HANIEL

Franz Haniel & Cie. GmbH
Financial Statements
2018

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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, a member of the Board of Directors of Flughafen Zürich AG, a member of the Board of Directors of JetBlue Airways Corporation, New York, and a member of the Board of Directors of the Amadeus IT Group, Madrid.

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 Controlling, Corporate Finance, Corporate Tax and Corporate General Services. 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 moved to TE Connectivity Ltd. in mid-2008, 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,
By initiating the sale of the Metro shares in summer 2018, the Holding Company freed up additional resources to continue to expand its portfolio. As a family-equity company, we wish to renew our portfolio, expand it and strategically develop our investments. We are optimistic about the steps already taken: both the successful integration of Initial's activities into CWS-boco and the establishment of appropriate governance and management mechanisms at our most recent portfolio companies ROVEMA and Optimar will make it possible to leverage the potential for further added value.

Our activities continue to focus not only on our buy & build strategy but also our digital transformation. All divisions are pursuing specific projects which are based on their own respective Digital Agendas. Some of their innovative solutions are still in the testing phase, and some have already hit the market. As Haniel has done with Schacht One, ELG has formed its own digital unit and TAKKT bundles all web-based business models into a newly created group of companies. We welcome this dynamic as a prerequisite for the investments' ability to tackle the future.

NEW MEMBERS ELECTED TO THE SUPERVISORY BOARD
Last year, the Supervisory Board held its regular election. The Shareholders' Meeting elected Dr Stephan Glander to succeed Dr Michael Schädlich as a shareholder representative. In addition, Doreen Nowotne and Patrick Schwarz-Schütte were elected as external shareholder representatives. They will replace Dr Paul-Bernhard Kallen and Thomas Geitner. Two new employee representatives, Lutz Leischner and Dirk Patermann, were also elected. Furthermore, Mario Büscher was elected to the Supervisory Board beginning on 28 April 2018 but was succeeded by René Albersmeyer on 1 February 2019 due to a change in companies. Bernd Hergenröther, Fadi Kamal and Irina Pankewitz no longer serve on the Supervisory Board. I would like to thank all departing members for their commitment and faithful collaboration.

At the inaugural meeting, Haniel's Supervisory Board re-elected me to serve as Chairman – in addition, Gerd Herzberg und Dr Georg F. Baur were confirmed as Deputy Chairmen. I am extraordinarily grateful for the trust placed in me and look forward to continuing to work together with the Supervisory Board to contribute to the success of the Company.

In accordance with my duty as Chairman of the Supervisory Board of Franz Haniel & Cie. GmbH, beyond the normal meetings of the Board, 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 operational 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 in advance of meetings and passed the necessary resolutions at four regular meetings and one extraordinary meeting. Two further resolutions were passed in writing. During the meetings, we discussed not only potential investments with the aim of developing the Group's portfolio, but also a change to the Group's leadership tools. A further focus was placed on the Group's strategy, which was discussed by the Supervisory Board at a separate retreat.

The Audit Committee held four meetings in the 2018 reporting period. It monitored the accounting process and the effectiveness of the internal control 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 approved non-audit services. At its meeting on 19 March 2018, it resolved to recommend to the Supervisory Board that it propose to the Shareholders' Meeting that the previous auditor be reappointed.

CHANGE IN TOP MANAGEMENT

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 various divisions – also with regard to important individual events. One major turning point has been Stephan Gemkow's decision to relinquish his chairmanship of the Management Board at Haniel with effect from 30 June 2019, after nearly seven years' service in the role. We owe Mr Gemkow a debt of gratitude. With an eye firmly on the future, pragmatism and commercial courage, he brought the Holding Company back to a sound financial footing and laid the strategic foundations for a successful future. We are exceptionally sad to see him go but also understand that Mr Gemkow wishes to turn now to new challenges. He will be succeeded by Thomas Schmidt, who has been a member of the Management Board since January 2017 and who serves as Chairman of the management at CWS-boco.

ANNUAL 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 2018 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.

The Management Board submitted the consolidated financial statements, the Group report of the Management Board and the Group auditors' report for 2018 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

Following the transactions initiated in the past two years, Haniel's objective remains to have a portfolio of about ten mid-sized companies. The focus is therefore on a systematic search for attractive investments. 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 continuing along the strategic path we have chosen with them. We will continue to advise, monitor and support the Management Board with great care in the year to come.

Duisburg, 9 April 2019

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 (until 28 April 2018)

DR STEPHAN GLANDER | Graduate chemist (since 28 April 2018)

DR PAUL-BERNHARD KALLEN | Graduate economist (until 28 April 2018)

DOREEN NOWOTNE | Businesswoman (since 28 April 2018)

DR MICHAEL SCHÄDLICH | Graduate physicist (until 28 April 2018)

PATRICK SCHWARZ-SCHÜTTE | Businessman (since 28 April 2018)

PROF. DR KAY WINDTHORST | University professor

EMPLOYEE REPRESENTATIVES

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

MARIO BÜSCHER | Business administrator for company pension schemes (28 April 2018 – 31 January 2019)

RENÉ ALBERSMEYER | Regional Key Account Manager FM (since 1 February 2019)

RALF FRITZ | Maintenance

BERND HERGENRÖTHER | Electrician (until 28 April 2018)

FADI KAMAL | Design engineer (until 28 April 2018)

LUTZ LEISCHNER | Graduate mathematician (since 28 April 2018)

IRINA PANKEWITZ | Textile cleaner (until 28 April 2018)

DIRK PATERMANN | Service consultant (since 28 April 2018)

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 maintain a trusting dialogue. The same applies for the Company's communications with its partners on the financial markets.

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 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 720 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 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 2018 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. 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. Further elements of the compliance management system include a hotline to report potential compliance violations, training sessions with quizzes on compliance-related issues and compliance officers who serve as points of contact between the divisions and the Holding Company and who help to clarify issues where there may be some doubt.

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: All capital market participants, including banks, investors and analysts, have equal access to the information they need 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 sub-group 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 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 720 FAMILY MEMBERS
- Meets once a year

EMPLOYEES

ABOUT 18,800 EMPLOYEES[1]

ELECTS MEMBERS

ELECTS 4 FAMILY AND 2 EXTERNAL REPRESENTATIVES

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 34. 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 and the employees. 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. In addition, we adhere to the principles set out in 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

INVESTING SUSTAINABLY

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 in the future are considered. 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 AIMS AS AN OWNER

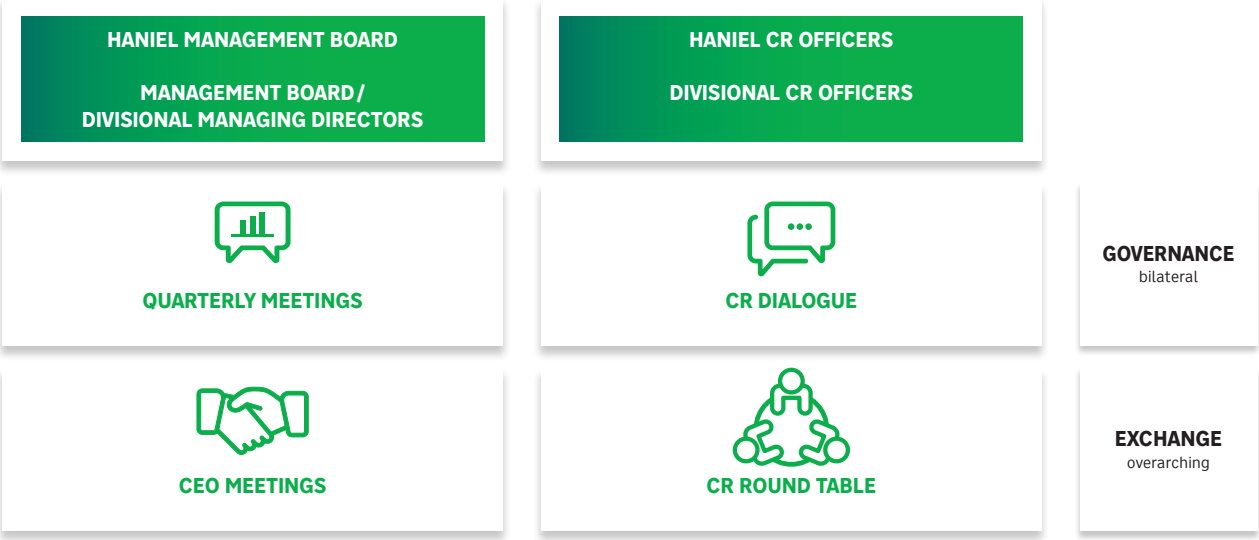
The Holding Company places its focus where it has the greatest leverage: in developing and managing the investments. Haniel lays down guidelines and principles for CR management. Rules of procedure which set out the framework for collaboration on the basis of statutory provisions stipulate that the Holding 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 divisions. In addition, the Holding Company organises the Group CR Round Table, where CR experts exchange information and experience. Responsibility for coordinating CR activities at the Holding Company and within the Haniel Group lies with Strategic Investment Controlling.

NEW MATERIALITY ANALYSIS IN PROGRESS

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-2019. Haniel will present the results of a new stakeholder survey and materiality analysis which are currently being carried out. Haniel also meets the requirements set out in the European Union's CSR Directive and the corresponding German implementing legislation, and publishes a separate report online for the non-financial statement at

www.haniel.de/en/responsibility/nonfinancialstatement2018

CR ORGANISATION AT THE HANIEL GROUP



SUSTAINABILITY AT THE HANIEL GROUP

BekaertDeslee is a globally leading specialist for the development and manufacturing of mattress textiles. Assuming sustainability means offering safe, high-quality products and ensuring that business activities are environmentally friendly and socially responsible. It is an essential part of BekaertDeslee's basic values and deeply rooted in the corporate culture. BekaertDeslee defined its CR focus areas after conducting a stakeholder survey. At the conclusion of this process, the company's activities were aligned accordingly and a roadmap was drawn up: Under the leadership of the management, an interdisciplinary team has since then prioritised and initiated sustainability projects along the entire value chain, and published a first CR report in mid-2018. More information at www.bekaertdeslee.com/about/cr.

For **CWS-boco**, one of the leading international providers for hygiene and workwear solutions, reusability is part of the company's corporate philosophy. The division is committed to sustainable business practices, to making efficient use of resources and respect for people and the environment. A systematic stakeholder management serves to ascertain the most important issues around sustainability. The results are evaluated from a strategic viewpoint and approved by management. In mid-2017, within the CWS-boco Group a joint venture with Rentokil Initial was formed, rendering it necessary to review and update the division's CR strategy: In 2018, the division defined focus areas in the course of an international stakeholder survey, set corresponding action areas, derived appropriate KPIs and established an overarching governance structure. Information about CWS-boco's commitment to sustainability can be found in the CR interim report at www.cws-boco.com/en-US/sustainability.

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 naturally anchored in ELG's business model and corporate philosophy. Promoting responsibility among employees, ethical business practices and strong partnerships with stakeholders are also a focal point of operations. ELG therefore carried out a stakeholder dialogue, which demonstrated which sustainability issues are of particular importance for the company and its stakeholders. The various topics were brought together under priority areas. Many of the measures carried out under these priority areas were initiated by local management, with CR officers in head office coordinating, monitoring progress and communicating developments. Find out more in the CR report at www.elg.de/en/sustainability.html.

Optimar, the manufacturer of automated fish handling systems, has been a part of Haniel's portfolio since December 2017. Fish handling with care – the company's corporate philosophy expresses two focus areas: firstly animal welfare, secondly food safety of fish products. While automating fish processing activities, Optimar ensures appropriate handling and killing practice. A further advantage of robotisation lies in lower hygiene risks, since the number of touch points between seafood and people is reduced. At the same time, Optimar's technological solutions provide full traceability of the individual processing steps, which is crucial for sustainable fishing. The company believes there is a strong correlation between long-term profitability and responsible business practices. This attitude is reflected in Optimar's Environmental, Social and Governance (ESG) Standards. Find out more at www.optimar.no.

Following its acquisition by Haniel in November 2017, premium manufacturer of packaging machinery and equipment **ROVEMA** identified its core sustainability issues under the leadership of the management and based on the company's corporate strategy, which it summarised into four focal points: Save Energy, Safe Food, Sustainable Packaging and Supply Chain. The activities under these focal points are aimed at promoting the sparing use of resources and protecting the quality of food. Progress is monitored and communicated by a CR officer. Find out more at www.rovema.com/en/engineering/sustainability.

At **TAKKT** sustainability and profitable growth go hand in hand. The B2B direct marketing specialist for office equipment's SCORE 'Sustainable Corporate Responsibility' programme lays the foundation for coordinating sustainable business management activities across all segments and for implementing those measures in day-to-day operations. TAKKT has developed a sustainability strategy for the years to come: the core issues were identified in a stakeholder dialogue, assigned weightings and corresponding measures were initiated to implement them and achieve goals. Having an established system of indicators is an important instrument to ensure that progress is measurable and transparent. For more information in the sustainability report, go to www.takkt.de/en/sustainability.

The CECONOMY and METRO financial investments continue to pursue their commitments independently from Haniel and each have their own CR organisation and strategy. **CECONOMY** facilitates life in the digital world. Its approach to sustainability focuses on strategic topics which are closely linked to the value chain of its largest investment, the MediaMarktSaturn Retail Group. Find out more at www.ceconomy.de/en/sustainability.

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. The retail group describes its broad CR commitment along the value chain at www.metroag.de/en/company/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 for the further development of employees 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 internal requirements and current management trends.

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 and continuous feedback 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, including 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. In addition, the Haniel Academy offers seminars on health and stress management. In 2018, the focus was once again placed on the provision of healthcare for employees over 50. In addition, an online portal went live in May, where all employees can sign up for internal and external health, nutrition and sport classes – some of which are subsidised. More than half of the employees have signed up since then.

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 time 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 first centre for social innovation in North Rhine-Westphalia was founded at our headquarters in Ruhrort. At the end of the year, we took a different approach: In mid-December, the existing team formed the start-up incubator on Franz-Haniel-Platz under the name "Impact Factory". The aim is to further professionalise the incubator for companies seeking to tackle urgent social challenges with their ideas.

FOR MORE INFORMATION ABOUT CORPORATE RESPONSIBILITY

at Haniel, please see the separate report on the non-financial statement pursuant to The German CSR Directive Implementing Act in accordance with section 289b HGB, the CR report and the UN Global Compact progress report on 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.

