

ANNUAL REPORT 2017



ALZCHEM AT A GLANCE

INNOVATIVE SINCE
1908

~ € **354**
mn sales generated by AlzChem in the fiscal year 2017

 **1,491**

employees support the processes and products of AlzChem with their know-how on a daily basis*

*average over the financial year 2017



AlzChem products are sold worldwide

~ € **46**
mn EBITDA achieved by AlzChem in the fiscal year 2017

~ € **31**
mn cash flow from operating activities in the fiscal year 2017

ALZCHEM AT A GLANCE

THREE REPORTING SEGMENTS

39.8 % **BASICS & INTERMEDIATES**

Production of chemical intermediates for direct sale or refinement as specialty chemicals products

52.5 % **SPECIALTY CHEMICALS**

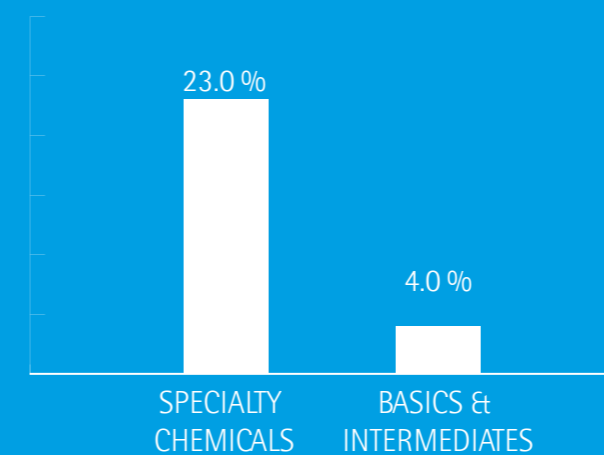
Production and distribution of high-quality chemical products



7.7 % **OTHER & HOLDING**

Other activities, mainly services related to the chemical parks Trostberg and Hart

EBITDA MARGIN BY MAIN SEGMENTS



MARKETS



FOOD



FINE CHEMISTRY



AGRICULTURE



METALLURGY



RENEWABLE ENERGIES

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LETTER OF THE MANAGEMENT BOARD

Dear shareholders,

In the past fiscal year 2017, we initiated significant further steps in our company's development with our IPO and the decision to expand CreAMINO® production. Operationally, we were able to achieve all of our goals and are very satisfied with the course of the fiscal year, in which we determinedly pursued our promising strategic orientation in a growing market. We have further consolidated our leading position in select niche markets of specialty chemicals and transformed them into profitable growth. By posting an 8% increase in sales to EUR 353.9 mn, we also achieved our forecast. EBITDA amounted to EUR 45.7 mn and is thus within the range of our full-year expectations. This represents an increase of 18.3% compared to the previous year (EUR 38.6 mn) and results in an EBITDA margin of 12.9%. Both figures have been adjusted for one-time charges for the IPO. Both operating segments contributed to sales growth in 2017, reflecting the healthy structure of our company.

The positive results of fiscal year 2017 also confirm our position as a fully integrated chemical company with its growth plan clearly focused on the "Specialty Chemicals" segment. In this highly profitable segment, we laid the foundations for continued positive development in the last fiscal year. Together with the Supervisory Board, we decided to set up a new production facility for our feed additive CreAMINO® at the Trostberg site for around EUR 50 mn. This is the largest investment in AlzChem's history, which we accomplished with borrowed capital and internal resources. The expected tripling of CreAMINO® production capacities from 7,000 to 21,000 metric tons per year will position us to sustainably anticipate the expected increase in demand. The project is already fully financed, construction began in March of this year and the plant is expected to be completed in mid-2019. Demand for our other specialty chemicals such as the plant growth regulator Dormex® and the nutrition supplement Creapure® has also developed positively. The successful relaunch of our website www.creapure.com has contributed to this.

The "Basics & Intermediates" segment was exposed to sharply rising raw material prices in the past fiscal year. This development is closely linked to the positive economic trend and we therefore expect it to continue. In addition, there are stricter environmental requirements on the world's largest raw material producer, China, which, for example, led to factory closures and subsequently rising prices. Even in this environment, a significant increase in segment sales was recorded.

Overall, we expect the company to continue to develop positively in 2018, which will be driven by our focus on the growing "Specialty Chemicals" segment. At Group level, we therefore expect sales growth in the mid-single-digit percentage range for 2018 and EBITDA growth in the upper single-digit percentage range.

The constant further development of AlzChem will continue to be our primary objective in the current fiscal year in order to identify and capitalize on future growth potential. This constant development is made possible by our employees, whom we would like to thank for their commitment. We would also like to thank you, dear shareholders, for your trust in us and would be delighted to have you continue to accompany AlzChem on its exciting path into a successful future.

Kind regards,

AlzChem Group AG Management Board



Ulli Seibel, CEO



Klaus Englmaier, COO



Andreas Niedermaier, CFO

The Executive Board of AlzChem Group AG, from left to right:
Andreas Niedermaier, CFO, Ulli Seibel, CEO and Klaus Englmaier, COO



REPORT OF THE SUPERVISORY BOARD

Dear Ladies and Gentlemen,

The contribution of AlzChem AG (now AlzChem Trostberg GmbH) last year, with the approval of the Supervisory Board, laid the foundations for the sustainable positive development of both AlzChem Group AG and the AlzChem Group, paving the way for future growth.

The Supervisory Board and the Management Board have decided on pioneering investments at the operational level. Of particular note is the EUR 50 mn investment, the highest in the company's history. This investment was approved for the construction of a new CreAMINO® production plant at the traditional site in Trostberg. When the plant is completed, production capacity at the Trostberg site will triple from 7,000 to 21,000 metric tons per year. In addition, the Supervisory Board approved an investment of around EUR 7.2 mn in the expansion of nitrile plants at the Trostberg site. The AlzChem Group is strengthening its Specialty Chemicals segment with this expansion of its capacity and will thus continue to participate in the long term in the ongoing megatrend of the growing world population and the associated growth in the markets for feed additives and growth regulators for crops.

COOPERATION WITH THE MANAGEMENT BOARD

The forward-looking decisions were made possible not least by the trusting cooperation of the Management Board and the Supervisory Board. The Supervisory Board exercised its mandate with great care. In its meetings, in one-to-one discussions with the Management Board and through verbal and written reports, it regularly and thoroughly informed itself on the situation of the AlzChem Group. In doing so, the Supervisory Board performed its duties according to the law, the articles of association and the rules of procedure incumbent on it, and was convinced of the legality, regularity and practicality as well as the economic efficiency of the work of the Management Board. For example, the Supervisory Board continuously monitored the Management Board and provided advice on its intended business policies and all decisions of major importance to the company and the Group. The Chairman of the Supervisory Board was also immediately and extensively informed by the Management Board of all important business transactions and passed resolutions on issues of major importance to it in accordance with the law and the articles of association following comprehensive consultation. The Supervisory Board was kept thus always informed on the business situation and development, the intended business policies, the short, medium and long-term corporate planning including investment, financial and personnel planning as well as the profitability of the company, organizational measures and the overall situation of the Group. Furthermore, there was a regular flow of information on the risk position and risk management. The members of the Supervisory Board had ample opportunity to critically examine the submitted reports and proposed resolutions of the Management Board and to submit their own suggestions. In particular, all business transactions relevant to the company were discussed intensively on the basis of the Management Board reports and checked for plausibility. The Supervisory Board gave its approval for individual business transactions insofar as this was required by law, the articles

of association or the rules of procedure for the Management Board. Outside the Supervisory Board meetings, the Chairman of the Supervisory Board maintained regular contact with the Management Board and was informed about the current development of the business situation and the primary business transactions.

ORGANIZATION AND WORK OF THE SUPERVISORY BOARD

In terms of personnel, the Supervisory Board was reorganized in the context of the realignment with the number of Supervisory Board members increasing to four. Mr. Mark Wechselmann resigned from his mandate as of June 9, 2017, and the Supervisory Board members Mr. Bernhard Riedel (Supervisory Board member since May 23, 2017), Mr. Constantin Häfner and Mr. András von Kontz resigned from their mandates on August 4, 2017. The Annual General Meeting on August 4, 2017, elected Mr. Markus Zöllner, Prof. Dr. Martina Heigl-Murauer, Dr. Caspar Freiherr von Schnurbein (with effect from August 4, 2017) and Mr. Steve Röper (with effect from the registration of the amendment to the articles of association as of August 4, 2017, and therefore from October 2, 2017) new Supervisory Board members so that the Supervisory Board now consists of four members. On August 4, 2017, the Supervisory Board elected Mr. Markus Zöllner to serve as Chairman of the Supervisory Board and Dr. Caspar Freiherr von Schnurbein as Deputy Chairman.

By resolution of December 4, 2017, the Supervisory Board approved the establishment of an Audit Committee consisting of Prof. Dr. Heigl-Murauer (Chairwoman), Dr. Caspar Freiherr von Schnurbein and Mr. Markus Zöllner as well as a Nominating Committee, consisting of Markus Zöllner (Chairman), Dr. Caspar Freiherr von Schnurbein and Mr. Steve Röper.

Last year, the Supervisory Board met for a total of ten Supervisory Board meetings. The focus of the deliberations was on the comprehensive realignment of the business activity and the associated economic and organizational issues as well as, after activation, the careful examination of the economic orientation and planning, in particular:

- the general approval of the planned realignment and the capital increase as well as the approval of the related contracts and documents,
- the election of the new Management Board members and the passing of resolutions on the rules of procedure for the Supervisory Board and the Management Board,
- advice on the economic position and the planned investments in the future, in particular the construction of the new CreAMINO® production plant and the expansion of the nitrile plants as well as
- the adjustments under company law, in particular the conversion of the subsidiary AlzChem AG into AlzChem Trostberg GmbH.

All Supervisory Board members attended all of the Supervisory Board meetings. The committees newly constituted by resolution of December 4, 2017, did not convene in the past year and will begin with their work for the first time in fiscal year 2018.

STATEMENT ON THE FINANCIAL STATEMENTS AND THE INDIVIDUAL FINANCIAL STATEMENTS

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (Munich Branch, "PWC"), the auditor appointed by the Supervisory Board, has audited the annual accounts of AlzChem Group AG for fiscal year 2017 presented by the Management Board to the Supervisory Board as well as the management report, the financial statements of AlzChem Group AG for fiscal year 2017 and the Group management report. The auditor has determined that the statutory provisions have been adhered to and issued an unqualified auditor's report in accordance with Section 322 HGB (German Commercial Code) to the annual accounts, financial statements, management report and the Group management report presented.

The financial statements, management reports and audit reports provided to PWC were submitted to all members of the Supervisory Board and were dealt with comprehensively at the meeting of the Audit Committee on March 7, 2018, and at the meeting of the Supervisory Board on March 7, 2018, in the presence of the auditor, who, in addition to the Management Board, reported on the significant results of his examination.

The Supervisory Board raises no objections to the annual accounts of AlzChem Group AG for fiscal year 2017 and the related management report, the consolidated financial statements for fiscal year 2017, the accompanying Group management report and the results of the audit and has approved the respective annual accounts and financial statements. The annual accounts are thus established.

The Management Board's proposal for the appropriation of profits from fiscal year 2017 was also examined and discussed with the Management Board in the presence of the auditor. No objections arose from the examination. Following its own review, the Supervisory Board approved the proposal of the Management Board regarding the appropriation of net accumulated loss.

CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

Compliance with the principles of good corporate governance is of fundamental importance to the Supervisory Board. In 2017, together with the Management Board, the Supervisory board therefore declared in its Declaration of Conformity pursuant to Section 161 AktG that it will follow the recommendations of the government commission "German Corporate Governance Code" ("GCGC") in principle in the version dated February 7, 2017. This does not preclude individual justified deviations from the GCGC, which are explained in the Declaration of Conformity on the website of the AlzChem Group. The company intends to continue to comply with these recommendations in the future with the deviations explained on the website. Moreover, the company refers to the joint corporate governance report of the Management Board and the Supervisory Board on p. 84.

The Supervisory Board also examined the non-financial report on corporate social responsibility of the AlzChem Group (p. 71) and considers the concepts developed by the Management Board for compliance with the non-financial aspects of the company to be expedient and appropriate.

CONCLUDING REMARK

The great success of the past year would not have been possible without the commitment of all those involved in the company. The Supervisory Board therefore expresses its gratitude and appreciation to the Management Board, the works councils and all employees of the AlzChem Group for their dedication and hard work.

Markus Zöllner
Chairman of the Supervisory Board of AlzChem Group AG

The Supervisory Board of AlzChem Group AG, from left to right:
Dr. Freiherr von Schnurbein, Markus Zöllner (Chairman of the Supervisory Board), Prof. Dr. Martina Heigl-Murauer and Steve Röper



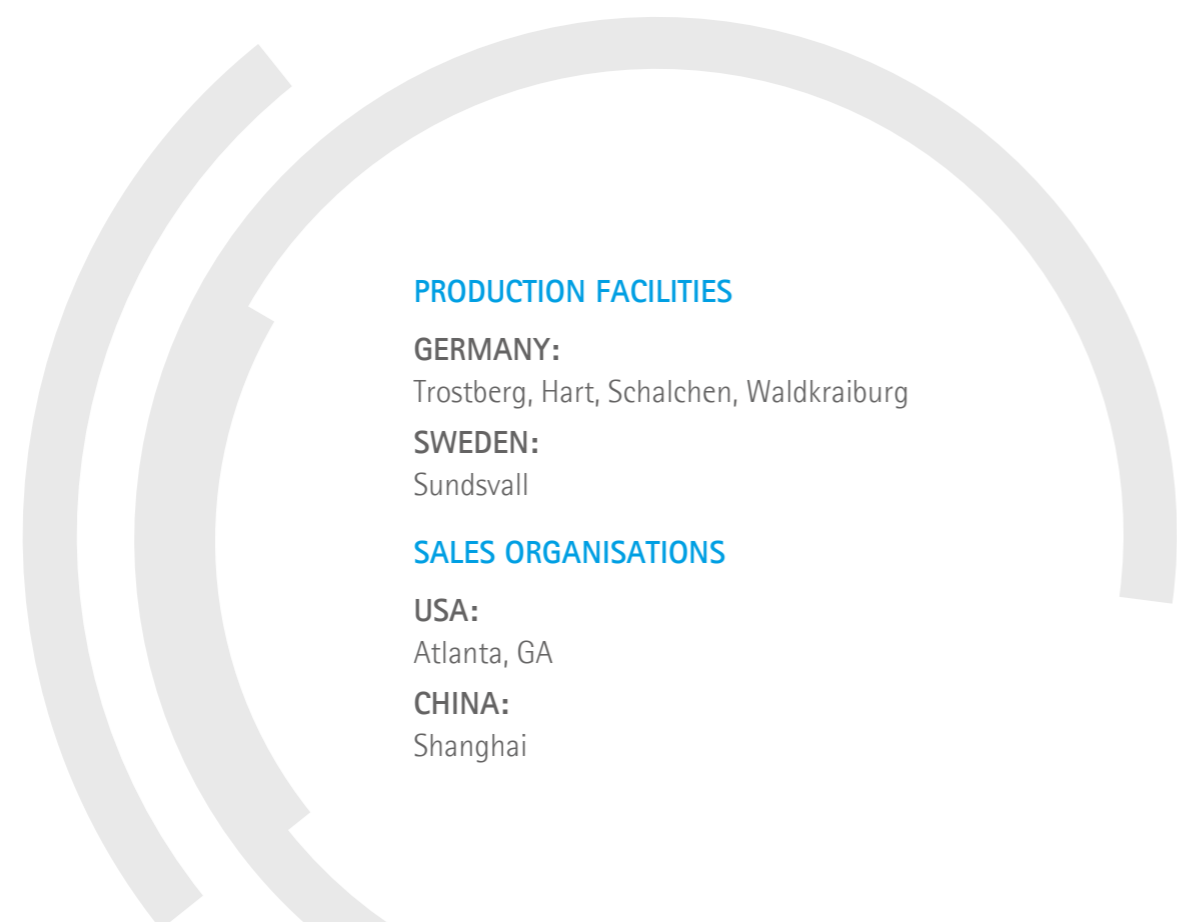
ABOUT ALZCHEM

AlzChem Group AG is a vertically integrated, internationally active manufacturer of various chemical products based on the NCN chain. These products have typical nitrogen-carbon-nitrogen bonding used in a variety of industries. These primarily include the food industry, fine chemicals, agriculture, metallurgy and renewable energies.

AlzChem Group AG's operative business can be divided into three segments along the entire value chain. The Specialty Chemicals segment, the largest segment that accounts for more than 50% of sales, comprises the production and distribution of high-quality chemical products. The Basics & Intermediates segment combines the production of chemical intermediates based on the starting materials calcium carbide and calcium cyanamide. These intermediates are either sold directly to third parties or further processed into specialty chemicals. The third operating segment Other & Holding encompasses all other activities. These largely entail services related to the chemical parks operated by AlzChem (also for third parties) in Trostberg and Hart.

	2014	2015	2016	2017
Net sales (EUR mn)	290.7	322.6	327.2	353.9
EBITDA (EUR mn)	32.4	33.2	38.6	45.7
Adjusted EBITDA (EUR mn)*	-	-	44.9	47.7
EBITDA margin	11.1%	10.3%	11.8%	12.9%
Adjusted EBITDA margin*	-	-	13.7%	13.5%
Cash flow from operating activities (EUR mn)	17.9	28.2	33.1	30.7

*Adjusted for non-recurring costs in connection with the IPO



PRODUCTION FACILITIES

GERMANY:

Trostberg, Hart, Schalchen, Waldkraiburg

SWEDEN:

Sundsvall

SALES ORGANISATIONS

USA:

Atlanta, GA

CHINA:

Shanghai

INTEGRATED PRODUCTION

A key feature of the AlzChem Group is its vertical integration along the calcium carbide/calcium cyanamide chain (NCN chain). This means that most of the company's products are based on the same starting materials: lime and coal. AlzChem performs many processing steps itself and is increasingly starting with material refinement.

The operation of this integrated production system is only possible due to its four historically grown sites in the Bavarian Chemical Triangle which enjoy such close proximity.

Integrated production allows AlzChem to react flexibly to changes in demand as many products from the Basics & Intermediates segment are also raw materials for the Specialty Chemicals segment. Synergies also exist in the production process as well as research and development. As a result of integrated production, the company is also less dependent on external suppliers.



GROWTH DRIVER

POPULATION GROWTH

In 1900, around 1.7 billion people lived on our planet. By the year 2000, this figure had increased to more than 6.1 billion. Only 17 years later, in 2017, the world population amounted to around 7.6 billion. The United Nations expects a realistic increase by the year 2030 to over 8.6 billion people.¹ At the same time, agricultural areas are limited worldwide. Against this backdrop, efficient processes are necessary to provide the growing population with food for the future as well as possible. The AlzChem Group's products meet these requirements and can be used in increasingly optimized agricultural production.

CreAMINO[®]

Under the brand CreAMINO^{®2}, AlzChem distributes a feed additive for efficient agricultural production processes. CreAMINO[®] is a guanidinoacetic acid (GAA) and is further processed into the body's own substance creatine once absorbed in the body of the animal. This process improves feed utilization, meaning nutrients in the feed can be better absorbed. Increased feed utilization also stimulates natural muscle growth. This in turn leads to a reduction in the total feed quantity required as well as a smaller holding time for animals. Using CreAMINO[®] can thus lead to cost savings for users. CreAMINO[®] is approved in important markets such as the EU and the US, mainly in the poultry sector. AlzChem also wants to address more animal species going forward.

Dormex^{®3}

The AlzChem product Dormex^{®3} is a growth regulator (so-called dormancy breaker) for cultivated plants such as table grapes, cherries and blueberries. With the help of Dormex[®], farmers in permanently warm climates can control the budding of their plants in order to coordinate harvests at need. In addition, using Dormex[®] increases the number of buds per plant, which in turn leads to an increase in crop yield. The properties of Dormex[®] contribute to ensuring a continuous supply of fruit and vegetables from the most diverse regions of the world to the end consumer throughout the whole year.

¹UN | ²CreAMINO[®] brand of Evonik | ³[®] refers to trademarks for the European Union or at least one country in the EU.



GROWTH DRIVER

HEALTHY AGING

The world population, especially in western industrial nations, is constantly aging. The average global life expectancy in 2000 was around 66.4 years.⁴ Already by the year 2015, humans lived an average of about 71.4 years.⁵ Scientists expect life expectancy to rise significantly in the coming years.⁶ Medical progress is a key factor in the prevention and treatment of diseases. So-called civilization diseases and age-related diseases are no exceptions, however. At the same time, awareness of health and nutrition is gaining in importance, so older people in particular are increasingly active in sports and consciously paying attention to a healthy diet. With its products, the AlzChem Group wants to support these developments in the pharmaceutical, cosmetics and healthcare sectors.

Creapure[®]

AlzChem, under the brand name Creapure[®], provides a dietary supplement consisting of the body's own creatine, which is mainly used for muscle building and physical activity. Due to these characteristics, Creapure[®] addresses the sports/fitness industry as well as the age group of over 55-year-olds. Natural decrease in muscle mass tends to start around this age. In order to reduce an age-related decline in muscle strength, older people can proactively react with the daily intake of Creapure[®] in combination with regular strength training. The European Food Safety Authority (EFSA) officially confirmed the positive effect of creatine in 2017.

BioSELECT[®]

With BioSELECT[®], AlzChem produces high-purity guanidine salts such as guanidine hydrochloride or guanidinium thiocyanate. These products are used, for example, in the biotechnological production of pharmaceutical drugs as well as in DNA diagnostics. The decisive factor here is the consistently high quality of the products, which AlzChem can reliably deliver thanks to its integrated production.

⁴World Health Organisation (WHO) | ⁵Ebenda | ⁶Lancet Medical Journal



GROWTH DRIVER

ENERGY EFFICIENCY

Energy efficiency and renewable energy are gaining in importance worldwide. This is on the one hand due to legal and regulatory requirements; on the other hand, many technologies are now at a stage where the economic benefit is attractive. Accordingly, the demand for photovoltaic and wind power plants is increasing. Globally installed wind and solar power systems increased from about 80 GW in 2006 to more than 762 GW in 2016, which corresponds to average annual growth of more than 25%.⁷ This growth trend is expected to continue in the future. AlzChem sees itself well positioned to participate in this development.

Silzot®

Under the Silzot® brand, AlzChem is launching silicon nitride powders that open up various application possibilities. Silzot® can be used as a release agent for the production of photovoltaic cells. Using Silzot® protects cells from contamination from the mold. Silzot® thus improves the purity of solar modules in the production process. Silzot® is also used in the ceramics industry for parts that must withstand extreme mechanical and thermal influences. These include ball bearings used in windmills.

DYHARD®

DYHARD® is a brand for a variety of different thermosetting epoxy curing and accelerating systems. Such systems are used with almost all modern composite materials such as fiber glass-reinforced plastics or carbon components. DYHARD® products can be found in a variety of end products. These are used both in the production of rotor blades for windmills, CNG pressure cylinder containers, automotive and sports articles as well as in aircraft construction.

⁷International Renewable Energy Agency (IRENA): Renewable Capacity Statistics 2017



OVERVIEW

Since October 9, 2017, 101,763,355 ordinary shares of AlzChem Group AG have been listed in the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange. AlzChem AG successfully transformed into the listed AlzChem Group AG (formerly Softmatic AG) through a combined cash and non-cash capital increase, raising AlzChem Group AG's share capital from EUR 310,000.00 to EUR 101,763,355.00. The non-cash capital increase was recorded in the commercial register on October 2, 2017.

At the time of the listing on October 9, the price was EUR 2.95. After a steep upward movement, the price peaked at EUR 4.57 on October 23 during the observation period, followed by a downward movement to around EUR 3. The price stabilized at this level and stood at EUR 2.89 at the end of the year. This year-end exchange rate led to a market capitalization of AlzChem Group AG of EUR 293.7 mn on the reporting date of December 31, 2017.

SHARE DETAILS

ISIN/WKN	DE000A0AHT46/A0AHT4
Ticker symbol	SFP1
Type and number of shares	101,763,355 no-par value bearer shares
Trading segment	Regulated Market (Prime Standard)
Designated Sponsor	Baader Bank AG
Market capitalization on December 31, 2017*	EUR 293.7 mn

*Xetra closing price on December 29, 2017



SHAREHOLDER STRUCTURE

Shareholder	%
LIVIA Corporate Development SE	47.70
HDI Vier CE GmbH	26.38
four two na GmbH	19.79
Jan Ulli Seibel	4.93
Freefloat	1.19

INVESTOR RELATIONS

AlzChem Group AG attaches great importance to active dialogue with investors, analysts and financial journalists, and maintained a continuous exchange of information with its shareholders and stakeholders in fiscal year 2017. The regular and timely publication of company-relevant reports underscores the objective of providing comprehensive information on the company's development. AlzChem Group AG meets the highest transparency requirements with its listing in the Prime Standard of the Frankfurt Stock Exchange.



GROUP ANNUAL AUDIT

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), Munich, has audited the **Annual Financial Statements** of AlzChem Group AG as of December 31, 2017, prepared in accordance with the provisions of the German Commercial Code, the **Consolidated Financial Statements** prepared in accordance with Section 315 e (1) HGB on the basis of international accounting standards IFRS as adopted by the EU, and the **Group Management Report** for fiscal year 2017, which was prepared separately for AlzChem Group AG and the AlzChem Group and each issued with the unqualified auditor's report in accordance with Section 322 HGB.

The Supervisory Board issued the audit mandate for the Annual Financial Statements of AlzChem Group AG and the Consolidated Financial Statements in accordance with the resolution of the Annual General Meeting on August 4, 2017. The audit of the **early risk detection system** is included in the annual audit in accordance with Section 317 (4) HGB. The audit has shown that the Management Board has taken the measures required by Section 91 (2) AktG to set up an early risk detection system in an appropriate form and that the early risk detection system is capable of detecting developments that endanger the continued existence of the Group at an early stage.

The Management Board has forwarded the above-mentioned financial statements, the auditors' reports and the proposal of the Management Board for the appropriation of profits to all members of the Supervisory Board in preparation for the discussion at the Supervisory Board meeting on March 7, 2018. At its meeting on March 7, 2018, the **Audit Committee** discussed the audit and the handling of these documents in the plenary session of the Supervisory Board, and discussed the financial statements and the audit reports as well as the proposal for the appropriation of profits with the participation of the auditors. The Audit Committee also was informed by the **auditor** of the effectiveness of the early risk detection system in relation to management reporting, whereby the auditor stated that the Management Board had taken the necessary measures to set up an early risk detection system in accordance with Section 91 (2) AktG, and that the early risk detection system is capable of identifying developments that threaten the survival of the Group at an early stage.

The Supervisory Board thoroughly examined the Annual Financial Statements of **AlzChem Group AG**, the Consolidated Financial Statements, the respective management reports for fiscal year 2017 and the proposal of the Management Board for the appropriation of profits after the presentation of these documents by the Management Board and discussed them at its meeting on March 7, 2018. The auditors also attended this meeting, reported on the main findings of their audit, and answered questions from the Supervisory Board regarding the nature and scope of the audit and the results of the audit.

The **Supervisory Board** came to the conclusion that the audit had been carried out properly by the auditor and that the audit and the audit reports met the legal requirements. After careful consideration of the Annual Financial Statements, the Consolidated Financial Statements and the management reports¹, the Supervisory Board declares that it has no objections to the annual and Consolidated Financial Statements and the respective management reports after concluding its audit. Following the recommendation of the **Audit Committee**, the Supervisory Board approved the results of the auditor. The Supervisory Board therefore **approved** the Annual Financial Statements and approved the Consolidated Financial Statements at its meeting on March 7, 2018.

In its assessment of the situation of the company and the Group, the **Supervisory Board** agrees with the assessment expressed by the Management Board in the Group Management Report. The Supervisory Board approved the proposal of the Management Board for the appropriation of the balance sheet profit.

ALZCHEM GROUP AG

SITE TROSTBERG

DETAILS OF THE ACCOUNTING AND AUDITING

AlzChem Group AG prepares its Annual Financial Statements in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The Consolidated Financial Statements are prepared in accordance with the principles of the International Financial Reporting Standards (IFRS) as adopted by the EU and the additional provisions of German law required by Section 315 (1) HGB.

At the proposal of the Supervisory Board, the Annual General Meeting on August 4, 2017, elected PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), Munich, as the auditors for the Annual Financial Statements and Consolidated Financial Statements as well as the Group Management Reports of AlzChem Group AG and the Group Management Report for fiscal year 2017. The Supervisory Board had previously convinced itself of the auditor's independence. The **undersigned auditors** for the annual and Consolidated Financial Statements of AlzChem Group AG are Ms. Anita Botzenhardt and Mr. Marcel Hohbein.

GROUP MANAGEMENT REPORT

1. PRINCIPLES OF THE GROUP

1.1. BUSINESS MODEL

The companies of the AlzChem Group develop, produce and market chemical products of all kinds and provide services, also operating as a chemical park. AlzChem's **networked production structure** creates a powerful value-added chain that can be used for **basic products** such as metallurgical additives or fertilizers, but also for special products for a variety of markets, for example:

- **CreAMINO®** as a feed additive
- **Creapure®** as a dietary supplement
- **Dormex®** as growth regulator for agricultural applications
- **BioSelect®** for the pharmaceutical market
- **CalciPro®** for metallurgical applications

With its product portfolio, the **AlzChem Group** serves a broad **range of industries**.

- **Nutrition:** The nutrition segment encompasses the marketing of high-quality **Creapure®** products for food and sports foods as a dietary supplement and as an additive in cosmetics manufacturing. Furthermore, the products are used in the pharmaceutical industry. The new feed additive **CreAMINO®** makes a valuable contribution to livestock farming.
- **Pharma and fine Chemicals:** Based on coal, limestone and air, the company builds up a broad and comprehensive product portfolio. In multi-purpose facilities, the basic products are refined and a wide range of fine chemicals are manufactured, which are sometimes used in the pharmaceutical industry such as **BioSelect®**.
- **Agriculture:** The product range of the **AlzChem Group** includes special fertilizers such as **Perlka®**, the **Dormex®** plant growth regulator for table and wine grapes and other fruits growing as well as plant protection additives.
- **Renewable Energy:** With the **DYHARD®** product range, AlzChem Trostberg GmbH is involved in the development of ever larger wind turbines. The product **Silzot®** SQ plays an important role in the competitive production of polycrystalline silicon solar wafers.
- **Metallurgy:** Here the company serves two important segments within the steel industry: hot metal desulfurization and secondary metallurgy.
- **Service:** As the site operator of two chemical parks, AlzChem Trostberg GmbH is also tasked with the production and distribution of various infrastructure services.

AlzChem produces at four locations in the **Bavarian Chemical Triangle** and in Sundsvall, **Sweden**. Furthermore, AlzChem has sales companies in the strategically important **US** and **Chinese** markets.

The operating business of the **AlzChem Group** can be divided into the three operational reportable business segments "**Specialty Chemicals**", "**Basics & Intermediates**" and "**Other & Holding**" along the entire value chain and based on the internal reporting structure.

The "**Specialty Chemicals**" segment focuses on the production and distribution of high-quality growth products that contain specialty chemicals such as **CreAMINO®**, **Creapure®**, **BioSelect®**, **Silzot®**, **DYHARD®** and **Dormex®**.

The "**Basics & Intermediates**" segment covers the production of basic and intermediate products. On the one hand, these serve as raw materials for the production of specialty chemicals; on the other hand, these can be marketed as independent products comprehensive range of applications, for example in farming, steelmaking and in the automotive sector.

The “**Other & Holding**” segment comprises all other activities that cannot be assigned to the other segments. Essentially, these are services related to the Trostberg and Hart chemical parks operated by AlzChem (including for third parties). In addition, administrative services are allocated to the segment.

1.2. GROUP STRUCTURE

With effect from October 2, 2017, **AlzChem Group AG** (formerly Softmatic AG) became the parent company of the **AlzChem Group**. In the reporting period, AlzChem Group AG (formerly Softmatic AG) had no own business activities. With the registration and implementation of capital increases in the commercial register, the company was renamed AlzChem Group AG and acquired the status of the **parent company** of the **AlzChem Group**. In December 2017, AlzChem AG was converted into a limited liability company and since then has been operating as AlzChem Trostberg GmbH. The following overview shows the name changes of the fiscal year:

Company	Company as of December 31, 2017	Change	Status in the Group
Softmatic AG	AlzChem Group AG	Name change	Parent company
AlzChem AG	AlzChem Trostberg GmbH	Change of legal form	Formerly parent company, now subsidiary by contribution

This Group Management Report uniformly uses the current names of the companies AlzChem Group AG and AlzChem Trostberg GmbH. If the described procedures refer to the period before the name change, the current company name AlzChem Group AG and AlzChem Trostberg GmbH will still be used.

As of the balance sheet date of December 31, 2017, the following companies were included in the **scope of consolidation** of the AlzChem Group:

Company	Seat	Consolidation
AlzChem Group AG	Formerly Norderstedt, since December 28, 2017, Trostberg, Germany	Parent company
AlzChem Trostberg GmbH	Trostberg, Germany	Fully consolidated
AlzChem International GmbH	Trostberg, Germany	Fully consolidated
AlzChem Stahltechnik GmbH	Trostberg, Germany	Fully consolidated
AlzChem Nutrition GmbH	Trostberg, Germany	Fully consolidated
NIGU Chemie GmbH	Waldkraiburg, Germany	Fully consolidated
AlzChem Shanghai Co. Ltd.	Shanghai, China	Fully consolidated
AlzChem LLC	Atlanta, USA	Fully consolidated
Dormex Company LLC	Atlanta, USA	Fully consolidated
Nordic Carbide AB Sundsvall, Sweden	Sundsvall, Sweden	Fully consolidated
AlzChem Netz GmbH	Trostberg, Germany	Fully consolidated from November 28, 2017, operational from January 1, 2018

Effective November 28, 2017, AlzChem Netz GmbH was founded. Effective January 1, 2018, this Group company will carry out all activities related to the operation of the **power grid**.

1.3. CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS

The capital increase in kind with the contribution of all shares of former AlzChem AG (now AlzChem Trostberg GmbH) into AlzChem Group AG (formerly Softmatic AG) has resulted in a **group structure** which for the first time led to the preparation of the Consolidated Financial Statements for AlzChem Group AG as of December 31, 2017. The Consolidated Financial Statements of AlzChem Group AG have been prepared in accordance with the International Accounting Standards Board (IASB), London, in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU (European Union). The interpretations of the IFRS Interpretations Committee (former IFRIC and SIC) were applied.

The **Consolidated Financial Statements** are in accordance with the European Union directives on group accounting (Directive 83/349/EEC). In order to achieve equivalence with a Consolidated Financial Statement prepared in accordance with the German Commercial Code (HGB), all disclosures and explanations that go beyond the requirements of the IASB have been made in accordance with Section 315e of the German Commercial Code (HGB).

The **Consolidated Financial Statements** comply with the provisions of Section 315e HGB; this provision forms the legal basis for group accounting in accordance with international standards in Germany together with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of July 19, 2002, on the application of international accounting standards.

AlzChem Group AG had no operating business until the capital increase against contributions in kind and thus did not constitute a business as defined by IFRS 3. Consequently, the provisions of IFRS 3, Business Combinations, were not applied in a first step. Rather, in accordance with IFRIC Agenda Decision March 2013, this is an **equity transaction of AlzChem Trostberg GmbH**, which is accounted for as a share-based payment in accordance with IFRS 2. Furthermore, the IFRIC Agenda Decision March 2013 recommends accounting in accordance with the requirements of IFRS 3 regarding a **Reverse Acquisition**, since the former shareholders of the acquired company also exercise control over the acquiring company after the transaction has been completed. IFRS 3 B19–B27 gives guidelines for the presentation of a reverse business combination in the Consolidated Financial Statements, which were applied here. These accounting policies for an inverse business combination have been applied with the sole exception that no **goodwill** may arise from the transaction, but such a difference should be recognized immediately as an expense under IFRS 2.8. In the case of a reverse business combination, the transaction is accounted for at the legally acquired company. The transaction is presented in the Consolidated Financial Statements of AlzChem Group AG as if the legal acquirer is the balance sheet acquisition company and the legally acquired entity is the acquirer of the balance sheet. In the transaction described above, this means in detail:

- AlzChem Group AG as the legal acquirer is the **company acquired on the balance sheet**.
- AlzChem AG or AlzChem Trostberg GmbH as a legally acquired company is the **acquirer on the balance sheet**.

The assets and liabilities of AlzChem Trostberg GmbH and its subsidiaries are **carried forward** at their book value in accordance with IFRS in the new Group and **also** represent the **previous year's figures in the IFRS** Consolidated Financial Statements as of December 31, 2017.

In summary, AlzChem Group AG's IFRS Consolidated Financial Statements as of December 31, 2017, thus represent a **continuation** of the previous IFRS Consolidated Financial Statements of AlzChem Trostberg GmbH. Only the subscribed capital reported under **Group equity** was adjusted to reflect the actual subscribed capital of AlzChem Group AG. This also applies to the previous year's figures stated in the IFRS Consolidated Financial Statements. These also represent the previous year's figures from the IFRS Consolidated Financial Statements of AlzChem Trostberg GmbH with an adjustment of the subscribed capital. The explanatory notes in the notes to the accounting policies, to the Income Statement, the balance sheet and other disclosures in the notes also represent the continuation of the previous information from the IFRS Consolidated Financial Statements of AlzChem Trostberg GmbH.

The corporate transaction is presented in these Consolidated Financial Statements **as if** AlzChem Trostberg GmbH had acquired AlzChem Group AG. The disclosures and explanations in this Group Management Report of AlzChem Group AG as of December 31, 2017, also refer to the current and prior-year figures from the IFRS Consolidated Financial Statements of AlzChem Group AG following exactly the same procedure as was used for the IFRS Consolidated Financial Statements.

Further details on the accounting treatment of this corporate transaction can be found in the notes to the Consolidated Financial Statements.

1.4. ADMISSION TO THE REGULATED MARKET (PRIME STANDARD) OF THE FRANKFURT STOCK EXCHANGE

On February 7, 2017, AlzChem Trostberg GmbH postponed its listing on the regulated market (Prime Standard) on the Frankfurt Stock Exchange scheduled for February 10, 2017. The initial objective of a first listing of the company during fiscal year 2017 was initially maintained.

In April 2017, AlzChem AG (now AlzChem Trostberg GmbH) was informed that its shareholders LIVIA Corporate Development SE, HDI Preminger GmbH, Edelweiß Holding GmbH and Mr. Jan Ulli Seibel were considering contributing the shares in the company to AlzChem Group AG as part of a combined capital increase against non-cash and cash contributions. Softmatic (today AlzChem Group AG) was a listed company **without** operational activity at that time.

At the Annual General Meeting of AlzChem Group AG on August 4, 2017, capital increase against non-cash and cash contributions was approved. The non-cash and cash capital increases were carried out on September 26, 2017. The entry in the commercial register took place on October 2, 2017. When the capital increases were entered in the commercial register, the company was renamed **AlzChem Group AG** and became the parent company of the **AlzChem Group**. The business activities of AlzChem Trostberg GmbH and its subsidiaries (together the "AlzChem Group" or "AlzChem") then became the business activities of AlzChem Group AG.

Furthermore, the Annual General Meeting of Softmatic AG (today AlzChem Group AG) of August 4, 2017 approved various amendments to the Articles of Association that were required as part of the planned capitalization of the company and the associated realignment of business operations. Essentially, the purpose of the company, the company (new: **AlzChem Group AG**) and the composition of the Supervisory Board were changed.

In the run-up to the capital increases in 2017, AlzChem Group AG also applied for admission to trading in the sub-segment of the regulated market with additional post-admission obligations (**Prime Standard**) of the Frankfurt Stock Exchange. The admission took place on October 5, 2017. Since then, the shares of the company have been traded in the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (WKN AOHT4). Until then, the shares were admitted to the regulated market (General Standard) of the Frankfurt Stock Exchange.

In the previous year, AlzChem Trostberg GmbH was preparing for a capital increase by issuing shares via a German stock exchange. This project was abandoned in the current fiscal year and finally ended in the contribution of the shares in AlzChem Trostberg GmbH to AlzChem Group AG. As a result, the stock exchange listing was finally reached via another route. These events and the above-described events in the previous year and in fiscal year 2017 resulted in the following special effects that were to be taken into account for the first time or one-off in fiscal year 2016 or 2017 and which also had a special or significant impact on the key figures for the fiscal years and are therefore explained separately below:

EMPLOYEE BONUS FOR THE SUCCESSFUL IPO

As of January 1, 2016, AlzChem Trostberg GmbH concluded a company agreement, the **investment and site development agreement**. This agreement calls for the **AlzChem Group** to grant a bonus of a maximum of one month's salary to the employees of AlzChem Trostberg AG and NIGU Chemie GmbH under this contract in the event of a successful IPO.

During the period of preparation of the previous year's IFRS Consolidated Financial Statements as of December 31, 2016, preparations for the IPO had become so concrete that this increase in value was taken into account when preparing the IFRS Consolidated Financial Statements and the company considered the probability of a successful IPO to be very high. As a result, the expense and an associated provision for the estimated employee bonus, taking deferred taxes into account, have already been taken into account in full.

The amount due in the next twelve months was calculated by forecasting the number of employees in the company at the estimated date of the IPO and taking into account any potential salary changes up to that date. An amount of EUR 6,256 thousands, including deferred taxes of EUR 1,752 thousands, was recognized. In order to show this one-time effect and the difference from the regular operative personnel expenses, the employee bonus was shown separately from regular personnel expenses in the

separate item "Employee bonus for the successful IPO" in the Income Statement. By contrast, the item "operative personnel expenses" includes the regular personnel expenses attributable to the reporting period without taking into account the one-time effect of the IPO. The employee bonus is included in the following items from the previous year's figures:

- In the Income Statement in the item "Employee bonus for the successful IPO" in the amount of EUR 6,256 thousands as an expense and in the item "Income taxes" in the amount of EUR 1,752 thousands as deferred tax income.
- In the balance sheet under "Other current provisions" in the amount of EUR 6,256 thousands and in the item "Deferred tax assets" in the amount of EUR 1,752 thousands.
- In the Cash Flow Statement in the item "Contribution to employee bonus IPO" as non-cash transaction in the amount of EUR 6,256 thousands.
- Segment reporting includes the expense as of December 31, 2016, in the amount of EUR 6,256 thousands in the "**Other & Holding**" segment.

With the successful placement, the agreed payout of EUR 6,119 thousands in October 2017 was made to the employees of AlzChem Trostberg GmbH and NIGU Chemie GmbH.

COSTS OF THE PLANNED CAPITAL INCREASE OF ALZCHEM TROSTBERG GMBH

In **preparation** for the originally planned IPO of AlzChem Trostberg GmbH, various additional costs were incurred in fiscal year 2016. In accordance with **IAS 32**, the directly attributable costs of issuing equity instruments, taking into account tax advantages at the time of issue, were recognized as a deduction from equity.

The capital increase should take place together with a partial sale of shares of existing shareholders on a German stock exchange. As a result, only the costs could have been offset against equity, which are directly attributable to the capital increase of AlzChem Trostberg GmbH. The distribution was based on the ratio of newly issued shares to the total number of shares to be placed on the stock exchange. Since the planned capital increase was not carried out before the previous year's balance sheet date of December 31, 2016, the costs of the transaction incurred so far were recognized in a short-term prepaid expenses item in the amount of EUR 410 thousands.

With the cessation of the activities for an IPO in the originally planned form, the project-related costs were recognized directly in the **expense** of 2017 of AlzChem Trostberg GmbH through the reversal of the short-term prepaid expenses.

COSTS OF CAPITAL INCREASES OF ALZCHEM GROUP AG

The share capital of **AlzChem Group AG** was increased from EUR 310,000.00 by EUR 100,323,339.00 to EUR 100,633,339.00 against the contribution of all shares of AlzChem Trostberg GmbH based in Trostberg through a non-cash capital increase. As part of the cash capital increase, the share capital of the company was increased by a further EUR 1,130,016.00 to EUR 101,763,355.00. As part of the capital increases against non-cash and cash contributions, a total of 101,453,355 new no-par-value shares were issued with a pro rata amount of the share capital of EUR 1.00 per share and a full dividend entitlement from January 1, 2017. The gross issue proceeds from the capital increase against cash contributions amount to EUR 2,599,036.80. The net issue proceeds enabled the full repayment of existing shareholder liabilities as well as the financing of the ongoing administrative costs of AlzChem Group AG.

Various expenses were incurred in preparing for the capital increases, which were taken over by AlzChem Trostberg GmbH as part of a cost-acceptance declaration. The costs directly attributable to the two capital increases of AlzChem Group AG in fiscal year 2017 were shown as a deduction from equity at the time of the capital increases. Taking into account tax benefits, an amount of EUR 740 thousands was deducted directly from the equity reserve "Reverse Acquisition Capital Reserve".

EARNINGS PER SHARE

In the IFRS Consolidated Financial Statements of the previous year, AlzChem Trostberg GmbH calculated the earnings per share in accordance with **IAS 33** based on the number of shares of **11,000,000 no-par-value shares** as of the reporting date of December 31, 2016.

As of the balance sheet date of December 31, 2017, the equity of AlzChem Group AG consists of 101,763,355 (December 31, 2016: 310,000) no-par-value shares. In fiscal year 2017, AlzChem Group AG carried out two capital increases. The non-cash capital increase increased the number of no-par-value shares to 100,633,339. As a result of the immediately following cash capital increase, the number of no-par-value shares increased to 101,763,355.

IFRS 3 provides for specific rules for determining the number of shares in a reverse business combination. For the purpose of determining the **weighted average number of ordinary shares** outstanding during the period in which the reverse acquisition occurs, the number of **ordinary shares** outstanding from the beginning of that period to the date of acquisition is calculated on basis of the weighted average number of ordinary shares of the legally acquired entity (the acquirer) outstanding during that period multiplied by the exchange ratio specified in the merger agreement. If the number of ordinary shares outstanding from the date of acquisition to the end of this period equals the actual number of ordinary shares outstanding of the formal acquirer (the entity acquired) during that period. The application of this provision resulted in an average number of shares of 100,700,203 for fiscal year 2017. The number of shares in the previous year is determined by the historically weighted average number of outstanding ordinary shares of the legally acquired company, which is multiplied by the exchange ratio specified in the acquisition agreement. The application of this rule resulted in an average number of shares of 100,323,339 for fiscal year 2016.

Based on these guidelines, earnings per share were as follows:

	2016	2017
Consolidated result in EUR thousands (controlling interests)	15,282	20,393
Number of shares	100,323,339	100,700,203
Earnings per share in EUR	0.15	0.20

If the calculation with the number of no-par-value shares in both fiscal years and the number of shares as of December 31, 2017, would result in the following earnings per share:

	2016	2017
Consolidated result in EUR thousands (controlling interests)	15,282	20,393
Number of shares	101,763,355	101,763,355
Earnings per share in EUR	0.15	0.20

1.5. NEW APPOINTMENTS IN THE MANAGEMENT BOARD OF ALZCHEM GROUP AG

As of October 2, 2017 – the date of registration of the non-cash capital increase (contribution) in the commercial register – the members of the Management Board of the former AlzChem AG, Ulli Seibel, Andreas Niedermaier and Klaus Englmaier, were also members of the Management Board of AlzChem Group AG.

As Chief Executive Officer (**CEO**), Ulli Seibel is responsible for Strategy, Sales, Marketing, Innovation Management, Communications and Investor Relations. Andreas Niedermaier as Chief Financial Officer (**CFO**) is responsible for Finance & Controlling, Taxes, Legal, Insurance, IT, Supply Chain Management, Human Resources and Risk Management. Klaus Englmaier as Chief Operating Officer (**COO**) is responsible for Production, Environmental Protection, Safety, Health, Quality and Technology.

As of October 2, 2017, the Management Board of **AlzChem Group AG** thus consisted of **four** members and currently, following the resignation of Maik Brockmann's Management Board mandate, effective October 17, 2017, of **three** members.

