand in China. Stainless steel production is expected to continue to increase there and for the rest of Asia. Slight growth is expected in Europe and the USA. Overall, this results in a forecast increase in the production of stainless steel of 3 to 4 per cent. In this environment it is still assumed that certain relevant commodity prices in 2018 will range slightly above the average price level of 2017.

Since the various divisions are active internationally, the results of the Haniel Group also depend on the development of various exchange rates, particularly the US dollar, the British pound and the Swiss franc. The development of the Russian ruble also has a significant influence on the investment result derived from the METRO financial investment.

Revenue growth in all divisions

In an economic environment that is forecast to be favourable on an aggregate basis, the Haniel Management Board views 2018 with confidence. However, the previously mentioned uncertainties and risks could give rise to deviations from the outlined general conditions and thus to revenue and earnings forecasts.

After adjusting for business combinations and disposals as well as currency translation effects, the **BekaertDeslee** division expects a noticeable increase in revenue in financial year 2018. The successful further expansion of business with mattress covers and an increased sales volume for knitted materials are likely to reflect positively in revenue and thus contribute to organic growth. The company expects that its operating profit will also follow the same trend as for revenue and rise correspondingly.

Both revenue and earnings development at **CWS-boco** will be positively affected in 2018 by the joint venture created with Rentokil Initial: Following its transformation, the company can provide customer-oriented service offerings and outstanding operating performance throughout its service area. Specific benefits of the deal include economies of scale in the area of procurement as well as expanded and optimised locations and logistics organisations. Revenue will increase from the full-year inclusion of Initial's activities as well as by organic growth. Adjusted for acquisitions and currency translation effects, CWS-boco expects revenue growth in 2018 in the single-digit percentage range. The division also expects the full-year inclusion of the Initial companies, lower one-off expenses for integration measures, as well as positive effects from the integration and operational optimisation projects to cause the operating profit to come in significantly higher in comparison to 2017.

The **ELG** division views the market environment in 2018 with confidence in relation to the expected demand by stainless steel plants and the availability of scrap. The output tonnage for stainless steel scrap is expected to increase in the single-digit percentage range. Both an increasing availability of scrap as well as ELG's expansion of the network of scrap locations will contribute to this increase. The company expects a slight increase in the output tonnage of superalloys, carried by the recycling programme for both titanium and nickel alloys. Additionally, ELG expects that relevant commodity prices – such as the price for nickel – recover further on an annual average in comparison to the previous year. Based on these assumptions the division expects an increase in revenues in the single-digit percentage range for 2018, adjusted for company acquisitions and disposals as well as currency translation effects. ELG's operating profit will presumably increase disproportionately. This earnings improvement should also be achieved through continuing strict cost management and increases in efficiency. As development on the commodity markets is very volatile, ELG's revenue and operating profit may also deviate significantly from this forecast, however.

In 2018, the **Optimar** division will be included in the Haniel Group's financial statements for a full year. The division believes that the growth trend experienced in recent years will continue, and that it will contribute more than EUR 125 million to consolidated revenue. An operating profit in the single-digit million range is expected due to the amortisation of the purchase price allocation.

The **ROVEMA** division, which will also be included in the Haniel Group's financial statements for a full year in 2018, expects a revenue contribution of more than EUR 100 million for 2018. ROVEMA expects an operating profit in the single-digit million range, also resulting from amortisation of the purchase price allocation.

Adjusted for company acquisitions and disposals as well as currency translation effects, the **TAKKT** division expects an increase in revenue between 2 and 4 percent for 2018. TAKKT expects a favourable market environment in Europe, but continues to see uncertainties in individual market segments in the USA. Growth impulses from the implementation of the Digital Agenda should become increasingly

noticeable. The division assumes that the operating profit will follow the revenue trend. TAKKT expects to incur a comparable expense in 2018 for the implementation of the Digital Agenda as in the previous year. The implementation of the Digital Agenda with the objective of doubling the e-commerce business, a long-term change in organisation, investments in employees and new technologies as well as the mid-term increase in organic revenue growth will be continued.