During financial year 2018, Franz Haniel & Cie. GmbH worked to integrate the companies successfully added to its portfolio over the previous year: the joint venture between the CWS-boco division and Rentokil Initial as well as the newly acquired ROVEMA and Optimar divisions. Franz Haniel & Cie. GmbH thus systematically and successfully continued to pursue its strategic objectives during the current financial year. 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 a net loss of EUR 781 million in financial year 2018 (previous year: net income of EUR 121 million). This development was due in particular to the decrease in the investment result from EUR 179 million in the previous year to EUR –725 million. In this respect, the investment result remains behind the previous year's forecast. The negative investment result was caused by the absorption of a loss made by an affiliated company. That loss was attributable to the write-down of the carrying amounts of investments. As expected, the financial result is on par with the stable figure reported in the previous year.

Net assets of Franz Haniel & Cie. GmbH
Total assets as at the reporting date amounted to EUR 3,029 million and consisted primarily of long-term financial assets of EUR 2,603 million and receivables from affiliated companies of EUR 407 million. Long-term financial assets decreased by EUR 163 million. That decrease was due primarily to the repayment of loans to affiliated companies. The decrease in current receivables from affiliated companies by EUR 962 million was attributable primarily to the absorption of losses made by an affiliated company.

Financial position of Franz Haniel & Cie. GmbH
On the liabilities side of the statement of financial position, EUR 2,709 million relates to equity and EUR 320 million to provisions and liabilities. The equity ratio is thus at 89 per cent and continues to reflect 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 reduced its debt significantly by a total of EUR 266 million by repaying a bond issued on the capital market with a nominal volume of EUR 196 million and commercial paper.

Franz Haniel & Cie. GmbH furthermore has access to confirmed lines of credit amounting to EUR 795 million, the full amount of which has not been drawn down by affiliated companies as at 31 December 2018.

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. A significantly positive investment result and a stable financial result are expected for financial year 2019. In light of this, the Company will conclude the financial year with a significant net profit.

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.

Holding Company designs the portfolio
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 environmental and social goals. The Company pursues this goal by following the guiding principle of the "honourable businessman". Moreover, 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 companies to its portfolio at the end of 2017: ROVEMA and Optimar. Haniel also supports the divisions with their further growth, both organically and through acquisitions, by using a buy&build strategy.

Haniel develops an individually optimised management and support approach for the portfolio companies.

In the spring of 2018, Haniel decided to begin preparing to exit from its investment in the METRO financial investment. Following the signature of the agreement with the firm, EP Global Commerce GmbH (EPGC), 7.3 per cent of the ordinary shares issued by METRO AG were transferred in an initial step. EPGC holds a call option giving it the right to acquire up to 15.2 per cent of the remaining Metro shares from Haniel. METRO now faces new prospects in a challenging market.

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 Haniel 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 on progress to Haniel's Management Board. 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 business models of each division, form the basis for this. Haniel's Schacht One digital unit provides relevant offerings, support and networks. Haniel has also made investments in various venture capital funds. Independent venture capital activities by the divisions supplement the involvement in the start-up environment. Comprehensive training programmes offered by the Haniel Academy covering all facets of digital transformation and corresponding dialogue and informational offerings by the Holding Company round out Haniel's approach. The intention 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 oversees a global network of 27 production locations in 19 countries.

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 develop 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 aims to continue growing through acquisitions and is focusing on expanding its market position in Europe, the Americas, and the Asia-Pacific region. BekaertDeslee is focused on continuously improving its product quality, designs and delivery times. Besides to organic growth in existing markets, it is constantly searching for opportunities to tap into new markets to continue 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, efficiency, 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

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 is one of the leading international service providers of hygiene and workwear 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%** **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
22.71% **Equity interest** CECONOMY is Europe's leading platform for companies, concepts and brands in the sector of consumer electronics.	**15.20%** **Equity interest** METRO is one of the leading international companies in the wholesale and food service sector.

As at 31 December 2018

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. BekaertDeslee's global network also enables it to continue to refine its product range to suit changing customer requirements. 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 offers professional hygiene and workwear solutions. The division is one of the international leaders in this field with activities in 16 European countries. Haniel holds an 82.19 per cent interest in the highly innovative company. The remaining 17.81 per cent of shares are held by Rentokil Initial.

In 2018, CWS-boco successfully continued its efforts to integrate Initial's activities, which had been acquired from Rentokil Initial in 2017. The company completed the realignment of the divisional structure 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 care products. The new structure allows the company to address customer needs more individually across Europe.

Since forming the joint venture, CWS-boco has not only reached first milestones in procurement and IT, it has also made progress in optimising its network of locations and services as well as its administrative services.

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, assorted washroom hygiene products and workwear. In recent years, CWS-boco has also expanded its offering in the cleanroom business. In this area, the company offers its customers not only the professional preparation of cleanroom clothing but also advice, training and technical assistance in selecting appropriate cleanroom clothing. It does so while meeting high, certified standards, particularly with respect to sterility and the absence of particulates. CWS-boco further developed its business with service offerings through its own "Complete Washroom Solutions" unit relating to high-quality public washrooms that are available to users for a fee. Digitalisation and society's increasing awareness of hygiene are key trends driving CWS-boco, for instance with its modular offering for washroom solutions, the "Hygiene Experience Modules". This concept offers innovative products and services in the washrooms sector, for example the use of the "CWS SmixIN" faucet, which mixes water, air and soap. Moreover, washrooms are being digitalised wholesale: key parameters such as soap filling levels and the number of hands washed are tracked. CWS-boco's customers, companies of various sizes and industries, benefit from a comprehensive service offering 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 fourth time in a row.

In addition, CWS-boco is constantly investigating further opportunities to expand its offering, such as in the field of preventative fire safety. The division offers CWS Fire Safety – regionally to begin with – which provides a full range of services in this area. The company is tapping additional potential by taking over regional companies that supplement and expand the existing service network. Besides that, the specialist for hygiene and workwear is working to introduce a new ERP system and to digitalise its business models.

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 53 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 continue to be able to satisfy the needs of its customers in the future, 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.

The EIE Services innovation unit bundles all initiatives and projects relating to innovation and digitalisation. The company is focusing not only on optimisation options along the value chain but also on business model innovations in the secondary commodities segment. External momentum comes from close integration with the start-up scene. Together with Schacht One, ELG has developed Remetal, an online platform for scrap metal recycling which is aimed primarily at private households, handymen and small enterprises. Customers log on to the platform to schedule a time for the scrap metal to be picked up. Remetal employees weigh the scrap then and there and analyse its composition in order to determine an exact price. Customers are paid on this basis and Remetal takes care of recycling.

Other than the trading in and recycling of stainless steel scrap and superalloys, ELG is also active in the carbon fibre business segment, the recycling of carbon fibres. The material is reinforced with carbon fibre and is extremely strong and light, which makes a large number of applications attractive. In December 2018, ELG Carbon Fibre and the Mitsubishi Corporation agreed to form a joint venture: subject to approval by the supervisory authorities, Mitsubishi UK will acquire 25 per cent of shares in ELG Carbon Fibre. The joint venture will provide ELG Carbon Fibre with access to potential customer groups and will enable it to further accelerate the continued development of its product portfolio. In addition, ELG Carbon Fibre will receive financial resources to further expand while its access to key markets in Asia and North America will be strengthened.

The **Optimar** division is a global leader for automated fish processing systems for use on ships, on land and in aquacultures. These systems are installed as turnkey projects, either independently or in connection with third-party components. Moreover, as a full service provider Optimar offers complementary products and services – from remote diagnostics and online service through to spare parts, maintenance and retrofitting. 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. Moreover, 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. Furthermore, developments in the "Industrial Internet of Things" (IoT) – including combined augmented reality concepts – help to increase efficiency for Optimar's customers and reduce their impact on the environment. The "Commander" digital cockpit solution maps the individual steps of the processes used in onboard equipment. This makes it possible to resolve issues remotely, minimise outages and thus prevent trips back to port, that are unnecessary.

The **ROVEMA** division is a premium provider of packaging machines and equipment with a broad product portfolio and a global presence. It operates at eleven locations and is present 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).

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. New product, packaging and machinery solutions are devised and developed at the company's own technical laboratory. This also ensures rapid knowledge transfer from theory into practice. Multifaceted service offerings round off the product range. The company also offers 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.

Ecological aspects such as waste prevention and the sparing use of resources play a growing role. Thanks to its position along the value chain and its product, packaging and machinery expertise, ROVEMA can work together with customers to develop pioneering solutions. In 2018, ROVEMA took a clearer position when it comes to sustainability. ROVEMA's sustainability strategy covers the areas of Sustainable Packaging, Supply Chain, Safe Food and Save Energy. Examples from the product portfolio include packaging using recycled films or renewable resources. The reduction of transport volumes and longer sell-by dates for foods show how ROVEMA machinery spares resources and can improve its carbon footprint thanks to sustainable packaging solutions.

The **TAKKT** division bundles a portfolio of B2B direct marketing specialists for business equipment in Europe and North America. Nearly every 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 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 in particular who exhibit relatively lower demand. When a customer has ordered the desired product via one of the channels, TAKKT offers fast delivery and complementary services.

TAKKT is pursuing three strategic initiatives to achieve organic, profitable growth. Firstly, it aims to digitalise its core business. The company has developed a Digital Agenda with 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. Secondly, in 2018 TAKKT established the new division, newport, and bundled the web-focused brands Certeo, BiGDUG and Mydisplays under one roof at TAKKT EUROPE. Thirdly, the TAKKT holding company aims to take a more active role going forward, thereby extending the activities by the individual businesses to add value. For instance, this includes corporate development, devising and implementing strategic initiatives, selecting target markets, portfolio management, the cross-divisional coordination of expert teams and expanding strategic human resources management. TAKKT will establish small teams to work on operational excellence and data & analytics excellence in particular.

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 14 European countries, and is number one in consumer electronics retailing in eight 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.

The **METRO** financial investment 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.

METRO Wholesale 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.

In 2018, METRO decided to sell its Real segment and to focus exclusively on wholesale in the future. Real is one of the leading hypermarket companies in Germany and offers an extensive and wide-ranging product line for end users.

One further objective of METRO's strategy is to support its customers in further developing their business – including in the area of digitalisation. The HoReCa Digital business unit specialises in developing digitally-oriented solutions. This also includes the METRO Accelerator Programmes for Hospitality and Retail to promote innovative digital solutions for independent entrepreneurs in the hotel, restaurant, catering and retail sector. METRO has offered the support programme for business founders for nearly four years now.

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 operating profit alongside revenue to assess the development of the divisions. In 2018, the Management Board decided to modify the definition of the KPI operating profit in order to reflect the increase in acquisition activities. Operating profit is now adjusted to exclude the amortisation of intangible assets from purchase price allocation because these expenses result from business combinations and are therefore not incurred in relation to the Group's operating activities. As previously, the profit before taxes is also used as an indicator. This KPI is based on the operating profit, adjusted by amortisation of intangible assets from purchase price allocation, the investment result and the result from financing activities.

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.

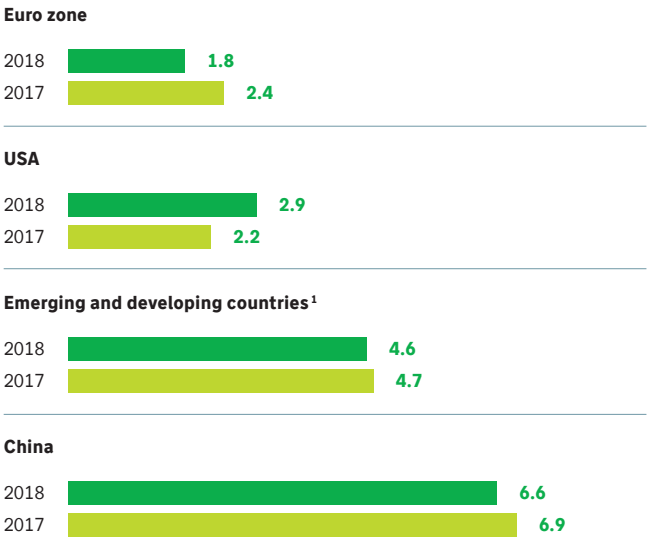
Report on the non-financial statement released

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: https://www.haniel.de/en/responsibility/nonfinancialstatement2018.

Haniel Group
Revenue and earnings performance

The Haniel Group posted double-digit sales growth in 2018. In addition to ELG, in particular Initial's activities at CWS-boco, which were included for a full year for the first time, contributed to this growth – as did ROVEMA and Optimar, the machinery manufacturers acquired in the previous year. While the Haniel Group significantly increased operating profit, the result before and after tax was significantly negative due to the impairment losses on the two financial investments, METRO and CECONOMY.

GROWTH BY REGION
%



[1] incl. China

Source: International Monetary Fund, World Economic Outlook Update, January 2019

Macroeconomic environment positive, outlook murky
The International Monetary Fund (IMF) expects the global economy to grow by 3.7 per cent in 2018, almost as strongly as in the previous year. The outlook became less clear in the second half of the year primarily due to the trade conflict between the USA and China.

In the euro zone, the economy showed robust growth in 2018, with an increase of 1.8 per cent. The upturn lost momentum beginning in the summer. Political uncertainties and the weakening of global trade slowed exports and investment activity. In addition, weak automobile production weighed on the German economy in particular in the second half of the year. Once again, growth in the entire euro zone was supported by consumer spending as employment increased again.

The economy in the USA grew rapidly in 2018 due to stimuli from massive tax reductions and higher governmental expenditures. According to the IMF, growth was 2.9 per cent, following 2.2 per cent in the previous year. Construction activity and industrial production were up sharply. Consumer spending also again rose noticeably. As expected, the Federal Reserve Bank cautiously raised key interest rates in several steps.

The IMF estimates that growth in the emerging and developing economies remained lively in 2018 at an overall rate of 4.6 per cent. The slower pace of global trade was offset by the positive effects from higher prices for commodities. China posted economic growth of 6.6 per cent. The neighbouring countries in Southeast Asia also benefited from China's gain. However, the change in interest rates in the USA proved challenging for those emerging markets which have heavy USD-denominated debt. As a result of country-specific structural deficits, economic development collapsed in Turkey and Argentina with rapidly increasing inflation. Brazil and Russia posted slight growth again in 2018.

Overall, the robust economic development in Europe and the USA benefited the revenue and earnings performance of the entire Haniel Group as a whole.