1.6. CHANGE OF THE FISCAL YEAR

The fiscal year of the **parent company** AlzChem Group AG is currently the calendar year. Due to the synchronization of the fiscal years of the company and AlzChem Trostberg GmbH, the profits distributed by AlzChem Trostberg GmbH after the contribution of AlzChem Trostberg GmbH to the company may only be taken into account in the balance sheet profit of **AlzChem Group AG** and distributed to the shareholders of the company in the following fiscal year. For this reason, the Management Board and the Supervisory Board proposed the Annual General Meeting to change the fiscal year of AlzChem Group AG and, from July 1, 2018, let start on July 1 of each year in the future, so that any profits of AlzChem Trostberg GmbH can be distributed in a timely manner. By letter dated November 15, 2017, the competent tax office in Traunstein approved the conversion of the fiscal year. The conversion will be effective for the first time on June 30, 2018 and will result in a **short fiscal year** from January 1, 2018 to June 30, 2018. For the taxation of sales, the calendar year shall continue to be applied as the assessment period.

1.7. PROFIT TRANSFER AGREEMENT

On December 4, 2017, AlzChem Trostberg GmbH entered into a profit transfer agreement – with the approval of the Annual General Meeting – with the parent company, AlzChem Group AG. The entry in the commercial register took place on December 8, 2017. The contract takes effect from **January 1, 2018**.

1.8. CONTROLLING INSTRUMENTS

Group management is carried out through regular meetings and reports by the respective committees, bodies and specialist departments. This includes, among others:

- Management Board meetings in a 2-week cycle
- Regular meetings of the extended management (monthly)
- Regular coordination of production and technology
- Regular coordination of sales and marketing including innovation management, supply chain management and production
- Regular meetings on the management and resource allocation of the innovation management department
- Regular liquidity management and financing control (daily, monthly)

The control process is accompanied by financial corporate management based on a consistent, value-oriented **system of key figures**. The partly daily, weekly and monthly reports include a detailed analysis of the results of all business transactions with corresponding catalogs of measures in coordination with the respective process owners. The key figure catalog for financial corporate management is as follows:

Figure	Calculation
Equity ratio in %	$\frac{\text{equity}}{\text{total assets}}$
Inventory assets	Absolute stock
Sales	Absolute value
Debt ratio ² of the Group	$\frac{\text{net foreign capital}}{\text{total capital}}$

The calculation is based on monthly, quarterly and annual reports. This ensures that **plan/actual deviations** can be detected early and countermeasures can be taken in good time.

² Leverage ratio = ratio of net debt to total capital. Net debt is defined as the sum of all debt less existing cash and cash equivalents.

In addition, the following **key profitability figures** are tracked at the level of the Management Board of AlzChem Group AG:

Figure	Calculation
EBIT	Earnings before interest and income taxes
EBITDA	Earnings before interest, income taxes and depreciation
EBITDA margin	$\frac{\text{EBITDA}}{\text{Sales revenues}}$

With the exception of the Group-related **equity ratio** and the **debt ratio**, the other key performance indicators are used to assess the economic performance of the reporting units and **segments**. The central key performance indicator is **EBITDA**³, which is also broken down on the operating units and segments to measure the achievement of objectives.

The EBITDA and the corresponding relative key figure, the **EBITDA margin**, show the operating profitability regardless of the capital structure and investment propensity and enable the internal and external comparison of the business with regard to the cost structure. Since depreciation (scheduled and unscheduled) is not taken into account, it is also a close-to-cash quantity, which can therefore also be used as a revenue-related cash flow return.

INTERNAL CONTROL AND REPORTING

The internal management and reporting in the AlzChem Group is fundamentally based on the IFRS accounting principles described in the IFRS Consolidated Financial Statements. The Group measures the success of its segments on the basis of a **segment result**, which is referred to in internal management and reporting as EBIT and EBITDA. The segment result EBIT consists of gross profit, sales, general administrative, research and non-capitalized development costs as well as other operating income and expenses. Insofar as revenue relationships exist between the segments, they are calculated using the rules of group costing and compliance with transfer pricing requirements. In addition, the key figure of inventories is reported and monitored at segment level.

1.9. INNOVATION MANAGEMENT, RESEARCH & DEVELOPMENT

AlzChem sees innovation management as a **key growth driver** and therefore invests heavily in research and development. Main areas of research are product, application and process development. In the field of product and application development, new products are researched and existing products are developed further in order to expand their application. In addition, chemical solutions are developed for special customer requirements. The area of process development focuses on the transfer of new insights into the production process and the continuous development of the efficiency of the own production process. Significant research and development activities mainly relate to the **Specialty Chemicals** segment, but also have a supporting role in the **Basics & Intermediates** segment at the Trostberg, Schalchen, Hart and Waldkraiburg sites. There are no research and development activities in the **Other & Holding** segment.

The total costs of research and development activities are as follows:

In EUR thousands	2016	2017	Delta
Research	6,256	6,744	488
Process development	2,402	2,271	-131
Σ Research and development expenses	8,658	9,015	357
In relation to sales	2.65 %	2.55 %	-0.1 % points

Expenses in relation to sales for the **Specialty Chemicals** segment was 3.14% (previous year: 3.83%).

During the reporting period, the conditions for capitalizing research and development costs were not met. Total direct expenditure in this area amounted to EUR 857 thousands (previous year: EUR 828 thousands).

³ EBITDA = earnings before interest, taxes, depreciation and amortization

In application development, among other things, the trend towards lightweight construction in the automotive industry was followed and the products for this purpose were further developed in fiscal year 2017. An equally important factor for success is the technical advice given to customers in the handling of our products. Following on from this strategy, the **AlzChem Group** continued to expand its application-related activities in the market environment of metallurgy in 2017 as well.

In 2017, we carried out exclusive syntheses of intermediates and active ingredients in the crop protection, pharmaceutical, pigment and plastics industries in our **multi-purpose facilities**. Here, the development of stabilizers for fertilizers in the **Specialty Chemicals** segment should be emphasized. It represents another important step in the sustainable development of the range of applications of our products in terms of diversity. The strengthening of the technology base represents a further focus of research & development as well as of the process engineering activity and extends to a large extent to the plant equipment of the group. The activities related to process development and optimization mainly related to the **Carbid** production process in the **Basics & Intermediates** segment. By implementing Six Sigma projects, AlzChem has been able to implement numerous optimizations in the past. This approach will continue to be pursued by steering and managing Six Sigma⁴ activities centrally through the process development department. Expenditures for research and development in 2017 amounted to 2.6% (previous year: 2.7%) of sales.

In total, the **AlzChem Group** employed a total of 92 research and development employees in fiscal year 2017 (previous year: 90).

Overall, the strong innovation management activities have already resulted in a portfolio of around 70 held and filed patent families. The clear focus on research and development should also contribute to the growth of the **AlzChem Group** in the future.

2. ECONOMIC SITUATION AND BUSINESS DEVELOPMENT

Unless otherwise stated, all amounts are stated in EUR thousands. For computational reasons, rounding differences of ± one unit may occur in tables.

2.1. BUSINESS AND GENERAL CONDITIONS

2.1.1. CONTINUED GENERAL ECONOMIC GROWTH IN 2017

The global economy is currently in a strong upswing. The economy is simultaneously **up** in almost all major economies. According to the Kiel Institute for Economic Research (IfW), global output will increase by 3.8% in 2017. This is 0.1 percentage points more than in the September forecast and the strongest increase since 2011. The forecast for 2018 has also been raised slightly to 3.9%, and production in 2019 is expected to increase by 3.6%. Despite the **buoyant economy**, inflation in the advanced economies is expected to increase only gradually. Risks for the global economy arise in particular from the financial environment. In the course of the upcoming normalization of monetary policy, there could be a sudden uncertainty on the capital markets, with the result of hesitant corrections in asset prices, yields and exchange rates.⁵

According to IfW estimates, economic expansion in **China** should gradually slow down. With the Chinese authorities succeeding in stabilizing the economy with more expansionary fiscal and monetary policies in recent years, curbing debt growth and structural change towards a service-oriented economy with socially and environmentally **sustainable growth** returns to prominence. Various forecasts assume a slight flattening of expansion momentum and see a corridor of 6.1% to 6.5% in 2019.⁶ The risk of an **abrupt downturn** in the economy remains of course, for example, when the enormous build-up of indebtedness in the economy ultimately leads to a financial crisis. It would have a significant impact on the global economy.

In the opinion of the International Monetary Fund (IMF), **Europe** is increasingly becoming the tractor of the world economy. In its regional outlook, the fund states: "The European recovery has intensified and noticeably widened." Growth in Europe is making a major contribution to **increasing** global economic output. The IMF's analysis covers the entire continent, not just the EU countries.⁷

⁴ Six Sigma (6σ) is a management system for process improvement, a statistical quality objective and a method of quality management. Its core element is the description, measurement, analysis, improvement and monitoring of business transactions using statistical means. This is often done with the Define – Measure – Analyze – Improve – Control (DMAIC) methodology. The goals are based on important financial parameters of the company and customer needs.

⁵ Kieler Konjunkturbericht ifw Kiel Institut für Weltwirtschaft „Weltkonjunktur im Winter 2017“ Nr. 37 (2017/Q4)

⁶ Kieler Konjunkturbericht ifw Kiel Institut für Weltwirtschaft „Weltkonjunktur im Winter 2017“ Nr. 37 (2017/Q4); <https://de.reuters.com/article/china-konjunktur-idDEKBN1DYORX> (Status January 16, 2017, 5:25 p.m.)

⁷ <http://www.zeit.de/news/2017-11/13/konjunktur-ifu-wirtschaftliche-erholung-in-europa-verstaerkt-sich-13105602>

The **German economy** is in a strong upswing. In 2017, gross domestic product grew more strongly than in previous years. New orders and sentiment indicators send positive signals to the industry. Consumer demand remains buoyant. The propensity of consumers to buy and the mood in the retail sector are positive. The high demand for labor in large parts of the economy ensures record employment and regional full employment. Unemployment and underemployment continue to decline. The gross domestic product grew by 2.2% in 2017, adjusted for price, although fewer working days were available than in the previous year. It was the **highest** economic growth since 2011. In previous years, consumption had been the driving force behind the economy. In 2017, the **improved global economic environment** further boosted external stimulus.⁸

2.1.2. STABLE ENVIRONMENT FOR BUSINESS GROWTH IN CHEMICAL INDUSTRY IN 2017

After a period of mixed results in the years 2014 to 2016, the chemical and pharmaceutical industry in Germany in 2017 has a very **good balance sheet** with strong **sales growth** of more than 5%. Strong industrial activity across Europe, which picked up during the course of the year, increased production significantly and plant utilization remained high. All divisions – including basic chemicals – posted an increase in volumes.⁹ This is shown by the view of the development in the individual divisions. In **basic chemicals**, companies were able to significantly expand their production after the setbacks of recent years. The good industrial economy in Germany and Europe also stimulated the business with **fine and specialty chemicals**: Production increased in 2017 by 2.5% compared to the previous year.¹⁰

The production facilities of the industry were well utilized at 86.7% in 2017. The upturn in Germany's third-largest industry, with 451,500 **employees**, led to the highest level of employment for thirteen years.¹¹

Also for 2018, the VCI (Association of the Chemical Industry) expects further production growth in the industry of 2%. With prices rising slightly (+1%), sales should increase by 3%.¹² The EMI™ draws a similar picture and continues its positive trend of the previous months.

IHS MARKIT / BME PURCHASING MANAGER INDEX™ (EMI™)

50 = no change compared to the previous month

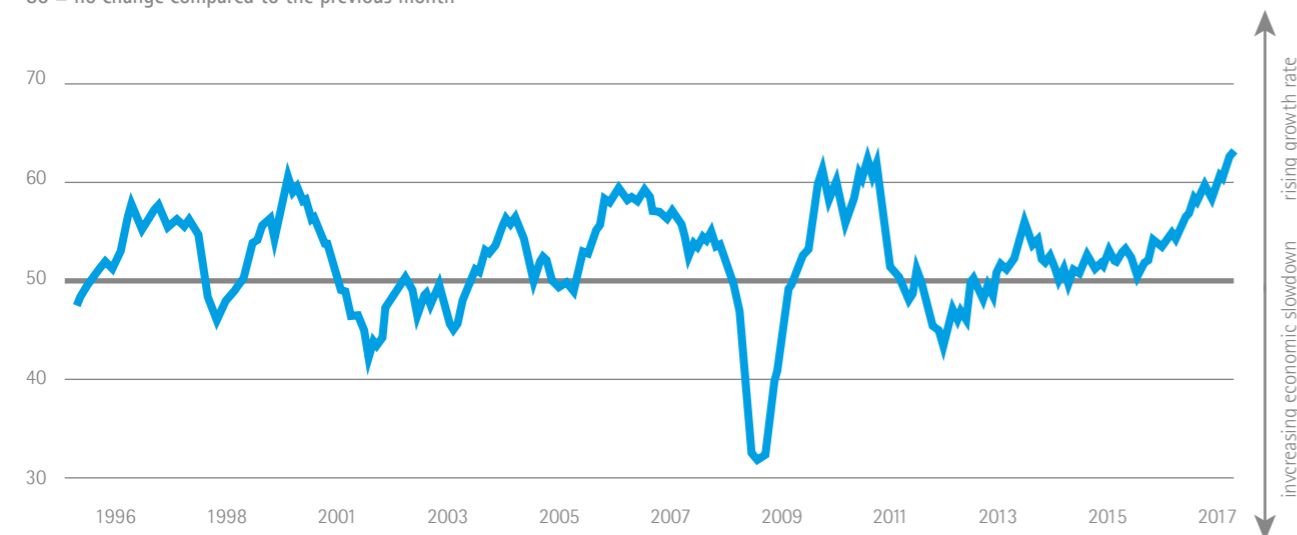


Illustration 1: IHS Markit/BME Purchasing Manager Index (EMI) January 2, 2018

The seasonally adjusted EMI™ rose by 0.8 points to a new **all-time high** of 63.3 within one month. The previous record of 62.7 points in February 2011 was thus exceeded.¹³

⁸ <http://www.bmwi.de/Redaktion/DE/Dossier/wirtschaftliche-entwicklung.html>

⁹ VCI Chemiereport 12.2107

¹⁰ <http://www.chemanager-online.com> (2017 was a good year for the German chemistry)

¹¹ VCI Chemiereport 12.2107

¹² VCI Chemiereport 12.2107

¹³ IHS Markit/BME Purchase Manager Index™ January 2, 2018

2.1.3. POSITIVE SIGNS IN THE EUROPEAN STEEL INDUSTRY IN 2017

Following the uncertainties of 2016, among others in connection with Chinese low-cost steel imports and the impending tightening of emissions trading, approaches to supporting the European steel industry emerged in the past fiscal year. On December 5, 2017, the European Parliament, the EU Commission and the Council agreed on a package of measures to modernize European trade defense instruments. On December 20, 2017, the entry into force of the new EU Anti-dumping Regulation was published by the BMWI.¹⁴

Germany is the largest steel producer in the EU and the seventh largest steel producer in the world. As a **basic industry**, the steel industry has a special significance for the value chains and is also the backbone of the German economy.¹⁵

The European as well as the German steel industry can look back on another year of **volume recovery**, with a growth rate of >2% expected for the past year.¹⁶ The industry is also expecting a positive trend for the coming fiscal year.

However, **uncertainties** remain, even if important decisions were made at the steel summit in Berlin to reduce overcapacity. In this context, China has a particular responsibility to implement its announcements. With regard to rising protectionist tendencies worldwide, the US administration must also make its contribution. For example, previous plans to impose import duties on punitive tariffs for security reasons should definitely be a thing of the past.¹⁷

2.1.4. DIVERSIFICATION APPEARS AS A STRENGTH IN A CHALLENGING MARKET ENVIRONMENT

The operating performance in the reporting period was once again positive for the **AlzChem Group** and essentially in line with expectations. The **Specialty Chemicals** segment showed among others sustained and stable growth in sales of **CreAMINO®**. Likewise, the product solutions offered for both Nutrition (**Creapure®**) and Renewable Energies (**DYHARD®**, **Silzot®**) were able to fulfill their expectations.

The **Basics & Intermediates** segment was unable to match last year's profitability, mainly due to significantly higher raw material costs across the industry. On the demand side, the market presence of AlzChem was partially significantly expanded. All forecast goals were achieved in 2017. At the same time, however, the 2017 figures were below the previous year's levels due to the very high volatility of the basic commodities used, which were positively influenced by favorable commodity prices. The market position of AlzChem in metallurgy was consolidated in 2017 by the successful establishment of the new product **CalciPro®**.

The **Other & Holding** segment experienced a performance-related increase in the external services business and continued to be a focal area of the Group's infrastructure investment activities in 2017.

Group sales and earnings were significantly negatively affected in total by the partially sharp rise in commodity and energy prices. The changes in the currency relations of the key Group currencies USD and JPY also had a significant effect on the earnings position of the Group.

Despite the growth in sales and volumes, mainly due to the **Specialty Chemicals** segment, the number of Group **employees** was almost stable at 1,491 compared to 1,469 in the previous year. With the exception of the NAFTA region, **Group sales** in all sales regions were at least maintained, sometimes even significantly increased. The regulatory, fiscal and trade policy conditions were not subject to any significant changes in the year under review.

¹⁴ <http://www.bmwi.de/Redaktion/DE/Pressemitteilungen/2017/20171220-zyprische-neue-antidumping-regeln-sichern-unseren-industriestandort.html>

¹⁵ <http://www.stahl-online.de/index.php/themen/wirtschaft/stahlindustrie-in-deutschland/>

Hans Böckler Stiftung, Study Nr. 352, February 2017, "Industry analysis of the steel industry"

¹⁶ <http://www.eurofer.be/News%26Events/Press%20releases/Economic%20%26%20Steel%20Market%20-%20Quarter%204,%202017.htm>

¹⁷ <http://www.stahl-online.de/index.php/medieninformation/berliner-gipfel-zu-stahl-ueberkapazitaeten-wv-stahl-begruesst-einigung/>

2.2. BUSINESS DEVELOPMENT

2.2.1. SALES

Total revenue increased by 8.2% compared to the previous year. The breadth of the product portfolio once again proved to be a strength for the Group in countering sales-side risks. The change was very much supported by the growth in sales of the brands **CreAMINO®**, **Creapure®** and **Dormex®** and by spreading the product range from the **multi-purpose facilities**.

Likewise, the turnover of the subsidiary **Nordic Carbide AB** was increased, which is to a large extent attributable to cross-site integration optimization.

Intensive application advice also had an effect in the direct **agricultural** sector, so that the **Dormex®** volumes closed above the previous year's level. Likewise, the fertilizer **Perlka®** recorded volume growth in core markets, but also in new areas of application.

Demand for services at the Trostberg, Schalchen and Hart locations was higher than in the previous year. AlzChem strives to offer an attractive and customized range of services. These efforts resulted in the pleasing 2017 business figures in the **Other & Holding** segment.

The **Specialty Chemicals** segment ended higher than expected due to increased sales of **CreAMINO®** and **Creapure®**, as well as an active extension of chemical solutions from the multi-purpose facilities, a steady increase in **Dormex®** business and a robust base load. This is all the more remarkable against the backdrop of a volatile business environment, unfavorable exchange rates and sharp rises in commodity prices.

The **Basics & Intermediates** segment continued to perform well. For example, the customer base was expanded, areas of application expanded and new product solutions developed. However, due to the sharp rise in raw material prices and the intensive and largely planned maintenance activities, the previous year's result could not be achieved.

The performance of the **Other & Holding** segment was similar, although high demand was offset by intensive maintenance of the plant fleet.

The economic development and, in particular, the impulses from the chemical, steel and animal feed industries had a positive effect on the **AlzChem Group**. We were able to expand our good positioning on the sales markets, increase overall sales and further strengthen the market position of our existing and newer products improve.

2.2.2. PROCUREMENT POLICY

In order to prevent supply bottlenecks and ensure planning reliability, clear procurement strategies exist for the most important raw materials. On the one hand, long-term supply contracts are concluded, on the other hand, for example, electricity is ordered up to three years in advance. In order to minimize price and volume risks during the year, as far as possible, **annual contracts** were agreed with suppliers. Compared to the previous year, the at times significant increases in raw material prices – in particular illicit materials – are having a significantly negative effect on the result. The price level of the main chemical raw materials was also above the level of the previous year. Thanks to the central raw material procurement of the former AlzChem AG, **synergies** with the Swedish subsidiary were realized. With the status of AlzChem Trostberg GmbH and NIGU Chemie GmbH as "Authorized Economic Operator (AEO-F)," an accelerated and thus more efficient settlement in international goods traffic is made possible.

2.2.3. PRODUCTION

The production **network** and the efficient use of raw materials guarantee a high level of delivery reliability. The networked production structure conserves resources, saves energy, reduces emissions as well as transport costs and exploits the synergies of an integrated infrastructure. Through active idea management, both plant managers and employees are made aware of the potential for optimization. In the fiscal year, the technical cooperation between AlzChem and Nordic Carbide AB was further intensified. This enabled the production process in Sundsvall to be optimized.

Six-Sigma projects are continuously being carried out by in-house experts with the aim of improving processes, increasing energy efficiency and effectively adapting capacity.

Plant utilization in the Mono Systems division was slightly above the previous year's level, mainly due to higher deliveries to agriculture and metallurgy. The plant utilization of the multi-purpose facilities showed an equally clear picture. Almost all plants were able to increase their output and partly produced at the technical capacity limit. Irrespective of this overall very pleasing development, production in all locations was without any significant disruptions in the fiscal year.

2.2.4. FINANCING

The financial management of the **AlzChem Group** is carried out centrally by AlzChem Trostberg GmbH. The overall objective is to finance the company through a strong operative cash flow. In addition, additional funds are available for matching maturity financing. The other financing instruments for covering maturity matching financing needs include **short-term credit lines**, silent factoring and long-term bank loans. Through daily liquidity checks, weekly deposit and withdrawal schedules, and four-week medium and long-term liquidity planning, bottlenecks can be detected early and avoided. Our value-based financing principles are designed to ensure that AlzChem's liquidity and thus the continued existence of the company is maintained at all times, to limit the risks associated with financing and to optimize our cost of capital.

With the **admission to the stock exchange**, the Group will be able to tap into the financing options available on the capital market in addition to the existing financing instruments.

2.2.5. FINANCIAL INSTRUMENTS

The functional currency in the Group is the euro. Risks from currency fluctuations arise in particular from the sale of products produced at the German locations in JPY, USD and CNY. The Company therefore generally endeavors to reduce the transaction risk for the sales to be invoiced.

In the form of a **portfolio hedge**, AlzChem's planned JPY revenues were hedged against the JPY foreign currency risk by means of currency forwards. This hedging of future foreign currency sales in JPY represented the hedging of future cash flows against exchange rate risks.

All currency forward sales were settled in fiscal year 2017, so that as of the reporting date of December 31, 2017, no outstanding balance was recognized (previous year: JPY 480 mn).

In accordance with the IFRS regulations, the conditions for on-balance sheet hedge accounting were not met in both reporting periods, so that fluctuations in value from fair value measurements of forward exchange transactions were recognized **in profit or loss**. There were no material effects on the net assets, financial position and results of operations from the valuation of the outstanding forward exchange contracts. The negative market values of the JPY currency forwards amounted to EUR 142 thousands as of the previous year's reporting date.

2.2.6. STAFF

Qualified and motivated staff is an important competitive factor in a global economy. We aim to have the right people with the right qualifications in the right place at the right time. We offer our employees safe and attractive working conditions as well as comprehensive social benefits. **Short decision-making processes** and a pleasant working atmosphere characterize us as an attractive employer. Through internal and external qualification offers, company health promotion programs and flexible working time models, we want to help our employees to develop themselves and to experience a balanced work-life balance. Our behavioral principles Reliability, fairness, trust, responsibility and quality are the yardstick for cooperation in the company, but also in contact with customers and suppliers.

In order to provide planning certainty regarding the personnel expenses for the medium time horizon until 2020, a company agreement, the **participation and location development agreement**, was concluded between employer and employee representatives of the German companies with effect from January 1, 2016, including decisions on weekly working hours, profit sharing, remuneration increases and compulsory redundancies have been made. This agreement stipulates the exclusion of redundancies, collective bargaining in the employers' organization of the chemical industry, the retention of the current training quota and the profit sharing of the collective bargaining staff. On the basis of this, **collectively agreed increases in wages and salaries** of 0.25% was charged to employees at the German locations as of May 1, 2017, as well as further 1.75% **collectively agreed increases in wages and salaries** as of September 1, 2017. The German companies of the group are certified according to the health and safety management system OHRIS.

2.2.7. ENVIRONMENTAL PROTECTION AND SECURITY

The Group addresses potential environmental risks through preventive measures in the work processes and through accounting for environmental protection measures. AlzChem Trostberg GmbH and NIGU Chemie GmbH are certified to ISO 14001, ISO 50001 and EMAS. Nordic Carbide AB is ISO 14001, ISO 9001 and OHSAS 18001 certified. Furthermore, emissions, sewage and waste minimization measures were taken at the production sites. In addition, the energy efficiency of our processes is constantly reviewed and adjusted. To underline the importance of sustainable development in terms of environmental protection and safety, maintenance certifications are ongoing. AlzChem Trostberg GmbH is involved in the "Bavarian Environmental Pact" of the Bavarian Ministry of the Environment and Public Health.

The stated **safety goal** at AlzChem is **zero accidents**. The focal points of security work are (1) operational safety committees, which meet regularly at the respective levels of the company and discuss safety-relevant topics, (2) regular operational safety audits carried out by all company executives, and (3) inter-divisional safety committees responsible for different security-relevant topics. These focal points promote the systematic learning of the organization from near-accidents and the safety awareness of all employees in the company. The security work at AlzChem is controlled by the **security control committee**, which meets monthly. This steering committee is headed by the CEO.

2.2.8. DEVELOPMENT OF THE SEGMENTS

SEGMENT SPECIALTY CHEMICALS

Key performance indicators for the segment

In EUR thousands	2016	2017	Delta
External sales	169,222	185,681	16,459
EBITDA	39,245	42,709	3,464
Depreciation	4,941	5,061	120
EBIT	34,304	37,648	3,344
Inventories	37,355	44,315	6,960
EBITDA margin [%]	23.2%	23.0%	-0.2%

The sustained growth in the **Segment Specialty Chemicals** continued with sales growth of 9.7%. Sales in fiscal year 2017 amounted to EUR 185,681 thousands.

The nutrition sector (food and nutritional supplements) with the brands **CreAMINO®** and **Creapure®** was the main source of growth. In addition, the positioning of the **Dormex®** brand was expanded even further. Shipments of **Dyhard®** to the wind energy sector¹⁸, although demand¹⁹ clearly picked up, in the third quarter of 2017 in particular. AlzChem expects to be able to participate more in the expected positive market development with new solutions in the future.

As planned, inventories of **CreAMINO®** were increased. The expected market growth can therefore be accompanied longer from the existing production plant. A new production facility for **CreAMINO®** is scheduled to go into operation in 2019. A corresponding investment decision has already been made in 2017. The capacity for **CreAMINO®** production would then triple from about 7,000 metric tons annually to about 21,000 metric tons.

¹⁸ <https://www.wind-energie.de/presse/pressemitteilungen/2017/ausbauzahlen-fuer-das-erste-halbjahr-2017-deutschland-windenergie>

¹⁹ http://windmonitor.iwes.fraunhofer.de/windmonitor_de/1_wind-im-strommix/1_energiende-in-deutschland/5_Ausbau_der_Windenergie

SEGMENT BASICS & INTERMEDIATES

Key performance indicators for the segment

in EUR thousands	2016	2017	Delta
External sales	133,592	140,869	7,277
EBITDA	6,961	5,592	-1,369
Depreciation	3,859	4,334	475
EBIT	3,102	1,258	-1,844
Inventories	25,308	26,091	783
EBITDA margin [%]	5.2%	4.0%	-1.2%

In the **Basics & Intermediates** segment, sales increased by 5.4% or EUR 7,277 thousands to EUR 140,869 thousands.

Despite **sharply rising** raw material prices, AlzChem achieved significant sales growth. Above all, the expansion of the delivery volume in the automotive sector and the intensification of activities in agrochemical applications contributed significantly to the positive volume development.

Agricultural direct sales showed a.) a cautious recovery in producer prices and b.) a successful expansion of application areas.

The metallurgical business largely followed the general market trend and also benefited from continued volume growth of the new product **CalciPro®**, albeit at a still low level. However, this division also showed clear signs of the volatile supply situation.

The **NITRALZ®** brand established itself as a veritable engine of growth. The number of customers, the applications and the product portfolio could be increased. This allowed the business to grow at all levels of the market spectrum, so that further growth opportunities are to be underpinned by investment measures.

The slight increase in inventories in the segment reflected higher than planned sales. In addition, one-year and sometimes two-year campaigns – in conjunction with high capacity utilization – led to temporarily increased inventories.

SEGMENT OTHER & HOLDING

Key performance indicators for the segment

in EUR thousands	2016	2017	Delta
External sales	24,441	27,374	2,933
EBITDA	-7,396	-2,640	4,756
Depreciation	4,150	4,516	366
EBIT	-11,546	-7,157	4,389
Inventories	3,404	3,142	-262
EBITDA margin [%]	-30.3%	-9.6%	+20.6%

The volume of business from the **chemical parks** in Trostberg and Hart recorded a significant increase in sales of EUR 2,933 thousands (12%) to EUR 27,374 thousands. This was mainly due to the increased demand for the site services power generation, warehousing and logistics services as well as disposal services.

The increase in EBITDA and EBIT compared to the prior-year period is mainly due to the provision²⁰ for a successful IPO in fiscal year 2016. Largely planned restructuring measures in the field of plant infrastructure and to maintain a stable supply of electricity, as expected, burdened EBIT and EBITDA in fiscal year 2017

The decline in segment **inventories** by EUR 262 thousands to EUR 3,142 thousands is due in part to regular fluctuations in supplies.

²⁰ In a company agreement, a bonus was agreed for the employees of the former AlzChem AG Group who fall under this agreement in the event of a successful IPO. In the 2016 Annual Financial Statements, the expense for this bonus was calculated and an associated provision was made taking into account deferred taxes. The provision amounted to EUR 6,256 thousands, taking into account deferred taxes in the amount of EUR 1,752 thousands.

2.3. ASSETS, FINANCIAL AND EARNINGS POSITION

2.3.1. EARNINGS POSITION

The result for the fiscal year is calculated as follows:

in EUR thousands	2016	2017	Delta	
				%
Sales revenue	327,185	353,920	26,735	8.17
Changes in finished goods and work in progress	5,072	1,768	-3,304	-65.14
Other operating earnings	11,305	11,594	289	2.56
Costs of materials	-126,220	-137,870	-11,650	9.23
Operating personnel expenses	-106,051	-109,248	-3,197	3.01
Employee bonus for the successful IPO	-6,256	0	6,256	-100.00
Other operating expenses	-66,422	-74,496	-8,074	12.16
EBITDA	38,614	45,668	7,054	18.27
Depreciation	-13,033	-13,990	-957	7.34
EBIT	25,581	31,678	6,097	23.84
Other interest and similar earnings	455	662	207	45.49
Interest and similar expenses	-4,156	-3,004	1,152	-27.72
Financial result	-3,702	-2,342	1,360	-36.74
Result from ordinary business activities	21,879	29,336	7,457	34.08
Taxes on income and profit	-6,595	-8,764	-2,169	32.90
Consolidated result	15,283	20,572	5,289	34.61
From non-controlling shareholdings in the consolidated result	1	179	178	
From shareholdings of the shareholders of AlzChem AG in the consolidated result	15,282	20,393	5,111	
Earnings per share in EUR (undiluted and diluted)	0,15	0,20		

Sales are distributed among regions as follows:

in EUR thousands	2016	2017	Delta
Germany	131,736	152,643	20,907
European Union (without Germany)	97,120	100,536	3,416
Rest of Europe	12,719	12,447	-272
NAFTA	36,749	34,626	-2,123
Asia	32,793	36,341	3,548
Rest of the world	16,068	17,327	1,259
Total	327,185	353,920	26,735

Sales increased especially in **Germany** as well as in Europe and China. Despite stable demand from the automotive sector in the **NAFTA** region, the previous year's sales level could not be achieved, which is closely related to lower volumes in the agrochemicals and composite markets. On the South American continent, the expansion of application areas and crops for the product **Dormex®** is to be reported for another year in succession.

The intensive development of the **Chinese market** showed success in 2017. To an increasing extent, fine and specialty chemicals were sold, and in some cases even secured by long-term contracts

Domestic sales benefited from a cautious recovery in agricultural producer prices as well as continuing strong growth in **CreAMINO®** volumes.

A significant increase in demand was also noticeable in the automotive market. In addition, domestic deliveries of **multi-purpose facilities** products were higher than in the previous year. There was a temporary decline in selected products for **pharmaceutical applications**. Increased **service** demand in the **Other & Holding** segment supported the sustained increase in domestic sales.

Business in the European Union market was stable in 2017 compared to the previous year.

Other operating income breaks down as follows:

in EUR thousands	2016	2017	Delta
Own work capitalized	5,085	6,158	1,073
Income from currency conversion	2,728	1,655	-1,073
Income from services to third parties	532	907	375
Income from the reversal of provisions and liabilities	1,112	1,048	-64
Income from subsidies	650	503	-147
Income from energy tax refunds	251	260	9
Other income	948	1,062	114
Σ Other operating income	11,305	11,594	289

Own work capitalized results from the recognition of internally generated items of property, plant and equipment. Income from **exchange gains** is offset by **exchange rate losses** (EUR 3,953 thousands) reported in other operating expenses. The income from exchange gains includes EUR 142 thousands (previous year: EUR 77 thousands) from the market valuation of foreign currency derivatives.

Income from the **reversal of provisions** and other liabilities in the year under review relates mainly to other provisions of EUR 26 thousands (previous year: EUR 720 thousands), tax provisions of EUR 0 thousands (previous year: EUR 145 thousands) and personnel liabilities of EUR 920 thousands (previous year: EUR 224 thousands). In the previous year, other income mainly includes income from the receipt of receivables already written off in the amount of EUR 154 thousands (previous year: EUR 178 thousands).

The **costs of materials** are composed as follows:

in EUR thousands	2016	2017	Delta
Expenses for raw materials, consumables and supplies and goods purchased	124,056	135,655	11,599
Expenses for services purchased	2,164	2,215	51
Σ Costs of materials	126,220	137,870	11,650

In direct correlation to the increase in sales of 8.2%, the **costs of materials** also increased by 9.2%. Compared to the previous year in 2016, almost diametrical market trends arose in 2017. Almost all raw material purchases were partly subject to significant price increases, so that in addition to the volume increases, there were also cost increases. By adjusting the **conditions of use** or mixtures, the cost increases could not be completely absorbed.

Traditional raw material costs rose mainly due to higher black material costs. The resulting electricity costs have fallen specifically in both Germany and Sweden, mainly as a result of low-cost medium-term volume hedges. With the help of a stable and continuous furnace operation further cost increases could be successfully compensated and additionally could be contributed to (local) grid stability. The Sundsvall site (Sweden) carried out a large number of production tests in connection with "Möller" mixes, which influenced the development of the group-wide costs of materials quota. In connection with the sustained increase in **plant utilization**, the need arose to use more fossil fuels in addition to the resulting media of the production **network**.

Minor influence could be realized via the **USD/EUR** or **CNY/EUR** relation on the purchasing side. Especially the purchases in the first three quarters of 2017 had to be booked at slightly higher conditions. However, with a change in the price environment, this disadvantage reversed in the fourth quarter.

Personnel expenses are as follows:

in EUR thousands	2016	2017	Delta
Wages and salaries	88,113	90,044	1,931
Social insurance contributions, and old age provision	17,938	19,204	1,266
Σ Operative personnel expenses	106,051	109,248	3,197
Bonus for the successful IPO	6,256		-6,256
Σ Total personnel expenses	112,307	109,248	-3,059

The subdivision into operative personnel expenses and employee bonus for the successful IPO is based on the described uniqueness of the **employee bonus**.

The increase in the **operative personnel expenses** is due to the increase in staff numbers and, to a large extent, to the increase in expenses resulting from a significant increase in employee leave and overtime overhang. The organic growth as well as the large number of investment and maintenance-relevant projects could only be overcome by above-average engagement of the workforce. The equity and location development agreement valid at the German locations also guaranteed employees a regular fee increase of 0.25% from May 2017 and 1.75% from September 2017.

Employees ²¹	2014	2015	2016	2017
Commercial workers	701	748	749	766
Employees (including executive and holiday employees)	636	611	595	610
Trainees	119	121	125	115
Σ Employees	1,456	1,480	1,469	1,491
% change		1.6%	-0.8%	1.5%

Depreciation is as follows:

in EUR thousands	2016	2017	Delta
Depreciation on intangible assets	738	451	-287
Depreciation on fixed assets	12,295	13,539	1,244
Σ Depreciation	13,033	13,990	957

Scheduled **depreciation** for intangible assets and property, plant and equipment amounts to EUR 13,990 thousands (previous year: EUR 13,033 thousands). The increase in depreciation and amortization is attributable to the Group's extensive **investment activity** in the past fiscal year and previous years.

²¹ Average number of employees from the sum of the number of employees on March 31, June 30, September 30, and December 31, including those employed abroad.

The **other operating expenses** break down as follows:

in EUR thousands	2016	2017	Delta
Cost of sales	15,403	15,213	-190
Other third-party services	10,478	11,243	765
Maintenance	9,680	11,362	1,682
Environmental / disposal costs	6,641	7,573	932
Consulting, research and development costs	3,992	3,793	-199
Expenses from currency translation	3,725	3,953	228
Insurance	1,964	2,351	387
Other fees and costs	1,553	1,590	37
IT costs	1,917	2,123	206
Rent, lease and leasing	1,678	1,960	282
Travel expenses	1,121	1,137	16
Marketing	997	1,284	287
Auditing expenses	1,256	1,543	287
Other taxes	1,573	2,009	436
Expenses arising from the measurement of derivatives	142	0	-142
Other expenses	4,303	7,364	3,061
Σ Other operating expenses	66,422	74,496	8,074

The decline in **selling expenses** compared to the previous year is largely due to changes in the Incoterms of the distribution company in the US. Furthermore, the already very low cost of customer complaints fell even further. Due to the sales and thus also sales growth, the pure outgoing freight increased slightly. This was counteracted by changes in the sales structure, with the result that sales commissions declined despite rising volumes.

Other third-party services increased due, among other things, to the overall increase in investment and maintenance measures (work contracts) and the greater use of employees in terms of temporary employment.

The so-called obligation to tender in the field of waste management means that with increasing production / sales volume the **disposal costs** also rise and thus higher utilization of external waste management services has occurred.

A significant increase in expenses for external expert expertise, **consultancy** and expert opinions and auditing costs was offset by temporary declines in external research, study and licensing fees.

The **expenses from exchange losses** of EUR 3,953 thousands (previous year: EUR 3,725 thousands) are offset by **exchange gains** of EUR 1,655 thousands (previous year: EUR 2,805 thousands) in other operating income.

The increase in **insurance** expenses is also largely a consequence of business growth. Along with this, expenses increased for commercial credit insurance and business interruption risk insurance. Necessary adjustments with regard to the insured volume were made in the case of the public liability insurance and the group policy insurance.

Under **other expenses**, the difference²² of EUR 842 thousands was recognized in consideration for the reverse acquisition of AlzChem Group AG. In addition, the previous year's deferred income of EUR 410 thousands was reversed in connection with the activities of the first IPO. Furthermore, the costs increased in connection with an increasing storage volume, so that, despite an increase in inventory turnover, additional external storage services were used.

²² Total assets less total debt

The **financial result** breaks down as follows:

in EUR thousands	2016	2017	Delta
Income from investments	7	37	30
Interest and similar earnings	448	624	176
Interest and similar expenses	-4,156	-3,004	1,152
Σ Financial result	-3,702	-2,343	1,358

Interest and similar earnings mainly corresponds to interest income for overpaid income taxes and interest income from short-term time deposits. In addition, interest income resulted from the adjustment of discount rates for long-term provisions in the amount of EUR 224 thousands. **Interest and similar expenses** have fallen compared to the previous year. They mainly include non-cash interest expenses from the compounding of long-term provisions of EUR 2,226 thousands (previous year: EUR 3,076 thousands) for pensions and landfills, as well as bank interest of EUR 652 thousands (previous year: EUR 725 thousands), which were mainly incurred for long-term loans.

In fiscal year 2017, the effective **Group tax rate** was 30% (previous year: 30%). **Income tax expense of EUR 8,764** thousands is approx. 33% (EUR 2,169 thousands) higher than in the previous year with EUR 6,595 thousands and includes among others tax expenses for previous years in the amount of EUR 250 thousands (previous year: EUR 253 thousands),

Expenses from the change in **deferred taxes** of EUR 2,973 thousands are significantly higher than in the previous year. The previous year's income of EUR 885 thousands resulted mainly from deferred taxes on the provision made for the employee bonus, which could not be shown for tax purposes. This year's deferred tax expense is also related to the employee bonus for the successful IPO, which has now been paid out and the associated deferred taxes have been released.

Furthermore, the use of tax loss carryforwards from previous years enabled the associated deferred tax asset in the amount of EUR 886 thousands to be released. The capitalization of the costs of the capital increase also resulted in deferred tax expenses of EUR 288 thousands in fiscal year 2017. The calculation of balance sheet differences was based on the specific tax rates of the individual companies (between 21% and 29%).

In the case of **balance sheet differences** resulting from consolidation measures, the tax rate of the parent company is always calculated. If it is foreseeable that the future taxation will take place at a different tax rate, this tax will be applied when calculating deferred taxes.

In summary, both reporting periods were characterized by special effects within the accounting for deferred taxes, which resulted in deferred tax income in fiscal year 2016 and a deferred tax expense in fiscal year 2017.

The **consolidated result** of EUR 20,572 thousands (previous year: EUR 15,283 thousands) is well above the previous year's level (+35%).

This results in **earnings per share** of EUR 0.20 (previous year: EUR 0.15).

2.3.2. FINANCIAL POSITION

2.3.2.1. CAPITAL STRUCTURE

The capital structure is managed in such a way that it takes account of changes in the macroeconomic environment and the risks arising from the underlying assets. In the case of investments, regular checks are made as to whether the available own funds can be replaced by long-term financing with a view to optimized financing costs. As a cash pool manager, AlzChem Trostberg GmbH is in permanent contact with banks and other finance companies in order to examine the use of bank loans and other financing options.

The selection of financial instruments focuses on **maturity-matched** financing, which is achieved through the management of maturities. Before the balance sheet date, AlzChem Trostberg GmbH was able to contractually arrange the project financing of the new planned **CreAMINO®** production plant with an investment loan in the amount of EUR 50,730 thousands.

In addition to the project-related financing measures with a balance sheet date amounting to EUR 24,805 thousands, the **AlzChem Group** is stably positioned by short- to medium-term financing agreements (see Liquidity) to be able to support the operative business.

The capital is monitored on the basis of the **equity ratio** and various essentially bank-specific covenants key figures at Group level and reported monthly to the Management Board and the Chairman Supervisory Board and Supervisory Board. At the balance sheet date, all covenant ratios were adhered to and the forecasts also assume that they will be complied with in the future.

2.3.2.2. INVESTMENTS

Investment measures²³ amounting to EUR 24,878 thousands (previous year EUR 18,544 thousands) were carried out in the year under review. Investments were made mainly in the areas of production and infrastructure. The investment objectives were mainly in the conservation, expansion, modernization and rationalization. The most significant individual projects in fiscal year 2017 were

- initial investment measures in connection with the expansion of **CreAMINO®** capacity,
- the modernization of the power supply network and
- rationalization measures at the carbide furnaces in Hart.

The Group has launched a significant investment program for 2018 and beyond, and intends to continue supporting or underpinning growth:

- Expansion of **CreAMINO®** capacity
- Creation of storage & logistics capacity in connection with the increasing flow of goods
- Capacity expansion in the product area **NITRILE**

The main investment measures are therefore spread over all three operating segments **Specialty Chemicals, Other & Holding** and **Basics & Intermediates**.

2.3.2.3. LIQUIDITY

Within the **AlzChem Group**, AlzChem Trostberg GmbH takes over the intragroup **financing function** and thus ensures the short-term liquidity of the subsidiaries through cash pooling.

In addition, the company is available to the subsidiaries as a borrower or as additional collateral against the banks for long-term financing. In addition to long-term project-related financing for measures already completed in the amount of EUR 24,805 thousands, the aforementioned investment loan in the amount of EUR 50,730 thousands was concluded as of the reporting date of December 31, 2017. These obligations were serviced as planned in the year under review.

In addition, short-term financing lines (money market loans or overdraft facilities) totaling EUR 27,500 thousands (previous year: EUR 19,500 thousands) were agreed with several banks. In conjunction with the increased volume of business, there has also been a need to adjust the short-term funding framework during the year.

As of the balance sheet date, EUR 15.7 mn (previous year: EUR 0 mn) of these lines had been utilized.

Furthermore, the company uses factoring as a financing. Here, the available financing amounting to EUR 30 mn on average over the year has been exhausted by only 18% (previous year: 15%). Loan and loan agreements include the usual covenant agreements in the capital market. An impairment of these requirements is not recognizable in the medium-term planning. Liquidity is guaranteed at all times by the existing financing instruments.

As of the 2017 reporting date, **cash and cash equivalents** amounted to EUR 12,802 thousands (previous year: EUR 12,089 thousands).

²³ Payments for investments of **fixed assets**

The collateral provided to the Government of Upper Bavaria for the operation of its own landfills in the amount of EUR 5,902 thousands (previous year: EUR 5,897 thousands) is shown as other current assets due to the fixed investment over three months. These are funds that are fully restricted but that may and have been invested for a maximum period of one year under the terms of the disposal restriction.

The change in **cash and cash equivalents** is as follows:

in EUR thousands	2016	2017
Cash and cash equivalents as of January 1	10,273	12,089
Cash inflow from ongoing operations	33,137	30,664
Cash outflow from investing activity ²⁴	-18,528	-24,784
Cash outflow from financing activity	-12,784	-5,060
Changes in cash and cash equivalents	1,825	820
Changes due to changes in exchange rates	-9	-107
Cash and cash equivalents as of December 31	12,089	12,802

In the past fiscal year, a **positive cash flow** from operating activities in the amount of EUR 30,664 thousands was generated as a result of the strong operating results. The cash outflow from financing activities mainly results from the payment of a cash dividend of EUR -17,775 thousands (previous year: EUR -8,000 thousands) and repayments in connection with long-term bank loans in the amount of EUR -4,844 thousands (previous year: EUR -4,732 thousands). As a result of the **cash capital increase**, AlzChem Group AG received EUR 2,599 thousands. In addition, EUR 15,700 thousands of **short-term** loans were utilized as of the balance sheet date.

2.3.3. ASSET POSITION

	12/31/2016		12/31/2017	
	EUR thousands	Share	EUR thousands	Share
Assets				
Intangible assets	807	0%	1,009	0%
Fixed assets	104,827	40%	115,131	41%
Financial assets	20	0%	20	0%
Other receivables and assets	270	0%	1,071	0%
Deferred tax assets	28,361	11%	25,433	9%
Non-current assets	134,285	51%	142,664	51%
Inventories	64,052	24%	71,382	25%
Trade receivables	35,444	13%	35,035	13%
Other receivables and assets	17,962	7%	16,308	6%
Income tax claims	42	0%	1,990	1%
Cash and cash equivalents	12,089	5%	12,802	5%
Current assets	129,589	49%	137,517	49%
∑ Assets	263,874	100%	280,181	100%
Capital				
Equity	53,487	20%	57,894	21%
Non-current foreign capital	149,323	57%	146,278	52%
Current foreign capital	61,065	23%	76,009	27%
Total assets	263,874	100%	280,181	100%

For the increase in property, plant and equipment, we refer to point 2.3.2.2. **Investments**.

