TAKKT AG

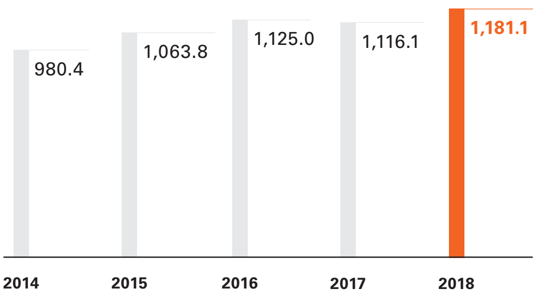
BUSINESS EQUIPMENT SOLUTIONS

Changing culture – building networks

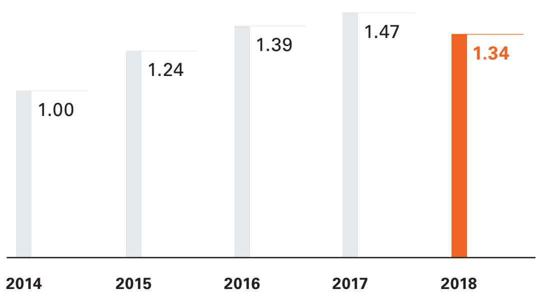
ANNUAL REPORT OF TAKKT GROUP 2018

SELECTED KEY FIGURES

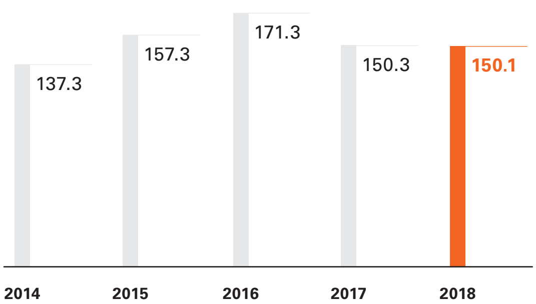
SALES *in EUR million*



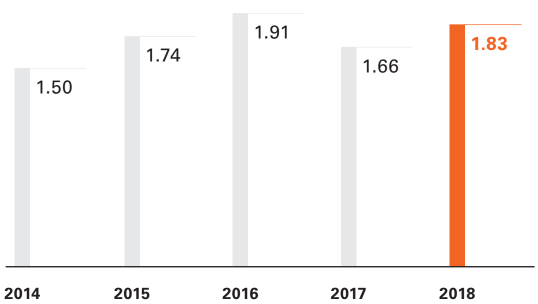
EARNINGS PER SHARE *in EUR*



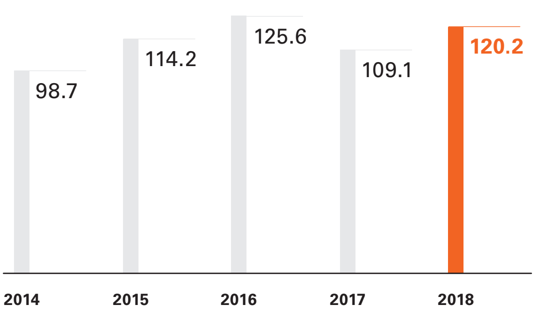
EBITDA *in EUR million*



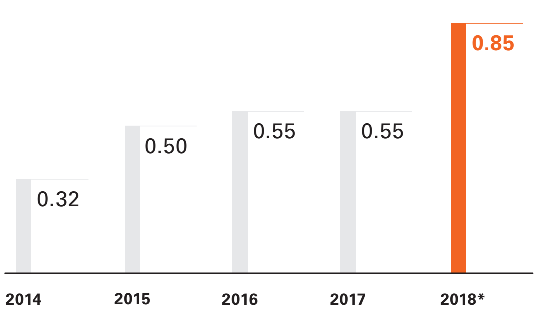
TAKKT CASH FLOW PER SHARE *in EUR*



TAKKT CASH FLOW *in EUR million*



DIVIDEND PER SHARE *in EUR*



** Dividend proposal for the financial year 2018.*

KEY FIGURES OF TAKKT GROUP

in EUR million	2014	2015	2016	2017	**2018**
Sales	**980.4**	**1,063.8**	**1,125.0**	**1,116.1**	**1,181.1**
Change in %	2.9	8.5	5.8	–0.8	5.8
EBITDA	**137.3**	**157.3**	**171.3**	**150.3**	**150.1**
in % of sales	14.0	14.8	15.2	13.5	12.7
EBIT	**110.8**	**129.4**	**142.0**	**123.2**	**122.5**
in % of sales	11.3	12.2	12.6	11.0	10.4
Profit before tax	**99.3**	**119.9**	**132.5**	**115.0**	**116.9**
in % of sales	10.1	11.3	11.8	10.3	9.9
Profit	**65.7**	**81.0**	**91.4**	**96.3**	**88.1**
in % of sales	6.7	7.6	8.1	8.6	7.5
TAKKT cash flow	98.7	114.2	125.6	109.1	120.2
Capital expenditure for investments	13.6	14.2	17.4	27.8	25.0
Capital expenditure for acquisitions	0.1	92.3	0.4	6.7	57.7
Depreciation, amortization and impairment	26.5	28.0	29.2	27.1	27.5
TAKKT cash flow per share in EUR	1.50	1.74	1.91	1.66	1.83
Earnings per share in EUR	1.00	1.24	1.39	1.47	1.34
Dividend per share in EUR	0.32	0.50	0.55	0.55	0.85*
Non-current assets	**663.6**	**735.6**	**729.9**	**692.6**	**758.6**
in % of total assets	75.2	76.3	74.9	74.6	73.1
Total equity	**386.8**	**473.4**	**537.8**	**567.8**	**630.4**
in % of total assets	43.8	49.1	55.2	61.2	60.8
Net financial liabilities	**217.5**	**244.0**	**177.5**	**135.2**	**150.8**
Total assets	**882.5**	**964.2**	**973.9**	**928.5**	**1,037.1**
ROCE (Return on Capital Employed) in %	14.4	15.7	16.5	14.6	14.0
TAKKT value added in EUR million	18.9	28.5	38.3	43.1	30.4
Employees (full-time equivalent) at year-end	**2,357**	**2,304**	**2,311**	**2,405**	**2,530**

** Dividend proposal for the financial year 2018.*

GROUP STRUCTURE

TAKKT AG
BUSINESS EQUIPMENT SOLUTIONS

TAKKT EUROPE

KAISER+KRAFT GROUP

- KAISER+KRAFT
- gaerner
- Gerdmans
- RUNELANDHS
- Kwesto

RATIOFORM GROUP

- ratioform
- Davpack

NEWPORT GROUP

- officefurniture online
- BiGDUG
- certeo
- Mydisplays

TAKKT AMERICA

HUBERT GROUP

- HUBERT
- RETAIL RESOURCE WHERE STORES SHOP

CENTRAL GROUP

- Central RESTAURANT PRODUCTS

D2G GROUP

- DISPLAYS2GO
- POST UP STAND

NBF GROUP

- NATIONAL BUSINESS FURNITURE
- OfficeFurniture.com your home for your office

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Changing culture – building networks

We are focusing our actions on the changing needs of customers in the digital age. As a competent and reliable partner, we want to become even faster and more flexible in the future.

The key to the successful implementation of a digitalization strategy is not just the use of new technology. The further development of the organization and the corporate culture is also a critical success factor. For this reason, we started changing our culture early.

EMPOWERING EMPLOYEES THROUGH A NEW LEADERSHIP CULTURE

If we want to become faster and more flexible, we have to shape the conditions of our collaboration in a way that decision-making powers are shifted to the working level. This requires a different kind of leadership.

BUILDING NETWORKED ORGANIZATIONS

In a dynamic market and competitive environment, organizational structures must support efficient information and knowledge transfer in addition to decentralized decision-making processes. With the establishment of the new Newport division, TAKKT, for instance, has begun to form a new, networked organizational structure.

PROMOTING INTERDISCIPLINARY COLLABORATION

Customer behavior and expectations for the purchasing process are becoming more complex. Traditional collaboration in separate functions is reaching its limits. With interdisciplinary teams, expertise can be bundled so the best solutions for customer communication and service can be worked on together.

ACCELERATING IMPLEMENTATION WITH AGILE WORK METHODS

We require new interdisciplinary ways and methods of working that will help employees work together quickly and flexibly. By prioritizing and regularly reflecting on the optimization of cooperation, the implementation of projects and measures can be accelerated.

TAKKT has already embarked on its path of realigning its organization and changing its culture with the beginning of its digital transformation. The following pages present the progress made so far.

Empowering Employees Through a New Leadership Culture

Markets and business models are changing more quickly than ever. In order to remain competitive in this environment, organizations must also become more flexible.

While highly standardized processes and separate functions were once successful in hierarchically organized companies, the digital age requires a different kind of collaboration. This begins with a change in leadership behavior.

CHANGING LEADERSHIP BEHAVIOR

Leaders must learn to hand over and delegate decision-making authority and discretionary power to where good decisions can be developed most quickly and effectively.

In a week-long training session at UC Berkeley (US) in July 2018, around 60 executives from the TAKKT Group tackled with the topic of leadership in the digital age. The group reflected on different management styles and discussed the requirements for dynamic, effective teams. It also became clear to the participants that successful management of the new challenges also requires regular reviewing and adjustment of previous actions. What's more, an approach that takes small steps and prioritizes activities in accordance with corporate goals leads to faster results.

Inspired by the training in Berkeley, the leadership team developed new leadership principles for TAKKT AG. Central to them is the idea of empowering employees and teams to act and make decisions more independently. A prerequisite for this is the provision of the right context through clear formulation of the purpose and goals of our actions. This serves as a common direction and forms the foundation of our priorities and decisions. Open communication also helps creating transparency.

MORE ACTIVE ROLE FOR TAKKT AG

Changes in the digital age also require a more active role for TAKKT AG. As a result, activities to increase the value of the individual companies will be expanded. Included among them are the company's development, the formulation and implementation of strategic initiatives, the selection of target markets, portfolio management, the cross-segment coordination of expert teams as well as the expansion of strategic personnel management. TAKKT sees great potential particularly regarding operational excellence and data & analytics, and will build small teams in order to support the divisions with the corresponding expertise.


COMMITTING TO GOALS
PULLING IN THE SAME DIRECTION
GIVING CONTEXT
EMPOWERING EMPLOYEES
CREATING TRANSPARENCY

Building Networked Organizations

With the establishment of the new Newport division, a port is being created for the younger, high-growth business models in which they can position their branding, product range and technological infrastructure more strongly and independently in the market than before.

Newport was created in early 2018 as an additional division within the TAKKT EUROPE segment. The group consists of e-commerce businesses Certeo, BiGDUG, OfficeFurnitureOnline (which was acquired in early 2018), Mydisplays (acquired in mid-2017) and the TAKKT investment company, which invests in young start-ups. Newport's goal is to develop into a leading European B2B e-commerce provider. The focus here is on the network idea.

B2B NETWORK WITHIN NEWPORT

Newport bundles several new business models under one roof. They have access to expertise and competencies in Newport's network that they would be unable to set up quickly on their own in this form. These include, for example, the areas of online marketing, category management, customer excellence and business development. Within Newport, corresponding experts have been established at a central level to support the companies' strategic and operative business development. In this way, the companies gain concrete competitive advantages that speed up the development process of the new businesses.

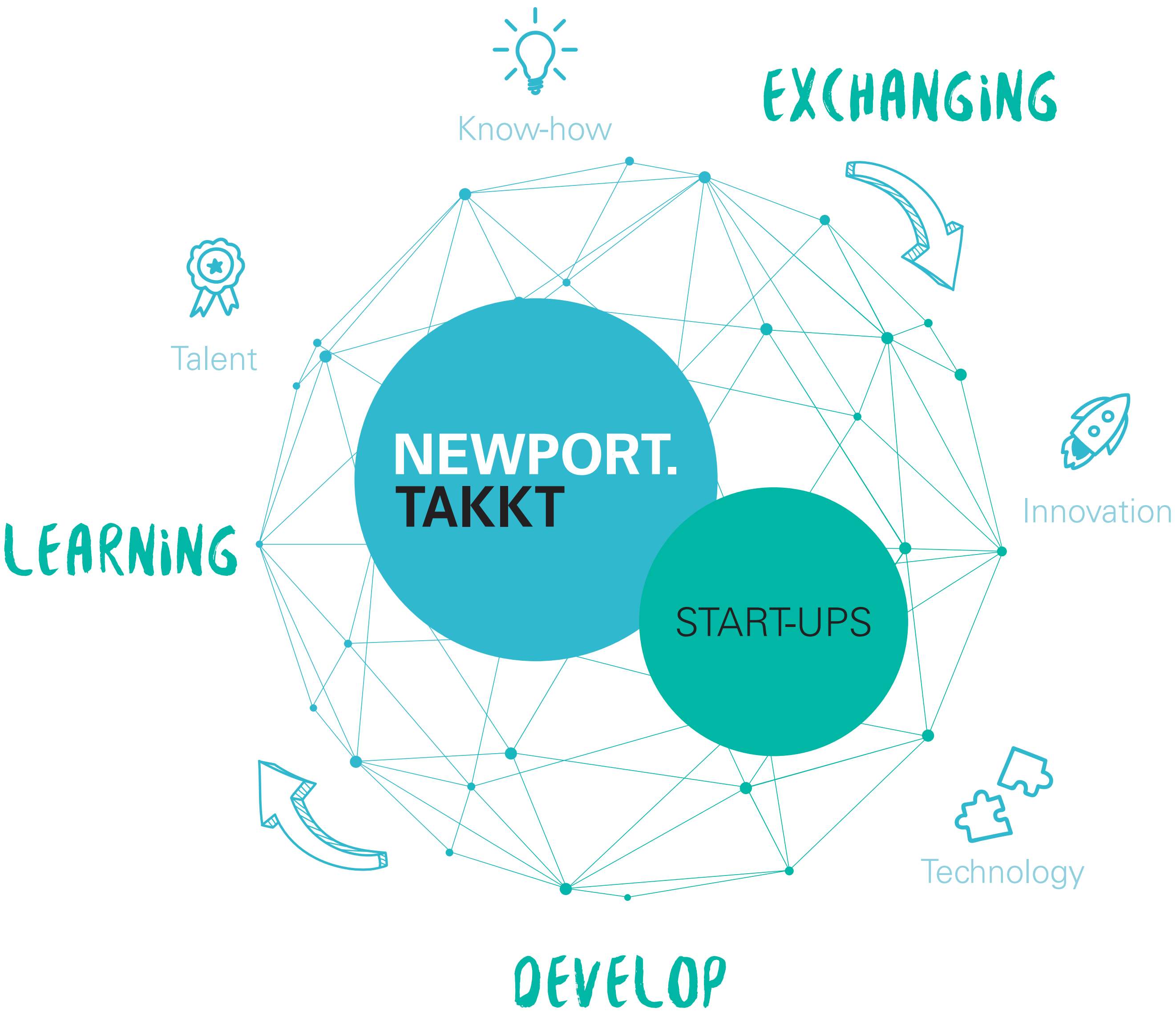
NETWORKING WITH START-UPS

Through the TAKKT investment company, Newport – as a strategic investor – receives access to young high-growth companies that specialize in B2B direct marketing or services along the value chain of our Group companies. This creates advantages for both sides: Newport learns about new innovative ideas and approaches in B2B e-commerce and can learn directly from the founders. The founders, on the other hand, gain access to the Newport network and the TAKKT Group, and can thus speed up their growth.

"BEST PRACTICE" NETWORK WITHIN THE TAKKT GROUP

Beyond this, one of the goals of the TAKKT Group is to share "best practice" solutions among the divisions. For this purpose, expert teams have been established which are self-organized and regularly exchange information. One example is the topic of customer excellence, which deals with creating positive customer experiences at all contact points and exceeding customer expectations wherever possible.

SHARING IDEAS
WITH FOUNDERS



Promoting Interdisciplinary Collaboration

New forms of collaboration for comprehensive customer care are being introduced. Interdisciplinary teams take responsibility for clearly defined customer groups to best meet their needs.

RETHINKING WAYS OF COLLABORATION

In order to better meet customer needs and to optimize the shopping experience, new team structures are necessary. These make it possible for an individual team to quickly develop customer-oriented solutions without tedious coordination processes between rigidly structured departments. Collaboration in cross-departmental teams is therefore accelerating within the TAKKT Group. Interdisciplinary teams bundle expertise that was formerly distributed across separate departments into a single powerful work group. Two different approaches were followed to take this new form of collaboration into the respective organization.

HYBRID TEAMS

In the hybrid model, the traditional functions of the existing organizational structure are perceived, while at the same time new interdisciplinary team structures, which are arranged by customer segments, are built on additionally. This approach is being used by KAISER+KRAFT, for instance. The company has determined new customer segments with defined goals and models for customer communication. The "go to market" team develops custom-fit interactions for the individual customer groups. The interdisciplinary team is made up of members from various departments such as purchasing, marketing and sales. Team members conceive of and plan marketing and sales activities, then implement and monitor them.

NEW ORGANIZATIONAL STRUCTURE

In addition to the hybrid approach, the organization can also be redesigned so that the team structure is oriented completely toward customer segments. Hubert has taken this path. There, employees from the areas of marketing, merchandising and sales are forming new interdisciplinary teams. Better understanding of the specific markets and customer types in the core markets are developed in these teams.


Digital Marketing
Product Management
Sales

Accelerated Implementation Through Agile Work Methods

In order to be able to quickly react to customer needs, agile work methods are increasingly used. Speed, prioritization and flexibility are important.

The TAKKT Group is accelerating the implementation of Design Thinking, Scrum and Kanban. An increasing number of employees are being trained in these methods.

DESIGN THINKING

The Design Thinking method is based on creative, interdisciplinary collaboration. The starting point is the identification of problems from the customer's point of view, followed by a phase of idea generation. The ideas are evaluated with the customer and an initial simple prototype is developed. This in turn is developed further in successive dialog with the customer, or discarded if it is rejected. For example, the ratioform subsidiary Davpack has used Design Thinking to develop a new service. The customer is reminded by email that his packaging stock is running low so they can re-order in time with just a few clicks.

SCRUM

Scrum is a method of agile project management. A complex project is broken down into small, digestible work packages. These are then managed by small, self-organized teams in short intervals (known as "sprints"). The teams are only given a predefined direction and decide for themselves which work packages can be completed in a sprint (the "pull" principle). Project results are evaluated regularly and include customer feedback.

The TAKKT AG leadership team familiarized themselves with this method in a workshop. Further training sessions are planned for employees. AT KAISER+KRAFT and ratioform as well as at the web shop teams of Hubert and NBF, Scrum is increasingly applied in project management.

KANBAN

Kanban originated in the production process as a means of visualizing manufacturing progress. However, the method can also be used to manage projects and work assignments. Actions are divided on a Kanban board into the categories of "pending," "in progress" or "completed." This allows the team to see who is currently working on which work packages, and what their handling status is. Beyond this, the Kanban board helps with the prioritization of tasks. More and more employees are using the Kanban method in their daily work.

Kanban

Method for visualization and prioritization of tasks and processes

Design Thinking

Iterative process to solve complex problems together with the customer

Scrum

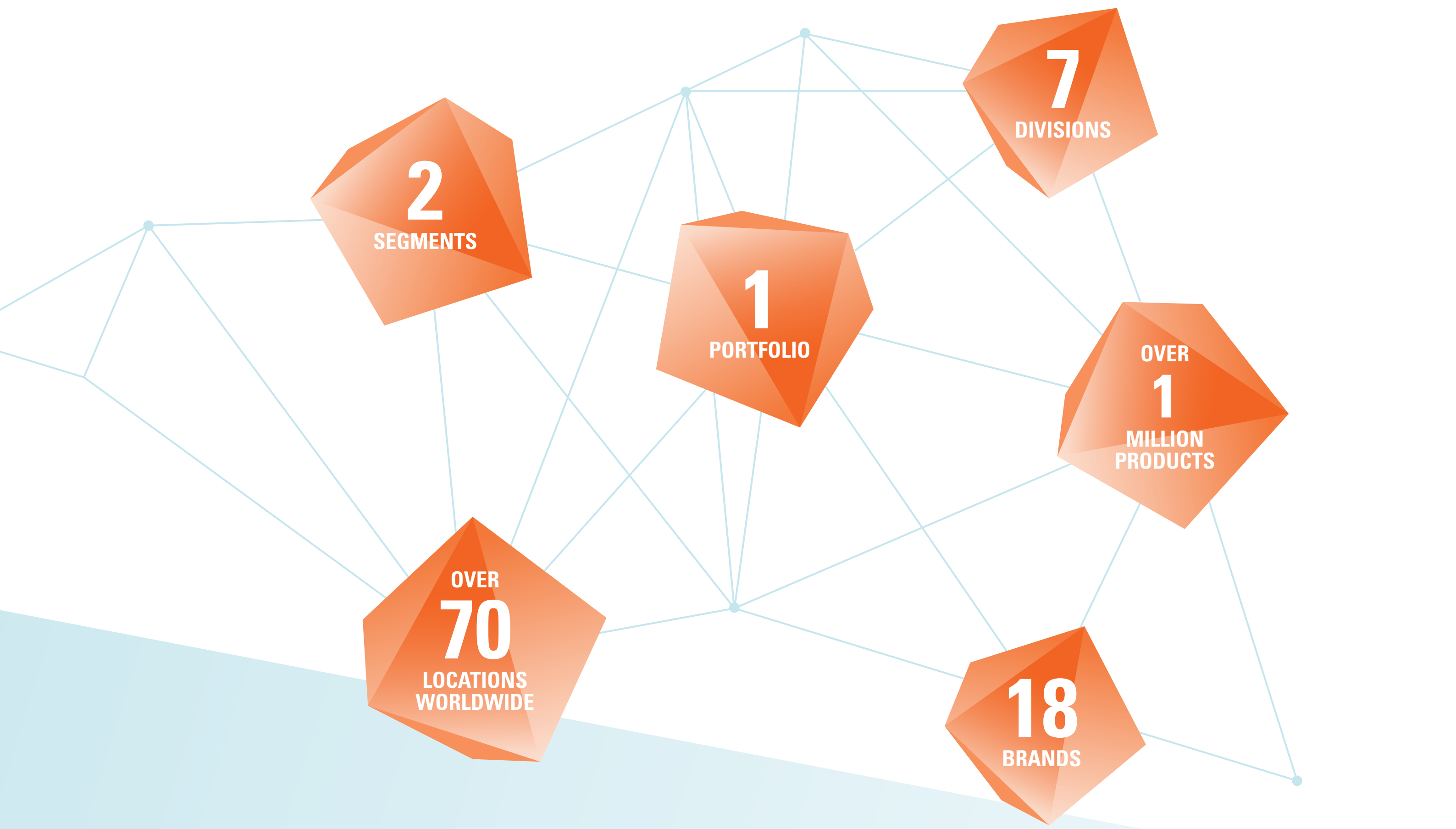
Method of agile project management

OUR **MISSION STATEMENT**

We are a portfolio of globally operating B2B direct marketing specialists for business equipment with the goal of becoming leaders in our markets through our portfolio companies. While the companies follow a business model that is, at its heart, similar, they each have a different focus in terms of their customer groups, product ranges and countries. All use the marketing media of print, online, telesales and field activities as part of an integrated multi-channel approach. Anchored by this successful business model, we thus position ourselves broadly throughout the Group. This enables us to diversify the risks of the individual markets in our portfolio. We enter new markets wherever we see positive prospects for success, either by founding new companies or through acquisitions.

The customer is the focus of our activities. Our portfolio is complemented by exemplary service in addition to our high-quality product preselection. Our portfolio companies have made it their goal to offer our customers the most efficient method for purchasing business equipment. We are continually adjusting our business model to suit changing customer needs for this reason. To achieve this, trends such as growing digitalization are identified and made tangible and usable for our customers and business partners.

Our actions are guided by our corporate values as well as our principles of sustainability. We actively contribute to protecting the environment and preventing climate change. We take responsibility for our products, in purchasing, marketing and logistics. We are also committed to the concerns of our employees and those in our social environment. We want to be the role model for sustainability in our industry by taking a targeted and systematic approach.



OUR **MARKET POSITION**

PERSONAL ADVICE

- Experts help customers select the right product
- Sales representatives prepare personalized offers
- Product managers provide customized solutions and products on request

EASY PROCUREMENT PROCESSES

- The customer chooses from preselected products for different purposes
- The customer places the order using their preferred sales channel (online, print, telesales and field activities)
- Own warehouses ensure fast deliveries

FULL SERVICE

- Services range from personal advice, needs analysis, planning and offers through to delivery and assembly of the products
- Long warranty periods that are longer than the legal minimums are granted
- Availability guarantee and ordering of spare parts over several years is a further advantage for the customer

DIGITAL SOLUTIONS

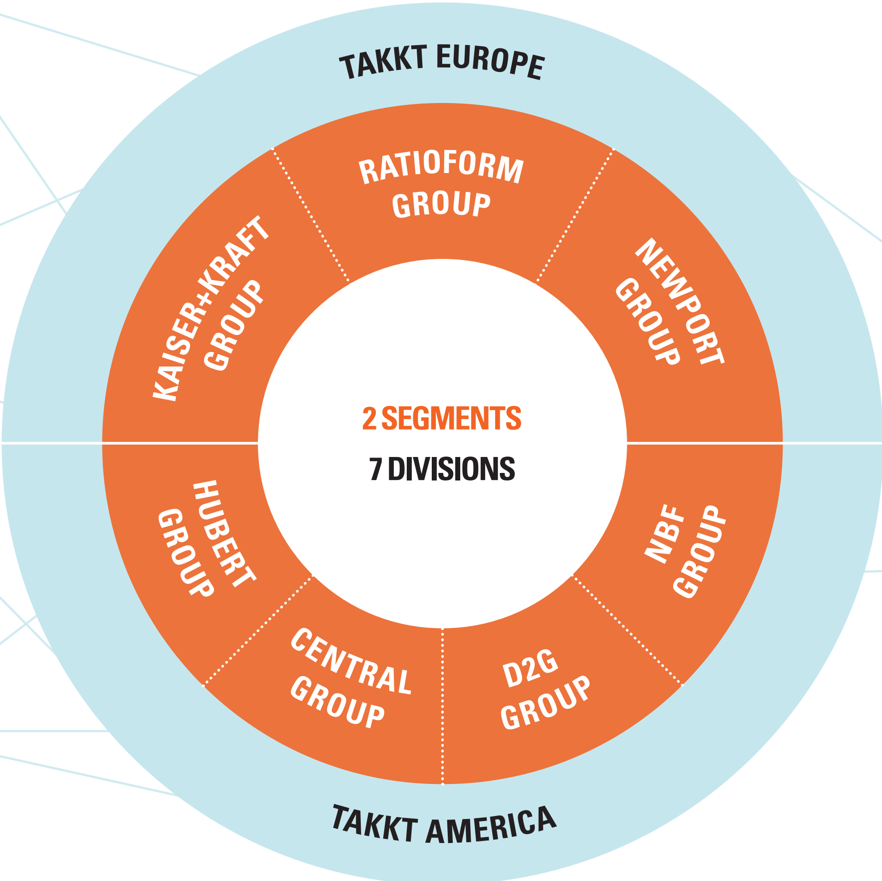
- Customers are offered tailored web shops and access to e-procurement solutions
- New solutions are developed based on new technologies and in collaboration with the customers
- More information portals with self-service options being built
- Innovative solutions can be tested through investments in start-ups

The portfolio companies and their brands operate in attractive, fragmented markets in the area of B2B direct marketing. The portfolio companies mainly sell durable equipment at stable prices to business customers in different industries and regions.

Our customers value high-quality products, fast and easy order processing, and exceptional service. This is precisely the strength of the TAKKT companies because they offer customers a whole range of added values that go beyond just direct marketing. As product experts, we make a professional preselection from a wide range of offers on the market and tailor this to suit individual customer needs. We help our customers make an informed purchasing decision and also create customized solutions. Our customers can use multiple ordering channels. For example, our product range can be linked to different e-procurement solutions in addition to the catalog and web shop. Long warranty periods and availability guarantees round off the range of services.

In addition to added value for the customer, the TAKKT companies also create considerable benefits on the supplier side. Inclusion in the product range of a TAKKT company brings considerable benefits for these suppliers compared to independently distributing their products. They obtain direct access to a very large number of customers in several countries and thus circumvent the natural market entry barriers that result from the different currencies, languages and legal frameworks, especially in Europe.

OUR **SEGMENTS**



The TAKKT Group consists of two segments with a total of seven divisions.

The TAKKT EUROPE segment includes the KAISER+KRAFT group (products like pallet lifting trucks, universal cabinets, desk chairs, environmental cabinets and containers for hazardous materials), the ratioform group (collapsible boxes, package padding, shipping pallets and stretch film) as well as the Newport group (lockers, heavy load racking, work benches, display systems and printed advertising material). The TAKKT AMERICA segment comprises of the Hubert group (buffet equipment such as serving platters and food baskets), the Central group (kitchen stoves and freezers), the D2G group (signage, display stands, mobile trade booths and fixtures) and the NBF group (desk chairs, desks, conference tables and furniture for reception areas).

The TAKKT Group with its various sales brands is organized in a decentralized manner, in order to enable them to remain close to the market and to the customer. TAKKT pursues a multi-brand strategy with multi-channel and web-focused brands that are geared to the respective needs of the different customer groups.

KAISER+KRAFT GROUP

FOCUS

PLANT, WAREHOUSE AND OFFICE EQUIPMENT

BRANDS

KAISER+KRAFT

gaerner

Gerdmans

RUNELANDHS

Kwesto

KEY FACTS

1,100 EMPLOYEES
89,000 PRODUCTS

SALES REGIONS

24 EUROPEAN COUNTRIES

PRODUCT EXAMPLES

The KAISER+KRAFT group success story began in Stuttgart in 1945. Walter Kaiser and Helmut Kraft founded a company that went on to become Europe's leading B2B direct marketing company for plant, warehouse and office equipment in the following decades. Today more than 1,000 employees in more than twenty European countries work for the brands KAISER+KRAFT, gaerner, Gerdmans, Runelandhs and KWESTO. These companies sell their range of products via catalog, internet, telephone and field sales. On request, the companies create custom orders, small batches and products in their customers' corporate design.

TAKKT EUROPE

RATIOFORM GROUP

FOCUS

PACKAGING SOLUTIONS

BRANDS

ratioform Davpack

KEY FACTS

380 EMPLOYEES
8,000 PRODUCTS

SALES REGIONS

GERMANY, AUSTRIA, SWITZERLAND, SPAIN, ITALY, GREAT BRITAIN, SWEDEN

PRODUCT EXAMPLES

The ratioform group comprises the operating companies of the ratioform and Davpack sales brands. Both brands sell a complete range of transport packaging solutions to B2B customers from various industries. ratioform Verpackungen GmbH is based in Pliening near Munich. It is Germany's market leader in multi-channel direct marketing for transport packaging and also operates in six other European countries. Nearly all products offered by ratioform are available in stock. A high quality of service is guaranteed by the high level of stock availability and quick delivery to customers.

NEWPORT GROUP

FOCUS

NEW BUSINESS MODELS AND START-UP INVESTMENTS

BRANDS

officefurniture online

BiGDUG

certeo

Mydisplays

KEY FACTS

240 EMPLOYEES
45,000 PRODUCTS

SALES REGIONS

GERMANY, AUSTRIA, SWITZERLAND, FRANCE, GREAT BRITAIN

PRODUCT EXAMPLES

The Newport group bundles young, web-focused companies that target small and medium-sized corporate customers. The division offers items in different European countries and product areas. OfficeFurnitureOnline is a UK product specialist offering office furniture such as desks, chairs and cabinets in its web shop. BiGDUG, an online direct marketer for business equipment specializing in storage and shelving that supplies its customers with shelving systems and work benches, is also in the UK. Certeo sells plant and office equipment in the DACH region (Germany, Austria and Switzerland) as well as in France. In contrast, Mydisplays provides products such as custom-printed advertising banners and mobile display systems to a broad customer segment primarily in Germany. In addition, the TAKKT investment company with its investments in innovative start-ups is also part of the new division.

HUBERT GROUP

FOCUS

FOOD EQUIPMENT AND MERCHANDISING

BRANDS

HUBERT®

RETAIL RESOURCE | WHERE STORES SHOP

KEY FACTS

300 EMPLOYEES
158,000 PRODUCTS

SALES REGIONS

USA, CANADA

PRODUCT EXAMPLES

The Hubert group within the TAKKT AMERICA segment consists primarily of the Hubert brand, selling merchandising items as well as supplies and equipment for the food service and retail industries in North America. It caters predominantly to operators of large cafeterias and food service businesses, for which Hubert also provides comprehensive solutions. Retail Resource was founded by Hubert in 2010 and specializes in merchandising products for retailers outside the food industry.

TAKKT AMERICA

CENTRAL GROUP

FOCUS

RESTAURANT EQUIPMENT

BRAND

Central
RESTAURANT PRODUCTS

KEY FACTS

150 EMPLOYEES
730,000 PRODUCTS

SALES REGION

USA

PRODUCT EXAMPLES

The Central group consists of the Central brand, which supplies restaurant operators with products via active telephone sales, a web shop and a catalog. The product range includes all the equipment and supplies required for the operation of small to mid-sized restaurants. Marketing at Central focuses on building a personal relationship between the customer and customer service representative through a strong telesales team. Central has been part of the TAKKT Group since 2009.

TAKKT AMERICA

D2G GROUP

FOCUS

SALES DISPLAYS

BRANDS

DISPLAYS2GO POST UP STAND

KEY FACTS

330 EMPLOYEES
14,000 PRODUCTS

SALES REGION

USA

PRODUCT EXAMPLES

The D2G group within the TAKKT AMERICA segment includes the web-focused brands Displays2go and Post-Up Stand. Displays2go has been part of TAKKT since 2012 and is the online market leader in display sales in North America with display products such as signage, display stands and store fixtures. With Post-Up Stand, a direct marketing specialist for customized printed displays, advertising banners and trade fair booths was acquired in 2015. Both companies focus strongly on sales via the web shop and provide customers with comprehensive service through their platforms.

TAKKT AMERICA

NBF GROUP

FOCUS

OFFICE EQUIPMENT

BRANDS

NATIONAL BUSINESS FURNITURE

OfficeFurniture.com your home for your office

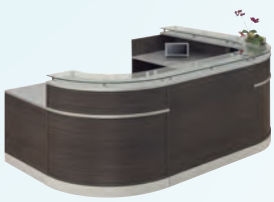
KEY FACTS

200 EMPLOYEES
31,000 PRODUCTS

SALES REGION

USA

PRODUCT EXAMPLES



TAKKT AMERICA operates its B2B direct marketing for office equipment via the NBF group. The Group's customer base consists mainly of service companies, public institutions, government agencies, the health care sector, schools and churches. The NBF sales brand sells traditional North American office furniture in the USA. The web-focused brand officefurniture.com is also part of the division.

TO THE SHAREHOLDERS

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LETTER FROM THE CEO

Dr. Felix A. Zimmermann
Chairman of the Management Board, CEO

Ladies and gentlemen

For the past fiscal year, we expected a generally positive economic environment, but at the same time, we saw uncertainties in some markets. This expectation materialized to a large extent during the course of the year. Overall, the economy developed positively in 2018. As the year progressed, however, the growing political uncertainty soured the economic mood amid intensified US-China trade tensions and concerns about a disorderly Brexit. The economic indicators deteriorated significantly, especially as of the third quarter. TAKKT nevertheless achieved good growth and respectable earnings in the past financial year. After a difficult start to the year, we were able to return to growth in the subsequent quarters and come in at the upper end of our forecast with an organic sales increase of 3.4 percent. In addition, both of the acquisitions made in the year under review contributed to our growth. Higher freight costs and lower freight margins in 2018 were a negative factor on the earnings side, which we had not expected to this extent at the beginning of the year. At 12.7 percent, our EBITDA margin still came in just below the range of 13 to 14 percent projected at the beginning of the year.

Digital transformation was a key strategic focus for TAKKT in 2018 again. We have forged ahead at full speed with the measures defined in our digital agenda. This continues to enjoy the highest priority in the company. We place great importance on making the progress achieved in implementing these measures quantifiable by means of key indicators. One of these figures is the share of order intake that TAKKT generates through e-commerce channels. In 2018, more than 50 percent of the total order intake was generated via digital channels for the first time. We see this positive development as a sign that we are on the right track. We are also very pleased that we have been able to recruit many new employees with specialized digital knowledge. The approximately 100 positions that we wanted to create as part of the digital agenda have been filled. We are currently analyzing which functions we should expand further on a selective basis. In addition, we are increasingly looking at leadership and organizational issues in the digital age. Real change is also needed in this area. With all the measures and projects, it is now time to make the innovations and changes initiated tangible for the customer and convert them into further business success.

With the Newport group created at the beginning of 2018 as a separate division within the TAKKT EUROPE segment, we have made it possible for the brands bundled there to have more autonomy in how they position themselves. This means that we will be able to address relevant customer groups even more effectively and thus tap into significant growth potential. The development of the newport group already delivered initial successes in the year under review. Alongside the good development of Newport's companies, the TAKKT investment company, which is likewise part of the group, made further progress. By the end of 2018, we had finalized a total of seven investments in start-ups, and we most recently invested in the Cologne-based company odoscope. We also participated in further financing rounds with the investment company over the course of the year and focused on integrating the solutions and innovations of the start-ups in various TAKKT sales companies. This gave our organization fresh perspectives.

In addition to purchasing OfficeFurnitureOnline at the beginning of the year, TAKKT successfully concluded another acquisition in 2018. Runelandhs, a Swedish distance seller for business equipment, has been part of the TAKKT portfolio since May 2018. Along with Runelandhs, the Gerdmans brand, which is part of the KAISER+KRAFT group, is now one of the leading distance sellers of business and office equipment in Sweden.

M&A activities will also continue to be part of our growth strategy. Last year, we revised our acquisition strategy in order to do this. For one thing, we want to continue strengthening and expanding our existing business through targeted acquisitions. On the other hand, we can now easily imagine expanding our value chain to include production or services in related business areas through acquisitions. In the future, we plan to enrich our service offerings even further beyond a basic sales transaction. We want to offer our customers recognizable added value across the entire purchase process and expand our range of advice and customer support services.

Both the implementation of the digital transformation and the active shaping of the company portfolio are geared towards preparing TAKKT for future challenges. In order to achieve this objective, we see TAKKT AG taking an even more active role in the future in terms of activities to increase the value of the individual businesses. In addition to strategic management, these include the company's development, the creation and implementation of strategic initiatives, the selection of target markets, portfolio management, the cross-segment coordination of teams of experts as well as the expansion of strategic personnel management. As an example, we plan to build small teams for operational excellence and data & analytics. We are confident that by pursuing this course together with the management of the individual TAKKT companies, we will take the right steps towards realizing the potential for success that we see in our markets.

TAKKT achieved notable successes in the area of sustainability in 2018. The strategic importance that TAKKT continuously places on "corporate responsibility" is becoming increasingly evident in our environment. We want to continue to be a role model of sustainability in our industry. Receiving the German CSR Award 2018 in the category of "Environmental Commitment" is a great incentive for us to vigorously pursue our sustainability goals. This annual report is published together with the current sustainability update, which provides information on our extensive sustainability measures.

Also due to the ongoing political and economic uncertainties, we expect a slight economic slowdown in the current fiscal year. Nevertheless, we still want to report a slight organic sales increase and achieve an EBITDA margin within our target corridor in 2019. However, we cannot rule out the possibility of a somewhat weaker economic development than expected from today's perspective.

In December, the Supervisory Board of TAKKT AG extended the contract of CFO Dr. Claude Tomaszewski by another five years until the end of October 2024. I am glad to see this sign of stability and continuity and look forward to the continued positive and trusting collaboration.

In conclusion, I want to thank all our employees on behalf of the entire Management Board for the work accomplished in the 2018 financial year. Your commitment and dedication contribute enormously to our success and the realization of our goals. I would also like to thank our customers, business partners and shareholders for the trust they have placed in us over the past year. I hope to keep seeing you at TAKKT's side in 2019.

Stuttgart, Germany, March 2019

Dr. Felix A. Zimmermann
(CEO of TAKKT AG)

MEMBERS OF THE MANAGEMENT BOARD

Dr. Felix A. Zimmermann (CEO)

Dr. Claude Tomaszewski (CFO)

Dirk Lessing

Dr. Heiko Hegwein

TAKKT SHARE AND INVESTOR RELATIONS

CHALLENGING STOCK MARKET ENVIRONMENT

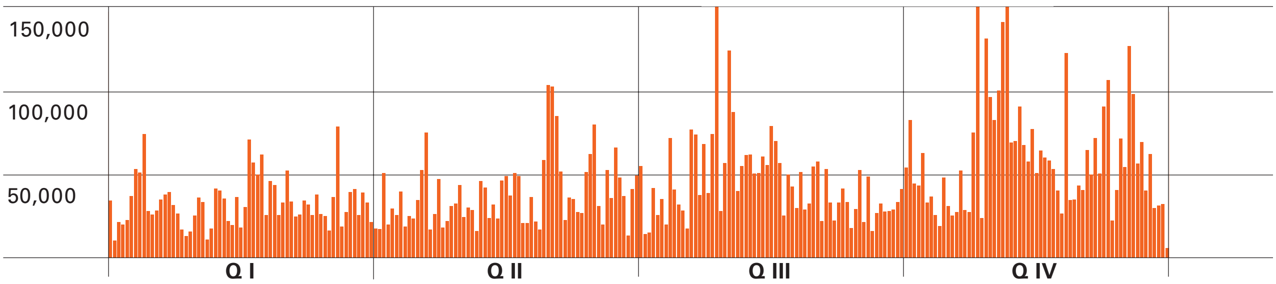
2018 was a difficult year for the capital markets. After a very positive start to the year with indexes hitting new record highs, the mood in the capital markets grew increasingly bleak during the course of the year. This was primarily attributable to rising interest rates in the US, the escalating trade war between the US and China and uncertainty over the United Kingdom's exit from the EU. The share indexes suffered a marked decline compared to the previous year with the DAX and SDAX recording losses of 18.3 percent and 20.0 percent respectively.

The performance of the TAKKT share was in line with that of the overall market in 2018. The share price at the start of the year went up, also as a result of the US corporate tax reduction that was decided in December, reaching an annual high of EUR 23.05 at the beginning of February. After the weak business performance in the first quarter, the share price decreased. Despite the marked improvement in sales growth in the second quarter, share performance continued to decline in the subsequent months. The share hit its annual low of EUR 12.30 in October. After publication of the results for the third quarter and confirmation of the forecast, the share took an upward turn. However, this level could not be maintained due to the weak capital market environment. The last share price of the year was EUR 13.64 on December 28, 27.7 percent below the closing rate of the previous year. Including the dividends paid out in May, the return was minus 24.8 percent. All data is based on daily closing prices in the Xetra trading system.

In September 2018, Deutsche Börse repositioned the DAX index family and included the stocks previously listed in the TecDAX in the classic broad-based indexes DAX, MDAX and SDAX. At the same time, the MDAX was expanded to 60 stocks and the SDAX to 70. TAKKT is still listed in the SDAX after the rule changes and had a share of 0.89 percent as of the end of the year. In the Deutsche Börse ranking list encompassing all companies listed in the DAX, MDAX and SDAX, TAKKT AG occupied 142nd place at

Performance of the TAKKT share *(52-week comparison, SDAX as benchmark)*

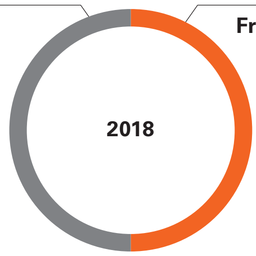
Trading volume of the TAKKT share *(daily volume on Xetra in number of shares in 2018*)*

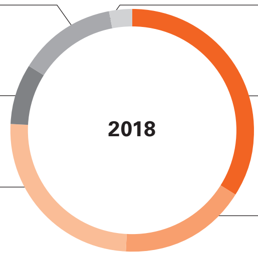


* On individual days, more than 150 thousand TAKKT shares were traded on Xetra.

year-end in terms of market capitalization (based on free float) due to the declining share price. It was in 136th place in the previous year. In contrast, the TAKKT's trading volume improved from place 168 in the previous year to place 149. On the most important trading platform, Xetra, an average of 70.5 (46.0) thousand TAKKT shares were traded on each trading day.

Shareholder structure and regional distribution of free-float shares of institutional investors as of December 31, 2018*





** For regional distribution approximation values, based on Bloomberg data*

Key figures relating to TAKKT share *(five year perspective)*

	Unit	2014	2015	2016	2017	2018
Trade data						
Year-end closing price*	EUR	13.61	18.45	21.51	18.87	13.64
Highest price*	EUR	16.40	18.45	21.80	23.13	23.05
Lowest price*	EUR	11.34	13.97	14.76	18.87	12.30
Market value at year-end	EUR million	893.0	1,210.5	1,411.3	1,238.1	894.9
Average daily turnover*	thousand shares	30.6	28.1	27.2	46.0	70.5
Issued shares at year-end	million shares	65.6	65.6	65.6	65.6	65.6
Dividend						
Dividend per share in EUR**	EUR	0.32	0.50	0.55	0.55	0.85
thereof ordinary dividend in EUR	EUR	0.32	0.50	0.55	0.55	0.55
thereof special dividend in EUR	EUR	-	-	-	-	0.30
Payout ratio	percent	32.0	40.5	39.5	37.5	63.3
Dividend yield***	percent	2.4	2.7	2.6	2.9	6.2
Valuation ratios						
Earnings per share (EPS)	EUR	1.00	1.24	1.39	1.47	1.34
TAKKT cash flow per share	EUR	1.50	1.74	1.91	1.66	1.83

** Xetra-Trading*

*** Dividend proposal for the fiscal year 2018*

**** At fiscal year's closing price*

Basic data of the TAKKT share	
WKN (securities identification code)	744600
ISIN	DE0007446007
Ticker symbol	TTK
Reuters symbol	TTKG.F (Frankfurt)
Bloomberg symbol	TTK.GR
Number and type of shares	65,610,331 no-par-value bearer shares
Share capital	EUR 65,610,331
First listing	September 15, 1999
Market segment	Prime Standard
Index	SDAX
Designated sponsors	Hauck & Aufhäuser Oddo Seydler Bank Pareto Securities

COMPREHENSIVE INFORMATION FOR THE FINANCIAL COMMUNITY

TAKKT's investor relations work focuses on providing information to shareholders, analysts and investors in a transparent and reliable manner. The company places great importance on informing all participants in the capital market with equal thoroughness and openness. In the "Investors' Darling" competition organized every year by business magazine "manager magazin" together with the Leipzig Graduate School of Management, TAKKT achieved third place in the SDAX last year, putting it among the top three for the third time in a row, following second place in the previous two years. TAKKT ranked 29th in the overall ranking of all 160 companies listed in the DAX indices. The competition evaluates the companies with regard to their financial communications, such as financial reporting, IR presentations and the website.

The range of information provided on the TAKKT website is designed to meet the information needs of all capital market participants and financing partners. Besides financial reports, ad hoc announcements, press releases and share information, interested persons can find roadshow and analyst presentations there. It also provides explanations regarding the company's strategy and Corporate Governance. In addition, telephone conferences open to all interested parties are held when quarterly results are published or for important corporate events such as acquisitions.

SPEED AND CONSISTENCY OF REPORTING

TAKKT places great importance on timely and informative reporting. It therefore presents interim results within one month after the end of each quarter at the latest. The management also places great value in the quality of the published information. To make it easier to analyze data, details are always presented in financial reports in the same way and in the same section whenever possible. Significant variations in comparison with previous years are explained if they occur. TAKKT presents special effects on key figures resulting from acquisitions, disposals or currency fluctuations in a transparent manner.

CLOSE COMMUNICATION WITH INVESTORS AND ANALYSTS

TAKKT seeks to communicate regularly and transparently with institutional and private investors, financial analysts, potential investors and financial journalists:

- In March 2018, TAKKT presented the consolidated financial statements at an analyst conference in Frankfurt, where it discussed the strategy and outlook with analysts and investors.

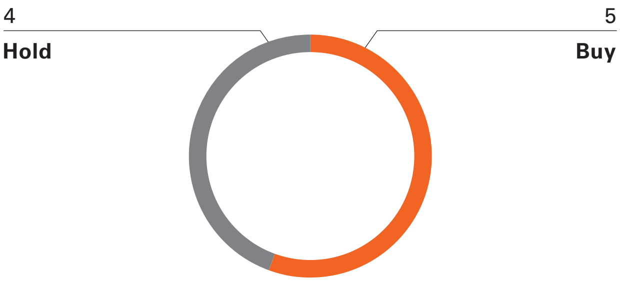
- The Management Board regularly takes part in capital market conferences such as the German Equity Forum in Frankfurt held by Deutsche Börse AG every year in November. As in the previous year, TAKKT also participated in the capital market conferences of Kepler Cheuvreux and Unicredit in Frankfurt, Crédit Mutuel CIC in Paris, Berenberg in Tarrytown, New York, and the capital market conference of Berenberg and Goldman Sachs in Munich in the 2018 financial year. In addition, there was the Oddo BHF Forum in Lyon, the Bankhaus Lampe Deutschlandkonferenz in Baden-Baden, the Commerzbank Sector Conference in Frankfurt, the GBC Zürcher Kapitalmarktkonferenz, and the Lang & Schwarz Small and Midcap Conference in Düsseldorf.

- The company also held talks with investors once again during roadshows in London, Paris, Frankfurt am Main and Hamburg.

- Investors gathered information in one-to-one talks and group presentations at the company's headquarters in Stuttgart with regard to the current business development, the corporate strategy and growth prospects of the TAKKT Group.

TAKKT makes the documents presented at the events available on its corporate website. The number of financial analysts who regularly observe the TAKKT share also reflects the perception of the company on the capital market. As of March 01, 2019, four analysts advised holding the share. Five analysts recommended buying the share.

Institution	Analyst
Bankhaus Lampe	Christoph Schlienkamp
Bankhaus Metzler	Tom Diedrich
Berenberg Bank	James Letten
DZ Bank	Thomas Maul
Hauck & Aufhäuser	Christian Salis
Kepler Cheuvreux	Craig Abbott
Landesbank Baden-Württemberg	Thomas Hofmann
M.M. Warburg	Thilo Kleibauer
Pareto Securities	Christian Bruns



SHAREHOLDERS' MEETING AND DIVIDEND

The 19th ordinary Shareholders' Meeting of TAKKT AG took place in Ludwigsburg on May 8, 2018. The shareholders agreed with the proposal of the Management Board and Supervisory Board and approved the payment of an unchanged dividend of EUR 55 cents per share. This corresponded to a payout ratio of 37.5 percent of the result for the period. Adjusted for the non-cash one-time gain from the revaluation of deferred tax liabilities, the payout ratio came to 46.3 percent.

The dividend policy provides for a payout of 35 to 45 percent of the profit for the period. TAKKT wants the shareholders to participate in the success of the company through a consistent and reliable dividend stream while also leaving enough room to be able to continue financing value-creating acquisitions. In the event of a very high equity ratio – as at year-end 2018 –, payment of a special dividend is also possible. The Management Board and Supervisory Board will thus propose to the Shareholders' Meeting in May 2019 that a special dividend of EUR 0.30 per share be paid in addition to the ordinary dividend of 0.55 for the 2018 fiscal year. In total, this would correspond to a payout ratio of 63.3 percent.

FINANCIAL CALENDAR 2019

The financial calendar for 2019 is shown on the last page of this annual report. It can also be accessed on the TAKKT website, where it is regularly updated.

INVESTOR RELATIONS CONTACT

The investor relations team is available to answer any questions related to the TAKKT share and can be reached at:

Finance / Investor Relations
Dr. Christian Warns / Benjamin Bühler
Presselstraße 12, 70191 Stuttgart
Telephone: +49 711 3465-8222
Fax: +49 711 3465-8104
E-Mail: investor@takkt.de
Internet: http://www.takkt.com

SUPERVISORY BOARD REPORT

Stephan Gemkow
Chairman of the Supervisory Board

Ladies and Gentlemen,

After a difficult start in 2018, business performance improved significantly during the course of the year. Despite ongoing political and economic uncertainty, TAKKT was able to achieve good organic growth. The two acquisitions generated additional growth. At the earnings level, factors that had a negative impact included the unexpected rise in freight costs as well as lower freight margins. Profitability nevertheless continued to be solid, as usual. The Group remains on course with its digital transformation. The measures initiated are being forged ahead throughout the Group and are already showing first benefits.

WORK OF THE SUPERVISORY BOARD

The Supervisory Board supported and monitored the work of the Management Board in an advisory capacity in the past financial year and was in continuous dialog with the corporate management regarding strategic issues. In the 2018 financial year, the Supervisory Board met five times in four regular meetings and one strategy meeting. An essential part of the Supervisory Board meetings in the year under review were primarily the current business performance and strategic development of the Group with the respective ongoing and planned projects. In addition, the Supervisory Board dealt with the future acquisition strategy, the acquisition of Runelandhs Försäljnings AB (Kalmar/Sweden) as well as the possibility of further company acquisitions. The Supervisory Board also held in-depth discussions about the digital transformation of the Group. Other topics covered at the meetings were business performance planning, the risk situation including the quantification of significant risks, the risk management system, the internal control system and the activities of internal audit. The agenda also included important issues on corporate governance and compliance, the draft law of the Shareholder Rights Directive II (SRD II) and the sale and leaseback of an office building in Milwaukee.

The personnel committee met four times in the year under review. The topics included the reappointment of Dr. Claude Tomaszewski, the remuneration of the Management Board and the handling of pension commitments. Corresponding recommendations were submitted to the Supervisory Board for consideration and resolution.

CONSTRUCTIVE COOPERATION IN A SPIRIT OF PARTNERSHIP

As usual, the cooperation between the Supervisory Board and Management Board was transparent and open in the year under review. The Management Board regularly informed the Supervisory Board verbally and in writing in a timely manner of all important matters – also outside of Supervisory Board meetings. The meetings of the Supervisory Board and Management Board were always conducted in a constructive and open manner. The Chairman of the Supervisory Board and the CEO discussed matters in more detail when necessary. If issues needed to be decided by the Supervisory Board, it always passed resolutions promptly.

ORIENTED TOWARDS THE CORPORATE GOVERNANCE CODE

The Supervisory Board places importance on conducting its control tasks continuously and with great intensity. This self-commitment will also define its work in the future since it makes a significant contribution to responsible corporate management at TAKKT. In this connection, the Management and Supervisory Boards again signed, effective December 31, 2018, the declaration of compliance to the recommendations made by the German Corporate Governance Code (DCGK) Government Commission. Additional information in relation to this can be found in the Corporate Governance report of this annual report and on the TAKKT website.