Sound revenue trend for CWS-boco and ELG
The Haniel Group posted total revenue of EUR 4,683 million in 2018, which corresponds to a significant increase of 13 per cent, which was also driven by acquisitions: this increase was due in particular to higher revenue at CWS-boco thanks primarily to the first-time full-year inclusion of the joint venture established in 2017. The revenue contributions from ELG, Optimar and ROVEMA, as well as acquisitions in the TAKKT division, also added to the result. By contrast, negative currency translation effects from the US dollar reduced the Haniel Group's revenue.

Organically – i.e., adjusted for currency translation effects and company acquisitions and disposals – revenue increased by 6 per cent compared to 2017. ELG benefited largely from higher average prices for commodities, as well as from rising tonnages. Growth at CWS-boco was encouraging, both in the Textile Solutions and in the Hygiene Solutions divisions. Organic revenue at TAKKT also developed positively year-on-year, increasing by 3 per cent.

Operating profit increased significantly; impairment losses on CECONOMY and METRO financial investments weigh down profit before and after tax.

Operating profit increased significantly

Operating profit in 2018 was EUR 301 million, 19 per cent above the previous year's value of EUR 253 million. The main profit boosters in 2018 were the increased contribution from CWS-boco, which resulted predominantly from the first-time full-year inclusion of Initial's activities, lower one-off expenses as compared to the previous year and cost savings. TAKKT's operating profit was on par with that of the previous year. In a more difficult market environment for trading in stainless steel scrap, the ELG division generated an operating profit that was significantly lower

REVENUE
EUR million

OPERATING PROFIT
EUR million

than the previous year's level. At BekaertDeslee, the challenging market trend in the USA resulted in an operating profit below that of the previous year. The ROVEMA and Optimar divisions acquired in the previous year contributed to the increase in the Haniel Group's operating profit.

EBIT also up

As a result, EBIT of the Haniel Group increased by 12 per cent compared to the previous year to EUR 240 million. This increase was less pronounced than for operating profit because the acquisitions from 2017 resulted in higher amortisation of intangible assets from purchase price allocations.

Impairment losses at financial investments weigh down earnings

Profit before taxes fell year on year, from EUR 235 million to EUR –796 million. The significantly negative investment result more than offset the significant increase in EBIT and improved cash flows from financing activities.

The decline in the quoted share price of both the Ceconomy and Metro shares in 2018 caused Haniel to test both financial investments for impairment on 30 June 2018 and 31 December 2018. The review on 30 June 2018 showed a need to recognise a substantial impairment loss. Over the course of the year, there was an increase in the quoted price for Metro shares and a continued decline in the quoted price for Ceconomy shares. For 2018, this resulted in an impairment loss in the amount of EUR –443 million for METRO and of EUR –654 million for CECONOMY. Next to these measurement adjustments, the pro-rata contributions to earnings of both financial investments from 2018 flowed into the Haniel investment result, as did the net disposal gain from the sale of 7.3 per cent of the shares in METRO AG to EP Global Commerce. The earnings contribution from the financial investments amounted to a total of EUR –1,028 million, compared to EUR 80 million

PROFIT BEFORE TAXES
EUR million

<–100%

in the previous year, in the course of which the demerger of the METRO GROUP into the independent CECONOMY and METRO companies was completed.

The result from financing activities during the reporting period amounted to EUR –13 million. In the same period of the previous year, this figure had amounted to EUR –61 million. The improvement was due in particular to income from the option component from the exchangeable bond linked to ordinary shares of CECONOMY. Moreover, the Holding Company's net financial debt declined because the Haniel Holding Company repaid a bond which matured in February 2018.

Profit after taxes down significantly year on year
The negative development for profit before taxes, combined with an increase in tax expenses, also resulted in a significant drop in after-tax profit. This declined from EUR 248 million in the previous year to EUR –848 million in 2018.

PROFIT AFTER TAXES
EUR million

<–100%

Haniel value added negative
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[1]. 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 2018 was 7.8 per cent.

EUR million	2017	**2018**
Return	314	**–792**
– Cost of capital	505	**470**
Haniel value added (HVA)	**–191**	**–1,262**
Return	314	**–792**
/ Average capital employed	6,469	**6,020**
Return on capital employed (ROCE)	**4.9%**	**–13.2%**

HVA was EUR –1,262 million in 2018, significantly below the previous year's level of EUR –191 million. This was due to the considerable impairment losses that were taken on the CECONOMY and METRO financial investments.

The performance indicator ROCE reflects the return realised on the average capital employed. The Haniel Group's ROCE declined through the lower –13.2 per cent return generated in 2018, compared to 4.9 per cent in the previous year. The return on the average capital employed in the 2018 financial year was thus significantly 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 back-drop, the value-based portfolio development remains a significant objective of the Haniel Holding Company.

[1] For a detailed calculation of the HVA and ROCE indicators, see the explanations in the explanatory notes on page 112 in the Haniel annual report 2018.

Operating profit guidance attained
Adjusted for acquisitions and currency translation effects, the Haniel Group attained an increase in revenue in the single-digit percentage range as forecast, thanks in particular to CWS-boco, ELG and TAKKT. As expected, there were positive effects due to Initial's activities which were acquired by CWS-boco, as well as the ROVEMA and Optimar acquisitions. The forecasted significant increase in operating profit was attained as a result. Haniel again benefited here from the diversification of its portfolio.

Disappointing development of financial investments
Due to the impairment losses taken on the METRO and CECONOMY financial investments, the investment result came in considerably lower than forecast. As a result of these impairment losses, the Haniel Group's profit, both before and after taxes, and as forecast on 31 August 2018, was significantly below the previous year's level – in spite of the improvement reached in the operating profit. Consequently, the value-oriented performance indicators, return on capital employed (ROCE) and Haniel value added (HVA) also came in significantly lower than forecasted. The Haniel cash flow remained unaffected by the impairment losses on financial investments and continues to benefit from the positive development of the operating profit. As expected, with EUR 522 million, it reached a value above the 2017 level.

Haniel Group
Financial position

Haniel also invested at the divisional level in 2018: TAKKT acquired Britain's leading online office furniture retailer, Equip4Work, as well as the Swedish direct marketer for business equipment, Runelandhs. The sale of first tranche of shares in METRO AG contributes to the Group's continuing solid financial structure. After receiving an upgrade by the rating agency Moody's, all of the Haniel Holding Company's ratings are ranked investment-grade.

Balanced financial governance
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 following upgrade by Moody's
Haniel submits itself to external rating assessments voluntarily, thus ensuring broad access to capital markets. Haniel's ratings are all in the investment grade class: in April 2018, Moody's awarded Haniel a Baa3 rating. By upgrading this rating, Moody's recognised the good balance in Haniel's portfolio and the low amount of debt at the divisional level. Scope, the European ratings agency, classified Haniel as investment grade with a BBB- rating, as did Standard & Poor's with a BBB- rating, which the rating agency confirmed again on 29 January 2019. Prior to this, Haniel had terminated the assignment to create a rating from S&P. In 2018 Deutsche Bundesbank again classified Haniel as eligible for central bank collateral equal to an investment-grade rating. The aim is to maintain an investment-grade rating permanently. The requirements for achieving this are also considered to have been met for the future.

The ratings are a result of Haniel's sustained conservative financial policy. This is distinguished by a moderate target net financial debt level of up to EUR 1 billion at the level of the Holding Company coupled with a solid long-term financing structure. The ratings improvements were also supported by the sound development of the total cash cover and market value gearing, key figures which are crucial to the rating. Total cash cover is calculated as the ratio of proceeds from dividends and profit transfers to payments for current costs incurred by the Holding Company, as well as interest and dividends to the Haniel family. Market value gearing represents the relationship between net financial debt and the value of Haniel's investment portfolio: it amounted to 12 per cent as at 31 December 2018, and was thus in a highly comfortable range.

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 of EUR 2.2 billion as at 31 December 2018. This exemplifies the pursuit of security and independence.

A further key pillar of financial management is the ability to obtain funding on the capital market. To that end, the Haniel Holding Company updates its commercial paper programme at larger intervals.

Overall, the financial liabilities reported in the Haniel Group's statement of financial position were EUR 1,390 million as at 31 December 2018. Of that amount, EUR 749 million has a maturity of more than one year. Of the EUR 641 million that is presented as current liabilities, EUR 451 million is attributable to the exchangeable bond linked to ordinary shares of CECONOMY. Although this bond will 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. Following the repayment of the bond issued by the Haniel Holding Company which matured in February 2018, the value of outstanding bonds as at 31 December 2018 was lower than at the end of 2017 at EUR 451 million.

Moreover, the CWS-boco, ELG and TAKKT divisions have also financed themselves on the market for promissory loan notes in recent years and have a broad financing base that includes bank lines of credit. As at 31 December 2018, the value of promissory loan notes, commercial paper and other securitised liabilities in the Haniel Group was EUR 144 million – and thus below the level as at 31 December 2017. Besides that, the ELG division maintains a program for the continual 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 1,274 million as at 31 December 2018 compared to EUR 1,427 million at the end of 2017. The sale of first tranche of 7.3 per cent of shares in METRO AG was the primary contributor to the decline.

The net financial position in the Haniel Group decreased to EUR 974 million as at 31 December 2018, following EUR 1,331 million as at 31 December 2017. 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 affiliated companies. The reduction of the net financial position is attributable in particular to the receipt of financial resources from the sale of the first tranche of Metro shares, while financial resources were tied up in current net assets in particular due to the increase in inventories.

Operating performance leads to increased Haniel cash flow.

At the level of the Haniel Holding Company, around EUR 1.4 billion is available to further develop and expand the portfolio. This is calculated on the one hand from the self-imposed limit for net financial liabilities of EUR 1 billion, and on the other hand from the Haniel Holding Company's net financial position, defined as net financial liabilities less the financial assets, which showed a positive balance of EUR 368 million as at 31 December 2018.

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. In 2018 Haniel cash flow increased from EUR 487 million in the previous year to EUR 522 million, despite the significantly lower profit after taxes. This is because the impairment losses on the CECONOMY and METRO financial investments are non-cash items.

[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 380 million in 2018, and was thus significantly lower than Haniel cash flow. This is also attributable to the financial resources tied up in the increase of inventories. In the previous year, cash flow from operating activities amounted to EUR 462 million, which was also less than the Haniel cash flow.

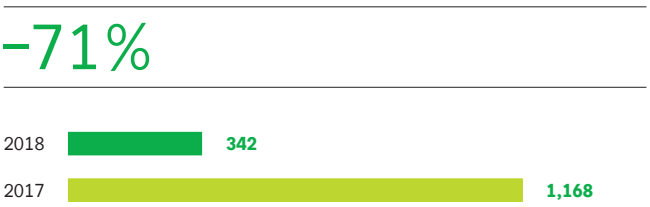
Haniel makes considerable investments in divisions

Cash flow from investing activities, that is the balance of payments for investing activities and proceeds from divestment activities, was EUR –116 million in 2018. In addition to considerable investments in property, plant and equipment and intangible assets, as in the previous year, the Haniel Holding Company's sale of shares in METRO AG in particular resulted in positive cash flows. Payments of EUR 342 million were offset by proceeds from divesting activities of EUR 226 million. In the previous year, the cash flow from investing activities was EUR –303 million. Payments in the amount of EUR 1,168 million – among others, for the acquisition of the Initial companies – were offset by proceeds of EUR 865 million. These proceeds were attributable in particular to the decrease of financial investments by the Haniel Holding Company.

EUR million	2017	**2018**
Haniel cash flow	487	**522**
Cash flow from operating activities	462	**380**
Cash flow from investing activities	–303	**–116**
Cash flow from financing activities	–353	**–214**

HANIEL CASH FLOW
EUR million

CAPITAL EXPENDITURE
EUR million



Cash flow from financing activities in 2018 was EUR –214 million, following EUR –353 million in 2017. Considerable resources were again thus used for the repayment of financial liabilities. In 2018, a dividend of EUR 60 million was paid to the shareholders of Franz Haniel & Cie. GmbH.

Haniel Group
Assets and liabilities

The equity ratio of the Haniel Group remained high with lower total assets. Even after taking into account the impairment losses on the CECONOMY and METRO financial investments, this underscores Haniel's additional investment potential.

Total assets decreased
The Haniel Group's total assets decreased from EUR 7,368 million as at 31 December 2017 to EUR 6,256 million as at 31 December 2018. While non-current assets declined, current assets increased. The reasons for the reduction in non-current assets in particular were the impairment losses recognised on the CECONOMY and METRO financial investments on the one hand, as well as the sale of the first tranche of shares in METRO AG to EPGC on the other. Total non-current assets of the Group amounted to EUR 4,445 million as at 31 December 2018, following EUR 5,977 million as at 31 December 2017.

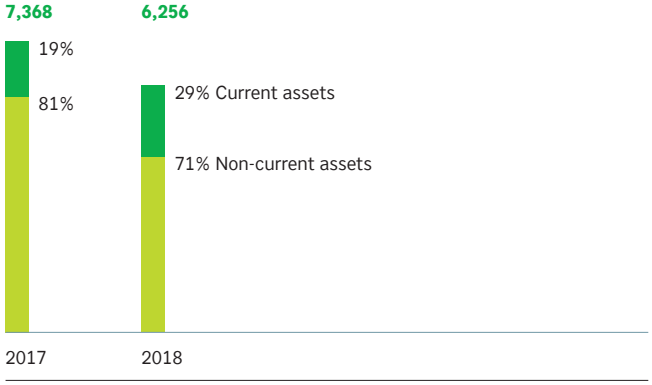
Current assets increased primarily as a result of the sale of the first tranche of shares in METRO AG because the financial resources received were invested in current financial assets. Correspondingly, current assets increased from EUR 1,391 million as at 31 December 2017, to EUR 1,811 million as at 31 December 2018. Besides that, the BekaertDeslee, ELG and TAKKT divisions in particular increased inventories in line with an increase in business.

Equity ratio remains high
The equity of the Haniel Group decreased from EUR 4,499 million as at 31 December 2017 to EUR 3,630 million as at 31 December 2018. This was due in particular to the negative profit after taxes. As a result, the equity ratio declined from 61 per cent to 58 per cent. The continuing high level of the equity ratio underscores the investment potential of the Haniel Group.