²⁴ Payments for **investments EUR 24,878 thousands**, proceeds from the sale of fixed assets EUR 69 thousands, cash inflow from company acquisition EUR 25 thousands = **EUR 24,784 thousands**

Inventories increased by EUR 7,330 thousands compared with the previous year to a reporting date value of EUR 71,382 thousands. This largely reflects the high level of capacity utilization and the strategic orientation of the **AlzChem Group**. In connection with planned expansion investments, the stock of **CreAMINO®** has been or will be successively built up in order to be able to meet the steadily rising demand parallel to the construction phase. The campaign size in the **multi-purpose facilities** has been changed to produce two-year or three-year requirements, if necessary, in order to use set-up and cleaning time as productive plant time. In addition, a planned six-week investment and maintenance shutdown of a carbide furnace within the Basic Chemicals segment required an inventory build-up at the end of the year.

An increase was mainly with the chemical raw materials for the production of the multi-purpose facilities and the black materials for the NCN chain at the German locations (EUR +5,642 thousands). There was a shift of inventories away from work in progress (EUR -2,773 thousands) to finished goods. The increase of EUR +4,524 thousands in finished goods was born by the increase in inventories at **CreAMINO®**, the necessary campaign production in the multi-purpose facilities, Nitrile operations as well as **DYHARD®** operations at the Schalchen site.

Inventory intensity²⁵ is at 25% slightly above the previous year (24%) with higher inventories despite higher balance sheet total. Due to the associated higher capital commitment, the absolute number of inventories represents a financial performance indicator that is continuously monitored for the entire Group and the segments.

Based on an increase in the factoring sum as of the balance sheet date, **trade receivables** with an absolute value of EUR 35,035 thousands remained virtually unchanged on the previous year despite an increase in sales of 8%.

The change in deferred tax assets (EUR -2,928 thousands) is mainly due to the decline in deferred tax assets on provisions, which decreased by EUR 1,829 thousands to EUR 22,291 thousands in the period. This was mainly due to the payment and thus the consumption of the provision for the IPO employee bonus. There are deferred tax assets of EUR 463 thousands (previous year: EUR 1,349 thousands) for domestic and foreign tax loss carryforwards. The change in deferred tax assets of EUR 26 thousands (previous year: EUR 4,330 thousands) was recognized in other comprehensive income. Based on the **pension provisions** of the Group companies AlzChem Group AG, AlzChem Trostberg GmbH and NIGU Chemie GmbH, a value of EUR 19,508 thousands (previous year: EUR 19,667 thousands) was recognized in the deferred tax assets.

The **Group equity ratio** increased slightly by 0.3 percentage points at the end of 2017 to 20.7%. This key figure was positively influenced in the reporting period, in particular by the very pleasing operating business situation. This was counteracted by the cash dividend for fiscal year 2016 of EUR 17,775 thousands.²⁶ Taking into account the transaction costs of EUR 740 thousands, the increase in the cash capital increase of EUR 2,599 thousands merely resulted in a net increase of EUR 1,859 thousands.

A reduction in **long-term foreign capital** can be reported despite the increase in pension provisions of EUR +2,329 thousands and other long-term provisions of EUR +391 thousands. Due to the scheduled repayments of loan liabilities in fiscal year 2017, EUR 5,601 thousands was reclassified from long-term to current loan liabilities, resulting in a decline in non-current foreign capital to EUR 146,278 thousands (previous year: EUR 149,323 thousands).

The moderate increase in the **provision for pensions** stems from a stable interest rate of 1.75% (previous year also 1.75%) at December 31, 2017, at least as of the reporting date. In addition to the regular compounding, the increase in the scope of the rising obligation led to an increase in the reported amounts provision. The change in pension provisions due to changes in the **actuarial parameters** was recorded in other comprehensive income in the amount of EUR +89 thousands (previous year: EUR -15,460 thousands) and not in consolidated result.

in EUR thousands	2014	2015	2016	2017
Discount rate in %	2.25	2.50	1.75	1.75
Wage and salary trend in %	3.00	2.75	2.75	2.75
Pension trend in %	1.75	1.75	1.75	1.75
Trend contribution limit social security in %	2.50	2.50	2.50	2.50

²⁵ Inventories to balance sheet total

²⁶ Cash dividend of EUR 17,775 thousands, in addition to a non-cash dividend of EUR 1,925 thousands

Current foreign capital once again increased significantly by EUR 14,944 thousands (previous year: EUR 12,106 thousands). An increase was recorded in particular in the balance sheet item "Loan liabilities to credit institutes." The scheduled repayments of loan liabilities in the amount of EUR 4,844 thousands were counteracted by the utilization of short-term credit lines in the amount of EUR 15,700 thousands and the short-term installments of project financing. In addition, liabilities also increased purely on the basis of the increased business and thus procurement volume.

The **provision requirement** in connection with the IPO employee bonus of EUR -6,256 thousands and the decrease in liabilities from income taxes of EUR -1,952 thousands cannot fully offset the increase. Trade payables increased by EUR 6,499 thousands as of the balance sheet date largely result from investment projects that started in the fourth quarter and have a project duration of >12 months. In addition, the increase in sales is reflected in an increase in demand for raw materials, which in turn accelerated the rise in liabilities.

All these effects combined resulted in a significant increase in short-term foreign capital compared to the previous year.

2.4. FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

In addition to comprehensive plan/actual comparisons of Income Statement items and internal cost structures, corporate management also includes absolute key figures such as sales, EBIT, EBITDA, inventories and relative key figures such as the equity ratio of the Group, debt ratio of the Group or EBITDA margin.

2.4.1. FINANCIAL PERFORMANCE INDICATORS

Figure	Calculation	Einheit	2016	2017	Delta
Equity ratio	$\frac{\text{equity}}{\text{total assets}}$	%	20.3	20.7	+0.4% points
EBIT	Earnings before interest and income taxes	in EUR thousands	25,581	31,678	6,097
EBITDA	Earnings before interest, income taxes and depreciation	in EUR thousands	38,614	45,668	7,054
EBITDA margin	$\frac{\text{EBITDA}}{\text{sales revenues}}$	%	11.8	12.9	+1.1% points
Inventory assets	Absolute stock	in EUR thousands	64,052	71,382	7,330
Sales	Absolute value	in EUR thousands	327,185	353,920	26,735
Debt ratio of the Group	$\frac{\text{net foreign capital}}{\text{total capital}}$	Ratio	0.75	0.75	0

2.4.2. NON-FINANCIAL PERFORMANCE INDICATOR

In the Sustainability Report or CSR (Corporate Social Responsibility) report, the following facts are explained in detail.

The non-financial goals of the **AlzChem Group** are geared to both the short and the long term and thus serve the purpose of operational business management. On the basis of our integrated management concept, all employees in their field of work can contribute to achieving the financial and non-financial goals we aim for. We convey the management concept to our team through seminars and further training events – thus strengthening entrepreneurial thinking at all levels of AlzChem.

Sustainable customer loyalty:

Our business is characterized by a high repeat rate of regular customers. AlzChem endeavors to maintain the customer retention rate at a high level and to expand it in individual business areas.

Training:

Personnel development at AlzChem begins among other things with in-company training. A considerable proportion of the employee demand is recruited from the company's **own integrated training**. This is characterized by the high training rate of the **AlzChem Group** of 7.7% (previous year: 8.5%), which is very high compared with other companies in the sector.

The course of business is designed sustainably to meet the requirements of the management systems and certificates listed below. The management systems and certificates are not non-financial performance indicators in the narrower sense.

Management systems:

The German companies have an integrated management system that complies with ISO 14001, EMAS, ISO 9001, OHRIS and ISO 50001 standards. The Swedish company is ISO 9001, ISO 14001 and OHSAS 18001 certified. Essential components are the regulations of the aspects for environment, safety, health and quality.

IT security:

The International Standard ISO/IEC 27001 Information Technology – Security Technology – Information security management systems – Requirements specifies the requirements for the creation, introduction, operation, monitoring, maintenance and improvement of a documented information security management system taking into account the **IT risks** throughout the organization.

The **ISO27001** and **DIN27019 certification** received by the Group had the following specific reasons:

- The Bundesnetzagentur is calling for public **distribution system operators** to implement the conditions imposed by Article 11 (1a) EnWG with regard to IT security by January 31, 2018. For AlzChem Trostberg GmbH as the network operator, the introduction of ISO27001 is therefore mandatory.
- Similarly, for the GxP certification (GxP: GMP = Good Manufacturing Practice/GLP = Good Laboratory Practice) of the analytical department of AlzChem Trostberg GmbH, computer systems according GxP regulations are required. This requirement is fully met by the application and ISO 27001 certification.

Environment and energy:

Every year, AlzChem publishes a statement on the environmental impact of the German production sites, including relevant environmental performance indicators, for example, consumption of resources, emissions, etc. The resulting transparency shows the importance of responsible use of the environment within the **AlzChem Group**.

Essential **goals** in environmental protection are

- reduction of energy input,
- reduction and prevention of waste,
- protection of waters and
- emission and noise protection.

2.5. OVERALL STATEMENT ON THE ECONOMIC SITUATION

The Management Board of AlzChem Group AG is generally **satisfied** with the course of business in 2017 and the overall economic situation. AlzChem was able to hold its ground in a continuously competitive market environment and successfully pursue its growth strategy.

Sales increased by 8% compared to the previous year, whereby the sales development in the segments was different. The increase in sales was achieved particularly in the growth segment **Specialty Chemicals** in the area of nutrition (feed and nutritional supplements) with the brands **CreAMINO®** and **Creapure®** as well as **Dormex®**. EBIT (+10%) and EBITDA (+9%) also developed well. The sharp rise in commodity prices as well as the volatile curve of the foreign currency USD increasingly placed a burden on the Group's earnings.

in EUR thousands	2016	2017	Delta	%
EBITDA	38,614	45,669	7,055	18.27
Employee bonus for the successful IPO	-6,256	0	6,256	-100.00
EBITDA adjusted	44,870	45,669	799	1.78
EBIT	25,581	31,679	6,098	23.84
Employee bonus for the successful IPO	-6,256	0	6,256	-100.00
EBIT adjusted	31,837	31,679	-158	-0.50

The **consolidated result** is significantly above the previous year and almost exactly on the forecast level. Taking into account the one-off effect from the employee bonus of EUR -6,256 thousands in 2016 and deferred taxes of EUR 1,752 thousands recorded on it, the Management Board is also satisfied with the development compared to an adjusted previous year's result.

We continue to look positively at the development of the financial situation in the fiscal year. Despite the cash dividend that increased by EUR 9,775 thousands compared with the previous year, scheduled loan repayments of EUR 4,844 thousands and extensive investments, **cash and cash equivalents** were held by the strong operating cash flow and the utilization of the existing financing framework.

In an environment of constant change and difficult planning, AlzChem sees itself well positioned for the coming fiscal year. The high level of diversification continues to be seen as one, if not even the starting and anchor point of successful business development.

3. RISK AND OPPORTUNITY REPORT

In order to ensure the legally required monitoring of the material business risks by the Management Board and the Supervisory Board, an internal control system exists to ensure proper and effective accounting (Section 289 (5), 315 (2) No. 5 HGB), a compliance management system as well as a **risk early warning system** pursuant to Section 91 (2) AktG.

3.1. RISK REPORT

Risk management takes place through regular meetings and reports by the respective committees, bodies and specialist departments. This includes, among others:

- board meetings in a 2-week cycle with 2-monthly inclusion of the extended management circle;
- regular coordination of production and technology;
- regular coordination of sales and marketing including innovation management and supply chain management;
- regular reports to the Board in connection with the monthly management report;
- regular reports by the Management Board to the Chairman of the Supervisory Board in the form of business reviews;
- monthly or quarterly coordination at divisional level with the Risk Manager regarding the current risk environment and the processing status of the defined countermeasures;
- annual risk inventory at divisional level, compliance manager, Risk Manager.

The partly daily, weekly and monthly reports include a detailed analysis of the results of all business transactions with corresponding action catalogs in coordination with the respective process owners.

Furthermore, there is a tight debtor and vendor management with regard to a timely **dunning** process including an internal credit management for all debtors. Here, maximum volumes were defined per individual customer, which must not be exceeded.

In addition, there is a rolling, short- and long-term earnings and financial planning with a monthly liquidity forecast. Monthly project plans under the REACH²⁷ regulation ensure the unimpeded flow of goods to the customer. In the energy sector, we work closely with external consultants.

The **risk management** of the **AlzChem Group** comprises the entirety of all measures for the systematic and transparent handling of risks and, through its integration with the controlling processes, forms an integral part of corporate management. Every year, a standardized risk inventory is carried out according to the enterprise risk management approach. For the most complete identification of all relevant risks, a catalog with corresponding risk categories is used. In addition, standardized valuation and reporting tools are available for the collection and assessment of risks. Depending on the type of risk, different instruments are used, such as Monte Carlo simulations, sensitivity or scenario analyses for assessment. The determination of the scaled risk volume takes into account the **probability of occurrence** and the **amount of damage**. The aim of this measure is the early identification, assessment and management of those risks that can significantly influence the achievement of the strategic, operational, financial and compliance goals of the company.

For the assessment of the risks, the expected effects of the **risk levels** in their specific forms (very low, low, medium and high) are **weighted** with their individual probabilities of occurrence (very low, low, medium, high) and then converted into a score of 3 converted to a graduated scale. The height of the point value then determines the classification of the risk significance as low, medium and high. Risk reduction measures already taken reduce the classification of risk significance.

The valuation is based on the following assumptions:

	very low	low	medium	high
Probability of occurrence	< 10%	10% - < 30%	30% - < 50%	> 50%

The **observation period** is a period of 3 years. If there are risks in the future, these were also recorded, whereby the time horizon was taken into account in the damage assessment.

The **risk dimensions** are based on the following assumptions:

	very low	low	medium	high
Risk exposure EBITDA	< 2%	2% - < 10%	10% - < 25%	> 25%

The scope of **risk consolidation** corresponds to the scope of consolidation used for the accounting. The risks do not differ significantly between the segments or do not focus solely on one segment. The risks described below are rather Group-wide and across segments.

Within the framework of this **risk management process**, the following contents could be identified, which could have material or significant adverse effects on the future development of the company. As a consequence of the **AlzChem Group's** structure, the risks listed below have a similar impact on the Group's three operating segments.

The **risk management system** presented focuses primarily on business risks, but at the same time also seizes opportunities. The **opportunity management process** is also integrated into our internal controlling processes and is implemented on the basis of the corporate strategy in the operating segments.

As part of the strategy and planning processes, the divisional managers analyze and evaluate potential market opportunities. In this context, investment opportunities are examined and prioritized, above all with regard to their potential value added, so that an effective allocation of resources is ensured. If the occurrence of the identified opportunities is considered probable, these are included in the **business plans** and the short-term **forecasts**. Any further trends or events that could lead to a positive development in net assets, financial position and results of operations are presented as opportunities in the following report. They could have a positive impact on our medium-term prospects.

²⁷ REACH = Regulation concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals. It has been in force in Europe since 2007 and aims to ensure a high level of protection of human health and the environment. It should at the same time ensure the free movement of chemicals in the internal market and promote competition and innovation.

3.1.1. OPERATIVE RISKS

3.1.1.1. RISK OF INCREASING PROCUREMENT PRICES

AlzChem's product portfolio, based on carbide/calcium cyanamide, is based on lime, **coke** and **energy**. In addition, a number of chemical raw materials are needed for the production process. The market prices for lime, coke and energy as well as other chemical raw materials are subject to considerable fluctuations.

AlzChem procures energy mainly in the form of electricity, but also in the form of natural gas. Energy costs are influenced by several factors, including the availability of certain energy sources and fluctuations in energy prices. **Energy** prices, especially electricity prices, may rise in the future. The energy costs of large energy-intensive companies are particularly dependent on the **regulatory environment**. It also includes taxes and certain regulatory charges on energy consumption or grid usage, which can be a significant part of energy costs for large energy-intensive businesses. In Germany, these taxes and levies could be increased in the future to offset the higher costs of phasing out nuclear power and switching from fossil to renewable energy sources.

In addition, AlzChem relies on certain **exemptions** from duties and taxes on energy (see Section 3.1.3.). As part of electricity purchase agreements ("Electricity Purchase Agreements") between the company and Evonik Degussa GmbH ("Evonik Degussa"), Evonik Degussa purchases electricity in its own name, but on behalf of AlzChem, for the business activities of AlzChem in Germany. At the request of AlzChem, Evonik Degussa has concluded long-term electricity supply contracts with fixed electricity prices for certain amounts of electricity for the years 2018 to 2020. AlzChem has also completed transactions to secure fixed prices for certain amounts of electricity for the business operations of AlzChem in Sweden for the years 2018 to 2020. While the risk of rising electricity prices is reduced to some extent by the long-term fixing of electricity prices, for AlzChem it is at the same time in a scenario of falling electricity prices connected with relative disadvantages opposite competitors. In addition, AlzChem is not itself the contractual partner of the electricity supplier in the case of long-term electricity contracts with fixed prices for business activities in Germany, but is dependent on Evonik Degussa fulfilling its contractual obligations to AlzChem to deliver the agreed amounts of electricity at the stipulated price. Should Evonik Degussa fail to fulfill the contractual obligations (for example due to the bankruptcy of Evonik Degussa or the termination of the power purchase contracts by Evonik Degussa), AlzChem will not benefit from the fixed price agreements concluded.

The prices that AlzChem has to pay for certain commodities are subject to **fluctuations**. Since AlzChem's primary raw materials are natural commodities, their price is usually determined on the basis of general mining and production volumes and industry demand. Although AlzChem has defined procurement strategies for the most important raw materials and concludes long-term supply contracts or annual contracts to minimize price and volume risks. However, AlzChem is unable to **fully** eliminate the risks of commodity price volatility. Moreover, it cannot be ruled out that AlzChem will be bound by higher prices in times of falling commodity prices due to long-term supply contracts, while in times of rising prices AlzChem will not be able to conclude advantageous supply contracts.

An **increase** in commodity or energy prices that cannot be passed on or otherwise offset by a corresponding increase in selling prices to customers results in lower margins. Even if AlzChem is able to pass on an increase in raw material or energy prices to customers, the increase in selling prices can lead to a decline in demand and lower sales volumes as customers reduce their purchases or switch to replacement products.

An increase in commodity and energy prices, even in times of good general economic conditions, can have a **significantly adverse** effect on AlzChem's net assets, financial position and results of operations.

With regard to the procurement price risks, the management assumes a medium to high **probability of occurrence** and a medium impact on the net assets, financial position and results of operations.

3.1.1.2. MARKET RISKS

AlzChem offers a large number of different NCN-based chemical products in **diversified markets**, some of which are cyclical, highly volatile and sensitive to, among others, consumer spending and preferences, consumer confidence and income, unemployment rates, interest rates and energy prices. Therefore, demand for AlzChem's products may be affected by negative

developments in diversified sectors and industries, in particular in the agricultural, feed, pharmaceutical, cosmetics, chemicals, metals, renewable energy and automotive industries, as well as in the food and beverage sectors nutrition market.

For the **agricultural sector**, AlzChem produces, among other things, fertilizers (under the brand name **Perlka**®) and agrochemicals (under the brand name **Dormex**® and other brand names) that are used by farmers. The demand for AlzChem's products in this sector depends on the level of production of agricultural products, which is why AlzChem is subject to seasonal fluctuations as well as meteorological and climatic conditions. As a rule, AlzChem does not sell its products directly to farmers, but sells them through wholesalers or importers. Therefore, AlzChem may also be affected by changes in the retail sector, such as a potential shift to other wholesalers or importers, or to direct marketing. In addition, AlzChem's products are designed for specific methods of industrialized agriculture. Therefore, a shift in consumer preferences towards agricultural products from non-industrialized agriculture could indirectly lead to a declining demand for AlzChem's products. Technological progress, for example in the field of genetic engineering, may lead to increased use of other agricultural practices for which AlzChem's products are no longer or only to a limited extent needed.

Amongst others, AlzChem produces feed additives (under the brand name **CreAMINO**®) and biocides (under the brand name **ALZOGUR**®) for the **animal feed industry**. AlzChem's feed additives and biocides in particular meet the requirements of industrialized production. Changing consumer habits and preferences, such as an increasing trend to consume only organic meat, could lead to a decline in demand for AlzChem products. If consumers decide to consume less meat, it is in principle possible that this will have a negative impact on the demand for AlzChem's products.

AlzChem produces certain chemical building blocks (such as dicyandiamide and guanidine salts) for the **pharmaceutical, cosmetics** and **chemical** industries. The drugs that use AlzChem's chemical building blocks usually go through a product life cycle, which brings a new generation of the drug to market. Thus, there is a risk that AlzChem's chemical building blocks will no longer be needed in future generations of the drugs in question or will be sourced from another supplier by AlzChem's customers. The cosmetics using AlzChem's chemical building blocks are aimed at consumers; As a result, AlzChem is exposed to the cyclical fluctuations of these hypermarkets. For AlzChem's chemical products, AlzChem is particularly exposed to the risk of a decline in demand due to an economic downturn.

For the **metal industry**, AlzChem produces, among other things, blends for hot metal desulphurization based on calcium carbide (CaD). These are typically used in the steel industry, which is subject to cyclical fluctuations as a result of developments in its target industries, such as the automotive or construction industries. As a result, demand for AlzChem's metals products is at risk of economic downturn. In addition, technological changes in steel production, such as a possible shift to steel production from scrap, which does not require desulfurization, may lead to a decline in demand for AlzChem's products. In addition, AlzChem's metallurgical customers are currently predominantly located in Europe, as the transport of some of AlzChem's products sold to this industry would be disproportionately expensive over longer distances. In the past, the European steel industry has lost ground to its competitors in China and has begun to consolidate; it cannot be ruled out that these developments will also have a negative impact on AlzChem.

For the renewable energy sector, AlzChem produces silicon nitride for the manufacture of solar wafers for photovoltaic cells (under the brand name **Silzot SQ**®) and composite materials used in wind turbine rotor blades, among others (under the **DYHARD**® brand name). Thus, AlzChem is exposed to developments in the **photovoltaic** and **wind energy industry**. Both are innovative industries with potential for continuous technological change, which could lead to or even reduce demand for AlzChem products. The photovoltaic industry and the wind energy industry are dependent on the price evolution of electricity from other energy sources, available funding or similar regulatory measures to promote renewable energy, and a policy environment that seeks to shift from fossil and nuclear to renewable energy sources. In this context, a shift in US policy conditions could have a negative impact on the photovoltaic industry and the wind energy industry, especially if the announcement by the US President of the Paris Agreement on the Reduction of Greenhouse Gas Emissions is implemented. Developments that are detrimental to the photovoltaic and wind energy industries could also negatively impact demand for AlzChem's products in the sector.

For the **automotive industry**, AlzChem produces, among other things, nitroguanidine, which is used as a propellant charge for airbags, and epoxy resin hardener (under the brand name **DYHARD®**), which is used as a structural adhesive in the assembly of metal parts as an alternative to welding or riveting. Thus, AlzChem is exposed to developments in the automotive industry, in particular the development of demand for passenger cars and commercial vehicles. This demand is directly related to the state of the global economy. In 2009, the international automotive industry was hit particularly hard by the economic and financial crisis. The economic situation at the time of the global financial crisis led to a decrease in consumer demand, which is why automotive manufacturers revised manufacturing processes and planning, postponed the development of certain vehicle models and cut back on their research and development budgets. In 2012, European economies suffered from the impact of the sovereign debt crisis, resulting in significantly lower demand for motor vehicles in the second half of 2012. In addition, demand for vehicles in Russia was affected by the Ukraine crisis. In addition, further economic slowdown in China, which is now the world's largest market for passenger cars and commercial vehicles, would have a negative impact on vehicle demand.

In the **nutritional sector**, AlzChem manufactures nutritional supplements (under the brand names **Creapure®** and **Alipure®**). These products are aimed at consumers. As a result, AlzChem's nutritional supplements are exposed to cyclical fluctuations in consumer markets. In addition, the demand for AlzChem's nutritional products depends on the general acceptance of dietary supplements.

In certain segments and industries in which AlzChem operates, customers typically tailor their sourcing activities to the expected growth rates in their respective market. In the event of a real or anticipated economic downturn, these clients seek to reduce their working capital and inventory, which may lead to a significant decline in AlzChem's sales volume. In times of recovery, customers tend to rebuild their inventories, resulting in higher demand for AlzChem's products. This inventory build-up and downturn affects both actual and projected demand for AlzChem's products and may lead to unexpected or unexpectedly strong fluctuations in demand. This, in turn, can lead to unexpected changes in AlzChem's production volumes and capacity utilization, which are highly correlated with the company's operating result due to the costs and investment in operating AlzChem's facilities.

A decline in **demand** in one of AlzChem's markets, which is possible even in times of generally good economic conditions, could have material adverse effects on AlzChem's business, assets, financial and earnings position.

In terms of market risk, management assumes a medium to high **probability of occurrence** and a low to medium impact on the net assets, financial position and results of operations.

3.1.1.3. COMPETITION RISK

AlzChem faces different levels of **competition** with its various products. AlzChem is a regional leader in some areas because international competitors are less active in these regions due to the geographical distance of the region and the chemical specifications of the products concerned. In other areas, on the other hand, there is **intense** competition. In some of AlzChem's key markets, the main competitors are from China and India and benefit from cost advantages in the areas of human resources, energy, waste management and the environment in these countries. In other markets, AlzChem competes with well-established and strong competitors from leading industrial regions, which are often global and have global distribution networks.

Some of AlzChem's competitors – mainly in emerging markets – may deliver certain products below market prices, forcing AlzChem to **lower** their sales prices, which could have material adverse effects on AlzChem's margins and profitability. Various factors may affect the price at which a competitor is prepared to deliver its products, including access to cheap commodities and government grants to which AlzChem has no access. In addition, state-owned or state-supported competitors could resort to dumping measures such as capacity increases and/or price reductions.

AlzChem's ability to maintain or **increase profitability** hinges on the company's ability to offset falling product prices and margins by improving production efficiency and increasing sales volumes, focusing on individualized, higher-margin products, and existing products and their own Improving applications through innovation – all measures that competitors may be able to implement better and more cost-effectively than AlzChem.

For many AlzChem products, there are other criteria besides price, such as the **performance** and **quality** of the product, pricing strategies, product availability and security of supply. It is possible that competitors will be more successful in meeting customer requirements for product features and cost-effectively producing. In the future, price competition for a larger portion of AlzChem's products could intensify, forcing AlzChem to lower its prices.

The competition could also be intensified by **new entrants** or companies consolidating their business activities and achieving economies of scale. Some of AlzChem's competitors have or may have higher production capacities than AlzChem and may have more financial resources. These competitors could also have much greater operational and financial flexibility than AlzChem. As a result, these competitors may be better able to withstand volatility in their respective market, commodity or energy price changes or unfavorable economic conditions.

In addition, AlzChem may face increasing competition from companies that offer products based on **alternative** materials, technologies and processes, and that may be more competitive or superior in price or performance, thus gaining current customers of AlzChem, leading to a decline in sales at AlzChem could lead.

The occurrence of one or more of the risks described above could have material adverse effects on AlzChem's net assets, financial position and results of operations.

In terms of competitive risk, management assumes a medium to high **probability of occurrence** and a low to medium impact on the net assets, financial position and results of operations.

3.1.1.4. SUBSTITUTION RISKS

A substitution of significant products in the portfolio of the **AlzChem Group** is currently considered to be less likely. In the **chemical sector**, there is a latent risk that individual compounds will be replaced by other chemical substances or compounds, but this is expected to be so small that the impact on the net assets, financial position and results of operations will be very low.

In the market environment of agriculture and metallurgy, there is a latent risk of substitution regarding the use of another substance, e.g. Magnesium-based hot metal desulphurization instead of calcium carbide-based hot metal desulphurization or the use of calcium ammonium nitrate 27% N or ammonium nitrate-urea solution 30% N instead of **Perlka®**. However, the Group counteracts these risks by developing customer-specific products, intensive technical support and advice to customers, and joint (new) **product development** geared specifically to the needs of the customer.

Particularly in the agricultural environment, **application consulting** and intensive customer contact are required, so that AlzChem is able to significantly reduce the net risks through the established structures, and thus the impact on the net worth, financial and earnings position is also very low to low can be classified.

With regard to the substitution risks, the management assumes a low to medium **probability of occurrence** and a medium impact on the net assets, financial position and results of operations.

3.1.1.5. DISTRIBUTION

Despite the high **product diversification** of the Group portfolio, there is a certain concentration on the customer side. AlzChem supplies a large number of global players in the global chemical industry and is thus exposed to an industry-specific risk. This is countered with a wide range of products and contract-based cooperation. In addition to customer-specific product developments, substances for a wide variety of applications are also researched, sampled and manufactured.

With regard to the sales risk, the management therefore assumes a very low to low **probability of occurrence** and a very small or minimal impact on the net assets, financial position and results of operations.

3.1.2. FINANCIAL MARKET RISKS

3.1.2.1. CURRENCY RISKS

The **reporting currency** of AlzChem is the euro (EUR). However, AlzChem owns subsidiaries in the US, Sweden and China, which are accounted for in the local currency, i.e. in US dollars, Swedish kroner or Chinese renminbi. In addition, AlzChem operates in a large number of countries around the world. Consequently, AlzChem is exposed to risks due to **exchange rate fluctuations**, in particular with regard to the exchange rate between the euro and the US dollar (USD), the Chinese renminbi (CNY), the Japanese yen (JPY) and the Swedish krona (SEK).

Assets and liabilities of foreign subsidiaries are translated into euros at the exchange rate prevailing at the end of the reporting period. Income statements of foreign subsidiaries are translated into euros at the average exchange rate during the period. Accordingly, if other currencies fluctuate against the euro, the other result and thus the equity of AlzChem will increase or decrease.

AlzChem Group companies enter into transactions in currencies other than their **functional currencies**. These transactions are booked in the applicable functional currency of the relevant company using the exchange rate on the day of initial booking. Subsequent changes in this exchange rate will result in gains or losses on currency translation reported in the Consolidated Income Statement under other operating income or other operating expenses. Thus, AlzChem is exposed to the risk that (i) currency translation will result in losses and (ii) that any income from currency translation will be lower than in previous periods.

Additional currency risks arise from exchange rate changes in **recorded** financial and operating positions (including receivables and payables) and expected operating positions. These items include commodities and/or the sale of products whose prices are denominated in currencies other than the functional currency of the operating unit. Unfavorable exchange rate changes may result in higher costs or lower sales than expected at the time of the contract, as well as lower margins. The transactions concluded by AlzChem Group companies in foreign currencies relate to the **procurement of raw materials** and the sale of goods. In particular, AlzChem's purchase of raw materials is to a large extent in USD. In addition, a significant portion of AlzChem's sales are in USD and JPY. Although AlzChem's US dollar-denominated purchases and sales are to a certain extent a "**natural hedge**," the cost of US dollar-denominated purchases during the reporting periods was less than half of the value of US dollar-denominated sales in those periods. As a result, changes in the USD and/or JPY exchange rates against the euro may have a significant impact on AlzChem's financial position and results of operations.

In addition to the direct impact of currency fluctuations on AlzChem's Consolidated Income Statement and therefore the company's consolidated equity base, foreign exchange movements may also affect AlzChem's **operating business**. The transactions concluded by AlzChem Group companies in foreign currencies relate to the procurement of raw materials and the sale of goods. AlzChem's raw material purchases are to a large extent in USD. In addition, a significant portion of AlzChem's sales are in USD and JPY. Therefore, changes in foreign exchange rates (such as an appreciation of the EUR against the JPY and a depreciation of the EUR against the USD) would negatively affect AlzChem's **competitiveness** in certain markets.

Risks arising from exchange rate fluctuations and insufficient hedging against them could have a material adverse effect on AlzChem's business, assets, financial and earnings position.

The **probability of occurrence** is considered to be medium to high, but the effects on the net assets, financial position and results of operations are seen as very low to low.

The AlzChem Group uses financial instruments such as **currency forwards** exclusively to **hedge** underlying transactions. The Group does not participate in financial speculation. The primary hedging objective is to hedge the part of the currency risk that cannot be covered by natural hedging and focused only on hedging sales in JPY in the fiscal year. Financial assets have a minor impact on the net assets, financial position and results of operations. The negative fair values of the JPY currency forwards amounted to EUR 0 thousands as of the balance sheet date (previous year: EUR 142 thousands).

3.1.2.2. CAPITAL MARKET DEVELOPMENTS AS A RISK FOR PENSION OBLIGATIONS

The AlzChem Group has obligations to current and former employees from pensions and other post-employment benefits. Changes in relevant valuation parameters, such as the discount rate, mortality rates, wage and salary increase rates, and pension growth rates, may result in an increase in the present value of pension obligations. The provision for pensions determined in accordance with IAS 19 was recognized in the amount of EUR 107,234 thousands in the **AlzChem Group**.

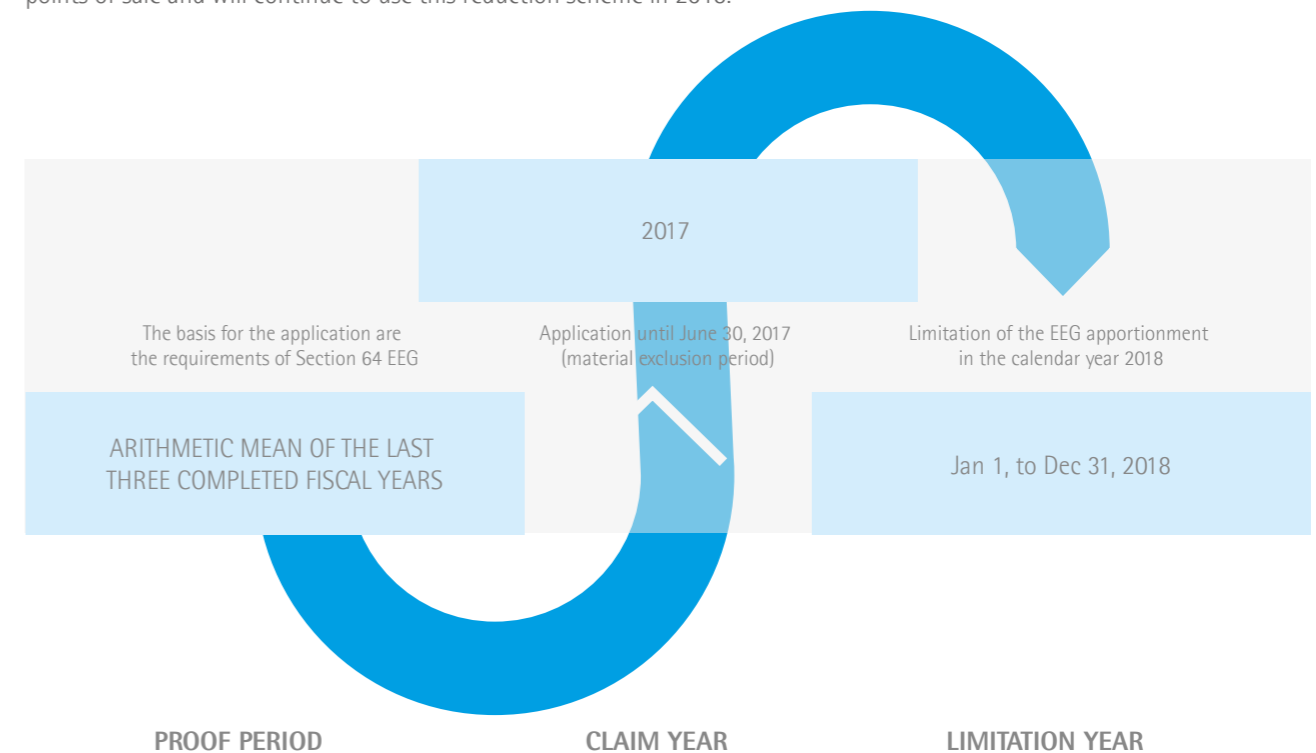
Changes in the **discount rate** develop significant effects within the balance sheet (equity) and Income Statement (personnel expenses, financial result). The Group takes this fact into account by regularly reassessing the obligations and thus ensuring a high timeliness of the recognized values. With regard to interest rate risk, management assumes a high probability of occurrence and a medium to high impact on its net assets, financial position and results of operations. The Board of Management periodically conducts a **scenario review** with regard to compliance with the **Financial Covenants figures**, thus ensuring that changes can be detected at an early stage and countermeasures can be initiated on this basis.

3.1.3. REGULATORY RISKS

3.1.3.1. ENERGY LAW

In Germany, AlzChem is currently benefiting from **cost and tax reductions** and exemption regulations for electricity costs under the Renewable Energy Act ("EEG"), the Combined Heat and Power Act ("KWKG"), the Electricity Fee Ordinance ("StromNEV"), the electricity price remuneration and certain exemption regulations with regard to electricity tax. All of these regulations allow energy-intensive industries to operate at a lower cost of electricity to improve their overall competitiveness. Taken together, these regulations result in **significant reductions** in AlzChem's energy costs. **Without** these discounts, AlzChem would **not** be able to operate competitively and would have reported negative operating results in all reporting periods. In this respect, there is a development-impairing fact for the Group.

The **EEG** regulates the financial support of energy from renewable sources. Moreover, as a basic principle, utilities have to pay the so-called EEG levy to finance the promotion of renewable energy for every kWh of electricity they supply to end users. Utilities pay the end users the EEG surcharge. However, under certain conditions, the EEG provides for reductions in the EEG surcharge for energy-intensive companies²⁸ in select sectors. This reduction can be granted annually at the request of the Federal Office of Economics and Export Control ("BAFA"). In the past, AlzChem has benefited from reductions²⁹ in the EEG surcharge at three points of sale and will continue to use this reduction scheme in 2018.



²⁸ The special remuneration scheme was approved by the EU Commission in July 2014 for ten years under state aid law.

²⁹ Leaflet for energy-intensive companies 2017 Federal Office for Economics and Export Control Page 25 (3.3) Detection period for determining the energy cost intensity

The StromNEV contains regulations on network charges. According to **Section 19 (2) StromNEV**, energy-intensive companies that consume at least 10 GWh at a collection point and reach a number of hours of use of at least 7,000 hours³⁰ per year are entitled to an **individual network** fee for the respective collection point. On this basis, AlzChem is currently benefiting from reduced network charges for the points of sale in Hart and Trostberg. According to the current state of affairs, Section 19 (2) StromNEV is the subject of an investigation by the European Commission, which examines whether this regulation may constitute State aid contrary to EU law. However, the European Commission's investigation has been halted since 2013. However, it cannot be ruled out that beneficiaries of reduced network charges will have to repay these financial benefits and in the future will not be able to benefit from any reductions if it is found that the state benefits were granted by breaching EU law.

AlzChem Trostberg GmbH decided this year to outsource the sub-operation grid with effect from 1/1/2018 into the newly founded **AlzChem Netz GmbH**.

Under the **KWKG**, a moderate financing for combined heat and power ("CHP") is provided. This financing is based on a surcharge on the network charges (KWKG-surcharge) and thus leads to an increase in the general energy prices. This surcharge is always charged in full with an annual consumption of up to 1 GWh. However, energy-intensive companies such as AlzChem benefit from a limitation of the KWKG surcharge. Following discussions between the German Government and the European Commission, the KWKG, and in particular the regime for energy-intensive companies, has been amended to bring it into line with EU state aid rules. Under the new regulations, which came into force on January 1, 2017, companies meeting the requirements for reducing the EEG surcharge are also entitled to a reduction in the CHP levy. In its press release of May 23, 2017³¹, the EU Commission approved under the EU State aid rules the rebate for levies for energy-intensive businesses.

Under the **energy price remuneration** scheme, eligible companies can apply for State aid to be financially compensated for the rising electricity prices due to **emissions trading**. The state aid is limited to companies from certain economic sectors with particularly high-flow production processes – such as AlzChem. The grant will be granted at the discretion of the competent authority, upon application by the beneficiary; there is no legal entitlement to the grant of the aid. For the first time in 2014, companies were able to apply for remuneration for indirect CO₂ costs in 2013. AlzChem has been granted electricity price remuneration in the past. AlzChem also expects to receive such electricity price remuneration for the future. However, the electricity price remuneration is only valid until **2020** and is limited annually to a fixed total amount. In addition, the state aid will gradually be reduced from 2013 to 2020.

Furthermore, AlzChem, as a **distribution system operator**, is currently benefiting from an agreement with a neighboring distribution system operator that requires both parties to pool two network connections and to calculate a common network charge. In the case of a pooled calculation of network user charges, the network charges generally fall because the cost intensive peak loads are straightened out. Pooling is thus beneficial for AlzChem because it reduces network usage fees. However, according to a recent court decision, it is currently unclear whether the legal basis for this pooling, Section 17 (2a) StromNEV, is valid.

Furthermore, it cannot be ruled out that the conditions or the scope of the aforementioned cost and tax reductions and **exemption regulations** –

- the reductions in the EEG surcharge,
- the network charges and
- the KWKG surcharge
- the electricity price remuneration
- the exemptions from the electricity tax
- as well as the pooling of network connections and
- the collection of a common network user charge

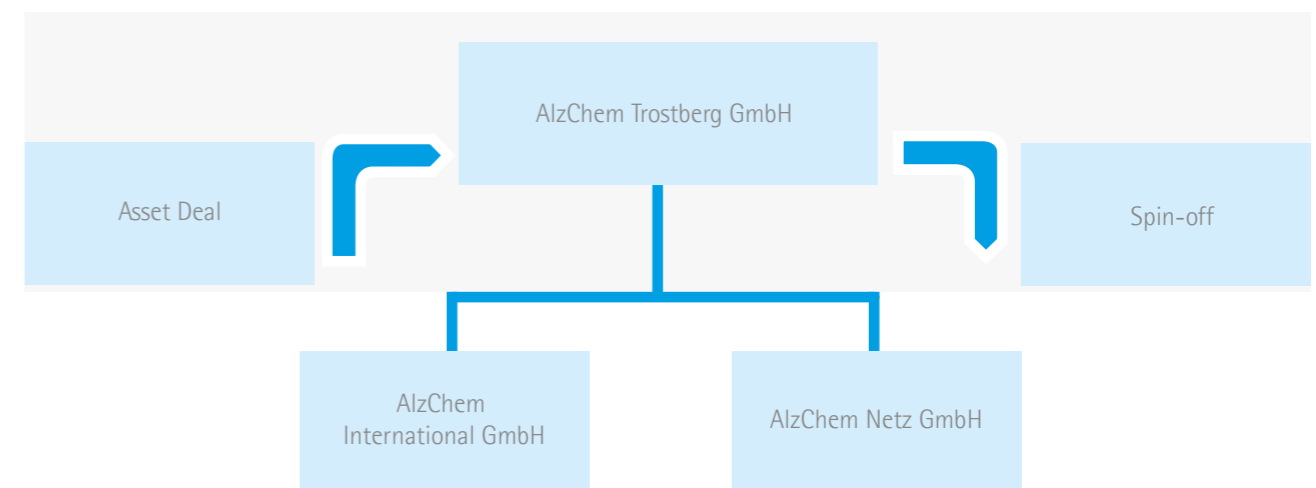
³⁰ Calculated as the quotient of energy work taken or fed in per year, and the highest load this year for taking or feeding in – Section 2 (3) StromNEV

³¹ European Commission - Press release Brussels, May 23, 2017 "State aid: Commission approves reductions in CHP levies for energy-intensive companies in Germany and Italy" IP/17/1440

be amended by new statutory provisions or that these rights are abolished, or that regulators exercise their **discretionary powers** with respect to these privileges to the detriment of AlzChem, or that jurisprudence substantiates legal requirements to the detriment of AlzChem.

For example, in a recent ruling in a legal dispute with the Bundesnetzagentur concerning the settlement of individual network charges, in which AlzChem was not a party, the Federal Court of Justice (decision dated 18 July 2017) ruled that **individual agreements** on a reduced network fee were only admissible between two legal entities. This has had a negative impact on the previous accounting practice for individual network charges at AlzChem Trostberg GmbH.

AlzChem Trostberg GmbH was forced to abandon the previous accounting practice and outsource the network operation into an independent **legal entity**.



While it is likely that some of the cost and tax reductions and exemption regimes for **energy-intensive industries** will be largely maintained in the future in order to enhance their international competitiveness, there is also a general legislative tendency – often triggered by EU state aid controls – to dismantle appropriate privileges.

Cost and tax reductions and exemption regulations for **energy-intensive companies** have been or are being criticized in the political debate on a regular basis and representatives of certain political parties have repeatedly called for the abolition of existing rights. Thus, it cannot be ruled out that the abolition of rights for **energy-intensive** industries will be demanded in 2018 or politically in the future. In addition, legislative measures in other areas of energy regulation, such as restrictions on nuclear power generation in Germany and state support for renewable energy, have led to and will continue to increase energy costs in general.

All these aspects carry a **high risk** that AlzChem will have to pay **significantly** higher energy prices, which would have material adverse effects on AlzChem's business, assets, financial and earnings position.

However, in terms of risk assessment related to changes in this complex area of law, management assumes a very low to low **probability of occurrence** with a very high impact on its net assets, financial position and results of operations.

3.1.4. COMPLIANCE RISKS

The AlzChem Group operates production facilities in Germany and Sweden as well as sales companies in the US and China, so that due to the complex international and national legal situation there is already the latent risk of a breach of the rule. For this reason, the Group has appointed a compliance manager and set up a compliance organization. Our compliance management system aims to ensure the lawful, responsible and sustainable conduct of our employees. Potential violations should be recognized in advance and systematically prevented.

The compliance management system thus makes a significant contribution to the integration of compliance in our operating business units and their processes. Regular **training courses** for employees in Germany, Sweden, US and China are intended to increase understanding and sensitivity to the issue. With regard to the risk of fundamental compliance violations, the management assumes that the established organization has a high impact, so that a very low probability of occurrence and a very small negative impact on the net assets, financial position and results of operations is seen.

3.1.5. LEGAL, PROCESS RISKS, RISKS LAW CHANGES

The **AlzChem Group** is exposed to numerous risks arising from **legal disputes** or proceedings. These include, in particular, risks in the areas of product liability, antitrust law, competition law, patent law, tax law and environmental protection. Currently, the Group is not in any significant court or arbitration proceedings that could have a material impact on the economic position of the Group.

AlzChem's business activities, including its locations, facilities, products and operations, must comply with and be influenced by a variety of regulatory requirements in the countries where AlzChem operates. The **regulatory framework** for AlzChem's business is subject to ongoing legislative changes and developments that may require costly compliance measures. In particular, the regulatory framework for environmental protection, health and safety matters in general and for the manufacture and placing on the market of products is subject to frequent changes, which in most cases lead to the imposition of stricter requirements. These stricter requirements usually result from scientific progress or from a change in the social acceptance of risks, which is relevant for AlzChem's product portfolio consisting of health and safety-sensitive products.

Constant **legislative change** and development is of great importance to AlzChem as the company operates in regulated areas where permits, permits, certificates and other permits, such as product permits and water-related permits, are usually granted for a limited period of time only and only be extended if – possibly amended – requirements are met. In principle, there is **no certainty** that AlzChem will be in a position to **extend** all permits, certificates and permissions required for its business activities.

In addition, existing authorizations, authorizations, certificates and permissions may be subject to restrictions or obligations by the competent authority at a later date in order to impose more stringent legal requirements. In particular, AlzChem's existing authorizations, approvals, allowances, registrations, listings or other forms of **approval** for **placing products on the market** may be limited in time or revoked due to the evolving scientific knowledge that underlies certain risk assessments. In addition, many legal – especially environmental – regulations refer to undefined legal terms such as "state of the art" or "state of science and technology." For this reason, given technological advances and scientific developments, it may be necessary to adapt equipment, systems and other equipment, processes and products without any explicit legal change.

AlzChem already envisages several changes in environmental law relevant to AlzChem, the most important of which concern **pollution and water protection**: the Major Accidents Ordinance, which is currently based on Council Directive 96/82/EC of December 9, 1996, ("Seveso II") is amended by Directive 2012/18/EU of the European Parliament and of the Council of July 4, 2012 ("Seveso III"). The implementation process in Germany was completed in mid-January 2017. In particular, AlzChem expected stricter requirements in terms of application procedures and public participation. In addition, the site in Hart and Sundsvall will fall under the **Störfallverordnung** since it will also be the first to detect calcium carbide. AlzChem has successfully created several technical packages of measures and is thus able to meet the changed legal requirements.

In addition, a revision of the technical instructions on air pollution control ("**TA Luft**") is expected by mid-2018 in the area of emission control. AlzChem assumes that stricter **emission limits** will be introduced.