Haniel expects slight organic revenue growth for the **CECONOMY** and **METRO** financial investments. It is also assumed that both CECONOMY and METRO will be able to increase their operating profit significantly. This derives especially from the fact that expenses for restructuring and efficiency improvement measures as well as other one-off expenses at both companies are expected to be significantly less. In addition to the increase in operating profit at CECONOMY, an increase of the contribution to earnings from the equity investment in Fnac Darty is also expected as this investment will be included for 12 months for the first time in 2018. As a result of this improvement in earnings, Haniel expects that the investment result from both the CECONOMY and the METRO financial investment will be significantly above the previous year's level

Significant increase in revenue at the Haniel Group
For financial year 2018 on an aggregate basis, the Haniel Management Board expects positive effects for the Group from the joint venture created at CWS-boco with Rentokil Initial and the acquisition of ROVEMA and Optimar in the previous year. Adjusted for acquisitions and currency translation effects, an increase in revenue in the single-digit percentage range is assumed. All divisions are expected to contribute to this forecast increase. The operating profit is expected to increase significantly. In addition to the initial full-year inclusion of Initial's activities at CWS-boco, coupled with lower integration expenses, and the contributions from ROVEMA and Optimar, the other divisions will also make positive contributions.

The results from financing activities should come in better than the previous year due to the repayment of a bond in February 2018. It is assumed that profit before and after taxes will increase significantly due to the higher operating profit, the increasing investment result from the CECONOMY and METRO financial investments as well as the improved interest result. It is expected on this basis that the value-oriented performance indicators – return on capital employed (ROCE) and Haniel value added (HVA) – will also be markedly higher than in the previous year. The Haniel cash flow should also benefit from the positive earnings development and be above the 2017 level.

For the existing business, Haniel's Management Board plans capital expenditure for property, plant and equipment and intangible assets to be well above the previous year's level. In addition to replacement investments and expanded capacities, primarily for the further modernisation of IT systems in the CWS-boco, TAKKT and ELG divisions, increasing investments in the digitalisation of the divisions will also contribute to this increase. Capital spending will also increase from the first-time inclusion of the Initial activities at CWS-boco. At the level of the Haniel Holding Company – as well as at the divisions – the focus will continue to remain on acquisition activities. This will have a material influence on the volume of capital expenditure, as it already had in 2017. In 2017, the acquisition of the shares of the Central European business from Rentokil Initial as well as of ROVEMA and Optimar increased the volume of capital expenditure significantly. This volume is not expected for 2018.

Revenue and profits could deviate from the development presented due to the acquisition of additional divisions or supplementary acquisitions by the existing divisions.

Annual financial statements

Franz Haniel & Cie. GmbH
Statement of financial position

ASSETS

EUR million	Note	31 Dec. 2017	31 Dec. 2016
Fixed assets	1		
Intangible assets		0.1	0.1
Property, plant and equipment		24.3	25.8
Financial assets		2,743.1	2,010.1
		2,767.5	**2,036.0**
Current assets			
Accounts receivable and other assets			
Trade receivables		0.3	0.3
Receivables from affiliated companies	2	1,368.6	2,214.8
Receivables from companies in which the Company has a participating interest	3	0.0	2.7
Other assets	4	18.3	32.6
Other securities	5	1.2	0.0
Cash in hand, bank balances		0.1	25.0
		1,388.5	**2,275.4**
Prepaid expenses	6	**0.1**	**0.2**
		4,156.1	**4,311.6**

EQUITY AND LIABILITIES

EUR million	Note	31 Dec. 2017	31 Dec. 2016
Equity	7		
Subscribed capital		1,000.0	1,000.0
Par value of treasury shares		–4.3	–3.3
Issued capital		995.7	996.7
Earned surplus			
Other earned reserves		2,193.8	2,197.0
Reserves provided for by the articles of association (Welker Funds)		0.5	0.5
Retained profit		365.5	295.0
		3,555.5	**3,489.2**
Provisions	8	**126.5**	**127.2**
Subordinated liabilities	9	**194.4**	**225.1**
Liabilities	10		
Bonds, commercial paper and other securitised debt		265.7	442.7
Liabilities due to banks		0.0	0.1
Trade payables		0.9	0.9
Other liabilities		13.1	26.4
		279.7	**470.1**
		4,156.1	**4,311.6**