PAYMENT OF A SPECIAL DIVIDEND

The dividend policy provides for a payout of 35 to 45 percent of the profit for the period. Based on the cash flow strength of the business model and the comparatively high equity ratio, the Management and Supervisory Boards will propose to the Shareholders' Meeting in May 2019 a special dividend payment of EUR 0.30 in addition to the ordinary dividend of EUR 0.55 per share. In total, this would correspond to a payout ratio of 63.3 percent.

CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENTS OF TAKKT AG APPROVED

The Shareholders' Meeting followed the proposal of the Supervisory Board and appointed Ebner Stolz GmbH & Co. KG, Stuttgart, as the auditors for the 2018 financial year. The auditors issued a declaration of independence to the Supervisory Board. The Supervisory Board reviewed the independence of the auditor as per section 107(3) sentence 2 of the Stock Corporation Act (AktG) and point 7.2.1 of the DCGK.

The audit focus topics specified by the Supervisory Board for the 2018 financial year were fraud prevention in payment transactions, notes on impairment of financial assets and the statement of cash flows. With regard to the consolidated financial statements, the auditors also focused on the goodwill impairment tests, reportings from auditors of foreign subsidiaries, the consolidation measures, the notes to the consolidated financial statements and the combined management report of TAKKT AG and the Group. The auditors in charge from Ebner Stolz GmbH & Co. KG reviewed the financial statements of TAKKT AG in addition to the consolidated financial statements of the Group and the combined management report and issued an unqualified audit certificate. The TAKKT Group's system for early risk detection was also audited and its suitability confirmed.

The auditors in charge attended the Supervisory Board's annual accounts meeting. They informed the members about the key findings of the audit and answered more detailed questions. The Supervisory Board discussed the auditors' findings at length and approved them. In the annual accounts meeting on March 26, 2019, the Supervisory Board reviewed and approved the consolidated financial statements, the financial statements of TAKKT AG, the combined management report of TAKKT AG and the Group, including the non-financial statement and the proposed profit appropriation. The financial statements of TAKKT AG were thus adopted and the consolidated financial statements approved.

SUPERVISORY BOARD APPROVES DEPENDENCE REPORT

Franz Haniel & Cie. GmbH, Duisburg, also held the majority of TAKKT shares in the 2018 financial year with 50.2 percent. In accordance with section 312 of the German Stock Corporation Act (AktG), the Management Board therefore prepared a report on relations with affiliated companies for the past financial year. Ebner Stolz GmbH & Co. KG prepared an auditors' report as required under section 313 of the German Stock Corporation Act (AktG). No reservations were expressed as a result of the audit. The auditor issued the following audit opinion: "Having conducted a proper audit and appraisal, we confirm that, first, the actual disclosures set out in the report are correct, second, payments made by the company for transactions covered in the report were not unduly high and, third, no circumstances covered in the report indicate a substantially different assessment than that given by the Management Board." The Supervisory Board reviewed the report on the relations of the company to affiliated companies and the corresponding auditors' report and approved them according to section 314 of the German Stock Corporation Act (AktG). The Board had no objections to the dependence report and the closing statement made by the Management Board therein. This report and statement can be found in the Corporate Governance report of this annual report.

We would like to thank the TAKKT AG shareholders for the trust they once again placed in us in 2018. We thank all the employees of the TAKKT Group for their ongoing high level of commitment and excellent performance. Thanks also go to the Management Board for their trusting cooperation founded on partnership.

Stuttgart, Germany, March 2019

Stephan Gemkow
(Chairman of the Supervisory Board of TAKKT AG)

MEMBERS OF THE SUPERVISORY BOARD

Stephan Gemkow Chairman	Chairman of the Management Board of Franz Haniel & Cie. GmbH, Duisburg
Dr. Johannes Haupt Deputy Chairman	Chairman of the Management Board of E.G.O. Blanc und Fischer & Co. GmbH, Oberderdingen
Dr. Florian Funck	Member of the Management Board of Franz Haniel & Cie. GmbH, Duisburg
Thomas Kniehl	Employee for claims / research / returns at KAISER+KRAFT GmbH, Stuttgart
Dr. Dorothee Ritz	General Manager of Microsoft Austria, Vienna
Christian Wendler	Chairman of the Executive Board of Lenze SE, Aerzen

MANAGEMENT REPORT

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MANAGEMENT REPORT FOR TAKKT AG AND THE TAKKT GROUP

BUSINESS MODEL

The TAKKT Group is a portfolio of B2B direct marketing specialists for business equipment. TAKKT AG as a management holding company steers the companies according to the same value and growth drivers. A key aim of TAKKT AG is to secure and further expand a stable, profitable and growth-oriented portfolio of direct marketing specialists in different and complementary target markets, product areas and regions for the long term. Besides the obligation to fulfill legal and regulatory requirements as well as offering services throughout the Group, TAKKT AG is also responsible for activities that contribute to increasing the value of the portfolio. TAKKT AG wants to further expand these value contributing activities.

BUSINESS AREAS AND ORGANIZATION

B2B DIRECT MARKETING SPECIALIST FOR BUSINESS EQUIPMENT

The portfolio companies and brands of the TAKKT Group operate in attractive markets in the area of B2B direct marketing. They mainly concentrate on the sale of long-lasting equipment at stable prices and special items to business customers. The product ranges that are offered mostly encompass durables that businesses use for their business activities. Products that the TAKKT companies supply include pallet lifting trucks to German automobile suppliers, computer cabinets to Swiss mechanical engineers, custom-printed advertising banners for trade shows, shipping cartons to European industrial companies and food service equipment to commercial kitchens in the US.

CLEAR ORGANIZATIONAL STRUCTURE

The current organizational structure of the TAKKT Group is shown on the following page. TAKKT AG steers the Group as a management holding company. As such, it performs three types of activities.

- Execution of activities that are necessary to fulfill legal and regulatory requirements and the principles of good corporate management. This includes reporting, corporate accounting, auditing, and legal and compliance functions.

- Implementation of activities that contribute to increasing the value of the individual businesses. Besides the strategic management, these include for example the company's development, the formulation and implementation of strategic initiatives, the selection of target markets, portfolio management, the cross-segment coordination of expert teams as well as the expansion of strategic personnel management.

- Offering services throughout the Group with the objective of reducing costs through economies of scale. Some examples of this are the intra-Group financing and a central FX management.

TAKKT AG will carry out its role as a holding company more actively in the future and consequently expand its activities for increasing the value of the individual businesses. Particularly on the topics operational excellence and data & analytics, TAKKT sees great potential and will build small teams in order to support the divisions with the corresponding expertise.

The portfolio companies are divided into seven divisions that operate in different markets. Depending on their orientation, they sell their products either through an integrated multi-channel approach via the sales and marketing channels online (web shops and e-procurement) as well as print, telesales and field activities or as web-focused providers primarily through e-commerce. Some companies also use online marketplaces as an additional sales channel.

For purposes of reporting, the individual divisions are arranged by segment. The TAKKT EUROPE segment consists of the KAISER+KRAFT group, the ratioform group and the newport group. The TAKKT AMERICA segment includes the Hubert group, the Central group, the D2G group and the NBF group.

The TAKKT EUROPE segment has more than 50 locations.

- The KAISER+KRAFT group, as a supplier of business equipment, offers around 89,000 products for transport, plant, warehouse and office equipment in 24 European countries. Customers include industrial enterprises such as automotive suppliers, service and retail companies and public institutions. Some examples of products are pallet lifting trucks, universal cabinets and swivel chairs as well as special-purpose products such as environmental cabinets and containers for hazardous materials. The KAISER+KRAFT group pursues a mostly centralized warehouse strategy. The activities of the KAISER+KRAFT group in the Nordics were strengthened with the acquisition of the Swedish company Runelandhs Försäljnings AB in May 2018. Runelandhs offers around 13,000 products for business and office equipment, which are sold through a multi-channel approach.

Group structure

TAKKT AG
BUSINESS EQUIPMENT SOLUTIONS

TAKKT EUROPE

KAISER+KRAFT GROUP	RATIOFORM GROUP	NEWPORT GROUP
KAISER+KRAFT	ratioform	officefurniture online
gaerner	Davpack	BiGDUG
Gerdmans		certeo
RUNELANDHS		Mydisplays
Kwesto		

TAKKT AMERICA

HUBERT GROUP	CENTRAL GROUP	D2G GROUP	NBF GROUP
HUBERT	Central Restaurant Products	DISPLAYS2GO	National Business Furniture
Retail Resource Where Stores Shop		POST UP STAND	OfficeFurniture.com your home for your office

- As a packaging specialist, the ratioform group offers around 8,000 different items in seven European countries for companies in different industries as well as customer-specific packaging solutions. Some examples of products are collapsible boxes, package padding, shipping pallets and stretch film.

- The Newport group bundles young companies that target small and medium-sized business customers. The division offers around 45,000 items in different European countries and product areas. For example, Certeo sells plant and office equipment in four European countries. In contrast, Mydisplays provides products such as custom-printed advertising banners and mobile display systems to a broad customer segment primarily in Germany, Austria and Switzerland. Acquired at the beginning of 2018, OfficeFurnitureOnline is a product specialist in the UK, and since November 2018 also in Germany, that offers office furniture such as desks, chairs and cabinets in its web shop. BiGDUG, an online direct marketer for business equipment specializing in storage and shelving that supplies its customers with shelving systems and work benches, also serves the UK. In addition, the TAKKT investment company with its investments in innovative start-ups is also part of the Newport group.

The TAKKT AMERICA segment has close to 20 locations.

- The Hubert group offers around 158,000 products in North America. The range includes equipment for the food service industry and food retail sector as well as merchandising products. The Hubert group's customers mainly include operators of large cafeterias, food service businesses and food retailers. Products include buffet equipment such as serving platters and food baskets.

- The Central group offers around 730,000 products for restaurant equipment in the US. Restaurant operators are the core customer group of the Central business. The product range includes all the equipment and supplies required for the operation of small to mid-sized restaurants. Some examples of products are kitchen stoves and freezers.

- The D2G group offers around 14,000 display products in the US. Sales are carried out mostly online. Products include advertising banners, printed and digital display stands, mobile trade booths and fixtures.

- The NBF group offers around 31,000 office furniture products in the United States. In addition to companies, its customers include government agencies, the health care sector, schools and churches. Some examples of products are office chairs and desks, conference tables and furniture for reception areas.

An overview of all the Group companies is provided by the share ownership list of the TAKKT Group, which can be found in the Notes to the consolidated financial statements under "Other notes" in section 5. In addition, all locations of the Group are listed on the location maps at the end of this annual report.

MULTI-BRAND STRATEGY AND EFFICIENT CUSTOMER COMMUNICATION AS SUCCESS FACTORS

TAKKT pursues a multi-brand strategy for the sale of its products. This includes multi-channel and web-focused brands and is geared to the different needs of the respective customer groups.

- Multi-channel brands combine the online service with the traditional catalog business (addressing medium-sized and larger companies) and – if appropriate – with employees for outbound calls and field sales to form an integrated approach. The customer can choose from different channels. For key accounts, product ranges can also be digitally uploaded to their own in-house IT systems. Individually customized e-procurement solutions like these allow the TAKKT companies to feed their product ranges directly to the individual systems of the customers, resulting in even lower transaction costs for them. Customers can compile their own range of frequently ordered products and see their ordering history as well as a detailed overview of their business relationship with the TAKKT company. Through e-procurement, TAKKT is able to create added value for the customer as well as build and develop a sustainable customer relationship.

- With the web-focused brands, TAKKT targets customers who were previously difficult to reach efficiently using the traditional catalog business and corresponding online offers. These are mainly smaller businesses with comparatively lower demand. TAKKT's web-focused brands offer a flexible range of products and prices which are adjusted regularly to meet the rapidly changing needs of this customer group.

Added value for the customer	
Easy ordering and fast delivery	• Customers order through the channel that is best for them • Digitalization allows better integration of the order channels • Fast delivery through logistics partners in the individual countries • Immediate availability of most products
Needs-based products and well-organized presentation	• Strict quality control for all products • Comfortable, user-friendly and customer-specific presentation on different channels • Broad range of high-quality private labels • Detailed product information such as mainly self-produced videos, images and product descriptions
Individual offers	• Sales employees advise customers through different channels and media • Individual offers and support with selection process
Customized solutions	• Custom-made products possible if there is no immediate solution available for the specific customer request • Made possible through TAKKT's long-standing supplier relationships
Special services	• Individual project planning • Mobile customer service (spare parts, repair, maintenance) • Special procurement • Delivery to the point of use
Project management	• Coordination of specific customer projects by employees in telesales and field activities • Special service requirements taken into consideration (e.g., when equipping several facilities)
Long warranty periods	• The warranty periods are usually longer than the legal requirements • Availability guarantee of several years

Important success factors for sales are effective search engine optimization and internet advertising to position the online shop prominently and thus gain the attention of potential customers, as well as an exceptionally easy, customer-friendly user experience in the web shop.

ADDED VALUE FOR CUSTOMERS AND SUPPLIERS – BEYOND PURE DIRECT MARKETING

The companies of the TAKKT Group operate in attractive market niches. In B2B direct marketing, the customer considers the price in relation to product, quality and service. This means that direct marketing is especially attractive to customers if they can find and order high-quality products quickly and easily. They also expect a high level of service with respect to the actual product. The strengths of the Group companies lie exactly in this area. The additional services that the TAKKT companies offer their customers to retain them for the long-term mainly include those listed in the table on page 40. The extensive digitalization activities in the Group include continuously expanding the services offered and adding new, digital services in order to maximize the attractiveness for customers.

In addition to added value for the customer, TAKKT also creates considerable benefits on the supplier side (see table). Inclusion in the product range of a TAKKT company brings benefits for these suppliers compared to independently distributing their products. They obtain direct access to a very large number of customers in different countries and thus circumvent natural market entry barriers that result from the different currencies, languages and legal frameworks, especially in Europe.

ATTRACTIVE MARKET NICHE

The market niche of B2B direct marketing is also advantageous from TAKKT's perspective in the following ways:

- TAKKT uses a fragmented supplier pool of product specialists and maintains long-term relationships with suppliers that they work well with. The customer base is also broadly diversified. This means that TAKKT caters to customers of various sizes and from different industries and is therefore mostly independent from single large orders or major customers.

- The market environment of many TAKKT companies is characterized by different levels of business model-specific market entry barriers. For example, a potential new multi-channel competitor first has to make significant investments in marketing, IT and logistics and incur several years of start-up losses before it can achieve the margins that are standard in the sector. These investments only pay off when a company manages to develop a loyal customer base that provides repeat business at regular intervals. In this respect, the market entry barriers in the web-focused area are considerably lower. Main parts of the service and value chain are often outsourced or purchased from third parties (e.g., purely drop shipping business, purchase of IT services, etc.), while the web-focused competitors concentrate on running the marketing platform. Well-established customer relationships and loyalty are not as strong in this segment.

Added value for suppliers	
Opening up enormous customer potential	• Access to entire customer base of the sales company • Opportunity to benefit from cross-selling with product categories of other manufacturers
Professional product sales	• TAKKT provides targeted marketing through the sales channels online, print, telesales and field activities • Listing with one of the TAKKT companies is seen as a seal of quality in the market for the manufacturer's products
Presence in many different domestic markets	• Customers are reached through web shops and catalogs in all sales regions where the TAKKT company operates • Avoidance of natural market entry barriers due to country-specific factors such as language, currency or tax and legal conditions • Supplier does not have to set up own sales structure abroad
Easy onboarding and intensive support	• Close supplier management, regular interaction and joint product development based on needs of the customer
Greater efficiency	• One-time shipment of larger volumes to a central warehouse instead of many individual deliveries to customers

MARKET TRENDS SUPPORT PROVEN BUSINESS MODEL

The Management believes that structural market trends provide sustainable opportunities, which TAKKT makes use of with the corresponding competitive advantages (see table). B2B customers pay more attention to low process costs and want to concentrate purchase volume on a limited number of providers. TAKKT meets this by offering a broad range of high-quality products. In addition, the Group benefits from the rapid technological changes brought about by digitalization. E-commerce and e-procurement are gaining importance and customers expect the latest technologies at all interfaces with their provider. TAKKT makes use of these trends through its focus on corporate customers, the implementation of the digital agenda, the multi-channel sales approach, the specialization of the product ranges and the extensive range of services for the customer.

MARKET POSITION AND COMPETITIVE ENVIRONMENT

TAKKT's market environment can be defined by means of different criteria (see the following table). The companies of the TAKKT Group position themselves in this market environment as B2B direct marketing specialists for business equipment that have a comprehensive range of services and predominantly horizontal alignment. The companies operate in Europe and North America.

Market differentiation…	Market attributes	TAKKT
…by customer	• B2B • B2C	• B2B
…by type of distribution	• Store-based retailing • Direct sales • Distance selling	• Distance selling
…by product range depth	• Generalists • Direct marketing specialists	• Direct marketing specialist
…by industry focus	• Horizontal alignment (product specialists) • Vertical alignment (industry specialists)	• Mainly horizontal alignment
…by service	• Pure distributors • Marketplaces • Distribution of goods and additional services	• Distribution of goods and comprehensive range of services

Market trend	Competitive edge
Concentration on a small number of suppliers: Especially corporate customers want to reduce complexity and look for reliable, longterm partnerships.	Product range from a single source as well as extensive preselection.
Customers have an eye on process costs: For merchandise of a low value, the emphasis is on the efficiency of the ordering process.	Bundling of the product ranges of hundreds of suppliers, well-organized presentation of quality products and fast delivery.
Increased use of digital ordering systems: Customers increasingly expect to have electronic ordering options that can be connected to their own systems.	Range of e-commerce solutions from a classic web shop to electronic integration of product range in customer's ERP system.
Use of numerous sales channels: The channels are used for obtaining information and ordering.	Combination and integration of all sales channels in multi-channel marketing as well as uniform ordering processes using efficient IT systems.
International positioning: Customers generally choose established providers and products regardless of location.	Customer proximity with more than 50 sales companies in over 25 countries.
Consideration of sustainability aspects: Environmental and social aspects are playing an increasingly important role in the selection of business partners.	A Group-wide comprehensive sustainability strategy that covers the whole value chain.
Individualization of customer approach: Customers increasingly expect a personalized approach that is tailored to their needs.	Comprehensive analyses of the existing data in order to provide customers with information on products and topics that have the highest relevance for them.
Individualized products: More and more customers want to be able to obtain individualized products and solutions.	Individual products and flexible solutions for every need through customer service together with long-standing suppliers and in-house production.
Technology: Customers expect the latest technologies at all interfaces with their provider (e.g., consulting, customer service, sales).	Use of new communication technologies (e.g., live chat, co-browsing, etc.).

The competitors in the markets that are relevant for the TAKKT companies are generally categorized into store-based retailers, which handle the majority of the volume, and distance sellers. Multi-channel as well as purely online providers and marketplaces are active in direct marketing. Depending on region and product group, at this point TAKKT estimates the market shares of distance selling to be in the low to mid-double-digit percentage range. Based on industry studies, TAKKT expects distance selling to grow significantly over the coming years. In the long term, shares of store-based retailers and direct marketing should thus each account for approximately half of the market. The company believes that the online web shop business and online marketplaces (intermediary platforms) in particular will benefit from the increasing importance of distance selling. The projected market share shift should have a medium to long-term beneficial impact for the TAKKT companies, which already generate more than half of order intake on average via e-commerce.

As shown above, the TAKKT sales brands are positioned in the market as multi-channel or purely web-focused providers. They differ from their various competitors as follows:

- For B2B customers, direct marketing is far more efficient and comfortable than procurement from local store-based retailers. The scalability of the business allows TAKKT to offer a broader selection of products and more comprehensive service.

- In the distance selling sector, TAKKT's main competitors in the medium-sized to large B2B customer market are other multi-channel distributors. For this customer group, a reliable procurement process, comprehensive product advice and complementary services are just as important as price, which is why more transaction-oriented online distributors have less relevance for these customers.

- With respect to smaller, very price-conscious business customers, TAKKT's web-focused companies occupy an attractive niche as product experts. In terms of purchasing and advice, they have a great deal of expertise with respect to their clearly defined product range. This allows them to offer an attractive price level and also differentiate themselves from marketplace models and other providers with a very broad product range.

The table below gives an overview of the competitive environment of the TAKKT companies and lists examples of competitors.

TAKKT market environment and exemplary competitors

	Competitors Europe		Competitors USA		
	Plant and warehouse equipment	Packaging solutions	Merchandising and food service equipment	Sales displays	Office equipment
Store-based retailers	Numerous store-based retailers				
Multi-channel providers	• Manutan • Schäfer Shop • Jungheinrich Profishop	• Raja • Transpak • Hoffmann	• Trimark • Edward Don • Wasserstrom	• Allen Display • Braeside Displays	• Hertz Furniture • Staples • Office Depot
Web-focused providers	• Contorion • Rapid Racking	• Karton.eu • Hilde24	• WebstaurantStore • Katom • Instawares	• Ace Exhibits • DisplayIt	• BizChair • Cymax
Online marketplaces	Various marketplaces, e.g. Amazon Business				

CORPORATE GOALS AND STRATEGY

TAKKT has formulated its company purpose as follows: "We make it easy to create great work environments." To this end, TAKKT has built up a portfolio of B2B direct marketing specialists for business equipment. The portfolio companies are specialized in various product ranges and operate in attractive market niches. TAKKT aims to make this portfolio profitable, growth-oriented and diversified. A key strategic issue for TAKKT in further development of the business model is digitalization. In addition, TAKKT wants to develop its position as a role model for sustainability. The strategic goals of the TAKKT Group are presented in the following overview.

Strategic goals	
Grow profitably	• Long-term organic sales growth by an average of three to five percent per year • Growth through acquisitions (average of around five percent per year) • EBITDA margin of between 12 and 16 percent
Digitalize the business model	• Double e-commerce business from EUR 450 million (2016) to EUR 900 million (2020) • Sustainable organizational transformation • Investments of EUR 50 million in new employees and technologies
Diversify risk	• Significant contributions to sales on at least two continents • Diversified share of sales with the manufacturing, trade and service sector industries as well as government institutions • Balanced product range
Act sustainably	• Industry role model for sustainability • Sustainability "built-in" instead of "add-on" in daily corporate management

GROW PROFITABLY

The goal of profitable growth is broken down into three aspects: TAKKT's aim is to achieve organic growth of three to five percent per year on average. In addition, acquisitions are a significant part of the growth strategy (average of around five percent per year). In terms of profitability, the goal is to maintain the EBITDA margin at a level of 12 to 16 percent.

Organic growth

TAKKT is pursuing the following strategic initiatives in order to achieve strong organic growth also in the future:

- Digital transformation of the core business. TAKKT has developed a digital agenda with six focus areas and more than 100 measures. In connection with their implementation, EUR 50 million will be invested in new employees and technologies. The goal is to achieve sustainable organizational transformation by giving priority to digital solutions in all decision making (see section: "Digitalize the Business Model").

- Establishment of the Newport division and bundling of the web-based businesses Certeo, BiGDUG, OfficeFurnitureOnline and Mydisplays under one umbrella. A port is thus being created for the younger, higher-growth business models in which they can position themselves in the market more strongly and independently than before with their branding, product range and technological infrastructure. In addition, the TAKKT investment company with its investments in innovative start-ups is part of the Newport group.

- TAKKT AG will shape its role as a holding company more actively in the future and in the process expand its activities in order to increase the value of the individual companies. Besides the strategic management, these include for example the company's development, the formulation and implementation of strategic initiatives, the selection of target markets, portfolio management, the cross-segment coordination of expert teams as well as the expansion of strategic personnel management. Particularly on the topics operational excellence and data & analytics, TAKKT sees great potential and will build small teams in order to support the divisions with the corresponding expertise.

TAKKT is implementing these initiatives in order to ensure that the portfolio companies benefit from the increasing importance of distance selling in the B2B market. As represented in the chapter "Business Areas and Organization" on page 42, a large part of the market for durable equipment is still covered by store-based retailers. As a purely direct marketer, TAKKT benefits from the trend of increasingly ordering business equipment via the more efficient method of distance selling. This allows TAKKT to gradually gain market share from store-based retailers.

Broader profile through acquisitions

In addition to organic growth, strengthening its market position through company acquisitions is an important strategic goal for TAKKT. In 2018, TAKKT revised the acquisition filter and defined it more broadly than before. The objective is to gradually shift the added value in the Group away from the commercial transaction to additional services. Possible acquisition targets are divided into three pillars under the new strategy:

- **Expansion of the value proposition:** First, TAKKT wants to increase the customer value proposition of the existing portfolio companies during and after the sale. Achieving this calls for the acquisition of smaller companies offering products or services that expand the existing range of services for customers. These could be, for example, solutions for manufacturing, refining or adapting products.

- Strengthening of the existing businesses: Second, TAKKT looks for suitable additions to existing activities. The focus here is on exploiting synergies and improving the company's market position, for example if a target has an attractive customer base or a presence in additional domestic markets.

- Tapping into new target markets: Third, new divisions are to be added to the existing portfolio. In this case, the acquisition target has a sufficient size (over EUR 50 million in sales) and operates in an attractive market environment, in which TAKKT is not yet represented. Here as well, TAKKT wants to acquire companies whose value added is broadly positioned and not just limited to pure commercial transaction.

Companies that are attractive takeover candidates for TAKKT are often family-owned companies. In view of this, TAKKT cultivates long-term relationships with possible target companies. In order to be able to act at any time, sufficient credit lines are always available for the acquisition of small and medium-sized companies. Depending on the type of the acquisition target, the following factors also play a role in the decision to make an acquisition:

- By 'strengthening the existing businesses' and establishing new divisions via 'tapping into new target markets', the target company is expected to see the positive development of its business-specific value and growth drivers, which TAKKT will use to manage its subsidiaries. The EBITDA margin should be within TAKKT's target corridor or have the potential to develop in that direction in the medium term.

- The target company should have a certain digital maturity level and e-commerce expertise. In the case of 'tapping into new target markets', this aspect is more important than with the 'strengthening of the existing businesses'. Here, the acquired company stands to benefit more from the existing expertise in the particular division. It is generally desirable for the management of the acquired company to continue in its function.

- TAKKT wants to diversify the Group portfolio further through acquisitions. This applies to product and customer groups as well as regions, but also to the diversification of added value, thereby resulting in less dependence on the pure commercial transaction.

- In addition, TAKKT makes sure to gain as much new expertise as possible through an acquisition, such as in the areas of field activities (NBF 2006), telesales (Central 2009), online marketing and direct imports from Asia (D2G 2012), integrated multi-channel sales (ratioform 2012), individualized products (Post-Up Stand 2015, Mydisplays 2017) or cost-effective entry-level products (BiGDUG 2015, OfficeFurnitureOnline 2018).

In order to realize an increase in value after inclusion in the Group, TAKKT supports the newly acquired companies in the continuation and intensification of their course for growth. TAKKT helps in the expansion of the business model in new markets as well as in the acceleration of the digital transformation and promotes the exchange of organizational, logistics, IT, marketing and sales expertise across the different companies.

With the creation of the investment company TAKKT Beteiligungsgesellschaft mbH (TBG) at the beginning of 2016, TAKKT puts its focus - besides traditional acquisitions - also to investments into start-ups. TBG aims to function as a smart investor for strategic investments in young companies with strong potential for growth. The company will specifically focus on B2B direct marketing specialists or service providers working along the value chain of TAKKT companies. Minority interests will be considered primarily. The focus will be on newly established companies that are already active on the market and looking for external partners to finance their growth initiatives. Since its founding, the TAKKT investment company has completed eight investments with a total of EUR 7.8 million. The individual investments are presented in the "Innovation and development" section on page 53.

Profitability
TAKKT pursues a course of profitable growth. With annual organic growth of three to five percent on average and growth through acquisitions of around another five percent, TAKKT keeps the EBITDA margin within a corridor of between 12 and 16 percent. The company sees this as the best balance for itself in terms of developing a sustainable and profitable portfolio. The high gross profit margin already serves as the starting point. The aim is to achieve a Group average here of over 40 percent. The gross profit margin results from the attractive business model of B2B distance selling with a price-stable product range as well as from targeted measures such as the expansion of private labels and increasing the share of direct imports from Asia and Eastern Europe.

Based on the high gross profit margin, marketing and personnel expenses represent the major cost blocks, with a total of around 20 percent of sales. In addition, other expenses are incurred for warehouses and IT. As a result, an EBITDA margin in the target corridor can be reached after deducting the costs.

DIGITALIZE THE BUSINESS MODEL

In 2017, the next phase for further development of the business model was ushered in with the start of the implementation of the digital transformation. This is in line with the observation that both the behavior of the customer as well as the workplace change quickly in times of rapid technological change, which opens up new opportunities. TAKKT sees its business model of B2B direct marketing as particularly suitable to benefit from the growth of digitalization and gaining market shares. This is why the digital transformation is being accelerated in the company.

For TAKKT, there are three key activities for a successful digital transformation: digitalization of the entire value chain, establishing more agile corporate structures and developing innovative business models. Vision 2020 was formulated in 2016 for the implementation of the digital transformation in the company, and a digital agenda that includes over 100 measures was developed across all divisions. Vision 2020 includes the following goals:

- The e-commerce business is to be doubled by 2020 from around EUR 450 million (in 2016) to EUR 900 million. To achieve this, TAKKT wants to create an outstanding customer experience through digitalization.

- The organization will be transformed in a step change by putting digital first and focusing on customer centricity. TAKKT does this by increasingly making the constantly changing needs of the customers the focus of activities.

- Up to EUR 50 million will have been invested in employees and new technologies by 2020.

- In the medium term, organic sales growth is expected to increase with implementation of the digital agenda.

In the implementation of the digital agenda, TAKKT places strong emphasis on impressing customers with digital processes and solutions. This requires developing digital expertise, launching new forms of collaboration, creating a culture of "test and learn" and focusing on the needs of our customers in all our activities (customer centricity). TAKKT pursues a decentralized approach that follows a structure that is uniform across the company. This reflects the differences between the individual divisions and companies in terms of business model, complexity, historical development and thus level of digitalization maturity.

The measures of the digital agenda are structured along six focus areas:

- Strategy & Innovation: New solutions and offerings are developed for the customers using innovative methods.

- Customer Journey: Through targeted analysis of the searching and purchasing behavior of individual customers, the TAKKT companies adapt their activities to their needs in an individualized and personalized manner.

- Organization & Culture: Changing the corporate culture in order to encourage more agile and flexible working in cross-functional teams.

- Data & Analytics: Increased use of data analysis in order to better understand the purchasing decision processes and develop customized solutions for the customer based on this.

- Technology: Modernization of existing technologies and the introduction of new ones as the basis for achieving the goals of the digital transformation.

- Process Automation: Automating manual activities accelerates processes and contributes to greater customer satisfaction and improved internal workflows.

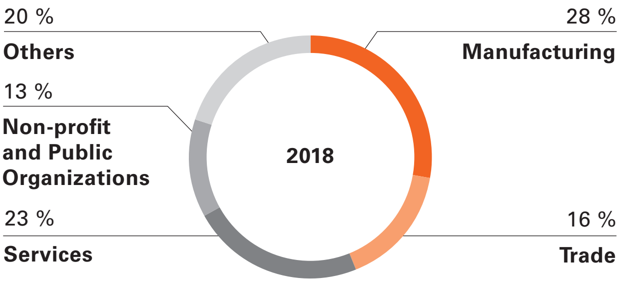
Further details and specific measures on the implementation of the strategic digital transformation initiative can be found in the "Innovation and development" section on pages 51 to 53.

DIVERSIFY RISK

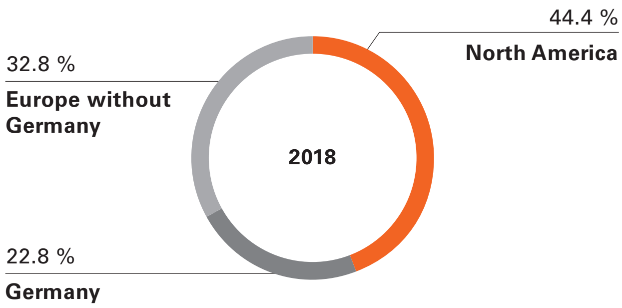
TAKKT strives to further diversify the risk profile of the Group and become more independent of economic influences. The following levels are taken into consideration here.

At the customer level, the company serves a broad customer base consisting of manufacturing businesses, retailers and service providers as well as nonprofit and public organizations to compensate for the cyclical fluctuations experienced by the individual target groups. Orders from manufacturing businesses – the original core business of the TAKKT Group – represent nearly 30 percent of the sales volume. The medium-term goal of the Group is to achieve a balanced share of sales with the manufacturing industry, the trade and service sectors as well as nonprofit and public institutions. This increasing diversification with different customer groups stabilizes the TAKKT portfolio.

Diversification of customer groups

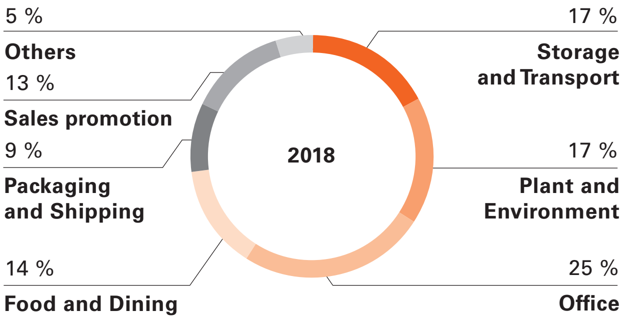


Diversification of regions



At the product level, TAKKT differentiates between products for plant & environment, storage & transport, office, packaging & shipping, food & dining and sales promotion. TAKKT diversifies broadly here to compensate for fluctuations in demand. Through the acquisition of Hubert (2000), NBF (2006), Central (2009), Displays2go (2012), ratioform (2012) and Post-Up Stand (2015), the company has specifically expanded its product portfolio to product groups for food service, sales promotion, North American office furniture and packaging. This allows TAKKT to participate in the growth trends of these industries.

Diversification of product ranges



At the regional level, TAKKT differentiates between Germany, Europe without Germany and North America. In particular, the share of US business has increased significantly since 2000. In the past, regional diversification has proven to be a pillar of TAKKT's portfolio. This way, economic fluctuations in certain target markets can be partially offset by opposite developments in other regions. The Group will continue this path and aims to generate significant long-term contributions to sales on at least two continents.

ACT SUSTAINABLY

Distance selling is considerably more resource efficient than store-based retailing. This is why the TAKKT business model per se is more sustainable than other competition models. Sustainability is therefore not a new concept for TAKKT. It has long been part of the entrepreneurial identity of the Group to handle resources carefully. TAKKT has incorporated the goal of sustainability – the long-term balance between economic, environmental and social concerns – as an integral part of its corporate strategy since 2011. TAKKT wants to further expand its position as a role model in this area.

With this move, TAKKT has positioned itself early in the competitive environment. Companies are paying increasing attention to making their individual contribution to the conservation of resources and expect their business partners to also manage their value chain according to sustainability considerations. TAKKT considers the requirements of the customers with respect to sustainability. The Group-wide sustainability organization SCORE incorporates sustainability in the day-to-day business and bundles the individual measures.

The goals and important measures of the TAKKT Group with respect to sustainability are described on page 55 et seq. in the "Sustainability and employees" section as well as on page 75 et seq. in the "Company performance" section of this annual report.

MANAGEMENT SYSTEM

Despite the different focus of the TAKKT companies with respect to regions, product ranges, customer groups and sales approaches, the core of their business model is similar. Therefore, there are no separate performance indicators for the segments. Instead, the management manages the Group, the individual segments, the individual divisions and all subsidiaries according to the same key figures. The following target values apply for the Group and differ only slightly for the TAKKT EUROPE and TAKKT AMERICA segments. If the key indicators of one Group company do not develop satisfactorily, management reacts promptly with suitable initiatives and countermeasures. To this end, all the internal key management indicators mentioned below are reported to the Management Board on a regular basis.

FINANCIAL KEY FIGURES

- The organic development of sales serves as a measure for the growth of the company without the inclusion of company acquisitions and disposals or the impact of fluctuating exchange rates. The short-term development of sales is influenced by the economic cycles. In the long term, TAKKT wants to achieve an average organic increase in sales of three to five percent with the help of the growth initiatives.

- The organic sales trend results from the development of the value and growth drivers number of orders and average order value. Both parameters are subject to cyclical fluctuations in the economic cycle and are also influenced by acquisitions or disposals on a structural level. In the long term and adjusted for these effects, TAKKT plans to increase the annual number of orders by two to four percent. The average order value is expected to at least grow in line with the inflation rate.

- The gross profit is calculated by deducting the material costs (cost of sales and freight costs) from sales and adding other changes in inventory whose sum is not significant and own work capitalized. The TAKKT Group has achieved a gross profit margin – a gross profit in relation to sales – of over 40 percent and its objective is to maintain this high level in the future as well. The reason for this is the company's focus on benefit to the customer and the provision of versatile additional services as opposed to the mere distribution of goods.

- The EBITDA margin serves as an important benchmark for the short-term operating earning power of the individual Group companies because the effects of the country-specific differences in tax rates and financing structures are not relevant for this key figure. As the figure does not include depreciation and amortization of non-current assets, it permits a direct comparison between existing and newly acquired companies. TAKKT has defined a long-term target corridor of 12 to 15 percent (respectively up to 16 percent based on the application of IFRS 16 starting in January 2019) for the Group's EBITDA margin.

- Until now, the TAKKT cash flow was calculated from EBITDA less financial result and less current income tax. The first-time application of IFRS 16 starting in January 2019 leads to structural changes in the calculation and amount of TAKKT cash flow. Future comparisons with earlier periods thus have little significance. This was taken as an opportunity to adjust the definition of the TAKKT cash flow. In the future, it will include the other non-cash expenses and income previously recognized below TAKKT cash flow as well as non-cash income and losses on disposals of fixed assets. TAKKT cash flow thus shows the operational cash flow earned in the reporting period before the effects from the changes in current net working capital. The target value for the TAKKT cash flow margin was previously eight percent of sales, and in the future will be at nine percent.

- The capital requirements for maintenance, expansion and modernization of the business operations are comparatively small at the established companies of the TAKKT Group. Accordingly, the long-term capital expenditure ratio average is between one and two percent of sales. In fiscal years in which the warehouse capacities of a division are expanded significantly or important capital expenditures in IT are made, this ratio is higher, whereas in periods without larger investment projects it is at the lower end of the specified range.

Definition and target values

Key figure	Definition	Target value
Organic development of sales	Benchmark for company growth without acquisitions	Between 3 and 5 percent on average in the long term
Number of orders and average order value	Important drivers of organic development of sales	Growth of between 2 and 4 percent on average in the longterm; Increasing slightly between EUR 400 and 500 (increase at least at level of inflation rate)
Gross profit margin	Measure for added value (e.g., for customers and suppliers)	Over 40 percent of sales

Key figure	Definition	Target value
EBITDA margin	Measure for operating profitability	Between 12 and 15 respectively 16 percent of sales
TAKKT cash flow margin	Measure for internal financing capability	Over 8 respectively 9 percent of sales
Capital expenditure ratio	Capital requirements for maintenance, expansion and modernization of operations	Between 1 and 2 percent of sales on average in the long term

PRODUCT RANGE KEY FIGURES

- Private labels are product brands that are internally developed and managed by the TAKKT companies. TAKKT wants to continue to increase the share of private labels in order intake with the aim of acquiring new customers and retaining existing customers for the long term. For example, in order to achieve this, individual TAKKT companies introduce new products at the best value for money to also meet the lesser needs of the entry-level segment. Using performance brands, other Group companies offer products that at least meet the industry standard or even satisfy higher quality standards. These brands improve customer loyalty and usually generate above-average margins.

- Direct imports at TAKKT are products that come from countries outside the home market of the respective Group company. In the case of the European divisions, these are all countries outside of Europe as well as Turkey and Eastern Europe. In order to secure profitability for the long term, TAKKT wants to increase the direct import share of purchase volumes further while maintaining the same level of product quality.

Definition and target values

Key figure	Definition	Target value
Share of private labels in order intake	Positive effect on customer acquisition, customer loyalty and gross profit margin	Continuous expansion starting from 21.7 percent in 2018
Share of direct imports in purchase volume	Participation in low purchasing prices while retaining product quality	Further increase starting from 17.9 percent in 2018

VALUE-BASED FIGURES

- The Return on Capital Employed (ROCE) measures the profitability before tax of the capital employed. This key figure shows the EBIT in relation to the average capital employed, which is defined as total assets reduced by the non-interest-bearing current liabilities. The ROCE therefore expresses the operating earning power of the capital employed. A ROCE target value of significantly more than twelve percent has been determined for the TAKKT activities.

- TAKKT value added serves as an important key figure for a longer term, value-based controlling in the Group. It is defined as the difference between the profit generated and the cost of capital on the average capital employed. The profit generated is determined on the basis of the EBIT, which is reduced by the income tax expense and increased by the other financial result. The cost of capital is determined by multiplying the average capital employed with the weighted average of costs, which factors in equity as well as borrowing costs. The average capital is calculated as the mean value of capital employed at the beginning and end of the respective calendar year. The capital as of the respective end of the reporting period corresponds to the total assets reduced by the non-interest bearing current liabilities and deferred tax liabilities. On the whole, the TAKKT value added allows a statement to be made about the value added of the Group after consideration of the borrowing costs and equity costs, e.g., after meeting the requirements on return on investment of the debt capital provider and equity investor. TAKKT aims for a significant positive value contribution.

Definition and target values

Key figure	Definition	Target value
ROCE (Return on Capital Employed)	Measure for profitability of total capital before tax	Significantly over 12 percent
TAKKT value added	Measure for the added value earned after deduction of total capital costs	Significantly greater than zero

INTERNAL COVENANTS FOR MANAGEMENT OF THE FINANCIAL STRUCTURE

For monitoring and managing the financial structure, the TAKKT Group sees to the compliance of four internal key figures (covenants). They are not stipulated in the credit agreements, but rather serve only the internal management in order to safeguard the financial solidity of the Group. The financial scope for acquisitions can also be derived from the key figures.

- The equity ratio represents the share of total equity in total assets. It is therefore an indication of the financial stability of the company and its independence from debt investors. In order to ensure an appropriate balance between financial solidity on the one hand and lower costs for debt capital on the other, TAKKT aims for an equity ratio within the range of 30 to 60 percent.

- The debt repayment period shows the average net borrowings of a fiscal year in relation to the TAKKT cash flow, thereby providing information as to within which period the company could completely eliminate its debt under constant economic conditions. TAKKT wants to keep this key figure to below five years.

- The interest coverage is calculated from the ratio of operating result before goodwill amortization to net financing expenses and shows the company's ability to pay its interest. The target value for TAKKT is an interest coverage of greater than four.

- The calculation of gearing is derived from dividing net financial liabilities by shareholders' equity. It provides information about the relationship between financial debt and shareholders' equity and the financing of the company, from which conclusions about the credit risk can be drawn. Gearing at TAKKT is expected to stay below 1.5.

Definition and target values

Key figure	Definition	Target value
Equity ratio	Indication of financial stability and independence from lenders	30 to 60 percent
Debt repayment period	Measure for the time required for debt reduction	< 5 years
Interest coverage	Measure of ability to pay interest out of the operating income	> 4
Gearing (debt-equity ratio)	Measure of credit risk	< 1.5

OVERVIEW OF MANAGEMENT AND INDICATOR SYSTEM

TAKKT uses the key figures described in this chapter to manage the Group, segments and divisions with the strategic goal of achieving profitable growth. There are also additional indicators for monitoring the progress of other strategic goals such as the implementation of the digital agenda as well as pursuing the sustainability initiative and risk diversification. The table below summarizes in which sections of the management report the key performance figures and indicators are described, where the reporting on the development in the fiscal year can be found and the strategic objectives they are linked with. Moreover, the forecast report looks at how TAKKT anticipates all key figures to develop in 2019.

TAKKT key performance figures and indicators

Strategic goal	Key figures	Description and target values	Reporting	Forecast	Key figure category
Grow profitably	Financial key figures	Management system *Pages 48 et seq.*	Sales, earnings and financial position *Pages 61 to 69*	Forecast report *Pages 92 to 94*	Financial
	Product range key figures	Management system *Page 49*	Company performance *Page 73*	Forecast report *Page 94*	Financial
	Value-based figures	Management system *Page 49*	Company performance *Pages 73 et seq.*	Forecast report *Page 94*	Financial
Digitalize the business model	Digital agenda indicators	Innovation and development *Page 52*	Company performance *Pages 74 et seq.*	Forecast report *Page 94*	Financial/ Non-financial
Diversify risk	Internal covenants for management of the financial structure	Management system *Pages 49 et seq.*	Financial Position *Page 69*	Forecast report *Page 94*	Financial
	Risk indicators	Corporate goals and strategy *Page 46*	Corporate goals and strategy *Page 47*	Forecast report *Pages 94 et seq.*	Financial/ Non-financial
Act sustainably	Sustainability indicators	Sustainability and employees *Page 55*	Company performance *Pages 75 et seq.*	Forecast report *Page 95*	Non-financial

INNOVATION AND DEVELOPMENT

The market environment and TAKKT's development are characterized by innovation and constant change. TAKKT actively shapes this change, which today is especially driven by opportunities and challenges related to digitalization. Accordingly, digital transformation has been at the center of our innovation activities since 2017. Technological change and the ways that this changes customer behavior lead to opportunities that TAKKT aims to seize and thereby successfully set itself apart from other competitors in the market. This is how the Group wants to tap into additional growth potential. In addition to the digitalization of the core business, another focus is on the development of new business models and momentum from investments in start-ups.

DIGITALIZATION OF THE CORE BUSINESS BY WAY OF THE DIGITAL AGENDA

In 2016, TAKKT developed a digital agenda for the digitalization of the core business. This agenda sets out more than 100 digitalization measures following a uniform structure of six focus areas across all portfolio companies. These focus areas are "Strategy & Innovation", "Customer Journey", "Organization & Culture", "Data & Analytics", "Technology" and "Process Automation".

Progress achieved in all focus areas

Good progress was made in all six focus areas of the digital agenda in the 2018 year under review.

Strategy & Innovation: New solutions and offerings are developed for the customers using innovative methods. Specific solutions are often the result of in-house product innovations, which are increasingly realized by engaging closely with the customer. One example of a new offering is the digital signage screen – a multimedia column that attracts attention to digital content – which was successfully placed in the US market by Displays2go and then in Europe by Mydisplays.

Customer Journey: Personas representing the specific needs of the different customer groups have been identified in all of the TAKKT companies based on conversations with our customers. This included, for example, information on the relevant product range for these customers and the purchasing process. The characteristics of the customer personas are taken into consideration across the areas of sales, customer service, marketing and purchasing. This allows the individual needs of the customer groups to be addressed in a more targeted manner in order to optimize the purchasing experience of the customer. An example of how TAKKT listens to the requests of customers is the product configurator implemented in the Displays2go online shop, which helps the customer to create their own design, for example for a table cover, and order it directly.

Organization and Culture: The TAKKT companies are increasingly adopting agile working approaches such as design thinking and scrum. The use of these methods mainly serves to expedite workflows in the company. The crucial factor for enduring cultural change towards a successful agile working mode is a new leadership style that gives employees the necessary creative freedom and responsibility. In view of this, around 60 international executives from throughout the Group went through a specially designed week-long training program ("Leadership in the Digital Age") at the Haas School of Business of the University of California, Berkeley in mid-2018. The executive training was supplemented with lectures and interactive workshops with companies and start-ups from Silicon Valley focusing on the topics of leadership and culture.

In the past few years, TAKKT has invested in spaces and infrastructure at several locations in order to offer employees a more modern and collaborative working environment. For example, the renovation of the Stuttgart location is nearly complete. The modern workplace concepts are designed to encourage creativity and facilitate cooperation across departments.

In the year under review, TAKKT was able to attract many new employees with profound digital expertise, especially for the areas of online marketing, web shop development and data & analytics. In total, 98 new positions have been filled as part of the digital agenda, 20 of them in 2018. As part of this, TAKKT is planning to hire around 30 additional employees.

Data & Analytics: These days, data is the foundation for decision-making and business management. The use of data as part of daily work has become easier and a matter of course for many employees. In many business units, newly created databases bundle important information. In the past, this data was often scattered and not always easy to evaluate. Modern software solutions have been purchased, to provide easy access to available data and allow individual analyses to be generated quickly. Employees receive regular targeted training in the use of the available systems. In addition, TAKKT sometimes develops data-based algorithms in order to provide sales with targeted support. ratioform, for example, uses a self-learning algorithm which identifies customer-specific cross-selling and upselling potential.

Technology: A modern technological infrastructure is vital in order to leverage the opportunities that arise from digitalization. The TAKKT companies are continuously working on establishing these technological foundations. The NBF web shop, for example, was switched to a new technological platform in the fall of 2018. This provides customers with a significantly better purchasing experience geared towards their individual needs. ratioform is also moving its e-commerce business to a new platform and started implementing the Spryker software at the end of 2018. The ongoing development and modernization of the web shops is also being driven forward at other TAKKT companies.

Process Automation: The TAKKT companies are continuously working on further automation of their processes. Among other things, the core processes at ratioform have been analyzed and the process steps and responsibilities made available to all employees on an internal portal. This helps to make the processes and interfaces in the company transparent. The portal provides a basis for further process optimizations and encourages the specialist discussions required for this between the departments.

Measurement of implementation level

The progress of the implementation of the digital agenda is reviewed on a regular basis by means of different indicators. The indicators that are measured and analyzed include the following:

- Tracking of measures: Number of measures started, completed and outstanding. This allows TAKKT to monitor whether the measures have been implemented as planned.

- Number of new employees: In 2016, TAKKT committed itself to recruiting around 100 new employees with expertise in the particular areas of online marketing, web shop development and data analysis by the end of 2018.

- Investments: TAKKT has allocated around EUR 50 million for implementation of the measures of the digital agenda by 2020. Around half of this is for capital expenditures and the other half for costs related to new employees and the measures.

- Organic growth of order intake via e-commerce as indicator for the development of e-commerce business.

Information on the development of the indicators in the fiscal year can be found in the "Corporate performance" section on pages 74 et seq.

The TAKKT holding company has developed its own digital maturity model together with all the Chief Digital Officers of the portfolio companies. This model names specific criteria for each of the six focus areas that enable development from the lowest to the highest maturity level. The progress model tries to determine the level of progress each Group company has achieved in the individual focus areas of the digital transformation. This transparency helps to encourage the internal exchange of experience between the TAKKT companies. Each criterion is defined by a short and medium-term ambition level. Concrete individual measures and priorities are derived from this.

TAKKT analyzes how customers' needs have been prioritized based on customer satisfaction, which is measured via the Net Promoter Score. This value measures customer satisfaction through willingness to recommend. In order to increase the informative value of this key figure for internal purposes, TAKKT measures the Net Promoter Score also in the dimensions of product range, pricing, product quality, ordering process, delivery and customer service. This allows the company to gain a more accurate picture of the aspects that are relevant for the business from the customer's perspective. In 2018, TAKKT began to uniformly implement the analysis system in all TAKKT companies and supplement the customer feedback channels, some of which have been in place for many years.

DEVELOPMENT OF NEW BUSINESS MODELS

At the beginning of February 2018, the Newport group was established as a new division for newer fast-growing business models. Newport provides them with a port in which they can position themselves in the market more strongly and independently than before with their branding, product range and technological infrastructure. The brands are able to better focus their business model on the requirements of smaller business customers, who have different needs and tend to be transactional in their purchasing habits. In Europe, this allows TAKKT to reach customer groups that cannot be addressed effectively with the multi-channel approach, thus creating great additional growth potential for the company. The goal is to develop Newport into a leading European B2B network for business equipment and services.

POSITIVE IMPACT FROM INVESTMENTS IN START-UPS

Through the TAKKT investment company, TAKKT has been investing in start-ups since 2016 with a focus on companies that develop innovative business models or new solutions in B2B commerce. The products and solutions of the start-ups are already being used at several TAKKT companies. For example, several portfolio companies have achieved initial positive sales effects through the use of individualized package inserts from adnymics. Based on the solution from parcelLab, which enables e-commerce businesses to shape and manage their communication after the purchase, the customer experience was also further optimized during the shipping process thanks to the improved communication.

So far, TBG has made eight investments, which are shown below.

Investment	Business model
Printmate *Individualized packaging*	Provides customized digitally printed packaging made from corrugated cardboard.
Adnymics *Personalized marketing*	Provides a solution for personalized packaging inserts to be included in the shipments to customers. ratioform and Certeo achieve higher response rates with this solution.
Crowdfox *B2C and B2B online platform*	Innovative online platform for B2C and B2B products that stands out for its sophisticated technology and resulting price leadership in the market.
Authentic Vision *Product authentication*	Patented software that allows a unique holographic fingerprint to be produced for any product and authenticated via a smartphone app.
Cavalry Ventures *Venture capital fund*	With this cooperation, TBG can draw on the experience and expertise of the Cavalry founders as a sounding board in its own investment decisions.
Book A Tiger *Facility management*	Online booking platform for facility management (cleaning and other office management services) with a focus on the B2B market.
parcelLab *Post-purchase communication*	Enables online shops to shape and manage post-purchase communication. Customers are always updated about the status of their shipment. ratioform uses it to improve the customer experience after a purchase.
odoscope *Data analytics*	An intelligence platform that delivers real-time, fully automated personalized content, also for anonymous users, on websites and other digital touch points.

INNOVATION INITIATIVES AND EXCHANGE OF KNOWLEDGE

Innovation and knowledge building are essential factors in ensuring the successful advancement of the digital transformation process at TAKKT. The company has therefore established several innovation formats in recent years that were continued and evolved in 2018.

- **Knowledge transfer:** Since the beginning of the digital transformation, the CDO Round Table has proved to be valuable for the internal exchange of knowledge throughout the Group. At these events, the Digital Managers of all Group divisions regularly engage with each other and with experts from other companies on projects and issues related to digitalization. In 2018, additional topic-specific formats were established, designed for example to meet the needs of the experts in the areas of IT and online marketing.

- **Exchange with external experts:** The TAKKT Forum, an annual event organized in conjunction with the Advisory Board of TAKKT AG, is specifically held to facilitate the exchange of knowledge and experience with external experts. The main topic of last year's Forum was the use of customer data.

- **Start-up & Innovation Breakfast:** Several times a year, start-up founders and employees from the TAKKT portfolio companies come together as part of this event series to share ideas. New business models are discussed, experiences are shared and new networks are established, all of which leads to collaborations.

SUSTAINABILITY AND EMPLOYEES

Corporate management defines sustainability as the long-term balance between economic, ecological and social concerns and is aware that only then is lasting corporate success possible. Sustainability has therefore been an integral part of the corporate strategy and daily collective duty at all levels of the Group for several years. TAKKT has set itself the goal of expanding its position as a role model in sustainability in the industry by 2020.