The entry of this planned amendment is considered highly probable. AlzChem is intensively pursuing the legislative process and has already initiated internal measures to minimize the threatening and **significant adverse effects** on business activities and thus, also the indirect material and adverse effects on the business, assets, financial and earnings position of AlzChem.

In the area of water law, the existing ordinances of the federal states on facilities for the handling of substances hazardous to water have been merged into a single federal ordinance (in force since August 1, 2017). Overall, there is a significant increase in the **bureaucratic burden** on AlzChem's business. AlzChem could also be subject to environmental or other regulations currently or in the future, of which AlzChem was previously unaware. With the execution of all new or amended regulations, it cannot be ruled out that risks, requirements or restrictions that cannot yet be fully estimated today still occur.

3.1.6. RISK POSITION SUMMARY

The risk situation of the **AlzChem Group** has not changed significantly compared to the previous year. The current valuation shows that today none of the previously reported risks threaten the existence of the company. In addition, we were unable to identify any interdependencies that could threaten the survival of our company. Due to our wide-ranging **product portfolio**, our expertise and market expertise as well as our sustained innovative strength, we are convinced that we can realize the opportunities arising from our entrepreneurial activities and successfully meet the challenges arising from the aforementioned risks.

3.2. OPPORTUNITY REPORT

As part of our risk management, we also regularly identify and evaluate **opportunities** that arise in our business areas. However, these represent only a small but for us the most significant part of the possibilities that are offered to us. Moreover, the evaluation of the opportunities is subject to continuous changes. The most significant opportunities listed here are pursued with equal weight.

According to a Frost & Sullivan market study ("Frost & Sullivan Report 2016") commissioned by AlzChem, AlzChem is a leader in selected **niche markets**, partly at international level and partly in certain regions. According to AlzChem, leading positions have been achieved through the use of **NCN chain** know-how and focus of R&D activities on higher value products. By leveraging **synergies** across the NCN chain, AlzChem is able to offer products in niche markets at competitive prices – even in small quantities. AlzChem's strong position in niche markets provides a solid revenue base and promotes AlzChem's reputation in their respective markets, making it easier to introduce new products into these markets.

3.2.1. DIVERSIFIKATION

The **AlzChem Group** operates a stable NCN pedigree with the main products carbide, fertilizers calcium cyanamide/PERLKA®, cyanamide, dicyandiamide, nitroguanidine and other high-quality derivatives such. DYHARD®, Creapure® and CreAMINO®. The company strives to leverage the opportunities for growth through a combination of **diversification**, market penetration and market development. In addition to traditional products, the company continues to invest in new products such as: Silzot® and CreAMINO®.

The entire product range is sold predominantly in the markets of nutrition, renewable energies, fine chemicals, pharmaceuticals, agriculture and metallurgy. Due to the broad product range and the **large number of end markets**, the company has so far developed with stable revenue and earnings growth. This high degree of **diversification** permanently supports a very balanced sales and earnings growth, with its pillars in many different market segments and sectors. In doing so, the Group has always succeeded in achieving economic or regional slumps in sales in one sector by growing in another segment or country and thereby achieving remuneration or over-remuneration.

3.2.2. GLOBAL PRESENCE

Thanks to its global presence in more than 70 countries, **market potential** has been systematically absorbed and rigorously implemented with in-house developed project tools and implemented in the short, medium and long term.

3.2.3. MARKET ENTRY BARRIERS

AlzChem profits from the **barriers to entry** to the markets in which the company operates. For potential new competitors, it may be time consuming and costly to (i) introduce an integrated production network similar to that operated by AlzChem, (ii) obtain certifications, registrations and approvals for equipment and products in a highly regulated market environment and (iii) the level of AlzChem to achieve know-how and industrial property rights.

Integrated production network

AlzChem is a **vertically integrated manufacturer** of specialty chemicals in the NCN chain. Competitors focus on different sectors of the NCN chain, while AlzChem's integrated production network allows it to cover the entire NCN chain. The integrated production network gives AlzChem special **flexibility** in order to be better able to handle changes in the demand for individual products. AlzChem is able to partially offset lower demand for **Specialty Chemicals** products by reducing production of these products and increasing sales of related lower-margin **Basics & Intermediates** products (and vice versa).

In addition, AlzChem is less dependent on specific industries due to its broad product range and focus on different markets. AlzChem's diversified business model in conjunction with the integrated manufacturing network makes it more likely that negative developments in one industry can be offset by positive developments in other industries, in particular due to the synergies that AlzChem can achieve in the production process and in research and development because all of the company's products are based on the NCN chain.

In addition, AlzChem's **Specialty Chemicals** segment is not dependent on external suppliers of calcium carbide-based intermediates. AlzChem is thus less exposed to adverse market trends. In our view, all of these factors require an **efficient and resilient business model** that has proven to be stable and, due to its cost-competitiveness, financially successful. AlzChem is able to leverage its manufacturing facilities for a variety of products, despite the **high degree of specialization** of the **Specialty Chemicals** segment, giving AlzChem a competitive edge in resource efficiency as a result of vertical integration.

Regulatory barriers to entry in the markets

Some of the sectors in which AlzChem operates are **heavily regulated**. This applies in particular to the market for chemical products in general, the market for biocidal products and plant protection products, the market for food supplements and animal feed additives, the defense industry and dual-use applications, and the pharmaceutical and cosmetics sectors. AlzChem has the necessary **approvals, registrations and certifications** to produce and distribute its products in these highly regulated markets. AlzChem has obtained certain certifications, registrations and approvals, which may be difficult, expensive or time-consuming for potential competitors to obtain. For example, AlzChem operates facilities that are in line with the principles of **good manufacturing practice** ("GMP"). Compliance with this GMP is a regulatory requirement for, among other things, the production of medical and cosmetic products in the EU. AlzChem has also obtained **approval** for two health claims for its **Creapure** product, and may therefore provide specifics when promoting the product.

Know-how, brands and industrial property rights

High product quality, delivery reliability, **process know-how** and industrial property rights are the result of AlzChem's research and development activities, making it difficult for competitors to enter the markets where the AlzChem brands predominate; Innovations and know-how are of fundamental importance, especially in the **Specialty Chemicals** segment. In addition, several AlzChem products are protected by patents that prevent competitors from imitating AlzChem products and selling them at lower prices than those required by AlzChem for its products.

3.2.4. GROWTH POTENTIAL WITH MEGATRENDS

AlzChem sells its products in **diversified** markets that are expected to evolve in line with global **megatrends** and have the potential to grow steadily, thus benefiting AlzChem's business development.

Population growth

The world's population is projected to reach 8.5 billion people by 2030 and 9.7 billion by 2050 (mid-2015: 7.3 billion)³². AlzChem is well positioned to benefit from this megatrend. The **fertilizers** and other agricultural products of its **Specialty Chemicals** and **Basics & Intermediates** segments are driving the growth of industrial agricultural production. CreAMINO, for example, is a patented feed additive in the AlzChem **Specialty Chemicals** segment, which provides better feed conversion, increased carcass weight, shorter fattening time and, in the case of poultry, a higher proportion of breast meat. Therefore, AlzChem is convinced that it can benefit from the increasing industrialization and standardization of meat production, which is compounded by the limited availability of land and population growth.

Healthy aging

AlzChem expects the **pharmaceutical industry**, and in particular the API segment, to benefit from an aging population, increasing consumer health awareness (especially in emerging markets), the emergence of new carriers in the pharmaceuticals industry, and increased lifestyle and age-related illnesses, AlzChem estimates that the food industry is impacted by increasing consumer **health awareness** and innovation in health technologies, such as a faster increase in muscle mass. The products Creapure, a dietary supplement previously marketed by AlzChem primarily to the **sports nutrition industry** to promote muscle growth

³² United Nations, World Population Prospects 2015

and physical performance, and BioSELECT, which consists of high purity guanidine hydrochloride and is used in biotechnology, diagnostics and the pharmaceutical industry, are becoming **megatrends** in the opinion of AlzChem and the company, this is particularly important because some of these products may also be used in niche areas of **cosmetics** and **healthcare**.

Energy efficiency

On December 12, 2015, 195 countries signed the Paris Agreement to reduce greenhouse gas emissions. Even though the United States of America should not adhere to the goals agreed in this agreement due to interim political changes, AlzChem expects these and other related policy developments to contribute to the megatrend of replacing fossil fuels with **renewables** in the medium to long term. AlzChem also expects a further worldwide increase in **photovoltaic** and **wind power plants** as sources of renewable energy. The Specialty Chemicals segment of AlzChem includes the Silzot SQ product group, which is used in particular in the photovoltaic industry and could benefit from these developments. In addition, the AlzChem DYHARD product group is used in wind turbines, as well as in the automotive and aerospace industries, as it reduces the weight of automobiles and aircraft and thus, improves their energy efficiency.

AlzChem estimates that slightly more than half of its **Specialty Chemicals** segment's revenue in the 2018 fiscal year is attributable to the megatrends of population growth, healthy aging and energy efficiency.

3.2.5. STRONG BRANDS

AlzChem has registered over **80** different names in several parts of the world (or submitted for registration) (this number includes all variations of a name, such as pure word marks, word/image marks, transliterations in Chinese characters, etc. as separate names). AlzChem generally uses trademarks and logos for products sold in the end user market (especially the names "Creapure," "Perlka" and "Dormex"), but also in part for business-to-business products (e.g. "Silzot," "DYHARD," "NitrAlz").

AlzChem has about **510** registered **trademarks** and had requested over **90** trademark applications. Designations such as "AlzChem," "Alzogur," "Dormex," "Sitofex," "Creapure," "Perlka," "DYHARD," "Silzot," "CAD," "Hi-cane," "Moregrapes," "NitrAlz" etc. are protected or have been requested for their protection. Some of the names are word marks, others are word/picture marks, such as:



Some names (e.g., "AlzChem," "Dormex" and "Perlka") are also registered in the form of Chinese characters. Most designations are registered / the subject of an application for registration as national German trademarks and / or as European trademarks. Some are registered abroad through national trademarks and / or international registrations (IR) / filed application for registration – mostly in European countries, Japan, China and other Asian countries, the US, Canada, South American countries and / or Russia. For some brands, demarcation and franchise agreements with third parties are in force, such as AlzChem, Alipure, Alzofix, Creapure and Dormex. This type of contract typically serves to refine the registration or use of similar or identical trademarks of different parties in case of disputes, often based on different products or services.

AlzChem views several "Silzot" brands in relation to silicon nitride, several "Creapur"/"Creapure"/"Crea-Trona" brands for creatine monohydrate (**Creapure**), the "CAD" brands for carbide, several "Perlka," "Dormex," "GRO 500," "Hi-Cane," "Moregrapes," "Sitofex" and "Alzogur" brands for the Agriculture business, as well as several "DYHARD" brands in relation to the DYHARD's product portfolio carbide is particularly important for its business. The brand "CreAMINO," which is used by AlzChem's exclusive distribution partner Evonik Industries AG for GAA, is not owned by AlzChem, but owned by Evonik Industries AG, with the exception of one brand for India.

3.2.6. OPPORTUNITIES SUMMARY

Although the pure number of reported risks u. May be higher than that of the identified concrete opportunities, we consider the distribution of risks and opportunities to be **balanced**. A balanced overall picture is also reinforced by the fact that sales revenues and economic success are based on a stable mix of new, high-growth products and brands established in the market in various industries. As markets differ in their structure and economic cycles, this **diversification** contributes to risk mitigation. We invest selectively in promising sectors via our growth product CreAMINO as well as the product areas of renewable energies and nutrition. The topic of innovation is the focus of our activities in all activities. The activities listed above provide significant opportunities for the medium to long term beyond the underlying forecast horizon.

We track the opportunities that arise and specify the anticipated effects in terms of the forecasted development of sales revenues, EBITDA and consolidated net income. Furthermore, we will actively seek new opportunities, examine their implementation and, if necessary, promote them. If, in addition to the forecasted developments, opportunities arise or occur sooner than expected, this could have a positive impact on our net assets, financial position and earnings.

4. FORECAST REPORT

The statements made in the "Forecast report" section are based on the **operative planning** of the **AlzChem Group** approved by the Management Board and Supervisory Board in November 2017. These are assessments of the company, based on intensive and extensive analyses. The forecasts for the future course of business are based on the objectives of our segments as well as the opportunities and risks offered by the expected market conditions and the competitive situation during the planning period. Against this background, we adjust our expectations for the course of business to the current forecasts for the development of the markets supplied. The statements made below are based on our knowledge at the end of 2017 or at the beginning of 2018.

We expect in 2018

- **rising** sales
- a **strong increase** in EBIT/EBITDA
- a **sharply rising** EBITDA margin³³
- and a **sharp** decline in inventories

For reasons of clarity, AlzChem has decided, concerning development, trends and tendencies, to present

- the comparison of the forecast of the previous year with the actual figures of the fiscal year 2017 as well as
- the forecast of the key figures for fiscal year 2018 in relation to the starting values of the completed fiscal year 2017

in the form of arrow pictograms.

Trend ³⁴	Pictogram	Change in %
Sharply rising		>7%
Rising (clearly)		3% – 7%
Slightly rising		1% – 3%
Consistent (stable)		
Slightly declining (sinking)		-1% – -3%
Declining (sinking)		-3% – -7%
Sharply declining (sinking)		>-7%

³³ The increase in the EBITDA margin relates to the percentage change and not the change in percentage points

³⁴ Regarding the key figure of **inventories**, an increase of the same is not rated positively, but read negatively.

The **AlzChem Group** was in a challenging market environment and can look back on another **successful** business year. **Sales** in 2017 were almost exactly in line with the forecast issued, and significantly higher than in the previous year. By the end of the third quarter of 2017, there was a slight earnings advantage compared to the budgeted **exchange rate** assumptions, which was almost completely used up from July, August 2017 due to changes in the exchange rate.

The partly very strong rise in **purchase prices** in the raw materials and (fossil fuel) energy sectors could not influence the gratifying earnings development, which is expressed in the key figures **EBIT**, **EBITDA** and **EBITDA margin** on the forecasted values, as these Trends in significant proportions were already incorporated in the anticipated assumptions when the budget targets were drawn up.

In the **Specialty Chemicals** segment, continued high demand materialized in the **nutrition** and **agricultural markets**. The ongoing shift of active ingredient productions to Asia and India had a negative impact. The utilization of the **multipurpose plants** could be significantly increased during the year, so that at times the utilization limit was produced. Learning curve effects in production as well as the sale of new complex molecules had a lasting effect on the profitability of the segment.

Figure	Current 2017 vs. forecast previous year	Forecast 2018 vs. 2017
Specialty Chemicals		
Sales		
EBIT		
EBITDA		
EBITDA margin		
Inventories		

The **Basics & Intermediates** products were also in a highly competitive market environment this year, among others in the steel industry, but also the enormous price and quantity pressure from China and India had a dampening effect on the development. In addition, commodity prices had a disproportionate impact on this segment. The **sales** targets could not be fully met. Despite successfully implemented Six Sigma as well as cost reduction measures, the **result** target could not be achieved in the same way.

Figure	Current 2017 vs. forecast previous year	Forecast 2018 vs. 2017
Basics & Intermediates		
Sales		
EBIT		
EBITDA		
EBITDA margin		
Inventories		

Despite an increase in sales, the **Other & Holding** segment showed a very significant deviation from the earnings forecasts.

Figure	Current 2017 vs. forecast previous year	Forecast 2018 vs. 2017
Other & Holding		
Sales	↑	↗
EBIT	↓	↑
EBITDA	↓	↑
EBITDA margin	↓	↑
Inventories	↓	↗

The negative deviation in results is largely due to necessary but not budgeted reorganization or maintenance measures, which can be regarded as one-time effects, so that a sustainable improvement is planned for the forecast period.

As of December 31, 2017, the stable market **interest** rate environment led to a stored discount rate for pension provisions of 1.75% (previous year: 1.75%); as a result, the balance sheet effects were below the forecast values (1.50%). The **consolidated result** is very much higher than in the previous year and almost matches the forecast. Based on a strong increase in the result from **ordinary business activities**, income taxes also increased. In connection with the planned ramp-up of the **CreAMINO®** inventories and the plant revision work in the last quarter of 2017 and the first quarter of 2018 and the high plant utilization of the multi-purpose plants, the **inventory** closes very well above the previous year and still significantly above the forecast targets.

Due to its own planning as well as external market analyses and estimates for 2018, the Management Board of the **AlzChem Group** expects the market environment to remain competitive. No significant changes are expected in terms of intensity and aggressiveness, especially from Asian competitors.

For the year 2018, the Management Board of the **AlzChem Group** expects further **organic growth** and thus a significant increase in **revenue** in the **Specialty Chemicals** segment. New products from the **Specialty Chemicals** R & D pipeline are designed to support the continued growth of the nutrition market.

In addition to sustained growth in the agriculture sector and a stable to slightly rising base chemicals business, solid volumes and very low sales growth are expected in the **Basics & Intermediates** segment, building on a more stable steel industry environment.

Operatively, stable revenue is expected in the **Other & Holding** segment at the chemical parks in Trostberg and Hart. Without the one-off effect mentioned on the previous page, a very significant improvement in earnings is to be expected.

Necessary investment measures in the **energy infrastructure** of the sites as well as the expansion investments in the **CreAMINO®** capacity as well as the expansion of the **NITRILE** capacity will also be an essential task for the organization of AlzChem in 2018. Consequently, based on a stable plant infrastructure, **production capacities** can be gradually expanded with market growth. Consistent with this, continuous process optimization and the elimination of bottlenecks are promoted.

Following the positive business development for the year 2018, the financial performance indicators of the **AlzChem Group** will develop in the same way. Absolute operating **EBITDA** and **EBIT** will again rise very sharply, even though cost increases will have a dampening effect on, among other things, the commodities sector. **Personnel cost increases** will be significant, at 5–6%, with the increase largely due to an increase in the average number of employees. On the basis of the ambitious planned increase in sales, a strong percentage of **EBITDA** growth is expected and the **EBITDA margin** is expected to increase strongly or very strongly compared to the previous year.

In the **Specialty Chemicals** segment, significant growth in **EBITDA** and **EBIT** is expected. In the **Basics & Intermediates** segment, on the other hand, the expected slight organic growth will only partially offset the cost increases, which suggests a medium to strong decline in **EBITDA** and **EBIT**. The expectation of a stable business environment in the **Other & Holding** segment, accompanied by an equally robust cost structure, should result in a slight increase in **EBITDA** and **EBIT**.

Based on the assumption of a relatively significant increase in sales and thus also a positive business development and a planned cash dividend of EUR 11 mn (in the second half of 2018) for 2017 (previous year: EUR 17.775 mn), the Management Board is feeling slightly better increasing **equity ratio** due to the consolidated result.

Figure	Current 2017 vs. forecast previous year	Forecast 2018 vs. 2017
AlzChem Group		
Equity ratio	→	↗
Inventories	↘	↑
Debt ratio ³⁵	↘	↗

The **inventories** financial performance indicator is expected to reverse sales as **CreAMINO®** shipments are above current production capacity, resulting in inventory being sold off. Distributed across the individual segments, we expect to see a reduction in the **Specialty Chemicals** segment, in particular as a result of the sale of **CreAMINO®** inventories and a slight decline in the **Basics & Intermediates** and **Other & Holding** segments.

Three major **projects** in 2018 and 2019 will be (i) the construction of another **CreAMINO®** plant, (ii) the capacity expansion of **NITRILE** production and (iii) the continuous processing of the multiannual recovery plan concerning the distribution network structure of AlzChem Trostberg GmbH and AlzChem Network GmbH.

The forecasts are based on unchanged regulatory assumptions, such as the continuation of the Renewable Energies Act (**EEG**), Section 19 (2) StromNEV, electricity price remuneration or product approvals. Also included are forward-looking statements based on management's current estimates and currently available information.

Such statements are subject to risks and uncertainties beyond AlzChem's ability to control or accurately estimate, such as the future market environment and economic conditions, the behavior of other market participants, the successful integration of acquisitions and realization of expected synergies, and governmental actions. Should any of these uncertainties or other uncertainties materialize or should the assumptions on which these statements are based prove to be incorrect, actual results could differ materially from those expressed or implied by such statements.

5. INTERNAL CONTROL SYSTEM RELATED TO THE ACCOUNTING PROCESS (REPORT ACCORDING TO SECTION 285 (5) HGB, SECTION 315 (2.5) HGB)

The purpose of the accounting-related internal control system is to ensure that accounting is consistent and in accordance with **legal requirements**, generally accepted accounting principles and internal guidelines. The accounting process itself includes those operational processes that provide the cash flow for financial reporting, the process of preparing the Consolidated Financial Statements, and the sources of information and processes from which the material disclosures in the Consolidated Financial Statements are derived.

To ensure proper and consistent Group accounting, the **basic principles** of separation of functions, dual control and IT access restrictions apply to avoid unauthorized access to accounting-related content. Reporting to Group headquarters is based on a **standardized reporting** tool implemented throughout the Group. Other control measures that cover risks in the main processes and thus, ensure reliable accounting and reporting are usually designed decentralized in the specialist departments.

³⁵ With regard to **debt-to-equity ratios**, a rising trend is positively assessed; the ratio is improving from AlzChem's perspective

The **information flow** of all production companies included in the Consolidated Financial Statements are located in an IT technical SAP environment with a uniform system configuration and are therefore subject to uniform chart of accounts, account assignment specifications, processes and process controls. The distribution companies work with ERP solutions adapted to the size of the company.

Control of the Group accounting process is managed within the Controlling/Accounting department of AlzChem Trostberg GmbH. An essential element of the internal control system in relation to the (Group) accounting process is a practiced Group-wide accounting procedure, which is continuously questioned in the course of the monthly reporting by employees in the Financial Controlling and General Ledger Accounting department. Group reporting is based on a monthly Excel consolidation tool, which contains comprehensive checking and validation routines. At the same time, implementation of the SAP BPC consolidation software began. For special areas of accounting, for example, pension assessments to determine the relevant pension provisions (IAS 19), measurement of financial instruments and disclosures in the notes (IAS 39, IFRS 7, IFRS 13) and share-based payment accounting (IFRS 2) rely on external experts.

In addition, there are binding **procedural instructions** in the German companies which have a concrete effect on the accounting, e.g. Procedure in purchasing, disposal of fixed assets, settlement of prepayment. In particular, the "four-eye principle" is ensured via a standardized SAP workflow (XFlow) and a system-based signature policy. Access authorizations for accounting and controlling data are only accessible to a restricted or defined group of persons with the help of an SAP access concept.

Accounting-related information is continuously exchanged with the Head of Controlling, Accounting and Compliance and **communicated** to the Chief Financial Officer in regular meetings.

In addition to the annual and Consolidated Financial Statements, the **Chairman of the Supervisory Board** deals with the members of the Management Board on a regular basis with the financial ratios of the Group. Regarding the foreign companies, reports are handed over to the responsible management on a monthly basis and Board meetings are held.

6. REPORT ACCORDING TO SECTION 315A HGB

Unless otherwise stated, the following information applies to the entire reporting year and, in particular, to the balance sheet date.

6.1. SUMMARY OF SUBSCRIBED CAPITAL IN ACCORDANCE WITH SECTION 315A (1.1) HGB

Subscribed capital represents the nominal capital of the parent company. The capital reserve shows all amounts of equity capital that are not externally subscribed for the company. Minority interests in the company's equity are reported as non-controlling interests. The subscribed capital of **AlzChem Group AG** in the amount of EUR 101,763 thousands comprises 101,763,355 no-par bearer **shares** with equal rights as of the balance sheet date. The calculated share in the capital stock per share is EUR 1.00. Different classes of shares do not exist. The company does not hold any treasury shares. The Company has not issued any shares with special rights. All shares have the same rights and obligations.

Company	Subscribed capital 12/31/2017
AlzChem Group AG, Trostberg, Germany	EUR 101,763 thousands
AlzChem Trostberg GmbH, Trostberg, Germany (previously AlzChem AG)	EUR 11,000 thousands
NIGU Chemie GmbH, Waldkraiburg, Germany	EUR 1,410 thousands
AlzChem International GmbH, Trostberg, Germany	EUR 1,000 thousands
AlzChem Stahltechnik GmbH, Trostberg, Germany	EUR 25 thousands
AlzChem Nutrition GmbH, Trostberg, Germany	EUR 25 thousands
AlzChem Netz GmbH, Trostberg, Germany	EUR 25 thousands
AlzChem LLC, Atlanta, USA	USD 0 thousands
Dormex Company LLC, Fresno, USA	USD 100 thousands
AlzChem Shanghai Co. Ltd., Shanghai, China	CNY 3,670 thousands
Nordic Carbide AB, Sundsvall, Sweden	SEK 50 thousands

6.2. LIMITATIONS ON VOTING RIGHTS OR TRANSFER OF SHARES UNDER SECTION 315A (1.2) HGB

Each **share** grants one **vote** at the Annual General Meeting. Restrictions on the voting rights of the shares may arise in particular from the provisions of the German Stock Corporation Act (AktG). For example, under certain conditions, shareholders are subject to a voting ban pursuant to Section 136 AktG. In addition, violations of the duty to notify pursuant to Section 33 of the German Securities Trading Act (WpHG) may result in at least partially non-existent rights under shares, including voting rights, in accordance with Section 44 WpHG. Contractual restrictions affecting voting rights from the shares are not known to the Management Board.

As part of the capital increase in cash and cash equivalents of AlzChem Group AG, the former shareholders of AlzChem Trostberg GmbH have undertaken not to hold any shares in AlzChem Group AG for a period of one year after the cash and cash capital increase (October 2, 2017) took effect to sell to third parties, unless the other shareholders agree with a majority of 90% capital ("lock-up period"). In addition, the former shareholders of AlzChem Trostberg GmbH have undertaken not to acquire any further shares in AlzChem Group AG until the lock-up period expires. Exceptions to this were any share transfers in connection with the repayment of shareholder loans.

The **Articles of Association** do not contain any restrictions on the transfer of shares.

6.3. DIRECT OR INDIRECT PARTICIPATION IN CAPITAL EXCEEDING 10% OF VOTING RIGHTS IN ACCORDANCE WITH SECTION 315A (1.3) HGB

As of the balance sheet date, the following investments in the capital exceed 10 % of the voting rights (**§§ 289 Abs. 4 Nr. 3, 315 Abs. 4 Nr. 3 HGB**):

Ownership structure in %	12/31/2016	12/31/2017
LIVIA Corporate Development SE	72.40	47.70
HDI Vier CE GmbH	0	26.38
four two na GmbH	0	19.79
Jan Ulli Seibel	0	4.93
Free float	27.60	1.19
Σ	100	100

6.4. SHARES WITH SPECIAL RIGHTS PURSUANT TO SECTION 315A (1.4) HGB

There are no shares in the company that confer on holders a special right, in particular control over the company, in comparison to the other shareholders.

6.5. TYPE OF VOTING RIGHTS CONTROL EMPLOYEE INTERESTS IN THE CAPITAL PURSUANT TO SECTION 315A (1.5) HGB

The Management Board is **not** aware of employee interests in the capital of the company.

Employees who hold shares in the company's capital exercise their control rights in the same way as other shareholders, in accordance with statutory provisions and the Articles of Association.

6.6. STATUTORY PROVISIONS AND PROVISIONS OF THE ARTICLES OF ASSOCIATION REGARDING THE APPOINTMENT AND DISMISSAL OF THE MANAGEMENT BOARD AND ON THE AMENDMENT OF THE ARTICLES OF ASSOCIATION SECTION 315A (1.6) HGB

The requirements for the appointment and dismissal of the Management Board as well as the amendment of the Articles of Association are governed by the provisions of the Articles of Association and the Stock Corporation Act. According to Section 6.1 of the Articles of Association of AlzChem Group AG, the Management Board consists of **one** or more persons. The Supervisory Board appoints the members of the Management Board and determines their number. In accordance with Section 6.1 of the Articles of Association and Section 84 AktG, the Supervisory Board may appoint a Chairman of the Management Board and a Deputy Chairman of the Management Board. If a required member of the Management Board is missing, the court must appoint the member pursuant to Section 85 AktG in urgent cases at the request of a participant.

Pursuant to Section 84 AktG, the Supervisory Board may revoke the appointment as a member of the Management Board and the appointment as Chief Executive Officer if there is **good cause** for doing so. Pursuant to Section 84 AktG, the members of the Management Board are appointed for a maximum of five years. Reappointments are permissible according to Section 84 AktG. The Supervisory Board appoints the members of the Management Board by resolution with a simple majority of the votes cast.

Amendments to the Articles of Association require a resolution of the Annual General Meeting. Insofar as the Articles of Association do not provide for a different majority, resolutions of the Annual General Meeting on amendments to the Articles of Association require a majority of at least three quarters of the share capital represented at the time of the resolution in accordance with Section 179 (2) AktG. The Articles of Association of the company provide in Section 21 (1) that resolutions are passed by a simple majority of the votes cast and, if a majority of the capital is required, by a simple majority of the share capital represented at the time of the resolution unless otherwise required by law Statute requires a greater majority.

Pursuant to Article 16 of the Articles of Association of AlzChem Group AG, the Supervisory Board is authorized to adopt amendments to the Articles of Association, which only affect their wording. Pursuant to Section 5 (4) of the Rules of Procedure for the Supervisory Board, the resolutions of the Supervisory Board are passed by a majority of the votes cast unless the law requires otherwise. If a vote results in equality of votes, the Chairman of the Supervisory Board shall be entitled to a second vote in the event of a further vote, which may be ordered by the Chairman of the Supervisory Board.

6.7. POWERS OF THE MANAGEMENT BOARD TO ISSUE SHARES AND BUY BACK SHARES IN ACCORDANCE WITH SECTION 315A (1.7) HGB

6.7.1. AUTHORIZED CAPITAL 2017

The Management Board is authorized until **July 31, 2022**, to increase the capital of AlzChem Group AG with the approval of the Supervisory Board once or several times by a total of up to EUR 10,063,333.00 (written: ten mn sixty-three thousands three hundred-thirty-three euros) by issuing up to 10,063,333 new no-par-value bearer shares against cash and/or non-cash contributions (**Authorized Capital 2017**). In principle, the shareholders must be granted a subscription right; The statutory subscription right may also be granted in such a way that the new shares are taken over by a credit institution appointed by the Management Board or a consortium of credit institutions with the obligation to offer them to the shareholders of the company for subscription.

The Management Board is authorized, with the consent of the Supervisory Board, to **exclude** the statutory subscription rights of shareholders in the following cases:

- in the case of a capital increase against non-cash contributions, in particular for the acquisition of companies, parts of companies or participations in companies;
- in the case of capital increases against **cash contributions**, if the issue price of the new shares issued under exclusion of subscription rights in accordance with Section 186 (3.4) AktG is not significantly lower than the stock exchange price of the already listed shares of the same class and equipment and that to the ones under exclusion of the subscription right pursuant to Section 186 (3.4) AktG, no more than 10 percent of the share capital existing at the time this authorization takes effect and the capital stock existing at the time this authorization is exercised. Shares which were issued or sold in the direct or corresponding application of Section 186 (3.4) AktG during the term of this authorization up to the time of their exercise are to be offset against this limit of 10% of the share capital;
- to avoid **fractional amounts**;
- to issue shares to members of the company's Board of Directors, members of the representative body of a company affiliated with the company or employees of the company or any of its affiliates, in return for cash and/or non-cash contributions under **shareholder** or other **share-based programs**; employment relationship or relationship with the company or its affiliated company at the time of the grant of the share issue; If shares are to be granted to members of the Management Board of the company, the Supervisory Board of the company shall decide on this alone.

The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the **capital increase** and its implementation, in particular the content of the share rights and the conditions of the share issue, including a profit sharing deviating from Section 60 (2) AktG. The Supervisory Board is authorized to adjust the Articles of Association of the company accordingly after full or partial utilization or the expiration of the **authorized capital**, in particular with regard to the amount of the share capital and the number of existing no-par-value shares.

6.7.2. CONDITIONAL CAPITAL 2017

With regard to a **contingent capital increase**, the Management Board was not granted any rights on the part of the Annual General Meeting.

6.7.3. AUTHORIZATION TO PURCHASE TREASURY SHARES

In order to give AlzChem Group AG the opportunity to acquire and re-sell **treasury shares**, the Annual General Meeting has authorized AlzChem Group AG in accordance with Section 71 (1.8) AktG to treasury shares until the end of **July 31, 2022**, in a **volume** of up to **10%** of the **existing share capital** at the time of the resolution. The shares acquired on the basis of this authorization, together with other shares of the company which AlzChem Group AG acquired and still holds at the time of the acquisition or which are attributable to it pursuant to Sections 71d or 71e AktG, may at no time exceed 10% of the share capital. The authorization may not be used by AlzChem Group AG for the purpose of trading in treasury shares. The authorization may be exploited in whole or in part, on one or more occasions by AlzChem Group AG or by dependent or majority-owned companies of AlzChem Group AG or by third parties acting on behalf of AlzChem Group AG or dependent or majority-owned AlzChem Group AG Companies act. At the discretion of the Management Board, the purchase can be made **via** the **stock exchange** or by means of a **public purchase offer** addressed to all shareholders.

In the case of acquisition via the stock exchange, the purchase price (excluding incidental acquisition costs) may not be more than **10% higher** or **lower** than the price of the share in XETRA trading (or a comparable successor system) determined by the opening auction on the trading day.

In the case of acquisition via a **public purchase offer**, the bid price offered or the limits on the purchase price range per share (excluding incidental acquisition costs) may not exceed the closing price in XETRA trading (or a comparable successor system) on the third exchange trading day prior to the public announcement of the offer by more than 10% above or below. If, after publication of the public offer, significant deviations from the relevant price occur, the offer can be adjusted. In this case, the price on the third exchange trading day before the public announcement of any adjustment will be switched off. The volume of the offer can be limited. If the total subscription of the offer exceeds the fixed volume, the acceptance must take place according to quota. A preferential acceptance of small numbers up to 100 tendered shares per shareholder can be provided for.

The Management Board is authorized to use shares of the company acquired on the basis of this authorization for all legal purposes. In particular, the Management Board is authorized to:

- The Management Board is authorized, with the consent of the Supervisory Board, to **sell** treasury shares acquired on the basis of this authorization via the stock exchange or through offers to all shareholders. When selling via the stock exchange there is no subscription right of the shareholders. In the event of a sale by public offer, the Management Board is authorized, with the approval of the Supervisory Board, to exclude the subscription right of the shareholders for fractional amounts.
- The Management Board is further authorized, with the approval of the Supervisory Board, to **sell** treasury shares acquired on the basis of this authorization in ways other than via the **stock exchange** or through **offers to all shareholders** if the acquired treasury shares are sold at a price, which is not materially lower than the stock exchange price of shares of the company with the same equipment at the time of the sale. The subscription right of the shareholders is excluded. This authorization is limited to a total of **10%** of the share capital existing at the time of the resolution of the Annual General Meeting or, if this is lower, of the share capital of the company existing at the time this authorization is exercised. Shares issued or sold by direct or indirect application of Section 186 (3.4) AktG during the term of this authorization are to be counted towards this limit of 10% of the share capital.

- The Management Board is further authorized, with the **approval** of the Supervisory Board, to use treasury shares acquired on the basis of this authorization as (partial) consideration as part of **mergers** or for the acquisition of companies, interests in companies, parts of companies or other assets.
- The Management Board is further authorized, with the approval of the Supervisory Board, to offer or transfer treasury shares of the company acquired on the basis of this authorization to **employees** of the company or its **affiliates**. The Supervisory Board is authorized to offer or transfer treasury shares of the company, which were acquired on the basis of this authorization or a previously issued authorization, to members of the Management Board of the company for acquisition.
- The Management Board is further authorized, with the approval of the Supervisory Board, to **collect** treasury shares of the company acquired on the basis of this authorization, **without** the cancellation or its execution requiring a further resolution by the **Annual General Meeting**. The authorization to collect may be exercised in whole or in part. The confiscation leads to capital reduction. By way of derogation, the Management Board may determine that the share capital is not reduced, but that the share of the remaining shareholders in the share capital increases in accordance with Section 8 (3) AktG. In this case, the Supervisory Board is authorized to adjust the number of shares in the Articles of Association.

The **subscription right** of the **shareholders** is excluded in the execution of the measures under (2) to (5).

All aforementioned authorizations may be exercised once **or** several times, in whole or in part, individually or jointly.

6.8. AGREEMENTS UNDER THE CONDITION OF A CHANGE OF CONTROL ACCORDING TO SECTION 315A (1.8) HGB:

In individual loan agreements, there are customary market regulations that tie legal consequences to a majority acquisition or control or sale of the company's main assets.

6.9. REMUNERATION AGREEMENTS IN THE EVENT OF A TAKEOVER BID PURSUANT TO SECTION 315A (1.9) HGB

No special arrangements have been made with directors or other employees in the event of a change of control, i.e. if a third party obtains control of the company within the meaning of Section 29 (2), Section 30 WpÜG.

6.10. PRINCIPLES OF THE REMUNERATION SYSTEM ACCORDING TO SECTION 315A (2) HGB (REMUNERATION REPORT)

The **AlzChem Group's** remuneration system is designed to promote **sustainable** business development. Remuneration structures are based on the principles of adequacy and performance orientation. These basic principles affect both the salary structures of employees and the remuneration of the Management Board and Supervisory Board.

6.10.1. REMUNERATION OF THE MANAGEMENT BOARD

The Management Board of AlzChem Group AG as well as AlzChem AG and the management of AlzChem Trostberg GmbH in the reporting year 2017 consisted of Ulli Seibel (**CEO**), Andreas Niedermaier (**CFO**) and Klaus Englmaier (**COO**). Maik Brockmann, former member of the Management Board of AlzChem Group AG, did not receive any remuneration from the company in fiscal year 2017. The remuneration of the members of the Management Board is based on the size, complexity and economic situation of the company as well as on the performance of the Management Board. As a further benchmark, Management Board remuneration was included in comparable companies. The agreements with members of the Management Board regarding a possible early termination of the Management Board's activities fully complied with the requirements of the German Corporate Governance Code at the balance sheet date.

As of the balance sheet date, there were no agreements with the members of the Management Board in the event of a change of control following a takeover bid.

The remuneration of the Management Board is composed as follows:

1. Fixed remuneration
 2. Annual variable remuneration
 3. Share-based, long-term oriented remuneration program (Long-term incentive – or LTI program)
 4. Benefits in kind and other additional benefits
 5. Occupational pensions
- (1) **Fixed remuneration** is a fixed, full-year remuneration paid in equal installments. It is reviewed by the Supervisory Board at regular intervals and adjusted if necessary.
- (2) The annual variable remuneration (**annual bonus**) is based on the performance of the entire Management Board and the degree of target achievement for previously defined targets. In the service contract, the objectives regarding the financial ratios of the Group have been agreed. In addition, there is a maximum bonus scheme. At the end of the fiscal year, the target attainment levels and thus the bonus amount to be paid out are determined.
- (3) As part of the contribution of AlzChem Trostberg GmbH, new service contracts were concluded with the three members of the Management Board in fiscal year 2017, when the transfer of all shares in AlzChem Trostberg GmbH to the then AlzChem Group AG are granted in so-called "Stock Appreciation Rights" (**SAR**) in the "**Long Term Incentive**" (LTI). SAR grants a right to payment of a bonus (LTI) if the average closing price of the AlzChem Group AG share during the last 30 trading days prior to 1 / 1 / 2020 ("DSK exercise"), EUR 0.75 or above the average the closing price of the shares of AlzChem Group AG in the 60 trading days starting on or including October 9, 2017 ("DSK contribution"), whereby the DSK contribution must be at least EUR 2.50. If the prerequisite is met, the bonus (LTI) must be paid to the respective member of the Management Board by March 31, 2020, at the latest.
- (4) **Benefits in kind** and other supplementary benefits (ancillary benefits) include the provision of company cars in cash or in kind as well as remuneration for lost RV contributions. In fiscal year 2017, no loans or advances were granted to members of the Management Board.
- (5) Expenses for **occupational pensions** include additions to provisions for direct commitments (service costs in accordance with IAS 19) and current employer contributions to a reinsured provident fund

Amount of Total Remuneration

Concerning the former parent company AlzChem AG (now AlzChem Trostberg GmbH) the following regulation applied. For the fiscal year commencing on January 1, 2016, and the four fiscal years following this fiscal year, the corresponding disclosures in accordance with Sections 285 (1.9a.5-8), 314 (1.6a.5-8) HGB not individually disclosed.

Remuneration component in EUR thousands	2015	2016
Fixed remuneration	625	615
Annual bonus	635	964
Benefits in kind and other additional benefits	45	46
Occupational pensions	129	116
LTI program	0	20
Σ Management Board Remuneration	1,434	1,761

For the fiscal year started on January 1, 2017, the remuneration will be disclosed individually. Based on the model table of the German Corporate Governance Code³⁶ the **expenses** recognized in the year under review, as well as the **amounts paid** out in the year under review, are reported in the following tables.

Remuneration component ³⁷ in EUR thousands	CEO			CFO			COO		
	2017	Min	Max	2017	Min	Max	2017	Min	Max
Fixed remuneration	280			220			180		
Additional benefits	12			20			15		
Σ	292			240			195		
One-year variable remuneration	356	0	800	285	0	640	160	0	360
perennial variable remuneration	11	0	1.300	8	0	1.000	6	0	650
Plan description (Term of the plan)	Long Term Incentive until 31.03.2020								
Σ	659			533			362		
Benefit expense	71			42			35		
Total remuneration	730			575			397		

Remuneration component ³⁸ in EUR thousands	CEO	CFO	COO	Σ
	Fiscal Year 2017			
Fixed remuneration	280	220	180	680
Additional benefits	12	20	16	48
Σ	292	240	196	728
One-year variable remuneration	407	479	172	1.058
Perennial variable remuneration				
Plan description (term of the plan)				
Σ	699	719	368	1.786
Benefit expense	71	42	35	148
Total remuneration	770	761	402	1.933

Pension commitments

The pension claims from direct commitments amount to EUR 0 thousands for Ulli Seibel as of December 31, 2017, to EUR 267 thousands for Andreas Niedermaier and to EUR 728 thousands for Klaus Englmaier.

Other

The members of the Management Board receive no loans and advances from the company.

6.10.2. REMUNERATION OF THE SUPERVISORY BOARD

The rules of procedure of the Supervisory Board of **AlzChem Group AG** do not provide any remuneration for the reporting period.

The remuneration of the Supervisory Board of **AlzChem Trostberg GmbH** is regulated as follows: Each Supervisory Board member receives a fixed remuneration of EUR 20,000 (previous year: EUR 12,000) payable after the end of the fiscal year for each full fiscal year of his membership of the Supervisory Board; Deputy Chairman 1.5 times. Company-oriented remuneration components are not provided for. The remuneration of the Supervisory Board is designed as a **pure fixed remuneration**. The aforementioned amounts increase by 10% per membership in a committee of the Supervisory Board. This presupposes that the respective committee met at least twice during the fiscal year.

³⁶ German Corporate Governance Code Appendix Sample Table 1-4.2.5 (3) (1st and 2nd indentation)

³⁷ Sums paid out

³⁸ Recorded expenses

Members of the Supervisory Board who only belonged to the Supervisory Board for part of the fiscal year or who held the office of Chairman or Deputy Chairman of the Supervisory Board for only part of the fiscal year receive pro rata remuneration rounded up to full months.

The members of the Supervisory Board also receive reimbursement of all expenses and reimbursement of any value added tax payable on their remuneration and expenses.

The members of the Supervisory Board Markus Zöllner, Steve Röper, Prof. Dr. Martina Heigl-Murauer and Dr. Caspar Freiherr von Schnurbein were also members of the Supervisory Boards of AlzChem Trostberg GmbH during the entire 2017 fiscal year. The members of the Supervisory Board received remuneration of EUR 150 thousands (previous year EUR 91 thousands) from AlzChem Trostberg GmbH in fiscal year 2017.

The remuneration of the members of the Supervisory Board of AlzChem Trostberg GmbH was as follows:

Remuneration of Supervisory Board in EUR thousands	2016	2017
Markus Zöllner, Chairman of the Supervisory Board	26	40
Prof. Dr. Dr. Peter Löw resigned on 10/31/2016	10.5	0
Holger Kowarsch resigned on 10/31/2016	10.5	0
Steve Röper	13	20
Karl Held, Deputy Chairman of the Supervisory Board	13	30
Otto Wolf	13	20
Dr. Caspar Freiherr von Schnurbein	0.5	20
Prof. Dr. Martina Heigl-Murauer	0.5	20
Σ Remuneration of the Supervisory Board	91	150

The members of the Supervisory Board receive no loans and advances from the company.

7. NON-FINANCIAL CONSOLIDATED STATEMENT (SUSTAINABILITY REPORT), SECTIONS 315B (1), 315C IN CONJUNCTION WITH SECTION 289 B (1) HGB

The aim of the report is to inform the company's stakeholders, such as customers, employees, business partners, residents and the capital market, about the sustainability performance of the company, as required by Sections 315b, 315c in conjunction with Section 289c HGB.

When preparing the report, we followed the guidelines of the **Chemicals³⁹** Reporting Guide for SMEs. The contents and structure of the report are based on the dimensions of sustainability defined by us and the statutory requirements: supply chain, environment, employees, social issues, compliance, in particular respect for human rights, combating corruption and bribery, and security.

ALZCHEM – MORE THAN AN EMPLOYER

Our behavioral principles of reliability, trust, fairness, open communication, responsibility and quality are the benchmark for cooperation in the company, but also for contact with customers, suppliers and the public. Working at the **AlzChem Group** means contributing to the success of a medium-sized company with potential. Working at the **AlzChem Group** also means being part of a highly motivated workforce that is proud of the company's tradition and eager to take the most forward-looking steps.

We are a responsible and profitable chemical company in the Bavarian region. The well-being of our employees, the further development of our products and the strengthening of the Upper Bavaria region are the focus of our actions – goals that we also pursue in the areas of the environment, safety, health and quality. We face this important challenge.

³⁹ Chemie3 is the initiative of German chemistry. The practice-oriented guideline for sustainability reporting is aimed at medium-sized companies that want to build up or expand their sustainability reporting. The guideline and other tools are available for download in the member area of the Chemie3 website (www.chemiehoch3.de)

As a founding member of the first and second Bavarian Environmental Pact⁴⁰, we feel committed to the motto „Sustainable Business in the 21st Century.“ The core idea of the Bavarian Environmental Pact is to bundle the efforts of the state and industry in order to achieve joint progress towards sustainable, environmentally compatible development

Significant Group companies have been EMAS⁴¹-registered since 1997 and produce an Environmental Statement every year. The present Environmental Statement 2017 presents the **AlzChem Group** and its Integrated Management System, publishes the key figures of the sites Trostberg, Schalchen, Hart and Waldkraiburg and presents the current environmental, safety and quality program.

7.1. BUSINESS MODEL OF ALZCHEM GROUP, SECTION 315C HGB, SECTION 289C (1) HGB

For a detailed overview of the business model of the **AlzChem Group**, please refer to Section 1.1 of the management report.

7.2. SUSTAINABILITY IN THE COMPANY

Our vision: “Based on our integrated production network with innovative chemistry, we deliver customer-oriented applications to selected markets.” In order to realize these, we build on the following behavioral principles:

- We strengthen mutual trust through reliability, fairness, timely information and open communication as well as a strong feedback culture.
- We pursue the objectives of AlzChem with entrepreneurial action. We take responsibility for our decisions.
- We strive for the highest quality, while mistakes are an opportunity and obligation for us to learn.
- Together, we develop constructive solutions and implement mutual decisions.
- We look for responsible and attractive solutions in dialogue with our business partners and the public.

We want our products to let us participate in sustainable future development. We have defined population growth, healthy aging and energy efficiency as sustainable growth drivers to which we want to contribute through our products.

Population growth

In 1900, around 1.7 billion people lived on our planet. By the year 2000, this figure had increased to more than 6.1 billion. Only 17 years later, in 2017, the world population amounted to around 7.6 billion. The United Nations expects a realistic increase by the year 2030 to over 8.6 billion people⁴². At the same time, agricultural areas are limited worldwide. Against this backdrop, efficient processes are necessary to provide the growing population with food for the future as well as possible. The **AlzChem Group's** products meet these requirements and can be used in increasingly optimized agricultural production.