Franz Haniel & Cie. GmbH
Income statement

FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

EUR million	Note	2017	2016
Revenue	12	5.5	4.8
Other operating income	13	4.9	10.3
Cost of materials	14	1.1	1.4
Personnel expenses	15	35.0	25.1
Amortisation of intangible assets and depreciation of property, plant and equipment		2.6	2.8
Other operating expenses	16	17.5	18.0
		–45.8	**–32.2**
Net investment result	17	178.5	158.7
Other net financial income	18	–11.8	–36.3
Profit before income taxes		**120.9**	**90.2**
Income taxes	19	0.4	–0.4
Profit after taxes / net income for the financial year		**120.5**	**90.6**
Retained earnings		245.0	204.4
Retained profit		**365.5**	**295.0**

Franz Haniel & Cie. GmbH
Statement of cash flows

FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

EUR million	2017	2016
Profit after taxes / net income for the financial year	**120.5**	**90.6**
Depreciation / amortisation (+) / write-ups (–) of fixed assets	2.6	2.3
Increase (+) / decrease (–) in provisions	–0.7	–23.2
Other non-cash income (–) and expenses (+)	–6.3	2.2
Reclassifications of income (–) / expenses (+) from the disposal of fixed assets and other payments	2.3	–1.1
Increase (–) / decrease (+) in other receivables and other current assets	14.2	–3.6
Increase (+) / decrease (–) in trade payables and other current liabilities	–13.4	–1.5
Cash inflow (+) / outflow (–) from operating activities	**119.2**	**65.7**
Inflows (+) from the disposals of tangible and intangible fixed assets	0.7	4.1
Outflows (–) from additions to tangible and intangible assets	–1.6	–0.8
Increase (–) / decrease (+) in receivables from and liabilities to affiliated companies and investments	453.7	20.1
Inflows (+) from the disposals of affiliated companies	79.5	0.0
Outflows (–) from the acquisition of affiliated companies	–413.1	0.0
Inflows (+) from the disposal of long-term financial assets and from the investment of cash funds for short-term cash management	0.3	0.0
Outflows (–) from the addition of long-term financial assets and for the investment of cash funds for short-term cash management	–1.3	–10.1
Cash inflow (+) / outflow (–) from investing activities	**118.2**	**13.3**
Dividends (–) to shareholders	–50.0	–50.0
Purchase (–) of treasury shares	–4.2	–4.0
Cash proceeds (+) from the issuance of financial liabilities	225.4	53.3
Cash repayments (–) of financial liabilities	–433.5	–83.4
Cash inflow (+) / outflow (–) from financing activities	**–262.3**	**–84.1**
Change in cash and cash equivalents	–24.9	–5.1
Cash and cash equivalents at beginning of the period	25.0	30.1
Cash and cash equivalents at the end of the period	**0.1**	**25.0**

The cash flow from operating activities includes interest income in the amount of EUR 18.3 million (previous year: EUR 18.3 million), interest payments of EUR 45.5 million (previous year: EUR 52.3 million) and dividend income of EUR 178.9 million (previous year: EUR 154.2 million). As in the previous year, no income tax payments were made.

The cash flow from investing activities includes payments for purchases and disposals of individual assets, payments for purchases and disposals of affiliated companies and payments in connection with the financing of the affiliated companies and other investments.

Notes
General disclosures and accounting policies

Franz Haniel & Cie. GmbH is domiciled in Duisburg, Germany, and entered in the **commercial register** of the Duisburg Local Court (Amtsgericht) under number HR B 25.

Various items are aggregated in the statement of financial position and income statement to increase the clarity of presentation. The aggregated items are disclosed separately in the notes to the financial statements.

Purchased **intangible assets** are recognised at cost and amortised on a straight-line basis over their expected useful lives. Internally generated intangible assets are not capitalised.

Property, plant and equipment are measured at cost, finite-lived tangible fixed assets are systematically depreciated over their useful lives. The straight-line method of depreciation is generally used.

Depreciation is based on the following useful lives:

Buildings	33 to 50 years
Operating and office equipment	3 to 13 years

Independently used moveable fixed assets that are subject to wear and tear are written off in full in the year of acquisition if their cost does not exceed EUR 150. As from 1 January 2008, corresponding fixed assets costing between EUR 150 and EUR 1,000 are pooled annually in a summary account, which is depreciated over five years. Impairments expected to be permanent are recognised by impairment losses.

Shares in affiliated companies and other long-term equity investments are recognised at cost or the lower fair value if an impairment is expected to be permanent. **Loans issued** are recognised at the principal amount or the lower fair value if an impairment is expected to be permanent. If the reasons for an impairment no longer exist in whole or in part, the impairment loss is reversed up to a maximum of the cost or principal amount.