SUSTAINABILITY IS A MATTER OF COMMON SENSE

Direct sales of business and office equipment in B2B direct marketing offers corporate customers transparency in the selection of high-quality products and simple ordering channels. In comparison with two-stage trading models with local stores, direct marketing is also more carbon-efficient. For TAKKT as a direct marketing company, sustainable business activities are integrated in the business model and are not just a fad. It has long been an entrepreneurial tradition in the Group of companies to handle resources carefully. Sustainability and profitable growth are not mutually exclusive – they go hand in hand. The company has therefore established sustainability activities along the value chain as part of the corporate strategy.

A number of measures were identified in 2011, encompassing the six focus areas of sourcing, marketing, logistics, resources & climate, employees and society. With SCORE (Sustainable Corporate Responsibility) TAKKT has anchored an organizational structure throughout the Group enabling the implementation and targeted management of measures across all levels and divisions in day-to-day business. SCORE is coordinated by high-level management contacts in each division and – in order to send a clear signal both within and outside the company – is managed directly by the Management Board.

In 2012, TAKKT had already committed to complying with and disseminating the ten universally recognized principles of the United Nations Global Compact from the areas of human rights, working standards, environmental protection and anti-corruption. In the context of adhering to the Global Compact principles, TAKKT has been summarizing the results and developments in this area in a progress report since 2013. In 2014, TAKKT was one of the first few German companies to achieve Global Compact "Advanced Level" status. This classification was confirmed in previous years as well as in 2018.

TAKKT was recognized with the 2018 German CSR Award in the "Environmental Commitment" category at the German CSR Forum. The German CSR Award is one of the most important accolades for sustainability and CSR commitment in Germany.

MAKING SUSTAINABILITY QUANTIFIABLE

The TAKKT Group regularly informs its stakeholders about how it lives up to its corporate responsibility. Management is convinced that sustainability creates a competitive advantage across all stages of the value chain and enhances company value for the long term.

TAKKT drew up the expectations of the stakeholders and the challenges specific to the business model with respect to sustainability and categorized them according to six focus areas. Specific measures and goals were formulated for each field of activity, which are integrated ("built-in") into the Group's management system. By incorporating the principle of sustainability at the organizational level, solution approaches are developed at all points of the value chain, which contribute to improved sustainability performance.

Focus area	Our responsibility
Sourcing	We take responsibility for the entire life cycle of the products we sell – from sourcing to their use, including the disposal of materials and packaging. The quality of our products ensures for our customers that the products will have a long useful life.
Marketing	In the course of our digital transformation, e-commerce is becoming our most important sales channel. In the traditional catalog business, we make sure that resources are used efficiently at all steps of the process – from catalog production to the sending of advertising materials.
Logistics	Our single-tier direct sales business model to the end customer generate significant proven environmental advantages over multi-tier distribution systems. At the same time, it allows high product availability, short delivery times, adherence to delivery dates and optimized transport of goods.
Resources & Climate	In all business processes, we focus on those areas with the greatest savings or development potential. Modern environmental and energy management systems and respective certifications are a standard for us and our business partners along the entire value chain.
Employees	The basis of teamwork at TAKKT is mutual respect toward each other. We invest time and resources in the targeted advancement and development of our employees.
Society	As part of society, TAKKT sees itself as a driver of social involvement and supports local activities. Active involvement in social projects comes from our employees, who provide support on site.

TAKKT has defined the following indicators as non-financial performance indicators and has set concrete goals and measures for them by the end of 2020:

- TAKKT wants to assess, document and improve sustainability in the supply chain with an expanded supplier evaluation program for sustainability. TAKKT wants to obtain 50 to 60 percent of the Group's purchasing volume from evaluated suppliers by the end of 2020. In addition, TAKKT wants to certify 30 to 40 percent of the purchasing volume from direct imports.

- The share of sales generated through sustainable products is expected to come to at least 12 to 15 percent of consolidated sales.

- Paper consumption for print advertising per order is to be reduced to between 6 and 6.5 kg.

- TAKKT wants the share of carbon-neutral print advertising to be 100 percent in the future.

- TAKKT wants to introduce carbon-neutral web shops for at least 15 major companies.

- The share of parcel shipments that offset the carbon emissions related to the delivery of goods shall be 100 percent in the future. General cargo shipments from the central warehouse are to be offset by at least 90 percent.

- Certified carbon footprints are to be prepared for 15 to 18 major companies.

- TAKKT wants to have introduced a certified environmental management system in ten to thirteen major Group companies. For five to eight major companies, TAKKT wants to have established an energy management system.

- TAKKT aims to reduce energy consumption to between 50 and 55 megajoules per order at all locations in Germany and the US.

- The quota of women in top management positions is to be at least ten percent.

- Of the new employees hired as part of the digital agenda, at least 50 percent should still be with the company.

- Support of the local, voluntary and social involvement of employees as part of paid leave is to be made available to at least 55 to 60 percent of the staff. The share of employees that have volunteered in projects for non-profit organizations or social causes within the scope of occupational possibilities is to be at least eight to twelve percent.

The progress with regard to reaching these goals is presented in the "Company performance" section of this annual report.

SUSTAINABILITY REPORTING AT TAKKT

Since 2012, TAKKT has been publishing sustainability reports prepared according to the international standards of the Global Reporting Initiative (GRI). In the reports, the TAKKT Group provides information on the current status regarding the most important milestones and interim goals. Since the 2017 sustainability report, TAKKT has been following the new GRI standards published in October 2016. These new standards replace the previously valid GRI-G4 standard. TAKKT is one of only a few German companies to report at the "Comprehensive" application level. TAKKT thus provides comprehensive information on the material aspects of sustainability. This annual report is published together with the current sustainability update.

TAKKT also annually participates in the ranking of the international Carbon Disclosure Project (CDP) initiative. Every year, the CDP asks around 6,000 companies about their carbon emissions as well as their strategies to counteract the greenhouse effect. It aims to make companies' climate strategies more comparable and to encourage companies to sustainably reduce their emissions. The CDP revised the scoring methodology in 2018 and added sector-specific questions. In the year under review, TAKKT was able to improve its scoring and achieve a climate score of "B" despite stricter scoring methodology. This is the first time that TAKKT has reached the "Management" application level, the second highest of a total of four application levels.

The sustainability reports are available in print form and can be downloaded from the TAKKT website. Comprehensive detailed information can also be found on the TAKKT website. The non-financial statement for the TAKKT Group can be found on the following website: www.takkt.de/nfs

HUMAN RESOURCES AT TAKKT

The aim of human resources at TAKKT includes supporting the digital transformation and strengthening its workforce by recruiting employees with highly developed digital skills. At the same time, the TAKKT Group is developing its employees in order to equip them for the changes that come with the transformation process.

ESTABLISHING NEW WAYS OF WORKING

The digitalization of the company makes it necessary to implement new ways of working. More open space concepts and more flexible ways of working allow employees and executives to work together in new forms outside the usual patterns. New office spaces also help to reduce thinking in silos and shorten communication paths. Some TAKKT companies have already implemented multi space concepts, which support new ways of working. These concepts have both common spaces available for easy cooperation as well as silent work areas.

Cross-departmental collaboration is accelerating within the TAKKT Group. Interdisciplinary teams bundle expertise that was formerly distributed across separate departments into a single work group. The new team structures make it possible to quickly develop customer-oriented solutions without tedious coordination processes between rigidly structured departments. The teams are made up of members from various departments such as purchasing, marketing and sales. This allows the departments to have a better understanding of the specific markets and customer types instead of restricting themselves to their respective specialist tasks.

Digital communications solutions such as instant messaging and video calls help foster work together across locations and working remotely. For example, ratioform and the US companies Central and NBF have introduced modern communications solutions for all employees. At the Stuttgart location, it is planned to introduce such a solution for spring 2019. In addition, flexitime is being promoted, which helps employees to work more independently.

LEADERSHIP IN THE DIGITAL AGE

The digital age goes hand in hand with a changed understanding of leadership. While highly standardized processes and separate functions used to be successful in hierarchically organized companies, the increasing complexity and momentum require a different kind of leadership. The main purpose of the new management principles is to give employees more freedom to act and make decisions. Executives in the TAKKT Group receive specific training to this end.

DEVELOPMENT OF KEY SKILLS

Various offerings for training and education enable employees to further develop their skills. Overall, in the financial year EUR 1.5 (1.2) million was invested for employee training and development. Based on a needs analysis, TAKKT conducted numerous training sessions in 2018. Last year, for example, TAKKT launched the Agile Driver program. An interdisciplinary group of participants from various Group companies learned agile working methods, innovation techniques and soft skills through seminars, e-learning modules and expert coaching.

STRENGTHENING THE EMPLOYER BRAND IN ORDER TO GAIN EMPLOYEES

Employers are faced with intensified competition for qualified employees. Strengthening the employer brand is the basis for attracting positive attention as a company. Employer branding helps to increase visibility. In order to recruit candidates more easily and simplify onboarding for new employees, various processes have been optimized within the Group. Multiple companies, for example, have launched new career websites and introduced onboarding solutions. In addition, active sourcing, i.e. the active acquisition of potential employees via career networks such as LinkedIn and Xing, is increasingly being used to attract talent.

Social media is also becoming increasingly important for TAKKT as a communications channel for addressing potential employees. Social media channels are therefore being used to a greater extent within the Group. The company occasionally also uses peer recruiting to gain new employees. The HR department is available to offer employees support for this process. The aim is to transfer more responsibility to the employees and to achieve a targeted reinforcement of the respective teams.

The recruiting measures introduced helped to be able to hire the targeted number of approximately 100 new employees with highly developed digital skills – especially in the areas of online marketing, web shop development and data & analytics. In addition, the two acquisitions made in 2018 led to an increase in the number of employees. Overall, employment in the Group increased markedly compared to the previous year. The number of executives and top management has remained nearly the same.

Number of employees

	12/31/2017	12/31/2018
in full-time equivalent	**2,405**	**2,530**
thereof TAKKT EUROPE	1,393	1,525
thereof TAKKT AMERICA	969	960
thereof TAKKT AG	43	45
in headcount	2,614	2,734

Employee structure *(based on headcount)*

	12/31/2017	12/31/2018
Employees (without executives)	2,253	2,372
Executives	364	366
thereof top executives*	57	57

* *Management Board of TAKKT AG, presidents and vice presidents of TAKKT America Holding, heads of central departments at TAKKT AG and managing directors of major subsidiaries.*

Especially in the current transformation process, TAKKT is also convinced of the added value of having mixed management teams and considers it a Group-wide duty to ensure the same career development opportunities for women and men across countries and divisions. Women currently make up 44.6 (44.5) percent of all employees in the TAKKT Group. This share has remained nearly unchanged compared to the previous year. The share of women in executive positions decreased slightly compared to the previous year to 31.4 (32.4) percent. The share of women in top executive positions rose to 12.3 (10.5) percent. This means that the target of having a share of at least ten percent of women in top executive positions by the year 2020 is currently being reached.

Share of women in the TAKKT Group *in %*

	12/31/2017	12/31/2018
Employees	44.5	44.6
Executives	32.4	31.4
thereof top executives*	10.5	12.3

* *Management Board of TAKKT AG, presidents and vice presidents of TAKKT America Holding, heads of central departments at TAKKT AG and managing directors of major subsidiaries.*

In accordance with the law on equal opportunities for women and men in management positions, which TAKKT AG is subject to as a listed company without co-determination, binding targets were set in 2015 for the Supervisory Board, the Management Board and the top management level of the holding company:

- Supervisory Board: With the membership of Dr. Dorothee Ritz, the target of at least one woman among the six members on the Supervisory Board is currently being met.

- Management Board: As of December 31, 2018, there is no female representation on the Management Board of TAKKT AG.

- Top management level: As of December 31, 2018, there is no female representation at the top management level of TAKKT AG. The target for 2022 is to have at least ten percent of the positions at this level filled by women, in case of vacancies.

FISCAL YEAR

GENERAL CONDITIONS

In 2018, the economy in the eurozone as well as in the US was generally characterized by positive growth rates. Growth in the eurozone slowed down at year-end and overall was slightly below the level of the previous year. The US, on the other hand, saw increased growth compared to the previous year. Although the relevant industry-specific indicators for TAKKT were overall on the decline in 2018, they were still indicating growth.

OVERALL ECONOMIC CONDITIONS

In the 2017 annual report, TAKKT had predicted accelerated economic growth in the US for 2018 compared to the previous year and nearly constant growth rates for the eurozone as well as Germany. GDP growth in the US developed positively in line with the forecast and even exceeded it slightly. By contrast, growth rates in the eurozone and Germany were somewhat lower than in the previous year and therefore also slightly worse than predicted.

In 2018, GDP growth in the eurozone reached a rate of 1.8 (2.4) percent. After a positive start to the year, GDP growth gained even more traction as of the second quarter. However, it slackened towards the end of the year. This resulted in slightly lower overall growth than in the previous year. With economic growth of 1.5 (2.2) percent, Germany was not able to achieve the growth of the previous year. This drop was mainly due to the negative impact on growth resulting from weaker demand in the automobile sector.

GDP growth of 2.9 (2.3) percent in the US for 2018 was significantly above the previous-year level. As in Europe, economic performance in the US also improved over the course of the year. This was mainly driven by growth in private consumption. GDP growth in the US for the year as a whole was thus significantly above that of the eurozone.

GDP growth for the eurozone, Germany and the USA

	GDP growth in percent		
	Actual 2017	Forecast 2018	**Actual 2018**
Eurozone	2.4	2.2	1.8
Germany	2.2	2.2	1.5
USA	2.3	2.7	2.9

Sources: German Institute for Economic Research (DIW), International Monetary Fund

INDUSTRY-SPECIFIC CONDITIONS

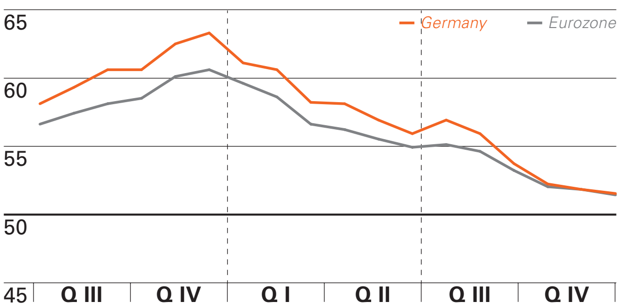
Among other things, TAKKT uses different Purchasing Managers' Indexes (PMIs) in order to better assess the anticipated development in the sales regions in the medium term. This refers to data from the manufacturing industry, which is compiled by different research institutes together with national associations and aggregated in an index. For TAKKT, Purchasing Manager Indexes are understood to be indicators for order intake from the manufacturing industry with a delay of three to six months. At TAKKT, the PMI values are relevant for the equipment business of the European KAISER+KRAFT group.

- Values below the reference level of 50 points indicate that market volumes are in decline and that sales potential is deteriorating.

- By contrast, values over 50 suggest increased market volume and a better business outlook.

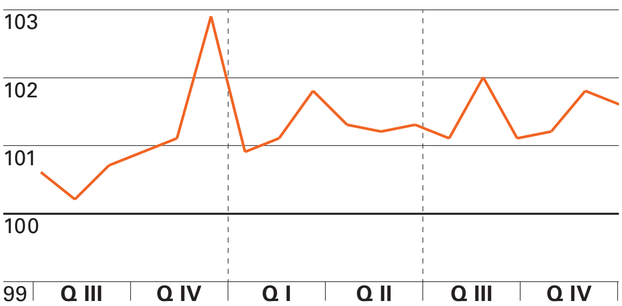
As in the previous year, the PMI for the eurozone was consistently above the reference value of 50 in the year under review. However, the PMI took a significant downturn during the course of the year after starting at a high level. The index reached its highest level in January with 59.6 points. At the end of December, with 51.4 points, the index was only slightly above the expansion threshold. A similar situation emerged in Germany even though the values were still above those of the eurozone, especially at the beginning of the year.

Purchasing Managers' Indexes July 2017 to December 2018



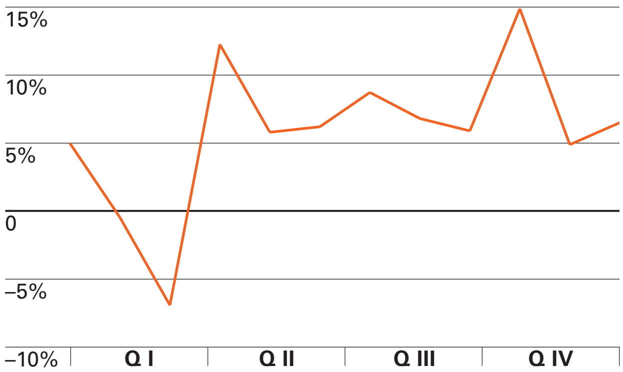
For the Central and Hubert groups in the US, the Restaurant Performance Index (RPI) is a relevant industry indicator. The RPI is based on a survey of restaurant operators in the United States and takes into consideration assessments of the future as well as the current situation. A value greater than 100 indicates market growth, whereas a value lower than 100 represents a downward trend. In 2018, values of slightly over 100 points could be observed for all months. In contrast to the previous year, the values were slightly higher on average at 101.4 (100.9), thereby reflecting a positive market assessment. The RPI benefited from the positive assessments on the future given by respondents. By contrast, the assessment of the current situation was only slightly above the 100-point mark.

Restaurant Performance Index July 2017 to December 2018



BIFMA's assessment of the order intake of furniture manufacturers is an industry indicator for the environment of the US-based NBF group. BIFMA ("Business and Institutional Furniture Manufacturers Association") collects data on the approximate order intake of the respective past month or quarter by means of a survey of companies in its industry. This order intake, which covers a good portion of the industry according to BIFMA, is compared with the figure of the previous year. A forecast function like the PMI, and to a lesser extent also the RPI, is not part of the BIFMA assessment. For the full year of 2018, the order intake reported by BIFMA was 6.0 percent above the previous year's level. Performance over the course of the year was once again uneven. Order intake grew strongly in the second half of the year in particular.

BIFMA order intake in 2018 compared to the corresponding month of the previous year



On the whole, economic conditions in the 2018 fiscal year developed almost as expected at the beginning of the year. As predicted in the 2017 annual report, the GDP growth rate in the US rose considerably. The forecast of a nearly constant growth rate in the eurozone as well as in Germany was not quite met. The industry-specific conditions improved in the US, while uncertainty could be observed in some markets in the eurozone.

BUSINESS DEVELOPMENT

After a weak start to the year with slightly declining organic sales growth, business performance saw a marked improvement over the remainder of the year. At the same time, the generally good economic environment in our target markets ensured a good order situation. In the second half of the year, there were headwinds from the escalating US-China trade conflict as well as the political challenges related to Brexit. Besides the overall good organic sales development, TAKKT was also able to expand in the fiscal year through acquisitions. By adding OfficeFurnitureOnline in the UK and Runelandhs in Sweden to its portfolio, it was able to strengthen its position in key European markets.

CREATION OF NEW DIVISION

TAKKT created the Newport group at the beginning of the year as a new division within the TAKKT EUROPE segment. With Certeo, BiGDUG, OfficeFurnitureOnline and Mydisplays, the Newport group is home to business models that especially address the needs of smaller companies by focusing mainly on e-commerce. The organizational structure of Newport enables a more agile and targeted market positioning of these business models. The management of Newport is incumbent upon Heiko Hegwein, who was appointed as the fourth member of the TAKKT Management Board on February 1, 2018.

In addition to the aforementioned brands, the TAKKT investment company (TBG), with its investments in innovative start-ups, also belongs to Newport. With its stake in Cologne-based odoscope GmbH, the TBG has now invested in seven start-ups. odoscope allows content to be delivered to anonymous website users that is personalized completely automatically in real-time, making the content particularly relevant. In addition to this most recent investment, TBG further expanded its investments in existing shareholdings in order to support their development prospects. This was done within the framework of growth financing.

ON COURSE WITH THE IMPLEMENTATION OF THE DIGITAL AGENDA

More than half of the Group's order intake was generated via e-commerce channels for the first time in the fiscal year. In addition to organic growth of the e-commerce business amounting to 11.6 percent, the acquisitions also contributed to this result. The creation of close to 100 new positions for employees with strong digital expertise was a success. A total of 98 positions had been filled by year-end 2018. Additional new hires are planned for 2019. The focus here will be on the areas of online marketing, web development and data & analytics.

The implementation of the digital agenda is described in the section "Innovation and Development." Information on the development of the progress indicators in the fiscal year can be found in the "Corporate Performance" section. More information on the digital transformation at TAKKT can also be found on the website at www.takkt.de/digital/.

GOOD GROWTH AT TAKKT EUROPE

The TAKKT EUROPE segment achieved good growth in the year under review both organically and through acquisitions. Even though the businesses saw only slight organic growth in the first quarter, development in the subsequent quarters was above average. The respective divisions were characterized by different growth dynamics.

The KAISER+KRAFT group started the year with mild organic growth. Business was considerably better in the following two quarters due to the good economic environment. Growth slackened somewhat at the end of the year amid the economic slowdown. The merger of the gaerner and KAISER+KRAFT brands in some domestic markets was successful, but led to losses in sales in the respective markets. The KAISER+KRAFT group was able to strengthen its activities in Sweden in May with the acquisition of Runelandhs. Runelandhs sells around 13,000 products from the area of business and office equipment through a multi-channel approach.

The ratioform group was able to continue the good momentum from the fourth quarter of 2017 and start the year with mid-single-digit growth. In the subsequent quarters, ratioform even achieved double-digit growth. The good economic environment as well as targeted advertising efforts in Germany contributed to this very favorable performance.

The Newport group, which was newly founded at the beginning of the year, was able to more than double its sales through the acquisition of OfficeFurnitureOnline. Organic growth was on the decline as a result of the realignment in the first half of the year. However, recovery was observed in the second half of the year with a return to growth in the double-digit percentage range.

TAKKT AMERICA POSTS SOLID SALES GROWTH

The TAKKT AMERICA segment started the year with a decline in organic business performance, thereby continuing the weak trend of the previous year. This was followed by solid sales growth as the year progressed. All divisions except for the Hubert group contributed to this development. Hubert still had to contend with considerable investment reluctance from customers in the food service and food retail industries.

In the first quarter, the Hubert group reported a double-digit organic decline. In the subsequent quarters, business performance improved slightly compared to the beginning of the year. However, it was still below the level of the previous year. Sales and earnings at Hubert were also negatively affected by the conclusion of a framework agreement with lower terms for a major customer. Hubert's activities in Europe were discontinued at the end of the third quarter due to lower than expected sales and earnings performance.

In the year under review, Central was able to turn around the negative trend as of year-end 2017 and achieve very stable growth in the mid-single-digit range in all four quarters. The D2G group also achieved solid and steady growth rates throughout the fiscal year.

At the NBF group, sales in the first quarter were still below the level of the previous year due to a very strong prior-year quarter. By contrast, activities increased significantly in the subsequent quarters. In the second quarter, NBF saw nearly double-digit growth, followed by double figures in the third and fourth quarters. The gradual phase-out of the Dallas Midwest retail brand proceeded better than expected.

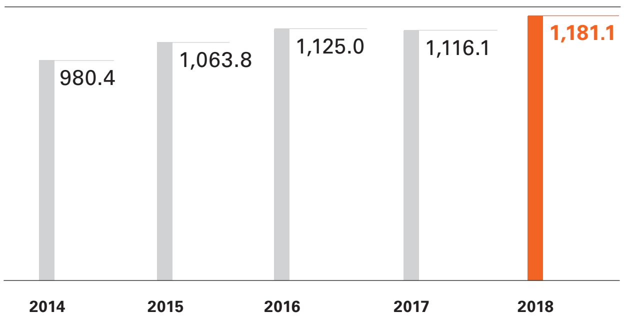
SALES AND EARNINGS REVIEW

In the 2018 fiscal year, the TAKKT Group was able to increase sales significantly with growth of 5.8 percent. While currency effects and the discontinuation of Hubert's European activities had a negative effect on growth, acquisitions made a very positive contribution to sales. Organically (i.e., adjusted for the mentioned effects), sales were up by 3.4 percent. Organic growth was therefore at the upper end of the range of two to four percent forecast at the beginning of the year. While both segments contributed to this development, TAKKT EUROPE had a somewhat stronger impact than TAKKT AMERICA. The EBITDA margin was negatively impacted by a lower gross profit margin in the year under review. At 12.7 percent, profitability was below the level of the previous year, but nevertheless within the range of the target corridor of 12 to 15 percent.

ORGANIC SALES INCREASE AS A RESULT OF GROWTH AT TAKKT EUROPE AND TAKKT AMERICA

Compared to the previous year, sales in the TAKKT Group rose in the year under review to EUR 1,181.1 (1,116.1) million. Year-on-year reported sales growth thus came to 5.8 percent. The reported sales growth benefited from the acquisitions of Mydisplays, OfficeFurnitureOnline and Runelandhs. Compared to the previous year, they contributed 5.4 percent to the increase in sales. In the year under review, this was offset by negative currency effects of minus 2.8 percent, especially as a result of the weaker average exchange rate of the US dollar over the year. The discontinuation of Hubert's European activities also had a negative effect of minus 0.2 percent from October. Organically (i.e., adjusted for the mentioned effects) sales grew by 3.4 percent in comparison to the previous year.

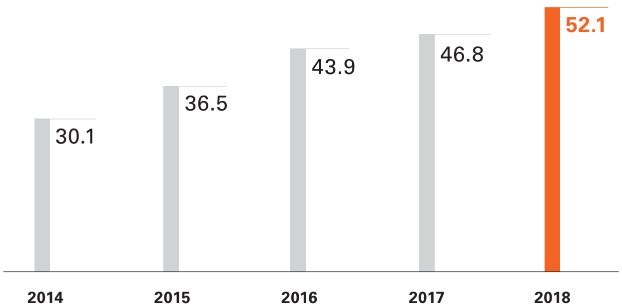
SALES *in Euro million*



CONTINUED ABOVE-AVERAGE GROWTH IN ORDER INTAKE THROUGH E-COMMERCE

In the multi-channel approach, it is important to differentiate between marketing and sales impulses on the one hand and the order intake method on the other. When allocating incoming orders, only the method by which the order has been received can be determined directly. Indirect conclusions about marketing or sales impulses can, however, be a valuable source of information with respect to the diverse internal links in multi-channel models.

E-commerce share in order intake *in %*

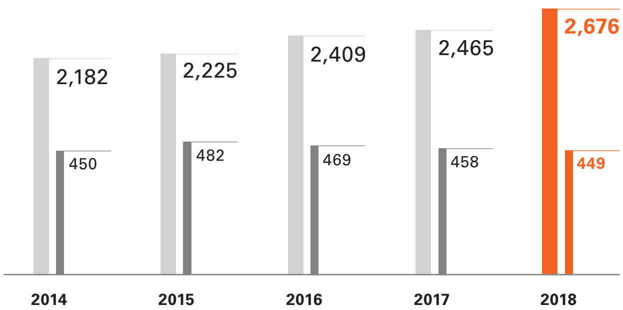


In the year under review, order intake via e-commerce once again performed above average and came to EUR 625.5 (528.3) million. Its share of the total order intake increased to 52.1 (46.8) percent, thereby surpassing the 50-percent mark for the first time in this year. E-commerce also includes orders that were placed with TAKKT companies through traditional channels but initiated via the internet. The renewed increase in orders through e-commerce can be attributed to the further intensification of e-commerce activities – including in connection with the implementation of the digital agenda. Acquisitions also contributed to the increase since their business models have a significantly higher e-commerce share than the TAKKT Group on average. Order intake from traditional sales activities such as print advertising, telesales and field sales declined and represented a little less than half of order intake with a share of 47.9 (53.2) percent.

SLIGHT ORGANIC INCREASE IN ORDER NUMBERS

The number of orders in the year under review at 2.7 (2.5) million was markedly above the previous year's level. This increase is partially due to the acquisition of Mydisplays, OfficeFurnitureOnline and Runelandhs. The discontinuation of Hubert's European activities had a negative impact. Adjusted for these changes to the portfolio of the TAKKT Group, the number of orders increased by 2.8 percent. By contrast, the average order value in the Group decreased slightly. On average, the volume of one individual customer order came to EUR 449 (458) in the year under review. The portfolio changes as well as currency effects had a negative effect on the development of the average order value. In contrast, the value was slightly above the level of the previous year in organic terms.

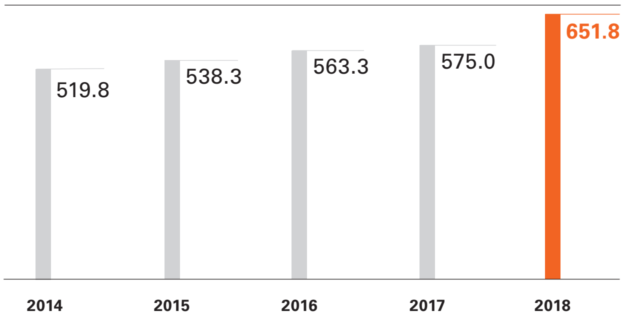
Number of orders *in thousands*
Average order value *in EUR*



TAKKT EUROPE: SALES GROWTH IN ALL DIVISIONS

In the 2018 fiscal year, sales in the TAKKT EUROPE segment increased by 13.4 percent to EUR 651.8 (575.0) million. Its share of Group sales therefore increased to 55.2 (51.5) percent. The acquisitions of Mydisplays, OfficeFurnitureOnline and Runelandhs contributed to the increase in sales. In Europe, due to the acquisitions and minor negative currency effects, there was an overall positive effect of 9.3 percentage points. Adjusted for these effects, the segment achieved organic sales growth of 4.1 percent. Based on this organic sales performance, the number of orders increased more than the average order value compared to the previous year.

Sales TAKKT EUROPE *in EUR million*



All of TAKKT EUROPE's divisions reported organic growth. The KAISER+KRAFT group, which specializes in plant, warehouse and business equipment, recorded organic sales growth in the mid-single-digit percentage range, although the individual sales regions developed differently. The activities of the Gerdmans brand in particular showed very positive growth in Scandinavia. In Germany as well as in the other European markets, the sales brand KAISER+KRAFT achieved good growth in the year under review in the low-single-digit to low-double-digit range. The KWESTO brand in Eastern Europe also achieved positive growth. The activities of the gaerner brand performed poorly and suffered sales declines compared to the previous year. The Runelandhs acquisition contributed to the sales growth.

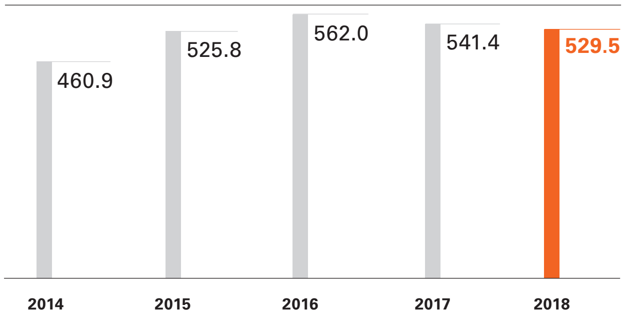
The ratioform group, which specializes in packaging solutions, realized high single-digit organic sales growth. Very positive sales increases were achieved both in foreign markets as well as in the important home market of Germany. In Germany, advertising activities were tailored more specifically to certain customer groups, which contributed to the good growth.

Business performance in the different Newport companies varied in 2018. After a difficult start to the year, Certeo was able to achieve double-digit overall sales growth through the sale of business and office equipment to smaller business customers in Germany, Austria, Switzerland and France. After robust growth in the previous year, British online seller for business equipment BiGDUG suffered a slight organic decline in sales in 2018. The company specializes in storage and shelving solutions. The companies Mydisplays and OfficeFurnitureOnline, newly acquired in 2017 and 2018, performed well and reported significantly higher sales than in the previous year. All in all, Newport achieved a low single-digit organic growth rate.

TAKKT AMERICA: HUBERT BURDENS SALES DEVELOPMENT

Sales in the TAKKT AMERICA segment were 2.2 percent below the previous year's figure as a result of the weaker US dollar over the course of the year, and came to EUR 529.5 (541.4) million. Its share of Group sales thus decreased to 44.8 (48.5) percent. In addition to currency effects, the discontinuation of Hubert's European activities also had a negative impact on sales. Adjusted for both of these effects, the segment realized an organic sales increase of 2.7 percent. However, the weak organic performance of the North American Hubert group pulled the growth rate down by over two percentage points. Based on this organic sales performance, the number of orders increased more than the average order value compared to the previous year.

Sales TAKKT AMERICA *in EUR million*



With the exception of the declining trend at the Hubert group, all of TAKKT AMERICA's divisions were able to increase their growth rate compared to the previous year. They achieved organic sales increases in the mid to high single-digit percentage range. The Hubert group, which specializes in visual merchandising as well as supplies and equipment for the food service industry, recorded

Key sales and earnings figures

	2014	2015	2016	2017	2018
Sales (in EUR million)	**980.4**	**1,063.8**	**1,125.0**	**1,116.1**	**1,181.1**
TAKKT EUROPE	519.8	538.3	563.3	575.0	651.8
TAKKT AMERICA	460.9	525.8	562.0	541.4	529.5
EBITDA (in EUR million)	**137.3**	**157.3**	**171.3**	**150.3**	**150.1**
TAKKT EUROPE	99.1	98.4	107.1	97.1	98.6
TAKKT AMERICA	47.6	68.9	77.1	64.8	64.5
EBITDA margin (in percent)	**14.0**	**14.8**	**15.2**	**13.5**	**12.7**
TAKKT EUROPE	19.1	18.3	19.0	16.9	15.1
TAKKT AMERICA	10.3	13.1	13.7	12.0	12.2

significant sales decreases compared to the previous year. This was partially due to the conclusion of a framework agreement that offered a major customer more favorable conditions. In addition, the first quarter was negatively affected by a trial offer in which no freight costs were charged for delivery. Before that, freight costs were invoiced separately to the customers. This trial offer was stopped at the beginning of the second quarter.

After only slight growth in the previous year, the office equipment specialist NBF achieved an organic increase in the high single-digit range in 2018 and thus the highest growth rate within TAKKT AMERICA.

The D2G group, which specializes in display products, as well as the Central group, with its focus on equipment and supplies for the restaurant industry, achieved solid mid-single-digit organic sales growth. The equipment business of the Central group in particular performed positively.

SALES BY REGION: SIGNIFICANT INCREASE IN EUROPEAN SHARE

Affected by the differing performance of business in North America and Europe as well as acquisition and currency effects, the regional sales spread developed as follows:

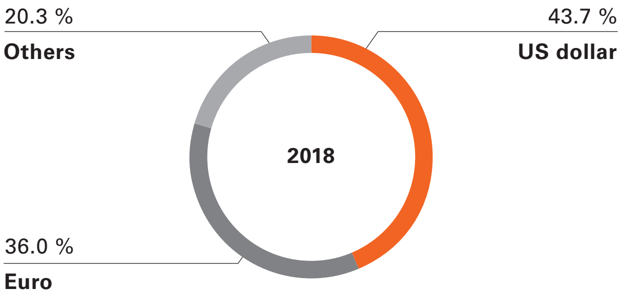
- Sales of the business in Germany grew to EUR 269.5 (255.3) million. Its share of Group sales remained almost constant at 22.8 (22.9) percent.

- Sales of the other European business grew to EUR 386.8 (328.0) million, mainly as a result of the acquisitions. Its share of consolidated sales increased to 32.8 (29.4) percent.

- In North America, sales decreased due to the weak organic sales performance at Hubert and negative currency effects to EUR 524.8 (532.7) million. Its share of Group sales thus decreased to 44.4 (47.7) percent.

36.0 (37.0) percent of the Group sales was realized in the reporting currency of euros. The portion in US dollars came to 43.7 (47.0) percent. Other currencies, such as the Swiss franc, the British pound and the Swedish krona, had a total share of 20.3 (16.0) percent.

Sales by currency



DECLINE IN GROSS PROFIT MARGIN OF GROUP

In the year under review, the gross profit margin of 41.5 (42.5) percent was lower than in the previous year. Around half of the decline is attributable to effects from acquisitions, which generate a gross profit margin below the Group average. In addition, higher freight costs and lower freight margins as well as a new framework agreement with a major customer of the Hubert group had a negative effect on the gross profit margin.

INCREASE IN PERSONNEL AND MARKETING EXPENSES

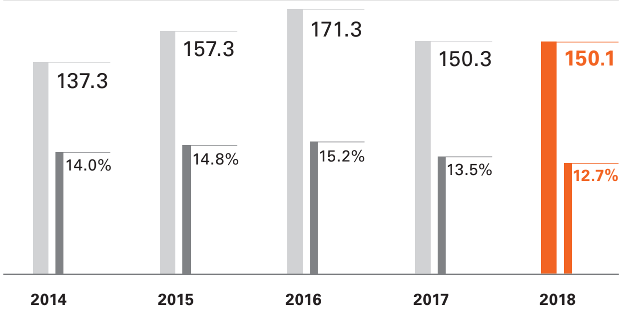
Personnel expenses increased in the year under review by 4.6 percent to EUR 174.3 (166.7) million. Adjusted for portfolio and currency effects, personnel expenses increased by 5.2 percent compared to the previous year and thus somewhat stronger than organic sales. Personnel expenses were higher in particular as a result of the measures part of the digital transformation. The overall personnel expenses ratio as a percentage of sales dropped slightly to 14.8 (14.9) percent compared to the previous year. This decline can be attributed to the significantly lower personnel expense ratio of the acquired companies in comparison to the Group average.

Marketing costs also increased over the previous year in absolute terms as a result of the acquisitions. In relation to sales, the marketing cost ratio increased slightly as a result of the acquisitions. In organic terms, however, the expenditures for print and online marketing remained at a comparable level in relation to sales. A structural shift continues to be observable within advertising costs from print to online.

EBITDA MARGIN OF GROUP WITHIN TARGET CORRIDOR

The main key performance indicator for the TAKKT Group for operational profitability is EBITDA (earnings before interest, taxes, depreciation and amortization). In the year under review, EBITDA remained nearly constant in comparison to the previous year at EUR 150.1 (150.3) million. There was a negative effect of EUR 4.5 million as a result of changes in exchange rates. Compared to the previous year, acquisitions contributed to earnings with an additional EUR 6.5 million. Two one-time effects also had an effect on earnings. First, TAKKT realized a one-time gain of EUR 4.9 million from the sale of an office building belonging to the former C&H subsidiary in the US. Second, when Mydisplays was purchased in mid-2017, a variable purchase price payment, which is dependent on the future success of the company, was agreed with the seller for 2019. Due to the very positive business performance in 2018, TAKKT reported an expense for the recognition of a corresponding variable purchase price liability of EUR 2.0 million. EBITDA in the 2018 fiscal year included personnel and other expenses for the implementation of the digital agenda of a total of EUR 11.3 (8.3) million.

EBITDA *in EUR million*/**margin** *in %*

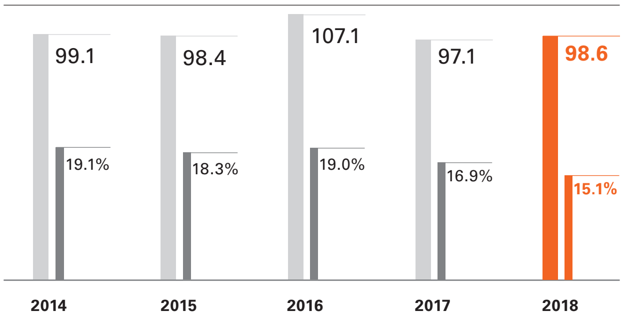


The EBITDA margin of 12.7 (13.5) percent was slightly below the range of 13 to 14 percent expected at the beginning of the year, but nevertheless within the long-term target corridor of the Group. The decline in the gross profit margin could only be partially offset through cost and income measures. Adjusted for the expense for the recognition of the variable purchase price liability for Mydisplays and the one-time gain from the sale of real estate, the EBITDA margin was one percentage point below the previous year.

TAKKT EUROPE:
PROFITABILITY STILL ABOVE AVERAGE

In the TAKKT EUROPE segment, EBITDA increased in the reporting period by 1.5 percent to EUR 98.6 (97.1) million. The acquisitions of Runelandhs (as of June 2018), OfficeFurnitureOnline (as of February 2018) and Mydisplays (as of July 2017) made the aforementioned positive contribution to earnings. The recognition of the variable purchase price liability had a negative effect. EBITDA in the 2018 fiscal year included personnel and other expenses for the implementation of the digital agenda of a total of EUR 6.9 (4.6) million.

EBITDA TAKKT EUROPE *in EUR million*/**margin** *in %*

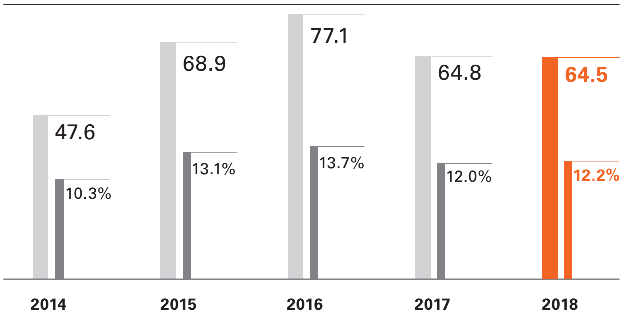


The EBITDA margin of the TAKKT EUROPE segment reached 15.1 (16.9) percent. In addition to the adjustment of the purchase price liability, it was also negatively affected by the lower profitability of the acquired companies. Adjusted for both of these effects, the EBITDA margin decreased by 1.1 percentage points. In terms of profitability, the KAISER+KRAFT group was the leader of the segment in 2018. The EBITDA margin for the ratioform group also remains above the target corridor for the Group as a whole.

TAKKT AMERICA: EBITDA MARGIN STILL
IN DOUBLE-DIGIT PERCENTAGE RANGE

EBITDA in the TAKKT AMERICA segment decreased in 2018 by 0.4 percent to EUR 64.5 (64.8) million. One reason for the decline was the substantially lower exchange rate of the US dollar. EBITDA in the 2018 fiscal year included personnel and other expenses for the implementation of the digital agenda of a total of EUR 3.1 (2.7) million. The one-time gain from the above-mentioned sale of real estate had a positive effect.

EBITDA TAKKT AMERICA *in EUR million*/**margin** *in %*



The EBITDA margin of 12.2 (12.0) percent was at a similar level to the previous year and thus still at the lower end of the Group's target corridor. Adjusted for the one-time effect from the sale of real estate, the EBITDA margin would have decreased by 0.7 percentage points. This decrease was mainly attributable to the weak sales and gross profit performance at the Hubert group, whose US business – like all other TAKKT AMERICA divisions – still achieved profitability in the double-digit margin range.

DEPRECIATION AND AMORTIZATION HIGHER THAN PREVIOUS YEAR

Depreciation and amortization increased slightly in the year under review to EUR 27.5 (27.1) million. In the year under review, amortization of intangible assets from the acquisitions came to EUR 10.4 (10.5) million. Extraordinary expenses such as the impairment of recognized goodwill were not incurred in 2018 or in the previous year. EBIT (earnings before interest and taxes) came to EUR 122.5 (123.2) million, which was slightly below the previous year's figure by 0.6 percent. The EBIT margin fell to 10.4 (11.0) percent.

Also due to lower finance expenses, the financial result improved to EUR minus 5.6 (minus 8.2) million. This resulted in improved profit before tax of EUR 116.9 (115.0) million compared to the previous year.

PROFIT FOR THE PERIOD AND EARNINGS PER SHARE BENEFIT FROM TAX REDUCTION IN THE US

The tax ratio increased significantly from 16.2 percent in the previous year to 24.7 percent. In both years, there were favorable one-time effects on the tax ratio. However, they were much stronger in 2017 than in 2018. In the previous year, the expected tax rate reduction in the US resulted in a significant decrease in deferred tax liabilities and thus in deferred tax income. In the year under review, TAKKT was able to use tax loss carryforwards and also realized tax gains relating to prior periods. Adjusted for the one-time effects mentioned here, the tax ratio decreased from 33.2 to 27.2 percent due to lower corporate taxes in the US.

The profit for the period decreased by 8.6 percent to EUR 88.1 (96.3) million. Earnings per share decreased accordingly to EUR 1.34 (1.47) based on the unchanged weighted average number of shares of 65,610,331.

FINANCIAL POSITION

TAKKT has a centralized system of financial management that ensures the creditworthiness and financing capability of the Group for the long term. The Group can make use of expansion opportunities on short notice at any time. The financing structure of the Group is balanced and optimized. Financial liabilities rose slightly in the year under review, due especially to the purchase price payments for both acquisitions as well as currency effects.

CENTRALIZED FINANCIAL MANAGEMENT LIMITS FINANCIAL RISKS

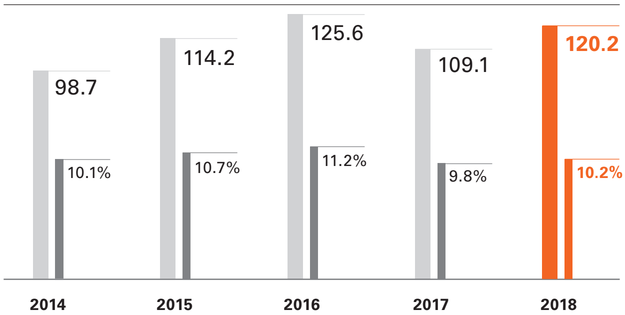
The financial management of the TAKKT Group includes the management and allocation of all financial resources with the primary goal of ensuring that liquidity is available at all times. In addition, TAKKT pursues the following goals within the scope of financial management:

- Safeguarding the independence and flexibility of the Group and of all the Group companies through a diversified financing structure with sufficient available credit lines at all times.
- Limiting financial risks through the hedging of interest and currency risks as well as limiting counterparty risks.
- Optimization of financing conditions through an appropriate mix of short and long-term financing instruments.
- Efficient use of the Group's internal liquidity through the use of cash pooling agreements, whereby liquidity surpluses of the individual companies are used for financing the liquidity requirements of other Group companies.

HIGH POSITIVE TAKKT CASH FLOW

One of the main strengths of the TAKKT business model consists in the strong internal financing power. In the year under review, the Group once again generated a high surplus of cash. While EBITDA was at the level of the previous year, the TAKKT cash flow increased significantly to EUR 120.2 (109.1) million due to lower tax payments and an improved financial result. TAKKT cash flow per share increased to EUR 1.83 (1.66), while the TAKKT cash flow margin in relation to sales was 10.2 (9.8) percent. From 2014 to 2018, it ranged between 9.8 and 11.2 percent, which underscores the sustainable cash flow strength of the business model.

TAKKT cash flow *in EUR million* **and cash flow margin** *in %*



In contrast to the TAKKT cash flow, cash flow from operating activities decreased slightly to EUR 99.4 (100.4) million. The buildup of inventories in the US in particular led to a greater increase in net working capital. In view of the discussion about escalating import tariffs for Chinese goods, the US companies increased the volume of direct imports from Asia in the second half of the year.

The business model of the TAKKT Group is not very capital intensive, which is why capital expenditure is generally rather low.

Managerial presentation of free TAKKT cash flow *in EUR million*

	2014	2015	2016	2017	2018
TAKKT cash flow	**98.7**	**114.2**	**125.6**	**109.1**	**120.2**
Change in net working capital as well as other adjustments	2.5	–26.9*	–8.9	–8.7	–20.8
Cash flow from operating activities	**101.2**	**87.3**	**116.7**	**100.4**	**99.4**
Capital expenditure in non-current assets	–13.6	–14.2	–17.4	–27.8	–25.0
Proceeds from disposal of non-current assets	0.5	0.3	0.5	0.4	8.3
Proceeds from the disposal of consolidated companies	0.0	16.1	1.6	0.0	0.0
Free TAKKT cash flow	**88.1**	**89.5**	**101.4**	**73.0**	**82.7**

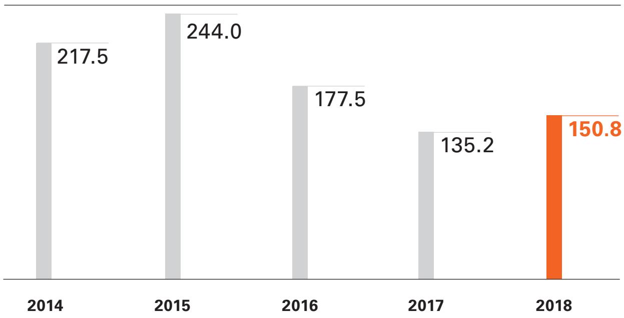
* *this includes the partial amount of EUR 16.2 million from the payment made for the remaining purchase price liability for GPA*

TAKKT's long-term goal is a capital expenditure ratio (the ratio of capital expenditure for maintenance, expansion and modernization of the business operations to sales) of one to two percent on average – not including investments by the TAKKT investment company (TBG). Following investment in the digital agenda, the capital expenditure ratio in the year under review was at the upper end of this range with 1.8 (2.1) percent.

The total capital expenditure in non-current assets was slightly below the previous year's level at EUR 25.0 (27.8) million. The main capital expenditures were for the ERP systems at KAISER+KRAFT and Hubert, Certeo's new e-commerce platform, renovation of the office spaces at the headquarters in Stuttgart and TBG's investments. In total, TAKKT invested EUR 8.4 (8.7) million in non-current assets in connection with the digital agenda and EUR 2.3 (4.5) million in TBG investments.

After deducting the total capital expenditure in non-current assets and cash inflows from disposals, the remaining free TAKKT cash flow in the year under review came to EUR 82.7 (73.0) million. The increase over the previous year resulted mainly from the positive cash flow generated from the sale of an office building in the US for EUR 7.9 million. The free TAKKT cash flow was offset by the payment for the company acquisition of OfficeFurnitureOnline and Runelandhs and the remaining purchase price payment for Post-up Stand totaling EUR 57.7 million as well as the payment of dividends of EUR 36.1 million. This, along with currency effects, increased net financial liabilities (i.e., financial liabilities less cash and cash equivalents) to EUR 150.8 (135.2) million. The strong cash flow-based business model of the TAKKT Group allows a significant reduction of net financial liabilities in years without acquisitions. In years with acquisition activities, conversely, there is generally an increase.

Development of net financial liabilities *in EUR million*



Taking into account all of the financing activities of the Group, cash and cash equivalents came to EUR 3.1 (3.1) million as of December 31, 2018. For details on the generation and usage of cash flow, please refer to the cash flow statement of this annual report.

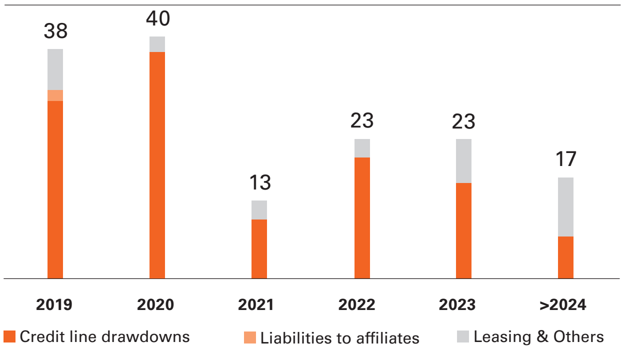
DIVERSIFIED FINANCING, BALANCED MATURITY PROFILE

TAKKT places great importance on the conservative, long-term oriented and diversified financing of the business. The financing activities of the Group are centrally managed with funding mainly denominated in the EUR, USD and GBP currencies. TAKKT primarily uses the following financing instruments:

- Dedicated bilateral credit lines with 13 financial institutions are the focus of the financing portfolio. Short-term (terms of less than 18 months) and long-term (terms of more than 18 months) credit lines have mainly been concluded. These are renewed for an additional year on an annual basis. Long-term credit lines are concluded almost exclusively for five-year periods. The credit agreements are unsecured and do not include any financial covenants. As of the end of the reporting period, liabilities to financial institutions came to EUR 119.4 (97.1) million.
- Individual leased buildings and plant installations are used by TAKKT under finance leases. Liabilities from finance leases as of the end of the reporting period came to EUR 26.4 (28.8) million.

The maturity structure of the financial liabilities as of the end of the reporting period is as follows:

Maturity profile of financial liabilities of the TAKKT Group
in EUR million



In addition to the credit line drawdowns, the Group also had free committed credit lines of EUR 157.4 (160.2) million available to it, of which EUR 71.2 (69.0) million are short-term credit lines and EUR 86.2 (91.2) million are long-term credit lines. TAKKT therefore has sufficient financial flexibility to seize acquisition opportunities at short notice, regardless of the current situation in the capital market.

The independence and degree of flexibility available to the TAKKT Group in its business decisions are ensured in the long term through the diversification of the financing portfolio with regard to financing sources and terms. The relationship of trust that the company has built with its lenders over many years also contributes to this. Regular face-to-face meetings and an annual Bankers' Day are held to provide detailed information on the current development and performance of the company.

USE OF DERIVATIVE FINANCIAL INSTRUMENTS ONLY FOR HEDGING PURPOSES

As a global player, TAKKT is exposed to risks arising from fluctuations in exchange rates and market interest rates. The purpose of financial risk management is to regularly monitor these financial risks and limit them insofar it is economically advisable. In dealing with derivative financial instruments, harmonized regulations ensure that no financial transactions are conducted outside of an established framework without the prior approval of the Management Board. Derivative financial instruments are only concluded for hedging purposes in relation to the hedged item. In addition, financial transactions are carried out exclusively with business partners who have been approved for this purpose and meet a certain credit rating. In line with the hedging policy, TAKKT's goal for interest rate risks is a hedge ratio of 60 to 80 percent of the finance volume. Currency risks are hedged to around 70 percent of the net position. Details on the use and evaluation of these financial instruments can be found in the risk report as well as the notes to the consolidated financial statements.

INTERNAL COVENANTS ON CAPITAL MANAGEMENT IN THE TARGET CORRIDOR

All covenants used by TAKKT internally for the long-term management of its financial structure are within the internally set target corridor as of the reporting date. They thus underscore the solid financing of the Group and provide the framework for future growth. TAKKT strives to achieve a balance between security and profitability. The objective is to ensure sufficient financial scope for growth and difficult times on the one hand as well as an appropriate interest return on total capital employed on the other.

As of the end of the reporting period, the equity ratio of 60.8 (61.2) percent was at the level of the previous year and still slightly above the target corridor of 30 to 60 percent. In the year under review, gearing was still at 0.2 (0.2) due to the increase in both net financial liabilities and shareholders' equity. The debt repayment period remained constant at 1.4 (1.4) years because average net financial liabilities and the TAKKT cash flow increased at the same rate. Net financing expenses decreased compared to 2017; while the operating result before amortization & impairment of goodwill remained almost constant, causing the interest cover to improve to 23.8 (16.3). The method of calculation and definition of the key figures are presented in the notes to the consolidated financial statements.