Healthy aging⁴³

The world population, especially in western industrial nations, is constantly aging. The average global life expectancy in 2000 was around 66.4 years. Already by the year 2015, humans lived an average of about 71.4 years⁴⁴. Scientists expect life expectancy to rise significantly in the coming years⁴⁵. Medical progress is a key factor in the prevention and treatment of diseases. So-called civilization diseases and age-related diseases are no exceptions, however. At the same time, awareness of health and nutrition is gaining in importance, so older people in particular are increasingly active in sports and consciously paying attention to a healthy diet. With its products, the **AlzChem Group** wants to support these developments in the pharmaceutical, cosmetics and healthcare sectors

⁴⁰ The Bavarian Environmental Pact is an agreement between the Bavarian Government and the Bavarian business community. It is formed from the shared conviction of the state and business that natural resources can be better protected with the help of voluntary and reliable cooperation between state and industry than with laws and regulations

⁴¹ The Eco-Management and Audit Scheme (EMAS) is an instrument developed by the European Communities in 1993 for companies seeking to improve their environmental performance. The current legal basis is Regulation (EC) 1221/2009. This amendment came into effect on January 11, 2010. The structure of an EMS and the processes have also been in accordance with ISO 14001 since 2001.

⁴² UN forecast on world population development (https://esa.un.org/unpd/wpp/Publications/Files/WPP2017_Wallchart.pdf)

⁴³ WHO – homepage; http://www.who.int/gho/mortality_burden_disease/life_tables/situation_trends_text/en/ (02.01.2018)

⁴⁴ WHO – homepage; http://www.who.int/gho/mortality_burden_disease/life_tables/situation_trends_text/en/ (02.01.2018)

⁴⁵ Lancet Medical Journal – homepage; [http://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(16\)32381-9/abstract](http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(16)32381-9/abstract) (02.01.2018)

Energy efficiency⁴⁶

Energy efficiency and renewable energy are gaining in importance worldwide. This is on the one hand due to legal and regulatory requirements; on the other hand, many technologies are now at a stage where the economic benefit is attractive. Accordingly, the demand for photovoltaic and wind power plants is increasing. Globally installed wind and solar power systems increased from about 80 GW in 2006 to more than 762 GW in 2016, which corresponds to average annual growth of more than 25%. This growth trend is expected to continue in the future. AlzChem sees itself well positioned to participate in this development.

7.3. SUPPLY CHAIN

Integrated production

A key feature of the **AlzChem Group** is its vertical integration along the calcium carbide / calcium cyanamide chain (NCN chain). This means that most of the company's products are based on the same starting materials: lime and coal. AlzChem performs many processing steps itself and is increasingly starting with material refinement.

The operation of this **integrated production system** is only possible due to its four historically grown sites in the Bavarian Chemical Triangle which enjoy such close proximity. Integrated production allows AlzChem to react flexibly to changes in demand as many products from the Basics & Intermediates segment are also raw materials for the Specialty Chemicals segment. Synergies also exist in the production process as well as research and development. As a result of integrated production, the company is also less dependent on external suppliers.

In addition, the integrated manufacturing system allows us to collect the carbon monoxide produced during compound production and to use it as starting material for further chemical reactions. This reduces climate-damaging emissions during composite production to the essentials.

Auditing

Our customers carry out regular audits of our management system and attest to our high level of expertise and a well functioning system. This was confirmed to us in a multi-day audit of the TfS initiative (Together for Sustainability)⁴⁷, in which the priorities USG – Environment, Safety, Health – were reviewed. The TfS Initiative is a merger of the major European chemical and pharmaceutical producers (AkzoNobel, Arkema, BASF, Bayer Clariant, DSM, Evonik, Henkel, Lanxess, Merck, Solvay, Wacker, AlzChem). The documents relevant for the assessment are stored on the EcoVadis platform.

Purchasing / Supplier release

In the area of purchasing (supplier approval), we ensure that company-wide standards in the procurement of our raw materials are complied with. The procedure for purchasing and for raw material qualification is defined in a procedural instruction and the responsibilities are clearly defined. Suppliers are audited based on specified criteria; the frequency of audits depends on the importance of the raw material for the supply chain. As a member of the BME⁴⁸ Compliance Initiative, we also have committed ourselves to require compliance by all our suppliers with the Code of Conduct established by this initiative.

Production

AlzChem's German production sites are located in Trostberg, Schalchen, Hart and Waldkraiburg and are therefore regulated by a very detailed body of legislation, the implementation of which we regularly review together with the local monitoring authorities. An analogous procedure also applies to our Swedish production site Sundsvall.

Safety is one of our **top corporate goals**. Accordingly, a detailed safety assessment is carried out prior to the commissioning of plants or new processes, the result of which in the case of plants subject to mandatory monitoring is evaluated by external experts and followed up with regard to implementation.

⁴⁶ International Renewable Energy Agency (IRENA): Renewable Capacity Statistics 2017 business actions and decisions are to be aligned with applicable laws

⁴⁷ The TfS initiative is the worldwide standardization of evaluations and audits of suppliers. It is the development and implementation of a global program for the responsible procurement of goods and services and the improvement of suppliers' environmental and social standards. The initiative is based on best practices and established principles such as the United Nations Global Compact (GC) and the Responsible Care Global Charter. In addition, the guidelines of the International Labor Organization (ILO), the International Organization for Standardization (ISO) and the American non-governmental organization Social Accountability International (SAI) are taken into account. (<https://tfs-initiative.com/>)

⁴⁸ Bundesverbands Materialwirtschaft, Einkauf und Logistik e.V. (BME) is the trade association for buyers, supply chain managers and logisticians. By joining the Code of Conduct of the BME, the companies of AlzChem Group AG are committed to preventing bribery and adhering to ethical principles towards customers, competitors and business partners. All

Safe plant operation requires an assessment of the risks and continuous training of the personnel. Results of risk assessments are documented and the continuing education of the personnel is tracked and documented. This is supported by the software LeManSys, in which the review of the learning content takes place.

All production plants are subject to a preventive maintenance program, which also includes the calibration of all relevant measuring points.

The production of various substances in multipurpose plants carries the risk of cross-contamination. We have therefore established a systematic approach to preventing cross-contamination.

Product safety

A product safety/approval department handles all aspects related to product safety. It creates and updates our safety data sheets, as well as the corresponding product labels for the labeling of our products. We comply with all national and international requirements. By registering our products, we ensure that they comply with the REACH requirements.

Quality control

AlzChem has its own **testing laboratories**. The area is independent of the production. The release of our products is carried out by authorized laboratory managers of the Analytical division. The laboratories in Trostberg are also accredited to DIN EN ISO 17025 and GLP certified. We take return samples from all production batches and store them under suitable conditions. The retention period of these patterns is influenced by their stability and is usually two years due to internal regulations. The ISO 9001 certified quality management system ensures that customer requirements are systematically identified, evaluated and implemented in order to fully meet them. Our German locations are in accordance with the standards ISO 9001, ISO 14001; EMAS, ISO 50001, ISO 27001 and OHRIS certified, the latter complies with the requirements of OHSAS 18001 / ISO 45001. Our test laboratory in Trostberg is accredited to ISO 17025.

49	Site				
	Trostberg	Schalchen	Hart	Waldkraiburg	Sundsvall
ISO 9001:2008 / ISO 14001:2004 (Quality and Environment Management)	X	X	X	X	
ISO 9001:2015 / ISO 14001:2015 (Quality and Environment Management)					X
ISO 17025 (Testing Laboratories)	X				
ISO 50001:2011 / Energy Management	X	X	X	X	
ISO / IEC 27001:2013 / Information Security Management	X	X	X	X	
ISO / IEC TR 27019 IT-Security Catalog (SiKat)	X	X	X		
EMAS III / Environment Management	X	X	X	X	
Bavarian Environmental Pact	X	X	X	X	
OHRIS / Work safety management	X	X	X	X	
OHSAS 18001:2007 / Occupational Health and Safety Assessment Series					X
Quality management of nutrition	X				
BfR XXXVI Regulation: ISEGA Certificate	X				
GLP (Analytical department)	X				
EFB / Waste management	X				
AEO-F (Authorized Economic Operator)	X	X	X	X	
BME Code of Conduct / Certificate	X				
ECM / Maintenance functions certificate			X		
ECM / Entity in charge of maintenance certificate			X		
ECM / Technical Assessment by VPI			X		
ECM / Qualified supplier of Deutsche Bahn for maintenance of wagons, risk class high			X		

⁴⁹ The certificates of the German sites mentioned here can be viewed on the homepage of AlzChem Group AG: <https://www.alzchem.com/de/qualitaet-umwelt>

7.4. ENVIRONMENTAL CONCERNS, SECTION 315C HGB, SECTION 289C (1.1) HGB

AlzChem Group is committed to constantly improving environmental protection. The current environmental program with its defined goals and associated measures can be found in the annually published Environmental Statement⁵⁰.

Essential **objectives** in environmental protection are

- reduction of energy use,
- waste reduction and prevention,
- water protection,
- emission and noise prevention.

To implement these goals, the German production companies of the AlzChem Group have introduced the following management systems:

- EMAS Environment Management
- ISO 14001 Environment Management
- ISO 9001 Quality Management
- ISO 50001 Energy Management

These management systems are part of the Integrated Management System (IMS) described above, which allows for leaner, more efficient management by leveraging synergies compared to multiple isolated management systems. The AlzChem Group AG combines the management systems mentioned above in its Integrated Management System. The Integrated Management System of the AlzChem Group is described in the so-called IMS Manual. It contains relevant procedures and regulations as well as responsibilities and tasks.

Overall responsibility for the **Integrated Management System** rests with the Management Board, with Mr. Englmaier, as COO, holding the responsibility within the Management Board. It determines the environmental, safety, health and quality programs in consultation with the departments and releases the necessary funds. Every year, the Management Board evaluates the results achieved and, if necessary, initiates corrective measures. In order to implement the environmental policy and the results of the environmental audit, the sites have defined their new program with concrete technical, organizational and employee objectives and measures.

When creating concepts to improve environmental protection, we engage in dialogue with our employees, business partners, authorities, neighbors and the general public.

We regularly monitor, document and evaluate the impact of our activities on the **environment** by identifying environmental metrics. By systematically collecting data from the areas of water, energy, waste, emissions or transport, and mapping and evaluating them with indicators, we seek to illustrate changes, environmental pressures and measures to make them more transparent. Because what can be measured can also be edited and improved.

Essentially, we base our assessment of environmental performance on the requirements of EMAS and ISO 14001⁵¹. For further information, please refer to the annual Environmental Statement to be published. AlzChem can react flexibly to changes in demand on the market due to its highly diversified product range. Due to the resulting changes in production, the indicators mentioned in the Environmental Statement can vary considerably from year to year. Nonetheless, a positive trend can be noted for the main site Trostberg. Fuel consumption as well as carbon dioxide emissions could be reduced.

⁵⁰ AlzChem Group AG – homepage; https://www.alzchem.com/sites/default/files/uploads/Downloads_Bro_Fly_Zert/Umwelt_Zertifikate/alzchem_bro_umwelterklaerung2016.pdf (1/2/2018)

⁵¹ The international environmental management standard ISO 14001 sets globally recognized requirements for an environmental management system. For certification by TÜV SÜD Management Service GmbH, see the homepage of AlzChem Group AG (https://www.alzchem.com/sites/default/files/uploads/Downloads_Bro_Fly_Zert/Umwelt_Zertifikate/alzchem_zert_9001_14001_de.pdf)

Every year, the **AlzChem Group** conducts a large number of internal audits that also carry out environmental tests, checking whether the requirements resulting from the integrated management systems and legal requirements in the various departments and operations are complied with. The auditors are AlzChem employees who have been trained to do so. If deviations or possibilities for improvement are identified by the audits, corrective or preventive measures are defined. Their effectiveness is evaluated in follow-up audits. This results in a control loop that supports a continuous improvement process.

In addition to **internal audits**, external monitoring audits by an external monitoring company also play an important role in the recertification or revalidation process. The companies of the **AlzChem Group** also conduct supplier and customer audits. Besides quality issues, environmental aspects are also considered.

Relevant authorities also regularly check compliance with the requirements from approval notices and environmental law in the operation of our facilities. In order to be able to carry out these reviews as efficiently as possible for both the Authority and the **AlzChem Group**, a project was developed in cooperation with the authorities and with other companies in the Chemical Triangle, the model of cooperative plant monitoring.

The preparatory work of the company enabled the surveillance audit to be processed much more efficiently. AlzChem Trostberg GmbH received an award from the Bavarian Minister of the Environment for this pilot project.

Our subsidiary Nordic Carbide AB, based in Sundsvall, Sweden, is subject to Swedish environmental legislation. Nordic Carbide AB also produces an annual Environmental Statement, which has been submitted to local authorities.

WATER/SEWAGE

We are committed to the responsible use of water, we want to use water as sparingly as possible and further reduce our water consumption. A good water supply is one of the most important prerequisites for a smooth production process as water is one of the most important auxiliaries for the chemical industry⁵².

Our sites Trostberg, Hart, Schalchen and Waldkraiburg are located north of the Alps. This area is characterized by thick, very porous gravel layers, which contain significant groundwater resources. This geological feature allows us to extract the total cooling, service and drinking water from our own groundwater wells.

The implemented water management of the German AlzChem sites allows a monitoring of the wastewater, which consists mainly of cooling and rainwater. Only a small fraction of waste water (about 0.5%) has to be cleaned in a wastewater treatment plant.

The use of industrial water in the various production processes necessarily leads to the production of contaminated process wastewater. Contaminated process wastewater was and is internally, instead of fresh water, recycled (if quality and environment harmless possible) or disposed of externally as waste. On the other hand, the wastewater was purified in the factory's central wastewater treatment plant (ZABA).

The cooling water supply for Nordic Carbide AB is provided by the local site operator at the mouth of the Ljungan, with an average water supply of 200 m³/s. For carbide production a maximum of 0.5 m³/s is required, so that the environmental intervention can be described as very low.

WASTE

The total amount of waste from our sites varies compared to the previous year within the scope of normal production fluctuations. Production-specific waste accounts for the largest share, while non-production-specific waste concerns all other waste. These are essentially waste generated during construction and demolition work. The ratio is roughly the same as in previous years. As far as possible, production-specific waste is utilized in internal production processes. Waste environmental objectives help prevent waste or reduce waste. For further and location-related information as well as the corresponding goals, we refer here to the Environmental Statement to be published annually.

⁵² EU-BREF CWW – Best Available Techniques (BAT) reference documents: Common Waste Water and Waste Gas Treatment/Management Systems in the Chemical Sector; <http://eippcb.jrc.ec.europa.eu/reference/cww.html> (1/9/2018)

The AlzChem Group AG constantly strives to improve its recycling rate and percentage. As an example, carbide production at the Hart site can be cited as an example. The manufacturing process produces the by-products carbide furnace gas and KOKA granules. The gas is extensively cleaned in several stages, then compressed and transported through a gas pipeline to the Trostberg and Schalchen sites, where it is used as heating and synthesis gas. The KOKA granulate is sold.

ENERGY MANAGEMENT SYSTEM

AlzChem Trostberg GmbH as an "energy-intensive" company strives to further optimize its handling of the energy resource. A certified energy management system (EnMS) according to DIN EN ISO 50001 is required for AlzChem Trostberg GmbH as an "energy-intensive" company. With a successful certification according to DIN EN ISO 50001 in 2014, the introduction of the energy management system at AlzChem Trostberg GmbH was completed. Continuous development and optimization of the system should provide the basis for continuous improvement in the energy performance of the business units.

Energy management involves systematically carrying out the energetic assessment of the operating areas, the energy performance indicators, the energy targets and the action plans for the continuous improvement of energy-related performance. For further and location-related information as well as the corresponding goals, we refer here to the Environmental Statement to be published annually.

7.5. EMPLOYEE MATTERS, SECTION 315C HGB, SECTION 289C (1.2) HGB

We rely on our colleagues and, in addition to an attractive pay system, offer job security, collegial action and the opportunity to shape your career development yourself. Our behavioral principles Reliability, fairness, trust, responsibility and quality are the yardstick for cooperation in the company, but also in contact with customers and suppliers.

We aim to have the right people in the right place at the right time with the right qualifications at the **AlzChem Group**. We want to create a sustainable, stable environment for our employees – without the need for restructuring or redundancy – which allows for and promotes long-term employment.

In order to achieve our goals, we have taken numerous measures, which we will briefly discuss below. The overall responsibility lies with the Management Board, with Mr. Niedermaier being the CFO of the Management Board.

Occupational and plant safety/Industrial safety measures

AlzChem has introduced occupational health and safety management according to OHRIS (Occupational Health and Risk Management System). The long-standing certification was extended in 2015 by the government of Upper Bavaria for three years.

All companies located at the sites operated by AlzChem participate in a joint **safety work** in seven working committees: A1 (event analyses), A2 (safety audits), A3 (rules and instruction), A4 (order), A5 (personal protective equipment), B1 (health) and B2 (actions). The safety control committee is the authoritative body in the safety and health work at the German sites of AlzChem Group AG. The security committee, which generally meets on a monthly basis, is headed by the CEO; this manages and coordinates the activities of the safety and health program.

Another important pillar in occupational safety and health is the different types of risk assessments. This effort has paid off and is reflected in the corresponding health and safety indicators: the 1,000-person rate – in other words, the number of reportable work-related accidents in relation to 1,000 full-time employees – was far below the industry average in 2016. According to the DGUV⁵³, the industry average is 18.36⁵⁴ reportable accidents at work per 1,000 full-time employees – in comparison, only eight comparable reportable occupational accidents occurred at our German sites.

Regular inspections by the regulatory authorities, such as the accident inspection at the Trostberg plant, took place in 2017. Furthermore, new process and plant changes are being analyzed for their potential risks. In emergency and event management, a systematic approach has been developed in the event of an alarm. It is good practice that in recent years many exercises have been carried out to be prepared and able to act in the event of an emergency.

⁵³ DGUV – Deutsche Gesetzliche Unfallversicherung

⁵⁴ DGUV – Homepage; <http://www.dguv.de/de/zahlen-fakten/au-wu-geschehen/au-1000-vollarbeiter/index.jsp> (02.01.2018)

Flexible working hours

Within a fixed period of time, our employees can define the start of work and the end of work themselves and flexibly organize their working hours.

Attractive remuneration

Through our membership in Verein der Bayerischen Chemischen Industrie e.V. (VBCI – Bavarian Chemical Industry Association)⁵⁵, we want to live up to our social and social responsibility. The VBCI is an employer association for chemical sites and jobs. It concludes collective bargaining agreements for Bavaria and co-designs federal tariffs. It advises member companies on all collective bargaining, social and labor law matters and provides up-to-date information on new socio-political developments and legal innovations.

Likewise, we are also a member of an employers' association at our Sundsvall site. The employers' association IKEM⁵⁶ represents about 1,400 companies for which it negotiates collective bargaining agreements and provides comparable services with VBCI.

The remuneration paid by AlzChem is based on the collective agreement of the chemical industry. In addition, we offer remuneration based on personal performance and position or responsibility. In addition, our employees receive a profit sharing that is dependent on the company's success. Company and social benefits are an integral part of our remuneration system.

Each employee of our German sites is included in our Group accident insurance, which covers both the company and the private sector in the event of a claim.

Health management⁵⁷

The health of our employees is crucial to our mutual success and the resulting improved competitiveness of our company. In addition to their professional, intellectual and social competence, health is the most valuable asset our employees bring to the company. Therefore, there are a variety of offers that give you the opportunity to individually put together your health program, from nutrition, moderate exercise and health care.

With our "health points" campaign, our employees can stay healthy and are rewarded with non-cash prizes. The whole program of action consists of three components: nutrition, exercise and prevention. Corresponding individual measures (for example, spinning, running, back training courses, etc.) are offered for the respective modules, which in turn are rewarded with health points.

In our company restaurant and at our kiosk outlets, meals and snacks are offered that are prepared according to the recommendations of the German Society for Nutrition (DGE) and incentivized by AlzChem by up to EUR 2 per day.

Operational integration management

Returning to work after illness is often easy. In some cases, however, continuing to work as previously is not immediately possible. In cooperation with the integration team, measures are being developed that will continue to enable treatment for illness or impairment. The measures are varied and may include, for example, changes in the content of an activity, personnel support or technical changes in the workplace. In the search for the "right" action, both the interests of the employee concerned and the company are taken into account. However, the integration team not only supports our employees in acute cases, but also works towards disease prevention.

Ideas management

Ideas generated by employees are expressly welcome. We want to motivate our employees to actively participate in continuous improvement with their ideas. Thus, they promote cooperation and help prevent accidents, improve environmental protection, implement technical progress and ultimately increase the profitability of the company.

Depending on the personal remuneration, up to 20% of the estimated annual benefit as a premium can be remunerated in the case of suggestions for improvement for which there is proven annual benefit.

⁵⁵ VBCI – Verein der Bayerischen Chemischen Industrie

⁵⁶ IKEM – Innovations- och kemiindustrierna i Sverige (Industrial and employer organization for companies in the fields of chemicals, plastics, pharmaceuticals, biotechnology and biochemistry)

⁵⁷ AlzChem Group AG – homepage; <https://www.alzchem.com/de/karriere> (29.12.2017)

Work pension

Our work pension plan is implemented as part of a modular system. In the various building blocks, monthly amounts are paid in by the employer and the employee. Furthermore, we offer our employees a long-term account, in which both remuneration and holidays or retirement can be introduced.

Demography fund

By concluding the collective agreement "Working life and demography," the Mining, Chemicals, Energy Industrial Union (IG BCE) and chemical employers have formed a new collective bargaining policy. The chemical social partners have become the first industry to develop a collective agreement that meets the challenges of demographic change. A central element of this collective agreement is the **demography fund**. This is not a classic monetary fund managed by a financial service provider. Rather, the Demography Fund is a pot created by the company. It collects the demographic contributions paid by the employer for the tariff employees. The funds from this pot will be used to finance instruments for shaping demographic change. Unlike collective wage increases, there is no individual entitlement of the employee, but only a collective freedom of action for the operating parties.

AlzChem and the works council have defined by way of a voluntary works agreement how to use the demographic fund. The demographic fund is primarily intended to enable partial retirement for commercial employees in shifts – in addition, the funds can also be used for non-current accounts.

Employers from the 2016 collective agreement in the chemical industry made available to employers and employees EUR 550.00 per employee in a demographic fund from 2016 onwards. From 2017, the demographic amount increased again to EUR 750.00. This amount, which was granted for the first time in 2010, amounted to EUR 300.00 and has since been steadily increased.

Continuing education

In order to maintain our position in the field of Specialty Chemicals in the future, we need a **future-oriented, qualified** workforce. We offer our employees subject-specific continuing education and training at the workplace or in specialist institutions, in every job. Numerous further training offers in the linguistic area of office communication, personal development, etc. enable a consistent professional development.

Our personnel development is geared towards recognizing and developing potentials and talents in the company at an early stage. A multi-pillar HR development concept, coupled with a variety of continuing education programs and continuing education opportunities, ensures that our employees are well prepared for their specific tasks and are constantly expanding their skills. A wide range of personal and professional building blocks in the areas of management development, qualification, knowledge management, health management and corporate culture rounds off our personnel development concept. We respond to the needs of our employees individually. We are laying the foundation for filling key positions from within our own ranks.

Training

AlzChem is one of the largest trainers in the region. As part of our hands-on training in the relevant specialist departments, we offer our trainees a state-of-the-art training laboratory and ideal training workshops as well as a varied commercial education. The high quality of our training is also recognized by global corporations, who hire our graduates.

Every year, about 40 trainees start their training in commercial, metal and electrical engineering as well as chemical fields at AlzChem. The trainee quota⁵⁸ of AlzChem for the period 2015 to 2017 averages 9.4%, well above the nationwide training quota of 5.2%⁵⁹.

Participation and site development agreement

In November 2006, the AlzChem companies at the sites in Trostberg, Schalchen and Hart concluded a company agreement with which the parties pursued the common goal of providing NCN Chemie with a sustainable and competitive perspective in a difficult economic environment at its sites in Trostberg, Schalchen and Hart. This claim applied equally to AlzChem and its employees; in partnership, there have been discussions about measures in which each party should make a significant contribution in balance with each other. Goals therefore included actions to reduce costs and increase productivity, as well as measures for the long-term preservation of jobs.

⁵⁸ Trainee quota is the number of people in training relative to the total number of employees

⁵⁹ Federal Institute for Civic Education – Data Report on the Vocational Training Report 2016

In addition to the necessary corporate and organizational changes, both parties have made significant contributions to the cost reduction and productivity enhancement under the agreement. The joint efforts have increasingly improved the framework conditions for AlzChem.

The operating agreement valid in the current version has a term until December 31, 2020, and essentially contains agreements to adjust working hours, company pension plans, investment commitments at German locations and to exclude redundancies.

7.6. SOCIAL CONCERNS, SECTION 315C HGB, SECTION 289C (1.3) HGB

Political and civic engagement of companies and their employees in a democratic environment is indispensable for the functioning of the economy and society. AlzChem Group AG welcomes the social commitment of its employees in youth work, adult education, sports, in the charitable and in the cultural field and has set itself the goal of actively improving the social life in their locations.

The **AlzChem Group** is involved, supports children and youth projects, supports school projects and is a member of the non-profit association for the promotion of education and entrepreneurship in Germany, the Wissensfabrik⁶⁰.

The Management Board decides on goals and framework conditions for donations and sponsoring measures of the AlzChem Group, whereby within the Management Board, Mr. Seibel holds the area of responsibility as CEO. As a regionally rooted company, we assume responsibility, above all in the regional environment of our locations. In 2017 as well, the AlzChem Group was involved in numerous donation and sponsorship projects. From the funds provided, numerous projects and measures focusing on social issues, sports, culture and education were funded.

AlzChem promotes education

We value teaching the next generation the fascination of chemistry and the natural sciences at an early stage, and to show them the diverse career prospects of the AlzChem Group. The AlzChem education initiative not only includes financial contributions to schools in the catchment area of our sites, but also cooperation in the field of natural science learning content.

The chemical companies AlzChem and BASF are entering into cooperation agreements with kindergartens and elementary schools in the region through an educational partnership. These receive experimental kits and teacher scripts with instructions and background information.

Our NAWi team members pass on their knowledge to the teachers of the participating school: they become acquainted with the experiments and gain confidence in using the materials. The event is recognized as a teacher training. Teachers handle implementation. NaWi experiments become an integral part of the physical education at primary schools. After about six months, the NaWi team members and teachers meet to exchange results and experiences from the project. In addition, a scientific evaluation is carried out.

NaWi 4 Minis (Kindergarten)⁶¹

Science is fun and helps us understand the world – that's the message of NaWi 4 Minis. The program was developed especially for kindergartens and appeals to the curiosity and exploratory spirit of youth: with tealights, spoons or ice cubes – and always under the guidance of a teacher – children are allowed to try, observe and be astonished themselves. Experiments on 'water' and 'air' are harmless, almost always succeed and give children answers to exciting questions from everyday life. All the necessary materials, aids and instructions are provided by a specially developed experiment box for the project, provided by the cooperation partners AlzChem and BASF.

NaWi – How does that work? (Elementary school)

NaWi experiments provide elementary students with answers to questions from the world of science in a child-friendly way. The approach is practical and action-oriented. The children may try out, observe and conclude in pairs or in groups. In this way, they develop a natural interest in experimenting. The experiments with familiar objects such as tealight, spoon, ice cube or magnet, scissors and magnifying glass are harmless, succeed almost always and relate to the everyday life of children. All the necessary materials and tools in the class set are provided by an experiment box specially developed for the project.

In "NaWi – How does that work?" The great success of this lighthouse project has meanwhile continued: "NaWi plus" focuses on the topics of "fabrics and their properties," "environmental protection and recycling" and "fire and fire protection."

Both projects, which celebrated their 10th anniversary in 2017, are a successful and already proven campaign and cooperation of AlzChem Group AG, BASF in Trostberg and the Knowledge Factory. The "Wissensfabrik – Unternehmen für Deutschland" is an open platform for all companies, educational institutions and initiatives that promote and share knowledge as the key to more economic growth. The knowledge factory and we have an important goal: to make the next generation and thus the location Germany fit for the future. We see it as our responsibility to provide impetus and to support schools, universities and politics in their educational mission.

Dies Academicus

Taking time for young people has a long tradition at AlzChem. The 'Dies Academicus' is just one of our many activities as a corporate citizen, the promotion of young talent already begins in our kindergarten. With projects like "NaWi – Science, how does that work?" We arouse curiosity even among the very young. As a chemical company out of passion and we are happy to pass on our enthusiasm. The slightly older students can complete internships, taster lessons or workshops in the training laboratory at AlzChem. With activities such as the "Dies Academicus," AlzChem Group AG is committed to the skilled workers of tomorrow. Out of school and into everyday working life – this special experience allowed students of König-Karlmann-Gymnasium Altötting to do their annual "Dies Academicus" in our home. For the fifth time, the Trostberg site opened its doors to give young people an insight into the world of work for one day. At the "Dies Academicus," AlzChem Group academics, like chemists or product managers, receive their young companions in the morning and guide them through the company. The AlzChem Group AG sees the commitment to the next generation as an investment in their own as well as the regional future. We are very close to the region and would like to offer professional perspectives to children and young people in the spirit of good neighborhood.

The AlzChem Group stands for open dialogue, be it in dealing with its own employees or employee representatives, be it in relation to business partners, neighbors and authorities. In the case of official or internal inspections, all employees are obliged to contribute cooperatively to the clarification and to provide all information required by the third parties.

7.7. COMPLIANCE, RESPECT OF HUMAN RIGHTS AND COMBATING CORRUPTION AND BRIBERY, SECTION 315C HGB, SECTION 289C (1.4,5) HGB

The term **compliance** refers to the entirety of all measures to be observed that justify the compliance of a company and its employees with regard to all legal requirements and prohibitions. In addition, the conformity of the entrepreneurial business is to be ensured with all social guidelines and **core values**. These include, in particular, the observance of human rights and the fight against corruption and bribery.

The declared goal of the **AlzChem Group** is to always comply with all applicable laws and core social values, particularly with respect for human rights and the fight against corruption and bribery. No employee, job applicant or business associate may be disadvantaged on grounds of race or ethnicity, gender, religion or belief, disability, age or sexual identity. Any kind of harassment of employees or employees of business partners is prohibited.

In order to achieve these goals, the AlzChem Group has established a compliance system that serves to prevent or limit the damage, detect and terminate infringements and fulfill statutory obligations.

⁶⁰ Wissensfabrik – Unternehmen für Deutschland; <https://www.wissensfabrik.de/portal/fep/de/dt.jsp> (29.12.2017)

⁶¹ AlzChem Group AG – Homepage; <http://www.alzchem.com/de/kontakt-unternehmen/unser-engagement-schule-und-kindergarten#kindergarten> (29.12.2017)

AlzChem Group AG has joined the Code of Conduct of the Federal Association for Materials Management, Purchasing and Logistics (BME). The company is committed to stopping bribery and adhering to ethical principles towards customers, competitors and business partners. All business actions and decisions are to be aligned with applicable laws. The ethical guidelines described in the BME Code of Conduct are based in particular on the principles of the UN Global Compact, the ILO Conventions, the Universal Declaration of Human Rights of the United Nations on the Rights of the Child and the Elimination of All Forms of Discrimination against Women OECD Guidelines for International Business. The guidelines set out are minimum standards and are intended to prevent situations that may jeopardize the integrity of companies and their employees.

As an extension/supplement to the BME Code of Conduct, AlzChem Group AG has implemented its own guidelines, which summarize AlzChem's key corporate policy principles and standards, which all employees must be familiar with. They give orientation to basic legal and ethical duties of AlzChem employees and give them security for their correct behavior in the profession. Corporate policies govern our behavior, internally in our dealings with each other and externally in contact with business partners or the public, as well as with authorities and government agencies.

Committed to **governance & compliance**, AlzChem set up a whistleblower hotline⁶² in November 2017 with an external reporting center. As an external reporting center for the employees of the AlzChem Group as well as third parties, e.g. business partners and customers, the Heussen Rechtsanwalts-gesellschaft mbH is available as an independent law firm. The Compliance Manager is also still available as a contact. The lawyers of Heussen Rechtsanwalts-gesellschaft mbH are subject to secrecy according to the professional law applicable to lawyers. As far as desired by the employee and legally possible, they will treat confidentially the identity of the employee and the information given also in relation to companies of the AlzChem Group. At company meetings, employees were informed about the whistleblower system and the possibility of contacting them. AlzChem does not tolerate discrimination against employees who report possible or actual violations or support investigations in this context – unless the information has been misused or the employees themselves have violated laws or company guidelines.

Donations take the form of monetary and non-cash benefits to promote cultural, social, religious, scientific, political and charitable purposes. Donations on behalf of AlzChem require the approval of the Management Board. Settlement is carried out exclusively by the Communications Department.

The **Management Board** of AlzChem Group AG, the **Compliance Manager** and all employees are responsible for implementing our corporate guidelines. As a contact, the Compliance Manager ensures independent and objective processing of all requests addressed to him. He is subordinate to the management board, but independent of instructions. The Compliance Manager is available to all employees as a point of contact both to answer questions and as a consultant in the context of corporate policies. He takes all the incoming instructions and follows them with the necessary care.

Contacting the Compliance Manager will not be detrimental to employees unless they violate laws or company policies. Supervisors are required to actively support our corporate policies and their behavioral principles through exemplary behavior. They must also ensure that their employees are regularly informed of the contents of the company guidelines and comply with these requirements. Our employees are further familiarized with the AlzChem **company guidelines** with the training course "Right action." This is assigned to the employees as mandatory training and documented their successful completion. In addition, specific training courses are offered on specific topics (such as export and terrorism control, antitrust law and the environment, security and health) for defined groups of people, which may require participation. Participation in these trainings is also documented.

The scope of application of the corporate guidelines includes all legal organizational units of the AlzChem Group as well as all affiliated companies in which AlzChem Group AG directly or indirectly holds shares of more than 50%.

The integrity of all actions is an essential prerequisite for sustainably successful economic life. As a global corporation, AlzChem is subject to numerous national and supranational laws (such as EU regulations) as well as other countries' legislation. All business matters and processes must therefore be conducted in such a way that they comply with all applicable laws and other binding regulations in the scope of which AlzChem conducts its business. Our employees are prohibited from issuing any instructions that may violate the conduct in the conduct of business operations as set out in our guidelines.

⁶² E-Mail: alzchem@heussen-law.de, Telefon: 089 – 29097 – 498

Accordingly, any active and passive bribery or acceptance of benefits in accordance with the provisions of Sections 299 onward of the Criminal Code and attempting the same is prohibited. Through our actions, we want to avoid creating the impression that our employees want to exert influence through extraneous means. Gifts, favors, entertainment or other benefits may only be granted or accepted in the AlzChem Group if they do not exceed the scope of business practice in the region in question, and if they do not have an inappropriately high value and are within the scope of legal or employment law. The AlzChem Group is committed to fair competition for the benefit of its customers and other stakeholders – and we respect the independence of public officials. Therefore, the AlzChem Group prohibits any form of corruption, including so-called acceleration payments. The basis for the anti-corruption regulations are our corporate guidelines.

We treat all business partners in a legally sound and fair manner. The selection of suppliers and service providers is carried out by the purchasing organization in an orderly process according to objective and comprehensible criteria. Orders are awarded as far as possible and reasonable on the basis of competitive offers. When selecting our suppliers, we make sure that they act in accordance with the principles of our Business Principles. Incentives, such as performance-related commissions, rebates, discounts or free deliveries of goods, require great care in their application in order to ensure compliance with the different legal regulations. Therefore, the business incentives in the AlzChem Group are comprehensive and applicable. In order to prevent fraudulent actions, the payment of deliveries and services is made directly to the respective contracting party. In addition, all or part payment by cash is prohibited, except in minor cases.

AlzChem welcomes and promotes the political and civic commitment of its employees. Likewise, as AlzChem we respect the freedom of choice of our employees for political self-determination. In particular, employees may **not in any way** be directly or indirectly held to make political donations or to support a political party or a person's candidacy for political office. AlzChem employees should report their political mandates to their supervisor or the Compliance Manager.

7.8. SAFETY

Protecting people from adverse effects on safety and health through products, business and production processes as well as the responsible use of the environment and natural resources are fundamental components of responsible corporate behavior for AlzChem Group AG. Based on the observance of laws and agreements, we work to continuously improve the services and their management system in this area.

We want our Trostberg chemical park company to be not only economically successful, but also a good partner, employer, trainer and neighbor. In light of this self-image, we take responsibility for the safety and protection of our environment. For more than 100 years, we have been operating plants in Trostberg, Schalchen and Hart that are subject to the so-called Störfall Ordinance. This ordinance regulates the protection of people and the environment from the consequences of possible accidents in technical installations, which could possibly lead to the release of hazardous substances. A variety of in-house security initiatives, a highly trained plant fire brigade and the extensive security measures in our operations and facilities, optimized in cooperation with the authorities, help to minimize risks for our employees and the people in our neighborhood. With a current brochure, we as a company of the ChemDelta Bavaria inform about safety measures and the correct behavior in case of incidents. The information contained in the brochure can be viewed at any time on the AlzChem Group AG homepage.

The carbide plant in Sweden also falls within the scope of the European SEVESO III Directive and is thus subject to corresponding Swedish laws, which are comparable to the German Hazardous Incident Ordinance.

Legal conformity

AlzChem complies with environmental impact legislation. In addition to approval notifications, we also abide by the Federal Immission Control Act with its ordinances (e.g. Störfall Ordinance, 17th BImSchV), the Water Resources Act, the Waste Water Ordinance, the VAwS and various laws and ordinances on waste law and nature conservation law. AlzChem uses the so-called "law in operation" dialogue system, which is regularly updated, to implement compliance with legal regulations and monitor regulations.

All regulations were checked for relevance and assigned to the respective departments. Changes are made to the database and made available to the affected areas for information in monthly updates.

8. CORPORATE GOVERNANCE REPORT CORPORATE GOVERNANCE STATEMENT ACCORDING TO SECTION 315D HGB, SECTION 289 HGB

8.1. CORPORATE GOVERNANCE AND COMPLIANCE STATEMENT ACCORDING TO SECTION 161 AKTG

Corporate Governance encompasses all principles for the management and supervision of a company. In this sense, corporate governance as an expression of good and responsible corporate governance is an integral part of the **AlzChem Group's** management philosophy. The principles of corporate governance primarily relate to cooperation in the Management Board, the Supervisory Board and between the two bodies, as well as between the bodies and the shareholders, in particular at the Annual General Meeting. They also affect the relationship of our company to other persons and entities that have an economic relationship with us.

For AlzChem, the starting point for ensuring responsible, **sustainable value-based management** and control of the company – in addition to complying with the relevant legal standards – is the recognition of the German Corporate Governance Code (GCGC), based on the current version from February 7, 2017.

The Code, which was approved by the "Government Commission on the German Corporate Governance Code," contains national and international recognized standards for good and responsible corporate governance in the form of recommendations and suggestions, in addition to important legal provisions governing and monitoring German listed companies.

Section 161 AktG commits the Management Board and the Supervisory Board of AlzChem Trostberg GmbH annually to declare that the recommendations of the "Government Commission German Corporate Governance Code" (the Code) have been complied with by the Federal Ministry of Justice in the official part of the Federal Gazette, and or which recommendations were or will not be applied and why not. The declaration must be made permanently accessible on the company's website.

Management Board and Supervisory Board of AlzChem Group AG declaration according to Section 161 AktG:

At the time the new shares of AlzChem Group AG were admitted to trading on the Regulated Market of the Frankfurt Stock Exchange (the "listing"), the company complies with all recommendations of the Government Commission "German Corporate Governance Code" published by the Federal Ministry of Justice in the official version of the Federal Gazette dated February 7, 2017, with the exceptions outlined below. The company intends to continue to comply with these recommendations with the exceptions set out below.

Deductible in the case of D&O (Directors and Officers) insurance for members of the supervisory board

(3.8 of the Code)

D & O insurance taken out by AlzChem Group AG does not provide for a deductible for Supervisory Board members, in particular no deductible of at least 10% of the damage up to at least one and a half times the fixed annual remuneration. Such a deductible is not required by law for members of the Supervisory Board; instead, the members of the Supervisory Board are exempt from compulsory deductibles. In view of the role of the Supervisory Board, which is also reflected in the different remuneration structure of the Management Board, this distinction appears appropriate in the treatment of the Management Board and the Supervisory Board. Neither the Management Board nor the Supervisory Board see a deductible as an effective way of increasing the motivation and sense of responsibility of the members of the Supervisory Board.

Defining the desired level of pension benefits for members of the Management Board

(4.2.3 of the Code)

The Code recommends that the Supervisory Board should determine the desired pension level for pension commitments for members of the Management Board, including those for the duration of their term of office, taking into account the annual and non-current expenses for the company. The Supervisory Board has not defined such a pension level. Instead, each member of the Management Board is entitled to an annual pension scheme, the amount of which is determined as a percentage of the annual basic salary of the individual Management Board member. This gives the Supervisory Board an idea of the annual and non-current expenses for the company, which also depend on actuarial effects due to the formation of reserves. It is increasingly common not to define an intended pension practice, but to use a contributory and benefit-oriented system.

Composition of the Supervisory Board

(5.4.1.2-3 of the Code)

With the exception of setting an age limit, the Supervisory Board does not yet have specific targets with regard to its composition, in particular those that take into account the company-specific situation, the international activities of the company, potential conflicts of interest and diversity. The Supervisory Board is of the opinion that the selection of the members of the Supervisory Board should, above all, focus on the knowledge and skills of the future members as well as the technical competence. While the Supervisory Board welcomes the intention of the Code to take greater account of the above criteria in the composition of a Supervisory Board, it considers that the setting of specific objectives would not be appropriate at this stage.

Remuneration of members of the Supervisory Board

(5.4.6.1-3 of the Code)

The members of the Supervisory Board receive a fixed remuneration and reimbursement of their expenses. The members of the Supervisory Board are not granted performance-related remuneration as the company does not believe that this would improve the work of the Supervisory Board.

Recommended deadline for the publication of the Consolidated Financial Statements and interim report

(7.1.2 of the Code)

The company will make the Consolidated Financial Statements and the interim reports **publicly available** as soon as possible after the end of each financial year and the interim period. Although the company endeavors to achieve publication within the deadlines recommended by the Code, it cannot be ruled out that this will not be possible in the first year after the acquisition of the AlzChem Group in connection with the capital increase in kind in view of the organizational changes to be implemented as a result will be.

8.2. RELEVANT INFORMATION ON CORPORATE PRACTICES

The company complies with all legal requirements and complies with the recommendations of the German Corporate Governance Code (GCGC) with the deviations described above.

This includes the internal corporate guidelines for entrepreneurial behavior ("AlzChem corporate guidelines").

8.3. OPERATION OF MANAGEMENT BOARD AND SUPERVISORY BOARD

8.3.1. MANAGEMENT BOARD

The members of the Management Board are responsible for managing the affairs of the company in their **own responsibility** in the interests of the company in accordance with the law, the Articles of Association, the rules of procedure for the Management Board and the business distribution plan. The Management Board must define and maintain corporate goals, fundamental strategic orientation, business policy and Group organization of the company. It must ensure compliance with the statutory provisions and the company's internal guidelines and work towards their compliance within the Group companies (compliance). It is also tasked with ensuring appropriate **risk management and controlling** in the company.

The Management Board currently has **three** members. One member is appointed **Chairman**. By resolution from **August 24, 2017**, the Supervisory Board adopted new rules of procedure for the Management Board, including a business allocation plan.

The appointed **Chief Executive Officer** coordinates the cooperation of the Management Board and the information of the Supervisory Board and maintains regular contact with the **Chairman of the Supervisory Board**. It must work to ensure that the management of the Management Board areas is uniformly aligned with the goals set by the resolutions of the Management Board. The **members of the Management Board** may at any time request information about individual matters in their areas and may specify that they are informed in advance of certain types of transactions. The Chief Executive Officer **represents** the Management Board and the company to the public in matters affecting the entire company. It may delegate these duties to certain members of the Management Board for certain types of matters or in individual cases.

The **responsibilities** of the individual members of the Management Board arise from the business allocation plan, which is proposed by the members of the Management Board, even in the event of future changes, and requires the approval of the Supervisory Board. The current **business allocation plan** provides for the following distribution of responsibilities.

	Ulli Seibel CEO	Andreas Niedermaier CFO	Klaus Englmaier COO
Essential functions	Communication	Controlling, Finance, Taxes	Production
	Marketing	Insurance	Technology
	Distribution	Law	Environment, Safety, Health, Quality
	Innovation management	HR	
	Strategy	Supply chain management	
	Investor relations	IT	
	Non-Financial Consolidated State- ment (Sustainability report)	Risk management	

Within each **division**, each Management Board makes its **own decisions**, with particular emphasis on the overall responsibility and collegiality of Board members. As far as the divisions of several members of the Management Board are concerned, they decide **together**. If no agreement is reached, each member of the Board of Management involved is required to bring about a resolution of the Board of Management. In this case, the measure shall be suspended until the decision of the Board, unless the measure is required in due discretion to avoid imminent serious harm to the company. About such a procedure, the Board is to be informed immediately.

The Management Board fulfills its **reporting obligations** to the Supervisory Board specified in **Section 90 AktG** and other statutory provisions, the company's Articles of Association and these Rules of Procedure, whereby the Management Board, pursuant to Section 90 AktG, to the Supervisory Board and, for important reasons, pursuant to Section 90 (1.3) AktG to Chairman of the Supervisory Board reported. Reports of the Management Board to the Supervisory Board are generally to be made in **text form**, unless the law provides otherwise. If necessary in individual cases due to special **urgency**, the Supervisory Board must report **verbally**. As part of its reporting, the Management Board regularly, promptly and comprehensively informs the Supervisory Board, especially during its meetings, in particular about fundamental questions of **corporate planning**, the net assets, financial and earnings position, profitability and business development of the company and its subsidiaries and joint ventures. The Management Board has to agree on deviations from the previously drawn up plans and objectives, giving reasons. Reporting by the Management Board must also include information on the risk situation, **risk management** and compliance.

Unless otherwise determined by the Supervisory Board, the Management Board reports to the Supervisory Board on the **intended business policy** and other fundamental questions of **corporate planning** at the last meeting of the Supervisory Board of a financial year and lays out the **budget** for the following financial year (including financial, investment and personnel planning).

In particular, it addresses deviations from the actual course of business from the previously presented plans and targets, stating the reasons. Unless otherwise determined by the Supervisory Board, the Management Board informs the Supervisory Board on the **profitability** of the company, in particular the return on equity, at the Supervisory Board meeting in which the Annual financial statements are being discussed.

Unless otherwise determined by the Supervisory Board, the Management Board regularly reports to the Supervisory Board at **regular Supervisory Board meetings** on the course of business, in particular sales, and the situation of the company, as well as all issues of business policy, profitability and the course of business that are relevant to the company and the situation of the company, in particular the risk situation and risk management.

In addition, the **Chairman of the Management Board** reports to the Chairman of the Supervisory Board in good time about transactions that may be of material importance to the profitability or liquidity of the company. Without prejudice to existing approval requirements of the Supervisory Board and the reporting obligations specified in Section 90 AktG in particular, the Management Board informs the Chairman of the Supervisory Board **promptly** and comprehensively about all business matters which are of particular significance due to their financial implications and/or their significance for the general corporate policy, particularly **risk situation** and risk management.

8.3.2. SUPERVISORY BOARD

The Supervisory Board **advises** the Management Board on the management of the company and oversees its management (see also the report of the Supervisory Board in this annual report on the activities of the Supervisory Board). The Supervisory Board ensures that the Management Board fulfills its **reporting obligations** specified in Section 90 AktG. The Supervisory Board carries out its activities in accordance with the statutory provisions, the Articles of Association of the company and these Rules of Procedure (resolution of August 4, 2017). The recommendations of the **German Corporate Governance Code** relating to the Supervisory Board are complied with, unless the **Declaration of Conformity** issued by the Management Board and the Supervisory Board pursuant to Section 161 of the German Stock Corporation Act (AktG) provides otherwise. Its **members** have equal rights and obligations and are not bound by instructions. The Supervisory Board works confidently and closely in the performance of its duties for the benefit of the company. The Supervisory Board regularly reviews the efficiency of its activities.