Marketable securities are recognised at cost or the lower quoted or market price as of the reporting date.

Receivables and other assets are generally recognised at the principal amount less any required valuation allowances.

Cash and cash equivalents are measured at their nominal amounts.

Income and expenditures in relation to income and expenses for a certain period after the reporting date are reported under **prepaid expenses and deferred income**. Differences between the settlement amount and the lower issue amount of liabilities are recognised as prepaid expenses and expensed periodically over the term of the liabilities.

Provisions for pensions and similar obligations are determined using the actuarial projected unit credit method based on biometric probabilities (Prof. Dr. Klaus Heubeck's 2005G mortality tables). The average market interest rate determined by the Deutsche Bundesbank for matching maturities for the past ten financial years is used to discount the obligation over an assumed residual term of 15 years. Salary and pension increases expected in future are taken into account when determining the obligations.

Assets which serve solely to satisfy old-age pension obligations are offset against these and presented on the statement of financial position as net liabilities. If the fair value of these assets is greater than the amount of the obligation, the excess amount is recognised under a separate asset item.

Other provisions cover all identifiable risks and uncertain obligations. They are recognised at the settlement amount as dictated by prudent business judgement. Future price and cost increases are considered. Provisions with a remaining term of more than one year are discounted in accordance with their remaining term. Provisions for expected losses recognised in connection with derivative financial instruments are generally charged to net financial result.

Liabilities are recognised at their settlement amounts. Pension obligations are recognised at their present value and discounted using an appropriate average market rate for matching maturities over the past ten financial years.

Cash in hand and bank balances as well as receivables and liabilities denominated in **foreign currency** are posted at historical exchange rates and measured at the applicable average spot rate on the balance sheet date. Receivables and liabilities de-nominated in foreign currency with a remaining term of more than one year are measured in accordance with the imparity principle, under which unrealised valuation gains are not recognised. Unrealised valuation gains are recognised for items with a remaining term of less than one year.

Deferred taxes are recognised for all temporary differences between the carrying amounts and tax bases for assets, liabilities, prepaid expenses and deferred income. This takes into account not only the differences between Franz Haniel & Cie. GmbH's own balance sheet items, but also those at consolidated tax group subsidiaries. Deferred tax assets on tax loss carry forwards are recognised only if there is reasonable assurance that they will be realised within five years. Deferred taxes are generally presented on a net basis. A tax burden is recognised on the balance sheet as a deferred tax liability. In the event of a tax benefit (net asset), the Company does not exercise the corresponding option to recognise this under § 274 (1) sentence 2 HGB. Deferred taxes are determined based on the combined income tax rate of the consolidated tax group of Franz Haniel & Cie. GmbH. The combined income tax rate consists of corporate income tax, municipal business income tax and the solidarity surcharge, and is calculated based on the currently applicable statutory tax rates (current financial year: 30.5 per cent; previous year: 33.7 per cent).

Notes to the statement of financial position

1 Fixed assets

EUR million	Cost					
	1 Jan. 2017	Additions	Disposals	Reclassifications	Currency adjustments	31 Dec. 2017
Intangible assets						
Purchased concessions and similar rights	2.3	0.1	–0.4			2.0
Property, plant and equipment						
Land and buildings including buildings on third-party land	73.9		–0.5	0.1		73.5
Other equipment, operating and office equipment	33.3	1.3	–2.5	0.2		32.3
Prepayments and construction in progress	0.5	0.1		–0.3		0.3
	107.7	**1.4**	**–3.0**	**0.0**	**0.0**	**106.1**
Financial assets						
Shares in affiliated companies	1,849.1	413.1	–79.5			2,182.7
Loans to affiliated companies	160.4	500.0	–107.4		7.0	560.0
Investments	0.5		–0.2			0.3
Other loans	0.1					0.1
	2,010.1	**913.1**	**–187.1**	**0.0**	**7.0**	**2,743.1**
	2,120.1	**914.6**	**–190.5**	**0.0**	**7.0**	**2,851.2**

The disposal of property, plant and equipment resulted mainly from the disposal of real estate assets.

Additions and disposals of shares in affiliated companies relate to the implementation of corporate actions in the context of developing existing divisions and acquiring new ones. The additions and disposals for loans to affiliated companies result from the granting of long-term loans in connection with the financing of subsidiaries.

