Group interim management report

Group structure and business models

The Haniel Group comprises 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". In addition, capital and management are separated as a matter of principle at Haniel: Although the Company is 100 per cent family-owned, no shareholder works at the Company.

When structuring the portfolio, Haniel concentrates on business models that are supported by global mega-trends and therefore have a high potential for increases in value over the long term. Promising markets and business models are analysed continually in order to detect growth opportunities. For example, Haniel added two corporate groups to its portfolio at the end of 2017: ROVEMA and Optimar. Haniel also supports the divisions in their further

Haniel portfolio

Divisions

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

Financial investments

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

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

As at 30 June 2018

growth, both organically and through acquisitions, by using a buy&build strategy. This was clearly demonstrated in 2017 primarily by the further development of CWS-boco. Haniel and Rentokil Initial formed a joint venture on 30 June 2017, in which the CWS-boco business and significant parts of Initial's European activities in the areas of hygiene, workwear and cleanroom solutions were combined. In addition, the demerger of the METRO GROUP into METRO and CECONOMY, which was supported by Haniel, resulted in further diversification of the portfolio.

Family equity entails the implementation of an individually optimised management and support approach for each portfolio company.

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 depth of value creation 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.

Operating profit KPI adjusted
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.

No risks jeopardising the going concern assumption
At present, no risks which may jeopardise the Group as a going concern have been identified, nor have notable risks exceeding those normally encountered in business. The risks and opportunities of future development discussed in detail starting on page 52 of the 2017 annual report remain relevant to the Haniel Group. For a discussion of expected developments in the current financial year, please refer to the report on expected developments starting on page 36 of this half-year financial report.

Haniel Group
Revenue and earnings performance

In particular, CWS-boco's acquisition of Initial's activities and the ROVEMA and Optimar acquisitions in the previous year significantly lifted the Group's revenue in the first half of 2018. However, revenue also showed encouraging organic growth. At EUR 157 million, operating profit was also significantly higher than in the first half of 2017. On the other hand, impairments on the two financial investments, CECONOMY and METRO, weighed down earnings. As a result, Haniel reported a significant loss before and after taxes in the first half of 2018.

Macroeconomic environment robust, yet subject to uncertainty
The global economy got off to a strong start in 2018, and proved resilient in the face of geopolitical conflicts over the course of the year thus far. However, emerging trade conflicts are playing an increasingly significant role. Measures enacted by the United States and the corresponding reactions by China and the EU have resulted in initial significant pressure in the economic climate. Commodity prices continued to rise during the reporting period. Inflation in industrialised countries accelerated slightly. Monetary policy continued to have an expansionary effect in key economic areas, although the US Federal Reserve raised key rates further. Additionally, governments in many countries created fiscal incentives. In the first half of 2018, the financial markets operated in an environment in which economic indicators were still favourable although uncertainty was on the rise.

REVENUE
EUR million

+17%

On average over the first half of the year, the US dollar was weaker against the euro as compared to the same period of the previous year.

In Europe, the economic upturn continued during the reporting period. According to Eurostat, economic growth in Europe reached 2.3 per cent. This was driven primarily by robust private consumption, vigorous investment activity and an improvement in net exports.

According to the US Commerce Department, the economy in the United States grew in the first half of 2018 by 3.2 per cent. This was supported by capital expenditures and exports, as well as increased government spending and an uptick in private consumption, industrial manufacturing and construction.

Economic growth in China remained at a high level in the first half of 2018, reaching 6.8 per cent.

Relevant commodity prices at significantly higher levels
In addition to the macroeconomic environment, the conditions in the stainless steel market segment are of great significance to the Haniel Group. In the first half of 2018, the relevant commodity prices for ELG were significantly higher than in the same period of the previous year.

Sound revenue trend for CWS-boco and ELG
The Haniel Group posted revenue of EUR 2,403 million in the first half of 2018, representing a significant increase of 17 per cent. In particular, increased revenue from CWS-boco contributed to this trend. That increase was due primarily to the first-time inclusion of Initial's activities under the 2017 joint venture, as well as to revenue from Optimar and ROVEMA. By contrast, negative currency translation effects from the US dollar reduced the Haniel Group's revenue.

Organic revenue – i.e., revenue adjusted for currency translation effects as well as company acquisitions and disposals – increased by 8 per cent compared to the previous year. ELG benefited from higher average commodity prices and an increase in output tonnage. Despite the challenging environment in the United States, BekaertDeslee achieved the same level of revenue as in the same period of the previous year. Growth at CWS-boco was encouraging, both in the Textile Solutions and in the Hygiene Solutions divisions. TAKKT also saw positive development of its revenue, which rose by 2 per cent as compared to the same period of the previous year.

Operating profit: KPIs now based on EBITA

Haniel Group reports profitable growth

Operating profit for the first half of 2018 amounted to EUR 157 million, and was thus up 16 per cent as compared to the previous year's figure of EUR 135 million. In the first half of 2018, the increase in CWS-boco's contribution to earnings lifted operating profit. This increase was due primarily to the first-time inclusion of Initial's activities. The ELG division generated operating profit at the same level as in the first half of 2017 due to hedges which reduced earnings. Due to the challenging market developments in the United States and increased yarn prices, BekaertDeslee's operating profit was down year on year. TAKKT's operating profit also failed to reach the same level as in the first half of 2017. This development was attributable mainly to a lower gross profit margin caused by increased freight costs and higher budgeted costs, as expected, for the division's digital transformation. The new divisions Optimar and ROVEMA also contributed to the increase in operating profit.

EBIT also up

As a consequence, the Haniel Group's EBIT rose by 3 per cent as compared to the same period of the previous year to EUR 126 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

Profit before taxes fell from EUR 105 million to EUR –811 million. The significantly negative investment result more than compensated for the increase in EBIT and improved cash flows from financing activities.

OPERATING PROFIT
EUR million

+16%

PROFIT BEFORE TAXES
EUR million

<–100%

Haniel's investment result essentially consists of the investment result from the financial investments in CECONOMY and METRO.

Operating profit increases; EUR 872 million impairment loss on CECONOMY and METRO financial investments reduces profit before and after taxes

The negative share price performance for the METRO and the CECONOMY shares in Q2 2018 prompted Haniel to test both financial investments for impairment. These tests resulted in a EUR 298 million impairment loss for the investment in CECONOMY and a EUR 574 million loss for METRO.

Aside from these impairment losses, Haniel's investment result also includes the share of H1 2018 earnings from these financial investments attributable to Haniel. The investment result fell from EUR 6 million in the first half of 2017 to EUR –949 million.

The results from financing activities during the reporting period amounted to EUR 12 million. In the same period of the previous year, this figure had amounted to EUR –23 million. This was due on the one hand to EUR 36 million in income from the option component from the exchangeable bond linked to CECONOMY's ordinary shares. On the other, the Holding Company's net financial debt declined because the Haniel Holding Company repaid a bond which matured in February 2018.

After-tax profit down significantly as compared to the same period of the previous year

The negative development for profit before taxes, combined with a slight increase in tax expenses, also resulted in a significant drop in after-tax profit. This fell from EUR 71 million in the same period of the previous year to EUR –842 million in the first half of 2018.