The Supervisory Board of **AlzChem Group AG** (Group parent company) currently consists of four members. The Supervisory Board shall be **composed** in such a way that its members as a whole have the knowledge, skills and professional experience necessary for the proper performance of their duties. Taking into account the recommendations of the German Corporate Governance Code, the Supervisory Board specifies concrete **objectives** for its composition. Each member of the Supervisory Board ensures that he has sufficient time to exercise his mandate. As a rule, the term of office of a Supervisory Board member shall end with the expiry of the Annual General Meeting following the completion of the 75th year of the Supervisory Board member's life.

The Supervisory Board must, from its perspective, have a sufficient number of independent members. A member of the Supervisory Board shall not be considered as independent especially if he has a personal or business relationship with the company, its bodies, a controlling shareholder or an affiliate, which may give rise to a material and not merely temporary conflict of interest. At least **one** independent member of the Supervisory Board must have expertise in the areas of **accounting** or auditing (Section 100 (5) AktG).

The Supervisory Board may not consist of more than two **former members** of the Management Board. Members of the Management Board may not become members of the Supervisory Board within two years after the end of their appointment, unless they are elected on the **recommendation of shareholders** holding more than **25%** of company voting rights. In the latter case, a change to the chairmanship of the Supervisory Board is an exception to be justified at the Annual General Meeting. Members of the Supervisory Board may **not exercise any executive functions** or advisory functions with significant competitors of the company.

In addition to the Supervisory Board mandate for the company, the members of the Supervisory Board may not exercise more than **two** further Supervisory Board mandates in listed companies outside the Group or companies with comparable demands, provided that they simultaneously serve as members of the Management Board of a listed company. The above rules must be taken into account in proposals for the election of Supervisory Board members. At the beginning of its term of office, the Supervisory Board elects a **Chairman** and a Deputy Chairman from among its members in a meeting without special convening. Two additional Vice Chairmen may be elected.

If the election does not specify a shorter term of office, the election takes place for the term of office of the elected Supervisory Board member. If the Chairman or a Deputy Chairman leaves the Supervisory Board during his term of office, a new election for the vacated position must be made immediately. The election is directed by the **eldest** member of the Supervisory Board present at the meeting.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board. The Chairman of the Supervisory Board and the Deputy Chairman **keep each other informed**, especially when taking action on the occasion of urgent business requiring approval. Declarations of intent by the Supervisory Board are made on behalf of the Supervisory Board by the Chairman – or by his Deputy in the event that he is unavailable. The Chairman – in the case of his absence, his Deputy – is authorized to accept explanations for the Supervisory Board. The Deputy shall only have the rights and duties of the Chairman if mandatory law or the Articles of Association **expressly** assign to him those rights and obligations. The Deputy is not entitled to a second vote.

In the 2017 reporting period, the **Supervisory Board** was composed as follows:

Member	from	to
Mark Wechselmann	1/1/2017	6/9/2017
Bernhard Riedel	5/23/2017	8/4/2017
Constantin Häfner	1/1/2017	8/4/2017
András von Kontz	1/1/2017	8/4/2017
Markus Zöllner	8/4/2017	12/31/2017
Prof. Dr. Martina Heigl-Murauer	8/4/2017	12/31/2017
Dr. Caspar Frhr. v. Schnurbein	8/4/2017	12/31/2017
Steve Röper	10/2/2017	12/31/2017

In accordance with (5.4.2). The ownership structure is taken into account in the composition of the Supervisory Board. Prof. Dr. Martina Heigl-Murauer is an **independent member** of the Supervisory Board (Section 5.4.2 DCGK). The Chairman of the Supervisory Board for the period from 1/1–6/9/2017 was Mr. Mark Wechselmann, for the period from 6/16–8/4/2017 was Mr. Bernhard Riedel and since 8/4/2017 is Mr. Markus Zöllner.

By resolution of December 4, 2017, the Supervisory Board approved the establishment of an **Audit Committee** consisting of Prof. Dr. Heigl-Murauer (Chairman), Dr. Freiherr von Schnurbein and Markus Zöllner as well as a Nomination Committee consisting of Markus Zöllner (Chairman), Dr. Baron von Schnurbein and Mr. Steve Röper.

Incidentally, in order to avoid repetition of the work of the Supervisory Board and the Audit Committee, reference is made to the report of the Supervisory Board in this Annual Report.

8.3.3. AVOIDING CONFLICTS OF INTEREST

The members of the Management Board and the Supervisory Board disclose any conflicts of interest to the Supervisory Board without delay. In fiscal year 2017, no conflicts of interest arose among the members of the Management Board and the Supervisory Board.

8.4. INFORMATION ABOUT LEGAL MINIMUM QUOTAS IN LEADERSHIP POSITIONS

On April 24, 2015, the Act on Equal Participation of Women and Men in Executive Positions in the Private and Public Sector entered into force. The **AlzChem Group AG** has addressed the new requirements at various levels and in the responsible bodies and has taken the necessary decisions to do so.

As a listed parent company, **AlzChem Group AG** and the affiliates of AlzChem Group AG, which are subject to the One-Third Participation Act, are required to comply with the provisions of Section 76 (4) and Section 111 (5) of the German Stock Corporation Act.

On August 3, 2017, the Supervisory Board of AlzChem Group AG (at that time still Softmatic AG) set the targets for the **share of women** to be reached on the Supervisory Board and the Management Board by December 31, 2018, each at 0 percent. A definition of target values for the management levels below the Management Board was unnecessary at the level of AlzChem Group AG, since AlzChem Group AG, as the parent company, does not employ management below the Management Board. As of December 31, 2017, the share of women in the Supervisory Board was 25% and in the Management Board 0%.

On September 29, 2017, the Supervisory Board of AlzChem Trostberg GmbH set the targets for the share of women to be reached on the Supervisory Board and the Management Board by June 30, 2022, as follows: (i) 16.66% Supervisory Board and (ii) 0% on the Management Board. In addition, the management of AlzChem Trostberg GmbH confirmed the targets of the previous year by resolution of June 29, 2017 and set the target period until June 30, 2022 for the first-tier management at 0% and at 8% for second-tier management below the Board.

This corresponds to the status of the resolution and considers the succession planning within the deadline for both management levels. As of December 31, 2017, the targets for the first and second combined management levels below the Management

Board were **5.8%**. Due to the specific conditions in the chemical industry, we currently see the determination of the legal minimum share as unachievable.

9. IMPORTANT EVENTS AFTER THE BALANCE SHEET DATE

After the end of the financial year, no circumstances had a material effect on the net assets, financial position and results of operations until the date of preparation of the Consolidated Financial Statements and the Group management report.

10. INSURANCE OF LEGAL REPRESENTATIVES ("RESPONSIBILITY STATEMENT")

We assure to the best of our knowledge that, in accordance with applicable accounting principles, the **Consolidated Financial Statements** give a true and fair view of the Group's net assets, financial position and operating results, while the **Consolidated management report** accurately presents the course of business including the business results and the situation of the Group in a way that clearly demonstrates the current opportunities and risks of expected Group development.

Trostberg, February 28, 2018

AlzChem Group AG

Management Board



Ulli Seibel (CEO)



Klaus Englmaier (COO)



Andreas Niedermaier (CFO)

APPENDIX I

DECLARATION ON THE FEE TRANSPARENCY LAW ACCORDING TO SECTION 264 (3), SECTION 289 HGB

The law on the promotion of pay transparency between women and men came into force on **July 6, 2017**. At the center of the law is a right to information of the individual employee for consideration of the other sex in companies with more than 200 employees. In addition, the law contains an invitation to the employer to carry out an audit on compliance with the equal pay requirement, as well as a reporting obligation of the employer with more than 500 employees on statistical information and the gender equality measures implemented within the company. The right to information can be claimed for the first time from February 2018. The **Gender Equality Report** is to be prepared for the first time in 2018 for 2016. The report must be attached to the management report and disclosed in the Federal Gazette, Section 22 (4) of the Fee Transparency Act. It is **not part** of the Annual Financial Statements and management report. AlzChem guarantees its employees fair remuneration and remuneration transparency. This is achieved in detail as follows:

- AlzChem Trostberg GmbH, NIGU Chemie GmbH and Nordic Carbide AB are members of the **employers' association** VBCI or IKEM and apply the collective agreements of the chemical industry. Collective agreements and pay tables are available to all employees.
- AlzChem regularly carries out analytical workplace assessments with its operating partners on the basis of a **company agreement** for the industrial sector. This common, analytical assessment leads to a fair and gender-neutral classification and pay determination.
- AlzChem carries out a summary review of **comparable workplaces** with its partner companies for employees. The formation of so-called job families leads to fair, transparent and gender-neutral "remuneration corridors."
- AlzChem has agreed a binding set of rules for **gender-neutral**, competitive salary determination and development with its partners for non-salaried employees and management. There is also a joint evaluation commission which ensures the gender-neutral and uniform assessment and classification of positions.
- AlzChem promotes a women-friendly and family-friendly working world. This succeeds above all through flexible working hours agreed with operating partners as well as a large number of part-time models.
- As of December 31, 2016, the **AlzChem Group** employed 1,124 full-time men, 128 full-time women, 59 part-time men and 104 part-time women.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

OF ALZCHEM GROUP AG, TROSTBERG FOR THE FISCAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2017

in EUR thousands	Notes No.	2016	2017
Sales revenue	1	327,185	353,920
Changes to the inventory of finished goods and work in progress		5,072	1,768
Other operating income	2	11,305	11,594
Costs of materials	3	-126,220	-137,870
Operative personnel expenses	4	-106,051	-109,248
Employee bonus for the successful IPO	VI	-6,256	0
Other operating expenses	5	-66,422	-74,496
EBITDA		38,614	45,668
Depreciation	6	-13,033	-13,990
EBIT		25,581	31,678
Other interest and similar earnings	7	455	662
Interest and similar expenses	7	-4,156	-3,004
Financial result	7	-3,702	-2,342
Result from ordinary business activities		21,879	29,336
Income taxes	8	-6,595	-8,764
Consolidated result/net income		15,283	20,572
Of which non-controlling interests in the consolidated result	9	1	179
Of which shareholdings of shareholders of AlzChem AG in the consolidated result		15,282	20,393
Earnings per share in EUR (undiluted and diluted)	IV	0.15	0.20

* For an explanation of the content, please see VI Employee bonus for the successful IPO



ALZCHEM GROUP AG

SITE HART

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

OF ALZCHEM GROUP AG, TROSTBERG FOR THE FISCAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2017

in EUR thousands	Notes No.	2016	2017
Consolidated annual result	19	15,283	20,572
Other earnings			
Items that are not reclassified to the income statement:			
Result from the revaluation of defined benefit plans		-15,460	89
Deferred taxes on items that are not reclassified to the income statement		4,330	-26
Total items that are not reclassified to the income statement		-11,130	63
Items that are reclassified to the income statement:			
Differences arising from currency translation		280	-1,090
Total items that are reclassified to the income statement		280	-1,090
Other comprehensive income	19	-10,850	-1,027
Of which non-controlling interests in other comprehensive income		-11	-17
Of which shareholdings of shareholders in AlzChem AG in other comprehensive income		-10,839	-1,010
Total comprehensive income/loss	19	4,433	19,545
Of which non-controlling interests in total comprehensive income/loss		-10	162
Of which shareholdings of shareholders of AlzChem AG in total comprehensive income/loss		4,443	19,383

CONSOLIDATED BALANCE SHEET

OF ALZCHEM GROUP AG, TROSTBERG FOR THE FISCAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2017

Assets	Notes No.	12/31/2016	12/31/2017
in EUR thousands			
Non-current assets			
Intangible assets	10	807	1,009
Fixed assets	11	104,827	115,131
Financial assets	12	20	20
Other receivables and assets	13	270	1,071
Deferred tax claims	14	28,361	25,433
Total non-current assets		134,285	142,664
Current assets			
Inventories	15	64,052	71,382
Trade receivables	16	35,444	35,035
Other receivables and assets	13	17,962	16,308
Income tax claims	17	42	1,990
Cash and cash equivalents	18	12,089	12,802
Total current assets		129,589	137,517
Total assets		263,874	280,181

EQUITY AND DEBT

in EUR thousands	Notes No.	12/31/2016	12/31/2017
EQUITY			
Capital and reserves			
Subscribed capital	19	310	101,763
Capital reserve-adjustment item reverse acquisition	19	10,690	-88,128
Capital reserve	19	24,981	24,981
Other cumulative equity	19	-30,984	-31,993
Net profit	19	48,353	49,047
		53,350	55,670
Non-controlling interests	19	137	2,224
Total equity		53,487	57,894
DEBT			
Non-current debt			
Pension provisions and similar commitments	20	104,904	107,234
Other provisions	21	17,051	17,443
Loan liabilities to banks	22	24,805	19,203
Financing lease liabilities	23	223	223
Other liabilities	25	0	10
Deferred tax liabilities	14	2,340	2,165
Total non-current debt		149,322	146,278
Total debt			
Other provisions	21	7,183	1,209
Loan liabilities to banks	22	5,601	22,122
Financial liabilities	28	142	0
Accounts payable trade	24	21,701	28,199
Other liabilities	25	23,425	23,421
Income tax liabilities	26	3,011	1,058
Total other debt		61,065	76,009
Total debt		210,388	222,287
Total equity and debt		263,874	280,181

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

OF ALZCHEM GROUP AG, TROSTBERG FOR THE FISCAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2017

in EUR thousands	Notes No.	Subscribed capital	Capital reserve-ad- justment item reverse acquisition	Capital reserve	Other cumulative equity	Net profit	Shares of shareholders of AlzChem Group AG	Non-controlling interests	Total equity
Status as of 12/31/2015 (in the IFRS Consolidated Financial Statements of AlzChem Trostberg GmbH as of 12/31/2016)									
	II	1,000	0	24,981	-20,152	51,075	56,904	200	57,104
Adjustment of the subscribed capital of AlzChem Group AG	II	-690	690	0	0	0	0	0	0
Status as of 01/01/2016 - Adjusted									
	II	310	690	24,981	-20,152	51,075	56,904	200	57,104
Capital increase from own equity	19	0	10,000	0	0	-10,000	0	0	0
Dividend	19	0	0	0	0	-8,000	-8,000	0	-8,000
Payment to non-controlling interests	19	0	0	0	0	0	0	-52	-52
Total transactions with shareholders		0	10,000	0	0	-18,000	-8,000	-52	-8,052
Consolidated result	19	0	0	0	0	15,282	15,282	1	15,283
Other result	19	0	0	0	-10,839	0	-10,839	-11	-10,850
Total consolidated result		0	0	0	-10,839	15,282	4,443	-10	4,433
Reclassification		0	0	0	5	-5	0	0	0
Status as of 12/31/2016									
		310	10,690	24,981	-30,984	48,353	53,350	137	53,487
Status as 01/01/2017									
		310	10,690	24,981	-30,984	48,353	53,350	137	53,487
Cash dividend	19	0	0	0	0	-17,775	-17,775	0	-17,775
Non-cash dividend	19	0	0	0	0	-1,925	-1,925	1,925	0
Non-cash capital increase	19/II	100,323	-100,323	0	0	0	0	0	0
Cash capital increase	19/II	1,130	1,469	0	0	0	2,599	0	2,599
Effect in return reverse acquisition	19/II	0	775	0	0	0	775	0	775
Transaction costs of capital increases	19/II	0	-740	0	0	0	-740	0	-740
Total transactions with shareholders		101,453	-98,818	0	0	-19,700	-17,065	1,925	-15,140
Consolidated annual result	19	0	0	0	0	20,393	20,393	179	20,572
Other result	19	0	0	0	-1,010	0	-1,010	-17	-1,027
Total consolidated result		0	0	0	-1,010	20,393	19,383	162	19,545
Status as of 12/31/2017									
		101,763	-88,128	24,981	-31,993	49,047	55,670	2,224	57,894

CONSOLIDATED CASH FLOW STATEMENT

OF ALZCHEM GROUP AG, TROSTBERG FOR THE FISCAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2017

in EUR thousands	Notes No.	2016	2017
	27		
Consolidated earnings before taxes		21,879	29,336
Depreciation on fixed and intangible assets		13,033	13,990
Decrease in pension provisions		-561	-641
Loss (+)/Profit (-) from the sale of non-current assets		196	-62
Addition employee bonus for the IPO		6,256	0
Other non-cash income (-) and expenses (+)		2,720	5,991
Financial result		3,702	2,342
Interest received		469	395
Interest paid		-1,492	-702
Income taxes paid		-5,716	-9,920
Increase (-)/Decrease (+) in inventories		-5,353	-8,190
Increase in account receivables		-5,910	1,066
Increase (+)/Decrease in liabilities arising from trade payables, other liabilities and other provisions		3,107	-2,019
Increase in other balance sheet items		804	-922
Cash inflow from ongoing operations (Net cash flow)		33,137	30,664
Cash outflows for investments in fixed assets		-18,544	-24,878
Cash inflows from the sale of fixed assets		16	69
Cash inflow from the acquisition/Reverse acquisition		0	25
Cash outflow from investing activity		-18,528	-24,784
Free cash flow		14,609	5,880
Deposits from short-term financing lines		0	15,700
Repayment of bank loans		-4,732	-4,844
Dividend payments		-8,000	-17,775
Deposit from cash capital increase		0	2,599
Payment of transaction costs of capital increases		0	-740
Payments to non-controlling interests		-52	0
Cash outflow from financing activity		-12,784	-5,060
Net increase in cash and cash equivalents		1,825	820
Cash and cash equivalents at the beginning of the period (as of the reporting date of the previous year)		10,273	12,089
Changes due to changes in exchange rates		-9	-107
Cash and cash equivalents at the end of the period		12,089	12,802
Net increase in cash and cash equivalents		1,824	820

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

I. SEGMENT REPORTING

Segment reporting by operative segments for the period from January 1 to December 31, 2017:

in EUR thousands	Specialty Chemicals	Basics & Intermediates	Other & Holding	Consolidation	Group
External sales	185,681	140,869	27,374	-4	353,920
EBITDA	42,709	5,592	-2,640	7	45,668
Depreciation	-5,061	-4,334	-4,516	-79	-13,990
EBIT	37,648	1,258	-7,157	-71	31,678
Other interest and similar income					662
Interest and similar expenses					-3,004
Financial result					-2,342
Result of ordinary operating activities					29,336
Inventories as of 12/31/2017:	44,315	26,091	3,142	-2,166	71,382

Segment reporting by operative segments for the period from January 1 to December 31, 2016:

in EUR thousands	Specialty Chemicals	Basics & Intermediates	Other & Holding	Consolidation	Group
External sales	169,222	133,592	24,441	-70	327,185
EBITDA	39,245	6,961	-7,396	-196	38,614
Depreciation	-4,941	-3,859	-4,150	-83	-13,033
EBIT	34,304	3,102	-11,546	-279	25,581
Other interest and similar income					455
Interest and similar expenses					-4,156
Financial result					-3,702
Result of ordinary operating activities					21,879
Inventories as of 12/31/2016:	37,355	25,308	3,404	-2,015	64,052

Segment reporting by regions:

in EUR thousands	Domestic	Foreign	Group
External sales from 01/01-12/31/2017:	152,643	201,277	353,920
External sales from 01/01-12/31/2016:	131,736	195,449	327,185
Non-current assets as of 12/31/2017:	113,637	2,504	116,141
Non-current assets as of 12/31/2016:	103,015	2,618	105,634

In the two fiscal years shown, one customer contributed at least 10% of total Group sales in the reporting period. The customer's revenue amounted to EUR 57,927 thousands (previous year: EUR 41,429 thousands) and is included in the Specialty Chemicals, Basic & Intermediates and Other & Holding segments in both reporting periods.

II. CHANGE OF BUSINESS MODEL AND SUBSEQUENT PRESENTATION IN THE IFRS CONSOLIDATED FINANCIAL STATEMENTS

The present IFRS Consolidated Financial Statement as of 12/31/2017 represents the IFRS Consolidated Financial Statements of AlzChem Group AG. AlzChem Group AG was renamed in October 2017 and had traded as Softmatic AG until then. In the following, the current company name AlzChem Group AG will be used uniformly. The current company name AlzChem Group AG will still be used even if the topics discussed refer to the period prior to the name change.

Capital increases against contributions in kind and in cash were resolved at the Annual General Meeting of AlzChem Group AG on August 4, 2017.

By way of the capital increase in kind, the share capital of AlzChem Group AG was increased by EUR 100,323,339.00 from EUR 310,000.00 to EUR 100,633,339.00 against the contribution of all shares in AlzChem Trostberg GmbH (formerly AlzChem AG). As part of the cash capital increase, the share capital of AlzChem Group AG was increased by a further EUR 1,130,016.00 to EUR 101,763,355.00. As part of the capital increases against non-cash and cash contributions, a total of 101,453,355 new no-par-value shares were issued with a pro rata amount of the share capital of EUR 1.00 per share and a full dividend entitlement from January 1, 2017. The gross issue proceeds from the capital increase against cash contributions amount to EUR 2,599,036.80.

When the capital increases were entered in the commercial register on October 2, 2017, the company was renamed AlzChem Group AG and became the parent company of the AlzChem Group. The business activities of AlzChem AG and its subsidiaries (together the "AlzChem Group" or "AlzChem") thus became the business activities of AlzChem Group AG. At the same time, the former members of the Management Board of AlzChem Trostberg GmbH (formerly AlzChem AG) were appointed members of the Management Board of AlzChem Group AG. As of December 28, 2017, the company's headquarters were relocated from Norderstedt to Trostberg. AlzChem AG was converted into AlzChem Trostberg GmbH on December 29, 2017. In the following, the current company name of AlzChem Trostberg GmbH will be used uniformly. The current company name AlzChem Trostberg GmbH will still be used even if the topics discussed refer to the period prior to the name change.

When accounting for the capital increase in kind, the following balance sheet provisions were applied:

AlzChem Group AG had no operating business until the capital increase against contributions in kind and thus did not constitute a business as defined by IFRS 3. Consequently, the provisions of IFRS 3 Business Combinations were not applied in a first step. Rather, in accordance with IFRIC Agenda Decision March 2013, this is an equity transaction of AlzChem Trostberg GmbH, which is accounted for as a share-based payment in accordance with IFRS 2. Furthermore, the IFRIC Agenda Decision March 2013 recommends accounting in accordance with the requirements of IFRS 3 for a reverse business combination, since the former shareholders of the acquired company also exercise control over the acquiring company after the transaction has been completed. IFRS 3 B19 – B27 gives guidelines for the presentation of a reverse business combination in the Consolidated Financial Statements, which were applied here. These accounting policies for a reverse business combination have been applied with the sole exception that no goodwill may arise from the transaction, but such a difference should be recognized immediately as an expense in accordance with IFRS 2.8.

In the case of a reverse business combination, the transaction is accounted for with the legally acquired company. The transaction is presented in the Consolidated Financial Statements of AlzChem Group AG as if the legal acquirer is the entity acquired on the balance sheet and the legally acquired entity is the acquirer of the balance sheet. In the transaction described above this means in detail:

- AlzChem Group AG as the legal acquirer is the company acquired on the balance sheet
- AlzChem Trostberg GmbH as the legally acquired company is the acquirer of the balance sheet.

The consideration for the acquisition of AlzChem Group AG in the balance sheet is the fair value of the equity interests that AlzChem Trostberg GmbH would have had to spend in order to grant the same percentage of equity to the owners of AlzChem Group AG as in the combined company. The comparison of this value with the net assets of AlzChem Group AG is to be recognized as an expense at the level of AlzChem Trostberg GmbH.

In terms of content, this is a capital transaction by AlzChem Trostberg GmbH with the aim of obtaining a listing.

Following the capital increase in kind, AlzChem Group AG became the legal parent company of the AlzChem Group and thus the supreme company that prepares the consolidated financial statements in accordance with IFRS. Since, as a result, the presentation of the Group in accordance with IFRS is to take place as if the transaction is a reverse business combination in accordance with IFRS 3, the accounting treatment is as follows:

- The assets and liabilities of AlzChem Trostberg GmbH and its subsidiaries are to be carried forward to the new Group at their carrying amount in accordance with IFRS and also represent the previous year's figures in the IFRS consolidated financial statements as of 12/31/2017.
- The assets and liabilities of AlzChem Group AG will be included in the new Group at their fair value as of the date of the capital increase against contributions in kind.
- All equity components initially correspond to the consolidated equity of AlzChem Trostberg GmbH on the date of the capital increase in kind.
- However, the subscribed capital of AlzChem Trostberg GmbH is then replaced by the subscribed capital of AlzChem Group AG (the legal parent company) and amounts to EUR 101,763 thousands as of 12/31/2017. The difference from the adjustment of the subscribed capital of AlzChem Trostberg GmbH to that of AlzChem Group AG is deducted as an adjustment amount from the capital reserve of the new group. The adjustment is made in the separate item "Capital reserve-adjustment item reverse acquisition."
- The consideration for the reverse acquisition of AlzChem Group AG is determined in accordance with the provisions of IFRS 2 Share-based Payment and amounts to EUR 775 thousands.
- The fair value of the acquired net assets (total assets EUR 890 thousands less EUR 957 thousands in total liabilities) of AlzChem Group AG as of September 30, 2017, amounts to EUR -67 thousands.
- The difference between the consideration paid for the reverse acquisition of AlzChem Group AG (EUR 775,000) and the net assets of AlzChem Group AG (EUR -67 thousands) received as part of the reverse acquisition, EUR 842 thousands, was recognized in the income statement. Goodwill under IFRS 3 does not arise. In accordance with the requirements of IFRS 2, the consideration attributable to the consideration is recognized in equity on the liability side and reported here under "Capital reserve-adjustment item reverse acquisition."
- Transaction costs directly related to the implementation of the capital increases will be deducted from the capital reserve of the new group, taking into account the criteria of IAS 32.37, taking into account deferred taxes in the amount of EUR 740 thousands. The adjustment is to be made in the item "Capital reserve-adjustment item reverse acquisition."

In summary, the present IFRS Consolidated Financial Statements of AlzChem Group AG as of 12/31/2017 thus represent a continuation of the previous IFRS Consolidated Financial Statements of AlzChem Trostberg GmbH. Only the subscribed capital reported under consolidated equity was adjusted to reflect the actual subscribed capital of AlzChem Group AG. This also applies to the previous year's figures stated in these IFRS Consolidated Financial Statements. These also represent the previous year's figures from the IFRS Consolidated Financial Statements of AlzChem Trostberg GmbH with an adjustment of the subscribed capital. The explanatory remarks in the notes to the accounting policies, to the income statement, the balance sheet and other disclosures in the notes also show the continuation of the previous information contained in the Consolidated Financial Statements of AlzChem Trostberg GmbH. The transaction is presented in the Consolidated Financial Statements as if AlzChem Trostberg GmbH had acquired AlzChem Group AG.

For better presentation, the Consolidated Statement of Changes in Equity presents the status of the consolidated equity of AlzChem Trostberg GmbH as of 12/31/2015 and a reconciliation to the starting value of the consolidated equity of AlzChem Group AG as of January 1, 2016.

III. PRELIMINARY REMARKS

The Consolidated Financial Statements include AlzChem Group AG, a corporation under German law domiciled in Dr.-Albert-Frank-Str. 32, Trostberg, Germany, and its subsidiaries. The competent registry court has been located in Traunstein (HRB 28592) since 12/29/2017. AlzChem Group AG is the parent company of the AlzChem Group and prepares these IFRS Consolidated Financial Statements.

The increases in cash and cash equivalents over the course of the fiscal year resulted in significant balance sheet transactions, which are explained in detail in Section II. Change of Business Model and Subsequent Presentation in the IFRS Consolidated Financial Statements.

The business year corresponds to the calendar year. The fiscal years of all companies included in the Consolidated Financial Statements also end on 12/31/2017.

The Consolidated Financial Statements were prepared by the Management Board on February 28, 2018.

The companies of the AlzChem Group develop, produce and market chemical products of all kinds and provide services, as a chemical park operator, for example. The basic raw materials coal, lime and electricity are used in further production steps at the sites in Trostberg, Schalchen, Hart, Waldkraiburg and Sundsvall (Sweden) to produce highly versatile products with typical nitrogen-carbon-nitrogen compounds in very high quality. Furthermore, smaller sales units are located in Atlanta (USA), Fresno (USA), and Shanghai (China).

The shares of the company have been trading in the subsegment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (WKN A0AHT4) since October 5, 2017). Until then, the shares were admitted to the regulated market (General Standard) of the Frankfurt Stock Exchange. The shareholder structure as of December 31, 2017, is composed as follows:

Shareholder in %	Shareholding
LIVIA Corporate Development SE	47.70
HDI Vier CE GmbH	26.38
four two na GmbH	19.79
Jan Ulli Seibel	4.93
Free Float	1.19
Total	100

By shareholder resolution of January 8, 2018, NIGU Chemie GmbH, AlzChem Nutrition GmbH and AlzChem Trostberg GmbH were exempted from the obligation to disclose the annual financial statements and management report for fiscal year 2017 in accordance with Section 264 (3) HGB. The exemption resolutions for fiscal year 2017 were published in the Federal Gazette by the subsidiaries.

IV. NOTES TO THE ACCOUNTING PRINCIPLES AND METHODS USED IN THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

The Consolidated Financial Statements of AlzChem AG have been prepared in accordance with the International Accounting Standards Board (IASB), London, in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The interpretations of the IFRS Interpretations Committee (formerly IFRIC and SIC) have been applied. The Consolidated Financial Statements comply with the European Union directives on accounting (Council Directive 83/349/EEC). In order to achieve equivalency with a consolidated financial statement prepared in accordance with the German Commercial Code (HGB), all disclosures and explanations in accordance with Section 315e Handelsgesetzbuch (HGB – German Commercial Code) have been made that exceed the requirements of the IASB. The Consolidated Financial Statements in the present version comply with

the provision of Section 315e HGB; this provision forms the legal basis for Group accounting in accordance with international standards in Germany together with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002, concerning the application of international accounting standards.

The provisions of the International Financial Reporting Standards (IFRS) were applied according to the standards of the EU which had to be applied by the balance sheet date of December 31, 2017. Early adoption of the standards was not required as of 12/31/2017. This procedure leads to the presentation of a true and fair view of the net assets, financial position and results of operations of the AlzChem Group.

The Consolidated Financial Statements are presented in euros (EUR), the functional currency of the parent company AlzChem Group AG. For reasons of clarity, the figures in the interim Consolidated Financial Statements are stated in thousand euros (EUR thousands) unless stated otherwise. All values have been rounded up or down to EUR thousands in accordance with commercial rounding so that individual figures do not add up exactly to the stated sum.

Standards, interpretations and changes to published standards that were applied for the first time in the fiscal year

Starting with fiscal year 2017, the following standards and interpretations, which were revised or newly issued by the IASB, had to be mandatorily applied for the first time:

IAS 12, income taxes

The amendment to IAS 12 includes additional guidance on the recognition of deferred tax assets on deductible temporary differences resulting from unrealized losses on available-for-sale financial assets in the form of debt instruments, if the entity has the ability and intention to hold securities until their reversal (possibly until final maturity). It is further clarified that the question of the usability of deferred tax assets must be based on a positive taxable income before reversing the deductible temporary differences, unless sufficient deferred tax liabilities are available. For the estimation of the future taxable income, it is also conceivable to realize a value above the IFRS carrying amount, provided sufficient proof exists for its probability. The new provisions apply to fiscal years beginning on or after January 1, 2017. The changes had no impact on the Consolidated Financial Statements.

IAS 7, Cash Flow Statements

The amendment to IAS 7 includes changes regarding additional disclosures in the event of a change in the company's debt. The disclosures relate to changes in financial liabilities whose cash inflows and outflows are shown as cash flow from financing activities in the cash flow statement. Related financial assets are also included in the disclosures (for example, assets from hedging transactions). The following are to be specified:

- Payment-effective changes
- Changes from the acquisition or sale of companies
- Exchange rate-related changes
- Fair values changes
- Other changes

The new provisions apply to fiscal years beginning on or after January 1, 2017. As a result of the new requirements, a reconciliation from the beginning to the end of current and non-current liabilities to banks has been included in the notes to the loan liabilities.

Standards, interpretations and amendments to published standards that are not yet mandatory

The following standards, amendments to standards and interpretations have already been adopted, but are only mandatory for reporting periods beginning on or after 01/01/2018. The AlzChem Group will apply these from 01/01/2018 or any later prescribed date and has estimated the probable effects on the net assets, financial position and results of operations of the individual standards, amendments to standards and interpretations, if this estimate was already possible.

Standards	Amendment concerns	Application obligatory as of	Adopted by EU Commission
IFRS 12	Annual improvement cycle of the International Financial Reporting Standards (Cycle 2014-2016) with amendments to IFRS 12 Disclosure of Interests in Other Entities	01/01/2017	Yes
Div.	Annual improvement cycle of International Financial Reporting Standards (Cycle 2014-2016) with amendments to IFRS 1, First-time Adoption of IFRS, and IAS 28, Investments in Associates and Joint Ventures	01/01/2018	No
IFRS 15	Revenues from Contracts with Customers	01/01/2018	Yes
IFRS 9	Financial Instruments	01/01/2018	Yes
IFRS 4	IFRS 4, Insurance Contracts, – Application of IFRS 9 with IFRS 4	01/01/2018	Yes
IFRS 2	IFRS 2, Share-based Payment, – Classification and Measurement of Share-based Payment	01/01/2018	No
IAS 40	IAS 40, Investment Property, – Transfer of Investment Property	01/01/2018	No
Div.	Annual Improvement Cycle of International Financial Reporting Standards (Cycle 2015-2017) (Amendments to IFRS 3, Business Combinations, IFRS 11, Joint Arrangements, IAS 12, Income Taxes, and IAS 23, Borrowing Costs)	01/01/2019	No
IFRS 16	Leasing	01/01/2019	Yes
IFRS 9	Financial instruments relating to early repayment options with a negative prepayment penalty	01/01/2019	No
IAS 28	Long-Term Investments in Associates and Joint Ventures	01/01/2019	No
IFRS 17	Insurance Contracts	01/01/2021	No
IFRS 10/IAS 28	Sale of an investor's assets or contribution to its associate or joint venture	undetermined	No
Interpretations			
IFRIC 22	Prepayments in connection with foreign currency transactions	01/01/2018	No
IFRIC 23	Uncertainty regarding income tax treatment	01/01/2019	No

In October 2015, the European Financial Reporting Advisory Group (EFRAG) announced that the European Commission would not propose IFRS 14, Regulatory Deferrals, for adoption in EU law. The reason for its non-adoption is the highly limited circle of users for this interim standard. Compliance with IFRS 14, which would have been applicable from January 1, 2016, would not have had an impact on the accounting for the AlzChem Group.

Due to an on-going research project, the standard first-time application of the amendments to IFRS 10 and IAS 28 regarding the disposal of an investor's assets or contribution to his associate or joint venture was postponed indefinitely. Therefore, the transfer to European law was also postponed indefinitely.

In November 2016, IFRS 9, Financial Instruments, was adopted by the EU into European law. IFRS 9 contains a comprehensive new approach to recognition, reporting, measurement of financial instruments and the accompanying notes and will replace the current IAS 39 as of January 1, 2018. IFRS 9 introduces changes to the classification of financial assets and financial liabilities. In addition, the existing impairment model is being changed from the incurred loss model to the expected loss model and new rules for hedge accounting have been introduced. The first-time application of this standard has an impact on the Consolidated Financial Statements with regard to the recognition of receivables. As the Group is currently not applying hedge accounting, the new regulations will have no impact. Trade receivables that are available for sale as part of factoring are to be measured at fair value through OCI at the respective companies at fair value through profit and loss. This is based on a mixed business model in which both income from the contractual settlement of the receivables and income from the sale as part of factoring is realized. Due to the short-term nature of the receivables, only a bad debit effect is expected here but no valuation effect. Trade receivables from companies without factoring activities continue to be measured at amortized cost since, in principle, only income from the contractual settlement is realized. Impairments (impairments on receivables) are determined using an impairment model that anticipates expected losses from future bad debt losses. In principle, IFRS 9 provides for a three-stage model that distinguishes between expected losses over the entire term of the financial asset or only over a horizon of 12 months, depending on the level. For trade receivables, a simplified one-step model is planned. The first application

of the "expected loss model" to trade receivables of the AlzChem Group as of January 1, 2018, is likely to have an effect of EUR 30 thousands on retained earnings. EUR 6 thousands of this will be offset by an opposite adjustment of the carrying amounts over the remaining accumulated equity. Cash and short-term liquid assets are assumed to be insignificant from the initial application of the impairment provisions. Due to the good creditworthiness of the banks involved, these assets are all in Level 1. The amendments to IFRS 9 with regard to the measurement of the other investments of the AlzChem Group reported under non-current financial assets will not result in any adjustments for reasons of materiality.

IFRS 15, Revenue from Contracts with Customers, was adopted in May 2014. This standard completely reorganizes the rules for revenue recognition and combines all hitherto valid standards and interpretations that contained regulations regarding revenue recognition. IFRS 15 replaces the standards IAS 11 and IAS 18 as well as the interpretations IFRIC 13, 15 and 18 and SIC-31. Revenue recognition is to be audited in the new standard using a 5-step model, which includes the following steps:

Step 1: Identification of a contract with a customer

Step 2: Identification of the independent performance obligation in this contract

Step 3: Determination of the transaction price

Step 4: Distribution of the transaction price on the performance obligations(s) in the contract

Step 5: Revenue recognition on fulfillment of the performance obligation.

In addition, IFRS 15 contains explicit rules for revenue recognition in the case of multi-component contracts. In the future, revenue recognition will be more closely linked to the transfer of control of the products or services to be supplied, and will only be an indicator of the transition of opportunities and risks. New guidance on revenue recognition over a period or at a specific time will be provided. In addition, IFRS 15 requires a significant increase in the disclosures on revenue. The company has prepared the effects of the new standard to be applied from 01/01/2018 by means of a contract analysis. The first step was to determine whether additional performance obligations could be identified from the individual contracts and whether individual contracts could have resulted in a period-related revenue realization. The analysis of the impact of the first-time application of this standard has shown that there are no agreements with customers that require an adjustment to the previous accounting.

IFRS 16 will replace the previous IAS 17 standard. As a result, assets for the acquired rights of use must be capitalized in the balance sheet of the lessee for all leases and liabilities for the payment obligations entered into must be recognized. So far, future payment obligations from operating leases are only disclosed in the notes as part of Note 30, other financial obligations. These relate mainly to rental, lease, leasing and service contracts. Short-term leases and low-value contracts have relief requirements. In preparation for the first-time application of IFRS 16, a project was started in the AlzChem Group which began with the contract analysis of all leases. The project is scheduled for completion in the second half of fiscal year 2018. For this reason, it is not yet possible to estimate to what extent other assets or liabilities will result from other financial obligations or how this will affect the income statement or cash flow statement. Due to the capitalization of rights of use and the simultaneous recognition of a lease liability, it is to be assumed that the first-time application of IFRS 16 will increase total assets. At the same time, EBITDA will be relieved of interest expense and depreciation.

The new standards IFRS 9, IFRS 15 and IFRS 16 will not be applied early by the AlzChem Group, but will be taken into account as of the mandatory first-time application date.

The effects of the first-time application of the other revised or newly issued standards and interpretations, which are only to be applied from fiscal year 2019 or thereafter, cannot currently be reliably estimated.

The company is subject to changes resulting from IFRS 4, Insurance Contracts (application of IFRS 9 with IFRS 4), IFRS 2, Share-based Payment (Classification and Measurement of Share-based Payment), IAS 40, Investment Property (Transfer of Investment held real estate), IFRIC 22, prepayments related to foreign currency transactions, and the changes to be made to the International Financial Reporting Standards annual improvement cycle (cycle 2014-2016) from 2018 onwards, assuming that they will not materially have an impact.

The following accounting and valuation methods were applied in the preparation of the Consolidated Financial Statements.

SCOPE OF CONSOLIDATION / SHAREHOLDINGS

In addition to AlzChem Group AG, the Consolidated Financial Statements include the following six domestic and four foreign subsidiaries in which AlzChem Group AG directly or indirectly holds the majority of the voting rights:

Name, Location	Shareholding in %	Currency	Subscribed capital in national currency in thousands
AlzChem Trostberg GmbH, Trostberg, Germany (formerly AlzChem AG)	100	EUR	11,000 EUR
Nigu Chemie GmbH, Waldkraiburg, Germany	100	EUR	1,410 EUR
AlzChem International GmbH, Trostberg, Germany	94	EUR	1,000 EUR
AlzChem Stahltechnik GmbH, Trostberg, Germany	100	EUR	25 EUR
AlzChem Nutrition GmbH, Trostberg, Germany	100	EUR	25 EUR
AlzChem Netz GmbH, Trostberg, Germany	100	EUR	25 EUR
AlzChem LLC, Atlanta, USA	100	USD	0 USD
Dormex Company LLC, Fresno, USA	51	USD	100 USD
AlzChem Shanghai Co. Ltd., Shanghai, China	100	CNY	3,670 CNY
Nordic Carbide AB, Sundsvall, Sweden	100	SEK	50 SEK

In May 2017, a dividend in kind of 6% of the shares in AlzChem International GmbH was distributed to the shareholders of AlzChem Trostberg GmbH. As a result of the dividend in kind, the ownership interest of AlzChem Trostberg GmbH in AlzChem International GmbH fell to 94%.

With effect from November 28, 2017, AlzChem Netz GmbH was founded, which will take on all activities connected with the operation of the power grid in the AlzChem Group from 01/01/2018, but had not yet commenced operating activities as of 12/31/2017.

PRINCIPLES OF CONSOLIDATION

Subsidiaries are all companies which AlzChem Group AG controls directly or indirectly. AlzChem Group AG controls a company when it is exposed to, or has rights to, fluctuating returns from its involvement with the company and can influence returns through its power over the company. Subsidiaries are included in the Consolidated Financial Statements from the date control is transferred to the Group (full consolidation). They are deconsolidated at the point at which control ends.

The financial statements of domestic and foreign subsidiaries included in the consolidation are prepared in accordance with IFRS 10 using uniform accounting policies.

Intra-Group profits and losses, sales revenues, expenses and income as well as existing receivables and liabilities between consolidated subsidiaries are eliminated. If the prerequisites for the consolidation of third-party debt have been met, this will be exercised. Intercompany profits are eliminated. Temporary differences from consolidation measures are recognized in accordance with IAS 12 (Income Taxes).

CAPITAL CONSOLIDATION

Capital consolidation of subsidiaries is carried out in accordance with IFRS 10 (Consolidated Financial Statements) in conjunction with IFRS 3 (Business Combinations) by offsetting the carrying amount of the investment with the revalued equity of the subsidiary at the time of acquisition (purchase method) or the statutory capital of newly founded companies.

COMPANY ACQUISITIONS / REVERSE ACQUISITION

The AlzChem Group applies the acquisition method for accounting for business combinations. The consideration transferred corresponds to the fair value of the assets transferred, the liabilities assumed and the equity capital issued at the time of acquisition. Incidental acquisition costs are recognized as an expense. Assets, liabilities and contingent liabilities identifiable as part of the business combination are initially measured at fair value at the time of acquisition. The excess of the consideration transferred over the balance of the net assets at fair value at the date of acquisition is recognized as goodwill. If the transferred

consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement after reversion.

The rules for accounting for the contribution of AlzChem Trostberg GmbH and its subsidiaries to AlzChem Group AG are explained in detail in Section II. Change in Business Model and Subsequent Presentation in the IFRS Consolidated Financial Statements.

CURRENCY TRANSLATION

The presentation currency and simultaneously the functional currency of the AlzChem Group is the euro (€).

In the separate financial statements of the subsidiaries, which are managed in euros, business transactions in foreign currencies are valued at the rate at the time of initial recognition. Exchange rate gains and losses resulting from the translation of monetary assets or liabilities up to the balance sheet date are taken into account; Gains and losses from changes in exchange rates are recognized in profit or loss under other operating income or expenses.

The annual financial statements of foreign Group companies are translated into the reporting currency of the AlzChem Group. Their functional currency is the respective national currency. The functional currency and reporting currency of the parent company and thus of the Consolidated Financial Statements is the euro. Assets and liabilities of foreign Group companies whose functional currency is not the euro are converted by AlzChem at the closing rate (middle spot exchange rate) at the end of the period. Expenses, income and earnings are, however, converted at average rates. All resulting translation differences were recognized as a separate item in equity. The items in the Consolidated Cash Flow Statement are translated at average rates, while cash and cash equivalents are translated at the closing rate (average spot exchange rate) at the end of the period.

The exchange rates for major currencies used for currency conversion are shown in the following table:

		12/31/2016	Closing rate ¹⁾ 12/31/2017	2016	Average rate ¹⁾ 2017
USA	USD	1.0541	1.1993	1.1066	1.1293
China	CNY	7.3202	7.8044	7.3496	7.6264
Sweden	SEK	9.5525	9.8438	9.4673	9.6369

* Equivalent of 1 EUR

V. ACCOUNTING AND VALUATION METHODS

The accounting and valuation methods have been applied consistently.

FIXED ASSETS AND DEPRECIATION

Intangible assets

Acquired intangible assets are carried at their acquisition costs.

All acquired intangible assets with a determinable useful life are amortized on a straight-line basis. Scheduled depreciation is based on the following economic useful lives throughout the Group:

- Concessions, Rights, Licenses: 3 to 5 years or a possibly shorter contract period
- Software: 3 to 5 years

Costs associated with operating or maintaining software are expensed as incurred. However, internally generated intangible assets are not available in the reporting period. Financing costs are capitalized as part of the acquisition or production costs if the conditions for capitalization are met.

If an impairment loss is recognized that exceeds regular depreciation, it is written down to the recoverable amount.

There were no intangible assets with indefinite useful lives during the reporting period.

Property, plant and equipment

Property, plant and equipment used for more than one year in a business is valued at acquisition or production cost less scheduled depreciation. Significant components of property, plant and equipment are recognized individually and amortized. Subsequent acquisition costs are only recognized as part of the cost of the asset if it is probable that future economic benefits will accrue to the Group and the costs of the asset can be reliably determined. All other repairs and maintenance are recognized as an expense in the income statement in the fiscal year in which they were incurred. Financing costs are capitalized as part of the cost if the conditions for capitalization are met.

Land is not depreciated. All other assets are depreciated on a straight-line basis, whereby the cost of acquisition over the expected useful life of the assets is amortized as follows:

- Buildings: 25 to 40 years
- Operating equipment, technical equipment and machinery: 5 to 25 years
- Operating and office equipment: 3 to 10 years
- Vehicles: 4 to 6 years.

The residual carrying amounts and economic useful lives are reviewed at each balance sheet date and adjusted if necessary. If the carrying amount of an asset exceeds its estimated recoverable amount, it is immediately written down to the latter. Gains and losses from disposals of property, plant and equipment are determined as the difference between the proceeds from the sale and the residual carrying amount and recognized in profit or loss.

Jointly controlled assets

For assets that are jointly managed with a non-Group entity, the AlzChem Group accounts for its share of these assets within property, plant and equipment, even if the AlzChem Group is not the legal owner of the jointly controlled asset.

Borrowing costs

Borrowing costs that can be directly allocated to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period of their occurrence. In determining the costs to be capitalized, any investment income is deducted from the temporary interim investment of these funds. In the period under review, there was no additional capitalization of borrowing costs as acquisition costs of property, plant and equipment. Other borrowing costs are expensed in the period in which they are incurred.

Research and development costs

The Group is involved in various research and development activities with the primary objective of developing new products or processes or improving existing products or processes. Expenses for research activities are recognized as an expense in the period in which they were incurred. A review of the 6 criteria for the recognition of an obligation to capitalize development costs, as set out in IAS 38, revealed that not all of the criteria were met as of the balance sheet date. As a result, the development costs in the period are also recognized as an expense in the income statement in which they were incurred. However, the Group is constantly reviewing the existence of the criteria for new projects. If it is recognized that the conditions for capitalizing development costs exist for individual projects, the costs incurred are capitalized.