Internal covenants

	Self-imposed target	2014	2015	2016	2017	2018
Equity ratio	30 to 60 percent	43.8	49.1	55.2	61.2	60.8
Debt repayment period	< 5 years	2.5	2.2	1.6	1.4	1.4
Interest cover	> 4	9.8	14.4	18.3	16.3	23.8
Debt-equity-ratio (gearing)	< 1,5	0.6	0.5	0.3	0.2	0.2

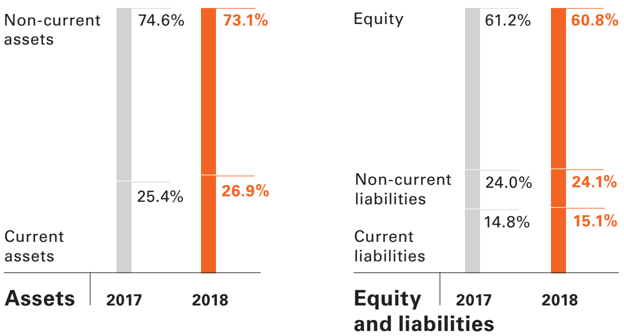
ASSETS POSITION

The balance sheet ratios of the TAKKT Group in the year under review remained largely unchanged despite a significant increase in total assets. The non-current assets are completely covered through equity and non-current loans, providing TAKKT with a long-term, solid financing structure.

ASSETS INCREASE AS A RESULT OF ACQUISITIONS

Total assets grew in the year under review by 11.7 percent to EUR 1,037.1 (928.5) million. This increase was mainly attributable to the two acquisitions as well as currency effects, especially from the stronger US dollar as of the end of the reporting period compared to year-end 2017.

Balance sheet structure of the TAKKT Group



Non-current assets of EUR 758.6 (692.6) million made up 73.1 (74.6) percent of the assets. Goodwill increased by EUR 42.6 million as a result of acquisitions as well as by an additional EUR 10.9 million due to currency effects. Depreciation and amortization in the amount of EUR 27.5 million were offset by capital expenditure of EUR 25.0 million.

No impairment of goodwill was necessary on the basis of the impairment tests performed. With 54.7 (55.3) percent, goodwill continues to make up the major share of assets reported on the balance sheet.

Leased assets appear as assets in the balance sheet if they are classified as finance leases in economic terms. In the TAKKT Group, this especially applies to the warehouse of the KAISER+KRAFT division in Kamp-Lintfort as well as the central warehouse of the ratioform division in Munich. They are shown under non-current assets at EUR 24.7 (26.4) million.

Customer and supplier relationships, brand names, web shops, domain names or internal expertise can, regardless of their significance for the TAKKT Group, only be recognized as intangible assets if they are in accordance with the conditions of IAS 38. This is not the case with regard to the intangible assets generated within the TAKKT Group. Accordingly, these figures are not recorded. Where entire companies are acquired, some intangible assets are recorded in the consolidated financial statements as required by IFRS 3 for first-time consolidation as long as they are identifiable and can be measured independently. The corresponding recognition in the balance sheet is a good indicator for the value potential of these assets. At TAKKT, this mainly applies to the internet domains, web shops, brand names and customer relationships. The amortized value of these assets as of the end of the reporting period is EUR 49.7 (44.6) million. The value of

Key figures for assets position *(in EUR million)*

	2014	2015	2016	2017	2018
Non-current assets	**663.6**	**735.6**	**729.9**	**692.6**	**758.6**
in % of Total assets	75.2	76.3	74.9	74.6	73.1
Current assets	**218.9**	**228.6**	**244.1**	**235.8**	**278.5**
in % of Total assets	24.8	23.7	25.1	25.4	26.9
Total assets	**882.5**	**964.2**	**973.9**	**928.5**	**1,037.1**
Total Equity	**386.8**	**473.4**	**537.8**	**567.8**	**630.4**
in % of Total equity and liabilities	43.8	49.1	55.2	61.2	60.8
Non-current liabilities	**241.0**	**314.8**	**243.4**	**222.8**	**250.3**
in % of Total equity and liabilities	27.3	32.6	25.0	24.0	24.1
Current liabilities	**254.8**	**176.0**	**192.8**	**137.8**	**156.4**
in % of Total equity and liabilities	28.9	18.3	19.8	14.8	15.1
Total equity and liabilities	**882.5**	**964.2**	**973.9**	**928.5**	**1,037.1**

the brands with an indefinite useful life recognized as of December 31, 2018 came to EUR 27.7 (26.9) million.

Current assets came to EUR 278.5 (235.8) million or 26.9 (25.4) percent of total assets as of December 31, 2018. Inventories of EUR 128.6 (102.1) million as well as trade receivables of EUR 107.9 (102.9) million together amounted to 84.9 (86.9) percent of current assets. While trade receivables increased mainly as a result of acquisition and currency effects, inventories at the US companies were also built up in view of the discussion about escalating import tariffs for Chinese goods and the related direct imports from Asia.

The payment behavior of the customers was reliable as usual with a payment period of 32 (33) days for accounts receivable. The loss of receivables remained very low as in the previous year with a write-off rate of below 0.2 percent. Consequently, there was no significant impact on the development of trade receivables.

In the TAKKT Group, there are no off-balance-sheet financial instruments such as the sale of receivables or asset-backed securities. The Group has concluded operating leasing agreements with future payment obligations totaling EUR 63.4 (44.3) million, e.g., for warehouses, office buildings, plant and office equipment and vehicles. These leasing agreements were not capitalized under IAS 17 and are therefore not reported under assets.

INCREASE IN SHAREHOLDERS' EQUITY, REDUCTION OF LIABILITIES

In light of the profit for the period of EUR 88.1 million, the dividend payout of EUR 36.1 million, the positive currency effects of EUR 11.3 million as well as the other positive effects recognized directly in equity in the amount of minus EUR 0.7 million, total equity increased to EUR 630.4 (567.8) million as of December 31, 2018. The total equity ratio of 60.8 (61.2) percent remained at the level of the previous year, placing it slightly above the target corridor of 30 to 60 percent.

Accounting for 24.1 (24.0) percent of the equity & liabilities were non-current liabilities amounting to EUR 250.3 (222.8) million. The increase in non-current liabilities was mainly attributable to acquisition and currency effects in the amount of EUR 8.3 million as well as higher non-current financial liabilities of EUR 11.1 million. The latter liabilities were still the most significant item at EUR 115.8 (101.6) million. Deferred tax liabilities increased by EUR 8.3 million, which is equally attributable to the increase in the taxable reduced value of goodwill in the American Group companies due to amortization as well as currency and acquisition effects. Provisions for pension liabilities increased as planned by EUR 4.2 million. Its share of total assets remained nearly constant at 6.1 (6.3). Other non-current liabilities increased from EUR 0.6 to EUR 2.4 million due to the accrued lessor subsidies for renovation of office buildings.

Current liabilities of EUR 156.4 (137.8) million made up 15.1 (14.8) percent of total assets. In addition to currency and acquisition effects of EUR 11.0 million, the increase was mainly due to a planned growth-driven development.

COMPANY PERFORMANCE

TAKKT was able to achieve most of the target values of the financial, product range-specific and value-based key performance indicators in the past year under review. Significant progress was made in implementing the digital agenda. In addition, improvements were realized with respect to the sustainability indicators.

SOLID FINANCIAL KEY FIGURES

The short-term development of the organic sales performance, gross profit margin, EBITDA margin, and order intake key figures compared to the previous year was explained in detail in the "Sales and earnings review" section of this annual report. The development of TAKKT cash flow and the capital expenditure ratio can be found in the "Financial position" section.

Looking back over a longer period of time, TAKKT has been able to realize organic growth of between three and five percent in most of the fiscal years. Lower values with this key figure – such as in 2017 – were due to unfavorable conditions that had a negative impact on the growth of the TAKKT Group. The value and growth drivers of the number of orders and average order value, which impact sales growth, have generally performed as expected over the past five years. The growth momentum came mainly from the higher order numbers, while the average order value remained between EUR 400 and 500 throughout the entire period.

In addition to the negative structural effects of the acquisition, higher freight costs and lower freight margins had an unexpectedly strong negative impact on the gross profit margin in the 2018 fiscal year. Besides the general increase in freight costs, there was also the free shipping trial at Hubert in the first quarter of 2018. In general, TAKKT gradually passes on high freight costs to the customer through price adjustments. In 2018, as in previous years, additional negative effects on the gross profit margin from individual markets were offset by various margin improvement initiatives, such as the expansion of private labels and direct import shares.

The target value defined in the management system of over 40 percent of sales was soundly achieved for all the years under review.

The performance of the EBITDA margin is partly influenced by economic developments as well as by one-time gains and expenses. Another influencing factor since 2016 has been the expenses related to implementing the digital transformation. Despite these effects, TAKKT achieved an EBITDA margin at least within the target corridor in the past five years and thus consistently high operational profitability – even in the years with weaker organic sales performance.

Between 2014 and 2018, the TAKKT cash flow margin was always above the defined target value of eight percent of sales. With the exception of the year 2017, the TAKKT cash flow margin even reached double digits in the past five years, which is an indicator of the high internal financing capability of the TAKKT Group. The investment requirement in the past five years – measured as the capital expenditure ratio as a percentage of sales – was between one and two percent. The long-term average target value was thus achieved. The upward trend in recent years is mainly attributable to capital expenditure for the digital transformation as well as the modernization of warehouse locations.

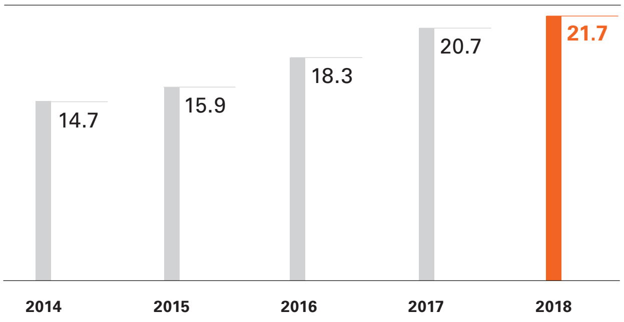
Development of financial key figures

	2014	2015	2016	2017	2018
Organic sales development in percent	5.5	4.7	5.2	0.4	3.4
Number of orders in thousands	2,182	2,225	2,409	2,465	2,676
Average order value in EUR	450	482	469	458	449
Gross profit margin in percent	42.6	42.6	42.6	42.5	41.5
EBITDA margin in percent	14.0	14.8	15.2	13.5	12.7
TAKKT cash flow margin in percent	10.1	10.7	11.2	9.8	10.2
Capital expenditure ratio in percent	1.4	1.3	1.5	2.1	1.8

POSITIVE DEVELOPMENT OF PRODUCT RANGE FIGURES

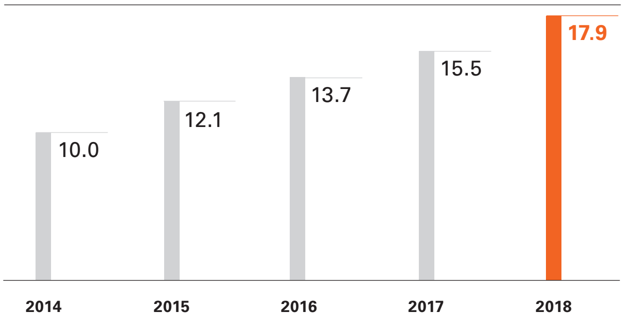
The share of private labels in the order intake grew further in the year under review to 21.7 (20.7) percent. Nearly all divisions contributed to the positive development. The increases at the NBF group and Central group are particularly noteworthy. The share of private labels grew at a higher than average rate in both of these divisions. The NBF group once again achieved the highest share within the TAKKT Group. The share of private labels has thus continuously increased in the past five years.

Share of private labels in order intake *in %*



At the Group level, the share of purchase volume from direct imports increased to 17.9 (15.5) percent in the year under review. TAKKT EUROPE benefited from the high share at OfficeFurnitureOnline. The KAISER+KRAFT group remained at a comparably high level and ratioform increased its share of direct imports starting from a relatively low base. The divisions of TAKKT AMERICA were also able to increase the share of direct imports. The strongest increase could be seen at NBF, while the D2G group continues to boast the highest share within the Group. Overall, TAKKT has steadily increased the share of direct imports over the past few years.

Share of direct imports in purchase volume *in %*



VALUE-BASED FIGURES: TAKKT VALUE ADDED AND ROCE BELOW PREVIOUS YEAR

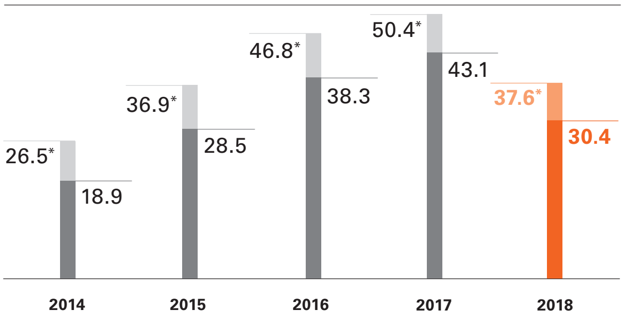
The TAKKT value added was significantly impacted in the previous year by the one-time gain from the revaluation of deferred tax liabilities. With this in mind, TAKKT value added in 2018 was significantly lower than in 2017 and came to EUR 30.4 (43.1) million. Adjusted for the above-mentioned one-time gain, TAKKT value added would have reached EUR 25.3 million in the previous year.

The operating result after tax generated for calculation of the TAKKT value added decreased over the previous year by a total of EUR 10.0 million and amounted to EUR 93.9 (103.9) million. The average capital employed increased in 2018 compared to the previous year. The weighted average cost of capital (WACC) after tax used to calculate the total cost of capital remained unchanged at 7.8 (7.8) percent. TAKKT assumed a value-based capital structure of 70 percent equity and 30 percent debt capital for this. The cost of shareholders' equity was nine percent. An imputed cost of five percent is used for debt capital. This is derived from a long-term view of the average rates of interest on debt capital. Total cost of capital in 2018 came to EUR 63.6 (60.8) million.

With regard to the absolute value of the TAKKT value added, the amortization of intangible assets reduced the generated operating result after tax in the year under review by a total of EUR 7.2 (7.3) million. Without the amortization of intangible assets and the related tax effect, the TAKKT value added would have come to EUR 37.6 (50.4) million.

Based on the period of the past five years, TAKKT was able to significantly increase the TAKKT value added. The increase in 2016 and 2017 to a TAKKT value added of well over EUR 30 million is also attributable to positive one-time gains in both years. Even adjusted for these effects, however, TAKKT has performed well in recent years, thereby significantly exceeding the goal of a TAKKT value added significantly greater than zero.

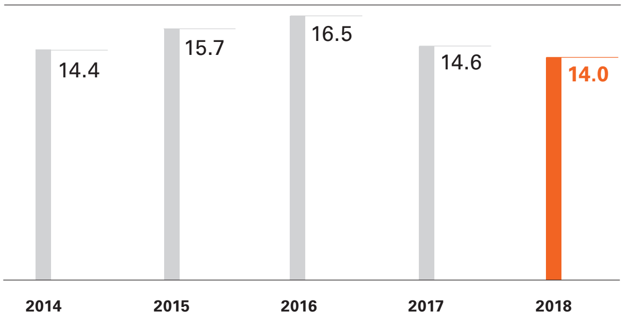
TAKKT value added *in EUR million*



* *Adjusted for scheduled amortization of intangible assets resulting from acquisitions and the related tax effect.*

The return on capital employed (ROCE) of 14.0 (14.6) percent in the year under review was slightly below the figure of the previous year. This was due to an increase in capital employed attributable in part to the acquisitions. In the past five years, the goal of generating a ROCE of over 12 percent was achieved each year.

ROCE *in %*



PROGRESS IN THE IMPLEMENTATION OF THE DIGITAL AGENDA

To assess the success of the implementation of the digital agenda in the individual divisions, a number of operating key figures are analyzed and shared with the TAKKT management regularly. The indicators described in the "Innovation and development" section (page 52) are suitable for providing a summary overview of the progress in the implementation of the digital agenda at the TAKKT Group level as well as the effect achieved.

In total, significantly more than 100 measures and projects for the implementation of the digital agenda were defined at the divisional level. The number, scope and content of the measures and projects have undergone regular review during the implementation of the digital agenda and have been adjusted as required. Implementation of 114 of the measures and projects defined to date began until the end of 2018. Of these measures, 44 have been completed and in many cases have subsequently been transferred to the normal operations of the companies. This included the building of internal teams for web shop development or data analysis, providing the technical infrastructure, performing customer journey analyses, and changing and directing the internal organization towards customer groups.

One of the key goals of the digital agenda defined by TAKKT is the recruitment of digital talents. By the end of 2018, the Group wanted to gain around 100 additional digital talents. With 98 positions filled in this area, TAKKT achieved this goal as of the end of the reporting period. The European companies hired significantly more than the US.

Indicators for the implementation of the digital agenda

	2016	2017	2018
Measures launched (cumulative)	53	100	114
Measures completed (cumulative)	7	27	44
Newly created positions as part of the digital agenda (cumulative)	26	78	98
Additional personnel expenses (cumulative) in EUR million	0.6	4.4	7.3
Additional personnel expenses (in the financial year) in EUR million	0.6	3.9	2.9
Other expenses in EUR million	1.9	3.8	4.0
Capital expenditure (without the TAKKT investment company) in EUR million	1.4	8.7	8.4
Capital expenditure of TAKKT investment company in EUR million	1.0	4.5	2.3
Organic growth of order intake via e-commerce in percent	10.6	7.9	11.6
Share of e-commerce in order intake in percent	43.9	46.8	52.1

With the implementation of the digital agenda, the following investments as well as personnel and other expenses were connected in 2018. Capital expenditures in non-current assets amounted to EUR 8.4 (8.7) million and other expenses amounted to EUR 4.0 (3.8) million. Personnel expenses for the positions created as part of the digital agenda increased to EUR 7.3 (4.4) million in total and thus EUR 2.9 million higher than in the previous year. In addition, the TAKKT investment company invested EUR 2.3 (4.5) million in start-ups.

Order intake via e-commerce is expected to increase significantly over the course of the digital transformation. The organic growth of order intake via e-commerce in 2018 was 11.6 percent and thus higher than in the previous year. This growth was mainly driven by TAKKT EUROPE in the year under review with a solid double-digit organic increase in order intake via e-commerce. In the TAKKT AMERICA segment, organic e-commerce growth in the mid-single-digit percentage range was reported for 2018. However, the share of e-commerce there is still a few percentage points higher than in Europe. In both segments, the growth rates for e-commerce were higher than those for traditional sales activities. The share of e-commerce in the Group's order intake thus grew from 46.8 to 52.1 percent.

CONTINUOUS INCREASE IN SUSTAINABILITY PERFORMANCE

With the sustainability indicators, which also serve as non-financial performance indicators, TAKKT's goal is to be able to systematically manage and document the progress in this area as well. Progress could once again be recorded in all focus areas in the year under review. In 2018, TAKKT made progress toward its goal of expanding its position as a role model for sustainability in the industry by 2020. The current multi-year overview for the key figures and initiatives that are relevant for the focus areas is shown in the table on page 76. Five key figures from the program of measures from 2011 to 2016 were adopted. In 2017, the number of key figures examined was significantly broadened.

- Sourcing: For TAKKT, as a direct marketing company with diverse supplier relationships, an important part of the value chain exists already in the manufacturing and procurement of goods. For this reason, TAKKT places a strong emphasis on sustainability in its supply chain. The supplier evaluation program for measuring sustainability performance EcoVadis, which was launched as a pilot project in 2013, has since been expanded every year to include other subsidiaries and affiliate suppliers. The share of purchase volume from certified suppliers in the year under review was 44.2 percent and the share of the purchase volume of direct imports from certified suppliers came to 39.3 percent.

- Marketing: Advertising efforts are always connected with the use of non-renewable resources. TAKKT is working to constantly reduce their use. By using advertising material more efficiently, the Group only used 4.2 kg of printed advertising materials per order in the year under review. 19.9 percent of these printed advertising materials have already been made carbon neutral. The paper for catalogs and other print media comes almost exclusively from certified sustainable sources (FSC/PEFC). In addition to the print area, TAKKT also wants to expand its sustainability efforts to the e-commerce business. This involves offsetting the emissions from operating and using the web shops. In the reporting period, additional web shops of major companies were rendered carbon neutral, whereby a total of twelve web shops are already operated in a carbon neutral manner.

- Logistics: The direct marketing of goods is proven to cause significantly lower carbon emissions than sales through local store-based retailers. Since 2012, TAKKT is increasing efforts to make delivery of the products as low on emissions as possible and is now handling 93.5 percent of Group-wide parcel delivery carbon-neutrally. Since 2014, carbon-neutral deliveries are carried out in Germany for general cargo as well. In the year under review, TAKKT rolled out carbon-neutral general cargo transport to other countries. Group-wide, the share of carbon-neutral cargo shipments from the central warehouses in Europe and warehouses in the US comes to 48.9 percent.

- Resources & Climate: The efficient use of resources and reducing emissions is ideally achieved based on reliable data. TAKKT has been creating ISO-14064-1-certified carbon footprints for this purpose for an increasing number of Group companies since 2011. In addition, certified environmental and energy management systems will be introduced gradually. Thanks in part to different energy-saving measures, such as the gradual switch to LED lighting at the warehouse locations, energy consumption per order at German and US locations was reduced to 66.7 megajoules in the year under review.

- Employees: As part of the digital agenda, TAKKT managed to recruit many new employees with highly developed digital skills in the year under review. Now it is important to advance and retain them in the company for the long term. In order to achieve this, continuous measures such as creating modern working environments are evaluated and implemented. The share of retained 'digital talents' is currently 89.9 percent. TAKKT is also convinced of the added value of having mixed management teams and considers it a Group-wide duty to ensure the same career development opportunities for women and men across countries and divisions. The share of women in top management positions is currently 12.3 percent.

- Society: The social commitment of its employees is a matter of importance for TAKKT as well. The share of employees that can take paid leave from work for volunteer involvement was 70.2 percent in the year under review. Due in particular to the high level of commitment of our employees in the US, we were able to increase the share of Group employees who participated in such local projects to 18.0 percent.

The non-financial statement for the TAKKT Group can be found on the following website: http://www.takkt.de/nfs

Sustainability indicators*

Focus area	Key figure	2014	2015	2016	2017	2018
Sourcing	Share of sourcing volume from certified suppliers	23.7%	36.3%	40.5%	46.8%	44.2%
	Share of direct imports sourcing volume from certified suppliers				39.8%	39.3%
	Share of sales from sustainable product ranges	6.6%	9.6%	9.8%	9.3%	9.5%
Marketing	Carbon-neutral web shops for major companies				7	12
	Paper consumption print advertising materials per order				5.4kg	4.2kg
	Share of carbon-neutral advertising materials per year				12.1%	19.9%
Logistics	Share of carbon-neutral parcel delivery				91.4%	93.5%
	Share of carbon-neutral general cargo delivery from distribution center				44.7%	48.9%
Resources & Climate	Major companies with carbon footprint	7	10	10	13	13
	Major companies with a certified environmental management system	1	3	3	6	6
	Major companies with a certified energy management system				4	4
	Energy consumption at GER/US locations per order in megajoule				70.6	66.7
Employees	New hires digital agenda: Share of retained "digital talents"				90.9%	89.9%
	Diversity: Share of women in top executive positions				10.5%	12.3%
Society	Percentage of employees who have the opportunity to take a paid leave for local volunteer involvement	18.4%	37.9%	41.2%	65.7%	70.2%
	Percentage of employees who took part in local volunteer projects				15.1%	18.0%

** Five indicators were adopted from the program of measures from 2011 to 2016. Reporting of the other indicators started in 2017.*

COMPARISON OF ACTUAL AND FORECAST DEVELOPMENT

In the forecast for the 2018 fiscal year, TAKKT assumed a nearly constant growth rate for Europe and a marked economic upturn in North America. Despite the deterioration of economic indicators in the second half of the year, most of the key figures developed as expected. This especially applies to the organic growth, which at 3.4 percent was at the upper end of the projected range of two to four percent.

With the exception of the gross profit and EBITDA margins, the development of the financial key figures has been consistent with the forecast. At TAKKT EUROPE, the gross profit margin declined due to acquisition effects, as expected. For TAKKT AMERICA, a stable gross profit margin was predicted. However, the segment's gross profit margin was lower than in the previous year as a result of higher freight costs and lower freight margins as well as a new framework agreement with a major customer of the Hubert group. Consequently, the gross profit margin for the Group was also lower than expected. It nevertheless was still above the long-term target value of 40 percent.

With regard to EBITDA, TAKKT originally assumed a margin of between 13 and 14 percent for 2018. In view of the declining gross profit margin, the Group adjusted its expectation to the lower end of this range or slightly below it at the end of July. After a significant improvement in profitability in the second half of the year, the EBITDA margin was 12.7 percent for 2018 as a whole.

The product range figures showed the expected improvement. In relation to the value-based figures, the TAKKT value added improved as forecast compared to the previous year's adjusted figure. Contrary to expectations, there was no increase in ROCE and in 2018 it was slightly below the level of the previous year. The indicators for implementation of the digital agenda developed as expected, with the exception of the number of completed measures. Finalization and implementation of some of the measures in the normal operation took longer than originally anticipated.

The assumption of stable or slightly improved internal covenants proved accurate. TAKKT's expectations with regard to the sustainability indicators were largely met in the 2018 fiscal year. Contrary to expectations, there was no improvement to be seen in the share of purchase volume from certified suppliers. The percentage of women in top management positions developed more positively than expected.

Comparison of actual and forecast development

	2017	Forecast for 2018	Actual development 2018
Financial key figures			
Organic sales development in percent	0.4	2 to 4	3.4
Number of orders in thousands	2,465	Increase in number of orders and stronger development of the order numbers than the average order value	2,676
Average order value in EUR	458		449
Gross profit margin in percent	42.5	Slight decrease at TAKKT EUROPE; Stable at TAKKT AMERICA	41.5
EBITDA margin in percent	13.5	13 to 14 During the year specified to the lower end of this corridor or slightly below	12.7
TAKKT cash flow margin in percent	9.8	More than 8	10.2
Capital expenditure ratio in percent	2.1	Between 1 and 2	1.8
Product range key figures			
Share of private labels in order intake in percent	20.7	Further increase	21.7
Share of direct imports in order intake in percent	15.5		17.9
Value-based figures			
TAKKT value added in EUR million	43.1 (without one-time gain 25.3)	Lower than in the previous year, adjusted for one-time gain slightly higher	30.4
ROCE (Return on Capital Employed) in percent	14.6	Slightly above previous year's level	14.0
Indicators for the implementation of the digital agenda			
Measures launched (cumulative)	100	Launch of new measures	114
Measures completed (cumulative)	27	Majority of the measures started in 2016 and 2017	44
Newly created positions	78	100	98
Additional personnel expenses (cumulative) in EUR million	4.4	Increase	7.3
Additional personnel expenses (in the financial year) in EUR million	3.9	On a similar level as in 2017	2.9
Other expenses in EUR million	3.8		4.0
Capital expenditure (without the TAKKT investment company) in EUR million	8.7		8.4
Capital expenditure of TAKKT investment company in EUR million	4.5		2.3
Organic growth of order intake via e-commerce in percent	7.9	Significantly above the organic growth rate of total order intake	11.6
Share of e-commerce in order intake in percent	46.8	Marked increase	52.1
Internal covenants for management of the financial structure			
Equity ratio in percent	61.2	Stable or slightly improved, assuming no further major company acquisitions are made in addition to OfficeFurnitureOnline	60.8
Debt repayment period in years	1.4		1.4
Interest coverage	16.3		23.8
Gearing	0.2		0.2

	2017	Forecast for 2018	Actual development 2018
Sustainability indicators			
Share of sourcing volume from certified suppliers	46.8%	slightly improved	44.2%
Share of direct imports sourcing volume from certified suppliers	39.8%		39.3%
Share of sales from sustainable product ranges	9.3%		9.5%
Carbon-neutral web shops for major companies	7	measurably improved	12
Paper consumption print advertising materials per order	5.4kg		4.2kg
Share of carbon-neutral advertising materials per year	12.1%		19.9%
Share of carbon-neutral parcel delivery	91.4%	slightly improved	93.5%
Share of carbon-neutral general cargo delivery from distribution center	44.7%		48.9%
Major companies with carbon footprint	13		13
Major companies with a certified environmental management system	6		6
Major companies with a certified energy management system	4		4
Energy consumption at GER/US locations per order in megajoule	70.6		66.7
New hires digital agenda: Share of retained „digital talents“	90.9%	stable development	89.9%
Diversity: Share of women in top executive positions	10.5%	slightly declining	12.3%
Percentage of employees who have the opportunity to take a paid leave for local volunteer involvement	65.7%	slightly improved	70.2%
Percentage of employees who took part in local volunteer projects	15.1%		18.0%

OUTLOOK

RISK AND OPPORTUNITIES REPORT

In the course of its business activities, TAKKT is exposed to opportunities and risks. The opportunities and risk management of the Group serve to detect and assess these early. It also adopts appropriate control measures. The Management Board and Supervisory Board are regularly informed of the current risk situation of the Group and all of the major Group companies. The relationship between opportunities and risks in 2018 remained largely unchanged from the previous year from the perspective of the TAKKT Management Board. The entire risk situation of the TAKKT Group is manageable in the foreseeable future, and there are no risks to the Group as a going concern.

SYSTEMATIC OPPORTUNITIES AND RISK MANAGEMENT

TAKKT has an opportunity and risk management system that systematically identifies, quantifies, manages and monitors all material risks and opportunities. In accordance with German Accounting Standard 20, a risk is defined as the danger of a negative deviation from the goals of the company. An opportunity is defined as the possibility of exceeding these goals. TAKKT strives to achieve a balance of risks and opportunities in all activities for the purpose of sustainably increasing the value of the company in the interest of all stakeholders.

Organizationally, the opportunities and risk management is structured as follows:

- The Management Board is responsible for establishing and overseeing the opportunities and risk management system.

- It is supported by the managing directors of the Group companies as well as by the central departments of the Group holding company – accounting, controlling, finance/IR, legal, human resources, internal audit, business development, digital transformation and organisation & development.

- Important components of the opportunities and risk management system are a uniform risk management directive, a process integrated into planning for the standardized monitoring, evaluation and reporting of risks and opportunities; the thorough controlling of all companies, a uniform code of business procedure with an established ad hoc risk reporting process and the two-man rule applied throughout the Group.

- The Supervisory Board deals with the effectiveness of the opportunities and risk management system within the scope of its monitoring function.

- As an independent entity, the external auditor reviews the setup and suitability of the early risk detection system according to section 317(4) HGB.

- The internal auditing department continuously supervises the major processes of all Group companies to ensure that they perform well, are cost-effective and satisfy internal directives.

UNIFORM STEERING AND CONTROL SYSTEMS

The TAKKT Group's management relies on a range of uniform steering and control systems to manage the operating companies. The Management Board holds discussions with the subsidiaries each year on the operational planning for the coming year and the results of the risk monitoring. It is also regularly informed about the current order intake levels. The analysis and discussion of the monthly reports between the Management Board and the central corporate controlling department help to actively manage risks and opportunities, also with respect to gross profit. Special report formats that provide information on significant cost blocks such as personnel and advertising costs also provide a basis for the uniform management of cost risks. The strategic management rests on detailed planning for several years ahead. This planning is carried out annually for all divisions and the Group as a whole.

In principle, all control and reporting structures begin at the level of the subsidiaries and lead up to the Management Board and Supervisory Board. The Supervisory Board's approval is required for important decisions. Internal controls have been established at all levels and at every stage of the process. Companies that have been newly founded or acquired are included in the controlling system and in the risk and opportunity management system following a structured integration process. They are required to meet the same requirements as the established companies in the Group.

INTERNAL CONTROL SYSTEM FOR ACCOUNTING PROCESS IN ACCORDANCE WITH SECTIONS 289 (5), 315 (2)(5) HGB

The internal accounting control system extends to the financial reporting of the entire TAKKT Group. Its purpose is to ensure the correctness and reliability of the internal and external accounting, including the necessary consolidation processes for the consolidated financial statements. It is part of the entire internal control system of the TAKKT Group and is based on the internationally recognized "Internal Control – Integrated

Framework" issued by COSO (the Committee of Sponsoring Organizations of the Treadway Commission). TAKKT also has a uniform Group-wide risk management system for the management of opportunities and risks.

The effectiveness of accounting processes is documented in a recurrent process comprising risk analysis, control analysis and an assessment of the effectiveness of these controls. In these processes, data is first collected, updated and reviewed in relation to key risk areas according to predefined qualitative and quantitative criteria. On this basis, existing controls are identified and new control measures that are designed to limit the risks are implemented. The effectiveness of the controls is reviewed and documented at regular intervals through a self-assessment of the control officers. The results are also verified by the auditor and presented to the Supervisory Board on a regular basis.

TAKKT ensures the Group-wide application of Generally Accepted Accounting Principles (GAAP) and the current International Financial Reporting Standards (IFRS) by means of mandatory requirements, including accounting guidelines that are updated on an ongoing basis, a standardized chart of accounts for reporting purposes, a Group-wide schedule for the preparation of financial statements, and various manuals. If necessary, external experts or qualified consultants are called in, for example for the evaluation of pension obligations or to obtain an expert opinion on the purchase price allocation for company acquisitions. All employees who are responsible for accounting and financial reporting receive regular training.

The financial statements of the individual companies are prepared with the help of standard software. The individual financial statements for the consolidated financial statements are consolidated using a modern industry-standard software solution. A form-based collection and collation instrument that is managed centrally is used for the preparation of the notes to the consolidated financial statements.

Extensive testing procedures are designed to ensure the completeness and reliability of the information contained in the consolidated financial statements. The IT systems in accounting are protected against unauthorized access. In addition, duties are segregated from one another to prevent or reduce risks that result from errors and irregularities, to identify problems and to ensure that corrective measures are taken. This guarantees that no individual employee acquires sole control over all phases of a business transaction. IT change management systems ensure that no data is lost when changes are made to the IT infrastructure. The internal control system is fundamentally based on the principle of cross-checking by a second person for all accounting-related processes.

The Group's compliance with its control systems and accounting regulations is checked on a regular basis, including by the local managers and auditors, corporate accounting, internal audit and the Group auditors. Monitoring includes the identification of weaknesses, the introduction of improvement measures as well as checks to determine whether weaknesses have been eliminated.

Within the scope of the audit of the consolidated financial statements, external auditors report on the most important audit results and weaknesses in the control system for the units included in the consolidated financial statements.

CONTINUOUS ANALYSIS AND MONITORING OF OPPORTUNITIES AND RISKS

The opportunities and risk management system of the TAKKT Group categorizes opportunities and risks by topic, which are shown in the table on page 82 together with the corresponding opportunities and risks. The opportunities and risks of the TAKKT Group are explained later in the risk report. The process for the evaluation of all opportunities and risks is as follows:

- The TAKKT Group continuously analyzes the market and competitive environment of the segments and companies and regularly reviews its own potential to determine whether adjustments to the business model could lead to a better market position. This systematic observation enables it to identify opportunities and risks at an early stage.

- The goal of evaluating the individual opportunities and risks is to reveal the anticipated negative or positive effect on TAKKT. The evaluation is carried out based on the criteria of probability of occurrence and the extent of the loss or opportunity. Measures already taken by the company to manage opportunity or risk are taken into account in the evaluation. Materiality thresholds are used with respect to the potential gain or loss depending on the level of analysis. This is done in order to ensure the relevance of the opportunities and risks under discussion.

- Based on this analysis, TAKKT defines measures that can be applied in order to limit, manage or avert risks and allow the opportunities to be used.

	Economy and competition	Corporate strategy and positioning	Operating processes	Finance and legal
Possible risks	Economic downturn New competitors and business models	Risks associated with acquisitions and disposals Implementation risk in relation to the digital transformation Dependence on individual suppliers or customers E-commerce with higher risk than traditional catalog business Increasing purchase prices	Inventory risk Logistics risks Loss of receivables and guarantee obligations Personnel risks Risks in the production and distribution of printed advertising material Risk involved in address data protection Limited availability and performance of the IT and communications systems Introduction of new IT systems Risk in data security and cybercrimes	Exchange rate risks: Transaction risks and translation risks Interest rate risks Liquidity risk Legal, tax and compliance risks
Possible opportunities	Economic upswing	Digitalization and cultural change New opportunities with online channels and e-procurement Increasing diversification of the business model Additional potential acquisitions and start-ups Sustainability as a competitive advantage	Further development of IT applications Increased use of new technologies	Good access to capital

ECONOMY AND COMPETITION

Economic downturn

The B2B direct marketing business for office equipment is generally dependent on the underlying economic conditions. TAKKT's business model is therefore subject to general economic risk. The Group has mostly managed to cushion the effects of economic fluctuations in individual countries, industries and fields through diversification.

- TAKKT addresses customers of all sizes from various industries with its multi-channel and web-focused sales brands.

- The TAKKT companies have a very wide range of products in different categories.

- Through its presence in over 25 countries in Europe and North America, TAKKT reduces its dependence on individual markets.

- The companies are also in different phases of growth. Start-ups and young companies usually experience dynamic growth and are less affected by economic fluctuations. Established companies, however, reflect the general economic cycle in their development.

- The investment behavior of the customer groups of each of the divisions varies depending on the economic cycle. Risk diversification ensues from the fact that only customers from certain industries or regions, or only specific product groups of the product range are usually affected by a downturn in the business cycle.

Only in particularly severe economic crises, such as the last one in 2009, is TAKKT not able to benefit from diversification of the business because every customer group, industry and region strongly refrains from making investments in these circumstances. For example, in 2009 sales fell organically by a little more than

25 percent. With a margin of around ten percent, EBITDA decreased by around 50 percent compared to the previous year. The economic risk in the 2018 financial year remained virtually unchanged compared to the situation in the previous year. Despite the diversification opportunities described above, economic risk represents a significant risk for TAKKT.

New competitors and business models

The TAKKT Group is potentially subject to the risk of losing market share as a result of new competitors entering the market. In addition, there is also the risk that established multi-channel providers will become more aggressive competitors in the future. Market entry barriers exist both for traditional competitors and purely online providers because setting up the supplier structures, logistics and customer base is costly and time intensive. New competitors must expect many years of initial start-up losses. Compared to start-up companies, established providers like the TAKKT companies benefit from economies of scale in purchasing and distribution.

In addition, there is the risk that the integrated multi-channel business models in the TAKKT Group will be partly replaced by open, internet-based marketplaces. In this case, however, the special features of the TAKKT business models have to be considered. While the success of marketplaces in the B2C sector and with small companies is mainly attributable to the pricing of the individual transaction and ordering convenience, additional customer needs take priority in medium-sized and large companies. In comparison to the private customer, professional corporate customers are generally interested in a high-quality product range, expert advice and comprehensive after-sales service. This includes, for example, the fulfillment of guarantees and the availability of re-orders and replacements. The TAKKT products are intended to make commercial activities more productive and ensure a smooth process so that corporate customers can focus on their core business.

Corporate customers at larger companies are usually also interested in flexible, tailored pricing based on their needs, the product and the volume of their order. Online marketplaces can only provide such flexibility, differentiation and additional product-related services to a limited extent. Despite their strengths, such as in price setting and bundling many different product ranges, marketplaces as a whole are at a disadvantage compared to product specialists because they cannot fully meet the requirements of providing an attractive comprehensive package of product, service and price. In order to maintain this competitive advantage, TAKKT focuses on continuously improving the services around the actual product. As part of the digital transformation, TAKKT plans to make greater use of the possibilities to further differentiate itself from the competition. The risk from new competitors and business models is considered to be significant.

CORPORATE STRATEGY AND POSITIONING

Risks associated with acquisitions and disposals

As part of its growth strategy, the TAKKT Group makes targeted acquisitions that bring added value to the portfolio in terms of regions, products, customers and new expertise. This is, on the one hand, associated with a host of opportunities. These are covered further on in this section. On the other hand, acquisition and integration risks could, for example, result from the following:

- the integration of acquired companies or their products and services into TAKKT's business activities may take longer or incur higher costs than expected,
- the development of growth and earnings that was assumed would take place with the acquisition may not occur,
- goodwill and other intangible assets need to be written down due to business performance being worse than originally predicted.

TAKKT has decades of experience with acquisitions and knows how to handle these risks. Acquisitions are carefully prepared and reviewed, and carried out only if there is a sufficient likelihood of the acquired company contributing to the success of the TAKKT Group in the long run. In view of this, the Group imposes stringent return requirements and conducts thorough due diligence before the acquisition. Furthermore, companies are integrated into the Group according to defined processes that are based on past experience.

The TAKKT investment company founded in 2016 acquires shares in young companies with an innovative but not yet proven business model. The probability that these shareholdings turn out to have no substantial value is deemed to be higher. However, the investment amount is significantly lower than that of other acquisitions.

Another risk could arise if a company in the Group does not develop satisfactorily and TAKKT recognizes this too late and therefore fails to take timely countermeasures. As a result of delays in the sale or discontinuation of activities, the Group may realize lower sales proceeds or incur higher costs. In order to prevent this, the development of the existing activities is continuously monitored and analyzed as part of various standard processes. In principle, all operational and strategic options are open in the event of difficulties in a Group company. These range from additional investments or changing the marketing strategy to repositioning, selling or phasing out the brand, i.e., the gradual discontinuation of marketing activities.

The annual impairment tests performed on goodwill in the year under review once again confirmed the value of these assets. No impairments had to be carried out in the past year. A future need of impairment cannot be ruled out for the Hubert group if it experiences another significant slowdown in its sales and earnings development or a change in the calculation parameters.

Implementation risk in relation to the digital transformation

In order to seize the opportunities of digitalization, TAKKT developed a digital agenda and a Vision 2020 based on this in 2016. This includes doubling e-commerce business by 2020 and implementing long-term changes to the organization. Capital and operational expenditures for the transformation are expected to come to EUR 50 million by 2020 and to lead to higher organic sales growth in the medium term. Delays could occur during implementation of the measures of this agenda, causing goals or partial goals of projects or measures to be achieved late or results to be unsatisfactory. In addition, the implementation could incur higher costs than expected or not have the desired effect on sales and earnings figures.

TAKKT addresses this risk through a market-oriented, decentralized implementation of the respective projects and measures. TAKKT AG supports this process through a central control system. The Group does this by relying on digitalization and project management experts within the company so that it can always keep a close eye on the implementation and success of the measures. This allows TAKKT to take early countermeasures and bring in external specialists as needed if there is a risk of deviating from the objectives.

Dependence on individual suppliers or customers

On the purchasing side, there is the risk of dependence on individual suppliers. However, the company relies on an extremely fragmented pool of around 4,000 suppliers. It can fall back on alternative suppliers for nearly every product and ensures that nothing will change in this situation, even in the long term. This meant that even in past crises, there was no consolidation of suppliers for the TAKKT Group's product range.

There may also be dependencies for TAKKT on the sales side. However, the customer structure of the business models in the TAKKT Group is relatively highly diversified. This includes companies from many different industries, such as the service sector, public authorities and the manufacturing industry. The focus has been shifting. While the majority of the Group's customers came from manufacturing around 25 years ago, this share has since decreased to below 30 percent.

TAKKT pursues the goal of achieving a diversified share of sales with the manufacturing industry, the trade and service sector as well as non-profit and government institutions. Contributions to sales are also generated in part within the scope of larger project orders. TAKKT generates a low single-digit percentage of its sales in relation to Group sales with a very small number of corporate customers, which are each spread across different locations. Negative effects from the loss of individual corporate customers are therefore limited for the Group as a whole. On the divisional level, and especially at the Hubert or NBF group, the loss of a single corporate customers can nevertheless have a noticeable effect on business performance. At the end of 2018, Hubert decided to phase out the supply of a major customer with whom almost USD 30 million of sales were realized in 2018. This decision will have an impact on the sales and earnings development in 2019. Further information on this is included in the forecast report.

TAKKT caters to customers of many different sizes – from self-employed people to hotel chains and public bodies as well as single workshops to large-scale manufacturing facilities. Thanks to e-commerce, the customer basis is expected to broaden further in the future. Smaller buyers can be reached better and addressed more efficiently via online channels. In addressing smaller customers, TAKKT plans to focus more strongly on individual solutions such as additional self-service functions in the web shop. These can now be offered efficiently due to new technological possibilities. In turn, key customers are more closely tied to TAKKT by means of e-procurement as this channel makes purchasing easier and more efficient for them.

E-commerce with higher risk than traditional catalog business

E-commerce is exposed to a greater level of risk than the traditional catalog business. This is mainly because the customer has access to a wider selection of providers through e-commerce offerings, which can be identified with relatively low search costs for the customers. As a result, customers' loyalty to individual retailers tends to decrease. In addition, technological progress places constantly changing demands on the online presence. Consequently, the content and structure of the web shop have to be continuously adapted to the changing algorithms of the search engines so that the company's own website does not fall behind in the ranking, causing the shops to lose potential customers. TAKKT addresses this risk through the continuous management of online marketing measures and by optimizing them with regard to the constantly changing underlying conditions. By constantly developing its online marketing, the TAKKT Group closely observes technological trends and new developments and can implement them in its own solutions. Continuous improvement of the online presence also contributes to customers' willingness to return to web shops and increases the chance of a repeat purchase.

Increasing purchase prices

TAKKT is subject to the risk of not being able to pass on rising purchasing prices to the customers. The Group's multi-channel brands address this risk by continuously updating their catalogs and web shops. This enables them to react flexibly to product changes and purchasing prices if the competitive situation permits. Changes can be made even more quickly and frequently for web-focused brands. If the cost of steel rises, for example, TAKKT can change its price quickly or offer an alternative product. The company also intentionally trades in durable goods that are neither perishable nor subject to risks from significant changes in technology or trends.

OPERATING PROCESSES

Inventory risk

The TAKKT companies store a certain proportion of the products, depending on their business model and the needs of the customer, in order to guarantee fast, reliable delivery. Products obtained through direct imports are also stockpiled in larger volumes. This leads to risk resulting from aging and from technical and price-related changes of the products. However, tables, chairs and cabinets are standard articles that are always needed. In B2B business in particular, they are not subject to seasonal price fluctuations or short-term fads. Since the Group continually updates the product range, it is possible that an item may no longer be offered in the actively advertised product range but still remain stocked in the warehouse. In this case, the product is sold at a special price or the company falls back on contractual sale-or-return clauses that are generally agreed with a large number of suppliers for remnant stock.

Logistics risks

TAKKT generally stores products in large warehouses and therefore there is less need to build up inventory or reorder products than would be necessary with several smaller warehouses. The divisions only set up smaller regional warehouses to provide optimum delivery services if necessary, such as in the Nordics, Eastern Europe or the US. TAKKT is able to profit from better pricing by bundling product purchases. This also reduces procurement costs and thus benefits the customer. These advantages far outweigh the disadvantages that exist with a central warehouse, e.g., the event of a fire. These risks are also sufficiently covered by insurance policies, including for fire, theft and loss of production.

Each TAKKT division regularly reviews its warehouse concepts, thereby ensuring consistently high standards of security, delivery quality, speed and efficiency. Should a temporary disruption at a warehouse result in bottlenecks, the companies can also deliver the majority of their goods by drop shipment. If necessary, the warehouses are adapted to new requirements.

TAKKT usually contracts external logistics companies to deliver its goods and, in choosing its logistics partners, pays particular attention to how attractive the costs are and their comprehensive expertise in delivering products to the very different regions. Unexpected changes in freight costs due to fluctuations in fuel prices, vehicle tax or tolls can have a short-term impact on the earnings of the Group. TAKKT generally passes the increased costs on to customers through price adjustments. Freight costs account for less than ten percent of consolidated sales.

Loss of receivables and guarantee obligations

The risk of write-offs on receivables at TAKKT remains extraordinarily low with a write-off rate of less than 0.2 percent of sales. First, the company checks the creditworthiness of its customers and actively manages its receivables. Second, the average order value is low with a highly diversified customer structure. The rate of receivables that are written off therefore remains stable regardless of the economic cycle. The same applies to the average collection period. It measures the average period between the invoice issue date and payment receipt date. This came to 32 days in the year under review.

The number of customers claiming on warranties and guarantees has also remained consistently low for several years. The right to return goods is only rarely exercised. TAKKT primarily sells durable products that are less likely to develop faults. The company gains additional security through contractual return clauses arranged with the majority of its suppliers. TAKKT protects itself against product liability risks through insurance policies.

Personnel risks

The long-term success of TAKKT is largely dependent on qualified and motivated employees. Their expertise and dedication have a direct effect on business. In order to grow profitably in the future as well, TAKKT relies on always being able to acquire highly qualified employees and retain them for the long term.

The digital transformation in particular presents TAKKT with the challenge of recruiting additional employees with specialized knowledge and ensuring that existing employees are provided with suitable training. TAKKT plans to actively shape the internal cultural change with the newly created "Corporate Digital Intrapreneur" program and by installing modern workplaces. This is supported by the introduction of new forms of collaboration and the creation of a "test and learn" culture. Through these measures, TAKKT aims to build even stronger employee loyalty and to increase identification with the company.

Personnel risks due to employee turnover are by and large minimal because TAKKT has substitution and successor solutions in place in the event that an employee becomes ill or leaves the company. However, if staff illness or resignation occurs in key positions within the company that require special and more unusual qualifications, this could lead to longer vacancies.

Risks in the production and distribution of printed advertising material

The printed catalog is still an important sales medium for the TAKKT Group. There is a risk that this advertising material could be damaged or lost before it arrives in the customer's hands. The company therefore selects all of its service providers carefully and pays particular attention to ensuring that the advertising material remains undamaged during production and distribution. To minimize the risk of losses, the Group has its catalogs produced by several printers in different locations. Any loss or destruction of advertising materials is covered by insurance.

Fluctuations in the price of paper and printing services also present a risk for TAKKT. Due to the high importance of print advertising in the marketing mix of the TAKKT companies, these costs are not insignificant. To ensure that short-term price fluctuations cannot impact on earnings, the Group has mostly longer-term printing contracts with reliable partners.

Risk involved in address data protection

The improper handling of customer data also presents potential risks. The Group takes great care in protecting this data. Security systems ensure that only authorized personnel can access, use and process the addresses, and only to the extent permitted by law. Where there is a data protection officer assigned to a company, this person works within their power to ensure compliance with data protection laws.

Limited availability and performance of the IT and communications systems

TAKKT depends on powerful and reliable IT systems, such as communication systems, ERP system software, product management systems and web shops. Failure or impaired operation of the IT systems could result in significant risks for the TAKKT Group because business processes would be affected. In order to address this risk, TAKKT relies on powerful systems and has back-up solutions in place that can take over in the event of problems in the primary system.

The TAKKT companies are using cloud solutions, meaning that software and hardware functions are no longer only hosted locally but rather in an external infrastructure. This has the advantage that storage space, processing power and the necessary software can all be chosen precisely and can be adapted to actual requirements at any time. At the same time, this brings with it risks, like losing connection to the external infrastructure or the service itself.

The TAKKT companies also make use of central high-availability systems to protect data and functionality. A server handles the day-to-day business operations. The data is also continuously copied to a backup system. This system provides services only in the event of server failure. The required storage capacity is usually held on servers in physically separate locations or leased from third-party providers in order to minimize the risk of failure.

The Group uses non-interruptible power supply and back-up systems in order to ensure telephone availability and protect itself against failures and faults. Calls can also be rerouted to other sites. The company continuously monitors how easy it is for customers to contact the companies' sales offices. TAKKT is able to flexibly align the telesales capacities with business volumes through these checks.

For successful performance in the market, it is of vital importance that the TAKKT companies be reachable via their web shops without interruption. In addition to continuous availability with regard to the web shops, performance (i.e., the speed at which the web shop can be navigated as dictated by the underlying technology) is also important. In this regard, the TAKKT companies always rely on current web shop technologies. They thus provide a reliable and comfortable way to shop for their customers.

Introduction of new IT systems

Increased risks can arise in relation to the introduction of new IT systems, especially ERP and web shop systems, if the smooth continuation of business processes are affected as a result of complications during integration of a new IT system. As part of the digital transformation, TAKKT plans further investments in the IT infrastructure in order to ensure the technical requirements for achieving the goals defined for 2020. In order to address the risks associated with the introduction of new IT systems, TAKKT carries out extensive test runs and quality assurance measures.

Risk in data security and cybercrimes

TAKKT has access to sensitive data through its business relationships with customers, suppliers and other partners. Unauthorized access or loss of this data creates risks for the TAKKT companies in terms of its reputation and compliance. Careful handling of this information is therefore of great importance for TAKKT.

Attacks from external sources such as hackers or malware can lead to the failure and disruption of IT systems such as a web shop. This would compromise the processes required for business activities. Restoring the functionality of IT systems and preventing future disruptions could entail significant costs. In order to address these risks, internal IT departments and outside specialists conduct regular checks to see whether the systems in use are secured against unauthorized access and that the data can be restored without any problems. The Group has developed measurement systems and an IT security management plan based on a security analysis. Additional guidelines regulate the use of email, internet, social media and similar applications.

Risks can also arise from fraud attempts initiated via information technology (e.g., emails and social media). One particular example of this is the risk of fraudsters who use identity theft in an attempt to trigger unauthorized payments to third-party accounts. TAKKT addresses this risk by establishing defined processes such as the two-man rule and individually verifying any changes in the payment data of the recipient.

FINANCE AND LEGAL

As a globally operating company, TAKKT is exposed to financial risks. This concerns risks arising from fluctuations in exchange rates and market interest rates as well as from financing and securing liquidity. The goal of financial management is to monitor these risks continuously and limit them by means of operational and financial activities. Derivative financial instruments are only used for hedging. In addition, derivatives are executed only with approved financial counterparties from the bank portfolio of the Group. These counterparties have to meet a specific creditworthiness rating. Counterparty default risk is continuously monitored.

Exchange rate risks: transaction risks and translation risks

Currency risks arise from transactions not processed in euros, which is the reporting currency. When it comes to volatility in exchange rates, a distinction should be made between transaction risks and translation risks.

- Transaction risks result primarily from buying and selling goods and services in different currencies. The Group protects itself against these risks by generally buying and selling products in the same currency. Transaction risks from fluctuating exchange rates remain for less than ten percent of consolidated sales – mainly from intercompany transactions. The open net items are identified based on the sales forecasts of the individual companies. The resulting currency risks are generally assumed by the respective service provider and hedged through derivative financial instruments to an amount of around 70 percent, preferably with forward foreign exchange contracts. In general, forecast sales and cash flows are considered for the validity period of the current catalog.

- Translation risks arise for the TAKKT Group's balance sheet and income statement when the individual financial statements of foreign subsidiaries are translated into euros, the reporting currency. The fluctuations of the US dollar in particular therefore influence the absolute value of the financial key figures reported in euros (also see the explanations on page 93). TAKKT does not hedge against these risks as there are no economic grounds to justify putting proper hedging mechanisms in place.

Interest rate risks

An interest rate risk results from market-based fluctuations in general interest rates. It affects the amount of interest payments as well as the market values of financial instruments. TAKKT protects itself against this risk through interest rate swaps. To ensure that the interest rates of long-term financial liabilities are hedged in the long term, the maturity periods of the hedges are based on the terms of the financial liabilities. The target hedge level is generally between 60 and 80 percent of the finance volume. This is how the negative effects of interest rate rises are contained. However, there is also the potential to profit from falling interest rates. The development of the hedging volume is mainly determined by the planned debt volume.