PROFIT AFTER TAXES

EUR million

<–100%

Haniel Group
Financial position

In 2018, Haniel continued to invest at the level of the divisions: TAKKT acquired Britain's leading online office furniture retailer, Equip4Work, as well as the Swedish direct marketer for business equipment, Runelandhs. The Group's financial structure remains sound. After receiving an upgrade by the rating agency Moody's, all of the Haniel Holding Company's ratings are 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.

Three investment-grade ratings following upgrade by Moody's
Haniel submits itself to external rating assessments voluntarily, thus ensuring broad access to capital markets. It now holds three investment-grade ratings: 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. The European rating agency Scope classified Haniel as investment-grade with a BBB- rating, as did Standard & Poor's, with its BBB- rating. In 2018 Deutsche Bundesbank again classified Haniel in a class synonymous with eligibility for central bank collateral. 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 15 per cent as at 30 June 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 broad range of business partners ensure access to liquidity at all times and reduce the dependency on individual financial instruments and business partners. Accordingly, financial stability and independence are key objectives for financial management at Haniel. Overall, the Haniel Group had used and unused credit facilities of EUR 2 billion at the end of the first half of 2018. A balanced maturity profile with an appropriate, long-term orientation guarantees additional financial stability.

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 1,699 million as at 30 June 2018. Of that amount, EUR 712 million has a maturity of more than one year. Of the EUR 987 million in liabilities reported as current liabilities, EUR 486 million were attributable to the exchangeable bond linked to ordinary shares in 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 30 June 2018 was lower than at the end of 2017 at EUR 0.5 billion.

In addition, 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 30 June 2018, the value of promissory loan notes, commercial paper and other securitised liabilities in the Haniel Group remained unchanged as against 31 December 2017, at EUR 0.2 billion. In addition, the CWS-boco and ELG divisions maintain programmes for the continual sale of trade receivables to third parties.

Financing acquisition and business activities

The net financial liabilities of the Haniel Group, i.e., financial liabilities less cash and cash equivalents, rose to EUR 1,615 million as at 30 June 2018 compared to EUR 1,427 million at the end of 2017. This was due on the one hand to an increase in financial liabilities, particularly at ELG – which was faced with greater financing requirements for inventories and trade receivables due to the increase in the price of nickel and business volume. On the other hand, TAKKT's acquisitions of Equip4Work and Runelandhs also contributed to the increase in the Haniel Group's net financial debt.

The net financial position is calculated as net financial debt minus the Haniel Holding Company's investment position. While the Haniel Holding Company's investment position was reduced by the repayment of the EUR 195 million in relation to an outstanding bond, external borrowing at CWS-boco and BekaertDeslee contributed to an increase in the Haniel Holding Company's net financial position. In the first half of 2018, this position rose from EUR 1,331 million as at 31 December 2017 to EUR 1,592 million.

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 available first and foremost for financing current net assets and investments. In the first half of 2018, Haniel cash flow increased from EUR 267 million in the prior-year period to EUR 311 million. The primary causes for the increase were the first-time contributions by the Initial companies as well as the development of the operating activities in the divisions.

HANIEL CASH FLOW
EUR million

+16%

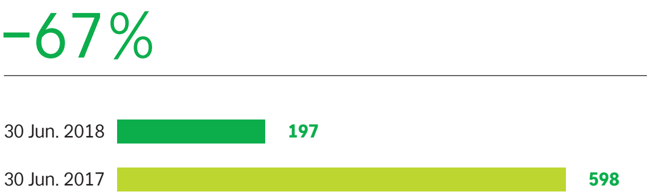
EUR million	30 Jun. 2017	**30 Jun. 2018**
Haniel cash flow	267	**311**
Cash flow from operating activities	219	**23**
Cash flow from investing activities	128	**–120**
Cash flow from financing activities	–485	**114**

Cash flow from operating activities, which supplements Haniel cash flow in depicting the change in current net assets, amounted to EUR 23 million in the first half of 2018, and was thus significantly lower than Haniel cash flow. This was due in particular to the fact that financial resources were tied up in inventories and trade receivables at ELG, which were higher due to price and quantity-related reasons. In the previous year, cash flow from operating activities amounted to EUR 219 million.

Haniel invests at the level of the divisions

Cash flow from investing activities, that is the balance of payments for investing activities and proceeds from divestment activities, was EUR –120 million in the first half of 2018. The payments were attributable in particular to the acquisition of the companies Equip4Work and Runelandhs by TAKKT, the investments in property, plant and equipment, particularly by CWS-boco, and the IT systems upgrade by the divisions. Payments of EUR 197 million were offset by proceeds from divesting activities of EUR 77 million. These were primarily attributable to the decrease of financial investments by the Haniel Holding Company. During the same period of the previous year, cash flow from investing activities had amounted to merely EUR 128 million. Payments amounting to EUR 598 million – particularly for the acquisition of the Initial companies – were offset by proceeds of EUR 726 million, which resulted primarily from a reduction in the Haniel Holding Company's financial assets.

CAPITAL EXPENDITURE
EUR million



Cash flows from financing activities in the first half of 2018 amounted to EUR 114 million, as compared to EUR –485 million in the same period of the previous year. While the Haniel Holding Company repaid an outstanding bond at the beginning of the year, a significant amount of financial liabilities was incurred to finance the increase in inventories and trade receivables at ELG caused by the increase in the price of nickel, as well as to finance the business combinations implemented by TAKKT. In 2018, a dividend of EUR 60 million was paid to the shareholders of Franz Haniel & Cie. GmbH for the 2017 financial year.

Haniel Group
Assets and liabilities

The impairment on the CECONOMY and METRO financial investments resulted in a decrease in non-current assets. Total assets declined in line with this decrease. The Haniel Group's equity ratio remains high, however, at 54 per cent. This underscores the Group's further potential to invest.

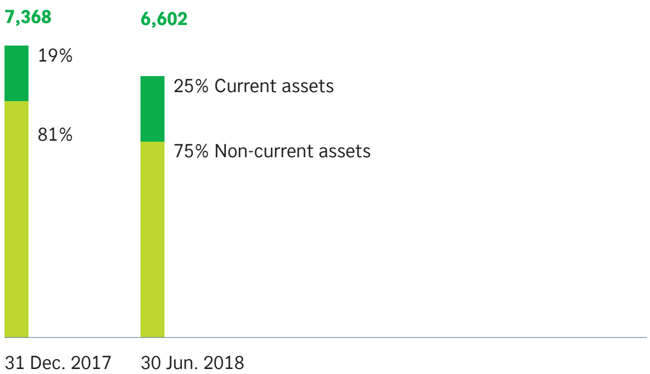
Lower total assets
The Haniel Group's total assets decreased from EUR 7,368 million as at 31 December 2017 to EUR 6,602 million as at 30 June 2018. This was due mainly to a decrease in non-current assets resulting from the impairment losses on the CECONOMY and METRO financial investments. These losses amounted to EUR 872 million. Total non-current assets of the Group amounted to EUR 4,947 million as at 30 June 2018, following EUR 5,977 million as at 31 December 2017. Current assets increased from EUR 1,391 million as at 31 December 2017 to EUR 1,655 million as at 30 June 2018. This was attributable to ELG's positive business performance and the associated increase in inventories and trade receivables, as well as to the Haniel Holding Company's tax assets.