Leasing

Leases are classified as finance leases if the lease conditions substantially transfer all risks and rewards of ownership to the Group as lessee. All other leases are classified as operating leases.

Fixed assets leased or leased and owned by the respective Group company (finance leases) are capitalized in accordance with the provisions of IAS 17 (Leases) at the present value of the minimum lease payments or their fair value and written down over their useful life. If there is insufficient assurance at the inception of the lease that ownership is transferred to the Group as lessee, then the asset is to be depreciated over the shorter of the two periods from the lease term or useful life.

The corresponding liability in the amount of the present value of the minimum lease payments to the lessor is recognized in the balance sheet as a finance lease liability under finance lease liabilities. The lease payments are split between interest expenses and the repayment of the lease obligation in such a way that a constant interest on the remaining liability is achieved.

Lease payments under an operating lease are recognized as expense in the income statement on a straight-line basis over the term of the lease.

Insofar as the AlzChem Group acts as the lessor, a lease receivable from the lessee is accounted for in the case of a finance lease instead of fixed assets. The amount of the lease receivable corresponds to the net investment value of the leased object at the time of acquisition. The income from finance leases is distributed over the periods in such a way that a constant periodic return on the outstanding net investment value from the leasing relationships is shown. Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the respective lease. In the reporting period, no leases were classified as finance leases in which the AlzChem Group is the lessor.

Impairment of non-monetary assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognized in the amount of the carrying amount in excess of the recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and the value in use. The impairment test combines assets at the lowest level for which cash flows can be identified separately (cash-generating units).

Upon subsequent reversal of an impairment, the carrying amount of the asset (the cash-generating unit) is increased to the newly estimated recoverable amount. The increase in carrying amount is limited to the amortized value that would have been determined if no impairment loss had been recognized for the asset (cash-generating unit) in previous years. A reversal of the impairment loss is recognized immediately in profit or loss.

Government grants

Government grants are recognized at their fair value if it can be assumed with great certainty that the grant will be granted and the Group meets the necessary conditions for receiving the grants. Public subsidies for costs are recognized over the period in which the corresponding costs for which they have been compensated are incurred.

Current income taxes/Income tax liabilities

The applicable income tax rate is calculated on the basis of the tax laws applicable at the balance sheet date for the countries in which the subsidiaries of the company operate.

For the calculation of current taxes in Germany, a uniform corporate income tax rate of 15.0% and a solidarity surcharge of 5.5% are used for distributed and retained earnings. In addition to corporation tax, trade tax is levied on profits made in Germany, the trade tax burden is between 12.0% and 13.0%.

The profit generated by foreign subsidiaries is determined on the basis of the respective national tax law and taxed at the regional applicable tax rate. The applicable country-specific income tax rate is between 21% and 25%.

On the basis of these tax regulations, expected tax payments are taken into account through appropriate and proportionate formation of income tax liabilities. The management of the AlzChem Group regularly reviews tax declarations, in particular with regard to interpretable facts, and, if appropriate, forms income tax liabilities based on the amounts expected to be paid to the respective tax authorities.

Deferred taxes

In accordance with IAS 12, deferred taxes are applied for all temporary differences between the tax base of the asset/liability (tax base) and its carrying amounts in the IFRS Consolidated Financial Statements (so-called liability method). Deferred taxes are measured using the tax rates and tax regulations that are valid or substantially enacted at the balance sheet date and that are expected to apply at the time the deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilized. If the future tax benefit from loss carryforwards can be used with sufficient certainty in future periods, a deferred tax is capitalized for this purpose.

According to IAS 12.39, deferred taxes on temporary differences in connection with shares in subsidiaries ("outside basis differences") are only to be recognized in the Consolidated Financial Statements if the following criteria are not met:

- the parent company, the shareholder or the partner company is in a position to control the temporal course of the dissolution of the temporary difference; and
- it is likely that the temporary difference will not be reversed in the foreseeable future.

The temporary difference is usually only reversed when the company is sold. At the current time, the AlzChem Group does not plan to sell any companies, but would also be in a position to control the timing of the sale. The Consolidated Financial Statements of the AlzChem Group do not recognize deferred taxes on temporary differences in connection with investments in subsidiaries.

Deferred taxes relating to items recognized directly in equity are also recognized in equity. The changes in all other deferred tax assets and tax liabilities are recognized in profit or loss. Deferred tax assets and liabilities are netted if there is a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred taxes are to be paid to the same tax authority.

Inventories

Inventories include raw materials and supplies, work in progress and goods, finished goods and merchandise and prepayments on inventories. Inventories are stated at the lower of acquisition or production cost and net realizable value. The net realizable value is the estimated selling price achievable in the ordinary course of business less the necessary variable selling costs. The production costs include not only direct material and manufacturing costs, but also all directly attributable costs and appropriate portions of the necessary overheads and depreciation. The acquisition or production costs are determined on the basis of the average method. If necessary, devaluations are made for overreach, obsolescence and reduced mobility. Borrowing costs were not included in the acquisition or production costs, as there were no qualifying assets.

Financial instruments

Within the AlzChem Group, the following categories of financial assets have been used:

- Available for sale
- Loans and claims

Financial liabilities include the following categories:

- At fair value through profit or loss
- Assessed at amortized cost.

Financial assets

The shares in other participations reported under non-current financial assets exclusively belong to the valuation category "available for sale." This item does not include any financial assets that have been voluntarily assigned to the category "available for sale." These are financial assets that could not be assigned to any of the other categories. The valuation is based on the fair value, if this value can be reliably determined. To determine the fair value, the respective market price is used for publicly listed financial assets. If there is no active market, the fair value is determined using the most recent market transactions or

using a valuation method such as the discounted cash flow method. In cases where no reliable determination of the fair value is possible, the financial assets are carried at cost (less impairment). If there is objective evidence of the impairment of an available-for-sale financial asset, an impairment loss is recognized in profit or loss. This is the case if the fair value declines over the original acquisition costs for a prolonged period, or if both valuations differ significantly.

DERIVATIVE FINANCIAL INSTRUMENTS

The AlzChem Group partly uses derivative financial instruments for currency hedging. The conditions for on-balance-sheet hedge accounting were not met during the reporting period. If the conditions for on-balance-sheet hedge accounting are met, hedging instruments in the form of forward exchange transactions are recognized either freestanding or as part of a hedging relationship with the underlying hedged item. The first entry is made on the trading day. If there is no market price or market price for the derivative in an active market, the fair value is determined by means of financial mathematical methods. For forward foreign exchange contracts, the forward exchange rate is used as of the balance sheet date.

The hedging transactions within the framework of a hedging relationship serve to eliminate the volatility of the cash flows arising from the planned highly probable sales of the AlzChem Group due to the exchange rate trend. After the positive effectiveness test, the valuation effects (income or expense) from the market value of hedging transactions that do not expire in the accounting period are not reported in the income statement, but rather recognized in other comprehensive income in equity. Only when the hedging transaction (sales) expires are the realized effects recognized in profit or loss. If the effectiveness test shows an ineffective portion of the cash flow hedge, the ineffective portion is released and the measurement effects (income or expense) are recognized directly in the income statement in the period in which the ineffectiveness is determined (other operating income or expense).

Freestanding derivative financial instruments are classified in the category "at fair value through profit or loss" in the subcategory "held for trading." Financial instruments in this category are measured at fair value on each balance sheet date. Any gain or loss arising from the change in fair value must be recognized in profit or loss. Financial instruments in this category with a positive fair value are reported within financial assets, while those with a negative fair value are reported under financial liabilities if they are classified as "held for trading."

The category "at fair value through profit or loss" includes both derivative financial assets and derivative financial liabilities.

The determination of the fair values of financial instruments that were recorded in the balance sheet at their fair value was based on the data or input parameters used for the valuation according to a three-level hierarchy according to the requirements of IFRS 13:

- Level 1: Stock market or market price in an active market for similar financial instruments.
- Level 2: Input parameters other than quoted prices included in Level 1 that are directly or indirectly available for the financial instruments.
- Level 3: Input parameters for the financial instruments are not available on the market.

Receivables and other assets

TRADE RECEIVABLES

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost less impairments. An impairment on trade receivables is recognized in a separate allowance account if there is objective evidence based on historical experience that the amounts due are not fully recoverable. The amount of the impairment is measured as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows from this receivable, calculated using the effective interest rate. The impairment is recognized in profit or loss. Trade receivables are assigned to the category "loans and receivables."

OTHER RECEIVABLES, OTHER ASSETS AND LOAN RECEIVABLES

Other receivables, other assets and loan receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method – for non-current receivables – and after deduction of impairments. If there are risks, these are taken into account through appropriate value adjustments. At each reporting date, the carrying amounts of financial assets that are not measured at fair value through profit or loss are assessed to determine whether there are objective material indications (such as significant financial difficulties of the debtor, high probability of insolvency proceedings against the debtor, significant changes in the technological, economic, legal and market environment of the issuer, a continuing decline in the fair value of the financial asset below amortized cost) indicates an impairment. Any impairment loss, which results from a lower fair value compared to the carrying amount, is recognized in profit or loss. If, at subsequent measurement dates, the fair value has increased objectively as a result of events that occurred after the impairment was recognized, the impairment losses are reversed and recognized in profit or loss. The fair value of loans and receivables measured at amortized cost as part of the impairment test is the present value of the estimated future cash flows discounted at the current market interest rate.

Other receivables and other assets as well as loan receivables are classified as financial assets in the category "loans and receivables."

Financial assets are generally recognized on the trading date. In the period under review, no financial assets were offset against financial liabilities and there were no offsetting net settlement agreements.

Factoring

Two companies of the AlzChem Group assign their customer receivables partly to financing companies (buyers of receivables). In accordance with IAS 39, receivables sold are derecognized in full if substantially all the associated opportunities and rewards have been transferred from the selling company to the buyer of the receivables or, if the risks and rewards have not been substantially transferred or retained, control of the claims has taken place. If the risks and rewards have essentially neither been transferred nor retained, but the power of disposition over the receivables remains with the selling company, this accounts for a continuing involvement. Contractual agreements transfer the risk of the customer's insolvency (del credere) to the buyer of the receivables.

As of the balance sheet date, an analysis is carried out as to whether the receivables portfolio sold is expected to result in a full or partial disposal and thus a transfer of the opportunities and risks arising from the receivables sold. If the analysis shows that AlzChem still bears part of the late payment risk arising from these receivables, only a partial write-off of the receivables sold will take place at the balance sheet date in accordance with the requirements of IAS 39, where-by the portion remaining as a "continuing involvement" is quite small compared to the total value of the receivables sold. In such cases, the remaining late payment risk is recognized as "continuing involvement" under trade receivables. This remaining commitment is offset by a corresponding liability, which is reported under other current liabilities. On both reporting dates, the analysis showed that it was a complete exit and therefore had no continuing involvement.

The purchase price withholding from factoring initially retained by the financing company as security is accounted for separately under other assets. It becomes due as soon as the customer's payment has been received.

In addition, lock-in deductibles for the risk of revenue deductions are agreed with the receivables purchaser, which are also reported under other assets. The retention amounts become fully due after a blocking period, provided that no friction has occurred in the payment flows.

The payment of the remainder of the purchase price by the buyer of the receivables takes place either upon receipt of payment by the buyer of the receivables or against interest at the request of the transferring company. The outstanding portion of the purchase price receivable is reported under current other assets.

Interest expenses resulting from the sale of receivables are recognized in the financial result. Management fees are reported under other operating expenses.

Cash and cash equivalents

Cash and cash equivalents include cash, sight deposits and other current highly liquid financial assets with an original term of no more than three months and current account credit balances. Current account overdrafts are shown as liabilities to banks under current financial liabilities.

Equity

Equity consists of subscribed capital, additional paid-in capital, other accumulated equity and unappropriated retained earnings. The subscribed capital represents the nominal capital of the parent company. The capital reserve shows all amounts of equity capital that are not externally subscribed for the company. Shares of other shareholders in the equity of the company are reported as non-controlling interests.

Other provisions

Provisions are formed when the Group has a present legal or constructive obligation resulting from a past event and it is probable that settlement of the obligation will result in a charge to the assets and the amount of the provision can be reliably determined. If a number of similar obligations exist, the likelihood of asset encumbrance is determined based on the group of those obligations. Provisions are recognized at the present value of the expected expenses, taking into account all risks that can be identified, and are not set off against recourse claims.

Long-term provisions are recognized at their discounted expected expenses as of the balance sheet date, insofar as the interest portion is material. The interest rate used is a pretax interest rate that reflects the current economic situation of the market environment and takes into account the risk of the obligation.

Employee benefits

PENSION OBLIGATIONS

The AlzChem Group has different pension plans. These include both defined benefit and defined contribution plans. Defined contribution plans are post-employment benefit plans in which the entity pays fixed contributions to a stand-alone entity (such as a fund or insurance) and we are not legally required to pay any additional contributions, even if the fund or the claims under the insurance contract concluded do not have sufficient assets to provide all employee benefits in the reporting period and earlier periods. A defined benefit plan is a plan that is not a defined contribution plan.

The agreements underlying the defined benefit plans provide for different benefits in the Group depending on the subsidiary. These include essentially

- pension commitments from the respective retirement age,
- one-off payments on termination of employment.

The provision, which is recognized in defined benefit plans in the consolidated balance sheet, results from the present value of the pension obligation on the balance sheet date less the fair value of any plan assets available.

The actuarial valuation of pension provisions for occupational pensions is based on the projected unit credit method prescribed in IAS 19 (Employee Benefits), with actuarial valuation carried out by independent actuarial assessors on each balance sheet date. This projected unit credit method takes into account the pensions and vested benefits known as of the balance sheet date and the future increases in salaries and pensions. The legal, economic and fiscal circumstances of the respective country form the basis of the appraisals. Exclusively domestic obligations are determined using the following parameters:

	12/31/2016	12/31/2017
Discount rate	1.75	1.75
Wage and salary trend in %	2.75	2.75
Pension trend in %	1.75	1.75

Employee turnover is determined on a company-specific basis and taken into account as a function of age or service. The actuarial valuations are based on the biometric principles of the "Mortality Rates 2005 G" table by Klaus Heubeck. The provision consists of the present value of the defined benefit obligation less the fair value of the plan assets.

The actuarial gains and losses arising from non-expected changes in pension obligations and changes in actuarial assumptions arising from the defined benefit plans are recognized in other comprehensive income and in the Consolidated Statement of Comprehensive Income in the periods in which they were incurred. Past service costs and gains or losses from plan settlements are recognized immediately in the income statement after the plan adjustment, reduction or settlement. The interest component of the addition to provisions (interest costs for pension obligations and expected return on plan assets) included in the pension expenses is shown as interest expense within the financial result. The service cost is reported within the operating personnel expenses.

Payments under a defined contribution plan are recognized in the income statement and reported under operating personnel expenses.

TERMINATION BENEFITS

Termination benefits are granted if a member of staff is dismissed prior to regular retirement, or if an employee voluntarily leaves the employment relationship in exchange for a severance payment. The Group recognizes termination benefits immediately if it has a demonstrable and unavoidable obligation to terminate the employment relationship of current employees in accordance with a detailed formal plan that cannot be reversed, or if it can be shown that severance payments on voluntary termination of employment are to be paid to employees. Benefits payable after more than twelve months after the balance sheet date are discounted to their present cash value. Entitlements to termination benefits are reported under personnel provisions. This item also includes parts of the claims from the German model for regulating partial retirement.

PROFIT SHARING AND BONUS PLANS

In the AlzChem Group, a provision is recognized in cases where there is a contractual obligation to profit sharing or other earnings-related employee bonuses, or if there is a constructive obligation for the Group based on past business practice.

STOCK-BASED COMPENSATION

The members of the Management Board of AlzChem Group AG were granted so-called Stock Appreciation Rights (SAR) as long-term incentives (LTIs). The stock appreciation rights granted were classified and accounted for as a cash-settled share-based payment according to IFRS 2.30 et seq. In accordance with IFRS 2, the fair value of the work performed by the Management Board in return for the granting of the options is recognized as an expense over the vesting period and reassessed using a Monte Carlo simulation on each balance sheet date. Further explanations are given in Note 33. The provision is reported under other non-current provisions and the expense is included within the operating personnel expenses.

Debts

LOAN LIABILITIES TO BANKS

Loan liabilities are initially recognized at fair value and subsequently carried at amortized cost. If there are differences between the historical cost and the repayment amount for long-term liabilities, these are taken into account using the effective interest method. The initial recognition of financial liabilities, which are measured at amortized cost, is at fair value taking into account transaction costs.

Loan liabilities are classified as current if the repayment is due within the next twelve months.

Loan liabilities are classified as financial liabilities at amortized cost.

LIABILITIES FROM FINANCE LEASES

Liabilities from leasing contracts are recognized as liabilities if economic ownership of the leased or rented assets is attributable to the companies of the AlzChem Group and these are capitalized under property, plant and equipment (finance leases).

Upon initial recognition of the lease obligations, the fair value of the leased item or the lower present value of the sum of the future lease payments is recognized.

The financing costs are distributed over the term of the lease, resulting in a constant interest rate on the remaining finance lease liability over time.

TRADE PAYABLES AND OTHER LIABILITIES

Trade payables and other liabilities are initially recognized at fair value less transaction costs and subsequently at amortized cost using the effective interest method. Trade payables and other current financial liabilities are classified as financial liabilities at amortized cost. Trade payables and other liabilities are classified as current if the contractual payment has to be made within the next twelve months.

Contingent liabilities

Contingent liabilities are possible or existing obligations that are based on past events for which an outflow of resources is considered unlikely. Such obligations are not to be recognized in the balance sheet in accordance with IAS 37, but rather in the notes.

Earnings and expense realization

Revenues comprise the fair value of the consideration received or to be received for the sale of goods and services in the ordinary course of business. Sales are reported net of sales tax less discounts and price reductions.

General requirements for the recognition of revenues are that the amount of the proceeds and the amount of the associated costs can be reliably determined. Furthermore, the inflow of benefits is considered sufficiently probable.

Sales revenue and other income are only recognized when the services have been provided or the goods or products have been delivered and the risk has been transferred to the customer. The time of the transfer of risk is determined on the basis of the agreed Incoterms. Agreed annual bonuses are taken into account in revenue recognition.

Expenses are recognized as an expense when the service is used or at the time of its origination.

Rental income and rental expenses are recognized as expenses or income on an accrual basis.

Financial results

Interest income and interest expenses are deferred on an accruals basis using the effective interest method, taking into account the outstanding loan amount and the applicable interest rate. The applicable interest rate is the interest rate that discounted the estimated future cash flows over the life of the financial asset to the net carrying amount of the asset.

In the case of a finance lease, payments are split into interest and repayment installments using financial mathematics methods.

Borrowing costs are recognized in profit or loss in the period in which they arise, unless they are capitalized borrowing costs for qualifying assets.

Cost of capital increases

In the previous year, AlzChem Trostberg GmbH was preparing for a capital increase by issuing shares via a securities trading exchange in Germany. On February 7, 2017, AlzChem Trostberg GmbH postponed its initial listing on the regulated market scheduled for February 10, 2017, with simultaneous admission to the subsegment of the regulated market with additional postadmission obligations (Prime Standard) on the Frankfurt Stock Exchange. First of all, the original target of an initial listing of the company in fiscal year 2017 was retained and completely canceled at a later date. In the current fiscal year, two capital increases were carried out at AlzChem Group AG.

Pursuant to IAS 32, the directly attributable costs of issuing equity instruments, taking into account tax benefits at the moment of issue, are to be accounted for as a deduction from equity. At the time of the capital increase, the amount is reclassified to equity. If the transaction is not carried out, the deferred costs are reversed and expensed.

The capital increase planned in the previous year was to be carried out together with a partial sale of shares of existing shareholders on a German stock exchange. Consequently, only the costs, which are directly attributable to the capital increase of AlzChem Trostberg GmbH, could be offset against equity. The allocation was made by the company on the basis of the ratio of the shares to be issued to the total number of shares to be placed on the securities trading exchange. Until the shares were placed, this ratio could only be estimated. Since the capital increase was not carried out prior to the balance sheet date of December 31, 2016, the costs of the transaction incurred so far were recognized in accruals and deferrals of EUR 410 thousands. The shareholders of AlzChem Trostberg GmbH had undertaken to bear the costs incurred in preparation for the IPO, but not directly attributable to the capital increase of the company in accordance with the above mentioned division. These costs incurred by the company were reported as a financial receivable under current receivables and other assets from the date on which the invoice was posted and amounted to EUR 1,024 thousands as of the balance sheet date of 12/31/2016. Following the cancellation of this planned capital increase in fiscal year 2017, the prepaid expenses of EUR 410 thousands were fully released to expenses and reimbursed by the shareholders.

The costs directly attributable to the two capital increases of AlzChem Group AG in the current fiscal year were presented as a deduction from equity at the time of the capital increases. Taking tax benefits into account, a fee of EUR 740 thousands was deducted directly from the equity item "Capital reserve-adjustment item reverse acquisition."

Dividend distribution

Shareholders' entitlements to dividend distributions are recognized in the period in which the relevant resolution has been passed.

Segment reporting

IFRS 8 requires segmentation into operational segments in accordance with the internal organizational and reporting structure. An operating segment is defined as a "business component" that generates income and expenses from its business activities, the earnings situation of which is analyzed regularly by the responsible company entity in the context of resource allocation and performance evaluation and for which independent financial data is available. The responsible corporate body is the Management Board of AlzChem Group AG.

The reportable segments within the AlzChem Group are the segments

- Specialty Chemicals
- Basic & Intermediates
- Other & Holding

The Specialty Chemicals segment generates sales mainly from the sale of specialty chemicals. The segment is characterized by innovative products that are used in the chemical industry, the food and feed industry and in the field of renewable energies. The products for customers in the food industry are essentially based on compounds of NCN chemicals (nitrogen-carbon-nitrogen) and are used as the body's own food supplement Creapure®, in pharmaceuticals and cosmetics. In the animal feed industry, guanidine acetic acid is mainly produced under the product name CreAMINO® for use as a feed additive. The products that AlzChem sells to renewable energy customers are used in the manufacture of composites and adhesives, as silicon nitride for high-performance ceramics and for the manufacture of photovoltaic modules in the solar industry. Furthermore, this segment is associated with the production of nitro guanidine for use in agro-chemicals and pharmaceuticals and as a gas generator in propellants.

The "Basic & Intermediates" segment essentially combines the activities of composite chemistry based on the primary nitrogen-carbon-nitrogen bond (NCN chain). In this segment, lime, coal and energy products are manufactured for customers in the agricultural sector, metallurgy and intermediates for further use in the chemical industry. Customers in the agricultural sector use lime nitrogen products as fertilizers, as hygiene agents and pesticides. For metallurgy customers, lime- and carbide-based raw iron desulphurization auxiliaries and products for deoxidizing, desulphurizing and embroidering steel in the field of secondary metallurgy are produced in this segment. The segment also includes the production and sale of guanidine salts as a feedstock

for agrochemicals and pharmaceuticals, and the manufacture of nitriles and guanamines as intermediates for the chemical processing industry.

The "Other & Holding" segment comprises all other Group activities and holding activities not allocated to the other segments. The revenues generated here mainly comprise service revenues.

When preparing segment reporting in accordance with the internal management approach, the same accounting standards are used as those used to prepare the IFRS Consolidated Financial Statements.

External sales represent segment sales with external customers. The reported sales revenues by region refer to the billing address of the customers. EBITDA is the key performance indicator that management regularly uses to assess the profitability of the segments. In addition, depreciation and EBIT are regularly reported to the management. The expenditures to be taken into account for the determination of EBITDA and EBIT are allocated to the individual segments according to their cause.

Inventories represent the main asset that is regularly reported to management. Non-current assets that are to be reported according to certain regions in accordance with IFRS 8 consist of intangible assets and property, plant and equipment.

The Consolidation column includes Group eliminations and Group bookings that are only made for the purpose of preparing the Consolidated Financial Statements. The revenues reported in this column include currency effects that could not be distributed among the other segments.

The employee bonus for a successful IPO in the amount of EUR 6,256 thousands was reported in the "Other & Holding" segment in the previous year.

Earnings per share

IAS 33 Earnings Per Share requires disclosure of earnings per share for companies whose shares are traded on a stock exchange.

As of the balance sheet date of December 31, 2017, the equity of AlzChem Group AG consists of 101,763,355 (12/31/2016: 310,000) no-par-value shares. AlzChem Group AG carried out two capital increases in fiscal year 2017. As a result of the capital increase in kind, the number of no-par-value shares increased to 100,633,339. As a result of the subsequent cash capital increase, the number of no-par-value shares increased to 101,763,355.

IFRS 3 provides for specific rules for determining the number of shares in a reverse business combination. For the determination of the weighted average number of ordinary shares outstanding during the period in which the reverse acquisition occurs, the number of ordinary shares outstanding from the beginning of this period to the date of acquisition is calculated on the basis of the weighted average number of ordinary shares of the legally acquired company in that period (the accounting acquirer) multiplied by the exchange ratio specified in the merger agreement; and the number of ordinary shares outstanding from the date of acquisition to the end of this period is equal to the actual number of ordinary shares of the formal acquirer (the recognized company) outstanding during that period. The application of this requirement resulted in an average number of shares of 100,700,203 shares for fiscal year 2017. The number of shares in the previous year is determined by the historically weighted average number of ordinary shares of the legally acquired company outstanding, which is multiplied by the exchange ratio specified in the acquisition agreement. The application of this rule resulted in an average number of shares of 100,323,339 shares for fiscal year 2016.

Based on these requirements, earnings per share were as follows:

	2016	2017
Consolidated net income in EUR thousands (controlling interests)	15,282	20,393
Number of shares	100,323,339	100,700,203
Earnings per share in EUR	0.15	0.20

For better comparability, we also report earnings per share up to the latest level, i.e. 101,763,355 shares. If the calculation with the number of no-par-value shares in both fiscal years was to be made based on the number of shares as of December 31, 2017, this would result in the following earnings per share:

	2016	2017
Consolidated net income in EUR thousands (controlling interests)	15,282	20,393
Number of shares	101,763,355	101,763,355
Earnings per share in EUR	0.15	0.20

Dilution effects do not exist at the current time. The determination is made by dividing the consolidated profit attributable to the shareholders of AlzChem Group AG by the number of outstanding shares.

Litigations and claims for damages

The companies of the AlzChem Group are involved in various proceedings and regulatory procedures in the context of general business operations or they could be initiated or asserted in the future. Even though the outcome of the individual proceedings cannot be predicted with certainty in view of the uncertainties surrounding litigation, according to current estimates, the risks recognized in the financial statements as liabilities or provisions will not have any further materially adverse effect on the earnings position of the Group beyond the liabilities or provisions contained in the Consolidated Financial Statements.

The use of assumptions and estimates

In preparing the Consolidated Financial Statements, assumptions have been made and estimates used that affect the presentation and amount of assets, liabilities, income, expenses and contingent liabilities. These assumptions and estimates mainly relate to the uniform determination of economic useful lives throughout the Group, the assessment of the recoverability of inventories, the valuation of provisions, pensions or location related risks, as well as the realizability of future tax relief, in particular from loss carryforwards. The actual values may differ in individual cases from the assumptions and estimates made. Changes are taken into account at the time of better knowledge.

Our estimates are based on experience and other assumptions that are believed to be correct under the circumstances. The actual values may differ from the estimates. The estimates and assumptions are constantly reviewed.

INCOME TAXES

The Group is required to pay income taxes in various countries according to different bases of assessment. The global tax provision is formed on the basis of a determination of profits made in accordance with local tax regulations and the applicable local tax rates.

The amount of the tax provisions and liabilities is based on estimates of whether and to what extent income taxes are due. Any risks arising from a different tax treatment are adequately set aside, if necessary.

In addition, estimates must be made in order to be able to assess the recoverability of deferred tax assets. Decisive for assessing the recoverability of deferred tax assets is the probability of future taxable profits (taxable income) being available.

There are also uncertainties regarding the interpretation of complex tax rules and the amount and timing of future taxable income. Especially in the context of international interdependencies, differences between the actual results and our assumptions, or future changes in these assumptions, may result in changes in the tax result in future periods.

PROVISIONS

In determining the recognition of provisions, it is necessary to make assumptions about the probability of the occurrence of the outflow of resources. These assumptions represent the best possible estimate of the situation underlying the facts, but are subject to a degree of uncertainty as a result of the necessary use of assumptions. In determining the provisions, assumptions must also be made about the amount of the potential outflow of resources. A change in the assumptions can thus lead to a different amount of the provision. Accordingly, the use of assumptions also gives rise to certain uncertainties.

The determination of the present value of pension obligations largely depends on the selection of the discount rate and the other actuarial assumptions, which are recalculated at the end of each fiscal year. The underlying discount rate is the interest rate of high quality corporate bonds, denominated in the currency in which the benefits are paid, and which are maturity-congruent to the pension obligations. Changes in these interest rates can lead to significant changes in the amount of the pension obligation.

At the time the Consolidated Financial Statements were prepared, all identifiable risks were taken into account within the framework of the underlying assumptions and estimates.

IPO PROBABILITY AND THE RATIO OF NEW SHARES TO TOTAL SHARES TO BE PLACED – ASSUMPTIONS IN THE PREVIOUS YEAR

In the previous year, estimates were made for the accounting under section VI. of the employee bonus for a successful IPO described above and for the accounting of the costs of the capital increase necessary. These estimates related to the probability of a successful IPO and the ratio of newly issued shares to the total number of shares to be placed in the IPO. The assessment of the payout of the employee bonus was confirmed in fiscal year 2017 and the bonus was paid out. However, the assumptions for carrying out the capital increase in its originally planned form have not materialized. As a result, the costs of the capital increase recognized as prepaid expenses in the previous year were reversed taking deferred taxes into account.

In the previous year, the granting of the Stock Appreciation Rights as part of the Management Board remuneration of the former members of the Management Board of AlzChem Trostberg GmbH also depended on a successful IPO. Here too, the assessment of the very high probability of a successful IPO led to the recognition of the stock appreciation rights granted as a provision as of December 31, 2016. Since this assessment did not materialize in the current fiscal year, this provision was also released to income taking deferred taxes into account.

VI. EMPLOYEE BONUS FOR A SUCCESSFUL IPO

AlzChem Trostberg GmbH concluded a participation and site development agreement as a company agreement on January 1, 2016. According to this agreement, the AlzChem Group grants to the employees of AlzChem Trostberg GmbH and NIGU Chemie GmbH covered by this contract, among other things, a bonus of a maximum of one month's salary in the event of a successful IPO.

As of December 31, 2016, AlzChem Trostberg GmbH was preparing for an IPO and recognized the expense and an associated short-term provision, including deferred taxes, in the full amount of the estimated employee bonus as of December 31, 2016, for this matter.

To illustrate this one-time effect and the demarcation from the regular operating personnel expenses, the employee bonus was shown in the income statement in the position "Employee bonus for a successful IPO." By contrast, the item "Operating personnel expenses" included the regular personnel expenses attributable to the reporting period, excluding the oneoff effect from the IPO. A similar approach was used for the cash flow statement and the cash inflow from operating activities was derived taking into account the separate item "Contribution to staff bonus IPO."

The employee bonus was included in the following positions as of December 31, 2016:

- In the income statement in the item "Employee bonus for successful IPO" as an expense in the amount of EUR 6,256 thousands and in the item "Taxes on income and earnings" as deferred tax income in the amount of EUR 1,752 thousands.
- In the balance sheet under "Other current provisions" in the amount of EUR 6,256 thousands and in the item „Deferred tax assets" in the amount of EUR 1,752 thousands.
- In the cash flow statement under the item "Employee bonus IPO" as a non-cash transaction amounting to EUR 6,256 thousands.

Segment reporting includes expenses in the amount of EUR 6,256 thousands in the "Other & Holding" segment in fiscal year 2016.

Following the stock market listing of the AlzChem Group, the employee bonus in the amount of EUR 6,119 thousands was paid in October 2017 and the deferred tax assets were released in full as expenses. The provision for the previous year was reversed in the current fiscal year through profit or loss in the amount of EUR 137 thousands.

VII. NOTES TO THE INCOME STATEMENT

1. REVENUES

The Group generates net sales by selling goods and providing services:

in EUR thousands	2016	2017
Sales from goods	308,156	333,375
Sales from services	19,029	20,545
	327,185	353,920

Total net sales are distributed geographically as follows:

in EUR thousands	2016	2017
Germany	131,736	152,643
European Union	97,120	100,536
Rest of Europe	12,719	12,447
NAFTA	36,749	34,626
Asia	32,793	36,341
Rest of the world	16,068	17,327
	327,185	353,920

2. OTHER COMPANY INCOME

in EUR thousands	2016	2017
Capitalized own services	5,085	6,158
Income from currency translation	2,728	1,655
Income from services to third parties	532	907
Income from the reversal of provisions and liabilities	1,112	1,048
Income from grants	650	503
Income from energy tax refunds	251	260
Income from the valuation of derivatives	77	142
Other miscellaneous income	870	921
	11,305	11,594

The own work capitalized results from the capitalization of internally generated items of property, plant and equipment. The grants essentially contain research grants. The income from services to third parties includes expense allowances in connection with the European Chemicals Ordinance.

3. COST OF MATERIALS

in EUR thousands	2016	2017
Expenses for raw materials and supplies, production-related electricity and goods purchased	124,056	135,655
Expenses for services purchased	2,164	2,215
	126,220	137,870

4. OPERATING PERSONNEL EXPENSES

EUR thousands	2016	2017
Wages and salaries	88,113	90,044
Social security contributions and pensions	17,938	19,204
	106,051	109,248

The social contributions and pensions item includes ongoing contributions for employer contributions to the statutory pension insurance in the amount of EUR 6,381 thousands (previous year: EUR 6,181 thousands). The previous year's operating personnel expenses do not include the one-off effect from the recognition of the employee bonus for a successful IPO (for further details, see section VI Employee bonus for a successful IPO).

In the reporting period, the average number of employees in the Group was:

EUR thousands	2016	2017
Wage earners	749	766
Employees (including executive and holiday employees)	595	610
Trainees	125	115
	1,469	1,491

5. OTHER OPERATING EXPENSES

EUR thousands	2016	2017
Selling expenses	15,403	15,213
Maintenance	9,680	11,362
Other external services	10,478	11,243
Environmental / disposal costs	6,641	7,573
Expenses from currency translation	3,725	3,953
Consulting, research and development costs	3,992	3,793
Insurance	1,964	2,351
IT costs	1,917	2,123
Other taxes	1,573	2,009
Rent, leasehold and leases	1,678	1,960
Other costs and fees	1,553	1,590
Expert opinion and auditing costs	1,256	1,543
Marketing	997	1,284
Travel expenses	1,121	1,137
Expenses from the valuation of derivatives	142	0
Other expenses	4,302	7,362
	66,422	74,496

Expenses for operating leases amounted to EUR 1,960 thousands in the fiscal year (previous year: EUR 1,678 thousands). No conditional rental payments were made in the fiscal years 2017 and 2016.

The expenses from the valuation of derivatives in the amount of EUR 142 thousands in the previous year included the negative changes in the value of derivative currency hedges that were not recognized in other comprehensive income as part of hedge accounting. As of the reporting date in 2017, no negative changes in value from derivatives had to be recognized.

The research and development costs listed above include only the external research and development costs. In total, research and development costs of EUR 9,015 thousands (previous year: EUR 8,658 thousands) were expensed.

6. DEPRECIATION AND IMPAIRMENTS

The details of scheduled depreciation can be found in the consolidated statement of changes in fixed assets. As in the previous year, there were no impairments of property, plant and equipment in the fiscal year.

7. FINANCIAL RESULT

The financial result consists of the following items, broken down by origin, as follows:

EUR thousands	2016	2017
Interest income		
Receivables from banks	237	377
Other	217	285
	455	662
Interest expenses		
Interest expense from the allocation to pension provisions	2,159	1,842
Loan liabilities to banks	725	652
Interest expense from the sale of receivables	101	105
Interest expense from addition to other non-current provisions	917	384
Finance leasing	12	12
Other	243	9
	4,156	3,004
Financial result	-3,702	-2,342

Interest income from banks results from current account balances and short-term deposits. Other interest income includes interest from tax credits in the amount of EUR 18 thousands (previous year: EUR 78 thousands). This item also includes EUR 224 thousands (previous year: EUR 0 thousands) in interest rate effects of the discount rates applicable to the valuation of landfill provisions. Other interest expenses include interest expenses from tax arrears in the amount of EUR 6 thousands (previous year: EUR 243 thousands).

Total interest income for financial assets measured at amortized cost or financial liabilities that are not measured at fair value through profit or loss amounted to EUR 379 thousands in the fiscal year (previous year: EUR 241 thousands). The total interest expense for financial assets measured at amortized cost or financial liabilities that are not measured at fair value through profit or loss amounted to EUR 652 thousands in the fiscal year (previous year: EUR 725 thousands).

All interest income and expense resulting from financial assets and financial liabilities was calculated using the effective interest method.

8. TAXES ON INCOME AND EARNINGS

Income tax expense breaks down as follows:

in EUR thousands	2016	2017
Actual tax expense	-7,480	-5,791
Deferred taxes	885	-2,973
	-6,595	-8,764

Income taxes include income taxes paid or owed in the individual countries as well as deferred taxes. In the fiscal year, EUR 0 thousands (previous year: EUR 0 thousands) was recognized for current tax income and EUR 251 thousands (previous year: EUR 253 thousands) for off period actual tax expenses. In 2016, deferred tax income of EUR 1,752 thousands was recognized on the "Employee bonus for a successful IPO," which was recognized in the same amount in the deferred tax expense after payment in fiscal year 2017.

The calculation of deferred taxes is based on the tax rates expected in the individual countries at the time of realization; In principle, these are based on the legal regulations valid or adopted on the balance sheet date.

The following reconciliation statement shows the differences between the income tax expense actually booked and the expected income tax expense. The expected income tax expense is the result before income taxes multiplied by the applicable income tax rate. In accordance with IAS 12.85, the applicable income tax rate is that which is most appropriate for the presentation of information. Although the tax rate of AlzChem Group AG is 29%, the tax rate of AlzChem Trostberg GmbH was used for the tax reconciliation, as this tax has the most significant influence on the Group tax rate.

EUR thousands	2016	2017
Consolidated net income before income taxes	21,879	29,336
Applicable income tax rate	28.00%	28.00%
Expected income tax expense	6,126	8,214
Effects from deviating foreign tax rates	-48	-90
Effects from deviating domestic tax rates	13	55
Tax effects		
Tax additions	324	483
Tax-free income	-188	-80
Off-period tax income	-175	-278
Off-period tax expense	558	403
Non-recognition of deferred taxes on permanent differences	0	60
Other deviations	-15	-3
Total tax impact	504	585
Total tax expense	6,595	8,764
Effective tax rate	30.15%	29.88%

VIII. NOTES TO THE BALANCE SHEET

9. NON-CONTROLLING INTERESTS IN THE CONSOLIDATED ANNUAL RESULT

The non-controlling interests in the consolidated annual result relate to the 49% minority interests in Dormex Company LLC and the 6% minority interests in AlzChem International GmbH, which are held by individuals outside the Group. The development of non-controlling interests can be found in the consolidated statement of changes in equity. As of the balance sheet date of the previous year, AlzChem International GmbH had no minority interests and was wholly owned by the Group. Consequently, the data for the previous year includes only minority interests in Dormex Company LLC.

The following financial information relates to the non-controlling interests (percentage) in the subsidiaries:

EUR thousands	2016	2017
Non-current assets	0	4,805
Current assets	1,263	180
Non-current debt	0	0
Current debt	1,126	2,760
Cash flow	4	85
Withdrawals	52	0
Annual result	1	179
Other result	-11	-17
Total result	10	162

10. INTANGIBLE ASSETS

The intangible assets include acquired software, rights and licenses. In the AlzChem Group, no internally generated intangible assets existed on the reporting dates.

The development of intangible assets in fiscal year 2016 is as follows:

in EUR thousands	Software	Concessions, patents, licenses and similar rights	Total
Acquisition costs on 01/01/2016	2,979	1,601	4,580
Additions	217	11	228
Disposals	-10	0	-10
Reclassification	17	202	219
Currency translation	0	-3	-3
as of 12/31/2016	3,203	1,811	5,014
Depreciation on 01/01/2016	2,272	1,205	3,477
Additions	567	174	740
Disposals	-10	0	-10
Reclassification	1	0	1
as of 12/31/2016	2,829	1,378	4,207
Net carrying amount on 12/31/2015	707	396	1,103
Net carrying amount on 12/31/2016	374	433	807

The development of intangible assets in fiscal year 2017 is as follows:

EUR thousands	Software	Concessions, patents, licenses and similar rights	Total
Acquisition costs on 01/01/2017	3,203	1,811	5,014
Additions	655	0	655
Disposals	-24	0	-24
Reclassification	-114	119	5
Currency translation	-2	-2	-4
as of 12/31/2017	3,718	1,928	5,646
Depreciation on 01/01/2017	2,829	1,378	4,207
Additions	260	191	451
Disposals	-18	0	-18
Reclassification	0	0	0
Currency translation	-1	-2	-3
as of 12/31/2017	3,070	1,567	4,637
Net carrying amount on 12/31/2016	374	433	807
Net carrying amount on 12/31/2017	648	361	1,009

Impairment losses on intangible assets were not recognized, as in the previous year. There were no intangible assets with indefinite useful lives and no intangible assets that were not yet ready for use as of the reporting date.

11. TANGIBLE ASSETS

The development of property, plant and equipment in fiscal year 2016 is as follows:

EUR thousands	Land, land rights and buildings	Equipment and machinery	Operating and office equipment	Advance payments and facilities under construction	Total
Acquisition costs on 01/01/2016	43,042	154,864	14,337	7,899	220,142
Additions	779	7,819	2,348	7,369	18,316
Disposals	0	-247	-97	-168	-512
Reclassification	1,642	5,672	-888	-6,645	-219
Currency translation	-9	-80	-3	0	-92
as of 12/31/2016	45,453	168,030	15,698	8,455	237,636
Depreciation 01/01/2016	17,402	93,987	9,429	0	120,816
Additions	1,277	8,953	2,063	0	12,293
Disposals	0	-209	-90	0	-300
Reclassification	0	0	-1	0	-1
Currency translation	0	0	-1	0	-1
As of 12/31/2016	18,679	102,731	11,400	0	132,810
Net carrying amount on 12/31/2015	25,640	60,877	4,909	7,899	99,326
Net carrying amount on 12/31/2016	26,774	65,299	4,298	8,455	104,827

The development of property, plant and equipment in fiscal year 2017 is as follows:

EUR thousands	Land, land rights and buildings	Equipment and machinery	Operating and office equipment	Advance payments and facilities under construction	Total
Acquisition costs on 01/01/2017	45,453	168,030	15,698	8,455	237,636
Additions	1,169	5,806	2,207	15,041	24,223
Disposals	-1	-327	-273	-250	-852
Reclassification	1,030	4,600	658	-6,293	-5
Currency translation	41	237	-11	-382	-115
as of 12/31/2017	47,691	178,345	18,279	16,571	260,886
Depreciation on 01/01/2017	18,679	102,731	11,400	0	132,810
Additions	1,364	9,938	2,237	0	13,539
Disposals	-1	-292	-262	0	-555
Reclassification	0	0	0	0	0
Currency translation	0	-26	-12	0	-38
as of 12/31/2017	20,041	112,350	13,364	0	145,755
Net carrying amount on 12/31/2016	26,774	65,299	4,298	8,455	104,827
Net carrying amount on 12/31/2017	27,649	65,995	4,915	16,571	115,131

Impairment losses on property, plant and equipment were not recognized, as in the previous year. Property, plant and equipment include EUR 223 thousands (previous year: EUR 223 thousands) in assets held as part of a finance lease. This is a property with a favorable purchase option at the end of the lease. There were no conditional lease payments. The lease has a residual term of three years as of the balance sheet date.

As of the balance sheet date, assets and equipment include EUR 414 thousands (prior year: EUR 517 thousands) of jointly managed assets. This is a steam boiler operated by Nigu Chemie GmbH in Waldkraiburg together with a neighboring company on its property. The AlzChem Group's interest in this joint agreement is 50%. The two companies each account for 50% of the volume produced by the steam boiler for their own production processes. The share of expenses from this jointly controlled asset amounted to EUR 1,140 thousands in the fiscal year (previous year: EUR 1,425 thousands). As in the previous year, no income from this jointly controlled asset was incurred.

As in the previous year, no borrowing costs were capitalized in fiscal year 2017 as part of the cost of sales.

Property, plant and equipment serves as collateral for loan liabilities to banks in the amount of EUR 16,804 thousands (previous year: EUR 17,958 thousands).

12. FINANCIAL ASSETS

The non-current financial assets include all shares in other participations and are classified as available for sale since no reliable calculation of the fair value is possible for these investments in accordance with the procedure described in section IV. Accounting Policies, they are stated at acquisition cost (less impairments). At the current time, the AlzChem Group does not plan to sell these shareholdings.

13. OTHER RECEIVABLES AND OTHER ASSETS

Non-current and current other receivables and other assets comprise the following financial and non-financial assets:

EUR thousands	2016	2017
Non-current receivables and other assets		
Therein financial assets		
Reimbursement claims against suppliers	14	6
Total non-current financial assets	14	6
Of which non-financial assets		
Prepaid expenses	256	1,065
Total non-current financial assets	256	1,065
Total non-current receivables and other assets	270	1,071
Current receivables and other assets		
Therein financial assets		
Receivables from purchase price retention, special lock account and billing account	7,886	7,480
Current investments	5,897	5,902
Others	2,000	499
Total current financial assets	15,784	13,881
Of which non-financial assets		
Tax claims	1,018	1,490
Prepaid expenses	1,143	916
Others	17	21
Total non-current financial assets	2,178	2,427
Total non-current receivables and other assets	17,962	16,308

The receivables from the purchase price retention, special blocking account and settlement account result from factoring transactions and represent receivables against the factorer. Current deposits relate to cash and cash equivalents invested with banks with a maximum term of 12 months. This investment of EUR 5,902 thousands (previous year: EUR 5,897 thousands) serves as collateral in accordance with the legal requirements for the aftercare and recultivation of landfill sites.

The prepaid expenses were mainly formed for prepayments of insurance policies and maintenance contracts. In the long-term segment, insurances in connection with the stock exchange listing in the amount of EUR 223 thousands (previous year: 0 EUR thousands) are also reported. In the previous year, the deferred income included EUR 410 thousands in accrued costs of the planned capital increase. Following the cancellation of the originally planned IPO, these expenses were reversed in fiscal year 2017.

In the previous year, other current receivables include the receivable from reimbursement of the IPO costs to the shareholders amounting to EUR 1,024 thousands.

No impairment charges have been recognized on the non-current and current financial assets shown above nor are any amounts overdue. As of the balance sheet date, there are no indications that the payments will not be made when these items are due.

The current and non-current financial assets shown here include the following foreign currency receivables:

EUR thousands	12/31/2016	12/31/2017
Total	899	457
USD	758	290
SEK	103	51
CNY	38	116

14. DEFERRED TAX ASSETS AND TAX LIABILITIES

Deferred tax assets and tax liabilities are netted if there is a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred taxes are to be paid to the same tax authority.

EUR thousands	12/31/2016	12/31/2017
Deferred tax assets		
Intangible assets	150	121
Property, plant and equipment	1,284	1,057
Financial assets	91	54
Stocks	606	644
Other receivables and other assets	660	749
Provisions	24,120	22,291
Liabilities	101	54
Tax loss carryforwards	1,349	463
Total deferred tax assets	28,361	25,433
of which current	1,458	1,502
of which non-current	26,903	23,931
Deferred tax liabilities		
Property, plant and equipment	397	328
Other receivables and other assets	1,899	1,792
Liabilities	44	45
Total deferred tax liabilities	2,340	2,165
of which current	1,943	1,792
of which non-current	397	373
Offsetting deferred tax assets and liabilities	0	0
Balance sheet deferred tax assets	28,361	25,433
Balance sheet deferred tax liabilities	2,340	2,165

The changes in deferred taxes compared to the previous year in the amount of EUR -2,973 thousands (previous year: EUR 885 thousands) were recognized in profit or loss in the income statement. The change in deferred taxes on pension provisions in the amount of EUR -26 thousands (previous year: EUR 4,330 thousands) was recognized in other comprehensive income.