Accumulated depreciation				Carrying amount	
1 Jan. 2017	Annual depreciation and amortisation	Disposals	31 Dec. 2017	31 Dec. 2017	31 Dec. 2016
–2.2	–0.1	0.4	–1.9	0.1	0.1
–59.2	–1.1	0.2	–60.1	13.4	14.7
–22.7	–1.4	2.4	–21.7	10.6	10.6
0.0			0.0	0.3	0.5
–81.9	**–2.5**	**2.6**	**–81.8**	**24.3**	**25.8**
0.0			0.0	2,182.7	1,849.1
0.0			0.0	560.0	160.4
0.0			0.0	0.3	0.5
0.0			0.0	0.1	0.1
0.0	**0.0**	**0.0**	**0.0**	**2,743.1**	**2,010.1**
–84.1	**–2.6**	**3.0**	**–83.7**	**2,767.5**	**2,036.0**

2 Receivables from affiliated companies

Receivables from affiliated companies amounted to EUR 1,368.6 million (previous year: EUR 2,214.8 million) and resulted primarily from the financing of subsidiaries. The decrease during the current financial year resulted from the financing of investments and the repayment of the bond which has matured. The financial resources used for this were temporarily invested by an affiliated company on the capital market and made available by it.

3 Receivables from companies in which the Company has a participating interest

In the previous year, receivables amounting to EUR 2.7 million related to a dividend receivable from an investment.

4 Other assets

The other assets item contains tax receivables totalling EUR 17.7 million (previous year: EUR 30.7 million). The remaining term of all other assets is less than one year.

5 Other securities

Other securities include portions of the euro bonds issued by Franz Haniel & Cie. GmbH which were repurchased during the financial year but not delisted.

6 Prepaid expenses

The prepaid expenses of EUR 0.1 million (previous year: EUR 0.2 million) include discounts on euro bonds and advance payments for expenditures incurred after the reporting date.

7 Equity

The difference between the cost and the par value of the treasury shares held by the Company was charged to the freely distributable reserves. The par value was offset against subscribed capital on the face of the statement of financial position. Treasury shares with a par value of EUR 1.0 million (previous year: EUR 1.0 million) were acquired during the financial year.

In accordance with § 253 (6) sentence 2 HGB, EUR 10.6 million (previous year: EUR 8.5 million) is subject to a restriction on distribution; in accordance with § 253 (6) sentence 1, that amount represents a difference in the provisions for pensions.

There is no distribution restriction pursuant to § 268 (8) HGB with regard to the net retained earnings as at the reporting date.

8 Provisions

EUR million	31 Dec. 2017	31 Dec. 2016
Provisions for pensions and similar obligations	83.2	79.4
Other provisions	43.3	47.8
	126.5	**127.2**

The carrying amount of provisions for pensions and similar obligations is determined using the projected unit credit method based on actuarial methods. Provisions were determined based on the following parameters:

%	31 Dec. 2017
Discount rate	3.68
Salary trend	2.50
Pension trend	1.50

Pension provisions amounting to EUR 84.0 million (previous year: EUR 79.4 million) were offset against plan assets amounting to EUR 0.8 million as at the reporting date (previous year: EUR 0.0 million). At the reporting date, the fair value of plan assets amounted to EUR 0.8 million (previous year: EUR 0.0 million). During the financial year, the plan assets generated slight income.

Provisions for pensions and similar obligations are discounted using the average market rate of interest for the past ten financial years. Had the provisions been discounted using the average market rate of interest of the past seven financial years of 2.80 per cent, this would have resulted in a difference of an additional EUR 10.6 million in the provision.

The other provisions essentially comprise provisions for personnel remuneration, outstanding invoices, as well as provisions in connection with sand-lime bricks made from lime substitutes in former Haniel building materials plants.

9 Subordinated liabilities

The subordinated financial liabilities are subordinated to all other liabilities. The subordinated liabilities are shown in the table below:

EUR million	31 Dec. 2017	31 Dec. 2016
Shareholder loans	123.7	142.0
Loans of the Haniel Foundation	38.2	37.9
Haniel Zerobonds and Zinsbonds	6.2	7.0
Performance Bonds	17.6	29.5
Other financial liabilities	8.7	8.7
	194.4	**225.1**

Of the total amount, EUR 66.2 million (previous year: EUR 112.6 million) had a remaining maturity of up to one year and EUR 128.2 million (previous year: EUR 112.5 million) of more than one year. Of that latter amount, EUR 12.4 million (previous year: EUR 13.6 million) had a remaining term of more than five years.