Equity ratio remains high
The equity of the Haniel Group decreased from EUR 4,499 million as at 31 December 2017 to EUR 3,596 million as at 30 June 2018. This was caused by the after-tax loss, which in turn was due to the impairment losses on the CECONOMY and METRO financial investments. The equity ratio fell from 61 per cent to 54 per cent.

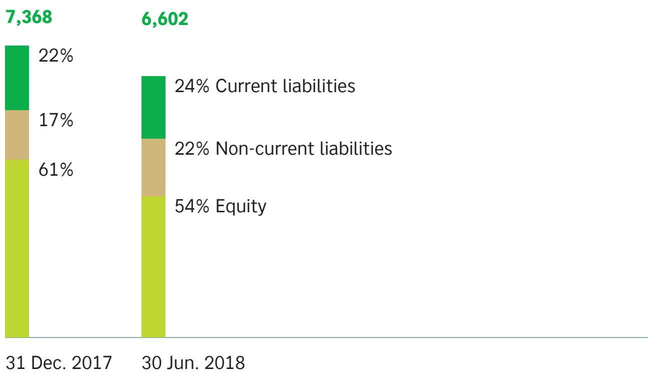
Current liabilities fell slightly overall from EUR 1,633 million as at 31 December 2017 to EUR 1,574 million as at 30 June 2018. This reduction was due in part to the repayment of a bond issued by the Haniel Holding Company which matured in February 2018. By contrast, non-current liabilities rose, particularly as a result of an increase in non-current financial liabilities amounting to EUR 1,236 million as at 31 December 2017 to EUR 1,432 million as at 30 June 2018.

Recognised investments down significantly year on year
The Haniel Group's recognised investments fell sharply from EUR 1,009 million in the first half of 2017 to EUR 198 million in the first half of 2018. Acquisitions in the first half of 2018 – in which TAKKT's investments in Equip4Work and Runelandhs represented the most significant individual investments – were down sharply as compared to the same period of the previous year, which had seen the acquisition of Initial's Central European companies. The recognised investments in the existing business for property, plant and equipment and other assets declined because the acquisition of financial assets by the Haniel Holding Company had greatly increased these items in the same period of the previous year.

ASSET STRUCTURE
EUR million



EQUITY AND LIABILITY STRUCTURE
EUR million



Haniel Group
Employees

In the first half of the year, the employee headcount at the Haniel Group remained virtually constant, rising by 1 per cent. In total, the Group employed on average 18,732 people. At the end of 2017, the employee headcount stood at 18,481.

BekaertDeslee had an average of 2,830 employees in the first half of 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 short-term, seasonal 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 has already fallen from an average of 10,768 in the previous year to 10,612 in the first half of 2018.

Business development at the **ELG** division improved with higher output tonnage due to more favourable general market conditions. As a result, the number of employees rose from an average of 1,240 in 2017 to 1,317 in the first half of 2018.

ROVEMA employed 649 people at the time of its acquisition in the fourth quarter of the previous financial year. In the first half of 2018, the packaging machinery and equipment manufacturer benefited from consistently high customer demand. In order to meet that demand, the division expanded its capacities and hired new employees in the first half of the year. The average number of employees thus rose slightly to 658.

EMPLOYEES
Average headcount

+1%

Optimar also increased capacities in line with its growth strategy – not only in production but also in software development and automation technology. While the number of employees at the time the company was acquired at the end of 2017 was 375, that number rose sharply in the first half of 2018 to 419.

The average number of employees at **TAKKT** increased in the first half of 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 2,693 in the first half of 2018.

Organic growth, successful acquisitions and digital transformation pose new challenges for HR.

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.

Holding Company Franz Haniel & Cie.

In the first half of 2018, the Haniel Holding Company[1] focused its efforts on integrating the newly acquired companies into Haniel's portfolio. Haniel has diversified its portfolio by adding ROVEMA and Optimar, two fast-growing companies. The rating agency Moody's recognised the changes to the portfolio in April 2018 by issuing an investment-grade rating.

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 the first half of 2018, Haniel established a custom-fit management and governance model for each company. As part of this concept, ROVEMA's Supervisory Board and Optimar's Board of Directors not only include representatives from Haniel as members but also have an "Active Chairman" who leads the respective Boards as an experienced industry expert and advises the management team as a sparring partner. In addition, he is responsible for the management's performance reviews. Analogously to the other divisions, Haniel assists the new investments in achieving further growth: tailored for the respective company's situation and in keeping with the family-equity company's "flexible portfolio management" strategy.

Portfolio expansion continues

Following the successful portfolio measures of the previous year, Haniel has financial resources on the scale of more than EUR 800 million for the acquisition of 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. In addition, Haniel gives preference to the acquisition of controlling interests in non-listed companies, which can also take place in stages. In line with Haniel's objective of being "enkelfähig", particular emphasis is placed on companies which are able to make a positive contribution to long-term value creation through their sustainable actions. In addition to the acquisition of new business segments, Haniel will also emphasise the expansion and further development of the existing divisions as part of its buy&build strategy.

Family-equity company Haniel implements flexible portfolio management: leadership and governance models established for ROVEMA and Optimar

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

Holding Company successfully assists CWS-boco's integration process

CWS-boco has achieved first milestones in integrating Initial's Central European business in the areas of hygiene, workwear and cleanroom solutions. Thus, the division has attractive opportunities for continuing its strategic growth. Thanks to a newly established organisational structure which saw the creation of the two divisions Hygiene Solutions and Textile Solutions, CWS-boco is now able to offer more customer proximity and innovative strength.

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

Value of portfolio reduced due to financial investments

The value of the investment portfolio decreased from EUR 5,624 million as at 31 December 2017 to EUR 4,982 million as at 30 June 2018. This value is calculated as the sum of the valuations of the divisions, the CECONOMY and METRO financial investments, financial assets and other assets, less net financial liabilities at the Holding Company level. The listed division and the financial investments are valued on the basis of three-month average share prices, while the remainder of the divisions are valued on the basis of market multiples, and for the financial assets on the basis of fair values as at the reporting date. In particular the sharp decrease in the valuations of the CECONOMY and METRO financial investments in the first half of 2018 have significantly reduced the value of Haniel's portfolio.

Focus remains on digital transformation

Promoting the divisions' digital transformation aligns with Haniel's objective of acting as a value developer, keeping a focus on values. Based on the individual 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 a large number of specific projects which are based on their Digital Agendas. Many of these projects are currently in the pilot phase. More than 60 Schacht One projects have already been completed or are in the pipeline. To handle this workload, Schacht One has hired more staff and expanded its offices at the Zollverein Coal Mine Industrial Complex.

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 30 June 2018, Haniel had committed a total of EUR 42 million for six different funds. These funds intend in turn to invest in roughly 250 new companies. This network also has the potential to inspire internal innovation processes and provide momentum for the continued search for new companies to invest in. Moreover, the Holding Company 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 is 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. In addition, the Haniel Academy offers a comprehensive programme of seminars on digitalisation, which is continually being expanded.

There is sufficient liquidity available for the acquisition of further divisions and for buy&build acquisitions by the existing investments.