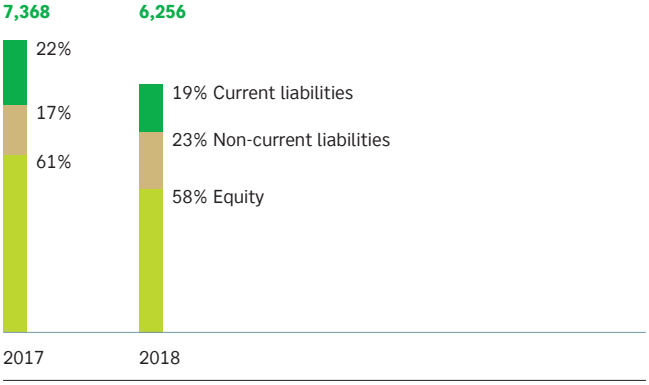
Haniel utilised the financial resources to further reduce debt. As a result of the repayment of a bond of Franz Haniel & Cie. GmbH that matured in 2018, current liabilities declined correspondingly from EUR 1,633 million as at 31 December 2017 to EUR 1,206 million as at 31 December 2018. Because the divisions took out long-term loans, non-current liabilities increased from EUR 1,236 million as at 31 December 2017 to EUR 1,420 million as at 31 December 2018.

Recognised investments down significantly year on year
The Haniel Group's recognised investments declined from EUR 1,600 million in the previous year to EUR 351 million in the 2018 financial year. Following the acquisition of the Initial companies and the new Optimar and ROVEMA divisions, both the value and the number of acquisitions in 2017 were significantly higher than in 2018. The recognised investments in the existing business for property, plant and equipment and other assets increased because the Initial companies acquired in the previous year increased the need for investments in 2018.

ASSET STRUCTURE
EUR million



EQUITY AND LIABILITY STRUCTURE
EUR million



Haniel Group
Employees

The employee headcount at the Haniel Group in 2018 was slightly above the previous year's level, increasing by 2 per cent. In total, the Group employed on average 18,824 people.

Headcount at the previous year's level
The average number of employees in the Haniel Group increased slightly in 2018, from 18,481 in the previous year to 18,824. While the headcount at CWS-boco declined, it increased in all other divisions.

BekaertDeslee had an average of 2,876 employees in 2018, following 2,677 employees in the previous year. This increase resulted from the growth in the more personnel-intensive business with ready-made mattress covers and from the hiring of temporary workers to cover capacity peaks.

As part of the integration of Initial's activities into **CWS-boco**, the planned measures to further optimise the division's structures and processes are increasingly taking effect. As a consequence, the number of employees declined from an average of 10,768 employees in the previous year to 10,585 in 2018.

The headcount in the **ELG** division rose slightly from an average of 1,240 in the previous year to 1,343 in 2018 due to the increase in output tonnage in the stainless steel scrap business and an improved capacity utilisation in the USA.

EMPLOYEES
Annual average (headcount)

+2%

Optimar increased capacities in connection with its growth strategy – not only in production but also software development and automation technology. The company had 375 employees when it was acquired at the end of 2017; in 2018, that number rose sharply to 422.

ROVEMA had 649 employees when it was acquired in the fourth quarter of the previous financial year. In 2018, the packaging machinery and equipment manufacturer benefited from consistently high customer demand. In order to meet this demand, the division expanded its capacities and hired new employees. The average number of employees thus rose slightly to 676.

The average number of employees at **TAKKT** increased in 2018 due to the acquisition of Equip4Work, a leading online office furniture and equipment retailer in the United Kingdom, and of Runelandhs, a Swedish direct marketer for business equipment. While the number of employees was 2,566 in the previous year, it amounted to 2,718 in 2018.

Digital transformation places new requirements on Human Resources.

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 pursues a holistic approach to accelerate digitalisation throughout the Group. 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. Appropriate actions will therefore lead to a corresponding increase in the percentage of women in the Haniel Group in the foreseeable future. Nevertheless, qualification remains the decisive criterion for staffing positions. 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 below the Management Board 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 Holding Company[1] has integrated ROVEMA and Optimar, which were acquired at the end of 2017, into the Haniel portfolio. In addition, the exit from the METRO investment was initiated. The Holding Company also continued its work to systematically implement the digital transformation strategy. The rating agency Moody's recognised the changes to the portfolio in April 2018 by issuing an investment-grade rating.

Integration of ROVEMA and Optimar into the Haniel Group

As a family-equity company, Haniel takes an active role in shaping its equity investments and expanding its portfolio by adding rapidly growing, future-facing companies. The objective is to further significantly reduce cluster risks and dependencies on individual sectors.

Haniel establishes flexible portfolio management with new management and governance models for ROVEMA and Optimar.

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. In 2018, Haniel established a custom-fit management and governance model for each company. Part of this model involves placing Haniel representatives and an external chairman on ROVEMA's Supervisory Board and Optimar's Board of Directors. They lead the supervisory boards as experienced industry experts and support the management teams as sparring partners. They are also responsible for reviewing business development regularly. This sets the foundation for providing optimal support for the further growth of Optimar and ROVEMA – as with all other divisions – in keeping with the family-equity company's flexible approach to portfolio management.

Sale of Metro shares

In the spring of 2018, Haniel decided to begin preparing to exit from its investment in the METRO financial investment. After signing the contract with EP Global Commerce GmbH ("EPGC"), 7.3 per cent of the issued ordinary shares of METRO AG were sold in a first step. EPGC holds a call option giving it the right to acquire up to 15.2 per cent of the remaining Metro shares from Haniel. METRO now faces new prospects in a challenging market.

Haniel has EUR 1.4 billion available to expand the portfolio.

Portfolio development remains in focus

Following the sale of first tranche of the Metro shares, Haniel had financial resources of EUR 1.4 billion at its disposal at year's end 2018 to acquire additional business activities. 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. Furthermore, 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. Moreover 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.

[1] Incl. the Holding Company's 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.

Management change initiated at Haniel
On 18 December 2018, Haniel reported that the Chairman of the Board of Management of Franz Haniel & Cie. GmbH, Stephan Gemkow, intends to leave the Company on 30 June 2019 by mutual agreement with the shareholders. He will be succeeded by Thomas Schmidt, who joined the Management Board of the Haniel Holding Company on 30 January 2017 and is currently a Managing Director of CWS-boco. He will lead the Company in future together with Florian Funck.

Value of portfolio reduced due to financial investments
The value of the investment portfolio is calculated as the sum of the valuations of the divisions, the CECONOMY and METRO financial investments, the financial assets and other assets, less the 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. In particular the sharp decrease in the valuations of the CECONOMY and METRO financial investments in 2018 have significantly reduced the value of Haniel's portfolio. It declined from EUR 5,624 million as at 31 December 2017 to EUR 4,255 million as at 31 December 2018.

Digital transformation is driven forward
Haniel supports the digital transformation of the divisions and is thus pursuing its own objective of acting as a sustainable value developer. Based on the Digital Agendas which are developed and continuously updated by the divisions, the transformation continues step by step.

Haniel's digital unit Schacht One coordinates, supports and accelerates digital transformation. All divisions are pursuing concrete projects that are based on their Digital Agendas. Many of these projects are currently in the pilot phase. To handle this heavy workload, Schacht One has hired more staff and expanded its offices at the Zollverein Coal Mine Industrial Complex. Schacht One's network expanded through participation in major events in the digital and start-up sector and by organising its own large-scale conferences and activities.

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 innovative business models at an early stage. At 31 December 2018, Haniel had committed a total of EUR 42 million for six different funds. The opportunity to network with start-ups through the investment funds can also stimulate internal innovation processes and provide momentum in the continued search for new equity investments. Moreover, the Holding Company continues to support its divisions in making their own investments in 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 was also the focus of the Haniel Leadership Lab, the Group-wide management conference. In addition, the Haniel Holding Company supports Haniel Group employees in extending their external networks in the digital and start-up scenes, for example with organised networking meetings at digital development hotspots. Moreover, the Haniel Academy offers a comprehensive programme of seminars on digitalisation, which is continually being expanded.

Level of debt kept low
The net financial liabilities of the Haniel Holding Company were reduced. Following EUR 1,040 million as at 31 December 2017, they were EUR 549 million as at 31 December 2018. The Haniel Holding Company received financial resources in 2018 from the dividend payments and profit transfers of the divisions, the divisions' repayment of internal loans, as well as from the sale of first tranche of Metro shares to EPGC. A portion of the remaining financial assets was utilised to repay the full outstanding amount of EUR 195 million on a bond that matured in February 2018 with an original principal of EUR 400 million. Furthermore, the Holding Company paid off credit facilities and commercial paper in 2018, and repurchased EUR 40 million of the exchangeable bond linked to ordinary shares of CECONOMY AG. As at 31 December 2018, the financial assets of the Haniel Holding Company were EUR 917 million higher than net financial liabilities.
On this basis, the Haniel Holding Company's net financial position – defined as net financial liabilities minus financial assets – improved to EUR –368 million as at 31 December 2018. Due to these available financial resources and based on the self-imposed limit for net financial liabilities of EUR 1 billion, Haniel thus has EUR 1.4 billion available

to further develop and expand the portfolio. Planned repayments of loans to the divisions will create additional latitude to expand the portfolio in the future. The Haniel Holding Company also has firmly committed long-term lines of credit of EUR 655 million available and is therefore in a comfortable aggregate liquidity situation.

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.

Ratings in investment grade

Haniel voluntarily submits to external rating assessments with the objective of obtaining a stable long-term investment-grade rating. In April 2018, Moody's issued Haniel an investment-grade rating of Baa3. By upgrading this rating, Moody's recognised the good balance in Haniel's portfolio and the low amount of debt at the divisional level. S&P confirmed its investment-grade rating with a BBB- rating. This means Haniel was classified as investment grade by all commissioned rating agencies in 2018. S&P confirmed its rating at the beginning of 2019. Prior to this, Haniel had terminated the assignment to create a rating from S&P.

Responsibility with tradition

The CR commitment of the Haniel Holding Company is based on two pillars. Firstly, Haniel assumes responsibility for portfolio management as a family-equity company, from the investment phase through to divestment, steering the investments along the way: Using a strict investment filter, Haniel assesses prospective acquisition targets for ecological and social criteria – only those business models which currently and prospectively make a positive contribution to sustainability are deemed eligible. Once the company has been successfully acquired and depending on already existing activities, structures and processes are developed to anchor CR into the core business.

Secondly, the Company has taken responsibility as a "corporate citizen" of Duisburg and the region for more than 260 years. A large number of initiatives and projects are supported, primarily at the Group Headquarters. Social commitment revolves around three focal points which are continuously being refined: promoting education, site responsibility and employee commitment.

The Social Impact Lab Duisburg has further advanced its projects in 2018 with Haniel's support, supporting 56 teams as at 31 December 2018. 31 companies have resulted from this incubator, 28 of which are still on the market. In 2018, three of the promoted teams reached the finals in supraregional, national and European competitions: ichó, REC-Mobil and Heimatsucher. The Duisburg Social Impact Lab has seen ichó spread its wings to become a company in which major venture capital funds have shown an interest. There was a realignment at the end of the year: The previous team refounded the start-up incubator at Franz-Haniel-Platz under the name "Impact Factory". The goal is a further professionalisation of the incubator for companies that want to use their ideas to counter pressing social challenges.

The Haniel Foundation is an additional material component of Haniel's social commitment. It already celebrated its 30-year anniversary in 2018. To date, the Haniel Foundation has dedicated EUR 34 million to support approximately 1,250 projects. It is among the top five per cent of private foundations in Germany providing the largest volumes of funding. As an educational foundation, its work is concentrated on educational opportunity and up-and-coming talents. Its work in 2018 was characterised by the further development of the "Education as Opportunity" project, which supports disadvantaged students. The Haniel Foundation also supports passing on the values of the honourable businessman and sustainable entrepreneurship to young management trainees.

You can learn more about Haniel's commitment to sustainability in the CR section starting on page 10.

BekaertDeslee

BekaertDeslee's revenue and earnings trend was marked by the challenging situation in the United States and rising yarn prices in 2018. In addition, currency translation effects also had a negative impact. Adjusted for these effects, the company's 2018 revenue was on par with the level recorded in the previous year. BekaertDeslee has initiated measures to modify its cost structures and pricing. Nevertheless, BekaertDeslee's operating profit fell to EUR 21 million.

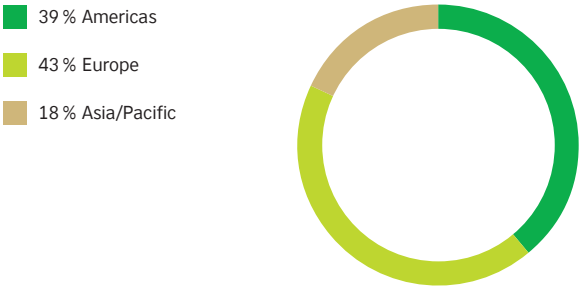
Business trend in America depresses revenue
BekaertDeslee generated EUR 318 million in revenue in 2018, compared with EUR 337 million in the previous year. Organically – i.e., adjusted for acquisitions and currency translation effects – BekaertDeslee's revenue reached the same level as in the previous year, however. While business development in the United States was significantly weaker due to a changing market and less demand from major customers, demand for ready-made mattress covers showed encouraging growth, particularly in Europe. In addition, the division faced price pressure in China due to the competitive environment in the low-cost sector. Moreover, the weaker economic trend in Central and South America also had a negative effect.

Within the product portfolio, the growing demand for ready-made mattress covers continued to have a positive influence on revenue development. Business with

REVENUE
EUR million

−6%

REVENUE
by region



"bed-in-a-box" companies, which mainly comprised online mattress retailers, rose sharply in Europe. Thanks to its know-how, BekaertDeslee is able to satisfy their special requirements for product features, such as the need for mattresses to be wrinkle-free after having been folded and rolled up for shipping. BekaertDeslee will continue to systematically expand its business with products characterised by a greater depth of value added.

Business increased with products featuring a greater depth of value added, such as ready-made mattress covers

Long-term trend toward upmarket materials remains unbroken
BekaertDeslee continues to benefit from long-term megatrends. The market for mattress textiles is characterised by a long-term trend toward the use of 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.

US market environment weighs down operating profit
The production costs for knitted and woven mattress textiles depend significantly on the price of yarns. These prices rose sharply in 2018. Thus far, BekaertDeslee has only had limited success in passing the rising costs of procuring yarns on to customers.

In 2018, BekaertDeslee's operating profit fell year on year from EUR 38 million to EUR 21 million. This was due to the development of yarn prices as well as a declining business in the USA in a difficult market environment. Growth in business with ready-made mattress covers and the realised efficiency gains were not sufficient to offset this development.