10 Liabilities

All unsubordinated obligations of Franz Haniel & Cie. GmbH as at the reporting date are presented under liabilities. The various types and remaining maturities of the other liabilities as at 31 December 2017 are presented in the following table:

EUR million	**31 Dec. 2017**				**31 Dec. 2016**			
	Total	Up to 1 year	More than 1 year	of that amount More than 5 years	**Total**	Up to 1 year	More than 1 year	of that amount More than 5 years
Bonds, commercial paper and other securitised debt	**265.7**	265.7			**442.7**	247.0	195.7	(0.0)
Liabilities due to banks	**0.0**				**0.1**	0.1		
Trade payables	**0.9**	0.9			**0.9**	0.9		
Other liabilities	**13.1**	12.2	0.9	(0.2)	**26.4**	25.4	1.0	(0.2)
of which for taxes	**0.6**	0.6			**0.4**	0.4		
	279.7	**278.8**	**0.9**	**(0.2)**	**470.1**	**273.4**	**196.7**	**(0.2)**

The decrease in bonds related to the scheduled repayment of a bond which matured in February 2017. The increase in short-term bonds resulted from a bond maturing in February 2018 and the issuance of commercial paper.

The maturities of the liabilities due to banks correspond to the respective financing commitments.

EUR 1.2 million of other liabilities (previous year: EUR 1.3 million) is secured by payment guarantees. Of that amount, EUR 0.3 million have a remaining term of up to one year and EUR 0.9 million have a remaining term of more than one year. Of that latter amount, EUR 0.2 million had a remaining term of more than five years.

11 Contingent liabilities and other financial commitments

EUR million	31 Dec. 2017	31 Dec. 2016
Liabilities from payment guarantees and provision of collateral for third-party liabilities	**916.9**	**931.2**
of which to affiliated companies	(501.4)	(501.4)
of which to associated companies	(0.0)	(0.0)
of which for retirement benefits	(0.0)	(0.0)
Other financial commitments		
Rental and leasing agreements		
in the following year	0.3	0.3
in 2 to 5 years	0.2	0.3
in 6 or more years	0.8	0.8
Total	**1.3**	**1.4**

Liabilities from payment guarantees and provision of collateral for third-party liabilities to affiliated companies relate primarily to the takeover of a pledge for a bond issued by a subsidiary.

The Management Board believes that it is currently improbable that Franz Haniel & Cie. GmbH will have to use the contingent liabilities vis-à-vis third parties to any significant degree. With respect to contingent liabilities for affiliated companies, to the knowledge of the Management Board, the companies in question will be able to satisfy the underlying obligations. Recourse to Franz Haniel & Cie. GmbH is therefore not expected.

Notes to the income statement

12 Revenue

EUR million	2017	2016
Service revenue	4.4	3.6
of which from affiliated companies	(3.5)	(2.4)
Rental and lease revenue	1.1	1.2
of which from affiliated companies	(0.3)	(0.3)
	5.5	**4.8**

13 Other operating income

EUR million	2017	2016
Income from disposal of fixed assets	0.4	1.1
Income from additions to financial assets	0.0	0.5
Income from reversals of provisions	3.3	8.3
Other income	1.2	0.4
	4.9	**10.3**

EUR 1.8 million in income from reversals of provisions (previous year: EUR 4.4 million) related to provisions for warranties under a purchase agreement.

14 Cost of materials

Cost of materials includes expenses for the purchase of goods and services in connection with revenues.

15 Personnel expenses

EUR million	2017	2016
Wages and salaries	26.8	21.9
Social security, pension costs and other benefits	8.2	3.2
of which for pensions	(6.1)	(1.0)
	35.0	**25.1**
Average number of employees (full-time employees)	170.0	176.0

In the previous year, personnel expenses included the interest cost on pension provisions, amounting to EUR 3.0 million. These expenses are now reported under other net financial income. The prior-year figures have been adjusted accordingly.

The change in expenses for pensions resulted primarily from an interest rate adjustment in the previous year which reduced personnel expenses.