The hedging instruments held as of the end of the reporting period are described in the notes to the consolidated financial statements starting on page 152. Quantitative information on all exchange rate and interest rate risks is also provided there, including sensitivity analyses on exchange and interest rate fluctuations.

Liquidity risk

Financing may also present TAKKT with potential risks. The Group monitors and manages the financial structure by means of long-term financial planning and self-imposed internal key figures (covenants), which are explained in the "management system" and "financial position" sections.

The company secures liquidity by using a diversified financing structure with different maturity dates. In addition to contractually committed credit lines from a broad pool of banks, TAKKT also uses finance leases. For larger financing requirements, the Group also has the option of issuing a promissory note (Schuldschein). This was last done in 2012. As of year-end 2018, the committed free lines of credit have a volume of EUR 157.4 million.

Legal, tax and compliance risks

TAKKT Group companies are involved in litigation in day-to-day business both as plaintiff and defendant. However, this litigation does not have a material impact on the economic situation of the Group, neither individually nor collectively.

Against the background of the trade policy discussions after the Brexit referendum as well as with regard to the US government, there is still a risk that countries will increase import tariffs on imported goods. Direct imports in particular could be less attractive due to such trade barriers. The bulk of goods that the TAKKT companies sell, however, will still continue to be purchased from suppliers in their respective market. Competitors would be affected by such a development to a similar extent. The increased public debt may also result in a greater number of tax audits in certain countries.

TAKKT is subject to different compliance requirements such as in connection with antitrust law or capital markets. Non-compliance can lead to legal consequences and sanctions and ultimately have a negative impact on earnings. In order to address this risk, the Group pursues a central compliance management strategy, trains employees in the respective issues and has set up a hotline for reporting possible violations.

OVERALL ASSESSMENT OF THE MANAGEMENT BOARD

In the 2018 financial year, there was a balanced relationship between the opportunities and risks for the TAKKT Group. Based on the information currently available, the Management Board does not believe that there are any risks at present or in the forecast period that may be a risk to the Group as a going concern or significant risks that go beyond the ordinary business risks. The business model generates strong cash flows and the company has solid financing. This means that neither the risks as a whole nor a renewed global recession would threaten the viability of the Group as a going concern.

The most significant risk for the TAKKT Group, which is also a noteworthy opportunity, continues to be the development of the economy. It is generally regarded as equally probable that the economy will boom or will go into recession. In the event of a global recession of the same scale as in 2009 with an organic decrease in sales of slightly more than 25 percent, EBITDA decreased by around 50 percent.

There is also the risk that the entry of new web-focused providers and online marketplace models or a change in the behavior of established providers could lead to a more aggressive competitive environment and a consequent negative impact on sales and gross profit. In a dynamic competitive environment, TAKKT considers the occurrence of this risk to be possible. The negative effect on earnings could be in the mid-double-digit million euro range.

Another important risk for the sales and profit figures reported in euros is the pure translation risk from exchange rate changes – especially the relationship of the US dollar to the euro. A decrease or increase in value of the US dollar in comparison to the euro is regarded as equally probable. A devaluation of the US dollar against the euro of 5 percent would result in a decrease in sales of between 2 and 2.5 percentage points.

Another significant risk with a possible likelihood of occurrence could arise from the integration and continuation of an acquired company not progressing as positively as expected. This could have a short-term impact on the result in the medium single-digit million euro range. In addition, a reduction in the long-term forecast of the business development of an acquired company below the original expectations could lead to impairment of the goodwill or remaining intangible assets. A negative effect on earnings resulting from reporting could also be in the double-digit million euro range.

In addition, there are considerable risks in connection with the implementation of the digital agenda if goals of projects or measures are achieved late or if the results turn out to be unsatisfactory. The implementation could incur higher costs than expected or not have the desired effect on sales and earnings figures. The negative effect on earnings from these cost increases could also be in the double-digit million euro range. TAKKT considers the likelihood of occurrence to be possible.

The loss of individual corporate customers or a significant change in a framework agreement present another risk. TAKKT generates a low single-digit percentage of its sales in relation to Group sales with a very small number of corporate customers. The negative effect from the loss of these corporate customers could be in the low double-digit million euro range. TAKKT considers the likelihood of occurrence to be possible.

Lastly, risks resulting from the failure or introduction of IT systems are also important for the company because a functioning IT infrastructure and logistics as well as the security of sensitive data of customers, suppliers and other business partners are crucial for the performance of the operational business. The likelihood of these risks occurring is considered to be improbable, with a possible adverse effect on earnings up to a low double-digit amount in millions of euros.

As a whole, TAKKT places the highest priority on the monitoring and limitation of controllable risks and has therefore taken precautionary measures to detect and limit these early. Risks from economic and currency fluctuations due to external factors can only be controlled by TAKKT to a limited extent.

OPPORTUNITIES OF THE TAKKT GROUP

Attractive growth opportunities continue to arise for TAKKT. Within the scope of the integrated opportunities and risk management system, the TAKKT Group has identified a series of opportunities for the development of the company for the years to come. In addition to the opportunities arising from an economic upswing outlined in detail in the forecast report, the significant additional opportunities are explained in the following section.

Digitalization and cultural change

The progressing digitalization is a key strategic issue for TAKKT. The behavior of the customer and technological possibilities as well as work environments and the accompanying internal processes are changing rapidly. The B2B direct marketing business model can reap significant benefits from this development and thus gain market share. In addition to the impact on the information-gathering and purchasing behavior of TAKKT customers, the processes along the value chain are also affected by digitalization. The defined goal is to leverage the potential along the value chain and to make the advantages of digitalization tangible and usable for the customers.

In the past, TAKKT has invested in combining and linking the use of print, online, telesales and field activities for sales and marketing through the Group-wide DYNAMIC initiative in order to target customers via their preferred medium. In 2016, TAKKT also developed a digital agenda through a structured process to be implemented in the different divisions of the TAKKT Group in more than 100 projects and measures. To this end, TAKKT is investing up to EUR 50 million in employees and technologies until the year 2020. TAKKT is also accelerating the digital transformation process in the Group by creating a "test and learn" culture and focusing on the constantly changing needs of the customer at all times. In addition, TAKKT is intensifying the sharing of knowledge and experience with the agile and tech-savvy start-up community in order to promote and facilitate the desired change in the company. To this end, TAKKT acquires minority interests in young companies with strong potential for growth through the investment company established in 2016.

Implementation of the digital transformation will be given absolute priority in all plans and decisions. Successful implementation of the digital agenda presents a significant opportunity for TAKKT to improve its position in the market. The goal therefore is to double the volume of e-commerce business by 2020 and increase organic sales growth in the medium term.

New opportunities with online channels and e-procurement

TAKKT expects opportunities for increasing order intake and sales through the expansion of online and e-procurement activities. The number of users who grew up with the internet ("digital natives") is constantly increasing. Targeted product selection is becoming increasingly easier with better search functionality. TAKKT is responding to these trends with a sophisticated online strategy. TAKKT's traditional business with the familiar multi-channel brands and the use of web shops and e-procurement addresses customers who have greater service and advice needs and for whom process costs are a predominant concern. Transaction-oriented customers with lower service and consulting requirements are served via the web-focused brands and their web shops. This presents a competitive advantage for TAKKT compared to new, purely online competitors because the Group can use the existing back-end infrastructure to tap into additional target groups by means of new sales brands and alternative sales channels.

Increasing diversification of the business model

TAKKT plans to use an active portfolio management strategy for broad diversification of the business model at the product, customer and regional level. This allows the Group to minimize their dependence on individual industries and regions and thereby ensure stability and continuity even in difficult economic times.

- Regional diversification makes it possible to partially offset economic fluctuations and loss of sales in individual target markets through sales growth in other regions. After the more dynamic development of business in the US in previous years, the organic growth of the European activities was able to offset the decline in North America in the year under review.

- TAKKT has also expanded the business model to other product groups through the acquisitions made in recent years. This has opened up new product groups for food service supply, office furniture, packaging solutions, promotion and customized advertising displays.

The Group aims to diversify even further by acquiring market-leading B2B direct marketing companies in other sectors as well as by expanding existing business models to other regions and adding more product groups.

Additional potential acquisitions and start-ups

Other opportunities for Group sales and profitability will be created through potential additional acquisitions in the years to come. TAKKT has long-standing experience with integrating new companies and business models into the Group. High demands are put on the growth prospects, profitability and business model of the target company. TAKKT is able to participate in growth trends in selected industries and generate above-average gains through targeted company acquisitions. In recent years, TAKKT has benefited greatly from the additional contributions to sales and earnings through acquisitions. In addition, the company has gained special expertise through these acquisitions that can be used throughout the Group. Exploring and taking advantage of value-creating acquisition opportunities will also be a priority for TAKKT in the future. TAKKT also plans to expand existing business models to new markets where economically feasible. Active portfolio management encompasses not only acquisitions and start-ups but also the periodic review of existing activities and the discontinuation of local subsidiaries whose performance with respect to the value and growth drivers does not meet the long-term requirements of the Group.

Sustainability as a competitive advantage

Sustainability has been an integral part of the corporate strategy at TAKKT for many years. TAKKT uses its position as a role model in sustainability in order to set itself apart in the industry. It is convinced that providers who focus on sustainability will be better able to survive the competition in the long run. The Group is pursuing ambitious goals for the period up to 2020. These can be found on page 55 of this annual report.

Further development of IT applications

TAKKT is in the process of further optimizing the complex IT processes in communication systems, ERP software, product management systems and web shops in many of the Group companies. This includes the introduction of new ERP systems. This is an important requirement for successful implementation of the digital transformation and realization of the related growth opportunities.

Increased use of new technologies

Established providers like TAKKT generally have a proven IT infrastructure that has grown over the years. This infrastructure enables the performance of processes in day-to-day operations such as the handling of product data in the web shop and the processing of order data. In addition to this infrastructure designed for reliability and stability, an opportunity arises for TAKKT to quickly develop new solutions based on new technologies and organizational units and to introduce these to the market. This allows TAKKT to react quickly and flexibly to new customer requirements and changes in behavior patterns. Examples of relevant solutions include using 3D technologies for visualization (virtual reality) and creating product samples by means of 3D printers, integrating external solutions easily by creating standardized interfaces, analyzing customer data in the web shop in real time or implementing new collaboration tools for engaging with customers.

Good access to capital

TAKKT has good access to capital due to a diversified financing structure that is geared towards the long term. For short-term acquisition opportunities, there are sufficient undrawn credit lines available with a volume of around EUR 160 million. As a stock-listed company, TAKKT can also use the equity market for raising capital in the event that the opportunity arises for the Group to make an acquisition that cannot be solely financed with debt capital.

FORECAST REPORT

ECONOMIC SLOWDOWN EXPECTED

The economic development of the markets is a significant factor with respect to the extent that the TAKKT Group will be able to use the opportunities described in the risk and opportunities report. Looking toward 2019, TAKKT expects a slowdown in the economic environment in Europe and North America, which are important regions for TAKKT.

- TAKKT expects economic growth in the Eurozone and Germany to be lower than in 2018 because of negative economic and political influences. The main factors are uncertainty about the timing, nature and consequences of Brexit, the ongoing trade conflicts and increased volatility on the financial markets. The economic forecast of the International Monetary Fund (IMF) anticipates GDP growth for the eurozone of 1.6 percent in the forecast period, following an increase of 1.8 percent in 2018. For Germany, the German government expects GDP growth of 1.0 percent after 1.5 percent for the previous year.

- According to the IMF, the economic growth of 2018 will also decrease slightly in North America in the forecast period. TAKKT expects that with GDP growth of 2.5 percent, the rate of growth for the US will be below that of 2018 (2.9 percent). While strong domestic demand should continue to have a positive impact on the business climate, a protectionist trade policy and lower fiscal stimulus than in the previous year could have adverse effects.

As in the previous year, there are also significant economic risks for 2019. These largely arise from the continuing high level of public debt in several European countries, uncertainty regarding Brexit and the ongoing trade conflicts between the US and China and other trading partners. These risks are difficult to depict in the growth forecast and could have negative effects on the economic development. This would, in turn, affect the aforementioned expectations for GDP growth.

SHORT-TERM EARLY INDICATORS POINT TO DIFFERENT SIGNS IN EUROPE AND NORTH AMERICA

The statements regarding the fundamental business prospects are complemented by the performance of relevant industry indicators. For example, purchasing manager indexes are indicators of the order trend in the European KAISER+KRAFT group with a time delay of three to six months. Values under 50 points generally signal a decline, while levels above 50 indicate a year-on-year increase in order intake. In 2018, the values for Europe pointed to a good business environment, but showed a downward trend during the year. In February 2019, the values for Germany (47.6) and the eurozone (49.3) were below the threshold of 50, thus implying zero growth or even a contraction. Considering the negative trend, TAKKT therefore expects the KAISER+KRAFT group's environment to slow down in the first half of 2019.

By contrast, the rest of the indicators point to a positive development in the individual industries. With respect to the RPI, an indicator for the HUBERT and Central divisions, the levels in 2018 were consistently above the reference value of 100, although only slightly over in some cases. For January 2019, the index was also above the expansion threshold of 100 with 101.2 points. This indicates a positive development for restaurant operators in the US. Despite the lingering uncertainties around trade conflicts, TAKKT expects the growth of the US office furniture industry to be similar to 2018. In summary, TAKKT expects a less favorable market environment than in the previous year in Europe. In the US, however, it continues to see growth opportunities despite uncertainty in some market segments.

SLIGHT POSITIVE ORGANIC GROWTH EXPECTED

TAKKT's aim is to achieve organic growth of three to five percent on average per year over the long term and of around five percent through acquisitions. The long-term average derived from organic growth is a result of periods of average growth (such as 2010, 2011, 2014, 2015, 2016 and 2018), periods with below-average or negative performance (such as 2008, 2009, 2012, 2013 and 2017) and in periods such as 2006 and 2007 in which TAKKT experienced above-average organic growth. TAKKT is keeping to its growth ambitions for the future. The short-term growth rate is strongly dependent on the performance of the economy in the target markets of the US and Europe due to the cyclical nature of the business.

For 2019, TAKKT anticipates the repositioning of the Hubert group in North America to have a negative impact of up to two percentage points on organic growth. The goal of the repositioning is to reduce dependence on low-margin volume business and to focus on core competencies in the area of visual merchandising. Against this background, TAKKT decided to phase out the supply of a major customer with whom Hubert had realized almost USD 30 million of sales in 2018.

The Management Board currently considers the following scenario for 2019 to be probable. TAKKT expects GDP growth in Europe and the US to be below the level of 2018. At the same time, the Management Board assumes in this scenario that the negative impacts from the above-mentioned economic risks such as Brexit and trade conflicts will remain limited. Under these conditions, the Group expects a slight organic increase in sales. Growth momentum from the implementation of the digital agenda should become increasingly noticeable. The number of orders is expected to develop more strongly than the average order value and is expected to be above the level of the previous year.

Should the business environment not develop as expected, for example due to a stronger negative economic impact from Brexit or trade conflicts, TAKKT will only be able to achieve a stable or even a slightly negative organic sales development in 2019. In the event of very positive economic data, TAKKT should be able to increase organic sales significantly.

ACQUISITIONS AS ADDITIONAL GROWTH DRIVER

In addition to the organic sales development described above, growth will result from acquisitions. For one thing, the additional contributions from the acquisition of Runelandhs in early June 2018 and the acquisition of OfficeFurnitureOnline at the beginning of February 2018 will have an overall effect of just under one percentage point on reported sales growth. In addition, there is also the possibility that TAKKT may make acquisitions in 2019 that will contribute to sales as of the acquisition date. TAKKT regularly presents the effects of acquisitions and disposals in the financial reporting in a transparent manner.

US DOLLAR AFFECTS KEY FIGURES

In addition to the acquisitions and disposals, fluctuations in exchange rates also have an impact on reported sales growth. TAKKT generates around half of its sales in North America. Fluctuations in the exchange rate of the US dollar therefore have a significant impact on the Group's key figures reported in euros (translation risk). When translated into the reporting currency of euros, a strong US dollar leads to higher sales. When the dollar is weaker compared with the euro, Group sales are diminished. This can be illustrated using the following scenarios:

- If the EUR/USD exchange rate increases by 5 percent against the previous year (i.e., the US dollar becomes weaker), the increase in reported sales (in euros) will be between 2 and 2.5 percentage points below the currency-adjusted growth.

- If the EUR/USD exchange rate decreases by 5 percent against the previous year (i.e., the US dollar becomes stronger), the increase in reported sales (in euros) will be between 2 and 2.5 percentage points higher than the currency-adjusted growth.

In addition to the fluctuation effects from the US dollar mentioned above, fluctuations in other currencies such as from the British pound can also have an impact on the reported Group key figures. To illustrate currency effects clearly and depict business performance objectively, the Group does not only report sales development in the reporting currency but also adjusts for currency effects.

EBITDA MARGIN WITHIN TARGET CORRIDOR EXPECTED

TAKKT has the goal of keeping the gross profit margin of the Group above the 40 percent mark for the long term. For 2019, the Group expects the gross profit margin at TAKKT AMERICA to be similar to that of the previous year. At TAKKT EUROPE, the acquisition of Runelandhs in mid-2018 will have a slightly negative structural impact also in 2019, since the acquired company has a lower gross profit margin than the segment on average. In addition, TAKKT AMERICA achieves structurally lower gross profit margins than TAKKT EUROPE, which would have a negative impact on the margin of the Group in the event of a shift in the share of sales in favor of the US business.

The two most significant cost items in TAKKT's income statement are forecast as follows: TAKKT expects a higher personnel expenses ratio than in the previous year. Among other things, this will include further expenses for the positions created as part of the digital agenda and one-off expenditures for the repositioning of Hubert. The advertising cost rate should remain stable. At the same time, the shift from traditional print to online advertising costs can be expected to continue.

The accounting standard IFRS 16, to be applied from 2019 onwards, will have a positive effect on the EBITDA margin. A summary of the changes resulting from IFRS 16 and the effects on TAKKT's key financial figures can be found in the Notes to this annual report beginning on page 115. For the EBITDA margin, it is relevant that, in the future, the costs from leasing contracts will be reported below EBITDA to depreciation and interest expenses. The application of the new standard will have a positive effect of around one percentage point on the reported EBITDA margin from 2019 onward. Against this background TAKKT is adjusting its long-term target corridor for the EBITDA margin to between 12 and 16 percent.

At the segment level, the Group expects two positive effects on the EBITDA margin for TAKKT EUROPE. In addition to the application of IFRS 16, this is the non-recurrence of the one-time charge from the recognition of the purchase price liability for Mydisplays, which had adversely impacted profitability by EUR 2.0 million in 2018. The development of profitability at TAKKT AMERICA will also be influenced by one-time effects in the prior year and the application of IFRS 16. The margin in 2018 benefited from a one-time gain of EUR 4.9 million from the sale of real estate in the US. In addition, the repositioning of Hubert's US business is expected to have a negative effect on the margin in 2019. This effect will in part be offset by the discontinuation of Hubert's unprofitable European activities.

TAKKT will continue its forward-looking investment into the implementation of the Digital Agenda in the fiscal year 2019. Compared to 2018, this will entail higher personnel expenses and comparable other expenses for the digital transformation. The Group's EBITDA margin is expected to be within the long-term target corridor of 12 to 16 percent.

If the business environment is worse than expected, TAKKT can react flexibly with cost adjustments and has prepared measures for this. Due to this and from today's perspective, an EBITDA margin at least at the lower end of the target corridor is likely even under these circumstances. TAKKT intends to remain committed to the forward-looking expenses and investments for the digital agenda. The actual impact of an economic slowdown on the EBITDA margin largely depends on the intensity of the slowdown and the timing over the course of the year. In the event that business performance surpasses predictions, the stronger growth could also have an impact on the EBITDA margin. Similarly, the EBITDA margin of TAKKT EUROPE and TAKKT AMERICA are positively or negatively affected by a corresponding deviation from the expected conditions.

TAKKT CASH FLOW REMAINS AT A HIGH LEVEL

The first-time application of IFRS 16 leads to structural changes in the calculation and amount of TAKKT cash flow. Future comparisons with earlier periods thus have little significance. This was taken as an opportunity to adjust the definition of the TAKKT cash flow, as was presented in the "Management system" section. As with the EBITDA margin, the application of IFRS 16 will have a similar positive impact on the TAKKT cash flow margin of around one percentage point. Payments resulting from leasing contracts will be classified as repayment from financial liabilities in the future and thus no longer included in the TAKKT cash flow. In addition to the changes in the definition and because of IFRS 16, the TAKKT cash flow will mainly be influenced by the development of earnings. The TAKKT cash flow margin should be above the target value of nine percent.

In the 2019 financial year, capital expenditures for the maintenance, expansion and modernization of the existing business are expected to again be at the upper end of the long-term targeted benchmark of between one and two percent of sales or slightly above. As in the previous year, one focus will be on investments in connection with the implementation of the digital agenda, in particular in IT systems.

IMPROVEMENT OF THE PRODUCT-RANGE FIGURES

TAKKT aims to further increase the share of private labels in order intake as well as the share of purchase volume from direct imports. Due to the numerous initiatives already implemented to boost private labels and direct imports and the high level that has already been reached, a slowdown in growth rates is to be expected in the future. Depending on business development, shifts in the sales shares of TAKKT EUROPE and TAKKT AMERICA can also have an impact on these figures.

IFRS 16 HAS A NEGATIVE EFFECT ON VALUE-BASED FIGURES

The TAKKT value added was positively impacted in 2018 by the one-time gain from the sale of real estate in the US. In addition, the application of IFRS 16 beginning in 2019 will lead to an increase in finance leases and will therefore have a slight negative impact on reported TAKKT value added. TAKKT value added should thus reach a slightly lower level in 2019 than in the previous year.

Reported ROCE is also expected to be slightly below the previous year's level because of the capital increase resulting from the application of IFRS 16. Both TAKKT value added and ROCE are nonetheless forecast to be above the target values stated in the "Management system" section, which predict a ROCE of well over twelve percent and a markedly positive TAKKT value added.

IMPROVEMENT IN DIGITAL AGENDA INDICATORS

Further progress in the implementation of the digital agenda will be made in 2019. TAKKT expects the related expenses and capital expenditures to be comparable to the 2018 level, while cumulated personnel expenses will continue to increase. By the end of 2019, TAKKT wants to have filled a total of around 130 positions as part of the digital agenda. This would be around 30 more than at the end of 2018. Further measures already initiated should be completed by the end of the year and transferred to normal operations. At the same time, TAKKT also plans to launch and implement new measures in 2019. For order intake via e-commerce, the Group anticipates double-digit organic growth. This should lead to a noticeable increase in the e-commerce share.

DIVIDEND PAYMENT AND IFRS 16 WITH IMPACT ON INTERNAL COVENANTS

The application of IFRS 16 will have a slight negative impact on the internal covenants in 2019. In addition, there is the expected dividend payment totaling EUR 55.8 million. On the whole, the positive effects from the high internal financing capability of the business model will not be sufficient in 2019 to fully offset the effects mentioned above. Provided that no significant acquisitions are made, TAKKT expects an equity ratio at or slightly below the

2018 figure (60.8 percent) for year-end 2019. Gearing and the debt repayment period may increase slightly and interest coverage is expected to be lower than in the previous year.

LITTLE CHANGE IN RISK INDICATORS

TAKKT does not expect any big changes to the risk indicators in 2019. The repositioning of Hubert will negatively affect the share of business in North America as well as business with customers in the service sector. Differences in growth rates of the various divisions and potential acquisitions could also lead to changes in the indicators.

SUSTAINABILITY INDICATORS SHOULD IMPROVE SLIGHTLY

TAKKT has already made considerable progress in sustainability in recent years. In 2019, the Group expects a slight improvement of most of the sustainability indicators. This applies to the key figures from the focus areas of purchasing, logistics, resources and climate. The indicators in the marketing focus area should noticeably improve. In relation to the “employees” and “society” focus areas, TAKKT anticipates stable development with the exception of the share of retained “digital talents,” which is expected to decline slightly.

PAYMENT OF A SPECIAL DIVIDEND

The section “TAKKT share and investor relations” describes the Group dividend policy, which targets a payout ratio of around 35 to 45 percent of the profit for the period. In the event of a very high equity ratio, payment of a special dividend is also possible. The Management Board and Supervisory Board will propose to the Shareholders’ Meeting in May 2019 that a special dividend of EUR 0.30 per share be paid in addition to the ordinary dividend of EUR 0.55 for the 2018 fiscal year. This would correspond to a payout ratio of 63.3 percent based relative to the reported result for the period.

GENERAL STATEMENT ON ANTICIPATED DEVELOPMENT OF THE GROUP

Given the opportunities and risks presented here, TAKKT expects slight organic sales growth for 2019. This requires that the negative impacts from the aforementioned economic risks such as Brexit and trade conflicts will remain limited. The acquisitions made in 2018 will make additional contributions to sales. It is also possible that TAKKT will acquire companies in 2019 that will contribute to sales as of the acquisition date. The first-time application of IFRS 16 will generate positive effects for EBITDA and the TAKKT cash flow, while having a negative impact on value-based figures and internal covenants.

TAKKT will continue its forward-looking investment into the implementation of the Digital Agenda. This will entail higher personnel expenses and comparable other expenses for the digital transformation. The Group’s EBITDA margin is expected to be within the long-term target corridor of 12 to 16 percent. For the TAKKT cash flow margin, the Group anticipates a value of over nine percent. Despite the prospect of a higher dividend payment, the equity ratio at the end of 2019 is not likely to be much below its current value, if no major acquisitions are made.

GUARANTEE

This annual report and the forecast report in particular include forward-looking statements and information. These statements are estimates made by TAKKT Management based on all the information available to them when the annual report went to press. Should the basic assumptions not be realized or other opportunities and risks arise, the actual results may differ from those expected. TAKKT Management therefore cannot accept any liability for these statements.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT

The term corporate governance stands for responsible management with the aim of creating long-term added value. Good corporate governance increases the company's value in the long run. Values like responsibility, reliability and trust are therefore a priority at TAKKT. The Group views transparency in engaging with its interest groups as being essential to its corporate success.

COMMITMENT TO THE GERMAN CORPORATE GOVERNANCE CODE

TAKKT expressly supports the aims and requirements of the German Corporate Governance Code (DCGK). This underlines the value placed upon responsible corporate management at TAKKT. In December 2018, the Management and Supervisory Boards therefore renewed their declaration of general conformity with all the key points of the latest version of the recommendations of the German Corporate Governance Code according to section 161 of the German Stock Corporation Act (AktG).

Section 5.4.1 DCGK requires the Supervisory Board to possess certain requisite skills, knowledge and expertise, and this requirement is entirely met with the current composition of the Supervisory Board.

The declaration of conformity is reproduced verbatim at the end of this corporate governance report and its latest version can also be found at www.takkt.com.

There are only a few cases where TAKKT does not follow the Code's recommendations:

- Due to the modest size of the Supervisory Board of six members, it does not consider the additional establishment of an auditing and nomination committee to be necessary.

- Since the Chairman of the Supervisory Board and all members of the Supervisory Board are informed of the business developments in writing on a monthly basis, the Supervisory Board does not consider it necessary for the entire Supervisory Board to discuss the financial information during the year.

PARTICIPATION AT THE SHAREHOLDERS' MEETING

The shareholders have the opportunity to exercise their statutory rights at the annual Shareholders' Meeting of TAKKT AG. They can vote either personally or by proxy on the relevant items on the agenda. They may also cast votes by mail. The procedure for registration and proof of eligibility used at the Shareholders' Meeting of TAKKT AG is in accordance with the stipulations of the German Stock Corporation Act and with international standards. All shareholders who would like to attend a Shareholders' Meeting of TAKKT AG and exercise their right to vote are required to register and prove that they are eligible to participate and vote at the meeting. Details of the conditions for registration and participation are announced in the invitation to every Shareholders' Meeting.

CLOSE COLLABORATION BETWEEN MANAGEMENT BOARD AND SUPERVISORY BOARD

TAKKT's internal management structures are characterized by clear organization and direct reporting lines. The company also operates a value-based remuneration and incentive system. Detailed information on the remuneration of the Management Board at TAKKT can be found in the remuneration report of this annual report.

The Management and Supervisory Boards at TAKKT work closely with each other to further the interests of the Group according to the motto of "achieving more together" and jointly determine the strategic direction of the company. The Management Board steers the company, develops strategies, implements these strategies in the company's operating business and ensures effective risk management. Important decisions are made by the Management Board in coordination with the Supervisory Board. The Management Board also informs the Supervisory Board regularly, promptly and comprehensively about important changes in the company, its environment, its strategy and its business development. The Management Board ensures compliance with the statutory regulations and internal company guidelines and contributes to ensuring observance of these by the Group companies. Certain key transactions and measures – stipulated in the rules of management for the Management Board – require prior approval by the Supervisory Board.

The Management Board consists of four members. Its composition in the 2018 fiscal year is shown on page 27 of the annual report.

It is the duty of the Supervisory Board to oversee and advise the Management Board in its management of the company on a regular basis. It carries out this duty with dedication and thus makes a substantial contribution to the company's success. It supports the Management Board in fulfilling its responsibilities completely and in good time and takes part in the most important decisions by passing the necessary resolutions. The Supervisory Board also appoints the auditors in accordance with the resolution passed at the Shareholders' Meeting.

In accordance with the articles of association, the Supervisory Board of TAKKT AG consists of six members. The composition of the Supervisory Board in the 2018 fiscal year is shown on page 35 of the annual report.

The personnel committee of the Supervisory Board consists of three members and one of its tasks is to prepare issues in connection with the employee contracts of the Board Members. If members of the Supervisory Board intend to have additional contracts of service with the company, its approval is also required. There are currently no such contracts of service. The personnel committee currently consists of Stephan Gemkow (Chairman), Dr. Johannes Haupt (Deputy Chairman) and Christian Wendler.

A directors and officers (D&O) insurance policy with the statutory deductibles has been taken out for the Management Board and Supervisory Board members. The remuneration principles of the Supervisory Board are set out in the company's articles of association, which can be found on the TAKKT website www.takkt.com.

DIVERSITY ON THE SUPERVISORY BOARD

Given the company purpose, its size and the share of international business, the Supervisory Board of TAKKT AG strives to take the various principles into account with regard to its composition as per clause 5.4.1 of the German Corporate Governance Code. The Supervisory Board is expected in particular to select duly qualified, suitable candidates when making nominations. In accordance with the requirements of the law on equal opportunities for women and men in management positions, the Supervisory Board set a target of one woman on a board of six members in relation to female representation on the Supervisory Board in the 2015 fiscal year. In the 2016 fiscal year, this target quota was set again until December 31, 2021. This target was also met in the 2018 fiscal year. Given the current make-up of the Supervisory Board, the experience and qualifications of its members, the environment in which TAKKT AG operates and the existing rules of procedure for the Supervisory Board, TAKKT believes that it fulfills the requirements of the German Corporate Governance Code. The Supervisory Board will continue to take account of the above-mentioned goals and the principles associated with it in the future. The existing target for female representation (the status quo) also remains in effect for the Management Board until December 31, 2021.

Pursuant to clause 5.4.1 of the DCGK, a regular limit of three terms is defined for the length of membership on the Supervisory Board. In compliance with 5.4.2 of the DCGK, the Supervisory Board should also have at least two independent members. The current independent members of the Supervisory Board are Dr. Johannes Haupt, Christian Wendler and Dr. Dorothee Ritz.

Additional information about the corporate management in accordance with section 289f of the German Commercial Code [HGB] (Declaration on Corporate Governance) can be found on the TAKKT website.

COMPLIANCE

TAKKT AG attaches the highest priority to its compliance with all statutory and contractual obligations associated with responsible corporate governance. The Management Board also takes care to ensure that internal corporate guidelines are adhered to. TAKKT has a compliance management system of conventional scope, which is checked by the specialist departments and the Group's compliance officer. The compliance officer is supported by designated compliance representatives in the respective regional entities. These representatives regularly exchange information on compliance issues and work closely together with the compliance officer in the event of violations. These measures usually allow possible breaches to be identified quickly. In addition to the existing standard compliance rules (e.g., relating to anti-corruption, anti-discrimination, etc.), TAKKT also has a whistleblower hotline set up with an external service provider where employees can, to the extent permitted by law, report violations. The existing system where employees are trained in compliance-related and other current issues (e.g., fraud prevention) by means of an electronic platform was expanded in the year under review to further increase acceptance and understanding across the entire Group. Additional training is provided as needed, especially for core issues in compliance (e.g., the EU General Data Protection Regulation in 2018).

RISK MANAGEMENT

Taking a responsible approach to business-related risks is a fundamental principle of good corporate governance. The Management Board and Management of TAKKT AG make use of reporting and control systems throughout the Group to record, assess and manage these risks. The systems are continuously enhanced, adapted to changes in underlying conditions and checked by the Group auditor. The Management Board regularly informs the Supervisory Board about significant risks and their development. Details on risk management as well as the accounting-related internal control system are described in depth in the risk and opportunities report.

INTERNAL CONTROL SYSTEM

The internal control system at TAKKT includes aspects related to financial accounting as well as operational procedures. The TAKKT Management Board and Supervisory Board are committed to the establishment, control and monitoring of the internal control system. At TAKKT, the internal control system is documented in a systematic and understandable structure. It is reviewed in terms of its effectiveness on a regular basis. The results of these checks are documented. Measures for eliminating control weaknesses are implemented in a reproducible manner.

INTERNAL AUDIT

The internal audit department acts on behalf of and reports to the Management Board of TAKKT AG. As an independent and objective auditing and advisory body, its role is to support the Management Board in its management and control functions. The task of the internal auditing department is to review the correctness, effectiveness and economic feasibility of the risk management and internal control systems of all significant business processes. By performing these audit activities, internal auditing creates transparency, identifies risks and where there is room for improvement, develops solution recommendations and contributes to the success of the TAKKT Group. The Management Board of TAKKT reports to the Supervisory Board of TAKKT once a year on the audit system, audit plan and auditing activities and has the audit plan approved for the following year.

DIRECTORS' DEALINGS

On December 31, 2018, the members of the Management and Supervisory Boards held a total of 676 (676) shares in TAKKT AG. According to section 19 of the Market Abuse Regulation (MAR), executives as well as (natural and legal) persons closely associated with them of a company listed on the regulated market must notify the respective issuer and the German Federal Financial Supervisory Authority (BaFin) if they buy or sell shares or related financial instruments at a value exceeding EUR 5,000 in the course of a calendar year. There were no notifiable transactions recorded in the year under review.

SHARE OWNERSHIP

Detailed information on share ownership can be found in the notes to the consolidated financial statements under "Other notes" in section 5.

DECLARATION OF COMPLIANCE PURSUANT TO SECTION 161 GERMAN STOCK CORPORATION ACT (AKTG) AS PER DECEMBER 31, 2018

The Management and Supervisory Boards of TAKKT AG declare that the recommendations of the Govern-ment Commission on the German Corporate Governance Code, published by the Federal Ministry of Justice in the official part of the Federal Gazette, as amended on February 07, 2017, are being complied with. The Management and Supervisory Boards further declare that the recommendations of the Government Com-mission on the German Corporate Governance Code, as amended from time to time, have been complied with since the last declaration. The following exceptions apply:

1. The German Corporate Governance Code recommends under Clause 5.3.2 that the Supervisory Board establish an Audit Committee. No such Audit Committee has been established at TAKKT AG. As, with six members, the Supervisory Board of TAKKT AG is comparatively small, the Management and Supervisory Boards still see no need to establish an Audit Committee for the Board.

2. The German Corporate Governance Code recommends under Clause 5.3.3 that the Supervisory Board establish a Nomination Committee. No such Nomination Committee has been established at TAKKT AG. As, with six members, the Supervisory Board of TAKKT AG is comparatively small, the Management and Supervisory Boards also see no need to establish a Nomination Committee for the Board.

3. The German Corporate Governance Code recommends under Clause 7.1.2 that interim financial infor-mation, such as the quarterly statements and the half-year financial report of TAKKT, be discussed by the Management Board with the Supervisory Board or its Audit Committee prior to publication. At TAKKT AG, the Chairman of the Supervisory Board is continuously informed by the Management Board about the course of business. Moreover, all of the members of the Supervisory Board receive a written monthly re-port. Therefore, the Supervisory Board does not consider it necessary that the quarterly statements and the half-year financial report be additionally and separately discussed by the plenary Supervisory Board or by an Audit Committee.

Stuttgart, December 31, 2018

On behalf of the Supervisory Board of TAKKT AG
Stephan Gemkow, Chairman of the Supervisory Board

On behalf of the Management Board of TAKKT AG
Dr. Felix Zimmermann, Chairman of the Management Board

OTHER DISCLOSURES

SEGMENTS SHAPE THE DEVELOPMENT OF TAKKT AG

TAKKT AG as a management holding company steers the companies according to the same value and growth drivers. A key aim of TAKKT AG is to secure and further expand a stable, profitable and growth-oriented portfolio of direct marketing specialists in different and complementary target markets, product areas and regions for the long term. Besides the obligation to fulfill legal and regulatory requirements as well as offering services throughout the Group, TAKKT AG is also responsible for activities that contribute to increasing the value of the portfolio. The operating business is handled within the segments. Their results therefore have the greatest influence on the net assets, financial position and results of operations as well as the opportunities and risks for the future development of TAKKT AG.

INFORMATION REQUIRED UNDER TAKEOVER LAW

According to section 289a(1) and section 315a(1) no. 1–9 of the German Commercial Code (HGB), the following details must be disclosed regarding TAKKT AG and the TAKKT Group:

TAKKT AG's share capital totaling EUR 65,610,331 corresponds to 65,610,331 no-par-value bearer shares. These are not subject to any restrictions regarding voting rights or the transfer of shares.

As of December 31, 2018, TAKKT AG is a 50.2 percent subsidiary of Franz Haniel & Cie. GmbH, Duisburg, Germany. There are no other shareholders holding more than ten percent of voting rights.

Sections 84 and 85 of the German Stock Corporation Act (AktG) and section 5 of the company's articles of association apply for appointing and removing members of the Management Board, while sections 179 and 133 of the German Stock Corporation Act apply for changing the articles of association.

In accordance with the resolution passed at the Shareholders' Meeting of May 08, 2018, the Management Board is authorized to increase the share capital subject to the approval of the Supervisory Board, once or several times, by an amount of up to EUR 32,805,165 by issuing new no-par-value bearer shares by May 07, 2023, taking shareholders' subscription rights into account.

In addition, the Management Board is authorized, according to the resolution of the Shareholders' Meeting on May 08, 2018, subject to section 71 (1) no. 8 of the German Stock Corporation Act (AktG) to acquire treasury shares up to an amount of ten percent of share capital. There is no reverse subscription right or a right to tender in the case of purchasing, nor is there a subscription right for shareholders in the case of selling. The company can exercise this authorization in total or in smaller amounts, once or several times, in the pursuit of one or more objectives until May 07, 2023.

Members of the Management Board have the right to terminate their contracts of employment if one or more shareholders acting together acquire the majority of voting rights in TAKKT AG within the meaning of sections 29 et seq. of the German Securities Acquisition and Takeover Act (WpÜG). Further details concerning this can be found in the remuneration report.

At the end of the reporting period, an amount of EUR 97.1 million in liabilities from various financial institutions was subject to a change of control clause as per sections 289a(1) no. 8 and 315a(1) no. 8 of the German Commercial Code (HGB). No further disclosures are provided according to the second half-sentence of the relevant regulation.

The additional disclosures as required by section 315a(1) no. 2 of the German Commercial Code (limitation of voting rights), no. 4 (shares with special rights), no. 5 (controlling voting rights of employees) and no. 9 (compensation agreement with the Management Board or employees in case of a takeover offer) are not relevant for TAKKT AG or the TAKKT Group.

DEPENDENCE REPORT SUBMITTED

Franz Haniel & Cie. GmbH, Duisburg, Germany is the majority shareholder of TAKKT AG. The Management Board has therefore provided the Supervisory Board with a report on relations with affiliated companies as stipulated in section 312 of the German Stock Corporation Act. The dependence report comes to the following conclusion: "In summary, we declare that TAKKT AG has received adequate payment for every transaction according to the circumstances known at the time when the transactions were undertaken, and was not put at a disadvantage as a result of the measures."

REMUNERATION REPORT

The remuneration report explains the principles of the Management Board remuneration system of TAKKT AG and describes the structure and amount of the Management Board remuneration. In addition, it describes the structure and amount of the remuneration of the Supervisory Board. It is part of the combined management report and meets the requirements of the German Commercial Code (HGB), together with German Accounting Standard 17 (DRS 17) and the International Financial Reporting Standards (IFRS). It also takes into consideration the recommendations of the German Corporate Governance Code (DCGK).

MAIN FEATURES OF THE REMUNERATION SYSTEM

The Management Board of TAKKT AG is primarily responsible for the sustained success of the company and therefore receives remuneration that is appropriate for its duties and the economic position of the Group. The remuneration paid is based on the company's size, its financial position, and the structure and amount of the remuneration paid to Board members at comparable companies. The Supervisory Board regularly reviews the structure and appropriateness of the remuneration system as well as the level of remuneration.

The remuneration paid to Board members is made up of non-performance-related and performance-related components. The components of the performance-related payments consist of the annual bonus and the performance cash plan, a rolling remuneration component that acts as a long-term incentive. In addition, the members of the Management Board receive entitlements for pensions and survivors' benefits in the event of termination of their duties.

As in the previous year, the fixed basic salary contributes around 40 percent to the total target remuneration (excluding service cost). The variable components make up around 60 percent of the total target remuneration, with approximately 40 percent representing the short-term and 20 percent the long-term components.

NON-PERFORMANCE-RELATED REMUNERATION COMPONENTS

Fixed basic salary

All Board members receive an agreed annual basic salary. This is paid out in twelve equal monthly installments.

Fringe benefits

The fringe benefits comprise the use of company cars, accident insurance and luggage insurance. The Board members pay tax on their use of a company car as this constitutes a remuneration component.

PERFORMANCE-RELATED REMUNERATION COMPONENTS

Bonus

The operating result of the fiscal year in question in form of the EBIT (earnings before interest and taxes) serves as the basis of valuation for the annual bonus. Since 2018, the annual bonus is determined by means of linear interpolation based on a target EBIT within a corridor of minus 30 percent to plus 30 percent. The target EBIT is annually calibrated based on a longer-term reference period. The figures from the annually updated strategic planning for a fixed period of four years as well as the actual figures from the past fiscal years form the basis for this. This long-term consideration serves to align the bonus to a sustainable corporate performance. Its aim is to prevent the incentivization of the Management Board from being influenced too much by the annual budget or short-term measures to increase income or value.

The Supervisory Board may, at its due discretion, increase or decrease the amount of the bonus by 20 percent. The reasons for this include special performances, extraordinary events or pre-defined work-related targets. The total annual bonus paid out is capped at 200 percent of the target value. Management Board members may convert parts of their bonus into additional pension components, graded by age band.

Performance cash plans

The performance cash plans are launched each year and paid out in cash after a period of four years depending on whether the relevant targets are met. For 2018, a performance cash plan has been granted that is valid until 2021. The Supervisory Board decides at its due discretion about the conditions and scope of the performance cash plan to be issued in the year in question. The terms have not changed structurally compared to the previous year. The amount of the performance cash plan to be paid out depends on two predefined performance goals:

- The performance of Total Shareholder Return (TSR) over the term of the four-year plan. The TSR corresponds to the total return of the TAKKT share, taking paid dividends into account.

- The amount of the cumulative TAKKT value added (TVA) over the term of the four-year plan. The TVA indicator is used for value-based corporate management and shows whether the rates of return demanded by equity and debt investors are met.

The performance cash plans represent a clear orientation of the remuneration of the Management Board along a sustainable increase of the external and internal value of the company. The amount paid out under the performance cash plans is also capped. For performance cash plans, this cap is 300 percent of the target value.

Based on the current contractual agreements, the beneficiary has full entitlement to payment of the performance cash plan if the period of employment exists for at least twelve months from the beginning of the term of the performance cash plan. If an individual reaches retirement age or begins or terminates his/her Management Board membership within a calendar year, a pro rata calculation is made in the case of the recently established plan. The payout from the respective performance cash plan is carried out at the end of the four-year term.

Stock options are not considered part of the remuneration of the Management Board at TAKKT AG and there are no plans for this in the future.

MANAGEMENT BOARD REMUNERATION IN 2018 ACCORDING TO HGB

Total remuneration

The remuneration for acting members of the Management Board of TAKKT AG in the 2018 fiscal year comes to a total of EUR 4,108 (3,248) thousand. Of this, EUR 1,556 (1,155) thousand relate to non-performance-related components and EUR 2,552 (2,093) thousand to performance-related components.

The reported expenditure for the bonus was EUR 1,946 (1,611) thousand. In the previous year it included an excess expenditure with respect to the provision of EUR 149 thousand. The excess expenditure in 2017 came to EUR 65 thousand for Dr. Felix A. Zimmermann, EUR 42 thousand for Dirk Lessing, and EUR 42 thousand for Dr. Claude Tomaszewski.

The remuneration for the performance cash plan comes to EUR 606 (482) thousand and corresponds to the value of the performance cash plan established in the respective fiscal year as of the date it was granted.

Disclosures in accordance with IFRS 2

The share-based component of the performance cash plan is classified as a share-based payment settled in cash in accordance with IFRS 2 and valued using a binomial model.

The total expense or income for the performance cash plans includes the fair value of the vested right in the respective fiscal year the plan was established plus the change in value of already vested rights of the performance cash plans of the previous years. The liability from the performance cash plan is reassessed at the end of each reporting period and on the due date. Valuation is based on the expected development of the relevant success factors.

The fair value measurement of the performance cash plans of the previous years resulted in income that exceeded the expense for the plan newly established in 2018 in absolute terms. The resulting

Total remuneration of the Management Board *in EUR thousand*

2018

	Non-performance-related remuneration		Performance-related remuneration		Total
	Basic remuneration	Fringe benefits	Bonus	Performance cash plan 2018	
Dr. Felix Zimmermann	500	13	686	212	1,411
Dr. Heiko Hegwein	316	13	396	124	849
Dirk Lessing	345	17	432	135	929
Dr. Claude Tomaszewski	345	7	432	135	919
	1,506	**50**	**1,946**	**606**	**4,108**

2017

	Non-performance-related remuneration		Performance-related remuneration		Total
	Basic remuneration	Fringe benefits	Bonus	Performance cash plan 2017	
Dr. Felix Zimmermann	470	11	713	212	1,406
Dirk Lessing	325	17	449	135	926
Dr. Claude Tomaszewski	325	7	449	135	916
	1,120	**35**	**1,611**	**482**	**3,248**

total income came to EUR 599 (161) thousand in the year under review. Of this, EUR 272 (57) thousand were allotted to Dr. Felix A. Zimmermann, EUR 195 (43) thousand to Dirk Lessing and EUR 195 (61) thousand to Dr. Claude Tomaszewski. In contrast, there was an expense of EUR 63 thousand for Dr. Heiko Hegwein.

The fair value of the performance cash plans from 2015, 2016, 2017 and 2018 (2014, 2015, 2016 and 2017) as well as the respective provision come to EUR 2,024 (3,305) thousand as of the end of the reporting period.

BENEFITS IN THE EVENT OF TERMINATION OF SERVICES

Pension and survivors' benefits

Management Board members receive an entitlement for pension and survivors' benefits, with annual contributions amounting to ten percent of the sum of their basic salary and target bonus. Contributions are only granted as long as the individual is appointed to the Management Board. The target bonus corresponds to a target achievement of one hundred percent. Interest rates of five respectively six percent p.a. are granted for contributions until pension payments begin. Board members are entitled to pension payments when they leave the company but not earlier than the member's 60th birthday. In the case of disability or death, the amount from the pension plan paid out or annuitized is equivalent to what would have been paid if contributions had been made up to the age of 63. Starting in 2017, this commitment was partially hedged against insolvency with commercially available products based on a contractual trust agreement.

The table below lists the service costs and present value of obligations for the members of the Management Board in accordance with IAS 19. In the current year, a service cost for the Board members in the amount of EUR 575 (441) thousand was recognized as expenses.

Payments in the event of early termination

In the current contracts of the Management Board members, the limit of possible severance payments corresponds to the recommendations of the German Corporate Governance Code. According to the Code, the payments that could be paid in the event of a premature termination of the membership of the Management Board without cause may at most remunerate the remaining term and also not exceed the amount of two years' compensation.

Members of the Management Board have the right to terminate their contracts of employment if one or more shareholders acting together acquire the majority of voting rights in TAKKT AG within the meaning of sections 29ff. of the German Securities Acquisition and Takeover Act (WpÜG). In exercising this right of termination, the Board member has the right to severance pay amounting to a maximum of two years' compensation. Other sources of income are not taken into account. The right to a severance payment will not apply in the event of extraordinary termination of the contract of employment by the company for good cause.

MANAGEMENT BOARD REMUNERATION IN 2018 ACCORDING TO THE GERMAN CORPORATE GOVERNANCE CODE

In the following tables, the benefits granted, inflows and pension expenses for every member of the Management Board are shown individually in accordance with the recommendations under Clause 4.2.5 (3) of the German Corporate Governance Code.

In line with the German Corporate Governance Code and in deviation from the presentation according to HGB, the bonus (one-year variable remuneration) is stated as the target value in the table "Benefits granted". For the performance cash plan, along with the presentation according to HGB, the value of the plan established in the respective fiscal year is stated as of the date it was granted. The pension expenses correspond to the service cost according to IAS 19.

Pension commitments *in EUR thousand*

	IFRS		IFRS	
	Service cost		Present value of pension obligation as of 12/31	
	2017	**2018**	2017	**2018**
Dr. Felix Zimmermann	190	195	2,885	3,189
Dr. Heiko Hegwein	-	122	-	125
Dirk Lessing	114	117	483	609
Dr. Claude Tomaszewski	137	141	1,956	2,175
	441	**575**	**5,324**	**6,098**

Benefits granted *in EUR thousand*

	Dr. Felix Zimmermann				Dr. Heiko Hegwein			
	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
Fixed Salary	470	500	500	500	-	316	316	316
Ancillary benefits	11	13	13	13	-	13	13	13
Total	**481**	**513**	**513**	**513**	**-**	**329**	**329**	**329**
One-year variable remuneration	500	500	0	1,000	-	289	0	578
Long-term variable remuneration								
Performance cash plan 2017–2020	212	-	-	-	-	-	-	-
Performance cash plan 2018–2021	-	212	0	635	-	124	0	372
Total	**1,193**	**1,225**	**513**	**2,148**	**-**	**742**	**329**	**1,279**
Service cost	190	195	195	195	-	122	122	122
Total remuneration	**1,383**	**1,420**	**708**	**2,343**	**-**	**864**	**451**	**1,401**

	Dirk Lessing				Dr. Claude Tomaszewski			
	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
Fixed Salary	325	345	345	345	325	345	345	345
Ancillary benefits	17	17	17	17	7	7	7	7
Total	**342**	**362**	**362**	**362**	**332**	**352**	**352**	**352**
One-year variable remuneration	315	315	0	630	315	315	0	630
Long-term variable remuneration								
Performance cash plan 2017–2020	135	-	-	-	135	-	-	-
Performance cash plan 2018–2021	-	135	0	405	-	135	0	405
Total	**792**	**812**	**362**	**1,397**	**782**	**802**	**352**	**1,387**
Service cost	114	117	117	117	137	141	141	141
Total remuneration	**906**	**929**	**479**	**1,514**	**919**	**943**	**493**	**1,528**

Allocations *in EUR thousand*

	Dr. Felix Zimmermann		Dr. Heiko Hegwein		Dirk Lessing		Dr. Claude Tomaszewski	
	2017	2018	2017	2018	2017	2018	2017	2018
Fixed Salary	470	500	-	316	325	345	325	345
Ancillary benefits	11	13	-	13	17	17	7	7
Total	**481**	**513**	**-**	**329**	**342**	**362**	**332**	**352**
One-year variable remuneration	647	686	-	396	408	432	408	432
Long-term variable remuneration								
Performance cash plan 2013–2016	534	-	-	-	-	-	405	-
Performance cash plan 2014–2017	-	309	-	-	-	188	-	234
Total	**1,662**	**1,508**	**-**	**725**	**750**	**982**	**1,145**	**1,018**
Service cost	190	195	-	122	114	117	137	141
Total remuneration	**1,852**	**1,703**	**-**	**847**	**864**	**1,099**	**1,282**	**1,159**

In line with the recommendations of the German Corporate Governance Code and in deviation from the presentation according to HGB, the bonus expense for the respective year under review is to be stated in the table "Allocations" (payments). For the performance cash plan, the payment made in the respective fiscal year is shown. In line with the German Corporate Governance Code, the pension expense corresponds to the service cost in accordance with IAS 19, even though it does not represent a current inflow but rather a provision for when the recipient is in retirement.

OTHER DISCLOSURES

The Management Board has the option of acquiring TAKKT Performance Bonds. This involves a voluntary participation offer for TAKKT executives, which will allow them to take part in the economic development of the TAKKT Group through bonds. The return of this instrument results from a basic interest rate plus a premium or discount determined according to the performance of the TAKKT Group (TAKKT value added). The subscription amount as well as the attainable return have an upper limit. There are liabilities of EUR 1,469 (1,044) thousand to members of the Management Board from TAKKT Performance Bonds.

In addition, there are pension obligations from the voluntary conversion of part of the bonus into a pension plan (i.e., deferred compensation) in the amount of EUR 1,160 (866) thousand. In the fiscal year, the Management Board members voluntarily contributed EUR 110 (100) thousand from the bonus to this plan.

With respect to the members of the Management Board, there are the usual receivables and liabilities from order and employment contracts.

Customary D&O insurances have been taken out for the members of the Management Board. The deductible of the D&O liability insurance corresponds to ten percent of the damages in question, but no more than one and a half times the fixed annual basic salary in accordance with section 93(2) sentence 3 of the German Stock Corporation Act (AktG).

The members of the Management Board did not receive any benefits from third parties in the 2018 or 2017 fiscal years, which were either promised or granted to them in connection with their service on the Management Board.

As of December 31, 2018, the Management Board members held 536 (536) shares in TAKKT AG.