Level of debt kept low

The Haniel Holding Company's net financial debt has been reduced from EUR 1,040 million as at 31 December 2017 to EUR 792 million as at 30 June 2018. In the first half of 2018, the Haniel Holding Company used a further portion of the remaining financial assets to repay in full the still-outstanding amount of EUR 195 million on a bond maturing in February 2018 that had an original nominal amount of EUR 400 million. Therefore, as at 30 June 2018 financial assets amounted to EUR 633 million.

The net financial position of the Haniel Holding Company, defined as net financial liabilities less financial assets, was thus EUR 159 million as at 30 June 2018, the same level as on 31 December 2017. Based on the self-imposed limit for net financial liabilities of EUR 1 billion, Haniel therefore has more than EUR 800 million at its disposal to further develop and expand the portfolio. Planned loan repayments by the divisions will reduce the external indebtedness and thus create additional latitude going forward. 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 non-interest bearing exchangeable bond issued in 2015 and linked to shares in METRO AG, which became CECONOMY after the demerger, represents a key element of financing. Haniel has used this to secure excellent financing terms until 2020. In addition, funding has been secured over the long term by way of the existing credit facility and shareholder loans. However, the most important part of financing is and remains the equity made permanently available by the Haniel family.

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

Investment-grade ratings from S&P, Scope and Moody's
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. Thus, Haniel now has an investment-grade rating from all three rating agencies.

Holding Company's earnings contribution at same level as in the same period of the previous year
The amount contributed by the Haniel Holding Company to the Group's operating profit was stable year on year in the first half of 2018.

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 Group has accepted responsibility as a good corporate citizen in Duisburg and in the surrounding 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.

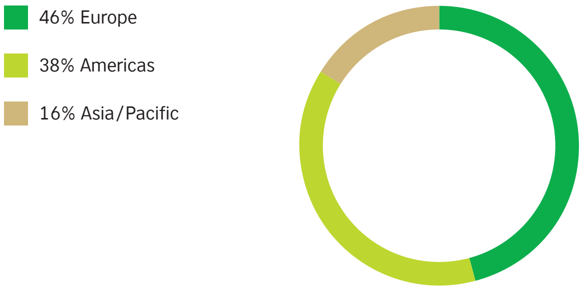
One project which has produced a lasting effect in the region is the Social Impact Lab Duisburg which the Haniel Holding Company operates together with the KfW Foundation, the Beisheim Foundation and Social Impact gGmbH. This incubator for social entrepreneurs supports business founders who want to use their ideas to solve pressing social challenges; it connects them with other stakeholders and establishes them in the region. At 30 June 2018, 58 teams had completed the programme or were in the process of doing so. This has led to the founding of 25 enterprises. Individual teams have been successful throughout Germany and internationally.
In addition, substantive offerings such as a mentoring programme promote an exchange of ideas between the start-up teams and Haniel employees.

The Haniel Foundation is a further key component of the Group's efforts to accept responsibility. In the first half of 2018, it celebrated its 30th anniversary. To date, the Haniel Foundation has dedicated EUR 34 million to support approximately 1,250 projects. With annual project funding currently amounting to EUR 3 million, the Haniel Foundation 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. All projects receiving support are geared towards sustainable entrepreneurial thinking and action, following the example of Franz Haniel, who already in the 19th century understood that as an "honourable business-man" entrepreneurial action and social responsibility go hand-in-hand.

BekaertDeslee

BekaertDeslee's revenue and earnings trend was marked by the challenging situation in the United States in the first half of 2018. In addition, currency translation effects also weighed results down. Nevertheless, adjusted for these factors, the company's revenue in the first half of 2018 was on par with the level recorded over the same period of the previous year. Due to the weaker business trend in the United States and price increases for yarns, BekaertDeslee's operating profit fell to EUR 13 million. To counteract this development, BekaertDeslee has begun to modify its cost structures and pricing.

REVENUE
by region



Business trend in the United States depresses revenue
BekaertDeslee generated EUR 159 million in revenue in the first half of 2018, compared with EUR 172 million in the same period of the previous year. Organically – i.e., adjusted for acquisitions and currency translation effects – revenue reached the same level as in the first half of the previous year, however. While business development in the United States was weaker, demand for ready-made mattress covers showed encouraging growth, particularly in Europe. Furthermore, the division faced price pressure in China due to the competitive environment in the low-cost sector.

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 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.

REVENUE
EUR million

–8%

Business with ready-made mattress covers growing

Demand for mattress covers shows encouraging growth
Within the product portfolio, the growing demand for ready-made mattress covers continued to have a positive influence on revenue development. Business with "bed-in-a-box" companies, which mainly comprised online mattress retailers, rose sharply in Europe. The "bed-in-a-box" companies represent a new customer group. 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.

Increase in price of yarns 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 the first half of 2018. Thus far, BekaertDeslee has only had limited success in passing the rising costs of procuring yarns on to customers. For this reason, and due to the loss of revenue in the United States caused by a decline in sales, operating profit in the first half of 2018 fell year

on year to EUR 13 million. Growth in business with ready-made mattress covers and the realised efficiency gains were not sufficient to offset this development. One aspect of the pricing policy going forward will be to pass on a greater share of yarn price increases to customers.

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.

In addition, in the first half of 2018 BekaertDeslee continued to systematically implement its Lean Manufacturing Initiative, which is also designed to standardise and improve production processes.

An expansion of the market share for ready-made mattress covers is part and parcel of the strategy.

Focus on growth
BekaertDeslee is a growth-oriented company: it 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.

OPERATING PROFIT
EUR million

−32%

EMPLOYEES
Average headcount

+6%

Focus on innovation and digitalisation
At its headquarters in Waregem, Belgium, BekaertDeslee has established an innovation centre that in future will bundle the development and design departments and other central company functions under one roof. In this way, the company will create even better conditions for innovation. In the first half of 2018, BekaertDeslee worked on several projects relating to its Digital Agenda with the Haniel Group's digital workbench, Schacht One. Future plans not only comprise of 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 an app which enable customers to configure mattresses on their own, was further refined thus improving product visualisation.

CWS-boco

During the first half of the year, the CWS-boco division successfully continued its efforts to integrate Initial's hygiene, workwear and cleanroom activities, which had been acquired from Rentokil Initial in 2017. Thus the division has taken advantage of attractive opportunities for continuing its strategic growth. CWS-boco's newly established organisational structure makes it possible to offer greater customer proximity and innovative strength. However, the significant increase in revenue to EUR 566 million resulted not only from the integration: CWS-boco also grew organically, benefiting from the favourable macroeconomic trend. Its operating profit increased sharply, in line with this trend.

Progress achieved in strategic realignment

In the first half of the year, 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 workwear, protective clothing and cleanroom products. The new structure allows the company to address customer needs more individually across Europe.

REVENUE
EUR million

+38%

REVENUE
by division

Since forming the joint venture, CWS-boco has not only reached first milestones of the strategic realignment in administration, procurement and IT, it has also made progress in improving its network of locations and services.

Expansion of existing service offerings and pilot-testing new ones

CWS-boco is creating growth initiatives by expanding existing areas of business and tapping into new ones. For instance, the company further developed its service offering in relation to the operation of high-quality public washrooms. Under this concept, users in the public space are offered holistic hygiene solutions for washrooms with flexible fee models. In the first half of the year, further washrooms were opened in retail shops.