16 Other operating expenses

Other operating expenses amounted to EUR 17.5 million (previous year: EUR 18.0 million) and included in particular general administrative expenses and consulting fees. Other taxes amounted to EUR 0.2 million (previous year: EUR 0.2 million).

17 Net investment result

EUR million	2017	2016
Income from investments	44.9	29.2
of which from affiliated companies	(44.0)	(26.2)
Income from profit and loss transfer agreements	133.6	129.5
of which from tax assessments	(6.0)	(7.9)
	178.5	**158.7**

18 Other net financial income

EUR million	2017	2016
Income from other securities and long-term loans	4.7	7.3
of which from affiliated companies	(4.6)	(7.0)
Other interest and similar income	24.9	13.8
of which from affiliated companies	(4.9)	(6.1)
of which discounting of provisions	(0.0)	(2.0)
Write-downs of financial assets and securities classified as current assets	–0.1	–0.2
Interest and similar expenses	–41.3	–57.2
of which interest cost on pension provisions	(–3.0)	(–3.0)
of which interest cost on other provisions	(–1.3)	(–0.1)
	–11.8	**–36.3**

Write-downs on long-term financial assets and marketable securities amounting to EUR 0.1 million (previous year: EUR 0.2 million) were recognised entirely in respect of marketable securities.

Other net financial income includes a currency translation gain amounting to EUR 10.5 million (previous year: EUR 1.2 million loss), comprising income amounting to EUR 20.0 million (previous year: EUR 5.8 million) and expenses amounting to EUR 9.5 million (previous year: EUR 7.0 million).

19 Income taxes

Corporate income tax, municipal business income tax, the solidarity surcharge and income taxes paid in foreign countries are presented as income tax expense.

Deferred taxes are not included in the net tax income/expense. As at 31 December 2017, Franz Haniel & Cie. expects a future tax benefit from timing differences between the financial and tax accounts because the deferred tax assets exceed the deferred tax liabilities. The option to recognise deferred taxes pursuant to § 274 (1) sentence 2 HGB is not exercised. Deferred tax assets resulted primarily from temporary differences in carrying amounts relating to differences in pensions and other provisions as well as for provisions not recognised for tax purposes. Additionally, at the reporting date there were deferred tax assets due to previously unutilised tax loss carryforwards.

Deferred tax liabilities resulted primarily from temporary differences in the carrying amounts of property, plant and equipment.

Other notes

20 Fees of the independent auditors

The total fee of the auditors, PricewaterhouseCoopers GmbH, for the financial year was EUR 0.5 million (previous year: EUR 0.5 million). This total fee comprises services in connection with the audit of the financial statements totalling EUR 0.4 million (previous year: EUR 0.4 million) and to other assurance services and other services totalling EUR 0.1 million (previous year: EUR 0.1 million).

21 Derivative financial instruments

Franz Haniel & Cie. GmbH is exposed to currency, interest rate, and price change risks as part of its business. Derivative financial instruments, such as currency forwards, swaps and options, are generally used to hedge these risks.

Derivative financial instruments are used wherever possible and expedient to hedge against interest rate risks and exchange rate risks in relation to financial receivables and liabilities. To that end, interest rate swaps (including combined cross currency interest rate swaps), forward rate agreements, caps and floors, and currency forwards are generally used.

The hedges are entered into only with top rated banks.

If the cash flows net to zero, the derivative financial instruments are not recognised separately, but are aggregated using the net hedge presentation method.

	Notional value		**Fair value**		**Book value**	
EUR million	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Interest rate swaps						
Derivatives with affiliated companies	0.0	50.0	0.0	1.2	0.0	0.1
Foreign exchange instruments						
Derivatives with affiliated companies	17.0	56.0	0.1	–1.5	0.0	–1.5

In the previous year, a EUR 1.5 million provision for expected losses was recognised for negative fair values of currency forwards which had not been combined to form valuation units. The provision for expected losses was recognised under other provisions.

Under the imparity principle, positive unrealised fair values are generally subject to a prohibition on recognition.

The fair values of the derivatives are determined by discounting the expected future cash flows. Discounting is based on arm's-length interest rates over the remaining term of the instruments.