Measures taken to increase earnings
In light of the earnings situation in the United States, the division has implemented countermeasures and initiated a programme aimed at optimising cost structures. Besides that, BekaertDeslee continued to systematically implement its Lean Manufacturing Initiative, which is also designed to standardise, streamline and improve production processes.

Its new innovation centre in Belgium offers ideal conditions for product development.

Expansion of market position is a strategic objective
BekaertDeslee is a growth-oriented company that aims to expand its global market position through both organic growth and acquisitions. The strategy's focus rests on further exploiting potential in its core business, expanding its market share of ready-made mattress covers and tapping into complementary product fields. In addition, BekaertDeslee continues to systematically align its design approach and product portfolio with customer needs. This will be assisted by an improved sales organisation and management. In this way, BekaertDeslee is adapting to changing market requirements.

OPERATING PROFIT
EUR million

−45%

EMPLOYEES
Annual average (headcount)

+7%

Focus on innovation and digitalisation
At its headquarters in Waregem, Belgium, BekaertDeslee has established an innovation centre that will bundle the development and design departments and other central company functions under one roof. In this way, the company has created even better conditions for innovation. In 2018, BekaertDeslee worked on several projects relating to its Digital Agenda with the Haniel Group's digital workbench, Schacht One. BekaertDeslee is working hard on the market launch of SKIN+, one of its most innovative products. SKIN+ is an innovative, probiotic technology that is washed into textiles and naturally regenerates the skin. The division's future plans not only include the exploration of new business models but also to develop potential for digitalising production processes and customer communications. The "BD Cloud", an online platform and app which enables customers to configure mattresses on their own, was further refined thus improving product visualisation.

CWS-boco

The CWS-boco division rapidly reached important milestones in connection with the integration of Initial's activities acquired from Rentokil Initial in 2017. The takeover of these activities increased the company's revenue to EUR 1,141 million, passing EUR 1 billion for the first time. But CWS-boco also realised a positive increase in revenue organically. Operating profit increased significantly to EUR 140 million.

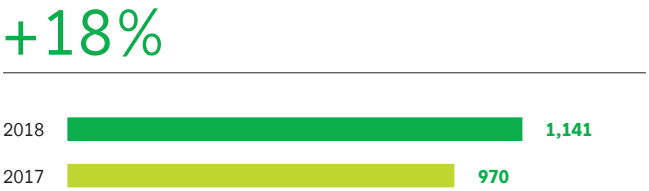
REVENUE
by division

Integration proceeds apace

CWS-boco successfully continued its efforts to integrate Initial's activities, which had been acquired from Rentokil Initial in 2017. CWS-boco has developed and set up the new organisation by combining and restructuring activities and improving the efficiency of procedures. Since forming the joint venture, CWS-boco has not only reached first milestones in administration, procurement and IT, it has also made progress in optimising its network of locations and services.

In addition, with the creation of a new divisional structure in 2018 across all countries, the company has established two divisions: Hygiene Solutions, which offers solutions for washroom hygiene products and dust control mats; and Textile Solutions, which covers the workwear, clean-room, health, and health care products service portfolio. The new structure makes it possible to address customer needs more individually and more efficiently across Europe.

REVENUE
EUR million



Expansion of existing service offerings and pilot-testing of new ones

CWS-boco seizes growth opportunities by expanding existing business segments as well as tapping into new ones. For example, the company is placing greater focus on being a solutions provider for washrooms and further developing the services on offer for all facets of operating high-quality public washrooms. Under this concept, users in the public space are offered holistic hygiene solutions for washrooms with flexible fee models. Digitalisation and society's increasing awareness of hygiene are key trends driving CWS-boco, for instance with its modular offering for holistic washroom solutions. In 2018 CWS-boco developed the Hygiene Experience Lab: a washroom of the future in which innovative services and products are tested from the user's perspective. An example is "CWS SmixIN", an innovative water faucet used in the lab, which mixes water, air and soap simultaneously. At the same time, washrooms are being digitalised: key parameters such as soap filling levels and the number of hands washed are tracked.

Successful integration of Initial's activities: first milestones achieved

Moreover, CWS-boco constantly reviews additional possibilities for expanding the service offering to include additional services. With CWS Fire Safety, the division is now also testing full service offerings in preventative fire safety.

Digitalisation accelerated
CWS-boco founded its own digital unit in Berlin in 2018. From the location of "Jonny Fresh", a Berlin start-up that CWS-boco has supported since 2018 as strategic investor, the portfolio company is now advancing the digital transformation of business models. Thanks to its well networked and customised logistics, Jonny Fresh has established itself as a B2C platform that picks up and washes private laundry and textiles. Jonny Fresh's expertise lies in systems architecture and the software solution it uses. By making this investment, CWS-boco obtains in particular insight into a purely online business model with established customer interactions via an app. This offers CWS-boco prospects for more flexible logistics processes, among other things. The investment in the start-up "Fit Analytics", a sizing and data platform, was also among the first initiatives of the digital strategy. This provided CWS-boco with momentum for offering individualised workwear to customers more quickly and more efficiently via self-service.

New digital unit in Berlin

CWS-boco is working intensively to digitalise its products and services to meet customer needs. The company continued its work on various projects based on its Digital Agenda with Haniel's Schacht One digital unit. New solutions with flexible contract terms were tested using the "matten.pro" online offering. For example, matten.pro offers the ability to obtain dust control mats in a month-to-month rental service. The contracts can be entered into directly online.

CWS-boco has initiated several projects to renew its IT systems and strengthen the technical foundations for its digital transformation. With respect to the ongoing introduction of the ERP system, the company's Hygiene Solutions division has introduced the new ERP system in Switzerland. For 2019, the plan is to introduce this system in additional countries covered by the Hygiene Solutions division, including Germany, and also to launch the roll-out of a new ERP system in the Textile Solutions division.

OPERATING PROFIT
EUR million

>+100%

EMPLOYEES
Annual average (headcount)

–2%

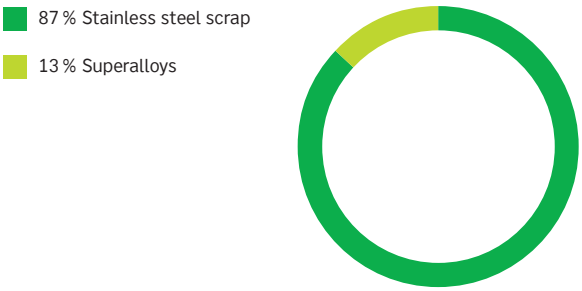
Revenue increased significantly; over EUR 1 billion for the first time
At EUR 1,141 million, CWS-boco's revenue in 2018 was up by 18 per cent year on year. The encouraging increase was due mainly to the first-time inclusion of the Initial companies for the full year. Yet revenue also grew organically – i.e., adjusted for acquisitions and currency translation effects – by 3 per cent as compared to the same period of the previous year. CWS-boco increased its revenue in both divisions. The Hygiene Solutions division generated growth of 2 per cent and the Textile Solutions division increased its revenue by 4 per cent as compared to the same period of the previous year. The division benefited from favourable macroeconomic trends – particularly in Germany – as well as from positive effects from the specialised sales and distribution structure, the accompanying training programme and improved customer service.

Operating profit shows significant growth
Operating profit increased from EUR 68 million in the previous year to EUR 140 million. This was due to the initial full-year inclusion of the Initial companies, as well as organic growth and the first positive effects from efficiency measures in connection with the integration. Furthermore, lower one-off integration expenses in 2018 than in the previous year also had an effect.

ELG

ELG's market environment became increasingly difficult in 2018. While ELG's revenue rose by 7 per cent due to price increases, the operating profit of EUR 33 million was significantly below the 2017 level due to lower margins caused by changes in market conditions in the trade business with stainless steel scrap as well as due to one-off effects.

REVENUE
by division



Market environment increasingly difficult
Global production of stainless steel in 2018 was roughly 6 per cent higher than in the same period of the previous year. On the one hand, growth was fuelled by new product capacities for stainless steel in Indonesia. On the other hand, production was expanded in China and other Asian growth markets such as India. Production in Europe saw only marginal gains, particularly because the introduction of tariffs on steel and stainless steel imports in the USA resulted in increased import pressure in the EU. In the United States, these trade policies have thus far contributed to a more positive market environment in the stainless steel segment. However, both Europe and the USA saw a surprisingly significant decline in the demand for commodities by major stainless steel producers at year's end.

Growing uncertainties dampen positive trend
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 commodities. The price for nickel climbed briefly to over USD 15,700 per tonne in June. However, the trend was continually negative during the course of the year due to uncertainties with respect to weaker general economic conditions, the ongoing trade dispute between the USA and China, as well as possible effects on demand for commodities. For the year as a whole, the nickel price was USD 13,114 per tonne, which was 26 per cent above the previous year's low level.

REVENUE
EUR million

+7%

While the average price for iron was at a significantly higher level as compared to the previous year, the price for chrome in stainless steel scrap was lower.

Challenging market climate despite higher prices for commodities

Positive development in the superalloys business
ELG Utica Alloys, ELG's division specialising in superalloys, also benefited from an improved market environment in 2018 as far as prices and quantities were concerned. Output tonnage increased in particular in the recycling business, which is largely independent of prices for commodities. The demand – primarily for titanium – from the aviation industry continued at a high level. The trade business also received a positive stimulus from the increase in prices for commodities relevant for ELG Utica Alloys during the course of the year.

Revenue increased significantly, drag on operating profit

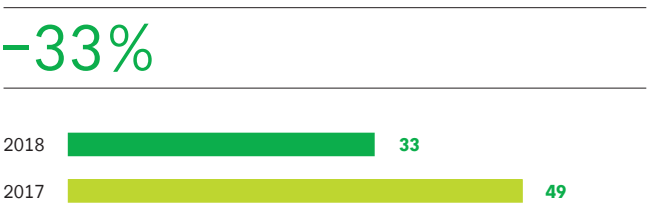
The generally more difficult market environment slowed business development at ELG. While ELG's output tonnage of stainless steel scrap was almost at the previous year's level, the output tonnage of superalloy scraps at ELG Utica Alloys increased by 4 per cent. The higher average price for nickel had a positive effect on revenue: it increased by 7 per cent to EUR 1,811 million. The division generated an operating profit of EUR 33 million in a difficult market environment. The decline was attributable primarily to negative one-off effects in the current year, while in the previous year one-off income had supported earnings development. In addition, lower margins had a negative impact on stainless steel scrap trading, as did negative measurement effects on inventory items at year's end.

ELG Carbon Fibre's joint venture with Mitsubishi develops markets in Asia and North America.

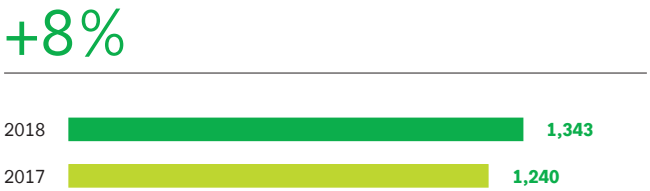
Partnerships strengthen business

In November 2018, ELG Carbon Fibre and the Mitsubishi Corporation agreed to form a joint venture: subject to approval by the supervisory authorities, Mitsubishi UK will acquire 25 per cent of shares in ELG Carbon Fibre. The joint venture will provide ELG Carbon Fibre with access to potential customer groups and will enable it to further accelerate the continued development of its product portfolio. Moreover, ELG Carbon Fibre will receive financial resources to further expand while its access to key markets in Asia and North America will be strengthened.

OPERATING PROFIT
EUR million



EMPLOYEES
Annual average (headcount)



In September 2018, ELG strengthened its market position in the stainless steel scrap segment on the Iberian Peninsula by establishing a joint venture: the new company was established between ELG, which holds 30 per cent of the shares, and Iberinox, which has a 70 per cent interest. ELG is striving for a complete takeover here. With four locations in Spain, Iberinox has an attractive market presence for the recycling of stainless steel scrap in Spain.

ELG innovation unit bundles resources

Since the beginning of 2018, the EIE Services innovation unit has bundled all initiatives and projects relating to innovation and digitalisation. The company is focusing not only on optimisation options along the value chain but also on business model innovations in the secondary commodities segment. Solutions such as the "MyELG" app, which improves the interaction with stainless steel scrap suppliers, are already in use internationally. The most recent digital projects include the online scrap marketplace called "Remetal" and "MyELGdOPS", a track&trace system for recycling yards. This app renders the process and processing status for the material transparent. External momentum comes from close integration with the start-up scene.

Optimar

Optimar, one of the world's leading companies for automated fish handling systems, has been part of the Haniel Group since the end of December 2017. The Norwegian company develops, manufactures and installs onboard, onshore and aquaculture solutions. In 2018, Optimar recorded revenue of EUR 123 million.

International positioning
The company – a manufacturer of high-quality automated fish handling systems – installs machinery and equipment as turnkey projects, both on a stand-alone basis and in connection with third-party components. Optimar builds these systems for use in a wide variety of environments, and develops innovative solutions for any set of requirements, whether they be used on ships (Onboard), on land (Onshore) or in aquacultures (Aqua Culture). Moreover, as a full service provider Optimar offers complementary products and services – from remote diagnostics and online service through to spare parts, maintenance and retrofitting. The Norwegian company operates other production locations in the United States, Spain and Romania. Optimar delivers to international customers in more than 30 countries.

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.

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 the associated desire for high-quality foods, as well as ongoing automation within industrial value chains are trends which will help to propel the company to sustainable, dynamic growth. In addition, the need to modernise fishing fleets offers Optimar further growth potential.

REVENUE
EUR million

An eye on growth: Board of Directors strengthened with industry experts

Customers benefit from Optimar solutions
Optimar offers its customers products and solutions along the entire primary value chain as an end-to-end solution: from transport to handling through to palletising. These products and solutions are supported by supplementary project and IT solutions used to monitor production processes. 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.

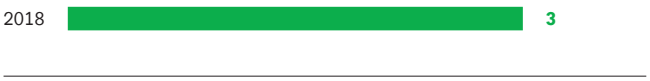
In 2018, Optimar introduced an innovation to its OptiLice product. OptiLice eliminates sea lice infestations among salmon and trout – without using chemicals or pharmaceuticals. The process works solely on the basis of tempered water in combination with rinsing the fish – this is progress for careful fish farming, for the environment and for end consumers.

Digital cockpit solution for equipment maintenance
As part of the digital transformation of its business, Optimar develops 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. This helps to optimise operation times. The corresponding Optimar cockpit solution "Commander" was launched in 2018. Furthermore, 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.