In addition, CWS-boco is constantly investigating further opportunities to expand its offering, such as in the field of fire safety.

Successful integration of Initial's activities: first milestones achieved

Digitalisation accelerated

CWS-boco has initiated several projects to renew its IT systems and strengthen the technical foundations for its digital transformation. The division has made progress in this regard and began to implement a new ERP system in the Hygiene Solutions division in the first half of 2018. Going forward, the system will be implemented in additional countries.

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. For instance, the online offerings "fello.online" and "matten.pro" represent new solutions which are being tested with flexible contract terms. Since the fall of 2017, customers have been able to rent work clothes quickly, flexibly and with little effort using fello.online. matten.pro offers the possibility of renting dust control mats as a service that can be terminated on a monthly basis. The contracts can be entered into directly online.

Strategic investment in Jonny Fresh supports digital transformation

In addition, CWS-boco has decided to support the Berlin-based start-up Jonny Fresh as a strategic investor. 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.

OPERATING PROFIT
EUR million

+85%

EMPLOYEES
Average headcount

−1%

Revenue growth encouraging

Revenue of CWS-boco in the first half of 2018 was EUR 566 million, 38 per cent over the figure in the previous year. The encouraging increase was due mainly to the first-time inclusion of the Initial companies. 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 3 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 as well as from positive effects from the specialised sales and distribution structure, the accompanying training programme and improved customer service.

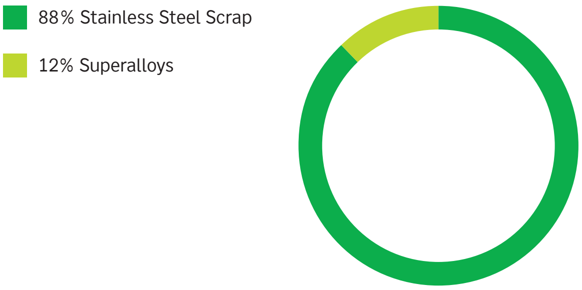
Operating profit shows significant growth

Operating profit increased as compared to the same period of the previous year from EUR 39 million to EUR 72 million. While this was due primarily to the first-time inclusion of the Initial companies, organic growth and the initial positive effects of the efficiency enhancement measures in connection with the integration also contributed to this development.

ELG

In the first half of 2018, ELG benefited from a market environment with higher commodity prices and improved availability of scrap as compared to the same period of the previous year. Output tonnages showed encouraging growth on this basis. ELG's revenue thus rose by 9 per cent. Due to hedge effects which reduced earnings, operating profit amounted to EUR 23 million in the first half of 2018, thus at the same level as in the previous year.

REVENUE
by division



Positive market environment in the stainless steel scrap business

Global production of stainless steel in the first half of 2018 was roughly 7 per cent above 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 also increased slightly in Europe. The introduction of tariffs on steel and stainless steel imports in the United States resulted in an increase in pressure on imports 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. Higher commodity prices led to a year-on-year increase in the availability of scrap in the procurement market.

Commodity prices up significantly year on year

Nickel, chrome and iron are the primary price drivers of the stainless steel scrap processed by ELG, which is why the price that the division obtains for its products is highly dependent on the prices for these raw materials. Propped up by a structural deficit in the first half of the year and the prospects for a significant long-term increase in demand from the electromobility sector, the price of nickel climbed briefly above USD 15,700 per tonne. The average price for nickel during the first half of the year was USD 13,780 per tonne, thus up by more than 40 per cent over the low level in the same period of the previous year.

REVENUE
EUR million

+9%

Positive effects from favourable market environment with higher commodities prices in stainless steel business and improved availability of scrap

While the average price for iron was up sharply year on year, the average price for chrome in the first half of 2018 was lower than in the same period of the previous year. However, the prior-year period was strongly impacted by a temporary situation of shortages.

Improved market environment in the superalloys business

In the first half of 2018, ELG Utica Alloys, ELG's division specialising in superalloys, also benefited from a slightly improved market environment as far as prices and quantities were concerned. Compared to the average figures for the comparable period, the commodity prices relevant to ELG Utica Alloys, including in particular titanium and nickel, experienced a significant increase. Demand from the aviation industry remained at a high level. As a consequence, ELG Utica Alloys expanded the existing capacities both in the trading and in the processing business. In addition, the superalloys specialist also optimised its production processes.

ELG digital unit established in Düsseldorf

Revenue up thanks to improved market environment

The overall improvement in the market environment had a positive effect on business development at ELG. While ELG's output tonnage of stainless steel increased significantly by 4 per cent, the output tonnage of superalloy scraps at ELG Utica Alloys was up slightly by 1 per cent over the value in the same period of the previous year. The higher average prices for nickel and other commodities relevant to ELG had a positive impact on revenue: it increased by 9 per cent to EUR 986 million. Although average nickel prices were up year on year by more than 40 per cent, they were offset by higher valuation allowances for stainless steel scrap and currency translation effects. Despite price- and quantity-related increases in revenue, higher procurement prices in the stainless steel scrap business and earnings-reducing commodity price hedges depressed gross profit in the first half of 2018. Accordingly, ELG generated an operating profit of EUR 23 million, on par with the same period of the previous year.

OPERATING PROFIT
EUR million

+/−0%

EMPLOYEES
Average headcount

+6%

ELG innovation unit bundles resources

The EIE Services innovation unit was created in order to bundle all initiatives and projects relating to innovation and digitalisation at the division. 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 the "Digital Yard App", 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.

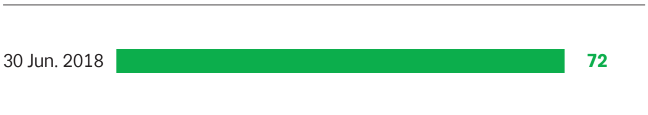
Optimar

Optimar, one of the world's leading companies for automated fish handling systems, has been part of the Haniel Group since 20 December 2017. The Norwegian company develops, manufactures and installs onboard, onshore and aquaculture solutions. Optimar reported revenue of EUR 72 million in the first half of 2018, reflecting encouraging growth. A tailored management and governance model bolsters the company's planned strong growth.

International positioning

The company – a manufacturer of high-quality automated fish handling systems – installs machinery and equipment as turnkey projects, either independently or in connection with third-party solutions. 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, on land or in aquacultures. As a full-service provider, Optimar also offers ancillary products and services. The Norwegian company operates other production locations in the United States, Spain and Romania. Optimar delivers to international customers in more than 30 countries.

REVENUE
EUR million



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

Long-term megatrends as growth drivers

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

Customers benefit from Optimar solutions

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

In the first half of 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, both in and out of the water – 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 is already working to develop special offers and services. The increasing use of data analytics and augmented reality solutions makes it possible to better assist customers in maintaining their equipment, even at high sea. This helps to optimise operation times. The corresponding Optimar cockpit solution “Commander” was made market-ready in the first half of 2018. In addition, Optimar is working to develop optical recognition systems to identify different types of fish in order to increase the level of automation and accelerate handling processes.