Remuneration of the Supervisory Board *in EUR thousand*

2018

	Fixed payments	Committee remuneration	Attendance fees	Total
Stephan Gemkow	100.0	5.0	2.5	107.5
Dr. Johannes Haupt	75.0	3.8	2.5	81.3
Dr. Florian Funck	50.0	-	2.5	52.5
Thomas Kniehl	50.0	-	2.5	52.5
Dr. Dorothee Ritz	50.0	-	1.5	51.5
Christian Wendler	50.0	2.5	2.5	55.0

2017

	Fixed payments	Committee remuneration	Attendance fees	Total
Stephan Gemkow	100.0	5.0	2.5	107.5
Dr. Johannes Haupt	75.0	3.8	2.5	81.3
Dr. Florian Funck	50.0	-	2.5	52.5
Thomas Kniehl	50.0	-	2.5	52.5
Prof. Dr. Dres. hc Arnold Picot	17.8	0.9	1.0	19.7
Dr. Dorothee Ritz	50.0	-	1.5	51.5
Christian Wendler	32.3	1.6	1.5	35.4

REMUNERATION OF FORMER BOARD MEMBERS OF TAKKT AG AND THEIR SURVIVING DEPENDENTS

The payments granted to former Board members of TAKKT AG and their surviving dependents in 2018 came to EUR 379 (788) thousand. The pension provisions for former members of the Management Board as well as their surviving dependents came to a total of EUR 7,612 (7,008) thousand as of December 31, 2018.

REMUNERATION OF THE SUPERVISORY BOARD

Each member of the Supervisory Board of TAKKT AG receives a fixed annual salary of EUR 50 thousand and an additional fixed salary of EUR 2.5 thousand for membership in a Supervisory Board committee. The Chairman of the Supervisory Board or of a committee receives double that amount; the Deputy Chairman receives one and a half times that amount. In addition, for each meeting of the Supervisory Board or a committee that they attend, each member receives an attendance fee of EUR 500 per day in attendance. TAKKT AG offers compensation for expenses to the members of the Supervisory Board and also reimburses them for the VAT due on their remuneration and compensation for expenses.

In total, the remuneration of the Supervisory Board in the year under review came to EUR 400 (400) thousand, of which EUR 375 (375) thousand were for activities in relation to the Supervisory Board, EUR 11 (11) thousand for activities in relation to the committees as well as EUR 14 (14) thousand for attendance fees.

Of the claims granted, EUR 386 (386) thousand were still recorded as liabilities as of the end of the reporting period. As of December 31, 2018, the Supervisory Board members held 140 (140) shares in TAKKT AG.

CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated statement of income of the TAKKT Group *in EUR thousand*

	Notes	2018	2017
Sales	(1)	**1,181,089**	**1,116,083**
Changes in inventories of finished goods and work in progress		195	–314
Own work capitalized		1,975	1,441
Gross performance		**1,183,259**	**1,117,210**
Cost of sales		692,721	643,294
Gross profit		**490,538**	**473,916**
Other operating income	(2)	9,244	7,386
Personnel expenses	(3)	174,320	166,686
Other operating expenses	(4)	175,393	164,295
EBITDA		**150,069**	**150,321**
Depreciation, amortization and impairment of property, plant and equipment and other intangible assets	(5)	27,532	27,103
Impairment of goodwill	(6)	0	0
EBIT		**122,537**	**123,218**
Income from associated companies		–684	–613
Finance expenses	(7)	–5,858	–7,609
Other finance result	(8)	911	26
Financial result		**–5,631**	**–8,196**
Profit before tax		**116,906**	**115,022**
Income tax expense	(9)	28,827	18,685
Profit		**88,079**	**96,337**
attributable to owners of TAKKT AG		88,079	96,337
attributable to non-controlling interests		0	0
Weighted average number of issued shares in million		65.6	65.6
Basic earnings per share (in EUR)	(10)	1.34	1.47
Diluted earnings per share (in EUR)	(10)	1.34	1.47

Consolidated statement of comprehensive income of the TAKKT Group *in EUR thousand*

	2018	2017
Profit	**88,079**	**96,337**
Actuarial gains and losses resulting from pension provisions recognized in equity	–1,513	–1,645
Tax on actuarial gains and losses resulting from pension provisions	587	543
Gains and losses resulting from the subsequent measurement of investment in equity instruments recognized in equity	230	0
Deferred tax on subsequent measurement of investment in equity instruments	–71	0
Other comprehensive income after tax for items that will not be reclassified to profit and loss in future	**–767**	**–1,102**
Income and expenses from the subsequent measurement of cash flow hedges recognized in equity	524	386
Income recognized in the income statement	–443	238
Tax on subsequent measurement of cash flow hedges	5	–191
Other comprehensive income after tax resulting from the subsequent measurement of cash flow hedges	**86**	**433**
Income and expenses from the adjustment of foreign currency reserves recognized in equity	11,311	–29,522
Income recognized in the statement of income	0	0
Other comprehensive income after tax resulting from the adjustment of foreign currency reserves	**11,311**	**–29,522**
Other comprehensive income after tax for items that are reclassified to profit and loss	**11,397**	**–29,089**
Other comprehensive income (Changes to other components of equity)	**10,630**	**–30,191**
attributable to owners of TAKKT AG	10,630	–30,191
attributable to non-controlling interests	0	0
Total comprehensive income	**98,709**	**66,146**
attributable to owners of TAKKT AG	98,709	66,146
attributable to non-controlling interests	0	0

Detailed information on other comprehensive income can be found on page 143.

Consolidated statement of financial position of the TAKKT Group *in EUR thousand*

Assets	Notes	**12/31/2018**	12/31/2017
Property, plant and equipment	(11)	100,353	100,913
Goodwill	(12)	567,336	513,850
Other intangible assets	(13)	80,476	69,155
Investments in associated companies	(14)	1,049	830
Other assets	(15)	7,737	5,571
Deferred tax	(16)	1,669	2,316
Non-current assets		**758,620**	**692,635**
Inventories	(17)	128,616	102,065
Trade receivables	(18)	107,893	102,915
Other receivables and assets	(19)	29,724	20,615
Income tax receivables		9,124	7,175
Cash and cash equivalents	(20)	3,103	3,053
Current assets		**278,460**	**235,823**
Total assets		**1,037,080**	**928,458**

Equity and liabilities	Notes	**12/31/2018**	12/31/2017
Share capital		65,610	65,610
Retained earnings		571,587	519,594
Other components of equity		–6,752	–17,382
Total equity	(21)	**630,445**	**567,822**
Financial liabilities	(22)	115,778	101,553
Other liabilities	(23)	2,423	574
Pension provisions and similar obligations	(24)	62,992	58,790
Other provisions	(25)	4,687	5,821
Deferred tax	(16)	64,376	56,086
Non-current liabilities		**250,256**	**222,824**
Financial liabilities	(22)	38,148	36,708
Trade payables	(26)	38,234	30,216
Other liabilities	(27)	60,050	47,446
Provisions	(25)	14,088	17,674
Income tax payables		5,859	5,768
Current liabilities		**156,379**	**137,812**
Total equity and liabilities		**1,037,080**	**928,458**

Consolidated statement of changes in total equity of the TAKKT Group *in EUR thousand*

	Share capital	Retained earnings	Other components of equity	**Total equity**
Balance at 01/01/2018	**65,610**	**519,594**	**–17,382**	**567,822**
Transactions with owners	0	–36,086	0	–36,086
thereof dividends paid	0	–36,086	0	–36,086
Total comprehensive income	0	88,079	10,630	98,709
thereof Profit	0	88,079	0	88,079
thereof Other comprehensive income (Changes to other components of equity)	0	0	10,630	10,630
Balance at 12/31/2018	**65,610**	**571,587**	**–6,752**	**630,445**

	Share capital	Retained earnings	Other components of equity	Total equity
Balance at 01/01/2017	**65,610**	**459,343**	**12,809**	**537,762**
Transactions with owners	0	–36,086	0	–36,086
thereof dividends paid	0	–36,086	0	–36,086
Total comprehensive income	0	96,337	–30,191	66,146
thereof Profit	0	96,337	0	96,337
thereof Other comprehensive income (Changes to other components of equity)	0	0	–30,191	–30,191
Balance at 12/31/2017	**65,610**	**519,594**	**–17,382**	**567,822**

For further information on Total equity, refer to page 143.

Consolidated statement of cash flows of the TAKKT Group *in EUR thousand*

	Notes	2018	2017
Profit		88,079	96,337
Depreciation, amortization and impairment of non-current assets	(5)/(6)	27,532	27,103
Deferred tax expense	(9)	4,567	–14,364
TAKKT cash flow		**120,178**	**109,076**
Other non-cash expenses and income		5,584	3,763
Profit and loss on disposal of non-current assets and consolidated companies		–4,919	–32
Change in inventories		–20,946	–2,166
Change in trade receivables		–1,240	–5,788
Change in other assets not included in investing and financing activities		–9,526	–352
Change in non-current and current provisions		–692	117
Change in trade payables		1,953	–1,523
Change in other liabilities not included in investing and financing activities		9,029	–2,718
Cash flow from operating activities		**99,421**	**100,377**
Proceeds from disposal of non-current assets		8,328	371
Capital expenditure on non-current assets	(11)/(13)	–24,996	–27,777
Proceeds from the disposal of consolidated companies (less cash and cash equivalents sold)		0	0
Cash outflows for the acquisition of consolidated companies (less acquired cash and cash equivalents)		–57,722	–6,717
Cash flow from investing activities		**–74,390**	**–34,123**
Proceeds from Financial liabilities		123,858	115,860
Repayments of Financial liabilities		–112,615	–145,184
Dividends to owners of TAKKT AG		–36,086	–36,086
Cash flow from financing activities		**–24,843**	**–65,410**
Cash and cash equivalents at 01/01/		3,053	2,267
Increase/decrease in Cash and cash equivalents		188	844
Non-cash increase/decrease in Cash and cash equivalents		–138	–58
Cash and cash equivalents at 12/31/	(19)	**3,103**	**3,053**

For further information on Consolidated statement of cash flows, refer to page 163 et seq.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDING DECEMBER 31, 2018

1. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

The consolidated financial statements of TAKKT AG, Stuttgart, have been drawn up in accordance with the regulations issued by the International Accounting Standards Board (IASB) and section 315e of the German Commercial Code (HGB). The interpretations (IFRIC – International Financial Reporting Interpretations Committee and SIC – Standards Interpretations Committee) by the IFRS Interpretations Committee (IFRS IC) have been taken into account. All International Financial Reporting Standards (IFRS) valid at the closing date and approved by the Commission of the European Union (EU) have been applied.

TAKKT AG, Stuttgart/Germany, registered under HRB 19962 with the German Commercial Register of the Stuttgart local court, is the Group's parent company. The consolidated financial statements as of December 31, 2018, prepared in accordance with IFRS, the management report of TAKKT AG and of the TAKKT Group, the separate financial statement of TAKKT AG prepared in accordance with the HGB and all other required documentation according to section 325 of HGB will be submitted to the Federal Gazette (Bundesanzeiger).

The consolidated financial statements have been prepared in euros. Unless specified differently, figures are rounded on the nearest thousand. In order to improve clarity, various items are grouped in the statement of financial position and statement of income. A breakdown of the individual amounts is provided in the notes. The balance sheet has been divided into current and non-current items in accordance with IAS 1. Assets and liabilities are classified as current if they are due within twelve months. The statement of income was prepared in accordance with the nature of expense method.

The consolidated financial statements and the combined management report of TAKKT AG and the Group were approved by the Management Board for submission to the Supervisory Board on March 06, 2019.

NEW REPORTING STANDARDS

The following reporting standards and interpretations, having been passed or amended by IASB and IFRS IC and endorsed by the EU, were mandatory for the first time in the 2018 financial year for TAKKT:

Standard		Status	Applicable from
IFRS 9	Financial Instruments	new	01/01/2018
IFRS 15	Revenue from Contracts with Customers	new	01/01/2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	new	01/01/2018
Amendments to IAS 40	Transfers of Investment Property	amended	01/01/2018
Amendments to IFRS 2 (2016)	Classification and Measurement of Share-based Payment Transactions	amended	01/01/2018
Amendments to IFRS 4 (2016)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	amended	01/01/2018
Clarifications to IFRS 15 (2016)	Revenue from Contracts with Customers	amended	01/01/2018
AIP 2014–2016	Annual Improvements Project IASB 2014–2016	amended	01/01/2017/ 01/01/2018

In particular, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers are applied in the TAKKT Group.

IFRS 9 Financial Instruments

IFRS 9 replaces the previous IAS 39 standard and the related interpretations. IFRS 9 contains new guidelines on the classification and measurement of financial assets. In addition, IFRS 9 changes the requirements on the application of hedge accounting and introduces new disclosure requirements in the notes to the consolidated financial statements. IFRS 9 was introduced at TAKKT using the retrospective method without adjusting the prior-year comparative figures.

The first application of IFRS 9 resulted in the following changes.

Financial assets with a carrying amount of EUR 4,276 thousand, which were classified as available-for-sale financial assets in accordance with IAS 39, were classified as Equity instruments measured at fair value through other comprehensive income in accordance with IFRS 9 in the amount of EUR 4,079 thousand. The changes in the market value of these are recognized directly in accumulated other comprehensive income in equity. When these financial assets are sold in the future, in contrast to IAS 39, the market value changes recognized directly in equity will not be reclassified to the income statement. Financial assets with a book value of EUR 197 thousand were classified as debt instruments at fair value through profit or loss. Changes in the market value of these assets are now recognized in profit or loss in the income statement.

Financial assets with a carrying amount of EUR 1,295 thousand, which were allocated to loans and receivables in accordance with IAS 39, are classified under IFRS 9 in the category debt instruments and are subsequently measured at amortized cost. This did not result in any valuation adjustments.

IFRS 9 also introduces the expected credit losses model as the new impairment model for financial assets. In principle, expected credit losses must be taken into account when the financial asset is recognized for the first time, which can result in an earlier recognition of impairment. At TAKKT, mainly trade receivables are in the scope of application of this new model. The new impairment model does not result in any material changes, as identifiable risks from credit risk have already been taken into account with the previously used impairment method.

The effects from classification, valuation and impairment have neither a material effect on the Group equity nor on the income statement. The provisions of IFRS 9 relating to hedge accounting also have no effect on the TAKKT Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 combines the existing rules on revenue recognition in one standard. Based on a five-step model, IFRS 15 contains detailed guidance on the timing and amount of revenue recognition. IFRS 15 was introduced at TAKKT using the modified retrospective method without adjusting the prior-year comparative figures.

The first-time application of IFRS 15 has no impact on the amount and timing of revenue recognition. The consideration of the rights of return changes in the balance sheet and the profit and loss as following. The amounts previously set off in the provision for customer credits for expected credits to be issued and the expected value of the returned goods are now shown separately on a gross basis in both the balance sheet and the profit and loss. This change results in a one-off effect of EUR 581 thousand on total assets and liabilities, a reclassification of the liability arising from the rights of return from provisions to other liabilities, as well as a marginal effect on sales and cost of sales. The warranties granted in the TAKKT group are still not assessed as separate performance obligations.

None of the other amended IFRSs requiring first-time application in the current financial year has a significant impact on the net assets, financial position and results of operations of TAKKT Groups consolidated financial statements.

The IASB and IFRS IC have passed new and revised standards which TAKKT must only apply starting January 01, 2019 or later. Some of these standards still have to be approved by the EU prior to their application. Specifically, these include the following reporting standards and interpretations:

Standard		Status	Applicable from
Endorsed by EU-commission			
IFRS 16	Leases	new	01/01/2019
IFRIC 23	Uncertainty over Income Tax Treatments	new	01/01/2019
Amendments to IFRS 9	Prepayment Features with negative Compensation	amended	01/01/2019
Not yet endorsed by EU-commission			
IFRS 14	Regulatory Deferral Accounts	new	01/01/2016
Amendments to IAS 28 (2017)	Long-term Interests in Associates and Joint Ventures	amended	01/01/2019
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	amended	01/01/2019
IFRS 17	Insurance contracts	new	01/01/2021
Amendments to IFRS 10 and IAS 28 (2014)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	amended	-*
AIP 2015–2017	Annual Improvements Project IASB 2015–2017	amended	01/01/2019
Amendments to IFRS 3	Definition of Business	amended	01/01/2020
Amendments to IAS 1 and IAS 8	Definition of Material	amended	01/01/2020
Amendments	References to the Conceptual Framework in IFRS Standards	amended	01/01/2020

* *Effective date is deferred indefinitely.*

The option of applying standards already approved by the IASB early is not utilized. According to current estimates, an earlier application would have had the following effects on net assets, financial position and results of operations. The changes will also affect the coming years.

IFRS 16 Leases

IFRS 16 replaces the current applicable provisions of IAS 17 Leases and the related interpretations. The standard has a significant impact on the accounting of leases by the lessee. With the new IFRS 16, the previous differentiation between finance and operating leases for lessees under IAS 17 is no longer required. In the future, the lessee will have to recognize assets for the acquired rights of use and liabilities from basically all leases in the statement of financial position. The lease liability is the present value of the future lease payments. The amount of the right-of-use asset generally corresponds to the amount of the lease liability at the commence date of the lease term. The presentation in the income statement is basically a financing transaction so that the right-of-use asset is amortized on a straight-line basis and the lease liability is measured at amortized cost using the effective interest method. In addition, IFRS 16 includes extended requirements for disclosures compared to IAS 17.

TAKKT will apply the standard from the mandatory first-time adoption date on January 01, 2019. Introducing IFRS 16, the modified retrospective method is applied, with the simplification that the right-of-use asset is generally measured at the amount of the corresponding lease liability at transition date. Prior-period comparative figures will not be restated. In addition, the practical expedients are applied for short-term leases (12 months or less, excluding real estate) and for leases for which the underlying asset is of low value. For the purpose of the assessment of extension and termination options, the actual facts at initial application date of IFRS 16 are used and not the retroactively determined exercise probability at the beginning of the contract. TAKKT does not apply the standard to leases involving intangible assets. In the case of short-term leases and leases for low-value and intangible assets, the lease payments continue to be recognized as lease expenses according to the respective practical expedients.

TAKKT mainly identified leases for real estate (in particular office buildings and warehouses) and vehicles previously recognized as operating leases which, due to the changeover to IFRS 16 as of January 01, 2019, have to be recognized in the balance sheet.

According to the current status of the project, TAKKT anticipates the following effects from the first-time application of IFRS 16.

In the balance sheet of TAKKT non-current assets and financial liabilities will generally increase. As a result of the first-time application, right-of-use assets amounting to approximately EUR 55 million and lease liabilities of approximately EUR 57 million are recognized in the consolidated balance sheet as of January 01, 2019; the difference between the two items results from the consideration of prepaid and accrued lease liabilities as of December 31, 2018. As a result, the obligations arising from minimum lease payments from operating leases amounting to EUR 63 million as of December 31, 2018, will be mainly recognized in the balance sheet in 2019.

In the income statement, future straight-line depreciation and interest expenses for the lease liability will be recognized in contrast to the leasing expenses previously recognized in EBITDA. In the financial year 2018, leasing expenses amounted to EUR 14 million. EBITDA 2019 will be relieved by the conversion to IFRS 16 in the amount of a substantial part of these leasing expenses. As a result, TAKKT expects EBITDA 2019 to improve by around EUR 12 million, of which approximately EUR 5 million concern the segment TAKKT AMERICA, EUR 5 million the segment TAKKT EUROPE as well as about EUR 2 million the TAKKT AG. In addition, a positive effect on the EBIT of around EUR 1 million is expected. As interest expense from lease liabilities declines over time, the expense is shifted to earlier periods of the lease term. At TAKKT, this will only have a non-material negative impact on 2019 profit.

In the cash flow statement, the cash flow from operating activities will increase, while the cash flow from financing activities will decrease. The reason for this is that the major part of the lease payments will be presented as repayment of financial liabilities, while only the interest cost will continue to be classified under cash flow from operating activities.

Due to the balance sheet extension, the equity ratio is expected to decrease slightly. Because of the increase in financial liabilities, gearing and the debt repayment period will increase insignificantly. Interest cover is expected to fall as a result of IFRS 16.

For finance leases as lessee, TAKKT already recognizes assets and liabilities in 2018. For these cases, TAKKT assumes that the application of IFRS 16 will not have a material impact on the consolidated financial statements.

According to current estimates, all other new or revised standards will not cause any material changes in net assets, financial position and result of operations.

The consolidated financial statements have been prepared using the same accounting and valuation principles as in the previous year.

SCOPE OF CONSOLIDATION

TAKKT is a B2B direct marketing specialist for business equipment and is active in more than 25 countries. The consolidated financial statements include all companies that are controlled by TAKKT according to IFRS 10. The fully consolidated subsidiaries are 100 percent investments. Thus, besides TAKKT AG, 15 (13) domestic and 55 (57) foreign companies are included in the consolidated financial statements.

The number of fully consolidated companies has changed as follows in comparison to December 31, 2017.

Event	Subsidiary	Segment
Liquidation	Shelving 247 Ltd., Gloucester/Great Britain	TAKKT EUROPE
Liquidation	Racking.com (UK) Ltd., Gloucester/Great Britain	TAKKT EUROPE
Liquidation	Speedyshelving Ltd., Gloucester/Great Britain	TAKKT EUROPE
Merger	Hubert S.A.S., Morangis/France	TAKKT AMERICA
Acquisition	Equip4work Ltd., Westlinton/Great Britain	TAKKT EUROPE
Acquisition	Runelandhs Försäljnings AB, Kalmar/Sweden	TAKKT EUROPE
Foundation	newport.takkt GmbH, Stuttgart/Germany	TAKKT EUROPE
Foundation	büromöbelonline GmbH, Stuttgart/Germany	TAKKT EUROPE

Furthermore, two (two) domestic associated companies were included in the consolidated financial statements.

On December 31, 2018, TAKKT AG was a 50.2 (50.2) percent subsidiary of Franz Haniel & Cie. GmbH, Duisburg/Germany, which is registered in the German Commercial Register of the local court of Duisburg under the number HRB 25. The TAKKT Group will therefore be included in the latter's consolidated financial statements, which are available at the Federal Gazette (Bundesanzeiger).

PRINCIPLES OF CONSOLIDATION

Subsidiaries are fully consolidated from the date TAKKT AG has obtained control over the investee according to IFRS 10 Consolidated Financial Statements either directly or indirectly. Control exists if TAKKT holds decision-making power over the relevant activities of the investee based on voting or other rights, if it has exposure or rights to the variable returns from its involvement with the investee and if it has the ability to use its decision-making power over the investee to affect the amount of the variable returns.

A structured entity is an entity that has been designed in a way that voting or similar rights are not the dominant factor in deciding who controls the entity. A structured entity´s activities are often limited, its objective is narrow and well-defined or its equity is insufficient. The entity is subject to consolidation if TAKKT controls it according to IFRS 10 Consolidated Financial Statements.

Associated companies are included in the consolidated financial statements from the date TAKKT has the ability to exercise significant influence on operating and financial policy. Significant influence is generally assumed if the Group holds a share of voting rights of 20 percent to 50 percent. Associated companies are generally included in the consolidated financial statements using the equity method.

A subsidiary is deconsolidated at the date TAKKT has lost control of the subsidiary.

The consolidated financial statements and all separate financial statements have the same balance sheet date, December 31, 2018. The separate financial statements of the domestic and foreign subsidiaries included in the financial statements were prepared using uniform accounting and valuation principles.

Business combinations are accounted for in accordance with IFRS 3 Business Combinations using the acquisition method. Basis are the fair values at the date on which TAKKT Group obtained control over the acquired company. The part of the purchase price which was transferred in a business combination in the expectation of future positive inflows of funds from the business combination and which cannot be allocated to the fair value of identified or identifiable assets within the scope of the complete new valuation method is reported as goodwill in non-current assets.

In accordance with IFRS 3 Business Combinations, the respective goodwill is not amortized but subjected to an impairment test according to IAS 36 Impairment of Assets once a year or during the year if indicated by the occurrence of triggering events. Additional details on this can be found on page 120. Incidental costs incurred during a business combination are recorded as expense.

Capital consolidation was carried out by eliminating the carrying amount of the investments against the shareholder´s share of the subsidiary´s equity.

Intercompany profits and losses, sales, expenses and income as well as all receivables and liabilities between the Group subsidiaries were eliminated. Guarantees and warranties that TAKKT AG or a consolidated subsidiary issues in favor of other consolidated subsidiaries are eliminated.

Intercompany profits contained in current and non-current assets resulting from intercompany deliveries and services were eliminated.

Deferred taxes were recognized for consolidation transactions in accordance with IAS 12 Income Taxes, provided that the tax differences are expected to reverse in future financial years.

Within TAKKT Group there are no non-controlling interests in equity, profit and comprehensive income.

CURRENCY TRANSLATION

TAKKT AG's reporting currency is euro. In accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates, currency is translated using the functional currency method. Since all companies manage their businesses financially autonomously, the respective local currency is identical to the functional currency. Under the functional currency concept, assets and liabilities of all subsidiaries not reporting in euros are translated using the closing rate on the reporting date, whereas income and expenses are translated using the average exchange rate for the year. Currency differences from the translation of foreign financial statements into the Group currency are recorded in Other comprehensive income without any effect on profit.

If a foreign business operation is disposed of, currency differences, which until then were recorded in Other comprehensive income without any effect on profit, are recorded in the statement of income as part of the capital gain or loss realized on the sale.

The TAKKT Group does not operate subsidiaries in high-inflation countries.

In the separate financial statements of the TAKKT Group companies, transactions in foreign currencies are translated at the rate prevailing at the date of the transaction. Assets and liabilities in foreign currencies are translated at the rate prevailing at the reporting date. Exchange differences are primarily recognized under Other operating expenses in the statement of income of the separate financial statements.

Material exchange rates for TAKKT Group

		Year-end rates		Average rates	
Currency	Country	2018	2017	2018	2017
USD	USA	1.1450	1.1993	1.1798	1.1272
CHF	Switzerland	1.1269	1.1702	1.1546	1.1102
GBP	UK	0.8945	0.8872	0.8846	0.8762
SEK	Sweden	10.2548	9.8438	10.2542	9.6332
CAD	Canada	1.5605	1.5039	1.5288	1.4636

ACCOUNTING AND VALUATION PRINCIPLES

Sales include sales of products and services less cash discounts, rebates and accruals from customer loyalty programs. In principle, sales are recognized when the control over the products or services is transferred to the customer. This occurs either at a certain point in time or over a certain period of time. TAKKT fulfills the performance obligations essentially at a certain point in time. This is the case if the customer has the ability to use the asset and decide its further use. The sale of the various products and services generally takes place at customary payment terms and does not include a financing component. The consideration received does not comprise any variable purchase price components. Sales are recorded at the fair value of the consideration expected. Return rights of customers are taken into account through the recognition of an asset from return claims and the recognition of a refund liability. Material guarantees above and beyond the legal requirements are not granted. Loyalty award credits which are granted as part of a customer loyalty program are deferred in sales by forming a contractual liability measured at fair value under Current Other liabilities.

Other operating income is realized if the incoming economic benefit is probable and the amount can be determined reliably.

Advertising costs are expensed as soon as the company has the right to access the advertising material and/or has received the service associated with the advertising activities.

Impairments are carried out if the asset's recoverable amount has fallen below the book value (amortized cost). The recoverable amount is defined as the higher value of the asset's fair value less cost to sell and the present value of future cash flows from the usage of the asset (value in use).

Interest income and interest expenses not requiring capitalization in accordance with IAS 23 are recognized in the proper period using the effective interest method.

Income tax expense includes income tax as well as deferred tax expense that is recognized in profit or loss. The income tax for the year is determined based on the taxable income according to the tax regulations of the specific countries and taking the respective applicable tax rate into account.

Property, plant and equipment is capitalized at acquisition or manufacturing costs less scheduled depreciation and any impairments. If the reasons for an impairment no longer exist, the impairment is reversed. The new value must not exceed the amortized cost. The costs of self-constructed property, plant and equipment include direct costs as well as those portions of overhead costs directly attributable to the construction.

Property, plant and equipment is generally depreciated using the straight-line method over its useful economic life, which in the case of leasehold improvements maximally equals the term of the underlying lease agreements. Depreciation is based on the following useful lives in the Group:

	Useful life in years	
	2018	2017
Buildings (incl. leasehold improvements)	5 – 50	5 – 50
Plant, machinery and equipment	2 – 16	2 – 16

Net book values and useful lives are reviewed at each reporting date and adjusted, if necessary.

The requirements of finance leases pursuant to IAS 17 Leases are satisfied if the TAKKT Group bears all the significant opportunities and risks in **leasing transactions** as lessee and can therefore be considered the economic owner. In these cases, the respective assets in property, plant and equipment are capitalized at fair value or at the lower present value of the minimum lease payments and depreciated using the straight-line method over their useful lives or the shorter duration of the leasing contract, which is between 10 and 25 years. The present value of obligations for future lease installments is disclosed under current and non-current financial liabilities. To the extent possible, the interest rate underlying the lease contracts was applied to determine the present value. If this rate was not available, the incremental borrowing rate was applied.

For some buildings under a finance lease contract, standard market renewal and purchase options at the end of the general lease term exist. The option price usually corresponds to the residual book value at the end of the contract period.

In addition to finance leases, the TAKKT Group also concluded rental contracts in which the economic ownership of rental goods remains with the lessor (operating leasing). Leasing payments are distributed evenly throughout the lease duration and recognized as expense. Depending on the subject of the lease, typical lease and lease extension rights apply as well as price adjustment clauses.

For **goodwill** and **intangible assets with an indefinite useful life**, as these do not generate any independent cash flows, recoverability of the capitalized book value is reviewed once a year or, if indicated by triggering events also during the year, at the level of cash generating units in accordance with IAS 36 Impairment of Assets. In the year under review, the TAKKT Group had a total of 10 (6) cash generating units.

The impairment test is based on a detailed plan of the future cash flows before interest and taxes less capital expenditure on maintenance and replacements less changes in the net working capital for a period of five years and perpetuity following the detailed planning period. This detailed planning is based on financial plans approved by the responsible management, which are also used for internal purposes. The main assumptions for planning relate to the underlying sales growth and operational margin in the detailed planning period as well as the growth in perpetuity for the years following it. When detailed plans are produced, past developments and expectations regarding future market trends are taken into account. The growth in perpetuity is determined that it lies below the long-term average organic growth and below the long-term average expected future market growth. The determined cash flows are discounted individually with the weighted average cost of capital (WACC) before tax calculated for every cash generating unit in order to determine the value in use of the cash generating unit. Based on a WACC rate after taxes derived from the Capital Asset Pricing Model, the WACC rate before tax is calculated using an iterative procedure for which the value in use before tax equals the value in use after tax. Cost of equity was determined using a risk-free interest rate as well as a risk markup per cash generating unit resulting from a market risk premium and an average relevered beta factor of the peer group. Cost of debt consists of a risk-free interest rate plus a risk markup (credit spread).

The recoverable amount – i.e. the higher of value in use or fair value less costs to sell, which may be calculated subsequently – is then compared with the respective book value. If this amount is below the book value of the cash generating unit, an impairment is recognized on goodwill and, if required, on the other assets of the cash generating unit concerned.

Brands are entered with an indeterminate useful life as long as the right of use for the brands can be utilized indefinitely and the level of awareness is permanently maintained by advertising.

Purchased **intangible assets with a determinable useful life** are valued at acquisition cost plus incidental acquisition costs less amortization using the straight-line or declining balance method in line with usage and any impairment. The net book values and useful lives are reviewed at every reporting date and adjusted if necessary.

Amortization within the Group was based on the following useful lives:

	Useful life in years	
	2018	2017
Goodwill	indefinite	indefinite
Brands	indefinite	indefinite
Customer relationships	3 – 11	3 – 11
Supplier relationships	5	5
Domain names	10	10
Catalog-/web design	1 – 10	3 – 10
Software, licenses and similar rights	2 – 7	2 – 7

If not subject to capitalization according to IAS 38 Intangible Assets, **research and development costs** are recognized in the statement of income when incurred. Development costs are capitalized when the recognition criteria of IAS 38 are met. These internally **generated intangible assets** are recognized at acquisition and manufacturing costs less scheduled amortization and impairment. Capitalized development costs include all directly attributable costs and proportionate overhead costs and are amortized over the expected useful life using the straight-line method.

Investments in associates are accounted for using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures. Based on the acquisition costs of the shares in the associated company, the respective carrying amount of the investment is increased or decreased by any changes in equity affecting profit or not affecting profit as far as these changes are attributable to the shares of TAKKT. Dividends received from the investee reduce the book value. Goodwill included in the carrying amount is determined in accordance with the principles of full consolidation and is not amortized. An impairment test is performed if there are substantial indications of a potential impairment for the entire carrying amount of the investment.

Financial assets and financial liabilities are divided into the following measurement categories:

Financial assets:
- Debt instruments measured at amortized cost
- Debt instruments measured at fair value through other comprehensive income
- Debt instruments, derivatives and equity instruments measured at fair value through profit and loss
- Equity instruments measured at fair value through other comprehensive income

Financial liabilities:
- Financial liabilities measured at amortized cost
- Financial liabilities measured at fair value through profit and loss

The classification of financial assets into the different categories is based on the way in which they are managed (the so-called business model condition in accordance with IFRS 9) and on the characteristics of the asset´s contractual cash flows (so-called cash flow condition according to IFRS 9).

The classification is determined at the date of acquisition and reviewed as of each reporting date. Financial assets are initially recognized at fair value and, provided they are not subsequently measured at fair value through profit or loss, plus transaction costs.

Depending on the underlying "business model", debt instruments whose cash flow characteristics consist exclusively of interest and repayments of outstanding principal are classified as subsequently measured either at amortized cost ("hold") or at fair value through other comprehensive income ("hold and sell"). All remaining debt instruments are measured at fair value through profit or loss. Debt instruments valued at amortized cost are generally accounted for using the effective interest method and are subject to the impairment requirements of IFRS 9.

For equity instruments, a valuation at fair value through profit or loss is required. This does not apply to equity instruments that are not held for trading and for which the option to measure at fair value through other comprehensive income is irrevocably exercised upon initial recognition. This option, which is exercisable on a case-by-case basis, is used in the TAKKT Group exclusively for investments in unlisted corporate entities. Gains and losses from changes in fair value are recognized in other comprehensive income with no effect on income. Such changes in value recognized in other comprehensive income are never reclassified to the income statement. Dividend payments, on the other hand, are recognized in profit or loss. The equity instruments are not subject to any impairment requirements.

For debt instruments, derivatives and equity instruments of the category at fair value through profit or loss, directly attributable transaction costs and changes in fair value are to be recognized in profit or loss in the income statement. They are not subject to any impairment requirements. In the TAKKT Group, only venture capital funds and derivatives for which no formal hedge accounting is applied are within this measurement category.

IFRS 9 introduces the expected credit losses model as the new impairment model for financial assets. In principle, expected credit losses must be taken into account when the financial asset is recognized for the first time, which can result in an earlier recognition of impairment. In order to determine the expected credit losses on debt instruments, which are measured subsequently at amortized cost, rating-dependent probabilities of default and market default rates are to be used for each financial instrument. At TAKKT, mainly the trade receivables are in the scope of application of this new model.

Financial liabilities, which are not classified into the measured at fair value through profit and loss category, after initial recognition are measured at amortized cost, using the effective interest method where appropriate. Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading. At TAKKT, these are exclusively derivatives which are classified as held for trading and which are not included as hedging instruments within hedge accounting.

Purchases and sales of financial assets or securities of all categories are accounted for on the Settlement Date.

Financial assets and liabilities are reported net in the balance sheet if there is currently a legal enforceable right to offset. In addition, there must be an intention to settle on a net basis or to settle the associated liability and realize the financial asset simultaneously. Otherwise, the financial asset and liability are shown without offsetting in the balance sheet. Accordingly, related expenses and income are reported net to a limited extent.

Fair values for every financial instrument category according to IFRS 7 generally correspond to book values. This applies directly to financial instruments that are shown in the balance sheet at fair value. For financial assets and liabilities measured at amortized cost, the book value generally represents a sufficient approximation of the fair value. If this is not the case, additional details are provided. The other receivables and payables are either current or subject to a variable market interest rate.

The input factors used for the valuation techniques to measure fair value are divided into the following levels:

Level 1: Quoted prices in active markets accessible to the company for the identical asset or liability.

Level 2: Input factors other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Input factors for the asset or liability that are unobservable.

Sometimes, the input factors used to measure the fair value of an asset or liability might be categorized within different levels of the valuation hierarchy. In such cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Financial instruments at TAKKT recognized at fair value relate to investments, derivative financial instruments and contingent considerations. They are subject to a recurring fair value measurement. Derivative financial instruments are included in current Other receivables and assets as well as in current Other liabilities and relate to level 2. The investments as well as contingent considerations included in current Other liabilities relate to level 3.

Should it prove necessary to reclassify assets and liabilities carried at fair value on a recurring basis into a different level – for example because an asset is no longer traded on an active market or is being traded for the first time – they are reclassified at the end of the reporting period.

The fair value of financial instruments traded on an active market is based on the prices quoted on the reporting date. When level 2 assets and liabilities are measured at fair value on a recurring basis, the discounted cash flow method is used. This means that the future cash flows which the financial instruments are expected to generate are discounted using maturity-matched market interest rates. The creditworthiness of the respective debtor is taken into account by considering risk premiums depending on rating and term in the discount factors. The risk premiums are determined using prices for fixed-income securities observable on markets.

The valuation of venture capital funds is based on the so-called Adjusted Net Asset Method. Under this method, the fair values of the individual investments, determined by the fund on the basis of recognized valuation methods, are aggregated and adjusted for appropriate illiquidity discounts for the overall fund. In the case of investments in unlisted corporate entities, the valuation is derived from additional capital contributions by the investors or from the share price a third and new party has to pay in the course of another round of financing (Price of Recent Investment Valuation Method).

The contingent considerations´ fair value is calculated by risk-adjusted discounting the most likely expected value for the amount to be paid.

Inventories are recognized at the lower of acquisition respectively manufacturing costs or net realizable value. In general, a value based on the FIFO method (first in, first out) is applied. The manufacturing costs include not only the directly attributable materials used for production and wages but also appropriate portions of the indirect material and production overhead costs. There are no relevant borrowing costs due to the nature of the company's business. Obsolescence reserves were made, taking into account the expected selldown period of the inventories. If the reasons for the write-downs no longer apply, the original reserves are released.

Trade receivables are initially recognized at the transaction price, which corresponds to the consideration paid in exchange for the transfer of goods or services to a customer. They are subsequently measured at amortized cost in accordance with the effective interest method. The simplified impairment approach is applied, under which the expected credit losses over the term are measured by an impairment matrix for initial recognition and subsequent measurement at TAKKT. In addition to the age of the receivables, the general credit risk and past experience, current and predicted conditions are taken into account. Trade receivables are derecognized if, according to a reasonable assessment, no recovery is possible.

The investments (equity and debt instruments) and derivatives included in other assets are measured at fair value, the remaining assets at amortized cost.

Income tax receivables and payables are measured using the amount expected to be received from or paid to the tax authorities. Calculation of the amount is based on the tax rates and laws applicable as of the closing date in the countries in which the taxable income is generated.

Derivative financial instruments such as forward foreign exchange contracts and interest rate swaps are generally used for hedging purposes to reduce currency and interest risks from operating activities or the financing requirements resulting from these activities. At TAKKT, derivative financial instruments are used to either hedge the fair value of a balance sheet asset or liability (fair value hedge) or to hedge a future cash flow from a firm commitment or forecast transaction (cash flow hedge). They are not undertaken for trading purposes or for reasons of speculation.

The fair value of a forward foreign exchange contract corresponds to the difference in the present values of the nominal amount at the fixed forward rate and the nominal amount at the forward rate at the reporting date. The fair value of an interest rate swap is equal to the present value of the future cash flows resulting from this derivative instrument. The cash flows are discounted using rating- and maturity-matched interest rates in line with the interest rate curves of the respective currency.

Accounting for derivative financial instruments occurs in Other receivables and assets or in Other liabilities as soon as purchase or sales contracts are made.

According to IFRS 9, all derivative financial instruments are to be recognized at fair value, irrespective of their purpose or intention. Fair value changes in derivative financial instruments for which hedge accounting is applied are recognized either in the income statement (fair value hedge) or, if it is a cash flow hedge, in other comprehensive income, taking into account deferred taxes. Derivative financial instruments for which no formal hedge accounting is used are to be classified into the category debt instruments, derivatives and equity instruments measured at fair value through profit or loss.

In a fair value hedge, derivatives are used to hedge balance sheet positions. The results from the fair value measurement of the hedging instruments are recognized in profit or loss. The changes in fair value of the underlying transactions attributable to the hedged risk are also recognized in profit or loss as book value adjustments. As part of a cash flow hedge, derivatives are used to hedge future cash flow risks from existing underlying transactions or planned transactions. The hedge-effective portion of the fair value changes in derivatives is initially recognized in other comprehensive income.

The treatment of amounts recognized in other comprehensive income depends on the nature of the underlying transaction. If the hedged transaction results in the recognition of a non-financial asset or a non-financial liability, the amount recognized in other comprehensive income is taken into account when determining the initial cost or other carrying amount. For all other types of hedged underlying transactions, reclassifications to profit and loss are made at the same time as the underlying transaction has an impact on profit and loss. The hedge-ineffective portion of the fair value changes in derivatives is recognized directly in the income statement. Changes in the fair value of derivative financial instruments are recognized immediately in profit or loss in cases where hedge accounting is not applied.

Deferred taxes are recognized for all temporary differences between the relevant tax balance sheet and the IFRS balance sheet – with the exception of goodwill on consolidation, which is not tax deductible – as well as for loss carry forwards. Deferred tax assets are impaired if their realization cannot be expected with a significant degree of confidence. For the probable use of losses, the five-year budget of the individual company and its loss history are considered. Deferred taxes were calculated using the respective local tax rates. Tax rate changes determined at the reporting date have been taken into account for the calculation of deferred taxes. The netting of deferred taxes is carried out according to the rules of IAS 12 if they relate to the same tax authority and the right to offset current tax refund claims and liabilities is legally enforceable. Provided that items were entered in Other comprehensive income with no effect on profits and loss and imply a change in deferred taxes, these deferred taxes were also recognized in Other comprehensive income with no effect on profit and loss. All other changes in deferred taxes are recognized in the statement of income.

In accordance with IAS 19 Employee Benefits, pension provisions and similar obligations are calculated using the actuarial projected unit credit method. Determination of the defined benefit obligations is carried out by independent actuaries on an annual basis. In calculating these contractual obligations, prevailing long-term capital market interest rates as well as current assumptions about future salary and pension increases are considered in addition to biometric calculation bases. The actuarial interest rate is determined using a yield curve approach per currency area on the basis of yields on fixed-rate corporate bonds rated at least one well-known rating agency with a rating of at least AA. For the eurozone, the selection of corporate bonds iBoxx ™ Corporates AA was applied for the first time in the past financial year. The probability of employee fluctuation was considered, depending on the job tenure in the company and the age of the beneficiaries. Direct pension commitments in Germany are derived using Prof. Dr. Klaus Heubeck's biometric calculation tables 2018 G. The new mortality tables take into account the future higher life expectancy of employees.

Actuarial gains and losses resulting from changes in actuarial assumptions and / or from deviations between previous actuarial assumptions and actual developments are recognized immediately in Other comprehensive income as soon as they are incurred with no effect on profits and taking deferred taxes into account. The actuarial gains and losses immediately recorded in Other comprehensive income and associated deferred taxes are not reclassified to profit and loss in subsequent periods. The actuarial gains and losses recorded in a given reporting period and the applicable deferred taxes are presented separately in the statement of comprehensive income.

Net interest expense is determined by applying the actuarial interest rate determined at the end of the prior financial year to the pension provisions calculated at this point. The same interest rate is used for pension obligations and plan assets. Net interest expense is reported in Finance expenses. Current and past service costs are reported in Personnel expenses. Past service costs arising from plan amendments and curtailments are recognized in profit and loss in the period in which they occur.

With the exception of other personnel-related provisions calculated in accordance with IAS 19 Employee Benefits respectively IFRS 2 Share-based Payment, Other provisions are made on the basis of IAS 37 Provisions, Contingent Liabilities and Contingent Assets at the best estimate of the amount to be paid if a current legal or factual external obligation exists which is based on transactions or incidents in the past. The outflow of resources must be probable and calculable. Other provisions with a maturity of over one year are discounted using maturity-matched interest rates. Provisions are reviewed on a regular basis and adjusted to the best estimate currently available if new insights are obtained or circumstances have changed. If it is not probable any more that fulfilling the obligation is connected to the outflow of resources, a provision is released. Restructuring provisions are created if a detailed, formal restructuring plan has been approved and those affected have valid expectation that it will be implemented. The restructuring provisions only include costs that are directly related to the measures.

Classified as cash-settled share-based payment in accordance with IFRS 2 Share-based Payment, the yearly reissued long-term performance cash plans of the Management Board contain a share-based component which is dependent on the development of total shareholder return (TSR). The development of the share price and the dividend payment is taken into account in the calculation of the TSR. The measurement of the share-based component is carried out by using a binomial method. The expense for the benefits received or liability to settle these benefits is recorded after the claims are earned. The liability is reassessed on each reporting date and on the settlement date. Changes in fair value are recorded in the respective year under review through profit and loss.

Liabilities are initially recognized at the amount to be paid and, with the exception of derivative financial instruments and contingent considerations, subsequently measured at amortized costs (using the effective interest method where appropriate). Liabilities from finance lease contracts are disclosed at the present value of future lease installments. The fair value of the fixed-rate liabilities from finance leases is determined by discounting the future lease installments using current maturity-matched interest rates and taking interim repayment into account.

The short-term portions of non-current assets and liabilities whose remaining terms are less than one year are generally disclosed under the current balance sheet items.

If IFRS 3 Business Combinations is not applicable, contingent liabilities and assets are generally not recognized in the balance sheet but stated and explained in the notes.

The consolidated financial statements are prepared on the basis of certain assumptions and estimates which have an effect on the amount and presentation of the reported assets, liabilities, income, expenses and contingent liabilities and assets. The premises underlying these assumptions and estimates are based on the management knowledge available at that given time. The assumptions and estimates primarily concern the items set forth below.

During the acquisition of companies all identifiable assets, liabilities and contingent liabilities are measured at fair value within the scope of the purchase price allocation. The fair value is determined by recognized valuation methods depending on the type of asset. These valuations are closely related to the management's assumptions concerning the future development of the assets and the applied discount rates. The recognized fair values represent key estimates as well as the goodwill derived from the purchase price allocation.

In addition to the determination of fair values of the assets, liabilities and contingent liabilities acquired, the valuation of contingent consideration for business combinations is based on management's estimates and assumptions regarding the future development of the acquired entity. Deviations of the future actual development of the entity compared to the expected development may affect the amount of contingent consideration and the profit after taxes.

Impairment tests of goodwill and other intangible assets with indefinite useful lives are based on forward-looking assumptions. These assumptions consider past developments and assumptions concerning the future development of markets. The main assumptions are the future sales growth and operational margin in the detailed planning period, estimated growth rates after the detailed planning period, weighted average cost of capital and tax rates. The premises above and the underlying calculation model can significantly influence the individual values and ultimately the amount of a possible impairment.

In the case of trade receivables, the determination of the allowance for expected credit losses relies to a large extent on estimates and assessments. At every reporting date an impairment analysis is conducted to measure the expected credit losses. The impairment rates are based on the aging structure of the receivables, past experience and the assessment of the current and forecast creditworthiness of customers.The actual payments received may differ from the carrying amounts. Valuation allowances for inventories are mainly based on the experienced selldown period of the single products.

The key assumptions and estimates for the measurement of provisions, especially those for pensions, litigations, onerous contracts and restructuring measures, concern the probability of the provisions being used, the amount of the obligation and, in the case of non-current provisions, the interest rates applied. Warranty provisions need to be assessed based on the experience in regard to past warranty claims. In addition, pension obligations under defined benefit plans require actuarial assumptions regarding salary and pension trends, life expectancies and employee turnover. The actual development, and hence actual payments due in the future, may deviate from the expected development and the recognized provisions.

Deferred tax assets and liabilities are measured on the basis of management's assumptions and estimates. In addition to the interpretation of the tax regulations applicable to the taxable entity concerned, the key factor in the calculation of deferred tax assets in respect of temporary differences and tax loss carryforwards is an assessment of the likelihood that adequate taxable income will be generated in future or that appropriate tax planning opportunities for utilizing tax loss carryforwards will be implemented.

All assumptions and estimates are based on the circumstances prevailing on the reporting date and are examined on an ongoing basis. Although the assumptions and estimates are made with management's best knowledge, future events and changes in general circumstances often give rise to differences between the actual amounts and the estimates. This applies in particular to obligations where existence, amount and timing of occurrence are uncertain. In case of differences, the assumptions and, if necessary, the carrying amounts of the assets and liabilities affected are adjusted accordingly.

2. NOTES TO THE INCOME STATEMENT

(1) Sales *in EUR thousand*

	2018	2017
Sales with third parties	1,180,785	1,115,634
Sales with affiliated companies	304	449
	1,181,089	**1,116,083**

Sales are generated mainly by selling goods. Sales resulting from the provision of services are of minor significance.

Sales with affiliated companies related to majority shareholder Franz Haniel & Cie. GmbH, Duisburg/Germany, as well as to subsidiaries of the majority shareholder that are not included in the consolidated financial statements of TAKKT AG. A listing of sales with affiliated companies can be found under related-party transactions on page 175.

In the financial year, revenues of EUR 6.2 million were generated which had been recognized at the beginning of the financial year under liabilities from contracts with customers.

Sales are from a distribution perspective as follows:

	TAKKT EUROPE	TAKKT AMERICA	**2018**	TAKKT EUROPE	TAKKT AMERICA	2017
E-Commerce	331,404	283,166	614,570	241,941	282,612	524,553
Other sales	320,177	246,342	566,519	332,740	258,790	591,530
	651,581	**529,508**	**1,181,089**	**574,681**	**541,402**	**1,116,083**

(2) Other operating income *in EUR thousand*

	2018	2017
Rental income	631	693
Income from the release of allowances (until 2017)	-	495
Income from the disposal of non-current assets	4,999	138
Other income	3,614	6,060
	9,244	**7,386**

The position Income from the disposal of non-current assets relates mainly to the sale of an office building in the U.S. with an amount of EUR 4,897 thousand. The sale took place with a sales price less additional charges at an amount of EUR 7,527 thousand. The property is leased back under usual conditions with a fixed contract term of ten years.

(3) Personnel expenses *in EUR thousand*

	2018	2017
Wages and salaries	143,964	137,615
Social security costs	25,645	24,762
Retirement costs	5,365	5,210
Release of personnel-related provisions	−1,679	−1,787
Other	1,025	886
	174,320	**166,686**

For the number of employees in the Group please refer to the segment reporting on page 165 et seqq.

(4) Other operating expenses *in EUR thousand*

	2018	2017
Impairment on financial assets (from 2018)	1,115	-
Valuation allowances on current assets (until 2017)	-	1,852
Release of provisions	−2,804	−435
Operating leasing and rents	14,261	13,431
Foreign exchange differences	82	1,063
Adjustments to contingent considerations	2,000	0
Operating taxes	2,228	2,192
Operating expenses	127,748	117,691
Administrative expenses	30,763	28,501
	175,393	**164,295**

Impairment on financial assets mainly relates to the change in valuation allowances on trade receivables and full write-offs of trade receivables where they cannot be recovered. Write-offs amounted to EUR 1,330 thousand. Subsequent payments received on written off receivables are included with EUR 250 thousand.

Further information to the contingent considerations can be found on page 173.

A major part of operating expenses is print and online advertising costs.

Operating taxes include real estate tax, car tax, taxes on capital and assets and the French Contribution Économique Territoriale for example.

(5) Depreciation, amortization and impairment of property, plant and equipment and other intangible assets *in EUR thousand*

	2018	2017
Property, plant and equipment	12,616	12,890
Other intangible assets	14,916	14,213
	27,532	**27,103**

Depreciation and amortization comprises scheduled amortization amounting to EUR 10,364 thousand (EUR 10,501 thousand) relating to intangible assets recorded in conjunction with purchase price allocations.

In the current financial year, impairments were made in accordance with IAS 36 Impairment of property, plant and equipment amounting to EUR 16 thousand (EUR 43 thousand). Both in 2017 and in 2018, these mainly relate to assets recorded as equipment that could not be used any longer after a remodeling of a building. Impairments of intangible assets in accordance with IAS 36 were recognized with an amount of EUR 126 thousand (EUR 0 thousand). These are relating to the webshop and software of the finished Hubert activities in Europe.

The recoverability of the capitalized book value of intangible assets with an indefinite useful life, as these do not generate any independent cash flows, is reviewed together with the goodwill at the level of cash generating units. No need for impairment was derived from the impairment tests in both the 2017 and 2018 financial years. Further information can be found in the following section Impairment of goodwill. Please refer to the details on page 138 for information about the book values of intangible assets with an indefinite useful life.

(6) Impairment of goodwill

The following table shows the book values of the material goodwills as well as the key assumptions used for the purpose of impairment testing:

	Book values of goodwill (in EUR thousand)		WACC (before taxes) (in percent)		Growth of Perpetuity rate (in percent)	
	2018	2017	2018	2017	2018	2017
Kaiser+Kraft group	124,255	115,865	8.5	8.6	1.0	1.0
ratioform group	152,656	152,656	7.5	7.7	2.0	2.0
Equip4work	29,611	-	8.0	-	2.0	-
Hubert group	70,813	67,607	7.7	7.9	2.0	2.0
Central group	63,355	60,487	7.8	7.9	2.0	2.0
D2G group	79,743	76,132	8.1	7.8	2.0	2.0
NBF group	40,722	38,879	8.1	8.0	2.0	2.0

The compound annual growth rate in external sales in the detailed planning period is between 2.9 (3.1) percent and 7.6 (6.6) percent for the material cash generating units. The gross profit margins were assumed to remain at the same level respectively to decline.

Please refer to the details on page 120 for information about the general procedure with regard to impairment testing. The evidence for recoverability at all cash generating units is based on the value in use. No need for impairment was derived from the impairment tests in both the 2017 and 2018 financial years.

The sensitivity analyses led to the following results.

In the case of the Hubert cash-generating unit, the value in use exceeds the book value by a low double-digit million euro amount. With a one percentage point increase in the weighted average cost of capital before tax or with a 0.9 percentage point decrease in growth of perpetuity rate or with a 15% decrease in cash flows before interest and taxes, the carrying amount equals the value in use.

For all other cash generating units, the values in use exceed the book values for all sensitivity analyses.

Additional details on goodwill can be found in the corresponding notes on page 136 et seq. A description of the cash generation units can be found in the corresponding notes in the segment reporting on page 167 et seq.

(7) Finance expenses *in EUR thousand*

	2018	2017
Interest portion of finance leases	–1,289	–1,367
Interest portion of pension provisions	–1,149	–1,159
Interest portion of purchase price liabilities	–35	–681
Interest on financial liabilities	–3,385	–4,402
	–5,858	**–7,609**

The Interest portion of purchase price liabilities results from accruing interest expense relating to the purchase price liability recorded in connection with the acquisition of Post-Up Stand. In prior year, interest from promissory notes is included in Interest on financial liabilities. Further information can be found in the table for net result of the financial instruments categories on page 155 and interest rate hedges on page 160.