Tailored governance model supports growth
Optimar is pursuing a clear growth strategy which aims to generate both organic and acquisition-driven growth. To that end, a tailored management and governance model has been developed for the company. The aim is to provide the company with the best-possible support in integrating into the Haniel Group as well as achieving its targets for strong growth. The Board of Directors is made up of Haniel representatives, employee representatives and industry experts, and is led by an external Active Chairman.

Sound revenue trend
In 2018, Optimar generated revenue of EUR 123 million. The business trend in the onshore and onboard segments was positive. The share of more high-margin products in the aquacultures segment was below expectations, however. Operating profit suffered because of this and due to the increased costs of completing orders. It amounted to EUR 3 million in 2018.

OPERATING PROFIT
EUR million



EMPLOYEES
Annual average (headcount)

+13%

ROVEMA

ROVEMA, a globally active premium manufacturer of packaging machines and equipment, has been a part of the Haniel Group since the end of 2017. The company has a presence in more than 50 countries and is continuing to push forward with its positive development. Its revenue and earnings figures are encouraging.

End-to-end packaging solutions offering
The premium manufacturer of packaging machines and equipment offers a full range of products: from consulting and project design, through development and construction, and on to installation and acceptance, ROVEMA is in a close dialogue with its customers. ROVEMA expands its expertise on the interaction of products, packaging and the corresponding machines continually. 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. Multi-faceted service offerings round off the product range. ROVEMA is also active in the trading, overhaul and provision of services for all facets of used, high quality packaging machines.

An additional significant part of the business is providing customers around the world with spare parts and new components for machines already installed.

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 is possible and is being pursued.

Megatrends offer long-term support for the business model
The packaging market overall, and the market for vertical packaging solutions specifically, are supported by a number of trends: global consumption of ready-to-use foodstuffs is increasing, emerging markets are increasingly adopting Western consumption patterns. 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.

REVENUE
EUR million

Sustainability as part of the business model
Ecological aspects such as waste prevention and the sparing use of resources play a growing role in the market for packaging. Thanks to its product, packaging and machinery expertise, ROVEMA can work together with the customer to develop pioneering solutions. In 2018, ROVEMA took a clearer position when it comes to sustainability. ROVEMA's sustainability strategy covers the areas of Sustainable Packaging and Supply Chain, Safe Food and Save Energy. Examples from the product portfolio include packaging using recycled films or renewable resources. The reduction of transport volumes and longer sell-by dates for foods show how ROVEMA machinery spares resources and can improve its carbon footprint thanks to sustainable packaging solutions.

Focus on pioneering packaging solutions

Expansion of capacity enables further growth
One objective of ROVEMA's clear growth strategy is to significantly increase revenue over the medium term – organically as well as through acquisitions. ROVEMA laid the cornerstone for a substantial expansion and modernisation of production capacities at the end of 2018 so that the strong growth can be supported optimally and the high demand for ROVEMA packaging machines can be covered. Supplementary space will also allow production processes to be designed more efficiently in future.

Innovation offers growth opportunities
ROVEMA has further growth opportunities in regional expansion as well as the increasing automation and digitalisation in the packaging processes. Furthermore, ROVEMA's position in the value chain and the corresponding application knowledge of all facets of products, packaging and machines give rise to numerous connecting factors to the digital transformation. For example, in the previous year 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 offers concise information to render process parameters immediately available. The new HMI user interfaces were sold more than 200 times in 2018. After receiving the Red Dot Design Award in the previous year, in 2018 the company also won the iF Design Award for the HMI. The quality and service offered by the design and communication of ROVEMA products were thus recognised once again.

Revenue and operating profit encouraging
Thanks to sustained strong demand in the baby food, coffee and confectionery industries, ROVEMA posted revenue of EUR 110 million in 2018. Operating profit was EUR 11 million.

OPERATING PROFIT
EUR million

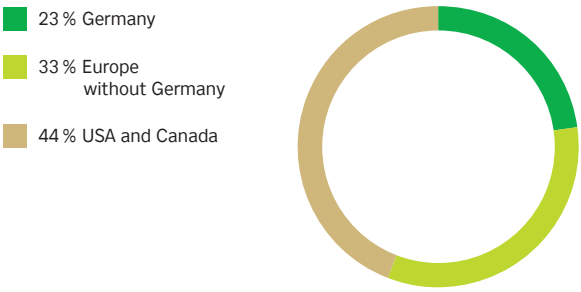
EMPLOYEES
Annual average (headcount)

+4%

TAKKT

TAKKT invested further in digital transformation in 2018, expanded its portfolio, and thus increased revenue by 6 per cent to EUR 1,181 million. The division also grew organically by 3 per cent. A lower gross margin as well as planned higher expenses for implementing the digital agenda had a negative impact on operating profit. It nevertheless reached the previous year's level.

REVENUE
by region



Acquisitions strengthen business
TAKKT established the newport Group in 2018 as a new segment for younger, fast growing business models. These companies are better focused on the needs of smaller corporate customers, who have different demands. At the beginning of the year, TAKKT also acquired Britain's leading online office furniture retailer, Equip4Work, and integrated it into the newport Group.

TAKKT Beteiligungsgesellschaft, the TAKKT investee which was founded in 2016, is also part of the newport Group along with its investments in innovative start-ups. Its objective is to make strategic equity investments in strong growth companies that specialise in the B2B direct marketing segment or in services along the value chain of the TAKKT companies. In 2018, the company invested in the start-up odoscope. The technology developed by odoscope renders possible the fully automated sending of personalised and situation-relevant content and tailored product lists to users of online shops within a few milliseconds. The portfolio thus includes seven start-ups. TAKKT Beteiligungsgesellschaft also further expanded its commitment to existing portfolio companies by offering growth financing. Various TAKKT brands are working together with the start-ups.

REVENUE
EUR million

+6%

KAISER+KRAFT strengthened its market position through the acquisition of Runelandhs, the Swedish direct marketer for factory equipment, and thus expanded its position as a leading direct marketer for business and office equipment in Sweden.

British online office furniture retailer Equip4Work and Swedish direct marketer for business equipment Runelandhs acquired

Progress with digital transformation
TAKKT is further advancing the digital transformation with Heiko Hegwein, the member of the Management Board responsible for the newport Group and the digital transformation. The digital transformation covers three key activities: digitalisation of the entire value chain, more flexible corporate structures and innovative business models. TAKKT has defined more than 100 measures across all companies. Aside from restructuring the organisation with the new division newport and investing in start-ups via the TAKKT Beteiligungsgesellschaft, the focus lies on investments in technologies and employees. Among other things, TAKKT modernised its office environment and established new, interdisciplinary working groups for more customer-centric work. The goal is to influence communication and collaboration positively and align them with the changed requirements of digitalisation overall.

For the first time, more than half of incoming orders were attributable to e-commerce in 2018.

TAKKT drives digitalisation of business models forward.

Encouraging revenue increase

TAKKT increased revenue by 6 per cent to EUR 1,181 million. The acquisition of Equip4Work and Runelandhs in 2018 as well as Mydisplays in 2017 had a positive impact. By contrast, negative currency translation effects, in particular from a weaker USD, were a drag on growth. Organic revenue, i.e., revenue adjusted for currency translation and acquisition effects, increased by 3 per cent compared to the previous year.

TAKKT EUROPE recorded organic revenue growth of 4 per cent. Growth rates in virtually every region were encouraging. Ratioform, the provider of packaging solutions, posted significantly stronger organic growth than KAISER+KRAFT, which is specialised in operating, warehouse and office equipment, and the newport Group, which bundles the strong growth, web-focused business models and TAKKT Beteiligungsgesellschaft under one roof.

The revenue trend at TAKKT AMERICA improved during the course of the year. Organic revenue grew by 3 per cent. The development of the individual divisions was mixed. The NBF Group, the office furniture distributor, posted the highest growth rate, while Displays2Go, which specialises in display products such as ad banners, trade fair booths and individually printed displays, as well as the Central Group, whose focus is on restaurant equipment, also

OPERATING PROFIT
EUR million

−1%

EMPLOYEES
Annual average (headcount)

+6%

generated strong organic revenue increases compared to the previous year period. Hubert, which specialises in the sales of items for sales promotion as well as commodities and equipment for the restaurant sector, posted further revenue losses compared to 2017. The conclusion of a master agreement with a key account at more favourable terms for the customer contributed to the loss. Besides that, a test offer of free delivery, whereas the customer had previously been charged freight separately, also weighed down earnings. This test was discontinued. Hubert's European activities were ceased in the second half of 2018. Furthermore, TAKKT has decided to realign Hubert's US business, which will include a focus on more attractive customer groups.

Freight and costs for digital transformation weigh down operating profit

While TAKKT's gross profit margin decreased year on year despite sales-driven increases in absolute gross profit, TAKKT's operating profit amounted to EUR 133 million in 2018 and was thus on par with the previous year's level. About half of the decline in the gross margin is attributable to the effect from the acquisitions, which generate a lower average gross margin than the Group due to the product lines. In addition, higher freight costs as well as a new master agreement with a key account of the Hubert Group had negative effects on the gross margin. TAKKT's operating profit was impacted by several factors: negative currency translation effects represented one such influence. The acquisitions provided additional contributions and a further positive effect resulted from a real estate transaction in the USA. The positive business development of Mydisplays in 2018 resulted in an expense that was part of the purchase price structure. Moreover, expenses for the Digital Agenda were up year on year. Thanks to successful income and cost management measures, the operating profit was nevertheless held at the previous year's level.

Financial investment CECONOMY

The earnings contribution for Haniel from the CECONOMY financial investment in 2018 came in significantly negative at EUR –707 million. This was due primarily to impairment losses on the equity interest that were recognised after an impairment test following the decline in the quoted share price. Decreased contributions to earnings from CECONOMY were also a contributing factor.

CECONOMY in a year of transformation
CECONOMY developed a revised strategy for transforming its business in 2018. The central levers in the strategy are the accelerated expansion of multi-channel and service offers as well as the reduction of the cost basis in order to free up resources for investments in IT and logistics. Furthermore, the organisation shall be simplified and centralised and CECONOMY intends to focus more clearly on operating projects that are critical to success. The introduction of a central system for planning and managing inventories is also planned.

In June 2018, CECONOMY acquired 15 per cent of M.video, an exchange-listed leading Russian dealer in consumer electronics, from Safmar. In exchange, the company turned over the loss-making Russian MediaMarkt business to the M.video majority shareholder. CECONOMY also increased its share capital in 2018 by 10 per cent, with the entire block of shares being sold to freenet AG, the digital lifestyle provider. As a result of this transaction, Haniel's ownership interest declined to 22.71 per cent of voting rights of CECONOMY AG. In September 2018, CECONOMY resolved to sell the majority of its shares in METRO AG, 9 per cent, to EP Global Commerce (EPGC). After the closing of the transaction, CECONOMY intends to retain a 1 per cent interest in METRO. By the end of 2018, a 3.6 per cent Metro investment was conveyed to EPGC in a first step.

CECONOMY in a challenging market environment
At EUR 21,536 million, revenue at CECONOMY in 2018 was organically, i.e., adjusted for currency translation effects and on a like-for-like basis, at the previous year's level. While Turkey, Spain and Italy in particular made positive contributions to revenue growth, the development of the over-the-counter business was significantly weaker, above all in Germany, due to the hot summer. Next to positive stimuli from successful special sales days surrounding Black Friday in November, as well as the World Cup, online revenue of the MediaMarkt and Saturn sales brands recorded particularly positive development, as did the service business.

EBIT rose slightly year on year to EUR 400 million. Besides to the absence of the previous year's one-off effects, positive impacts here included reduced distribution costs, the restructuring measures initiated in the previous year, the effects from the measurement of goods and liabilities, as well as a legal change to the accounting for gift vouchers. The repositioning in Italy also contributed to the increase in EBIT. EBIT was weighed down by the declining business trend in Germany and Switzerland as well as by project costs incurred by the Ceconomy holding company.

A write-down on CECONOMY's 10 per cent equity interest in METRO AG represented a considerable charge to net financial income. The sale of the Russian MediaMarkt activities to the Safmar Group in 2018 resulted in an additional significant negative effect on earnings. The disposal gain from the sale of the Metro shares to EPGC counteracted that effect. As a result of this, CECONOMY posted a significantly negative profit after taxes, which contributed pro rata to the Haniel investment result.

Impairments reduce earnings contribution for Haniel
Not least the decline in the quoted share price of Ceconomy shares caused Haniel to test the CECONOMY financial investment for impairment. This resulted in the recognition of an impairment loss of EUR 654 million for the CECONOMY financial investment. In addition to this impairment loss, the pro-rata earnings contribution of CECONOMY AG flowed into in the Haniel investment result. Overall, Haniel's investment result from the CECONOMY financial investment amounted to EUR –707 million, following EUR 80 million in the previous year. In addition to the investment result from the CECONOMY financial investment, this previous year's amount still included the investment result from the METRO financial investment because the demerger of the METRO GROUP into the independent CECONOMY and METRO companies was only completed during the course of 2017.

Financial investment METRO

The earnings contribution for Haniel from the METRO financial investment in 2018 came in significantly negative at EUR –321 million. This was due in particular to a write-down on the Metro investment that was recognised following an impairment test as a result of the decline in the quoted share price. In the spring of 2018, Haniel decided to initiate the sale of the Metro shares.

METRO initiates sale of Real
In 2018, METRO further advanced its strategic initiatives. METRO has continually enhanced the delivery business in the Wholesale segment due to the changing buying habits of customers in recent years, including through acquisitions.

One further objective of METRO's strategy is to support its customers in further developing their business – including in the area of digitalisation. The HoReCa Digital business unit specialises in developing digitally-oriented solutions. This also includes the METRO Accelerator Programmes for Hospitality and Retail to promote innovative digital solutions for independent entrepreneurs in the hotel, restaurant, catering and retail sector. METRO has offered the support programme for business founders for nearly four years now.

In September 2018, METRO decided to focus on the wholesale business going forward and to pull back from the retail grocery trade. METRO therefore launched a structured sale process for Real and all related business activities and classified the Real activities as discontinued operations.

Metro revenue at previous year's level, EBIT increased
In 2018, METRO generated revenue of EUR 29,427 million in continuing operations, primarily through METRO Wholesale, which was thus slightly below the previous year's level. Organic growth, i.e., adjusted for currency translation effects and on a like-for-like basis, reached 2 per cent. At METRO Wholesale, business in eastern Europe and Asia posted positive growth rates. The delivery business developed positively in almost all regions. The declining trend in Russia had a negative effect.