Focus on growth: Board of Directors strengthened with industry experts

Tailored governance model supports growth
Optimar is pursuing a clear growth strategy. A tailored management and governance model has been developed for the company. This model is aimed to provide optimal support for the planned strong growth. As one part of the concept, the Board of Directors is composed of representatives from Haniel, employee representatives and industry experts. Moreover, one of these experts serves as the Active Chairman.

Encouraging revenue trend
In the first half of 2018, Optimar generated EUR 72 million in revenue and a EUR 3 million operating profit, which was weighed down by increased costs in relation to order completion.

OPERATING PROFIT
EUR million

EMPLOYEES
Average headcount

+12%

ROVEMA

ROVEMA, a globally active premium manufacturer of packaging machines and equipment, has been a part of the Haniel Group since 30 November 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. In addition, during the first half of 2018, Haniel established a tailored management and leadership model to support the planned strong growth of the company.

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 has been expanding its expertise on the interaction of products, packaging and the corresponding machines continually since it was founded in 1957. The company's product portfolio includes solutions for the entire spectrum of primary and secondary packaging: dosing, vertical form fill and seal (VFFS), cartoning and final packaging machines. Multifaceted service offerings round off the product range. ROVEMA is also active in the trading, overhaul and provision of services for all facets of used, high quality packaging machines. To date, more than 30,000 machines have been installed around the world.

Broad range of applications
The primary fields of application for ROVEMA machines to date are in the safe and hygienic packaging of foodstuffs in a wide variety of forms and consistencies: powders, chunky products, frozen goods, and liquid products.

REVENUE
EUR million

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 is supported by a number of trends. In addition to the global rise in demand for ready-to-use foodstuffs, Western consumption patterns are being increasingly adopted in emerging markets. Packaging serves increasingly as a marketing and differentiation tool to increase sales of the products offered. The significance of food safety is growing and can often only be ensured by appropriate packaging. 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 customers to develop pioneering solutions. Examples include packaging using recycled films or renewable resources.

Pursuing a clear growth strategy

Tailored leadership and governance model established
One objective of ROVEMA's clear growth strategy is to significantly increase revenue over the medium term – organically as well as through acquisitions. In order to provide the best possible support for this strong growth, a tailored leadership and governance model was developed for ROVEMA. As part of this concept, the Supervisory Board not only includes representatives from Haniel as members but also has an Active Chairman. The Supervisory Board primarily is responsible for governance-related activities.

Industry 4.0 and regional expansion offer further opportunities

Innovation offers growth opportunities

ROVEMA has further growth opportunities in regional expansion as well as the increasing automation and digitalisation in the packaging processes (Industry 4.0). In addition, ROVEMA's position in the value chain and the corresponding application knowledge surrounding product, packaging and machines give rise to numerous connecting factors to the digital transformation. For example, in 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. After receiving the Red Dot Design Award in the previous year, in the first half of 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

ROVEMA earned revenue of EUR 53 million and an operating profit of EUR 5 million in the first half of 2018.

OPERATING PROFIT
EUR million

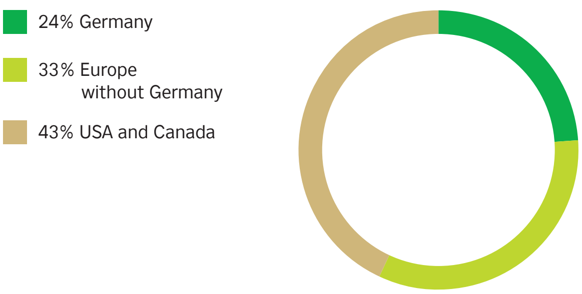
EMPLOYEES
Average headcount

+1%

TAKKT

In the first half of 2018, TAKKT invested further in its digital transformation and expanded its portfolio. Due in particular to negative currency translation effects, revenue was at the same level as in the same period of the previous year, at EUR 567 million. By contrast, organic growth amounted to 2 per cent for the division: while the European companies for the most part realised encouraging growth rates, revenue in the United States only showed slight organic growth. A smaller gross profit margin and the higher expenses budgeted to implement the Digital Agenda resulted in a lower operating profit.

REVENUE
by region



Acquisitions strengthen business

In the first half of 2018, TAKKT made progress in implementing its Digital Agenda: the web-focused brands Certeo, BiGDUG and Mydisplays make up the newly formed newport Group. newport's organisational structure makes it possible to position these business models on the market in Europe in a more agile and targeted manner. At the beginning of the year, TAKKT also acquired Britain's leading online office furniture retailer, Equip-4Work. This company will also be managed under the aegis of the newport Group.

TAKKT Beteiligungsgesellschaft, 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 automated sending of personalised and situation-relevant content and tailored product lists to users of online shops within milliseconds. The portfolio already includes seven start-ups. TAKKT Beteiligungs-gesellschaft also further expanded its commitment to existing portfolio companies by offering growth financing. Various TAKKT brands are already working together with the start-ups.

The KAISER+KRAFT Group also strengthened its market position by acquiring the Swedish direct marketer for business equipment, Runelandhs. Runelandhs uses a multi-channel approach to sell approximately 15,000 products in the area of office and operating equipment. The KAISER+KRAFT Group is already active in Scandinavia through the Gerdmans brand. Together with Runelandhs, Gerdmans will be one of Sweden's leading mail-order sellers of office and operating equipment.

REVENUE
EUR million

+/−0%

Britain's leading online office furniture retailer Equip4Work and Swedish direct marketer for business equipment Runelandhs acquired

Significant progress with digital transformation

TAKKT is pushing forward with its digital transformation with a new member of the Management Board who is responsible for the newport Group and the digital transformation. The Digital Agenda 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.

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

> **The new division, newport, bundles web-focused European business models.**

Revenue increases organically
TAKKT's revenue amounted to EUR 567 million and was thus only slightly up as compared to the same period of the previous year. The Equip4Work and Runelandhs acquisitions in the first half of 2018 and the Mydisplays purchase in 2017 also had a positive effect. By contrast, negative currency translation effects, particularly in relation to the weak US dollar, hampered growth. Organic revenue, i.e., revenue adjusted for currency translation and acquisition effects, increased by 2 per cent compared to the same period of the previous year. After the year got off to a weak start as expected, the division's organic growth improved over the course of the first half of the year.

TAKKT EUROPE recorded organic revenue growth of 3 per cent. Growth rates in virtually every region were encouraging. The packaging solutions provider, the Ratioform Group, grew somewhat more rapidly than the KAISER+KRAFT Group, which specialises in office, operating and warehouse equipment.

OPERATING PROFIT
EUR million

−19%

EMPLOYEES
Average headcount

+5%

TAKKT AMERICA reported only slight organic revenue growth, although this improved over the course of the first half of the year. The development of the individual divisions was mixed. The Displays2Go group, which specialises in display products such as advertising banners, trade fair booths and individually printed displays, the NBF group, which sells office furniture, and the Central group, which focuses on restaurant equipment, generated good organic increases in revenue as compared to the same period of the previous year. The Hubert group, 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 the first half of 2017. This was due primarily to the persistently weak demand in the US catering segment and food retail sector.

Decline in operating profit
TAKKT's operating profit decreased from EUR 74 million in the previous year to EUR 60 million in the first half of 2018. The gross profit margin fell primarily due to increased freight costs. The operating profit was also weighed down by the costs for the digital transformation.