The remaining term of the notional value of derivatives is as follows:

	Remaining terms			Notional value	
EUR million	Up to 1 year	More than 1 year	of that amount More than 5 year	31 Dec. 2017	31 Dec. 2016
Interest rate swaps					
Derivatives with affiliated companies	0.0	0.0	0.0	0.0	50.0
Foreign exchange instruments					
Derivatives with affiliated companies	17.0	0.0	0.0	17.0	56.0

22 Related-party disclosures

There are no material transactions with related parties that are not at arm's length. From the perspective of Franz Haniel & Cie. GmbH, related parties are affiliated companies and associates, parties related to members of the Management Board, Supervisory Board, the senior management group and close family members of this category of persons.

23 Disclosures on shareholdings

The full list of shareholdings of Franz Haniel & Cie. GmbH and the Haniel Group, which forms a part of these notes to the financial statements, is published in the electronic Federal Gazette (elektronischer Bundesanzeiger) and on the website, www.haniel.de/en

The shareholdings of TAKKT AG, CECONOMY AG and METRO AG are indicated in the individual companies' annual reports and on their websites (www.takkt.com, www.ceconomy.de/en, www.metroag.de/en).

24 Executive bodies / governing body remuneration

In accordance with § 286 (4) HGB, the total remuneration paid to the members of the Management Board in the financial year is not disclosed. The total remuneration of the Supervisory Board was EUR 0.9 million (previous year: EUR 0.8 million); that of the Advisory Board was EUR 0.2 million (previous year: EUR 0.2 million).

The remuneration for former members of the Management Board and their survivors was EUR 2.2 million (previous year: EUR 2.2 million); pension provisions totalling EUR 24.8 million (previous year: EUR 25.0 million) were recognised for the former members of the above bodies and their survivors.

The members of the Management Board are:
Stephan Gemkow, Chairman of the Management Board
Dr Florian Funck
Thomas Schmidt (since 30 January 2017)

The members of the Supervisory Board are:
Franz M. Haniel, Chairman of the Supervisory Board, Graduate engineer
Dr Georg F. Baur, Deputy Chairman of the Supervisory Board, Businessman
Thomas Geitner, Graduate engineer
Dr Paul-Bernhard Kallen, Graduate economist
Dr Michael Schädlich, Graduate physicist
Prof. Dr Kay Windthorst, University professor
Gerd Herzberg, Deputy Chairman of the Supervisory Board, Former trade union secretary
Ralf Fritz, Maintenance man
Bernd Hergenröther, Electrician
Fadi Kamal, Design engineer
Irina Pankewitz, Textile cleaner
Hans Wettengl, Trade union secretary

25 Events after the reporting date

No reportable events took place after the reporting date.

26 Profit appropriation proposal

EUR	31 Dec. 2017
After deducting appropriate write-downs and recognising adequate valuation allowances and provisions, the net income for the financial year ending 31 December 2017 amounts to:	120,468,612.29
Plus retained earnings brought forward from the previous year:	244,979,160.33
This results in retained profit of:	365,447,772.62

The Management Board proposes to pay out a dividend of EUR 60,000,000.00 for the financial year and to carry the amount of EUR 305,447,772.62 forward to a new account.

The shareholders receive a dividend of 6 per cent on share capital of EUR 1,000,000,000.00, which corresponds to EUR 3.00 for each capital contribution of EUR 50.00.

Duisburg, 6 March 2018

The Management Board

Gemkow **Funck** **Schmidt**

"INDEPENDENT AUDITORS' REPORT

To Franz Haniel & Cie. GmbH, Duisburg,

Audit opinion

We have audited the annual financial statements of Franz Haniel & Cie. GmbH, Duisburg which comprise the balance sheet as at 31 December 2017, and the statement of profit and loss for the financial year from 1 January to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Franz Haniel & Cie. GmbH for the financial year from 1 January to 31 December 2017. We have not audited the content of those parts of the management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion based on the findings of our audit

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its financial performance for the financial year from 1 January to 31 December 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of those parts of the management report listed in the "Other Information" section.

Pursuant to section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinion

We conducted our audit of the annual financial statements and of the management report in accordance with section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the management report:

- the Corporate Governance Declaration pursuant to section 289f (4) HGB (disclosures in relation to the target ratio of female board members) contained in the "Employees" section of the management report
- the separate non-financial report pursuant to § 315b (3) HGB

The other information comprises further the remaining parts of the publication "Financial Statements 2017" – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor's report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit."

Essen, 12 March 2018

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Wirtschaftsprüfungsgesellschaft

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