EBIT at METRO was EUR 794 million, slightly above the previous year's level. This is primarily attributable to the organic increases in the Wholesale segment in western Europe and Asia, while business development in Russia and lower income from property sales had a negative impact on EBIT.

While METRO's net financial income and net tax income improved year on year, the profit or loss from discontinued operations deteriorated. This also included an impairment loss on the Real activities. As a result, METRO's profit after taxes declined, which contributed pro rata to the Haniel investment result.

Impairments reduce earnings contribution for Haniel
Not least the decline in the quoted share price of Metro shares caused Haniel to test the METRO financial investment for impairment. The review resulted in the recognition of an impairment loss of EUR 443 million.

In addition to this impairment loss, both the pro-rata earnings contribution of the METRO AG financial investment from 2018, as well as the net disposal gain from the sale of 7.3 per cent of the shares in METRO AG to the EP Global Commerce GmbH ("EPGC"), flowed into the Haniel investment result. In the spring of 2018, Haniel decided to initiate its exit from the METRO financial investment. After signing the contract with EPGC, 7.3 per cent of the issued ordinary shares of METRO AG were sold in a first step. EPGC holds a call option giving it the right to acquire up to 15.2 per cent of the remaining Metro shares from Haniel.

Overall, Haniel's investment result from the METRO financial investment amounted to EUR –321 million, following EUR 80 million in the previous year. The previous year's amount still included the investment result from the CECONOMY financial investment because the demerger of the METRO GROUP into the independent CECONOMY and METRO companies was only completed during the course of 2017.

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:

Optimisation of 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 achieve this, the Haniel Holding Company has anchored Corporate Responsibility into all phases of value creation: Haniel also assesses acquisition and investment opportunities from a sustainability perspective and issues guidelines to the divisions. Based on those guidelines, the divisions develop their own initiatives which take into account the special considerations relating to

their business and which bolster 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 provider of professional hygiene and workwear solutions, 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: blockchain. The availability of large quantities of data opens opportunities to redesign value-added chains and improve the offering to customers. The development and growing range of solutions based on artificial intelligence open up further avenues of exploration in this area. Examples include IT-based applications which improve communication with target groups and marketing, and can also help to make processes more efficient. Each of the Haniel divisions have developed a Digital Agenda that will enable them to utilise the opportunities presented by digitalisation even better. This also includes aspects for a cultural and organisational realignment which results from the digital transformation. Furthermore, with Schacht One Haniel has established its own company to act as a platform for implementing digital projects and a technological centre of excellence and knowledge hub. The Company's investments in digitally-oriented venture capital funds also give it the ability to learn from developments on the start-up scene and participate in the success of newly created companies.

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 and tapping into new and innovative fields of business. CECONOMY can use this as a basis for creating true added value for the customer. Services play an increasingly important role here, for example, repairs or customer support with smart home solutions. 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. Furthermore, new market opportunities arise through the use of resource-sparing and compostable materials. Optimar will have 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 (Risk Management Committee). Next 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 (KPIs) 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 126 in the Haniel annual report 2018.

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.

Besides 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.

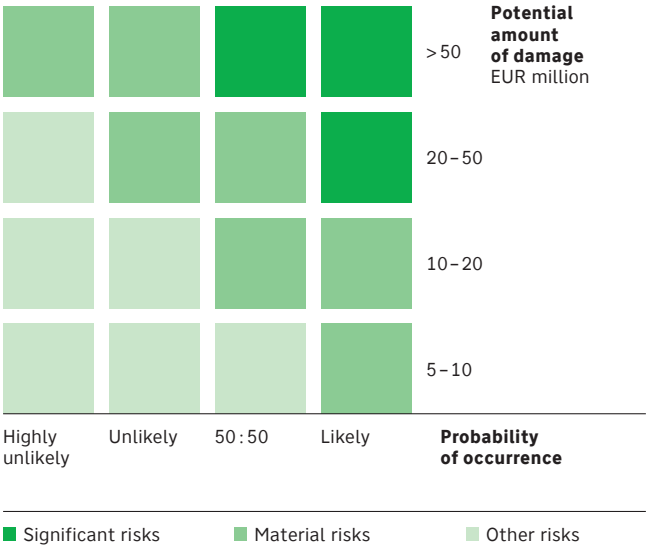
The effectiveness of the risk management system is monitored regularly and improvements are introduced where necessary.

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 2018, 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, which are held as financial investments. 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. Given the size of the companies, the Haniel Group classifies this risk as significant for both financial investments. 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. Furthermore, 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 further. 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. Next 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. Furthermore, the ELG division is further expanding the business with superalloys at ELG Utica Alloys, whose recycling business is less dependent on prices for commodities. Nevertheless, fluctuations in prices for commodities 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 128 in the Haniel annual report 2018. 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 127 in the Haniel annual report 2018. 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. Moreover, 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.

When investing financial resources, there is generally the risk that one counterparty will become insolvent, thus giving rise to the risk of default on receivables. In order to counter that risk, Haniel distributes these investments across a large number of contractual partners and has set corresponding limits depending on the partners' creditworthiness. This is documented in a set of guidelines for investing financial resources, and is subject to regular monitoring.

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 Haniel Group's risk situation has remained largely stable as compared to the previous year. Only the risk from the investment in CECONOMY is now classified as a significant risk due to the challenges facing the company's business model; in the previous year, CECONOMY was classified as a material risk. However, 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. Moreover, 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 believes that the divisions will generally report slight organic revenue growth in financial year 2019. Due to lower prices for the relevant commodities, only ELG is expected to have significantly lower revenue. Overall, Haniel expects organic consolidated revenue growth to be at least on par with that of the previous year. Haniel forecasts a tangible increase in operating profit, which will be fuelled by all divisions. Moreover, it is expected that the investment result from the financial investments in CECONOMY and METRO will be up significantly year on year. Accordingly, profit before taxes is also expected to be significantly higher.

Macroeconomic environment marked by increasing risks

The Organisation for Economic Cooperation and Development (OECD) expects the global economy to experience muted year-on-year growth at 3.3 per cent in 2019. A slower pace of growth is expected for industrialised nations as well as for emerging and developing economies. These predictions are based on the assumption that there is no further rise in protectionism. Further risks include the uncertainty surrounding Brexit, worries plaguing the Italian budget and banks, and continued uncertainty with respect to the geopolitical situation in other regions. In addition, the turnaround in interest rate policy means that exchange rate fluctuations and massive corrections on the financial markets cannot be ruled out.

GROWTH FORECAST WORLD AND BY REGIONS
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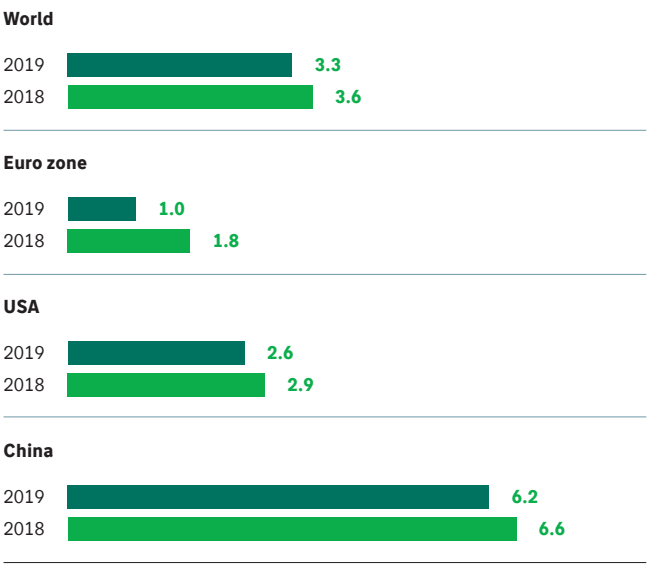

Source: OECD, Interim Economic Outlook, March 2019

Nevertheless, according to the OECD 2019, the euro zone is still on a path to moderate growth at 1.0 per cent. The slightly positive expectations rest on the high level of employment and robust private consumer sentiment. Brisk construction activity and more expansive fiscal policies are providing positive momentum, while political uncertainty, weaker foreign demand and lower confidence is likely to weigh down on investments according to the OECD.

The OECD expects the United States to post lower growth at 2.6 per cent, which will also be buoyed by the domestic economy in 2019. According to the OECD, higher tariffs have also begun to lift costs incurred by companies and the prices they charge, and growth in corporate investment and exports has weakened. According to the OECD, however, a positive economic trend requires that there be no disruptions caused by further escalation of trade conflicts between the United States and other countries and regions.

Trend towards further key rate hikes

In light of the fact that the US economy remains strong, the Federal Reserve may raise its key rates again in 2019. On 7 March 2019, the European Central Bank confirmed that it would leave key interest rates in the euro zone unchanged at low levels for as long as necessary at least until the end of 2019. Absent any external effects, such as the escalation of the risks outlined above, the interest rate differences between the United States and the euro zone may therefore continue to widen. Due to global cash flows, the worldwide trend towards higher long-term rates is likely to continue in 2019.

Muted development of prices for relevant commodities
Over the course of 2019, a further deficit is expected in the balance of supply and demand for the commodities of relevance to the ELG division's stainless steel market segment, particularly with respect to the most important price driver, nickel. However, it is currently expected that the supply side will show stronger development than in the previous years – which is expected to moderate the price trend. In this context, average stainless steel prices are likely to be down overall.

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.

Significant increases in profits expected
Haniel's Management Board looks confidently to 2019, although it is conscious of the economic uncertainties outlined above. However, the previously mentioned risks could give rise to deviations from the outlined general economic conditions and thus to revenue and earnings forecasts.

Overall, Haniel's Management Board expects the divisions – with the exception of ELG – to record slight organic growth in financial year 2019; i.e., growth that is adjusted for acquisitions and currency translation effects. Assuming lower prices for the relevant commodities, only ELG is expected to have significantly lower revenue. Overall, Haniel's Management Board expects the Haniel Group to report organic revenue at least at the same level as that in the previous year. By contrast, operating profit is expected to rise significantly, buoyed by organic growth at the divisions. In addition, CWS-boco will continue to benefit from the positive effects from the successful integration of Initial's companies and from efficiency enhancement measures. Furthermore, non-recurring expenses are expected to be lower than in the previous year.

The result from financing activities is expected to be considerably poorer than in 2018 because a gain had been generated this year on the exchangeable bond linked to CECONOMY and it is not expected to repeat in 2019. Following the significant impairment losses on the CECONOMY and METRO financial investments in 2018, it is assumed that the two companies will once again make a positive contribution to the investment result in 2019.

Overall, Haniel's Management Board expects profit before and after taxes to increase significantly. As a consequence, the value-oriented KPIs: return on capital employed (ROCE) and Haniel value added (HVA) will also be up sharply year on year, as will be the case for Haniel cash flow, which is expected to benefit from the positive earnings trend.

For the existing business, i.e., excluding business combinations, Haniel's Management Board projects that capital expenditure for property, plant and equipment and intangible assets will be well above the previous year's level. This was due primarily to the first-time application of the new IFRS standard for lease accounting. Besides replacement investments and investments in expanded capacities, primarily for the further modernisation of IT systems in various divisions, Haniel is investing in the continued digitalisation of the business models. Furthermore, 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.

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

Annual financial statements

Franz Haniel & Cie. GmbH
Statement of financial position

ASSETS

EUR million	Notes	31 Dec. 2018	31 Dec. 2017
Fixed assets	1		
Intangible assets		0.1	0.1
Property, plant and equipment		23.3	24.3
Financial assets		2,579.7	2,743.1
		2,603.1	**2,767.5**
Current assets			
Accounts receivable and other assets			
Trade receivables		0.3	0.3
Receivables from affiliated companies	2	407.3	1,368.6
Other assets	3	17.7	18.3
Other securities	4	0.0	1.2
Cash in hand, bank balances		0.0	0.1
		425.3	**1,388.5**
Prepaid expenses	5	**0.2**	**0.1**
		3,028.6	**4,156.1**

EQUITY AND LIABILITIES

EUR million	Note	31 Dec. 2018	31 Dec. 2017
Equity	6		
Subscribed capital		1,000.0	1,000.0
Par value of treasury shares		–5.4	–4.3
Issued capital		994.6	995.7
Retained earnings			
Other retained earnings		1,590.1	2,193.8
Reserves provided for by the articles of association (Welker Funds)		0.5	0.5
Retained profit		124.0	365.5
		2,709.2	**3,555.5**
Provisions	7	**135.0**	**126.5**
Subordinated liabilities	8	**179.8**	**194.4**
Liabilities	9		
Bonds, commercial paper and other securitised debt		0.0	265.7
Trade payables		0.7	0.9
Other liabilities		3.9	13.1
		4.6	**279.7**
		3,028.6	**4,156.1**

Franz Haniel & Cie. GmbH
Income statement

FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

EUR million	Note	2018	2017
Revenue	11	6.1	5.5
Other operating income	12	6.8	4.9
Cost of materials	13	1.2	1.1
Personnel expenses	14	42.0	35.0
Depreciation and amortisation		2.1	2.6
Other operating expenses	15	14.2	17.5
		–46.6	**–45.8**
Net investment result	16	–724.6	178.5
Other net financial income	17	–10.7	–11.8
Profit before taxes		**–781.9**	**120.9**
Income tax expenses	18	–0.5	0.4
Profit after taxes / net income / loss for the financial year		**–781.4**	**120.5**
Retained earnings		305.4	245.0
Withdrawal from retained earnings		600.0	0.0
Retained profit		**124.0**	**365.5**

Franz Haniel & Cie. GmbH
Statement of cash flows

FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

EUR million	2018	2017
Profit after taxes / net income/loss for the financial year	**–781.4**	**120.5**
Depreciation/amortisation (+) / write-ups (–) of fixed assets	2.1	2.6
Increase (+) / decrease (–) in provisions	8.5	–0.7
Other non-cash income (–) and expenses (+)	3.2	–6.3
Reclassifications of income (–) / expenses (+) from the disposal of fixed assets and other payments	–0.1	2.3
Increase (–) / decrease (+) in other receivables and other current assets	0.5	14.2
Increase (+) / decrease (–) in trade payables and other current liabilities	–13.0	–13.4
Cash inflow (+) / outflow (–) from operating activities	**–780.2**	**119.2**
Inflows (+) from the disposals of tangible and intangible fixed assets	0.2	0.7
Outflows (–) from additions to tangible and intangible assets	–1.1	–1.6
Increase (–) / decrease (+) in receivables from and liabilities to affiliated companies and investments	1,121.0	453.7
Inflows (+) from the disposals of affiliated companies	3.4	79.5
Outflows (–) from the acquisition of affiliated companies	0.0	–413.1
Inflows (+) from the disposal of long-term financial assets and from the investment of cash funds for short-term cash management	0.0	0.3
Outflows (–) from the addition of long-term financial assets and for the investment of cash funds for short-term cash management	0.0	–1.3
Cash inflow (+) / outflow (–) from investing activities	**1,123.5**	**118.2**
Dividends (–) to shareholders	–60.0	–50.0
Purchase (–) of treasury shares	–4.8	–4.2
Cash proceeds (+) from the issuance of financial liabilities	219.5	225.4
Cash repayments (–) of financial liabilities	–498.1	–433.5
Cash inflow (+) / outflow (–) from financing activities	**–343.4**	**–262.3**
Change in cash and cash equivalents	–0.1	–24.9
Cash and cash equivalents at the beginning of the period	0.1	25.0
Cash and cash equivalents at the end of the period	**0.0**	**0.1**

The cash flow from operating activities includes interest income in the amount of EUR 6.1 million (previous year: EUR 18.3 million), interest payments of EUR 22.5 million (previous year: EUR 45.5 million) as well as dividends and profit transfers from subsidiaries of EUR –724.8 million (previous year: EUR 178.9 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 250 (until 2017: EUR 150). Corresponding fixed assets costing between EUR 250 and EUR 1,000 (until 2017: 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 2018G 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 denominated 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 section 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: 30.7 per cent; previous year: 30.5 per cent).