CECONOMY and METRO financial investments

In the first half of 2018, the CECONOMY and METRO financial investments made a significantly negative contribution to Haniel's earnings at EUR –949 million. This was due to impairment losses on the CECONOMY and METRO investments, which were recognised in the wake of negative share price developments.

Impairments reduce earnings contribution for Haniel
The negative share price performance for the CECONOMY and the METRO shares in the second quarter of 2018 prompted Haniel to test both financial investments for impairment. These tests resulted in a EUR 298 million impairment loss for the investment in CECONOMY and a EUR 574 million loss for METRO.

Aside from these valuation adjustments, Haniel's investment result also includes the share of H1 2018 earnings from these financial investments attributable to Haniel. The earnings contribution from the financial investments amounted to EUR –949 million, down from EUR 5 million in the same period of the previous year, during which the METRO GROUP demerger into the independent companies CECONOMY and METRO had not yet been completed.

CECONOMY achieves key milestones
On 20 June 2018, CECONOMY announced that it intended to acquire 15 per cent in the listed M.video, the leading Russian consumer electronics retailer, from Safmar and to sell the loss-making Russian MediaMarkt business to the majority shareholder of M.video in return.

To strengthen its position as a leading European platform in consumer electronics, in 2017 CECONOMY had acquired an approximate 24 per cent equity interest in Fnac Darty, a French retail company for consumer electronics, household devices and entertainment electronics. In May 2018, MediaMarktSaturn and Fnac Darty founded the European Retail Alliance in order to improve the partnership with suppliers and the offering for end customers.

On 29 June 2018, the company announced that it intended to increase its share capital by 10 per cent. The entire tranche of shares went to the digital lifestyle company freenet in a private placement. CECONOMY intends to use the proceeds to continue implementing its strategic agenda.

Impairment losses on CECONOMY and METRO reduce Haniel's earnings significantly

CECONOMY improves EBIT
Revenue for CECONOMY in the first half of 2018 was at the same level as in the same period of the previous year. In particular Turkey, Spain and Italy made positive contributions to the revenue trend, while business was weaker in Germany. In addition to positive momentum from the football World Cup, online generated revenue for the two brands MediaMarkt and Saturn showed encouraging development, as did that of the Services & Solutions division. EBIT rose sharply year on year. Positive effects came not only from the earnings contribution by Fnac Darty but also in particular from redcoon, the absence of negative non-recurring expenses that had been incurred in the same period of the previous year and a legal change in the accounting valuation of gift vouchers.

However, the financial result was significantly reduced by an impairment on CECONOMY's 10 per cent interest in METRO. The sale of the Russian MediaMarkt activities to the Samfar Group resulted in a further significant reduction in CECONOMY's earnings in the first half of the year.

This resulted in a reduction in the share of the net income for the year attributable to Haniel's investment result.

CECONOMY increased its share capital by 10 per cent, which was acquired by the digital lifestyle company freenet AG.

METRO continues to implement strategy
In the first half of the year, METRO continued to work on its strategic initiatives.

INVESTMENT RESULT FROM FINANCIAL INVESTMENTS
EUR million

<–100%

In view of the changing buying habits among its customers, METRO is further expanding the delivery business in wholesale sales. In recent years, METRO has continued to grow its delivery business, 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. To date, more than 50 start-ups have received assistance.

The improvement in the quality of supplier relationships is a core element of retailer strategies. In addition, it is important for agreements to take into account the interests of all stakeholder groups of relevance to retail, such as customers, farmers and manufacturers. To that end, in June 2018 METRO successfully established a series of international procurement alliances together with Auchan Retail, Casino Group and Schiever Group.

METRO's revenue grows organically, EBIT down
In the first half of 2018, revenue of METRO amounted to EUR 17,446 million and was thus 2 per cent below the previous year's level. This was due in particular to negative currency translation effects. Organic growth, i.e., adjusted for currency translation effects and on a like-for-like basis, reached 1 per cent. While METRO Wholesale's revenue grew organically, business at Real was down year on year. METRO Wholesale's delivery business experienced encouraging growth. This was weighed down by weak development in Russia, although the negative momentum stemming from this abated over the course of the year. The decrease in Real's revenue was due in particular to the hot climate conditions and temporary shortages of products. Real's online revenue increased further.

At EUR 116 million, METRO's EBIT was significantly below the previous year's level. This was due in particular to the business development in Russia, as well as to the termination of the collective bargaining agreement at Real and reduced proceeds from the sale of real estate.

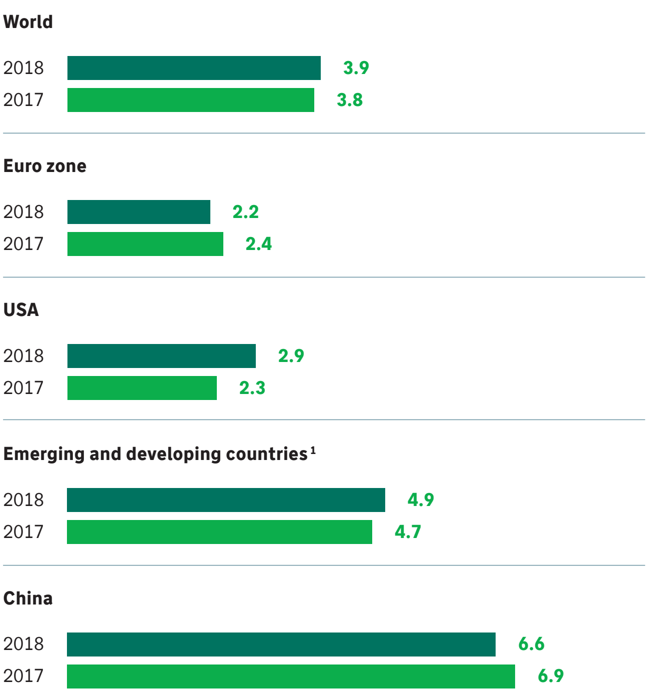
METRO's improved net financial income and net tax income were not sufficient to offset the significantly lower EBIT. This resulted in a reduction in the share of the net income for the year attributable to Haniel's investment result.

Report on expected developments

Haniel expects a further increase in revenue for the 2018 financial year. The first-time full-year inclusion of the Initial companies in CWS-boco as well as the new ROVEMA and Optimar divisions will contribute to this growth. In addition, Haniel also continues to expect a significant increase in operating profit. Moreover, it is now expected that the investment result from the financial investments in CECONOMY and METRO will be down significantly year on year. The substantial impairment loss of EUR 872 million on the CECONOMY and METRO financial investments will weigh down profit before and after tax significantly. These figures will therefore be negative and thus below the figures reported for the previous year.

Dynamic growth in the face of rising uncertainty
The International Monetary Fund (IMF) expects dynamic growth for the global economy in 2018, amounting to 3.9 per cent, although it has signalled that it is likely to lower its forecast for autumn in light of the rising risks. According to the IMF, the economic upswing, which still has momentum, is based on high amounts of capital expenditure, rising industrial production and international trade, which has been lively to date. Regionally, growth is driven by not only the major industrialised countries but also the emerging and developing economies.