(8) Other finance result *in EUR thousand*

	2018	2017
Valuation of financial instruments	201	–8
Interest and similar income	710	34
	911	**26**

More details on the use of derivative financial instruments are disclosed in the Risk and opportunities report on page 80 et seq. as well as in the notes on page 152 et seqq.

(9) Income tax expense

Income tax expense includes current tax paid respectively due in the individual countries as well as deferred taxes recognized in the income statement. The income tax rates applied for the individual countries range between 9.0 (9.0) percent and 33.3 (39.0) percent.

Breakdown of income tax expense *in EUR thousand*

	2018	2017
Current tax	24,260	33,049
Deferred tax	4,567	–14,364
	28,827	**18,685**

Current tax expense includes income of EUR 645 thousand (income of EUR 1,059 thousand) relating to prior periods. Deferred tax income of EUR 2,262 thousand (in prior year expense of EUR 268 thousand) results from the changes of allowances on deferred tax assets. Deferred tax income of EUR 61 thousand (EUR 18,400 thousand) results from tax rate changes. In the financial year, write-downs on deferred tax assets in the amount of EUR 68 thousand (EUR 0 thousand) were reversed.

The difference between the actual income tax expense and the income tax expense calculated at a rate of 30.7 (30.7) percent for TAKKT AG is made up as follows:

Tax rate reconciliation *in EUR thousand*

	2018	2017
Profit before tax	**116,906**	**115,022**
Expected average tax expense	35,890	35,312
Changes in tax rates	–61	–18,400
Differences between local and Group tax rates	–6,147	1,314
Non-deductible expenses	1,825	1,601
Non-taxable income	–370	–260
Allowance for deferred tax assets	–2,262	268
Taxes relating to prior years	–645	–1,059
Other differences	597	–91
Income tax expense per the consolidated income statement	**28,827**	**18,685**
Tax ratio (in percent)	24.7	16.2

The calculated tax rate of 30.7 percent is based on the tax rates applicable in Germany in 2018. A corporation tax of 15.0 percent, the solidarity surcharge of 5.5 percent and the average municipal trade tax rate for the German Group companies were taken into account.

The tax ratio increased significantly from 16.2 in the previous year to 24.7 percent. In the previous year, the tax rate reduction in the US following the US tax reform led to a significant reduction of deferred tax liabilities resulting in a deferred tax income. In 2018, TAKKT was able to use tax loss carryforwards and also generated tax income from other periods. The tax rate adjusted for these mentioned effects declined from 33.2 to 27.2 percent due to lower corporate taxes in the United States.

(10) Earnings per share

	2018	2017
Number of shares issued (in thousand)	65,610	65,610
Weighted average number of shares issued (in thousand)	65,610	65,610
Profit (in EUR thousand)	88,079	96,337
Basic earnings per share (in EUR)	1.34	1.47
Diluted earnings per share (in EUR)	1.34	1.47
TAKKT cash flow (in EUR thousand)	120,178	109,076
TAKKT cash flow per share (in EUR)	1.83	1.66

Basic and diluted earnings per share are calculated by dividing the profit by the weighted average number of shares issued.

As potential shares (mainly stock options and convertible bonds), which could dilute the earnings per share, were not issued, basic and diluted earnings per share are identical.

3. NOTES TO THE BALANCE SHEET

(11) Property, plant and equipment *in EUR thousand*

	Land, buildings and similar assets	Plant, machinery and equipment	Payments on account	Total
Acquisition costs				
Balance at 01/01/2018	142,521	84,412	1,126	228,059
Currency translation	1,143	1,043	9	2,195
Changes in scope of consolidation	2,433	370	0	2,803
Additions	2,953	7,664	771	11,388
Transfers	617	405	–1,022	0
Disposals	–6,431	–2,278	0	–8,709
Balance at 12/31/2018	**143,236**	**91,616**	**884**	**235,736**
Cumulative depreciation and impairment				
Balance at 01/01/2018	67,639	59,507	0	127,146
Currency translation	627	774	0	1,401
Additions	4,799	7,817	0	12,616
Transfers	0	0	0	0
Disposals	–3,723	–2,057	0	–5,780
Balance at 12/31/2018	**69,342**	**66,041**	**0**	**135,383**
Net book values				
Balance at 12/31/2018	**73,894**	**25,575**	**884**	**100,353**

Details on impairments in accordance with IAS 36 Impairment of Assets can be found on page 120.

The book value of property, plant and equipment acquired under a finance lease came to EUR 24,697 thousand (EUR 26,397 thousand) as of the closing date. Leased assets are shown under land and buildings with EUR 23,793 thousand (EUR 25,215 thousand) and under equipment with EUR 904 thousand (EUR 1,182 thousand).

An asset capitalized as a finance lease, which is acquired at the end of the lease term, is depreciated over the economic life of the asset. Since the takeover of the remaining assets capitalized as finance leases at the end of the lease term is uncertain, the finance lease properties continue to be depreciated over the lease term. Overall, there was no need to change the parameters used.

As in the previous year, tangible assets legally and economically owned by the Group, with the exception of the capitalized finance lease assets, were not subject to any restraints on disposal rights.

Purchase commitments for Property, plant and equipment amount to EUR 419 thousand (EUR 1,004 thousand).

	Land, buildings and similar assets	Plant, machinery and equipment	Payments on account	Total
Acquisition costs				
Balance at 01/01/2017	143,803	82,654	1,406	227,863
Currency translation	–4,441	–3,172	–120	–7,733
Changes in scope of consolidation	0	415	0	415
Additions	2,597	7,391	1,075	11,063
Transfers	735	500	–1,235	0
Disposals	–173	–3,376	0	–3,549
Balance at 12/31/2017	**142,521**	**84,412**	**1,126**	**228,059**
Cumulative depreciation and impairment				
Balance at 01/01/2017	64,571	57,533	0	122,104
Currency translation	–2,111	–2,388	0	–4,499
Additions	5,291	7,599	0	12,890
Transfers	0	0	0	0
Disposals	–112	–3,237	0	–3,349
Balance at 12/31/2017	**67,639**	**59,507**	**0**	**127,146**
Net book values				
Balance at 12/31/2017	**74,882**	**24,905**	**1,126**	**100,913**

(12) Goodwill *in EUR thousand*

	Goodwill	Goodwill on consolidation	**Total**
Acquisition costs			
Balance at 01/01/2018	322,484	204,226	526,710
Currency translation	11,528	–655	10,873
Additions	0	42,613	42,613
Disposals	0	0	0
Balance at 12/31/2018	**334,012**	**246,184**	**580,196**
Cumulative impairment			
Balance at 01/01/2018 / 12/31/2018	**0**	**12,860**	**12,860**
Net book values			
Balance at 12/31/2018	**334,012**	**233,324**	**567,336**

	Goodwill	Goodwill on consolidation	Total
Acquisition costs			
Balance at 01/01/2017	355,971	202,692	558,663
Currency translation	–33,487	–690	–34,177
Additions	0	2,224	2,224
Disposals	0	0	0
Balance at 12/31/2017	**322,484**	**204,226**	**526,710**
Cumulative impairment			
Balance at 01/01/2017 / 12/31/2017	**0**	**12,860**	**12,860**
Net book values			
Balance at 12/31/2017	**322,484**	**191,366**	**513,850**

The additions to goodwill on consolidation relate to the acquisitions of Equip4Work Ltd. and Runelandhs Försäljnings AB within TAKKT EUROPE. In the previous year the increase in goodwill was due to the acquisition of Mydisplays GmbH. For further information concerning the acquisitions, please refer to page 168 et seqq.

The accumulated scheduled amortization of goodwill until 2004 was offset against acquisition costs due to the impairment-only approach that is applied since 2005 at TAKKT.

Book value of goodwill *in EUR thousand*

Cash generating units	2018	2017
Kaiser+Kraft group	79,379	79,379
Hubert group	70,813	67,607
Central group	63,355	60,487
D2G group	79,743	76,132
NBF group	40,722	38,879
	334,012	**322,484**

Some of the past acquisitions had to be reported as so-called asset deals. In these cases, all assets were acquired separately by the buyer. If the costs of acquisition exceeded the fair value of the individual identifiable assets and liabilities, the difference was capitalized as goodwill.

Book value of goodwill on consolidation *in EUR thousand*

Cash generating units	2018	2017
Kaiser+Kraft group	44,876	36,486
ratioform group	152,656	152,656
BiGDUG	3,957	-
Equip4work	29,611	-
Mydisplays	2,224	2,224
	233,324	**191,366**

The goodwill of the Kaiser+Kraft group was allocated to the new cash generating unit BiGDUG and to the remaining cash generating unit Kaiser+Kraft group on the basis of their fair values.

If acquisitions had to be reported as so-called share deals, the portion of acquisition costs which exceeded the fair value of the equity at the time of purchase was capitalized as goodwill on consolidation.

Subsequent consolidation
In accordance with the introduction of the impairment-only approach in spring of 2004, goodwill is no longer amortized since January 01, 2005 at TAKKT, but subject to an impairment test once a year or during the course of the year if necessary. No impairment charge on goodwill was necessary in the 2018 or 2017 financial years. Taxable goodwill is amortized over a period of 15 years. At the reporting date, the resulting deferred taxes amounted to EUR 71,410 thousand (EUR 66,194 thousand). No deferred taxes result from goodwill on consolidation.

(13) Other intangible assets *in EUR thousand*

	Brands with undefined useful life	Customer lists	Other (purchase price allocation)	Software, licenses and similar rights	Payments on account	Total
Acquisition costs						
Balance at 01/01/2018	27,668	74,298	34,956	37,773	11,673	186,368
Currency translation	829	1,408	931	326	78	3,572
Changes in scope of consolidation	0	3,251	11,521	200	0	14,972
Additions	0	0	0	2,195	8,202	10,397
Transfers	0	0	0	1,753	–1,753	0
Disposals	0	–13,462	–14,113	–666	0	–28,241
Balance at 12/31/2018	**28,497**	**65,495**	**33,295**	**41,581**	**18,200**	**187,068**
Cumulative amortization and impairment						
Balance at 01/01/2018	725	63,151	28,485	24,852	0	117,213
Currency translation	35	1,372	1,003	233	0	2,643
Additions	0	5,628	4,737	4,551	0	14,916
Reversal of impairment	0	0	0	0	0	0
Transfers	0		0	0	0	0
Disposals	0	–13,462	–14,113	–605	0	–28,180
Balance at 12/31/2018	**760**	**56,689**	**20,112**	**29,031**	**0**	**106,592**
Net book values						
Balance at 12/31/2018	**27,737**	**8,806**	**13,183**	**12,550**	**18,200**	**80,476**

Details on impairments in accordance with IAS 36 Impairment of Assets can be found on page 120.

As in the previous year, intangible assets were not subject to any restraints on disposal.

The acquired brands are reported at their book value as intangible assets with an indefinite useful life. The customer lists have a remaining useful life between 1 and 5 years and are reported at net book value. The distribution on business units is as follows:

	Book values of brands (in EUR thousand)		Book values of custmer list (in EUR thousand)	
	2018	2017	**2018**	2017
Kaiser+Kraft group	0	0	1,870	239
ratioform group	10,200	10,200	5,377	9,336
Newport group	0	-	850	-
Central group	11,004	10,506	709	1,523
D2G group	0	0	0	49
NBF group	6,533	6,237	0	0

Purchase commitments for intangible assets amount to EUR 379 thousand (EUR 288 thousand).

	Brands with undefined useful life	Customer lists	Other (purchase price allocation)	Software, licenses and similar rights	Payments on account	Total
Acquisition costs						
Balance at 01/01/2017	30,074	78,323	37,827	36,482	4,307	187,013
Currency translation	–2,406	–4,175	–3,631	–1,021	–88	–11,321
Changes in scope of consolidation	0	150	760	51	0	961
Additions	0	0	0	2,580	8,776	11,356
Transfers	0	0	0	1,310	–1,310	0
Disposals	0	0	0	–1,629	–12	–1,641
Balance at 12/31/2017	**27,668**	**74,298**	**34,956**	**37,773**	**11,673**	**186,368**
Cumulative amortization and impairment						
Balance at 01/01/2017	825	59,765	28,271	23,518	0	112,379
Currency translation	–100	–3,873	–3,028	–749	0	–7,750
Additions	0	7,259	3,242	3,712	0	14,213
Reversal of impairment	0	0	0	0	0	0
Transfers	0	0	0	0	0	0
Disposals	0	0	0	–1,629	0	–1,629
Balance at 12/31/2017	**725**	**63,151**	**28,485**	**24,852**	**0**	**117,213**
Net book values						
Balance at 12/31/2017	**26,943**	**11,147**	**6,471**	**12,921**	**11,673**	**69,155**

(14) Investments in associated companies *in EUR thousand*

The following table shows the summarized aggregate financial information of the individually non-significant associated companies accounted for using the equity method.

	2018	2017
Profit from continuing operations	–684	–613
Total comprehensive income	–684	–613
Book value	1,049	830

(15) Other assets *in EUR thousand*

	2018	2017
Investments in corporate entities	6,990	4,079
Investment in venture capital funds	372	197
Other	375	1,295
	7,737	**5,571**

(16) Deferred tax

Deferred tax on loss carry forwards *in EUR thousand*

	2018	2017
Deferred tax on loss carry forwards (gross)	2,217	3,843
Allowance	–2,003	–3,616
Deferred tax on loss carry forwards (net)	**214**	**227**

Expiration of impaired loss carry forwards *in EUR thousand*

	up to 1 year	1 to 5 years	over 5 years	unlimited	Total
2018	787	5,095	2,116	1,877	9,875
2017	907	10,989	1,951	2,015	15,862

Deferred tax assets and liabilities result from recognition and valuation differences for the following balance sheet positions:

Deferred tax assets and liabilities *in EUR thousand*

	Assets		Liabilities	
	2018	2017	**2018**	2017
Property, plant and equipment and other intangible assets	3,039	3,713	18,947	17,793
Goodwill	0	0	71,410	66,194
Inventories	2,768	2,544	137	127
Trade receivables and other assets	1,303	1,537	646	411
Non-current provisions	12,339	12,264	0	0
Current provisions	259	1,287	192	187
Financial liabilities	6,529	8,934	0	9
Other liabilities	2,301	583	5	13
Fair value of derivative financial instruments	155	38	277	163
Loss carry forwards	214	227	0	0
Subtotal	**28,907**	**31,127**	**91,614**	**84,897**
Netting	–27,238	–28,811	–27,238	–28,811
Consolidated balance sheet	**1,669**	**2,316**	**64,376**	**56,086**

Deferred taxes of minus EUR 122 thousand (minus EUR 126 thousand) on the market value of original and derivative financial instruments classified as cash flow hedges as well as deferred taxes of EUR 7,827 thousand (EUR 7,260 thousand) on actuarial gains and losses for the evaluation of pension provisions were recorded with no effect on profit and loss.

Of the deferred tax assets in the amount of EUR 1,669 thousand (EUR 2,316 thousand), EUR 14 thousand (EUR 19 thousand) relate to companies which generated losses in the year under review or the previous year. The recognition of deferred tax assets is based on the positive results of the rolling five-year budget of the respective company taking into account the future expectations as well as the specific business development respectively on the loss history in the past.

In accordance with IAS 12.39, no deferred tax liabilities are reported for the retained earnings of subsidiaries because TAKKT is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

In the event of future dividend payouts, there would be a tax liability of EUR 4,915 thousand (EUR 4,087 thousand). Any foreign withholding tax and income tax effects at foreign intermediate holding companies were not taken into consideration for reasons of materiality.

(17) Inventories *in EUR thousand*

	2018	2017
Raw materials and supplies	5,368	4,177
Work in progress	1,376	1,556
Finished goods and purchased merchandise	119,656	95,847
Assets from rights of customer returns	705	-
Payments on account	1,511	485
	128,616	**102,065**

An obsolescence reserve of EUR 7,800 thousand (EUR 7,948 thousand) has been made on finished goods and purchased merchandise, taking the expected sell-down period of the inventories into consideration. Intercompany profits of EUR 96 thousand (EUR 151 thousand) were eliminated.

(18) Trade receivables

Development of allowances on trade receivables *in EUR thousand*

	2018	2017
Balance at 01/01/	3,608	3,554
Additions	497	424
Release	–502	–246
Currency translation and other changes	109	–124
Balance at 12/31/	**3,712**	**3,608**

Additional information concerning the reconciliation from gross to net figures can also be found in section 4. Risk management and financial instruments (page 152 et seqq.).

TAKKT has not capitalized any overdue receivables that are not impaired.

(19) Other receivables and assets *in EUR thousand*

	2018	2017
Fair value of derivative financial instruments	911	618
Other tax receivables	1,054	2,328
Bonus claims against suppliers	18,125	11,523
Deferred expenses	4,929	3,811
Other	4,705	2,335
	29,724	**20,615**

(20) Cash and cash equivalents *in EUR thousand*

	2018	2017
Checks, cash balances	81	108
Bank balances	3,022	2,945
	3,103	**3,053**

Bank balances comprises funds with a maturity of up to three months.

(21) Total equity

The consolidated statement of changes in total equity can be found on page 111. The fully paid-in share capital of TAKKT AG amounts to EUR 65,610,331 (EUR 65,610,331) and is divided into 65,610,331 (65,610,331) no-par-value bearer shares with a nominal value of EUR 1.00. The Management Board is authorized, according to the resolution of the Shareholders' Meeting on May 08, 2018, until May 07, 2023, to acquire treasury shares. In 2018 the Management Board did not use its authorization. In accordance with the resolution of the Shareholders' Meeting amending the statutes on May 08, 2018, the Management Board is authorized until May 07, 2023 to increase the issued capital by an amount of up to EUR 32,805,165.00 once or several times by issuing new no-par-value bearer shares, taking the subscription rights of the shareholders into account. With the approval of the Supervisory Board, the Management Board is, however, entitled to exclude residual amounts from the shareholders' statutory subscription right. No use was made of this authorization in 2018. Please refer to page 99 et seq. in the Management Report.

Retained earnings include earnings contributed by the Group as well as the consolidation adjustments and related deferred taxes affecting profit.

Other components of equity *in EUR thousand*

	Pension provisions	Equity instruments	Cash flow hedges	Tax	Foreign currency reserves	Total
Balance at 01/01/2017	**–23,952**	**0**	**3,925**	**5,579**	**27,257**	**12,809**
Changes in the scope of consolidation	0	0	0	0	0	0
Other comprehensive income	–1,298	0	618	294	–29,805	–30,191
thereof currency translation effects	347	0	–6	–58	–29,805	–29,522
Balance at 12/31/2017 / 01/01/2018	**–25,250**	**0**	**4,543**	**5,873**	**–2,548**	**–17,382**
Changes in the scope of consolidation	0	0	0	0	0	0
Other comprehensive income	–1,651	230	83	544	11,424	10,630
thereof currency translation effects	–138	0	3	22	11,424	11,311
Balance at 12/31/2018	**–26,901**	**230**	**4,626**	**6,417**	**8,876**	**–6,752**

The shareholders have a claim to the unappropriated profits of TAKKT AG, provided that the latter is not excluded from distribution to the shareholders by law or the statutes of the company, by way of a shareholders' resolution or as additional charge to the retained earnings.

Subject to the approval of the Supervisory Board, the Management Board together with the Supervisory Board propose to the Shareholders' Meeting to pay a dividend of EUR 55,769 thousand (EUR 36,086 thousand) for the 2018 financial year. The 65.6 million no-par-value bearer shares will therefore correspond to a dividend per share of EUR 0.55 (EUR 0.55) and special dividend of EUR 0.30 (EUR 0.00) per share.

(22) Non-current and current financial liabilities *in EUR thousand*

	Remaining term			
	up to 1 year	1 to 5 years	over 5 years	**12/31/2018**
Liabilities to banks	29,402	82,977	6,987	119,366
Promissory notes	0	0	0	0
Finance leases	6,797	9,896	9,746	26,439
Finance liabilities to affiliated companies	1,949	0	0	1,949
Other	0	6,172	0	6,172
	38,148	**99,045**	**16,733**	**153,926**
thereof long-term (maturity > 1 year)				115,778

	Remaining term			
	up to 1 year	1 to 5 years	over 5 years	12/31/2017
Liabilities to banks	26,597	55,938	14,592	97,127
Promissory notes	0	0	0	0
Finance leases	2,409	11,056	15,384	28,849
Finance liabilities to affiliated companies	7,702	0	0	7,702
Other	0	4,583	0	4,583
	36,708	**71,577**	**29,976**	**138,261**
thereof long-term (maturity > 1 year)				101,553

The remaining terms of the liabilities to banks are equivalent to the terms of the respective utilized financing commitments. Additionally, TAKKT has unused credit lines amounting to EUR 157.4 million (EUR 160.2 million). Average net financial liabilities for the financial year amounted to EUR 166,422 thousand (EUR 147,717 thousand). Debt was weighted by months.

The liabilities to banks are unsecured. Liabilities resulting from finance lease contracts refer to the central warehouse in Kamp-Lintfort/Germany and three rental properties of ratioform Verpackungen GmbH in Pliening/Germany as well as a racking system.

At the reporting date, the item Other includes TAKKT Performance Bonds issued to TAKKT Group executives.

A schedule of liabilities to affiliated companies can be found in related-party transactions on page 175 et seq.

(23) Non-current Other liabilities

The Non-current Other liabilities are related to the linearization of lease expenses over the lease term of operating leases and consist mainly of a building cost subsidy given by the lessor to TAKKT AG and other lease incentives.

(24) Pension provisions and similar obligations

For many employees of the TAKKT Group, different pension commitments are in place depending on the legal, economic and tax situation of the particular country, which usually take the length of service as well as salary or final salary of the employee into consideration. These include defined benefit as well as defined contribution pension plans that cover retirement, disability and surviving dependents. The pension provisions include obligations from current pensions as well as the present value of obligations for employee benefits payable in the future.

The key defined benefit pension plans that apply to the TAKKT Group relate to German companies and are in place for the Management Board, executives and other employees. The resulting obligation is financed almost exclusively through provisions.

The Management Board Members are provided with a pension commitment with annual contributions amounting to ten percent of the sum of their basic salary and target bonus. Contributions are only paid as long as the individual is appointed to the Management Board. The performance-related bonus corresponds to a target achievement of 100 percent. An interest rate of five respectively six percent per year is guaranteed for contributions until pension payments begin. Board Members are entitled to pension payments when they leave the company but not earlier than the member's 60th birthday. In the case of disability or death, the amount from the pension plan is paid out that would have been paid out if contributions had been made up to the age of 63. Since the 2017 financial year, part of the pension commitment has been financed through a contractual trust arrangement. The assets held by the trustee are plan assets.

For certain executives, pension commitments are in place that cover benefits upon reaching the age of 65, disability and widow's / widower's or orphan´s pension. The annual contribution to the pension plan is eight percent of the annual fixed income of the respective executive. The German Commercial Code (HGB) reference interest rate of the German Federal Bank is used for the annual interest yield of the respective capital account. Payments are made generally in installments or on request as an annuity. Pension payments are still being made to former executives based on a plan that has been discontinued.

For many of the other employees of the German Group companies, there is a pension plan in place that regulates retirement pension upon reaching the age of 65, disability as well as widow's / widower's and orphan's pension. Depending on the completed years of service and the average remuneration of the last three work years subject to pension contributions and in accordance with the current valid works agreement, monthly fixed amounts in euros for each year of service will become due at the time of pension payout. In addition, specific employees have the option of converting salary into pension contributions. These amounts, which are referred to as deferred compensation, are converted into benefit components and paid out as pension benefits.

In Switzerland, pension commitments exist according to the BVG (Bundesgesetz über die berufliche Vorsorge; Swiss Federal Act on Occupational Retirement, Survivors´and Disability Pension Plans) for employees and executives, that cover retirement, disability and surviving dependents. The pension plans are financed by contributions from employees and the employer to a pension fund (collective foundation), that represent plan assets. Contributions as a percentage of the pensionable salary vary depending on salary and age. Payments are made annuitized or as a lump sum. To cover the pension claims, the plans are subject to minimum funding requirements from which future additional contribution obligations may arise.

In one Dutch company, there is a pension plan in place for 6 (6) employees that covers retirement pension after the age of 65 as well as disability and widow's/widower's and orphan´s pension. The amount of the pension is based on the employee's remuneration less the state pension plan. These pension commitments have been financed through contributions paid to an insurance company. Plan assets created in this process solely involve qualifying insurance policies. With effect on January 01, 2011, the underlying plan was discontinued. Claims arising afterwards are covered by a defined contribution plan.

The value of the pension provisions reported in the balance sheet is derived as follows:

Development of pension provisions *in EUR thousand*

	2018	2017
Present value of funded obligations	16,869	17,272
Present value of unfunded obligations	56,743	51,849
Total present value of obligations	**73,612**	**69,121**
Fair value of plan assets	–10,620	–10,331
Pension provision at 31.12.	**62,992**	**58,790**

For the pension plans described above, the following parameters are applied for the calculation of the present value of obligations:

Parameters *in percent*

	2018		2017	
	EUR	**CHF**	EUR	CHF
Actuarial interest rate	1.90	0.90	2.00	0.70
Salary trend	2.50	1.50	2.50	1.50
Pension trend	1.75	0.00	1.50	0.00

The actuarial interest rate is based on high-quality fixed-rate corporate bonds with a rating of at least AA from a recognized rating agency.

The weighted duration of the pension provisions as of December 31, 2018 is 19.9 (20.0) years.

All other commitments are not material and are determined using specific local accounting principles and parameters.

Development of pension provisions *in EUR thousand*

	Present value of obligation	Fair value of plan assets	Pension provisions
Balance at 01/01/2018	**69,121**	**10,331**	**58,790**
Current service cost	3,255	0	3,255
Past service costs and gains and losses on settlements and curtailments	–380	–215	–165
Personnel expenses	**2,875**	**–215**	**3,090**
Net interest expense	**1,238**	**89**	**1,149**
Actuarial gains (-)/losses (+) arising from changes in demographic assumptions	616	0	616
Actuarial gains (-)/losses (+) arising from changes in financial assumptions	1,416	0	1,416
Experience gains/losses	–537	–19	–518
Changes to other components of equity	**1,495**	**–19**	**1,514**
Effect of changes in foreign exchange rates	512	338	174
Transfer of obligation	0	0	0
Changes in scope of consolidation	0	0	0
Contributions of plan participants	261	261	0
Contributions of employer	0	488	–488
Benefit payments	–1,890	–653	–1,237
Other Effects	**–1,117**	**434**	**–1,551**
Balance at 12/31/2018	**73,612**	**10,620**	**62,992**

	Present value of obligation	Fair value of plan assets	Pension provisions
Balance at 01/01/2017	**65,964**	**10,902**	**55,062**
Current service cost	3,132	0	3,132
Past service costs and gains and losses on settlements and curtailments	0	0	0
Personnel expenses	**3,132**	**0**	**3,132**
Net interest expense	**1,242**	**83**	**1,159**
Return on plan assets	0	0	0
Actuarial gains (-)/losses (+) arising from changes in demographic assumptions	0	0	0
Actuarial gains (-)/losses (+) arising from changes in financial assumptions	1,816	0	1,816
Experience gains/losses	–500	–329	–171
Remeasurements of the pension provisions	**1,316**	**–329**	**1,645**
Effect of changes in foreign exchange rates	–1,217	–796	–421
Transfer of obligation	0	0	0
Changes in scope of consolidation	0	0	0
Contributions of plan participants	267	267	0
Contributions of employer	0	627	–627
Benefit payments	–1,583	–423	–1,160
Other Effects	**–2,533**	**–325**	**–2,208**
Balance at 12/31/2017	**69,121**	**10,331**	**58,790**

In addition to qualified insurance contracts (EUR 10,260 thousand, prior year EUR 10,062 thousand, without underlying active market), the plan assets to a small extent contain securities funds (EUR 348 thousand, prior year EUR 259 thousand, with underlying active market) as well as cash and cash equivalents (EUR 12 thousand, prior year EUR 10 thousand, with underlying active market). The plan assets do not include any of the Group's financial instruments or assets used by the Group. Employer contributions to plan assets are expected to come to EUR 488 thousand in 2019.

The following table shows the effect of the change of a significant actuarial assumption on the present value of the defined benefit obligations. All other assumptions regarding the original calculation remain unchanged, i.e., possible interactions between the individual assumptions are not taken into account.

Sensitivity analysis of present value of obligation *in EUR thousand*

	Present value of obligation	
	2018	2017
Actuarial interest rate		
Increase of 0.5 percentage points	66,941	62,838
Decrease of 0.5 percentage points	81,344	76,400
Salary trend		
Increase of 0.5 percentage points	74,786	70,305
Decrease of 0.5 percentage points	72,511	68,011
Pension trend		
Increase of 0.5 percentage points	76,892	72,208
Decrease of 0.5 percentage points	70,637	66,317
Mortality / Life expectancy		
Increase of 1 year	75,530	70,792
Decrease of 1 year	71,696	67,429

The following table shows the expected future pension benefit payments:

Expected maturity of pension benefits 2018 *in EUR thousand*

	2019	**2020–2023**	**2024–2028**
Expected Payments	1,330	6,328	10,226

Expected maturity of pension benefits 2017 *in EUR thousand*

	2018	2019–2022	2023–2027
Expected Payments	1,212	5,333	8,367

The risks associated with the defined benefit obligations relate to actuarial risks such as longevity as well as financial risks such as market price risks which influence the actuarial interest rate or inflation risks which could have an effect on the development of salary and pension trend. There is no intention to hedge these risks.

Defined Contribution Plans

Statutory pension insurance is an important component of retirement pension planning for most employees, especially in Germany. The employer contributions made to such insurance and recorded under Personnel expenses amounted to EUR 7,947 thousand (EUR 8,531 thousand) during the reporting period. The future level of such expenses largely depends on how the underlying pension insurance systems develop.

Some foreign companies, especially in the United States, have voluntary defined contribution plans for the payment of benefits after termination of employment. Affected US companies pay a pension contribution for their staff to an external fund after a certain time of service. Employer contributions depend on voluntary employee contributions and are limited up to 5.0 (5.0) percent of the employee's salary. Moreover, there are plans for certain US companies, that can lead to further employer contributions to an external fund depending on the sales development of the respective company. The companies cannot derive any claims from their contribution payments; accordingly there are no plan assets to be capitalized by these companies. Expenses for defined contribution plans amounted to EUR 2,274 thousand (EUR 2,078 thousand) in the year under review.

(25) Non-current other and Current provisions *in EUR thousand*

Development of Non-current other and Current provisions *in EUR thousand*

	01/01/2018	Currency translation	Changes in scope of consolidation	Usage	Transfers	Release	Additions	12/31/2018
Personnel obligations	4,212	–5	0	–436	–672	–904	1,098	3,293
Other	1,609	23	0	–123	0	–300	185	1,394
Long-term other provisions	**5,821**	**18**	**0**	**–559**	**–672**	**–1,204**	**1,283**	**4,687**
Staff bonuses	9,444	141	34	–9,075	672	–471	10,016	10,761
Personnel obligations	1,559	10	0	–1,004	0	–304	641	902
Customer credit notes *	-	-	-	-	-	-	-	-
Restructuring cost	0	0	0	0	0	0	0	0
Other	4,961	53	0	–433	0	–2,504	348	2,425
Short-term provisions	**15,964**	**204**	**34**	**–10,512**	**672**	**–3,279**	**11,005**	**14,088**

* *is presented in Current other liabilities according to IFRS 15 from 2018 on*

	01/01/2017	Currency translation	Changes in scope of consolidation	Usage	Transfers	Release	Additions	12/31/2017
Personnel obligations	5,049	–4	0	–534	–685	–871	1,257	4,212
Other	1,526	–66	20	–88	0	–9	226	1,609
Long-term other provisions	**6,575**	**–70**	**20**	**–622**	**–685**	**–880**	**1,483**	**5,821**
Staff bonuses	13,271	–689	0	–12,007	685	–702	8,886	9,444
Personnel obligations	1,515	–36	0	–1,232	–50	–214	1,576	1,559
Customer credit notes	1,738	–176	8	–1,045	0	–111	1,296	1,710
Restructuring cost	105	–9	0	–96	0	0	0	0
Other	3,491	–112	0	–203	50	–315	2,050	4,961
Short-term provisions	**20,120**	**–1,022**	**8**	**–14,583**	**685**	**–1,342**	**13,808**	**17,674**

Non-current personnel obligations mainly comprise obligations for the performance cash plans of the Management Board and obligations for early retirement part-time working arrangements.

(26) Trade payables
With regard to trade payables, most of the goods delivered are subject to customary ownership retention rights.

(27) Current Other liabilities *in EUR thousand*

	2018	2017
Liabilites from contracts with customer	7,336	6,452
Fair value of derivative financial instruments	356	119
Uninvoiced goods and services	22,154	15,197
Other tax payables	8,824	8,133
Personnel liabilities	5,302	4,742
Social security contributions	887	860
Bonus liabilities to customers	2,430	2,994
Expected customer credit notes	2,897	-
Audit fees	795	944
Purchase price liabilities	2,000	2,467
Other	7,069	5,538
	60,050	**47,446**

Customer payments on accounts and customer loyalty programs have been reported under liabilities from contracts with customers since the financial year under review as a result of the amendment due to IFRS 15.

Expected customer credit notes are presented in Current other liabilities according to IFRS 15.

The purchase price liabilities relate to Mydisplays. In prior year, purchase price liabilities contain final purchase price installment amounting to USD 3.0 million for Post-Up Stand. Further explanations can be found on page 173.

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

In the risk and opportunities report contained in the Group management report on page 80 et seqq., TAKKT details the possible financial risks that pose a threat to the success of the TAKKT Group as well as its strategy to manage these risks. In addition to the liquidity and credit risks, in the area of financial risks TAKKT is also exposed to both opportunities and risks from fluctuations in exchange rates and interest rates on international capital markets due to its international presence. The Group's risk management system covers the uncertainties of future development of financial markets accordingly. Derivatives are used to reduce these risks. With this strategy, the risk management system supports the Group's financial performance.

Financial instruments held by TAKKT are classified from 2018 on according to the following IFRS 9 categories:

	Financial instrument category					No IFRS 9 category	Reconciliation to balance sheet	**Balance sheet item total**
	Debt instruments and derivatives measured at fair value through profit and loss	Equity instruments measured at fair value through other comprehensive income	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Contingent consideration from business combinations measured at fair value through profit and loss			
Non-current assets								
Debt instruments	372	0	0	0	0	-	-	
Equity instruments	0	6,989	0	0	0	-	-	
Other	0	0	376	0	0	-	-	
Other assets	372	6,989	376	0	0	0	0	7,737
Current assets								
Trade receivables	0		107,893	0	0	0	0	107,893
Other receivables and assets	84	0	22,830	0	0	827	5,983	29,724
Cash and cash equivalents	0	0	3,103	0	0	0	0	3,103
Assets	**456**	**6,989**	**134,202**	**0**	**0**			
Non-current liabilities								
Financial liabilities	0	0	0	96,136	0	19,642	0	115,778
Other liabilities	0	0	0	2,423	0	0	0	2,423
Current liabilities								
Financial liabilities	0	0	0	31,351	0	6,797	0	38,148
Trade payables	0	0	0	38,234	0	0	0	38,234
Other liabilities	46	0	0	35,225	2,000	310	22,469	60,050
Liabilities	**46**	**0**	**0**	**203,369**	**2,000**			

The category Debt instruments and derivatives measured at fair value through profit and loss within non-current assets relates to an investment classified as debt instrument and within current assets and liabilities relates to derivatives which are to be classified as held for trading in accordance with IFRS 9. These derivatives are used exclusively for hedging purposes.

The equity instruments included in the category Equity instruments measured at fair value through other comprehensive income relate to investments in unlisted companies. They were designated as at fair value through other comprehensive income as they are held strategically and not for trading.

The column 'No IFRS 9 category' includes mainly finance lease liabilities with a book value of EUR 26,439 thousand.

Financial instruments held by TAKKT were classified as of December 31, 2017 according to the following IAS 39 categories:

	Financial instrument category					No IAS 39 category	Reconci-liation to balance sheet	Balance sheet item total
	Financial assets or liabililties at fair value through profit and loss	Loans and receivables at amortized cost	Available for sale financial assets measured at fair value	Financial liabilities measured at amortized costs	Contingent considerations resulting from business combinations measured at fair value			
Non-current assets								
Other assets	0	1,295	4,276	0	0	0	0	5,571
Current assets								
Trade receivables	0	102,915	0	0	0	0	0	102,915
Other receivables and assets	97	13,858	0	0	0	521	6,139	20,615
Cash and cash equivalents	0	3,053	0	0	0	0	0	3,053
Assets	**97**	**121,121**	**4,276**	**0**	**0**			
Non-current liabilities								
Financial liabilities	0	0	0	75,113	0	26,440	0	101,553
Other liabilities	0	0	0	574	0	0	0	574
Current liabilities								
Financial liabilities	0	0	0	34,299	0	2,409	0	36,708
Trade payables	0	0	0	30,216	0	0	0	30,216
Other liabilities	33	0	0	26,686	0	86	20,641	47,446
Liabilities	**33**	**0**	**0**	**166,888**	**0**			

The financial assets and liabilities in category Financial assets or liabilities at fair value through profit and loss relate to derivatives which were classified as held for trading according to IAS 39. They were solely used for hedging purposes.

The available-for-sale assets related to investments in non-listed entities. The column 'No IAS 39 category' mainly included finance lease liabilities with a book value of EUR 28,849 thousand.

The calculation method used for all financial instruments measured at fair value relates to level 3 for the reporting year and the previous year, except for the valuation of derivatives, which is attributable to level 2. A definition of the levels can be found on page 123.

The following overview shows a detailed reconciliation of the financial instruments that are measured at fair value within level 3 on a recurring basis without contingent considerations from acquisitions.

	2018	2017
Balance at 01/01/	**4,276**	**511**
Addition	2,855	3,765
Fair value change recognized in profit or loss	0	0
Fair value change recognized in other comprehensive income	230	0
Disposals	0	0
Balance at 12/31/	**7,361**	**4,276**
Unrealized gains or losses recognized in profit or loss relating to those financial instruments held at the reporting date	0	0

In the year under review, no reclassifications were made between the individual levels.

The reconciliation of contingent liabilities can be found on page 173.

The book values of all financial instruments not carried at fair value in the balance sheet represent appropriate approximate values for fair values as of the closing date of the reporting period. Significant deviations between book values and fair values could arise with regard to the liabilities under finance lease contracts and other non-current financial liabilities.

The disclosures for these financial liabilities as of the closing date are as follows:

Financial liabilities by book value and fair value *in EUR thousand*

	Book Value 12/31/2018	Fair Value 12/31/2018	Book Value 12/31/2017	Fair Value 12/31/2017
Finance leases	26,439	32,502	28,849	36,536
Other non-current liabilities	6,172	7,458	4,583	6,206
	32,611	**39,960**	**33,432**	**42,742**

In these cases, fair value is determined using the same method assigned to level 2 as for assets and liabilities that are measured at fair value on a recurring basis applying the discounted cash flow-method.

The net result of the financial instrument categories recognized in the income statement is broken down as follows:

Net result of the financial instruments categories *in EUR thousand*

	From interest	At fair value	Currency translation	Valuation allowance	2018
Debt instruments and derivatives measured at fair value through profit and loss	0	−26	0	0	−26
Equity instruments measured at fair value through other comprehensive income	0	0	0	0	0
Financial assets measured at amortized cost	131	0	−426	−1,115	−1,410
Financial liabilities measured at amortized cost	−3,499	0	0	227	−3,272
Contingent consideration from business combinations measured at fair value through profit and loss	0	−2,000	0	0	−2,000
	−3,368	**−2,026**	**−426**	**−888**	**−6,708**

	From interest	At fair value	Currency translation	Valuation allowance	2017
Financial assets or liabilities at fair value through profit and loss	0	−221	0	0	−221
Loans and receivables	35	0	−1,077	−1,357	−2,399
Available for sale financial assets measured at fair value	0	0	0	0	0
Financial liabilities measured at amortized cost	−4,265	0	212	0	−4,053
Contingent consideration resulting from business combinations measured at fair value	−548	175	0	0	−373
	−4,778	**−46**	**−865**	**−1,357**	**−7,046**

CREDIT RISK

TAKKT is exposed to credit risk both from operating business as well as from financial instruments. Credit risk in the operating business results from possible write-offs due to customer default. The possible loss cannot exceed the book value of the receivable from an individual customer. Given the high number of existing customer relationships, the risk can generally be seen as being comparatively low. As a result of the strong diversification of the customer structure described in the risk report on page 80 there is no exceptional concentration of risk in the operating business. Due to consistent creditworthiness assessments prior to transactions as well as stringent collection systems in the financial year write-offs on trade receivables remain very low at unchanged less than 0.2 percent of sales. Risks of write-offs are accounted for by customary ownership retention rights for goods delivered and by creating allowances.

Trade receivables *in EUR thousand*

	01/01/2018	Currency translation	Changes in scope of consolidation	Other changes	12/31/2018
Nominal value of receivables	106,523	1,446	3,520	116	111,605
Valuation allowances	–3,608	–22	0	–82	–3,712
Book value of receivables	**102,915**	**1,424**	**3,520**	**34**	**107,893**

	01/01/2017	Currency translation	Changes in scope of consolidation	Other changes	12/31/2017
Nominal value of receivables	107,287	–5,495	124	4,607	106,523
Valuation allowances	–3,554	130	0	–184	–3,608
Book value of receivables	**103,733**	**–5,365**	**124**	**4,423**	**102,915**

The credit risk from derivative financial instruments consists in the risk of default of a contractual partner and therefore in the maximum amount of the recognized positive fair values less the negative fair values with the same contractual partner. Since financial transactions are only concluded and maintained with counterparties with good creditworthiness, the actual risk of default can be considered as rather low. Risk concentrations in the finance area are avoided by broadly spreading transactions and deals among a number of banks with good ratings. The banks' creditworthiness is checked continuously.

LIQUIDITY RISK

Liquidity risk is understood as the risk of not being able to meet payment obligations at any time. The following table lists the contractually agreed interest payments and repayments from original financial liabilities as well as incoming and outgoing payments from derivative financial liabilities and assets at December 31, 2018. There were no financial guarantees. Foreign currency amounts were translated into the reporting currency euro at the respective closing rate at the reporting date.

Maturity analysis as of December 31, 2018 *in EUR thousand*

	Cash flow 2019	Cash flow 2020	Cash flow 2021 – 2023	Cash flow 2024 – 2028	Cash flow 2029…
Original financial liabilities					
Liabilities to banks	–31,182	–37,905	–46,661	–7,005	0
Finance leases	–8,004	–2,398	–11,306	–5,726	–8,827
Finance liabilities to affiliated companies	–1,949	0	0	0	0
Trade payables	–38,234	0	0	0	0
Purchase price liability	–2,000	0	0	0	0
Other liabilities	–35,830	–2,071	–7,522	0	0
Derivative financial receivables					
Outgoing payments	–50,663	0	0	0	0
Connected incoming payments	51,667	0	0	0	0
Derivative financial liabilities					
Outgoing payments	–43,723	0	0	0	0
Connected incoming payments	43,307	0	0	0	0

Maturity analysis as of December 31, 2017 *in EUR thousand*

	Cash flow 2018	Cash flow 2019	Cash flow 2020 – 2022	Cash flow 2023 – 2027	Cash flow 2028…
Original financial liabilities					
Liabilities to banks	–28,343	–34,179	–24,820	–14,619	0
Finance leases	–3,698	–8,004	–7,231	–11,079	–9,930
Finance liabilities to affiliated companies	–7,702	0	0	0	0
Trade payables	–30,216	0	0	0	0
Purchase price liability	–2,467	0	0	0	0
Other liabilities	–24,409	–191	–6,703	0	0
Derivative financial receivables					
Outgoing payments	–55,004	0	0	0	0
Connected incoming payments	55,583	0	0	0	0
Derivative financial liabilities					
Outgoing payments	–12,581	0	0	0	0
Connected incoming payments	12,447	0	0	0	0

TAKKT has considerable unused short- and long-term credit lines with a number of German and international banks amounting to EUR 157.4 million (EUR 160.2 million). Thus, the liquidity risk resulting from the maturities is largely negligible.

MARKET PRICE RISK

The term 'market price risk' relates to the risk that the fair value or the future cash flows of a financial instrument change due to fluctuations in market prices. In the case of TAKKT, market price risk mainly comprises currency and interest rate risks. In the following paragraphs, for each type of risk, the financial instruments on the books at the reporting date will be described in detail.

The following sensitivity analyses of market price risks show which effects on profits and equity there would have been if financial instruments recorded at the closing date had been affected by hypothetical changes in different relevant risk variables. The assumption is that the volume of financial instruments at the closing date was representative for the full year and that the assumed changes in risk variables at the closing date were reasonable.

CURRENCY RISK

The table below shows the hedged nominal volumes and the market values of the respective currency hedges. As in the previous year, contracts have maturities of up to one year. No netting of currency derivatives was undertaken.

Currency hedging *in EUR thousand*

	Nominal value		Market value	
	2018	2017	**2018**	2017
Assets				
Currency derivatives designated as cash flow hedges	28,458	34,864	793	429
Currency derivatives without hedge accounting	22,491	20,492	84	97
Liabilities				
Currency derivatives designated as cash flow hedges	20,827	3,783	–310	–86
Currency derivatives without hedge accounting	22,484	8,735	–46	–33
	94,260	**67,874**	**521**	**407**

Non-derivative financial liabilities denominated in foreign currency are used to hedge the net investment in a foreign operation. In 2018 gains after taxes totaling EUR 0 thousand (EUR 20 thousand) resulting from the change in value of this hedge instrument were recorded in Other comprehensive income without affecting profit. There has been no notable ineffective portions of the net investment hedges.

CURRENCY DERIVATIVES DESIGNATED AS CASH FLOW HEDGES

TAKKT is exposed to currency risks because a limited volume of purchases and sales of products and services (less than ten percent of consolidated sales) is in different currencies. Around 70 percent of the net foreign currency cash flows expected within TAKKT Group are hedged with currency instruments which can be designated as effective cash flow hedges and did not show any material ineffectiveness until the closing date. Exchange rate differences of the underlying currencies impact other components of equity through changes in the fair value of the hedge instruments. They are therefore considered in equity-related sensitivity calculations.

In the 2018 financial year, gains after deferred taxes totaling EUR 366 thousand (EUR 233 thousand) resulting from changes in the fair values of foreign exchange derivatives were recorded in Other comprehensive income without affecting profit. These changes in valuation represent the effective part of the hedge relationship. In addition, gains of EUR 242 thousand (EUR 13 thousand) recorded in Other comprehensive income were transferred to the statement of income (under Other operating expenses). With the payments taking place within the next twelve months, TAKKT expects that gains recorded in Other comprehensive income amounting to EUR 366 thousand after deferred taxes will be transferred to the statement of income.

Broken down by currency, the designated transactions underlying the cash flow hedges have the following maturities:

Underlying currency derivative transactions *in EUR thousand*

	2018		2017	
	Cash flow 2019	Cash flow 2020…	Cash flow 2018	Cash flow 2019…
CAD	5,098	0	4,023	0
CHF	16,233	0	15,564	0
CZK	1,206	0	1,085	0
DKK	1,067	0	1,116	0
GBP	3,635	0	3,208	0
HUF	2,202	0	2,144	0
NOK	1,673	0	1,841	0
PLN	–724	0	–578	0
RON	440	0	387	0
RUB	1,004	0	429	0
SEK	–1,897	0	–2,015	0
TRY	212	0	657	0
USD	–13,894	0	–5,600	0

CURRENCY DERIVATIVES WITHOUT HEDGE ACCOUNTING

Intercompany loans involving more than one currency are hedged with forward foreign exchange contracts. This locks in prices for intercompany financing transactions. Accordingly, the Group is not exposed to any risk from exchange rate movements. While the individual company can establish a relationship between the derivative instrument and the underlying transaction, the underlying transaction is eliminated in the context of the Group's debt consolidation. From the Group's perspective, the derivative is therefore no longer used for hedging purposes. Fluctuations in exchange rates in the underlying currencies trigger changes in market values with regard to the derivatives and the related intercompany loans causing counteracting changes in Other finance result and are therefore included in the profit-based sensitivity calculation.

Foreign currency receivables or payables against third parties at individual companies are also hedged economically using forward foreign exchange contracts, if necessary. Here, fluctuations in exchange rates of the underlying currencies also lead to counteracting fluctuations in profit through changes in market value of the derivative instrument as well as the corresponding receivables and payables and are therefore also included in the profit-based sensitivity calculation.

No fair value hedge accounting is applied.

The following table lists the effects of a theoretical change in the EUR/CHF and EUR/USD exchange rates on the profit before tax as well as on equity at the reporting date. Other exchange rate fluctuations have no material effect on profit or equity. Influences on the balance sheet and statement of income resulting from the translation of separate financial statements into the reporting currency euro (known as translation risks) are not included.

Sensitivity analysis for currency fluctuations *in EUR thousand*

12/31/2018	Increase/ decrease	Effect on profit before tax	Effect on share-holders' equity without impact on profits
EUR/CHF	+10%	0	1,644
EUR/CHF	–10%	0	–1,644
EUR/USD	+10%	+24	–624
EUR/USD	–10%	–24	624

12/31/2017	Increase/ decrease	Effect on profit before tax	Effect on share-holders' equity without impact on profits
EUR/CHF	+10%	0	1541
EUR/CHF	–10%	0	–1,541
EUR/USD	+10%	+18	–537
EUR/USD	–10%	–18	537

INTEREST RATE RISK

The table below shows the hedged nominal volumes and the market values of the respective interest rate hedges. A netting of these instruments does not occur.

Interest rate hedges *in EUR thousand*

	Nominal value		Market value	
	2018	2017	**2018**	2017
Assets				
Interest rate derivatives designated as cash flow hedges	39,301	37,522	34	91
Interest rate derivatives without hedge accounting	0	0	0	0
Liabilities				
Interest rate derivatives designated as cash flow hedges	0	0	0	0
Interest rate derivatives without hedge accounting	0	0	0	0
	39,301	**37,522**	**34**	**91**

In order to hedge future interest payments from the floating-rate USD debt, TAKKT has designated amortizing interest rate swaps with a nominal volume of USD 45,000 thousand (USD 45,000 thousand) as cash flow hedges at the balance sheet date.

TAKKT's objective with contracting interest rate swaps is to transform floating rate into fixed rate financing.

A potential change in creditworthiness and therefore the credit margin of the debtor is not part of this hedge. The effective part of the interest rate swaps is recorded at fair value without an effect on profits. In the case of interest rate swaps which qualify as cash flow hedges, changes in market interest rates cause fluctuations in both the other components of equity (changes in fair value) and the finance expense (compensation payments). These financial instruments are therefore taken into account in equity and profit-related sensitivity calculations.

In 2018, losses of EUR 0 thousand (EUR 26 thousand) after deferred taxes and gains after deferred taxes in the amount of EUR 30 thousand (EUR 43 thousand) resulting from the change of fair values were recorded in Other comprehensive income without an effect on profits. Losses after deferred taxes recorded in equity amounting to EUR 0 thousand (EUR 177 thousand) and gains after deferred taxes in the amount of EUR 71 thousand (EUR 9 thousand) were transferred to the statement of income (Finance expenses). These amounts represent the change in valuation of the effective part of the hedge relationship. As in the previous year, there has been no material ineffectiveness.

UNDERLYING INTEREST RATE DERIVATIVE TRANSACTIONS

The TAKKT Group is financed by means of long-term bilateral credit lines, which are usually made use of on a revolving basis with a short-term fixed-rate period. Since 2012 the group was also financed through promissory notes which were partly repaid in October 2014 as well as in October 2015 and in full in October 2017. TAKKT uses derivative financial instruments to hedge against rising market interest rates and therefore potentially increasing future interest payments. The target hedge level for the interest rate risk is between 60 and 80 percent of the financing volume.

The table below shows the reporting periods in which the cash flows hedged as of December 31, 2018 are expected to occur. The anticipated hedged interest outpayments are the result of floating-rate US dollar liabilities with an initial nominal volume of USD 45,000 thousand (USD 45,000 thousand).

Underlying interest rate derivative transactions *in USD thousand*

2018	Cash flow 2019	Cash flow 2020	Cash flow 2021 – 2023	Cash flow 2024 – 2028	Cash flow 2029…
USD	854	0	0	0	0

2017	Cash flow 2018	Cash flow 2019	Cash flow 2020–2022	Cash flow 2023–2027	Cash flow 2028...
USD	492	0	0	0	0

Other financial instruments

Floating rate financial instruments are included in the profit-related sensitivity calculation since interest rate changes affect the financial result.

Non-interest-bearing financial instruments (e. g. trade receivables and payables) are generally not subject to interest rate risks. Only if changes in market interest rates have an influence on financial instruments recognized at fair value they are considered in the sensitivity calculation.

The following table lists the sensitivity of the profit before tax and equity in case of a theoretical change in the level of market interest rates relating to the financial instruments at the closing date which would have been exposed to such a change in the interest rate level. Financial instruments with a fixed interest rate and a remaining term of less than one year are included in the analysis. It is assumed, that the level is representative for the whole year and that the assumed change of the market interest level was possible.

Sensitivity analysis for interest rate fluctuations *in EUR thousand*

12/31/2018	Increase/ decrease in basis points	Effect on profit before tax	Effect on share-holders' equity without impact on profits
EUR	+100/–100	–578/+578	–78/+78
USD	+100/–100	–188/+188	+78/–79
GBP	+100/–100	–57/+57	+66/–66

12/31/2017	Increase/ decrease in basis points	Effect on profit before tax	Effect on share-holders' equity without impact on profits
EUR	+100/–100	–26/+26	–68/+69
USD	+100/–100	–525/+525	+106/–107
GBP	+100/–100	–4/+4	+18/–18

5. OTHER NOTES

NOTES TO THE STATEMENT OF CASH FLOWS

The statement of cash flows has been derived from the consolidated financial statements of the TAKKT Group and prepared in accordance with IAS 7 Statement of Cash Flows. It shows changes in cash and cash equivalents during the financial year on the basis of cash transactions. Cash flows are reported separately according to source and application of funds into operating, investing, and financing activities. Operating cash flows are presented according to the indirect method, cash flows from investing and financing activities according to the direct method. To adjust for exchange rate effects, the individual items of the opening balance were translated at the respective exchange rates at the closing date. These figures were compared with the closing statement of the financial position.

The TAKKT cash flow figure is used for financial communication. TAKKT defines this as profit plus depreciation, amortization and impairment of non-current assets and deferred tax affecting profit. It is shown as a subtotal within the cash flow from operating activities.