Notes to the statement of financial position

1 Fixed assets

EUR million	Cost					
	1 Jan. 2018	Additions	Disposals	Reclassifications	Currency adjustments	31 Dec. 2018
Intangible assets						
Purchased concessions and similar rights	2.0	0.1				2.1
Property, plant and equipment						
Land and buildings including buildings on third-party land	73.5					73.5
Other equipment, operating and office equipment	32.3	0.8	–0.8			32.3
Prepayments and assets under construction	0.3	0.2				0.5
	106.1	**1.0**	**–0.8**	**0.0**	**0.0**	**106.3**
Financial assets						
Shares in affiliated companies	2,182.7		–3.4			2,179.3
Loans to affiliated companies	560.0		–160.0			400.0
Investments	0.3					0.3
Other loans	0.1					0.1
	2,743.1	**0.0**	**–163.4**	**0.0**	**0.0**	**2,579.7**
	2,851.2	**1.1**	**–164.2**	**0.0**	**0.0**	**2,688.1**

The disposals of shares in affiliated companies related to the partial reduction of capital reserves at two subsidiaries.

The change in loans to affiliated companies was attributable to the repayment of long-term loans in connection with financing subsidiaries.

Accumulated depreciation, amortisation and write-downs				Carrying amount	
1 Jan. 2018	Annual depreciation and amortisation	Disposals	31 Dec. 2018	31 Dec. 2018	31 Dec. 2017
–1.9	–0.1		–2.0	0.1	0.1
–60.1	–0.5		–60.6	12.9	13.4
–21.7	–1.5	0.8	–22.4	9.9	10.7
0.0			0.0	0.5	0.3
–81.8	**–2.0**	**0.8**	**–83.0**	**23.3**	**24.4**
0.0			0.0	2,179.3	2,182.8
0.0			0.0	400.0	560.0
0.0			0.0	0.3	0.2
0.0			0.0	0.1	0.1
0.0	**0.0**	**0.0**	**0.0**	**2,579.7**	**2,743.1**
–83.7	**–2.1**	**0.8**	**–85.0**	**2,603.1**	**2,767.6**

2 Receivables from affiliated companies

Receivables from affiliated companies amounted to EUR 407.3 million (previous year: EUR 1,368.6 million) and resulted primarily from the financing of subsidiaries. The decrease in the current financial year was due primarily to the absorption of losses from a subsidiary whose results were impacted by impairments of the carrying amounts of investments.

3 Other assets

The other assets item contais tax receivables totalling EUR 17.4 million (previous year: EUR 17.7 million). The remaining term of all other assets is less than one year.

4 Other securities

In the previous year, other securities included portions of the euro bond issued by Franz Haniel & Cie. GmbH which had been repurchased but not delisted as at the reporting date for the previous year. This bond was repaid on schedule during the current financial year.

5 Prepaid expenses

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

6 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 1.1 million (previous year: EUR 1.0 million) were acquired during the financial year.

In accordance with section 253 (6) sentence 2 HGB, EUR 12.4 million (previous year: EUR 10.6 million) is subject to a restriction on distribution; in accordance with section 253 (6) sentence 1, that amount represents a difference in the provisions for pensions.

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

7 Provisions

EUR million	31 Dec. 2018	31 Dec. 2017
Provisions for pensions and similar obligations	90.8	83.2
Provisions for taxes	0.4	0.0
Other provisions	43.8	43.3
	135.0	**126.5**

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. 2018
Discount rate	3.21
Salary trend	2.50
Pension trend	1.75

Pension provisions amounting to EUR 92.1 million (previous year: EUR 84.0 million) were offset against the fair value of the plan assets amounting to EUR 1.3 million as at the reporting date (previous year: EUR 0.8 million). The cost of plan assets amounted to EUR 1.3 million as at the reporting date (previous year: EUR 0.8 million). Small expenses were incurred in the financial year in relation to the plan assets (previous year: small amount of income).

The Heubeck mortality tables were used as a basis for calculating the carrying amount of pension provisions. The Company switched to using the 2018G mortality tables when they were published (previous year: 2005G mortality tables). This switch resulted in a EUR 0.4 million increase in pension provisions as compared to pension provisions calculated using the old mortality tables.

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 2.32 per cent (previous year: 2.80 per cent), this would have resulted in a difference of an additional EUR 12.4 million (previous year: EUR 10.6 million) in the provision.

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

8 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. 2018	31 Dec. 2017
Shareholder loans	120.2	123.7
Loans of the Haniel Foundation	38.3	38.2
Haniel Zerobonds	4.4	6.2
Haniel Performance Bonds	8.2	17.6
Other financial liabilities	8.7	8.7
	179.8	**194.4**

Of the total amount, EUR 60.2 million (previous year: EUR 66.2 million) had a remaining maturity of up to one year and EUR 119.6 million (previous year: EUR 128.2 million) of more than one year. Of that latter amount, EUR 0.7 million (previous year: EUR 12.4 million) had a remaining term of more than five years.

9 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 2018 are presented in the following table:

EUR million	**31 Dec. 2018**				**31 Dec. 2017**			
	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	**0.0**				**265.7**	265.7		(0.0)
Trade payables	**0.7**	0.7			**0.9**	0.9		
Other liabilities	**3.9**	3.2	0.7		**13.1**	12.2	0.9	(0.2)
of which for taxes	**(0.5)**	(0.5)			**(0.6)**	(0.6)		
	4.6	**3.9**	**0.7**		**279.7**	**278.8**	**0.9**	**(0.2)**

The decrease in bonds, commercial paper and other securitised debt includes the scheduled repayment of a bond that matured in February 2018 and the repayment of issued commercial paper.

EUR 1.0 million of other liabilities (previous year: EUR 1.2 million) is secured by payment guarantees. Of that amount, EUR 0.2 million have a remaining term of up to one year and EUR 0.8 million have a remaining term of more than one year. None of them have a remaining term of more than five years.

10 Contingent liabilities and other financial commitments

EUR million	31 Dec. 2018	31 Dec. 2017
Liabilities from payment guarantees and provision of collateral for third-party liabilities	**878.6**	**916.9**
of which to affiliated companies	(461.7)	(501.4)
of which to associated companies	(0.0)	(0.0)
of which for pensions	(0.0)	(0.0)
Other financial commitments		
Rental and leasing agreements		
in the following year	0.3	0.3
in 2 to 5 years	0.4	0.2
in 6 or more years	0.8	0.8
Total	**1.5**	**1.3**

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 as well as to the assumption of liabilities in the context of a business combination for a division.

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

11 Revenue

EUR million	2018	2017
Service revenue	5.0	4.4
of which from affiliated companies	(4.1)	(3.5)
Rental and lease revenue	1.1	1.1
of which from affiliated companies	(0.3)	(0.3)
	6.1	**5.5**

12 Other operating income

EUR million	2018	2017
Income from disposal of fixed assets	0.2	0.4
Income from reversals of provisions	6.4	3.3
Other income	0.2	1.2
	6.8	**4.9**

EUR 2.0 million in income from reversals of provisions (previous year: EUR 1.8 million) related to provisions for warranties under a purchase agreement.

13 Cost of materials

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

14 Personnel expenses

EUR million	2018	2017
Wages and salaries	30.3	26.8
Social security, pension costs and other benefits	11.7	8.2
of which for pensions	(9.6)	(6.1)
	42.0	**35.0**
Average number of employees (full-time employees)	170.0	170.0

The increase in pension expenses was attributable primarily to effects from the change in the discount rate and the switch to the 2018G Heubeck mortality tables.

15 Other operating expenses

Other operating expenses amounted to EUR 14.2 million (previous year: EUR 17.5 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).

16 Net investment result

EUR million	2018	2017
Income from investments	43.1	44.9
of which from affiliated companies	(43.1)	(44.0)
Income from profit and loss transfer agreements	96.6	133.6
of which from intercompany tax allocation	(18.4)	(6.0)
Expenses from profit and loss transfer agreements	–864.3	0.0
	–724.6	**178.5**

The expenses from profit and loss transfer agreements in the financial year resulted primarily from impairments on the carrying amounts of investments at the level of a subsidiary.

17 Other net financial income

EUR million	2018	2017
Income from other securities and long-term loans	1.8	4.7
of which from affiliated companies	(1.7)	(4.6)
Other interest and similar income	4.1	24.9
of which from affiliated companies	(3.6)	(4.9)
of which discounting of provisions	(0.0)	(0.0)
Write-downs of financial assets and securities classified as current assets	0.0	–0.1
Interest and similar expenses	–16.6	–41.3
of which interest cost on pension provisions	(–3.1)	(–3.0)
of which interest cost on other provisions	(–0.5)	(–1.3)
	–10.7	**–11.8**

Write-downs on long-term financial assets and marketable securities amounted to EUR –0.1 million in the previous year and were recognised entirely in respect of marketable securities.

Other net financial income includes a currency translation gain amounting to EUR 0.2 million (previous year: EUR 10.5 million), comprising income amounting to EUR 0.5 million (previous year: EUR 20.0 million) and expenses amounting to EUR 0.3 million (previous year: EUR 9.5 million).

The decrease in interest and similar expenses was due primarily to the scheduled repayment of an outstanding bond in February of the financial year.

18 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 2018, Franz Haniel & Cie. GmbH 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 section 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 fixes assets.

Other notes

19 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).

20 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.

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

At the reporting date, the Company did not hold any derivative financial instruments.

	Notional value		**Fair value**		**Book value**	
EUR million	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Currency forwards						
Derivatives with affiliated companies	0.0	17.0	0.0	0.1	0.0	0.0

In general, provisions for expected losses are recognised for negative fair values of currency forwards which are not combined to form valuation units. These provisions for expected losses are recognised under other provisions. No provisions for expected losses were recognised in the previous year.

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.

21 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 associated companies, parties related to members of the Management Board, Supervisory Board, the senior management group and close family members of this category of persons.

22 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.com.

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

23 Executive bodies / governing body remuneration

In accordance with section 286 (4) HGB the total remuneration paid to the Management Board remains undisclosed. The total remuneration of the Supervisory Board was EUR 0.9 million (previous year: EUR 0.9 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 2.0 million (previous year: EUR 2.2 million); pension provisions totalling EUR 25.0 million (previous year: EUR 24.8 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, Chief Financial Officer
Thomas Schmidt, Managing Director of the CWS-boco division

The members of the Supervisory Board in the financial year were:
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 (until 28 April 2018)
Dr Stephan Glander, Graduate chemist (since 28 April 2018)
Dr Paul-Bernhard Kallen, Graduate economist (until 28 April 2018)
Doreen Nowotne, Businesswoman (since 28 April 2018)
Dr Michael Schädlich, Graduate physicist (until 28 April 2018)
Patrick Schwarz-Schütte, Businessman (since 28 April 2018)
Prof. Dr Kay Windthorst, University professor
Gerd Herzberg, Deputy Chairman of the Supervisory Board, Former trade union secretary (ver.di)

Mario Büscher, Business administrator for company pension schemes (28 April 2018 – 31 January 2019)
Ralf Fritz, Maintenance man
Bernd Hergenröther, Electrician (until 28 April 2018)
Fadi Kamal, Design engineer (until 28 April 2018)
Lutz Leischner, Graduate mathematician (since 28 April 2018)
Irina Pankewitz, Textile cleaner (until 28 April 2018)
Dirk Patermann, Service consultant (since 28 April 2018)
Hans Wettengl, Trade union secretary (IG Metall)

24 Events after the reporting date

No reportable events took place after the reporting date.

25 Profit appropriation proposal

EUR	31 Dec. 2018
After deducting appropriate write-downs and recognising adequate valuation allowances and provisions, the net loss for the financial year ending 31 December 2018 amounts to:	–781,439,426.15
plus retained earnings brought forward from the previous year:	305,447,772.62
and plus withdrawal from retained earnings:	600,000,000.00
this results in retained profit of:	124,008,346.47

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 64,008,346.47 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, 11 March 2019

The Management Board

Gemkow **Funck** **Schmidt**

"INDEPENDENT AUDITORS' REPORT

To Franz Haniel & Cie. GmbH, Duisburg

Audit Opinions

We have audited the annual financial statements of Franz Haniel & Cie. GmbH, Duisburg which comprise the balance sheet as at 31 December 2018, and the statement of profit and loss for the financial year from 1 January to 31 December 2018, 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 2018. 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 2018 and of its financial performance for the financial year from 1 January to 31 December 2018 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 2018" – 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 consolidated financial statements, with the group 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, 11 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Granderath
(German Public Auditor)

Böhle
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These separate financial statements of Franz Haniel & Cie. GmbH are published in German and English. Both versions can be downloaded at www.haniel.de/en. The German version is controlling. All statements in this brochure with regard to occupations and target groups apply, always and irrespective of the formulation, to both male and female persons.

04/19 – d/300

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