GROWTH FORECAST WORLD AND BY REGIONS
%



[1] 205 countries incl. China in total

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

All in all, there has recently been a marked rise in risks and uncertainty. Aside from the high level of debt in certain major emerging markets and Italy and the further rise in interest rates in the United States, the exacerbation of trade conflicts between the United States and other major economies represents the most significant global economic risk. Any further escalation into a broader trade war would weaken the global economy considerably.

The IMF is less confident in the euro zone for 2018 than had previously been the case: it forecasts that the economy will grow by 2.2 per cent. A favourable financing environment with strong domestic demand, expansionary fiscal policies and somewhat higher level of exports will have a positive effect, according to the IMF. The primary risk factors are the future trade relationships with the United States and the United Kingdom.

According to the IMF, the economy in the United States is gaining steam thanks to short-term stimulus from massive tax cuts, and will grow by 2.9 per cent in 2018. In addition, the IMF expects momentum from the more expansionary fiscal policy.

The IMF forecasts that in the emerging and developing economies, growth in 2018 will accelerate slightly to 4.9 per cent. While growth in China is expected to slow somewhat to 6.6 per cent, growth in India is expected to gain momentum to reach an estimated 7.3 per cent. According to the IMF, growth in Russia and Latin America is solid, albeit relatively moderate.

Higher key rates and more volatility expected

The US Federal Reserve has once again raised its key rates and has announced two further rate hikes by the end of 2018. The European Central Bank has cautiously initiated its turnaround in interest rate policy and plans to leave its key rates at nil per cent until mid-2019 at the earliest. Higher interest rates and more dynamic economic growth in the United States than in Europe are expected to provide the US dollar with structural tailwinds as compared to the euro. In addition, the IMF expects FX market volatility to increase.

Assumptions with respect to trend for commodity prices

In addition to the general economy, the development of the stainless steel market segment is important for ELG in particular. In addition to general economic development, global production of stainless steel is particularly dependent on demand in China. Stainless steel production is expected to continue to increase there and for the rest of Asia. More moderate growth is now expected in Europe and the USA. Overall, this results in a forecast increase in the production of stainless steel of up to 5 per cent. In this environment it is assumed that certain relevant commodity prices in 2018 will range significantly above the average price level of 2017.

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

Revenue growth in all divisions

The macroeconomic environment influences the business development of the portfolio companies. However, the previously mentioned uncertainties and risks could give rise to deviations from the outlined general conditions and thus to revenue and earnings forecasts.

Despite the weak business trend in the United States, the **BekaertDeslee** division expects a slight increase in revenue in financial year 2018 (adjusted for company acquisitions and disposals as well as currency translation effects). The continued expansion of the business with mattress covers, and higher sales volumes for knitted materials are likely to be reflected positively in revenue. Given the tense market situation in the United States and higher yarn prices, the company now expects a sharp year-on-year decline in operating profit.

Both revenue and earnings development at **CWS-boco** will be positively affected in 2018 by the first-time inclusion of Initial’s activities for the full year. The division continues to expect revenue to increase due to the fact that Initial’s activities will be included for the entire year. Adjusted for acquisitions and currency translation effects, CWS-boco expects revenue growth in 2018 in the single-digit percentage range. The division also expects the full-year inclusion of the Initial companies, lower one-of expenses for integration measures, as well as positive effects from the integration and operational optimisation projects to cause the operating profit to come in significantly higher in comparison to 2017.

ELG is cautiously optimistic about its further development in the second half of 2018. The output tonnage for stainless steel scrap is expected to increase in the mid single-digit percentage range. Both an increasing availability of scrap as well as ELG’s expansion of the network of scrap locations will contribute to this increase. In the ELG Utica Alloys division, the company expects sustained strong demand for the processing programmes for financial year 2018. Overall, ELG expects a low single-digit percentage increase in output tonnage at ELG Utica Alloys. Additionally, the division also expects that relevant annual average commodity prices will be up in comparison to the previous year. Based on these assumptions, ELG now expects a significant increase in revenue by more than 10 per cent for 2018, adjusted for business combinations and disposals as well as currency translation effects. Since the division also anticipates rising pressure on the procurement side, however, ELG now expects its operating profit to be at the same level as in the previous year. As development on the commodity markets is very volatile, ELG’s revenue and operating profit may also deviate significantly from this forecast, however.

In 2018, the **Optimar** division will be included in the Haniel Group's financial statements for a full year for the first time. The division believes that the growth trend experienced over recent years will continue, and that it will contribute more than EUR 125 million to consolidated revenue. As previously, Optimar continues to forecast that it will realise a seven-figure operating profit.

The **ROVEMA** division, which will also be included in the Haniel Group's financial statements for a full year in 2018 for the first time, expects a revenue contribution of more than EUR 100 million for 2018 due to the positive development of demand for high-quality packaging machines. ROVEMA continues to expect its operating profit to reach the single-digit million range.

Adjusted for company acquisitions and disposals as well as currency translation effects, the **TAKKT** division continues to expect an increase in revenue between 2 and 4 per cent for 2018. TAKKT expects a favourable market environment in Europe, but continues to see uncertainties in individual market segments in the USA. At the same time, TAKKT's management expects profitability to increase in the second half of the year. In addition to expectations that growth will be stronger than in the first half of the year, cost management measures and price adjustments due to higher freight costs will also contribute to this. Based on the earnings trend for the first half of 2018, the division now expects its operating profit to be at the same level as in the previous year. TAKKT expects to incur a comparable expense in 2018 for the implementation of the Digital Agenda as in the previous year. The implementation of the Digital Agenda with the objective of doubling the e-commerce business, a long-term change in organisation, investments in employees and new technologies as well as the mid-term increase in organic revenue growth will be continued.

Haniel continues to expect slight organic revenue growth for the **CECONOMY** and **METRO** financial investments. While CECONOMY continues to expect a sharp increase in EBIT, given the weak business performance in Russia and the termination of the collective bargaining agreement at Real, Haniel anticipates only a slight increase in EBIT at METRO. In spite of the expected improvements in EBIT, the investment result from the two financial investments will be down significantly year on year due to the impairments recognised by Haniel.

Impairments weigh down earnings

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

Due to the impairment losses recognised on the CECONOMY and METRO financial investments in the first half of the year, the investment result will be significantly lower year on year. As a consequence of these impairment losses, profit before and after taxes is expected to be considerably negative despite the improvement in the Haniel Group's operating profit, and thus down year on year. As a consequence, the value-oriented performance indicators – return on capital employed (ROCE) and Haniel value added (HVA) – will be markedly lower than in the previous year. Haniel cash flow is not affected by the impairment losses on the financial investments, meaning that this figure continues to benefit from the positive performance of the operating business, and will be up on 2017.

For the existing business, i.e., excluding business combinations, Haniel's Management Board continues to project that capital expenditure for property, plant and equipment and intangible assets will be well above the previous year's level. At the level of the Haniel Holding Company – as well as at the divisions – the focus will continue to remain on acquisition activities. In 2017, the acquisition of the shares of the Central European business from Rentokil Initial as well as of ROVEMA and Optimar increased the volume of capital expenditure significantly. As before, this volume is not expected for 2018.

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