Capital expenditure relates to maintenance, expansion and modernization of the business. Furthermore, capital expenditure in non-current assets also include outpayments for investments of the TAKKT Group via TAKKT Beteiligungsgesellschaft in the amount of EUR 2,286 thousand (EUR 4,500 thousand) in shares of eight (seven) companies. Cash outflows for the acquisition of consolidated companies relate to payments regarding the acquisition of Equip4Work Ltd. (EUR 38,601 thousand), Runelandhs Försäljnings AB (EUR 16,686 thousand) and partial payments of purchase price liabilities relating to the acquisitions of Post-Up Stand in the amount of EUR 2,435 thousand. In 2017, these related to the acquisition of Mydisplays GmbH (EUR 2,762 thousand) as well as the partial payments of purchase price liabilities relating to the acquisitions of Post-Up Stand (EUR 3,505 thousand) and R.F. Verpackungsmittel-Versand G.m.b.H. (EUR 450 thousand).

The cash flow from operating activities decreased to EUR 99,421 thousand (EUR 100,377 thousand) and was at the previous year's level. Lower interest and income tax was offset by an operational build-up of net working capital, particularly in inventories. In the context of the discussion about rising import tariffs for goods from China, the US companies made more direct imports from Asia in the second half of the year. The cash flow from operating activities includes interest receipts of EUR 710 thousand (EUR 35 thousand) and interest payments of EUR 4,209 thousand (EUR 5,518 thousand). In 2018, income taxes of EUR 26,594 thousand (EUR 39,808 thousand) were paid.

Cash flow from financing activities includes payments from transactions with owners as well as payments from changes in financial liabilities. The transactions with owners are related to the distribution of dividends to the shareholders of the TAKKT AG in the amount of EUR 36,086 thousand (EUR 36,086 thousand). The cash-effective changes of the financial liabilities concern the incoming and outgoing payments in order to borrow or repay financial liabilities. These include particularly the increase of liabilities to banks in the amount of EUR 17,855 thousand (in the previous year increase of EUR 20,842 thousand), the repayment of financial liabilities to affiliated companies in the amount of EUR 5,718 thousand (EUR 15,813 thousand) as well as in previous year the repayment of promissory notes in the amount of EUR 33,500 thousand. The components of financial liabilities are explained on page 144.

The following table shows both the cash and non-cash changes in financial liabilities.

	01/01/2018	Payment effective change	Non-cash change			12/31/2018
			Currency translation	Changes in scope of consolidation	Other	
Liabilities to banks	97,127	17,855	4,384	0	0	119,366
Promissory notes	0	0	0	0	0	0
Finance leases	28,849	–2,410	0	0	0	26,439
Finance liabilities to affiliated companies	7,701	–5,224	–528	0	0	1,949
Other	4,584	1,022	29	0	537	6,172
Total	**138,261**	**11,243**	**3,885**	**0**	**537**	**153,926**

	01/01/2017	Payment effective change	Non-cash change			12/31/2017
			Currency translation	Changes in scope of consolidation	Other	
Liabilities to banks	86,266	20,842	–10,382	401	0	97,127
Promissory notes	33,500	–33,500	0	0	0	0
Finance leases	31,180	–2,331	0	0	0	28,849
Finance liabilities to affiliated companies	26,105	–15,813	–2,591	0	0	7,701
Other	2,756	1,478	–39	0	389	4,584
Total	**179,807**	**–29,324**	**–13,012**	**401**	**389**	**138,261**

Cash and cash equivalents include checks, cash on hand and bank balances with a term of up to three months and comprise the balance sheet item Cash and cash equivalents. These were not netted off against short-term financial liabilities. The cash and cash equivalents are not subject to any restrictions on disposal.

NOTES TO THE SEGMENT REPORTING

Segment reporting 2018 of the TAKKT Group *in EUR thousand*

	TAKKT EUROPE	TAKKT AMERICA	Segments total	Others	Consolidation	Group total
Sales to third parties	651,581	529,508	1,181,089	0	0	1,181,089
Inter-segment sales	211	9	220	0	–220	0
Segment sales	651,792	529,517	1,181,309	0	–220	1,181,089
Other non-cash expenses (+) and income (–)	2,554	2,560	5,114	470	0	5,584
EBITDA	98,595	64,520	163,115	–13,046	0	150,069
Depreciation and amortization of segment assets	19,425	7,677	27,102	288	0	27,390
Impairment of segment assets	0	142	142	0	0	142
EBIT	79,170	56,701	135,871	–13,334	0	122,537
Income from associated companies	–684	0	–684	0	0	–684
Finance expenses	–2,900	–2,803	–5,703	–1,915	1,760	–5,858
Interest and similar income	250	34	284	2,186	–1,760	710
Profit before tax	75,844	53,938	129,782	–12,876	0	116,906
Income tax expense	–19,815	–13,694	–33,509	4,682	0	–28,827
Profit	56,029	40,244	96,273	–8,194	0	88,079
TAKKT cash flow	74,050	53,480	127,530	–7,352	0	120,178
Segment assets	621,984	446,636	1,068,620	193,861	–225,401	1,037,080
thereof investments in associated companies	1,049	0	1,049	0	0	1,049
thereof deferred tax and income tax receivables	3,206	986	4,192	11,575	–4,974	10,793
investment in non-current assets*	16,177	6,244	22,421	2,575	0	24,996
Segment liabilities	278,904	164,848	443,752	188,284	–225,401	406,635
thereof deferred tax and income tax payables	28,119	45,840	73,959	1,250	–4,974	70,235
thereof financial liabilities (non-current and current)	153,976	62,865	216,841	155,725	–218,640	153,926
Average no. of employees (full-time equivalent)	1,483	984	2,467	44	0	2,511
Employees at the closing date (full-time equivalent)	1,525	960	2,485	45	0	2,530

* *Without investments in non-current assets from acquisition of subsidiaries, please refer to the details on page 168 et seqq.*

Segment reporting by geographical region 2018 of the TAKKT Group *in EUR thousand*

	Germany	Europe without Germany	USA	Other	Group total
Sales to third parties	269,537	386,811	516,040	8,701	1,181,089
Non-current assets*	372,851	71,809	303,506	0	748,166

* *Non-current assets excluding financial instruments und deferred tax assets.*

Segment reporting 2017 of the TAKKT Group *in EUR thousand*

	TAKKT EUROPE	TAKKT AMERICA	Segments total	Others	Consolidation	Group total
Sales to third parties	574,681	541,402	1,116,083	0	0	1,116,083
Inter-segment sales	291	3	294	0	–294	0
Segment sales	574,972	541,405	1,116,377	0	–294	1,116,083
Other non-cash expenses (+) and income (–)	2,193	427	2,620	1,143	0	3,763
EBITDA	97,103	64,750	161,853	–11,532	0	150,321
Depreciation and amortization of segment assets	18,879	8,051	26,930	130	0	27,060
Impairment of segment assets	15	28	43	0	0	43
EBIT	78,209	56,671	134,880	–11,662	0	123,218
Income from associated companies	–483	0	–483	–130	0	–613
Finance expenses	–3,156	–3,833	–6,989	–2,729	2,109	–7,609
Interest and similar income	87	1	88	2,055	–2,109	34
Profit before tax	74,896	52,574	127,470	–12,448	0	115,022
Income tax expense	18,949	3,113	22,062	–3,377	0	18,685
Profit	55,947	49,461	105,408	–9,071	0	96,337
TAKKT cash flow	73,152	45,247	118,399	–9,322	0	109,077
Segment assets	574,475	410,715	985,190	130,869	–187,601	928,458
thereof investments in associated companies	322	0	322	508	0	830
thereof deferred tax and income tax receivables	3,604	3,774	7,378	7,573	–5,460	9,491
Investment in non-current assets*	13,649	8,575	22,224	5,553	0	27,777
Segment liabilities	228,225	183,715	411,940	136,297	–187,601	360,636
thereof deferred tax and income tax payables	26,506	38,919	65,425	1,889	–5,460	61,854
thereof financial liabilities (non-current and current)	115,420	97,663	213,083	107,284	–182,106	138,261
Average no. of employees (full-time equivalent)	1,359	982	2,341	41	0	2,382
Employees at the closing date (full-time equivalent)	1,393	969	2,362	43	0	2,405

** Without investments in non-current assets from acquisition of subsidiaries, please refer to the details on page 168 et seqq.*

Segment reporting by geographical region 2017 of the TAKKT Group *in EUR thousand*

	Germany	Europe without Germany	USA	Other	Group total
Sales to third parties	255,334	328,037	524,338	8,374	1,116,083
Non-current assets*	357,199	32,841	293,877	1	683,918

** Non-current assets excluding financial instruments and deferred tax assets.*

Within the scope of segment reporting under IFRS 8 Operating Segments, the activities of the TAKKT Group are broken down according to the organizational structure. The breakdown is carried out according to the management approach. Correspondingly, segment reporting is presented on the basis of internal reporting to the Management Board of TAKKT AG as the chief operating decision maker. The reportable segments are TAKKT EUROPE and TAKKT AMERICA. These segments correspond to the geographical areas the group is acting in. The fundamental segment result for controlling purposes is the EBITDA.

Segment reporting uses the same accounting standards as the consolidated financial statements. Intra-group transfers are valued at internal prices calculated on the basis of the cost-plus method and checked for plausibility using an arm's-length comparison wherever possible. This cost-plus method complies with OECD (Organisation for Economic Co-operation and Development) principles. The same system was used in previous year.

Investment in non-current segment assets comprises additions to Property, plant and equipment, to Other intangible assets and to long-term financial assets. Investments from acquisition of subsidiaries are not included.

TAKKT AG is organized into two operational segments and overall seven divisions.

The **TAKKT EUROPE** segment is divided into three divisions:

The Kaiser+Kraft group, consisting of the KAISER+KRAFT, gaerner, Gerdmans, Runelandhs and KWESTO brands, offers products for transportation, plant, warehouse and office equipment in more than twenty countries in Europe. Customers include industrial enterprises as well as companies from the areas of service and retail and public bodies.

The ratioform Group, consisting of the ratioform and Davpack brands, offers different kinds of transport packaging products in seven European countries for companies in different industries.

The Newport group, consisting of Certeo, BiGDUG, Mydisplays and OfficeFurnitureOnline brands, offers web-based in five European countries office and warehouse equipment and display articles mainly for small and midsize companies. Furthermore the TAKKT Beteiligungsgesellschaft with its start-up-investments is part of the division.

The **TAKKT AMERICA** segment is divided into four divisions:

The Hubert group, consisting of the brands Hubert in the USA and Canada as well as Retail Resource in the USA, sells equipment for the food service sector and food retailers as well as promotional products and supplies. The customers include large canteens and catering businesses.

The Central group, consisting of the brand Central Restaurant Products in the USA, sells restaurant equipment. Central customer group are restaurant operators.

The D2G group, consisting of the brands Displays2go and Post-Up Stand in the USA, distributes display products for companies in a wide variety of industries.

The NBF group, consisting of the brands National Business Furniture and OfficeFurniture.com in the USA, offers products in the area of office equipment. In addition to companies, its customers include government agencies, the health care sector, schools and churches.

The segment reporting´s column **Others** discloses TAKKT AG, in which the key functions of the Group are concentrated and which does not satisfy the definition of a reportable segment according to IFRS 8 Operating Segments.

Geographical information
Sales to third parties are allocated according to where the selling unit is located; non-current assets are allocated according to where the owning unit is located.

ACQUISITION OF SUBSIDIARIES

Acquisition of Equip4Work Ltd. in 2018
TAKKT AG has acquired one hundred percent of the shares of Equip4Work Ltd., Westlinton/Great Britain. Signing and closing of the transaction took place on January 29, 2018. The company generated sales of roughly GBP 40 million and an EBITDA margin in the low double-digit percentage range in the 2017. It is part of the Newport group within the TAKKT EUROPE segment.

A purchase price including cash of GBP 40 million was agreed on. It was paid in cash at the execution of the transaction. In addition to that, a further contingent and variable purchase price component of up to GBP ten million was agreed. This contingent consideration depends on the achievement of certain performance goals for the company over the next three years, and would be payable in 2021 in cash and cash equivalents. No contingent consideration was recognized.

The following fair values of the assets and liabilities were recognized as first-time consolidation amounts of the company acquired in the first quarter of 2018:

	Fair value at acquisition date (in EUR million)
Assets	**23.4**
Other intangible assets	11.5
Property, plant and equipment	1.4
Inventories	1.7
Trade receivables	1.8
Other assets	0.2
Cash and cash equivalents	6.8
Liabilities	**8.3**
Trade payables	4.4
Other liabilities	3.9
Net assets acquired	**15.1**

The intangible assets identified as part of the purchase price allocation with a total value of EUR 11.3 million and their expected useful lives are listed in the following table:

	Fair value at acquisition date (in EUR million)	Useful life (in years)
Domain names	8.5	10
Customer relationships	1.1	3
Website	0.8	3
Catalog/Online content	0.9	3
	11.3	

No contingent liabilities were recognized. The remaining excess of the consideration made for the company amounting to EUR 45.2 million over the fair values of the acquired assets and liabilities that can be individually identified and measured is recognized as goodwill amounting to EUR 30.1 million. The goodwill as well as the identified intangible assets are not tax deductible.

At the time of acquisition the fair value of the receivables acquired is EUR 2.0 million. Mainly trade receivables are included, with a net value of EUR 1.8 million, including an allowance amounting to EUR 0.1 million. Following the transfer of control in January 2018, Equip4Work contributed sales of EUR 49.3 million and a profit of EUR 2.6 million to the consolidated income statement. If the transaction had already been completed by January 01, 2018, the consolidated sales in 2018 would have been higher by EUR 53.8 million and profit by EUR 2.9 million.

Incidental acquisition costs of EUR 0.6 million incurred as a result of the transaction were recognized under Other operating expenses and resulted in a lower profit. The former executives will continue to manage the business of Equip4Work after completion of the transaction.

Acquisition of Runelandhs Försäljnings AB in 2018

The TAKKT Group company Gerdmans Inredningar AB has acquired one hundred percent of the shares of Runelandhs Försäljnings AB. The transaction took place on May 31, 2018. Runelandhs has generated sales of 145 million Swedish krona and an EBITDA margin at the lower end of the TAKKT target corridor in the 2017/2018 financial year, which closed at the end of July. The company is a part of the KAISER+KRAFT group within the TAKKT EUROPE segment.

The purchase price, free of financial debt and cash, amounted to 174 million Swedish krona and was paid in cash at the execution of the transaction.

The following fair values of the assets and liabilities were recognized as first-time consolidation amounts of the company acquired in the second quarter of 2018:

	Fair value at acquisition date (in EUR million)
Assets	**7.5**
Other intangible assets	3.5
Property, plant and equipment	1.4
Inventories	0.1
Trade receivables	1.6
Other assets	0.2
Cash and cash equivalents	0.7
Liabilities	**2.6**
Trade payables	1.2
Other liabilities	1.4
Net assets acquired	**4.9**

The intangible assets identified as part of the purchase price allocation with a total value of EUR 3.5 million and their expected useful lives are listed in the following table:

	Fair value at acquisition date (in EUR million)	Useful life (in years)
Trademark	1.1	5
Customer relationships	2.1	5
Website	0.2	3
Catalog/Online content	0.1	1
	3.5	

No contingent liabilities were recognized. The remaining excess of the consideration made for the company amounting to EUR 17.4 million over the fair values of the acquired assets and liabilities that can be individually identified and measured is recognized as goodwill amounting to EUR 12.5 million. The goodwill as well as the identified intangible assets are not tax deductible.

At the time of acquisition the fair value of the receivables acquired is EUR 1.8 million. Mainly trade receivables are included, with a gross and net value of EUR 1.6 million.

Following the transfer of control in May 2018, Runelandhs contributed sales of EUR 7.8 million and a profit of EUR 0.2 million to the consolidated income statement. If the transaction had already been completed by January 01, 2018, Runelandhs would have contributed consolidated sales of EUR 13.9 million and a profit by EUR 0.3 million in 2018.

Incidental acquisition costs of EUR 0.1 million incurred as a result of the transaction were recognized under Other operating expenses and resulted in a lower profit.

Acquisition of Mydisplays GmbH in 2017

With effect from July 01, 2017, the TAKKT AG, Stuttgart/Deutschland, acquired the Mydisplays GmbH based in Burscheid/Germany. Mydisplays specializes in the product area of customized printed displays. Overall, the product range includes around 470 items. Mydisplays generated sales of EUR 2.9 million in the 2016 financial year and an EBITDA margin in the lower range of the TAKKT target corridor. The acquisition offers the opportunity to enter the display market in Europe and is an ideal addition to the existing business.

A purchase price amounting to EUR 3.0 million was agreed for the acquisition of 100 percent of the shares which was paid in cash at the execution of the transaction. In addition, another contingent and variable purchase price component of up to EUR 2.0 million was agreed. This depends on the achievement of a cumulative performance goal over two years and would be payable in the second half of 2019. At December 31, 2018, a contingent consideration of EUR 2.0 million was recognized.

For tax purposes the transaction is classified as a share deal. The following fair values of the assets and liabilities were recognized as first-time consolidation amounts of the company acquired in the third quarter of 2017:

	Fair value at acquisition date (in EUR million)
Assets	**2.0**
Other intangible assets	1.0
Property, plant and equipment	0.4
Inventories	0.2
Trade receivables	0.1
Other assets	0.1
Cash and cash equivalents	0.2
Liabilities	**1.2**
Trade payables	0.2
Other liabilities	1.0
Net assets acquired	**0.8**

The intangible assets identified as part of the purchase price allocation with a total value of EUR 0.9 million and their expected useful lives are listed in the following table:

	Fair value at acquisition date (in EUR million)	Useful life (in years)
Domain names	0.6	5
Customer relationships	0.1	5
Website	0.1	3
Catalog/Online content	0.1	3
	0.9	

No contingent liabilities were recognized. The remaining excess of the consideration made for the company amounting to EUR 3.0 million over the fair values of the acquired assets and liabilities that can be individually identified and measured is recognized as goodwill amounting to EUR 2.2 million. The goodwill reflects various factors. The most important of these is the strengthening of the portfolio in Europe. The goodwill as well as the identified intangible assets are not tax deductible.

At the time of acquisition the fair value of the receivables acquired is EUR 0.1 million. Mainly trade receivables are included, with a gross and net value of EUR 0.1 million.

Following the transfer of control in July 2017, Mydisplays contributed sales of EUR 1.5 million to the consolidated income statement in 2017. If the transaction had already been completed by January 01, 2017, the consolidated sales in 2017 would have been higher by EUR 3.2 million.

Incidental acquisition costs of EUR 55 thousand incurred as a result of the transaction were recognized under Other operating expenses and resulted in a lower profit. The former owner still manages the business of Mydisplays upon completion of the transaction.

CONTINGENT LIABILITIES AND RECEIVABLES

As in prior year, material contingent liabilities and receivables do not exist.

CAPITAL MANAGEMENT

The overriding goal of the TAKKT Group's capital management is to optimize and maintain a solid capital structure in order to secure the necessary flexibility and scope for value-adding investments. Total equity and net financial liabilities constitute the basic values for the capital management. In principle, the instruments available for capital management include dividend payments and measures relating to equity and debt financing. TAKKT is not subject to any external minimum capital requirements.

The Group monitors and steers its capital structure based on long-term financial planning and specific self-imposed covenants. For each of these key figures, TAKKT has internally determined critical thresholds. The Group's total equity ratio target is between 30 and 60 percent. For gearing, the long-term target is below 1.5. The target for the debt repayment period is less than five years. For the interest cover ratio, another index for the company's financial stability, the aim is a figure above four. The Management Board is regularly informed about the development of these key figures.

Internal covenants *in EUR thousand*

	2018	2017
Total equity	630,445	567,822
/ Total assets	1,037,080	928,458
Equity ratio (in percent)	**60.8**	**61.2**
Financial liabilities	153,926	138,261
./. Cash and cash equivalents	3,103	3,053
Net financial liabilities	150,823	135,208
/ Total equity	630,445	567,822
Gearing	**0.2**	**0.2**
Average net financial liabilities	166,422	147,717
/ TAKKT cash flow	120,178	109,076
Debt repayment period (in years)	**1.4**	**1.4**
Operating result before Goodwill impairment	122,537	123,218
/ Net interest expense (= Finance expenses less Interest and similar income)	5,148	7,575
Interest cover	**23.8**	**16.3**

Steering the results of the individual Group companies at TAKKT Group is conducted through a system of financial key management figures. In this context, the EBITDA margin with a long-term target corridor of 12 to 16 percent from 2019 on serves as benchmark for the short-term operating profitability; and the TAKKT value added, for which a significant positive value is sought, serves as benchmark for the longer-term value-based controlling. For more details on value-based corporate management, please refer to sections management system and company performance on page 48 et seqq. and page 72 et seqq. of the annual report.

INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

TAKKT has leased two warehouses from leasing companies which are classified as unconsolidated structured entities. The two leasing companies have constructed the warehouses especially for TAKKT and rent them to the Group. TAKKT neither has interests in these companies nor has TAKKT the power to decide about the activities relevant for the variable returns on the basis of contractual regulations. The companies are fully financed by external banks.

The leasing contracts are recognized as finance leases according to IAS 17 Leases. The assets and liabilities resulting from these finance leases are presented in the following table.

Book values associated with unconsolidated structured entities *in EUR thousand*

	2018	2017
Land, buildings and similar assets	10,648	11,400
Non-current finance leases	6,353	12,259
Current finance leases	5,906	1,570

As of the balance sheet date other financial obligations that correspond to the minimum lease payments amount to EUR 13,291 thousand (EUR 15,192 thousand). There are no exposures to loss according to IFRS 12 Disclosure of Interests in Other Entities.

CHANGES IN CONTINGENT CONSIDERATIONS *in EUR million*

	2018	2017
Balance at 01/01/	**0.0**	**3.4**
Additions	0.0	0.0
Disposals	0.0	−3.5
Currency translation	0.0	−0.2
Accrued interest	0.0	0.5
Revaluation	2.0	−0.2
Balance at 12/31/	**2.0**	**0.0**

In connection with the acquisition of Mydisplays, which was acquired with effect from 1 July 2017, a variable purchase price component of up to EUR 2.0 million was agreed. This depends on the achievement of a cumulative performance goal over two years and would be payable in the second half of 2019. Since the company has developed significantly better than expected, in contrast to the date of initial consolidation, an increased payment is assumed. Thus, according to IFRS 3, an expense from the revaluation of the purchase price liability was recognized in profit or loss in the amount of EUR 2,000 thousand.

The contingent considerations in prior year resulted from the acquisition of Post-Up Stand in 2015. Due to an agreement with the previous owners, the contingent consideration was settled with a payment of EUR 3,505 thousand respectively USD 4,000 thousand in 2017.

The expense from the increase in contingent consideration at an amount of EUR 2,000 thousand (in prior year income of EUR 176 thousand) was recognized in Other operating expenses (in prior year in Other operating income).

Additionally, there is a contingent consideration relating to the acquisition of Equip4work Ltd. of up to GBP 10.0 million, which is recognized with EUR 0 thousand. The amount is dependent on a three-year cumulative earnings figure and would be payable in 2021. Management does not expect the threshold amount to be reached. If the cumulative earnings figure expected from management was higher by five percent, the presented book value of the contingent consideration would be higher by approximately EUR 5 million as of the balance sheet date.

The determination of the amount of the contingent considerations is done on a regular basis through qualified staff and is agreed with the responsible management.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events which had any meaningful impact on the net assets, financial position and results of operations after the reporting date.

LEASING AND OTHER FINANCIAL OBLIGATIONS

Leasing and other financial obligations 2018 *in EUR thousand*

	up to 1 year	1 to 5 years	over 5 years	**Total**
Finance leases				
Minimum lease payments	8,004	13,686	14,553	36,243
Discounting	–1,206	–3,790	–4,808	–9,804
Present value	**6,798**	**9,896**	**9,745**	**26,439**
Operating leases				
Minimum lease payments	13,339	32,317	17,790	63,446

Leasing and other financial obligations 2017 *in EUR thousand*

	up to 1 year	1 to 5 years	over 5 years	Total
Finance leases				
Minimum lease payments	3,698	15,236	21,008	39,942
Discounting	–1,289	–4,180	–5,624	–11,093
Present value	**2,409**	**11,056**	**15,384**	**28,849**
Operating leases				
Minimum lease payments	10,091	25,470	8,722	44,283

The obligations from operating lease contracts mainly refer to rental obligations for office and warehouse facilities. These contracts are usually subject to price adjustment clauses. Minimum lease outgoing payments are offset by future minimum incoming lease payments from non-cancellable subletting arrangements in the amount of EUR 145 thousand (EUR 266 thousand).

STAFF PARTICIPATION MODEL

In 2018 executives of the TAKKT Group again had the option of subscribing for TAKKT Performance Bonds. The term of the TAKKT Performance Bonds is five years. Premature termination is only permitted in specific cases. The interest rate of the subordinated TAKKT Performance Bonds is calculated annually. It includes a basic interest yield plus a subordination premium, plus a positive respectively minus a negative TAKKT value added spread. The minimum yield is zero percent per annum. The maximum yearly yield is capped. The TAKKT value added is defined as the difference between the operating profit after tax generated by the company and the cost of capital on the average capital employed. The profit after taxes is defined as EBIT (adjusted for amortization of intangible assets from the acquisition of companies), reduced by the Income tax expense and increased by the Other financial result. The TAKKT Performance Bonds amount to EUR 6,172 thousand (EUR 4,583 thousand) and are disclosed as Other under Financial liabilities. An interest expense of EUR 537 thousand (EUR 389 thousand) was posted in the year under review.

Additionally, German employees had again the opportunity to purchase employee shares in the year under review. Shares acquired at the stock exchange for this purpose were sold to employees in early 2018. In total, 17,790 (13,275) shares were acquired by 407 (355) employees. This corresponds to a participation of 33.4 (31.3) percent of all eligible persons.

GERMAN CORPORATE GOVERNANCE CODE

The declaration on the recommendations made by the Government Commission of the German Corporate Governance Code required under section 161 AktG was issued as of December 31, 2018 and made available to the shareholders on the web site of TAKKT AG (see page 98 in this annual report).

INFORMATION ON DIRECTORS' DEALINGS

According to section 15a (Directors' Dealings) of the German Securities Trading Act (WpHG), persons who perform management functions at a company that is an issuer of shares as well as natural and legal persons closely related to that person must notify both the issuer and the Federal Financial Supervisory Authority (BaFin) of their own dealings involving the issuer's shares or related financial instruments, especially derivatives, if they exceed the amount of EUR 5 thousand within a calendar year.

TAKKT AG received no such notifications for the year under review.

RELATED ENTITIES TRANSACTIONS

Related entities in the sense of IAS 24 include the TAKKT Group's associated companies and the majority shareholder Franz Haniel & Cie. GmbH, Duisburg/Germany (including its subsidiaries and associated companies). Related-party transactions mainly relate to the cash management system, ongoing delivery and settlement transactions and service contracts. By participating in Haniel Group's cash management system, TAKKT Group benefits from potential economies of scale. All transactions with related entities are contractually agreed and performed on terms that are customary for transactions with third parties.

Related entity transactions *in EUR thousand*

	Franz Haniel & Cie. GmbH/ service companies		Divisions of Haniel Group		Associated companies Haniel Group		Total	
	2018	2017	2018	2017	2018	2017	**2018**	2017
Turnover/Other income	14	5	290	444	155	59	459	508
Other expenses	1,108	1,344	50	62	9	142	1,167	1,548
Finance expense	37	132	0	0	0	0	37	132
Receivables	0	0	23	46	68	4	91	50
Short-term payables	1,949	7,702	0	1	0	0	1,949	7,703
Other financial obligations	737	621	0	0	0	0	737	621

TAKKT has relationships in the normal course of the business with numerous entities that are also customers and/or suppliers. These customers and/or suppliers include companies that have a connection with members of the Management Board or of the Supervisory Board of TAKKT.

RELATED PERSONS TRANSACTIONS

Related persons in the sense of IAS 24 include the Management and Supervisory Boards of TAKKT AG (including any and all persons related to these Boards) and the Management and Supervisory Board members of the majority shareholder Franz Haniel & Cie. GmbH, Duisburg/Germany, (including any and all persons related to these Boards). Related-party transactions mainly relate to service contracts with the members of TAKKT AG's Management Board. All transactions with related persons are contractually agreed and performed on terms that are customary for transactions with third parties.

Management Board

The total remuneration of the Board members is made up of non-performance-related and performance-related components. The performance-related components comprise a bonus paid annually and the performance cash plan, a rolling remuneration component that acts as a long-term incentive. The performance cash plans comprise a share price-based component, that is classified as a cash-settled share-based payment transaction under IFRS 2. A more detailed explanation of the remuneration system as well as disclosures according to section 314(1) no. 6 of the German Commercial Code (HGB) can be found in the Remuneration Report section of the Management Report on page 100 et seqq.

The fixed salaries and fringe benefits to the Management Board during the financial year amounted to EUR 1,556 thousand (EUR 1,155 thousand).

The reported expenditure for the bonus is EUR 1,946 thousand (EUR 1,611 thousand). The previous year contains an excess expenditure with respect to the provision of EUR 149 thousand.

The fair value measurement of the performance cash plans of the previous years resulted in income that exceeded the expense for the plan newly established in 2018 in absolute terms. The resulting total income came to EUR 599 thousand (EUR 161 thousand) in the year under review. The fair value of the performance cash plans 2015, 2016, 2017 and 2018 (2014, 2015, 2016 and 2017) as well as the respective provision come to EUR 2,024 thousand (EUR 3,305 thousand) as of the end of the reporting period.

EUR 575 thousand (EUR 441 thousand) were recognized as service cost in 2018. As of the reporting date, the defined benefit obligation for the Management Board members amounted to EUR 6,098 thousand (EUR 5,324 thousand).

In total, the expense for the remuneration of the Management Board in 2018 financial year according to IFRS amounts to EUR 3,478 thousand (EUR 3,046 thousand).

As of December 31, 2018, the TAKKT Management Board members held 536 (536) shares. There are liabilities to members of the Management Board from TAKKT Performance Bonds of EUR 1,469 thousand (EUR 1,044 thousand). In addition, there are pension obligations to members of the Management Board from the voluntary conversion of part of the bonus into a pension plan (i.e., deferred compensation) in the amount of EUR 1,160 thousand (EUR 866 thousand). In the financial year, the Management Board members voluntarily contributed EUR 110 thousand (EUR 100 thousand) from the bonus to this plan.

Payments to retired Management Board members amounted to EUR 379 thousand (EUR 778 thousand). The pension provision for former members amounts to EUR 7,612 thousand (EUR 7,008 thousand).

Supervisory Board

Remuneration paid to the TAKKT AG Supervisory Board amounted to EUR 400 thousand (EUR 400 thousand), of which EUR 375 thousand (EUR 375 thousand) were for activities in relation to the Supervisory Board, EUR 11 thousand (EUR 11 thousand) for activities in relation to the committees as well as EUR 14 thousand (EUR 14 thousand) for attendance fees. The member of the works council on the Supervisory Board is also entitled to a regular salary as set out in his employment contract which represents an appropriate remuneration for his function respectively work in the Company. The compensation of the Supervisory Board is purely a fixed compensation. Of the claims granted, EUR 386 thousand (EUR 386 thousand) were still recorded as liabilities as of the end of the reporting period. As of December 31, 2018, the Supervisory Board members held 140 (140) shares in TAKKT AG.

Detailed explanation of the remuneration of the Supervisory Board can be found in the Corporate Governance section of the Management Report on page 100.

FEES FOR GROUP AUDITOR *in EUR thousand*

	2018	2017
Audit services	381	380
Other assurance services	20	12
Tax advisory services	0	0
Other services	143	104
	544	**496**

Other assurance services include EMIR audits, the audit of the subgroup accounts of TAKKT AMERICA and the TAKKT Performance Bonds.

Other services primarily include audit-related services.

DECLARATION OF SHAREHOLDERS' HOLDINGS

Outside the reporting requirements of the German Securities Trading Act (WpHG), Franz Haniel & Cie. GmbH, Duisburg, voluntarily notified us in January 2019 that it owned 50.2 (50.2) percent of the no-par-value bearer shares with voting rights in the share capital of TAKKT AG as of December 31, 2018.

For the notifications as per section 33 (1) of the German Securities Trading Act (WpHG), please refer to our website.

EXEMPTION FROM DISCLOSURE OBLIGATIONS

Pursuant to section 264(3) of the German Commercial Code (HGB), the following companies included in the consolidated financial statements are exempt from the obligation to disclose their financial statements:

KAISER+KRAFT EUROPA GmbH, Stuttgart
KAISER+KRAFT GmbH, Stuttgart
Gaerner GmbH, Duisburg
Certeo Business Equipment GmbH, Stuttgart
VHZ Versandhandelszentrum Pfungstadt GmbH, Pfungstadt
Hubert Europa Service GmbH, Pfungstadt
Hubert GmbH, Pfungstadt
UBEN Unternehmensberatung Enzinger GmbH, Waldkirchen
ratioform Holding GmbH, Pliening
ratioform Verpackungen GmbH, Pliening
BEG GmbH, Stuttgart
TAKKT Beteiligungsgesellschaft mbH, Stuttgart
Mydisplays GmbH, Burscheid
newport.takkt GmbH, Stuttgart
büromöbelonline GmbH, Stuttgart

SUBSIDIARIES WITHIN TAKKT AG, STUTTGART, AS OF DECEMBER 31, 2018

TAKKT AG, Stuttgart, described as number 1 in the following overview, holds interests in the following companies:

No.	Group companies	held by no.	interest %
2	KAISER+KRAFT EUROPA GmbH, Stuttgart/Germany	1	100.00
3	KAISER+KRAFT GmbH, Stuttgart/Germany	2	100.00
4	KAISER+KRAFT Gesellschaft m.b.H., Salzburg/Austria	2	100.00
5	KAISER+KRAFT N.V., Diegem/Belgium	2/13	50,00/50,00
6	KAISER+KRAFT AG, Zug/Switzerland	2	100.00
7	KAISER+KRAFT s.r.o., Prague/Czech Republic	2/29	99,80/0,20
8	KAISER+KRAFT S.A., Barcelona/Spain	2	100.00
9	FRANKEL S.A.S., Morangis/France	2	100.00
10	KAISER+KRAFT Ltd., Hemel Hempstead/Great Britain	2	100.00
11	KAISER+KRAFT Kft., Budaörs/Hungary	2	100.00
12	KAISER+KRAFT S.r.l., Fenegro/Italy	2	100.00
13	Vink Lisse B.V., Lisse/The Netherlands	2	100.00
14	KAISER+KRAFT S.A., Lisbon/Portugal	2	100.00
15	KAISER+KRAFT Sp. z o.o., Warsaw/Poland	2	100.00
16	KAISER+KRAFT OOO, Moscow/Russia	2/3	99,00/1,00
17	KAISER+KRAFT s.r.o., Nitra/Slovakia	2/3	99,90/0,10
18	KAISER+KRAFT Ltd. STI., Istanbul/Turkey	2/3	99,40/0,60
19	gaerner GmbH, Duisburg/Germany	2	100.00
20	gaerner Gesellschaft m.b.H., Elixhausen/Austria	2	100.00
21	gaerner AG, Zug/Switzerland	2	100.00
22	Powell Mail Order Ltd., Llanelli/Great Britain	10	100.00
23	Gerdmans Inredningar AB, Markaryd/Sweden	2	100.00
24	Gerdmans Kontor-og Lagerudstyr A/S, Nivaa/Denmark	23	100.00
25	Gerdmans Innredninger AS, Sandvika/Norway	23	100.00
26	Gerdmans OY, Espoo/Finland	23	100.00
27	Runelandhs Försäljnings AB, Kalmar/Sweden	23	100.00
28	KWESTO Service s.r.o., Prague/Czech Republic	2/7	99,93/0,07
29	KWESTO s.r.o., Prague/Czech Republic	28	100.00
30	KWESTO Kft., Györ/Hungary	28	100.00
31	KWESTO Sp. z o.o., Wroclaw/Poland	28	100.00
32	KWESTO Service s.r.l., Ramnicu Valcea/Romania	28	100.00
33	KWESTO s.r.o., Nitra/Slovakia	28	100.00
34	UBEN Unternehmensberatung Enzinger GmbH, Waldkirchen/Germany	2	100.00
35	BEG GmbH, Stuttgart/Germany	2	100.00
36	VHZ Versandhandelszentrum Pfungstadt GmbH, Pfungstadt/Germany	1	100.00
37	ratioform Holding GmbH, Pliening/Germany	1	100.00
38	ratioform Verpackungen GmbH, Pliening/Germany	37	100.00
39	ratioform Imballaggi S.r.l., Calvignasco/Italy	37	100.00
40	ratioform Embalajes, S.A., Sant Esteve Sesrovires/Spain	38	100.00
41	ratioform Verpackungen AG, Regensdorf/Switzerland	38	100.00
42	R.F. Verpackungsmittel-Versand G.m.b.H., Vienna/Austria	38	100.00
43	Davenport Paper Co. Ltd., Derby/Great Britain	38	100.00
44	Davpack AB, Markaryd/Sweden	38	100.00
45	newport.takkt GmbH, Stuttgart/Germany	1	100.00

No.	Group companies	held by no.	interest %
46	TAKKT Beteiligungsgesellschaft mbH, Stuttgart/Germany	45	100.00
47	Mydisplays GmbH, Burscheid/Germany	45	100.00
48	Certeo Business Equipment GmbH, Stuttgart/Germany	45	100.00
49	BiGDUG Ltd., Gloucester/Great Britain	45	100.00
50	Optley Ltd., Gloucester/Great Britain	49	100.00
51	Equip4work Ltd., Westlinton/Great Britain	45	100.00
52	büromöbelonline GmbH, Stuttgart/Germany	45	100.00
53	TAKKT America Holding, Inc., Milwaukee/USA	1	100.00
54	Hubert North America Service LLC, Harrison/USA	53	100.00
55	Hubert Company LLC, Harrison/USA	53	100.00
56	Hubert Hong Kong Ltd., Hong Kong/China	54	100.00
57	SPG U.S. Retail Resource LLC, Harrison/USA	53	100.00
58	Hubert Distributing Company, Inc., Markham/Canada	53	100.00
59	Central Products LLC, Indianapolis/USA	53	100.00
60	George Patton Associates, Inc., Fall River/USA	53	100.00
61	Suntwist Corp., Maple Heights/USA	53	100.00
62	TRT Banners LLC, Pepper Pike/USA	53	100.00
63	Popupbanner LLC, Deerfield Beach/USA	53	100.00
64	Vinylbanner LLC, New York/USA	53	100.00
65	Hubert Europa Service GmbH, Pfungstadt/Germany	2	100.00
66	Hubert GmbH, Pfungstadt/Germany	65	100.00
67	Hubert Schweiz AG, Zug/Switzerland	65	100.00
68	NBF Service LLC, Milwaukee/USA	53	100.00
69	National Business Furniture LLC, Milwaukee/USA	53	100.00
70	Dallas Midwest LLC, Dallas/USA	53	100.00
71	Officefurniture.com LLC, Milwaukee/USA	53	100.00

No.	Associated companies	held by no.	interest %
72	Simple System GmbH & Co. KG, Munich/Germany	2	50.00
73	printmate GmbH, Berlin/Germany	46	30.00

REPRESENTATIVE BODIES AS OF DECEMBER 31, 2018

SUPERVISORY BOARD

Stephan Gemkow, Overath, born January 23, 1960
Chairman
Chairman of the Management Board of Franz Haniel & Cie. GmbH, Duisburg
Member of the Board of Directors of JetBlue Airways Corp., New York/USA
Member of the Advisory Board of Flughafen Zürich AG, Kloten/Switzerland

Dr. Johannes Haupt, Karlsruhe, born June 29, 1961
Deputy Chairman
Chairman of the Management Board (CEO) of E.G.O. Blanc und Fischer & Co. GmbH, Oberderdingen
Chairman of the Supervisory Board of E.G.O. Elektro-komponente d.o.o., Zagreb/Croatia
Chairman of the Advisory Board of DEFENDI Italy S.r.l., Ancona/Italy
Chairman of the Advisory Board of ETA d.o.o., Cerkno/Slovenia
Chairman of the Advisory Board of BLANCO GmbH & Co. KG, Oberderdingen
Chairman of the Advisory Board of BLANCO Professional GmbH & Co. KG, Oberderdingen
Member of the Advisory Board of ARPA S.A.S., Niedermodern/France
Member of the Board of Lenze SE, Aerzen
Member of the Supervisory Board of PFEIFFER & MAY SE, Karlsruhe (from February 05, 2019)

Dr. Florian Funck, Essen, born March 23, 1971
Member of the Management Board of Franz Haniel & Cie. GmbH, Duisburg
Member of the Supervisory Board of CECONOMY AG, Düsseldorf
Member of the Supervisory Board of Vonovia SE, Bochum
Member of the Supervisory Board of METRO AG, Düsseldorf

Thomas Kniehl, Stuttgart, born June 11, 1965
Employee for claims/research/returns at KAISER+KRAFT GmbH, Stuttgart
Chairman of the Joint Works Council of KAISER+KRAFT GmbH, Stuttgart,
and KAISER+KRAFT EUROPA GmbH, Stuttgart

Dr. Dorothee Ritz, Pullach, born March 21, 1968
General Manager of Microsoft Austria, Vienna

Christian Wendler, Hameln, born July 24, 1962
Chairman of the Management Board of Lenze SE, Aerzen
Member of the Supervisory Board of Lenze Operations GmbH, Aerzen
Chairman of the Supervisory Board of Lenze Drive Systems (Shanghai) Co., Ltd.,Shanghai/China (from January 01, 2019)
President of the Advisory Board of Lenze Bachofen AG, Uster/Switzerland (until September 01, 2018)

MANAGEMENT BOARD

Dr. Felix A. Zimmermann, Stuttgart, born June 27, 1966
Chairman of the Management Board, CEO
President of the Board of Crowdfox GmbH, Köln (until February 14, 2019)

Dr. Heiko Hegwein, Ludwigsburg, born February 06, 1974 (since February 01, 2018)
Member of the Management Board

Dirk Lessing, Bad Homburg, born March 16, 1963
Member of the Management Board

Dr. Claude Tomaszewski, Stuttgart, born April 25, 1969
Member of the Management Board, CFO

Stuttgart, March 06, 2019
TAKKT AG
The Management Board

Dr. Felix A. Zimmermann   Dr. Heiko Hegwein   Dirk Lessing   Dr. Claude Tomaszewski

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

To the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the combined Management report for TAKKT AG and the Group includes a fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stuttgart, March 06, 2019
TAKKT AG
The Management Board

Dr. Felix A. Zimmermann	Dr. Heiko Hegwein	Dirk Lessing	Dr. Claude Tomaszewski

INDEPENDENT AUDITORS' REPORT

To the **TAKKT AG, Stuttgart**

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of **TAKKT AG**, **Stuttgart**, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1 to December 31, 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report of TAKKT AG and the TAKKT Group (referred to subsequently as "combined management report"), Stuttgart, for the financial year from January 1 to December 31, 2018. In accordance with the German legal requirements we have not audited the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code in the combined management report, which contains the declaration on corporate governance and the non-financial group declaration published on the website, referred to in the section „Sustainability and Employees", has not been audited by us with regard to content.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to section 315e(1) of the German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the above mentioned parts of the combined management report which are not audited with regard to content.

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

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and the combined management report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institute of Public Auditors in Germany (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key audit matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

In our view, the key audit matter is the impairment of goodwill.

Impairment of goodwill

a) The financial statement risk

As at the end of the reporting period, the consolidated statement of financial position shows goodwill with a carrying amount of EUR 567.3 million. This corresponds to 54.7% of total assets and 90.0% of total equity.

The company's disclosures regarding goodwill are contained in sections 1, 2(6) and 3(12) of the notes to the consolidated financial statements.

In accordance with IAS 36.90, cash-generating units to which goodwill has been allocated must be tested for impairment at least once annually.

Impairment of goodwill was tested based on its recoverable amounts. The recoverable amounts of the respective cash-generating units are determined by the company based on the present values of future cash flows using discounted cash flow models. The planning, prepared by management, which takes into consideration current developments based on long-term assumptions, are extrapolated for subsequent years. The result of these measurements depends largely on the managers' planning assumptions and assessments of future cash inflows as well as on the respective discount rates used for the measurement models. The measurements are therefore subject to a high degree of uncertainty. As a result, this matter was of particular significance to our audit.

b) Audit approach and conclusions

In our audit, we performed a plausibility check on the planning which formed the basis of the impairment tests of goodwill. We also tested this for a possible biased exercise of discretion.

In addition to checking the plausibility of the underlying planning, we also assessed adherence to the budget by comparing the previous year's budget numbers with the actual amounts realized.

We paid special attention to goodwill for which the recoverable amount of the cash-generating unit approximates its carrying amount.

In addition, we evaluated the calculation methods used in terms of their methodical approach and the derivation of the discount rates, as well as with regard to mathematical accuracy in samples.

We validated the calculation results of the client by means of additional analyses, which also included sensitivity analyses.

In our view, the measurement parameters and assumptions used by management are generally appropriate for testing the impairment of goodwill. Overall, the valuation parameters and assumptions used by management are in line with our expectations.

Other information

The Management Board is responsible for the other information. The other information comprises:

- the non-financial group declaration published on the website, referred to in the section "Sustainability and Employees" of the combined management report,

- the other parts of the annual report, except the audited consolidated financial statements and the combined management report as well as our audit opinion,

- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code, which also includes the group declaration on corporate governance, and

- the confirmation pursuant to section 297(2) sentence 4 HGB regarding the consolidated financial statements and the confirmation pursuant to section 315(1) sentence 5 HGB regarding the group management report.

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

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

- is materially inconsistent with the consolidated financial statements, with the combined management report audited by us with regard to content or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

If, on the basis of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this context.

Responsibilities of the Management Board and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The Management Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e(1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the Management Board is responsible for such internal control, as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

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

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

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

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

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

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

- Evaluate the appropriateness of the accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.

- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditors' report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e(1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the Management Board in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and, where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about of the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 08, 2018. We were engaged by the Supervisory Board on September 14, 2018. We have been the group auditor of the TAKKT AG, Stuttgart, without interruption since the financial year 1999.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITORS RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Mr. Karsten Bender.

Stuttgart, March 06, 2019
Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Eppinger

Dr. Christoph Eppinger
Wirtschaftsprüfer (German Public Auditor)

Karsten Bender
Wirtschaftsprüfer (German Public Auditor)

GLOSSARY

AVERAGE ORDER VALUE
The average order value is the value of all incoming orders divided by the number of all orders. The average order value is influenced by the product range featured in the advertising media and by the economic development. If the average order value for the entire TAKKT Group is calculated, the exchange rate changes are also an influencing factor.

B2B OR BUSINESS-TO-BUSINESS
Supplier and customer relationships are deliberately established only between corporate customers.

CORPORATE GOVERNANCE
Company management according to specific rules, regulations, statutes and recommendations.

DERIVATIVE FINANCIAL INSTRUMENTS
Certificate or contract which refers to another – usually tradable – asset. Derivatives include interest rate swaps, interest rate caps, foreign exchange contracts and foreign currency options.

DIRECT MARKETING
Direct marketing in distance selling refers to addressing potential customers directly via target group-specific sales channels. Within TAKKT this includes catalog mailings, email, the provision of a customized e-procurement solution, phone calls or personal visits to the customer. The sale of the products is made exclusively via direct marketing.

DROP SHIPMENT BUSINESS
Goods ordered by the customer – including bulky items – are delivered from the supplier directly to the customer. The invoicing procedure is the same as with stock shipment.

EBIT
Earnings before interest and taxes.

EBITDA
Earnings before interest, taxes, depreciation and amortization.

EQUITY RATIO
The equity ratio is determined by dividing total equity by the total assets.

DEBT REPAYMENT PERIOD
This figure defines the arithmetical duration of debt repayment in years. TAKKT defines this as average net financial liabilities divided by the TAKKT cash flow.

E-PROCUREMENT
The electronic catalog available on the internet is edited for the sourcing system or intranet of the customer or for electronic marketplaces. This procurement approach allows the customer to save on transaction costs.

FIELD SALES
The term field sales integrates several classical external sales activities. TAKKT differentiates between two kinds of sales employees. The sales rep acquires new customers and manages major project-based orders. The tasks of a customer relationship manager are similar to those of a key account manager who individually supports customers with a greater turnover potential.

GEARING
Gearing measures the ratio between total equity and net financial liabilities. This ratio is calculated by dividing net financial liabilities by total equity.

HEDGING
Protection against interest rate, currency and price risks, etc. by using original or derivative financial instruments such as option or forward deals which (largely) cover the risks of the underlying transaction.

INTEREST COVER
This figure shows the relation between the EBITA and net finance expense.

MARKET VALUES
Certain balance sheet items are recognized at the value that can be realized in or be derived from a market – e.g. the stock exchange – at the closing date.

MULTI-CHANNEL BRANDS
Multi-channel brands combine traditional catalog business with e-commerce activities. Where appropriate, employees for telesales and field sales are part of this approach.

NET FINANCIAL LIABILITIES
Net financial liabilities are the balance of all financial liabilities and liquid funds reported in the balance sheet.

NET PROMOTER SCORE
The Net Promoter Score, or NPS, is a measure that provides insight into the satisfaction of a company's customers. Collecting the value is a common way to capture the likelihood of referral using a standardized survey.

ONLINE MARKETING
One tool of online marketing is Search Engine Advertising (SEA). The term SEA describes running paid advertisements in online search engines. The advertisements are purchased for certain key search terms. The advertisement generally appears on the first page of the search results. Search Engine Optimization (SEO) is another marketing measure. SEO is the optimization of the content of the web shops for search engines. This is done to gain a higher ranking in their organic results.

PERFORMANCE BRANDS
Under the performance brands, the TAKKT companies carry products that at least meet the industry standard or even satisfy higher quality standards. The profiles of these brands are complemented by the extremely high level of customer support. Performance brands lead to long-lasting customer loyalty and achieve above-average margins.

PRIVATE LABELS
Private labels at TAKKT are the in-house product lines of the Group companies. With these product lines, the companies aim to acquire new customers and retain existing customers for the long term. See also Performance Brands.

RISK MANAGEMENT
Systematic approach to identifying and assessing potential risks for a company and choosing and implementing measures to avoid or reduce these risks.

ROCE
The Return on Capital Employed (ROCE) measures the profitability before tax of the capital employed. This key figure shows the EBIT in relation to capital employed, which is defined as total assets reduced by the non-interest-bearing current liabilities. The ROCE therefore expresses the operating earning power of the capital employed.

STOCK SHIPMENT BUSINESS
Goods ordered by the customer are delivered from the warehouse. The products are kept in stock by the TAKKT companies.

TAKKT CASH FLOW/FREE TAKKT CASH FLOW
The TAKKT cash flow is calculated from EBITDA less financial result and less current income tax. It includes the other non-cash expenses and income as well as non-cash income and losses on disposals of fixed assets. TAKKT cash flow thus shows the operational cash flow earned in the reporting period before the effects from the changes in current net working capital. After adjusting the TAKKT cash flow for the change in net working capital and deducting investments as well as adding divestments, the free TAKKT cash flow can be derived. This free TAKKT cash flow can generally be used for acquisitions, payments to shareholders and repayment of financial liabilities.

TAKKT VALUE ADDED
TAKKT value added serves as an important key figure for a longer term, value-oriented controlling. It is defined as the difference between the profit generated and the cost of capital on the average capital employed.

TELEMARKETING/TELESALES
Telemarketing and telesales are sales activities made by calling customers by phone (outbound). TAKKT distinguishes between telesales, which are sales made over the telephone, and telemarketing, which is the preparatory telephonic analysis of potential of customers and arrangement of meetings with them. This is in contrast to the typical inbound activities of direct marketing companies for accepting orders by telephone.

TOTAL SHAREHOLDER RETURN (TSR)
This is also referred to as yield on shares. TSR corresponds to the total return of a share, taking into account share price changes and any dividends distributed.

WEB-FOCUSED BRANDS
Web-focused brands mainly distribute their products over the internet and address smaller businesses with lower demand. Here the range and prices of products can be adapted more specifically to the rapidly changing needs of this customer group.

LOCATIONS SEGMENT TAKKT EUROPE

BELGIUM Diegem **DENMARK** Nivaa **GERMANY** Berlin | Burscheid | Duisburg | Groß-Gerau | Haan | Halle | Kamp-Lintfort | Köln | Leinfelden-Echterdingen | München | Nürnberg | Pfungstadt | Pliening/Landsham | Reinbek | Remda-Teichel | Schönaich | Schöneiche | Stuttgart | Waldkirchen | Weil der Stadt **FINLAND** Espoo **FRANCE** Morangis **GREAT BRITAIN** Derby | Dumfries | Gloucester | Hemel Hempstead | London | Mitcheldean | Stoke-on-Trent **ITALY** Calvignasco | Fenegrò **NETHERLANDS** Lisse **NORWAY** Sandvika **AUSTRIA** Elixhausen | Salzburg | Wien **POLAND** Warszawa | Wrocław **PORTUGAL** Lisboa **ROMANIA** Râmnicu Vâlcea **RUSSIA** Balashikha **SWEDEN** Halmstad | Kalmar | Markaryd **SWITZERLAND** Regensdorf | Steinhausen/Zug | St. Sulpice **SLOVAKIA** Nitra **SLOVENIA** Ljubljana **SPAIN** Barcelona | Sant Esteve Sesrovires **CZECH REPUBLIC** Jihlava | Praha **TURKEY** Mecidiyeköy – Sisli/Istanbul **HUNGARY** Budaörs | Györ

LOCATIONS SEGMENT TAKKT AMERICA

CANADA Markham, ON **USA** Atlanta, GA | Austell, GA | Cleveland, OH | Dallas, TX | Fall River, MA | Harrison, OH | Indianapolis, IN | Los Angeles, CA | Milwaukee, WI | Maple Heights, OH | New York, NY | Reno, NV

FINANCIAL CALENDAR 2019

JANUARY 10	Oddo BHF Forum, Lyon
JANUARY 23	Unicredit and Kepler Cheuvreux GCC, Frankfurt
FEBRUARY 21	Publication of Preliminary Figures for 2018
MARCH 28	Publication of the Annual Report 2018 Analysts' Conference, Frankfurt
APRIL 03	Bankhaus Lampe German Conference, Baden-Baden
APRIL 03 – 04	Spring Roadshow
APRIL 04	Crédit Mutuel CIC ESN European Conference, Paris
APRIL 25	Quarterly Statement 1/2019
MAY 07	Bankers' Day, Stuttgart
MAY 15	Shareholders' Meeting, Ludwigsburg
MAY 21 – 22	Berenberg European Conference USA, Tarrytown, New York
JULY 25	Half-year Financial Report 2019
AUGUST 29	Commerzbank Sector Conference, Frankfurt
SEPTEMBER 24	Berenberg and Goldman Sachs GCC, Munich
OCTOBER 24	Quarterly Statement 3/2019
NOVEMBER 27	Equity Forum, Frankfurt

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