The deferred tax assets listed here for income tax loss carryforwards amounting to EUR 14 thousands (previous year: EUR 534 thousands) are attributable to domestic companies. Of this amount, EUR 10 thousands (previous year: EUR 350 thousands) was attributable to trade tax and EUR 4 thousands to corporate income tax (previous year: EUR 185 thousands). In the reporting year, deferred tax assets were recognized for all income tax loss carryforwards. The current tax loss carryforwards are vested.

The determination of deferred taxes resulted in a surplus of deferred tax assets. Based on the adopted corporate planning, it can be assumed that sufficient taxable earnings will be available in the future, which makes it probable that deferred tax assets will be realized.

No deferred tax liabilities were recognized for temporary differences in connection with investments in subsidiaries amounting to EUR 8,979 thousands (previous year: EUR 9,621 thousands).

In addition, we refer to the comments on the accounting and valuation principles and the explanatory notes in Section IV.

15. INVENTORIES

EUR thousands	12/31/2016	12/31/2017
Raw materials and supplies	18,071	23,663
Unfinished products	16,469	13,753
Uncompleted services	254	196
Finished goods	28,695	33,237
Merchandise	472	456
Advance payments	91	77
	64,052	71,382

In fiscal year 2017, write-downs of EUR 1,268 thousands (previous year: EUR 976 thousands) and write-ups of EUR 408 thousands (previous year: EUR 1,204 thousands) on inventories were recognized in the cost of materials. Impairment losses were mainly recognized for overreaches, lack of access and write-downs to net realizable value. The total amount of inventories recognized as expenses in the fiscal year amounts to EUR 137,870 thousands (previous year: EUR 126,220 thousands).

16. TRADE RECEIVABLES

The following table shows the maturity structure of trade receivables:

EUR thousands	12/31/2016	12/31/2017
Impaired receivables	18	1
Par value	525	612
impairment	-507	-611
Unimpaired receivables	35,426	35,034
Not due	31,663	30,495
Overdue	3,763	4,539
up to 90 days	3,597	3,541
over 90 to 180 days	54	965
over 180 days to 1 year	0	33
over 1 year	112	0
	35,444	35,035

The value adjustments on trade receivables recognized in the allowance account developed as follows:

EUR thousands	01/01/2016	Addition	Consumption	Liquidation	12/31/2016
Impairment on receivables from supplies and services	526	147	-9	-157	507

EUR thousands	01.01.2017	Addition	Consumption	Liquidation	12/31/2017
Impairment on receivables from supplies and services	507	252	0	-148	611

In fiscal year 2017, the AlzChem Group received collateral from trade credit insurance policies for the collateralization of trade receivables in the amount of EUR 12,101 thousands (previous year: EUR 16,122 thousands). Of this amount, overdue receivables include collateral of EUR 773 thousands (previous year: EUR 156 thousands).

For receivables that are neither impaired nor overdue, there were no indications as of the balance sheet date that the payments will not be made when they fall due.

Due to the international activities of the Group, the following trade receivables include the following foreign currency receivables translated into euro, the Group currency:

EUR thousands	12/31/2016	12/31/2017
Total	12,811	12,538
USD	7,276	7,772
CNY	1,406	1,999
JPY	1,883	1,421
SEK	2,246	1,332
Other	0	14

The receivables sold as part of factoring amount to EUR 12,660 thousands (previous year: EUR 7,531 thousands). The analysis of the transition or retention of the opportunities and risks from the receivables sold as of December 31, 2017, and as of the previous year's reporting date resulted in a complete transition, so that no remaining commitment is reported within the AlzChem Group. Both in the current year and in the previous year, there were no cash inflows from the purchase price withheld as part of the factoring to the factoring company.

17. INCOME TAX RECEIVABLES

Tax receivables include income tax receivables of domestic companies in full. These result from overpayments of the current and previous fiscal year.

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are as follows:

EUR thousands	12/31/2016	12/31/2017
Bank balances	12,081	12,796
Cash on hand	8	6
	12,089	12,802

19. EQUITY

Subscribed capital

As described under II. Change of Business Model and subsequent presentation in the IFRS Consolidated Financial Statements, the subscribed capital is that of AlzChem Group AG on both dates. Since all other items of consolidated equity and the consolidated balance sheet are the continuation of the balance sheet values of the previous IFRS Consolidated Financial Statements of AlzChem Trostberg GmbH, an extra reconciliation line was included in the consolidated statement of changes in equity, which shows the adjustment resulting from the application of the accounting rules of the reverse business combination. As of December 31, 2017, the subscribed capital of AlzChem Group AG amounts to EUR 101,763,355.00 (previous year: EUR 310,000.00) and is divided into 101,763,355 (previous year: 310,000) bearer shares with a nominal value of 1 EUR each. In fiscal year 2017, the subscribed capital was increased by EUR 100,323,339.00 from EUR 310,000.00 to EUR 100,633,339.00 by way of a capital increase in kind against contribution of all shares of AlzChem Trostberg GmbH. Also in fiscal year 2017, the subscribed capital of AlzChem Group AG was increased by a further EUR 1,130,016.00 to EUR 101,763,355.00 as part of a cash capital increase.

Authorized Capital 2017

The Management Board is authorized, by July 31, 2022, to increase the capital stock of AlzChem Group AG with the approval of the Supervisory Board once or several times by a total of up to EUR 10,063,333.00 (in words: euro ten million sixty-three thousand three hundred and thirty-three) by issuing up to 10,063,333 new no-par-value bearer shares against cash and/or non-cash contributions (Authorized Capital 2017). The shareholders must be granted a subscription right; The statutory subscription right may also be granted in such a way that the new shares are taken over by a credit institution appointed by the Management Board or a consortium of credit institutions with the obligation to offer them to the company's shareholders for subscription.

The Management Board is authorized, with the approval of the Supervisory Board, to exclude the statutory subscription rights of shareholders in the following cases:

- In the case of a capital increase against contribution in kind, in particular for the acquisition of companies, parts of companies or participations in companies;
- In the case of capital increases against cash contributions, if the issue price of the new shares issued under exclusion of subscription rights in accordance with Section 186 (3) sentence 4 AktG is not materially lower than the stock exchange price of the already listed shares of the same class, and which is limited to the exclusion of the subscription right according to Section 186 para. 3 sentence 4 AktG, new shares issued totaling pro rata amount of the share capital does not exceed ten percent of the share capital existing at the time this authorization takes effect and at the time of exercise of this authorization. Shares which were issued or sold in direct or analogous application of Section 186 (3) sentence 4 AktG during the term of this authorization up to the time of their exercise are to be offset against this limit of 10% of the share capital;
- To avoid fractional amounts;
- To issue shares to members of the company's Management Board, members of the representative body of a company affiliated with the company or to employees of the company or of a company affiliated to it, for cash and/or non-cash contributions under share or other share-based programs, the employment relationship or relationship with the company or its affiliate must be at the time of the grant of the share issue; If shares are to be granted to members of the Management Board of the company, the Supervisory Board of the company shall decide on this alone.

The Management Board is authorized, with the approval of the Supervisory Board, to determine the further details of the capital increase and its implementation, in particular the content of the share rights and the terms of the share issue, including a profit participation deviating from Section 60 (2) AktG. The Supervisory Board is authorized to adjust the Articles of Association of the company accordingly after full or partial utilization or the expiration of the authorized capital, in particular with regard to the amount of the share capital and the number of existing no-par-value shares.

The Annual General Meeting did not grant the Management Board any rights regarding a conditional capital increase.

Authorization to purchase own shares

The company held no own shares on either reporting dates.

The Annual General Meeting has authorized AlzChem Group AG in accordance with Section 71 (1) no. 8 AktG to acquire treasury shares in a volume of up to 10% of the share capital existing at the time of the resolution by July 31, 2022. The shares acquired on the basis of this authorization, together with other shares of the company which AlzChem Group AG acquired and still holds at the time of the acquisition or which are attributable to it pursuant to Sections 71d or 71e AktG, may at no time exceed 10% of the share capital. The authorization may not be used by AlzChem Group AG for the purpose of trading in own shares. The authorization may be used in whole or in part, on one or more occasions by AlzChem Group AG or by dependent or majority-owned companies of AlzChem Group AG or by third parties acting on behalf of AlzChem Group AG or dependent or majority-owned companies of AlzChem Group AG. The purchase may be made at the discretion of the Management Board via the stock exchange or by means of a public purchase offer addressed to all shareholders.

In the case of acquisition via the stock exchange, the purchase price (excluding incidental acquisition costs) may not be more than 10% higher or lower than the price of the share in XETRA trading (or a comparable successor system) determined by the opening auction on the trading day.

In the case of acquisition via a public tender offer, the bid price offered or the limits on the purchase price range per share (excluding incidental acquisition costs) may not exceed or fall short of the XETRA (or a comparable successor system) closing price on the third exchange trading day prior to the date of public announcement of the offer by more than 10%. If, after publication of the public offer, significant deviations from the relevant price occur, the offer may be adjusted. In this case, the price on the third exchange trading day before the public announcement of a possible adjustment will be used. The volume of the offer can be limited. If the total subscription of the offer exceeds the fixed volume, the acceptance must take place according to quota. A preferential acceptance of small numbers up to 100 tendered shares per shareholder can be provided for.

Capital reserve reconciliation item reverse acquisition

The capital reserve reconciliation item reverse acquisition shows the adjustment of the subscribed capital of AlzChem Trostberg GmbH to the subscribed capital of AlzChem Group AG and the business transactions resulting from the capital increases, which do not affect the subscribed capital of AlzChem Group AG. This adjustment is required to reflect the requirements for accounting and reporting an inverse business combination (see the explanations in II. Change of Business Model and Subsequent Presentation in the IFRS Consolidated Financial Statements).

As of the reporting date, the subscribed capital of AlzChem Trostberg GmbH amounts to EUR 11,000 thousands (previous year: EUR 11,000 thousands). In August 2016, a capital increase from company funds led to an increase in the subscribed capital of AlzChem Trostberg GmbH by EUR 10,000 thousands to EUR 11,000 thousands. The capital increase was made by converting the retained earnings of AlzChem Trostberg GmbH in the amount of EUR 10,000 thousands.

The cash capital increase of AlzChem Group AG resulted in the cash inflow of AlzChem Group AG of EUR 1,469 thousands in the fiscal year.

The amount attributable to the consideration paid for the acquisition of AlzChem Group AG in the amount of EUR 775 thousands was also included in this item.

The costs directly attributable to the two capital increases of AlzChem Group AG in the current fiscal year were presented as a deduction from equity at the time of the capital increases. Taking into account tax benefits, a contribution of EUR 740 thousands was deducted directly from the equity item "capital reserve reconciliation item reverse acquisition".

Capital reserve

The capital reserve represents that of AlzChem Trostberg GmbH and remains unchanged at EUR 24,981 thousands throughout the reporting period.

Other cumulative equity

Other comprehensive equity includes gains and losses that are not recognized in the income statement but in other comprehensive income. In the AlzChem Group, this only includes the difference between the translation differences of foreign financial statements and the reporting currency, effects from the remeasurement of defined benefit obligations and deferred tax assets thereon. The development of the individual items during the period under review is as follows:

EUR thousands	Difference arising from currency translation	Valuation of pension provisions	Total
Balance on 01/01/2016	1,411	-21,541	-20,130
Profit or losses included in other comprehensive income	0	-15,460	-15,460
Difference arising from currency translation	280	0	280
Deferred taxes	0	4,330	4,330
Balance on 12/31/2016	1,691	-32,671	-30,983
Balance on 01/01/2017	1,691	-32,671	-30,983
Profit or losses included in other comprehensive income	0	89	89
Difference arising from currency translation	-1,090	0	-1,090
Deferred taxes	0	-26	-26
Balance on 12/31/2017	600	-32,610	-32,010

The effects presented here include all other accumulated equity including non-controlling interests. In the amount of EUR -17 thousands (previous year: EUR -11 thousands), the difference from currency translation, which is attributable to the non-controlling interests in the consolidated comprehensive income, has changed.

Net profit

Net retained profit includes the results accumulated in current and prior fiscal years less dividend payments to shareholders. In accordance with the requirements for accounting and the reporting of a reverse business combination, the balance sheet profit is a continuation of the previous IFRS consolidated profit for the year of AlzChem Trostberg GmbH. The earnings contribution of AlzChem Group AG will only be included in the consolidated profit after the acquisition date. In the reporting period, a dividend of EUR 19,122 thousands (previous year: EUR 8,000 thousands) was distributed to the shareholders of AlzChem Trostberg GmbH. Based on the outstanding shares of AlzChem Group AG amounting to 101,763,355.00 on the balance sheet date, this results in a dividend of EUR 0.19 per share (previous year: EUR 0.08). The dividend in the current fiscal year was distributed in the amount of EUR 17,775 thousands as a cash dividend and the remainder as a non-cash dividend. The dividend in kind consisted of 6% of the shares in AlzChem International GmbH. As a result of the non-controlling interests that have now been granted, the items of equity of AlzChem International GmbH previously reported under the controlling interest in the consolidated balance sheet profit were reclassified pro rata in the amount of EUR 1,925 thousands to non-controlling interests.

Non-controlling interests

Non-controlling interests amounting to EUR 2,224 thousands (previous year: EUR 137 thousands) include shares in the capital of AlzChem International GmbH and Dormex Company LLC, which are not attributable to the shareholders of AlzChem Trostberg GmbH. The increase in fiscal year 2017 results from the dividend in kind described in the last paragraph relating to 6% of the shares in AlzChem International GmbH. Further financial information on non-controlling interests can be found in Note 9.

Capital management

The objectives of the AlzChem Group with regard to capital management are, on the one hand, the long-term securing of the going concern and the generation of reasonable returns for the shareholders and, on the other hand, the maintenance of an optimal capital structure in order to reduce the cost of capital.

The capital structure is managed in such a way that it takes into account changes in macroeconomic conditions and risks from the underlying assets. Thanks to the strong operating cash flow, the company is in a position to make the best possible use of its own funds. Investments made generally only with a strong consideration of cost/benefit potentials regularly check whether the available own funds can be replaced by long-term financing in favor of improved raw material procurement prices. Basically, the AlzChem Group is in permanent contact with banks and other finance companies to examine the use of bank loans and other financing options to optimize the return on equity.

As part of this, debt capital is managed using a target debt structure that is geared towards companies in the same sector and similar size traits of the AlzChem Group. The selection of financial instruments focuses on maturity-matched financing, which is achieved through the management of maturities. When monitoring the capital structure and other key figures resulting from this, the focus is on the consideration and compliance with contractually regulated agreements in financing agreements (covenants).

The capital is monitored on the basis of the debt-equity ratio, calculated as the ratio of net debt to total capital. Net debt is defined as the sum of all debt less existing cash and cash equivalents.

EUR thousands	12/31/2016	12/31/2017
Total capital	263,874	280,182
Net foreign capital	198,299	209,487
Debt ratio	0.75	0.75

In addition, some loan agreements contain certain covenants with regard to the equity ratio, which is why these are regularly monitored at the Group level.

20. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Provisions for pensions are defined benefit plans for former and currently employed employees of the AlzChem Group. Provisions are formed on the basis of benefit, retirement, disability and survivor benefit plans. The amount of the individual benefits from the commitments is based on the salary level and/or the position in the corporate hierarchy as well as the length of service. The duration of the benefit supplement is not limited during the lifetime of the beneficiary. Thus, the AlzChem Group is exposed to the risks of future salary increases and longevity. The company regularly counters the salary increase risk with collective bargaining and attempts to keep the risk low. However, the relatively low proportion of plan assets does not significantly limit the risks. The amount of the provision recognized solely in Germany as of the balance sheet dates is as follows:

EUR thousands	12/31/2016	12/31/2017
Provisions for pensions and other obligations	104,904	107,234

The defined benefit obligation of the pension obligations of the companies of the AlzChem Group based on defined benefit obligations developed as follows:

EUR thousands	DBO	Plan assets	Provision
Balance on 01/01/2016	86,823	207	86,616
Effects from the reevaluation	15,460		15,460
of which changes in demographic assumptions	0		0
of which changes in financial assumptions	16,038		16,038
of which experience-based adjustments	-578		-578
Interest expense	2,159		2,159
Current service cost	1,237		1,237
Paid pensions	-583		-583
Expected income from plan assets	0	7	-7
Payments from plan assets	0	-22	22
Balance on 12/31/2016	105,097	191	104,904

EUR thousands	DBO	Plan assets	Provision
Balance on 01/01/2017	105,097	191	104,904
Effects from the reevaluation	-89	0	-89
of which changes in demographic assumptions	0		0
of which changes in financial assumptions	0		0
of which experience-based adjustments	-89		-89
Interest expense	1,842		1,842
Current service cost	1,222		1,222
Paid pensions	-674		-674
Expected income from plan assets	0	5	-5
	0	-33	33
Payments from plan assets	107,399	163	107,234

Reconciliation of the obligation to the provision value:

EUR thousands	12/31/2016	12/31/2017
Defined Benefit Obligation non-fund-financed	104,904	107,234
Defined Benefit Obligation fund-financed	191	164
Subtotal	105,096	107,399
Less market value of plan assets	-191	-164
Provisions for pensions and other obligations	104,904	107,234

The effects of the revaluation of defined benefit obligations, which were recognized in other comprehensive income in the fiscal year, break down as follows:

EUR thousands	12/31/2016	12/31/2017
Changes in demographic assumptions	0	0
Changes in financial assumptions	16,038	0
Experience-based adjustments	-578	-89
	15,460	-89

The amounts recognized in the income statement in the reporting period break down as follows:

EUR thousands	12/31/2016	12/31/2017
Interest expense	2,159	1,842
Current service cost	1,237	1,222
Expected income from plan assets	-7	-5
	3,389	3,059

The expected cash outflows from the pension obligations in the next year amount to a total of EUR 870 thousands (previous year: EUR 702 thousands).

The current payments to the statutory pension insurance for employer contributions are reported as expenses for the respective year in the operating result and amounted to a total of EUR 6,381 thousands (previous year: EUR 6,181 thousands) in the Group during the fiscal year.

The plan assets developed as follows:

EUR thousands	12/31/2016	12/31/2017
Balance as of 01/01	207	191
Expected income from plan assets	7	5
Payments from plan assets	-22	-33
Balance as of 12/31	191	163

The plan assets consist entirely of reinsurance for which there is no quoted market price in an active market.

A change in the three main factors influencing the present value of the pension obligation under otherwise unchanged assumptions would have the following effect on the present value of the pension obligation as of the balance sheet date:

in EUR thousands	Cash value of pension obligation
Discount rate	
as of 12/31/2017: 1.75%	107,399
Increase to 2.00%	101,551
Decline to 1.50%	113,360
Wage and salary trend	
as of 12/31/2017: 2.75%	107,399
Increase to 3.75%	114,968
Decline to 1.75%	102,115
Pension trend	
as of 12/31/2017: 1.75%	107,399
Increase to 2.75%	121,615
Decline to 0.75%	95,556

If pensioner mortality fell by 20%, the present value of the pension obligation would be EUR 114,289 thousands.

In calculating the sensitivity of the DBO for the relevant actuarial assumptions, the same method was used (determination of the present value by the method of the single recurring premiums) as for the calculation of the provisions for pensions, which are recorded in the consolidated balance sheet. In determining the sensitivities, only one parameter was changed and all other assumptions were retained.

The weighted average term of the defined benefit obligation in relation to the present value of the pension obligation as of the reporting date is as follows:

Cash value of pension obligation EUR thousands	Average term in years	Obligated company
107,205	22	AlzChem Trostberg GmbH
194	36	Nigu Chemie GmbH

21. OTHER PROVISIONS (NON-CURRENT AND CURRENT)

EUR thousands	Provisions for landfills	Provisions for personnel	Provisions for guarantees from product sales	Provisions for subsequent customer credits/commissions	Other provisions	Total
Balance on 01/01/2016	6,798	8,673	165	132	2,129	17,897
Utilization	0	-768	0	-42	-865	-1,675
Addition	0	8,304	36	56	250	8,646
Cancellation	0	0	0	0	-724	-724
Reclassification	0	-827	0	0	0	-827
Compounding/interest rate change	589	318	0	0	9	917
Currency translation	0	-1	1	2	0	2
Balance on 12/31/2016	7,387	15,698	202	148	799	24,235
Non-current	7,387	9,255	0	0	409	17,051
Current	0	6,443	202	148	390	7,183
Balance on 12/31/2016	7,387	15,698	202	148	799	24,235
Balance on 01/01/2017	7,387	15,698	202	148	799	24,235
Utilization	0	-7,455	-9	-72	-21	-7,558
Addition	80	2,521	39	47	242	2,929
Cancellation	0	-232	-2	-57	-49	-340
Reclassification	0	-816	0	0	0	-816
Compounding/interest rate change	-170	386	0	0	-4	212
Currency translation	0	-4	-2	-2	-1	-10
Balance on 12/31/2017	7,297	10,098	228	64	965	18,652
Non-current	7,297	9,908	0	0	236	17,443
Current	0	189	228	64	729	1,209
Balance on 12/31/2017	7,297	10,098	228	64	965	18,652

The provisions for landfills are related to legal requirements for the aftercare and recultivation of landfill sites. Provisions were formed on the basis of internal and partly external (by appraiser) cost estimates and taking into account a maturity-appropriate discounting. The changes in the fiscal year resulted from changes in parameters and compound interest.

Provisions for personnel relate to provisions for service premiums, provisions for annual leave in the event of retirement and other social benefits to employees. The calculation is based on actuarial assumptions and discounting appropriate to the term. In fiscal year 2016, the provision for the employee bonus for a successful IPO, which was paid in fiscal year 2017, was also disclosed here.

Provisions for product warranty guarantees are based on experience. The approach is reviewed annually and adapted to current developments.

Provisions for subsequent customer reimbursements and commissions are related to long-term supply contracts with customers who are granted additional discounts if certain minimum purchase quantities are exceeded.

The other provisions essentially relate to provisions for other fees not yet settled. These relate to contributions to social and accident insurance for employee leasing and IHK membership fees.

22. LOAN LIABILITIES TO BANKS

EUR thousands	12/31/2016	12/31/2017
Remaining term under one year as of the balance sheet date	5,601	22,122
of which current share of loan liabilities	0	6,422
Remaining term over one year as of the balance sheet	24,805	19,203
	30,406	41,325

Non-current loan liabilities to banks are fixed interest bearing with an interest rate between 1.15% and 2.65% and were granted in the fiscal years 2013 and 2015. The loans are repaid quarterly with a final repayment on 12/31/2023. As of the balance sheet date, short-term money market loans of EUR 15,700 thousands (previous year: EUR 0 thousands) were taken out to cover liquidity peaks at banks. The fully EUR denominated money market loans are repaid within one month and bear interest at a fixed rate between 0.53% and 0.70%.

Based on the usual payment arrangements with the banks, the maturities and thus the cash out-flow from current loan liabilities to banks are as follows:

EUR thousands	12/31/2016	12/31/2017
Carrying amount	5,601	22,122
Due within the following time periods:		
< 30 days	0	16,521
30-90 days	1,400	1,400
90-180 days	1,400	1,400
180 days-1 year	2,801	2,801

The loan liabilities to banks as of 12/31/2017 are secured by property, plant and equipment with a carrying amount of EUR 16,804 thousands (previous year: EUR 17,958 thousands). All liabilities to banks are due in euros.

Loan liabilities developed as follows during the reporting period:

EUR thousands	Current loan liabilities	Non-current loan liabilities
Balance as of 01/01/2016	4,732	30,406
Payment effective change		
Repayment	-4,732	0
Borrowing	0	0
Payment effective change		
Accrual of interest	0	0
Reclassification	5,601	-5,601
Balance as of 12/31/2016	5,601	24,805
Balance as of 01/01/2017	5,601	24,805
Payment effective change		
Repayment	-4,844	0
Borrowing	15,700	0
Payment effective change		
Accrual of interest	64	0
Reclassification	5,601	-5,601
Stand 12/31/2017	22,122	19,203

23. FINANCE LEASE OBLIGATIONS

Property, plant and equipment includes an asset that is attributable to the Group as the beneficial owner due to the nature of the lease agreement on which it is based. The Group's obligations under this finance leasing agreement are shown in the following table:

EUR thousands	31.12.2016	31.12.2017
Finance leasing contracts		
Minimum payments to be made in the future		
up to 1 year	10	10
1 to 5 years	255	245
over 5 years	0	0
	265	255
Discounting		
up to 1 year	10	10
1 to 5 years	32	22
over 5 years	0	0
	42	32
Cash value		
up to 1 year	0	0
1 to 5 years	223	223
over 5 years	0	0
	223	223

This is a property with a favorable purchase option at the end of the leasing contract. The lease has a remaining term of three years as of the balance sheet date and is to be repaid entirely in euros.

The maturities and thus the cash outflow for finance lease liabilities "up to 1 year" are as follows:

EUR thousands	12/31/2016	12/31/2017
Total due within one year	10	10
of which due within the following time frames:		
< 30 days	0	0
30-90 days	2	2
90-180 days	3	3
180 days-1 year	5	5

24. TRADE PAYABLES

Based on the usual payment agreements with suppliers and other business partners, the due dates and thus the cash outflow for current trade payables are as follows:

EUR thousands	12/31/2016	12/31/2017
Carrying amount	21,701	28,199
of which due within the following time frames:		
< 30 days	21,327	24,881
30-90 days	174	3,040
90-180 days	155	79
180 days-1 year	45	199

Due to the international activities of the Group, the following balance sheet trade payables include the following foreign currency liabilities translated into the Group currency EUR:

EUR thousands	12/31/2016	12/31/2017
Total	2,009	4,766
USD	595	3,091
SEK	1,314	1,173
CNY	96	493
JPY	3	0
Other	1	9

No collateral has been deposited for the trade payables shown, except for the customary country-specific retention of title. As of the balance sheet dates, no trade payables are overdue.

25. OTHER LIABILITIES

Other current liabilities are as follows:

EUR thousands	12/31/2016	12/31/2017
Personnel liabilities	13,903	13,122
Liabilities from bonus settlements with customers	3,611	2,958
Liabilities from energy taxes	1,857	4,006
Other tax liabilities	2,613	1,727
Liabilities to trade association	237	407
Other	1,204	1,201
	23,425	23,421

Other current liabilities include other financial liabilities amounting to EUR 7,671 thousands (previous year: EUR 5,795 thousands). These include the following amounts in foreign currency, converted into euros:

EUR thousands	12/31/2016	12/31/2017
Total	791	186
USD	153	147
CNY	30	39
JPY	608	0

The maturities and thus the cash outflow for current financial liabilities are as follows:

EUR thousands	12/31/2016	12/31/2017
Carrying amount	5,795	7,671
of which due within the following time frames:		
< 30 days	423	259
30-90 days	63	1,046
90-180 days	75	4,806
180 days-1 year	5,234	1,560

As of the balance sheet date, non-current other liabilities amounted to EUR 10 thousands (previous year: EUR 0 thousands).

26. INCOME TAX LIABILITIES

Income tax liabilities include domestic income tax liabilities in the amount of EUR 1,045 thousands (previous year: EUR 3,011 thousands) and foreign income tax liabilities in the amount of EUR 12 thousands (previous year: EUR 0 thousands).

27. CASH FLOW STATEMENT

The cash flow statement shows how the cash and cash equivalents of the AlzChem Group changed in the year under review and in the previous year. The cash and cash equivalents are defined as cash and cash equivalents less restricted cash.

In accordance with IAS 7, cash flows are broken down into cash inflows/outflows from operating, investing and financing activities.

EUR thousands	12/31/2016	12/31/2017
Cash inflow from operating activities (net cash flow)	33,137	30,664
Cash outflow from investing activities	-18,528	-24,784
Free cash flow	14,609	5,880
Cash outflow from financing activities	-12,784	-5,060
Net reduction (-)/increase (+) of cash and cash equivalents	1,825	820

The cash flow statement is prepared using the indirect method.

The cash and cash equivalents as of December 31, 2017, amount to EUR 12,802 thousands (previous year: EUR 12,089 thousands) and include immediately available bank balances, checks and cash on hand.

The other non-cash income and expenses in the amount of EUR 5,991 thousands (previous year: EUR 2,720 thousands) essentially include value adjustments on inventories and allocations to or reversals of pension provisions and other provisions. The addition to the provision for the employee bonus for a successful IPO in the previous year in the amount of EUR 6,256 thousands was reported as a non-cash business transaction in a separate line. This bonus was paid out in fiscal year 2017. Besides this, no other material non-cash transactions took place.

As a result of the acquisition of AlzChem Group AG in fiscal year 2017, the AlzChem Group received EUR 25 thousands in cash. Since the consideration consisted of company shares, no cash price effective as a purchase price flowed. No companies were acquired in the previous year.

28. RISK MANAGEMENT AND THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS

The financial division of AlzChem Trostberg GmbH monitors and controls the financial risks of the entire AlzChem Group. These are in particular:

- Liquidity risks
- Market risks (interest rate and currency risks)
- Credit risks

Due to its activities, the AlzChem Group is exposed to a large number of financial risks. By risk, we mean unexpected events and possible developments that negatively impact the achievement of goals and expectations. Relevant risks are those with a material impact on the net assets, financial position and results of operations. The Group's risk management system analyzes various risks and attempts to minimize negative effects on the company's financial position. Risk management is carried out in the area of finance taking into account existing guidelines.

The Group distinguishes between liquidity, credit and market risks when measuring and managing significant individual risks.

Liquidity risks

By liquidity risk in the narrower sense, we mean the risk of being unable to meet present or future payment obligations or only on unfavorable terms. The company generates funds primarily through its operating business.

AlzChem Trostberg GmbH acts as the financial coordinator for the companies of the AlzChem Group in order to ensure the most cost-effective and sufficient amount of cover for their operational and investment needs. The required information is provided via consolidated financial planning with additional weekly rolling 14-day liquidity planning and analyzed on an ongoing basis.

The long-term corporate financing of the AlzChem Group is ensured by the current cash flow from the operating business and sufficient short-term and long-term debt financing.

Intercompany financial clearing uses short-term liquidity surpluses of individual Group companies to finance the cash requirements of other Group companies. This contributes to a reduction in the external borrowing financing volume and an optimization of cash and capital investments and thus has a positive impact on the Group's interest result.

At the level of the AlzChem Group, consolidated and integrated liquidity planning is prepared on the basis of the latest state of corporate planning / extrapolation together with additional special effects recognizable at short notice.

The financing of the AlzChem Group is essentially based on the cash and cash equivalents generated by the Group's operating business. In addition, credit lines in the amount of EUR 27,500 thousands (previous year: EUR 19,500 thousands) exist at the house banks which were not utilized in the amount of EUR 11,800 thousands (previous year: EUR 19,500 thousands). To finance investments, long-term loans were taken out in the 2011, 2013 and 2015 fiscal years, some of which were repaid prematurely in order to utilize a better interest structure in the 2015 fiscal year. As of the balance sheet date, the open loan portfolio related to these long-term financing amounts to EUR 25,625 thousands (previous year: EUR 30,406 thousands). The current portion of these loan liabilities amounts to EUR 6,422 thousands as of the balance sheet date (previous year: EUR 5,601 thousands). In addition, short-term money market loans of EUR 15,700 thousands (previous year: EUR 0 thousands) were utilized at banks. The other short-term financial liabilities from primary financial instruments amounted to EUR 35,870 thousands as of the balance sheet date (previous year: EUR 27,496 thousands).

Another short-term financing instrument is the sale of customer receivables to a factorer. The maximum factoring volume amounted to EUR 30 mn for the entire period under review. Receivables of EUR 12,660 thousands (previous year: EUR 7,531 thousands) had been sold to the factoring company as of the balance sheet date.

AlzChem Trostberg GmbH received a further financing commitment totaling EUR 50,730 thousands before the balance sheet date. The financing is related to the limited investment in a new production facility and has not yet been paid out as of the balance sheet date.

Maturity analysis of financial liabilities

The following table shows the maturity structure of contractual, undiscounted cash flows from interest and principal payments on non-derivative financial liabilities:

12/31/2016	Up to 1 year EUR thousands	1–5 years EUR thousands	Over 5 years EUR thousands	Total EUR thousands
Loan liabilities to banks	6,192	23,142	2,951	32,285
Liabilities from goods and services	21,701	0	0	21,701
Other financial liabilities	5,795	0	0	5,795
Total	33,688	23,142	2,951	59,781

12/31/2017	Up to 1 year EUR thousands	1–5 years EUR thousands	Over 5 years EUR thousands	Total EUR thousands
Loan liabilities to banks	22,598	18,773	1,242	42,613
Liabilities from goods and services	28,199	0	0	28,199
Other financial liabilities	7,671	0	0	7,671
Total	58,468	18,773	1,242	78,483

The maturity analysis of derivative financial liabilities is shown under the section Derivative Maturity Analysis.

The AlzChem Group has not breached any of its payment agreements with respect to its financial liabilities.

The undiscounted cash outflows are subject to the condition that the repayment of liabilities is based on the earliest due date.

A more detailed presentation of the maturity range "up to 1 year" is provided for loans to banks in Note 22, Finance Lease Liabilities in Note 23, Liabilities from Goods and Services in Note 24 and Other Financial Liabilities in Note 25.

Of the original non-derivative financial liabilities reported in the Group at the end of 2017 in the amount of EUR 77,195 thousands (previous year: EUR 57,902 thousands), EUR 16,804 thousands (previous year: EUR 17,958 thousands) or 22% (previous year: 31%) are secured.

The collateral is comprised as follows.

12/31/2016		Loan liabilities to banks
		EUR thousands
Land and buildings	11,000	
Technical facilities and machinery	6,958	
Total	17,958	

12/31/2017		Loan liabilities to banks
		EUR thousands
Land and buildings	11,000	
Technical facilities and machinery	5,804	
Total	16,804	

In addition, the majority of the companies are supplied under a country-specific reservation of ownership.

If the primary financial liabilities are distributed by region, the following risk concentrations result:

	12/31/2016		12/31/2017	
	EUR thousands	%	EUR thousands	%
Total	57,902	100	77,195	100
Germany	50,736	88	65,677	85
Europe – EU	3,130	5	5,649	7
(excluding Germany)	1,787	3	2,332	3
Europe – other countries	2,249	4	3,537	5
Rest of the world				

Credit risks

Credit risks arise from the complete or partial loss of a customer, for example through insolvency, and as part of financial investments. The default risk amounts to a maximum of the carrying amounts of all financial assets. Allowances for trade receivables and other receivables and assets are recognized in accordance with uniform Group rules and cover all identifiable credit risks.

As part of risk management, minimum credit requirements and individual maximum limits for engagement are set for all business partners of the AlzChem Group. The amount of the credit limit reflects the creditworthiness of a party and the typical size of the transaction volume with that party. The basis for this is a limit system defined in the Treasury Guidelines, which is based on the ratings of international rating agencies and on internal credit assessments as well as on internally gained experience with the respective contracting parties. In addition, the special limits of commercial credit insurance are taken into account for each customer. The AlzChem Group is therefore exposed to credit risks only to a very limited extent.

EUR 12,101 thousands (previous year: EUR 16,122 thousands) are secured by the portfolio of loans and receivables reported in the Group in the amount of EUR 61,724 thousands (previous year: EUR 63,331 thousands). This corresponds to a secured ratio of 20% (previous year: 25%). The entire collateral exists through trade credit insurance. The maximum default risk of the loans and receivables shown therefore decreases to EUR 49,632 thousands (previous year: EUR 47,210 thousands).

Recognizable default risks in the receivables portfolio are generally taken into account through the provision of adequate value adjustments. The development of value adjustments on trade receivables is shown in Note 16.

If the financial assets of the category loans and receivables are divided by region, the following risk concentrations result:

	12/31/2016		12/31/2017	
	EUR thousands	%	EUR thousands	%
Total	63,331	100	61,724	100
Germany	36,058	57	38,651	63
Europe – EU (excluding Germany)	11,258	18	5,050	8
Europe – Other countries	721	1	202	0
Rest of the world	15,294	24	17,821	29

Market risks (interest rate and currency risks)

Market risk is the risk of loss that may arise as a result of a change in valuation-relevant market parameters (currency, interest, price).

CURRENCY RISKS

The Group operates internationally and as a result is exposed to foreign currency risk, which is based on exchange rate changes in various foreign currencies. Foreign currency risks arise from expected future transactions, recognized assets and liabilities and net investments in foreign operations.

The AlzChem Group uses hedging transactions to hedge currency risks from future transactions. During the period under review, currency forward transactions were used on JPY. As of the balance sheet date 12/31/2017, there were no more open obligations.

Of the primary financial instruments reported in the Group, EUR 24,763 thousands (previous year: EUR 24,358 thousands) relate to financial assets denominated in foreign currency and EUR 4,952 thousands (previous year: EUR 2,799 thousands) to financial liabilities denominated in foreign currencies. The foreign currency risk concentration is as follows:

Financial assets	12/31/2016		12/31/2017	
	EUR thousands	%	EUR thousands	%
Total	24,358	100	24,763	100
USD	9,209	38	10,464	42
JPY	1,924	8	8,414	34
SEK	3,422	14	3,560	14
CNY	9,799	40	2,307	10
Other	5	0	18	0

Financial liabilities	12/31/2016		12/31/2017	
	EUR thousands	%	EUR thousands	%
Total	2,799	100	4,952	100
USD	748	27	3,238	65
SEK	1,314	47	1,173	24
JPY	610	22	532	11
CNY	126	4	0	0
Other	1	0	9	0

To illustrate currency risks, sensitivity analyses were carried out on the reporting dates, which show the effects of hypothetical changes of relevant risk variables on earnings and equity. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance sheet of the financial instruments on the balance sheet date. It is assumed that the balance sheet as of the balance sheet date is representative of the full year. For the analysis of the currency sensitivities, only USD, JPY, CNY and SEK were used for the major currencies of the AlzChem Group.

As of the balance sheet date, the AlzChem Group is exposed to currency risks, which are mainly reflected in the balance sheet items trade receivables, trade payables and financial liabilities.

If the euro had been revalued or depreciated by 10% compared to the major foreign currencies in which the AlzChem Group operates as of December 31, 2017, the reported equity in functional currency would have changed by EUR -1,800 thousands (previous year: EUR -2,350 thousands) or EUR 2,200 thousands (previous year: EUR 2,785 thousands).

The hypothetical impact on earnings (before taxes) of EUR -1,800 thousands (previous year: EUR -2,350 thousands) or EUR 2,200 thousands (previous year: EUR 2,785 thousands) results in detail from the following currency sensitivities:

	2016		2017	
	+10%	-10%	+10%	-10%
P & L in total	-2,350	2,785	-1,800	2,200
EUR/USD	-769	940	-657	803
EUR/SEK	-192	234	-217	265
EUR/JPY	-510	536	-716	876
EUR/CNY	-879	1,075	-210	256
Other result in total	0	0	0	0
Effect on equity in total	-2,350	2,785	-1,800	2,200

INTEREST RATE RISKS

Interest rate risks can arise primarily from changes in market interest rates, which lead to changes in the expected cash flows. In order to minimize interest rate risks, loans are taken out or concluded only long term and at fixed interest rates, if necessary. Non-current and current loan liabilities to banks are concluded with fixed interest rates and are therefore not subject to interest rate risks.

PRICE RISKS

Price risks arise mainly in the purchasing area due to changes in the market prices of raw materials, electricity and gas. Price volatilities are counteracted in particular by futures and price escalation clauses. Futures deal with the purchase of electricity exclusively for our own needs.

Carrying amounts and fair values of financial instruments

The fair value of a financial instrument is the amount at which an asset is exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The following table presents the carrying amounts and fair values of financial assets per measurement category in accordance with IAS 39:

12/31/2016 EUR thousands	At amortized cost		At fair value		Total	
	Assets available- for-sale	Loans and receiv- ables	Assets held for trading	Derivatives in hedge accounting	Carrying amount	Fair value
Balance sheet item	Carrying amount	Carrying amount	Carrying amount	Carrying amount		
Financial assets	20	---	---	---	20	20
Other receivables and other assets	---	15,798	---	---	15,798	15,798
Receivables from goods and services	---	35,444	---	---	35,444	35,444
Cash and cash equivalents	---	12,089	---	---	12,089	12,089
Total financial assets	20	63,331	---	---	63,351	63,351

12/31/2017 EUR thousands	At amortized cost		At fair value		Total	
	Assets available- for-sale	Loans and receiv- ables	Assets held for trading	Derivatives in hedge accounting	Carrying amount	Fair value
Balance sheet item	Carrying amount	Carrying amount	Carrying amount	Carrying amount		
Financial assets	20	---	---	---	20	20
Other receivables and other assets	---	13,887	---	---	13,887	13,887
Receivables from goods and services	---	35,035	---	---	35,035	35,035
Cash and cash equivalents	---	12,802	---	---	12,802	12,802
Total financial assets	20	61,724	---	---	61,744	61,744

The following table presents the carrying amounts and fair values of the financial liabilities per measurement category in accordance with IAS 39:

312/31/2016 EUR thousands	At amortized cost		At fair value		Total
	Other liabilities	Liabilities held for trading	Valuation in accordance with IAS 17		
Balance sheet item	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Fair Value
Loan liabilities to banks	30,406	---	---	30,406	32,299
Liabilities from finance leasing	---	---	223	223	266
Liabilities from goods and services	21,701	---	---	21,701	21,701
Financial liabilities	---	142	---	142	142
Other liabilities	5,795	---	---	5,795	5,795
Total financial liabilities	57,902	142	223	58,267	60,203

12/31/2017 EUR thousands	At amortized cost		At fair value		Total
	Other liabilities	Liabilities held for trading	Valuation in accordance with IAS 17		
Balance sheet item	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Fair Value
Loan liabilities to banks	41,325	---	---	41,325	43,403
Liabilities from finance leasing	---	---	223	223	255
Liabilities from goods and services	28,199	---	---	28,199	28,199
Financial liabilities	---	---	---	---	---
Other liabilities	7,671	---	---	7,671	7,671
Total financial liabilities	77,195	---	223	77,418	79,528

The fair values of the financial instruments were determined on the basis of the market information available on the balance sheet date and using the methods and premises described below.

Due to the short-term maturities of trade receivables, other financial assets in the loans and receivables category and cash and cash equivalents, it is assumed that the fair values correspond approximately to the carrying amounts.

The trade payables and other payables balance sheet items generally include liabilities with regularly short maturities, so that, as assumed, the fair values approximately correspond to the carrying amounts shown.

The fair values of the derivative financial instruments in the balance sheet item financial liabilities were calculated using present value and option price models. As far as possible, the relevant market prices and interest rates observed on the balance sheet date, which were obtained from recognized external sources, were used as input parameters for these models. This approach corresponds to level 2 in the hierarchy level of IFRS 13.

Loans to banks and liabilities from finance leases include current and non-current financial liabilities. The fair values of liabilities with residual terms of more than one year are calculated by discounting the cash flows associated with the liabilities, taking into account the current interest rate parameters observable on the market. The individual credit ratings of the Group are taken into account in the form of customary creditworthiness and liquidity spreads during the cash-value determination. This approach corresponds to level 2 in the hierarchy level of IFRS 13.

The following table shows the assets and liabilities stated at fair value in the reporting period and their allocation to the valuation hierarchy in accordance with IFRS 13:

EUR thousands	Assets			
	12/31/2016		12/31/2017	
	Level 2	Total	Level 2	Total
Financial assets held for trading purposes				
- Forward exchange transactions	0	0	0	0
Derivatives in hedge accounting				
- Forward exchange transactions	0	0	0	0
Total assets	0	0	0	0

EUR thousands	Liabilities			
	12/31/2016		12/31/2017	
	Level 2	Total	Level 2	Total
Financial liabilities held for trading purposes				
- Forward exchange transactions	142	142	0	0
Derivatives in hedge accounting				
- Forward exchange transactions	0	0	0	0
Total liabilities	142	142	0	0

There were no reclassifications between the individual fair value hierarchies during the reporting period.

Net result from financial instruments according to valuation categories

The following table presents the net gains or losses of financial instruments included in the income statement according to valuation categories:

2016 EUR thousands	Interest	Currency translations	Valuation of derivatives	Impairment/reversals	Investment income	Net result
Assets available-for-sale	0	0	0	0	6	6
Loans and receivables	241	2,728	0	10	0	2,980
Liabilities held for trading purposes	0	0	-65	0	0	-65
Liabilities at amortized purchase costs	-725	-3,725	0	0	0	-4,449
	-484	-997	-65	10	6	-1,528

2017 EUR thousands	Interest	Currency translations	Valuation of derivatives	Impairment/reversals	Investment income	Net result
Assets available-for-sale	0	0	0	0	37	37
Loans and receivables	379	1,655	0	-118	0	1,916
Liabilities held for trading purposes	0	0	142	0	0	142
Liabilities at amortized purchase costs	-652	-3,953	0	0	0	-4,605
	-273	-2,298	142	-118	37	-2,510

In the reporting period, no interest income was recognized on impaired trade receivables.

Derivatives and hedge accounting

As of the balance sheet date 12/31/2017, there were no open derivatives. As of the balance sheet date of the previous year, foreign currency derivatives existed to hedge future sales in JPY with a nominal volume of EUR 3,751 thousands.

In fiscal year 2017, the conditions for hedge accounting were not met as in the previous year. The changes in the fair value of the open forward foreign exchange contracts were recognized in profit or loss through the income statement.

Maturity analysis of derivatives

The following table shows the undiscounted net cash flows of the individual derivatives as of the balance sheet date 12/31/2016, irrespective of their current market value. In this case, positive signs signify a cash outflow and negative signs signify a cash inflow:

12/31/2016 EUR thousands	Up to 1 year	1 – 5 years	over 5 years	Total
JPY derivatives	142	0	0	142
Total	142	0	0	142

There were no currency forwards with a term of more than one year during the reporting period.

29. ACQUISITIONS

As explained under II. Change of Business Model and Subsequent Presentation in the IFRS Consolidated Financial Statements, the contribution of the shares in AlzChem Trostberg GmbH to AlzChem Group AG in accordance with IFRS in connection with IFRS 3 is to be accounted for as a reverse business combination. Therefore, the presentation in these Consolidated Financial Statements is as if AlzChem Group AG is the company acquired on the balance sheet.

AlzChem Group AG was included in these Consolidated Financial Statements for the first time as of October 2, 2017. AlzChem Group AG did not have its own operating business and now represents the parent company of the AlzChem Group. The business activities of AlzChem Trostberg GmbH and its subsidiaries thus became a business activity AlzChem Group AG.

The consideration for the reverse acquisition of AlzChem Group AG is determined in accordance with the provisions of IFRS 2 Share-based Payment and amounts to EUR 775 thousands. It was made in shares in AlzChem Trostberg GmbH and is not subject to any further payments.

The acquired net assets (total assets less total debt) of AlzChem Group AG at the acquisition date amount to EUR -67 thousands.

The difference between the consideration for the reverse acquisition of AlzChem Group AG and the net assets (total assets less total debts) of AlzChem Group AG received in the course of the reverse acquisition was recognized in profit or loss in the amount of EUR 842 thousands. Goodwill under IFRS 3 does not arise.

The acquired assets and liabilities as of the acquisition date are as follows:

in EUR thousands	Fair value
Current assets	
Other receivables and other assets	865
Cash and cash equivalents	25
Debt	
Liabilities from goods and services	-882
Other current liabilities	-75
Net assets	-67

Taking into account the consideration for the acquired assets and liabilities in the amount of EUR 775 thousands, the business combination resulted in a difference of EUR 842 thousands, which was recognized immediately as an expense.

The fair values of the assets and liabilities were always determined on the basis of observable market prices. If market prices could not be determined, income-based approaches or cost-oriented procedures for the valuation of acquired assets and liabilities could be used.

The gross amounts of the acquired receivables correspond to the fair values stated above. At the time of acquisition, there were no findings that claims could be irrecoverable.

It is impossible to disclose information on consolidated sales and consolidated net income until the date of first-time consolidation and from the date of first-time consolidation until the balance sheet date, as the company had not carried out any operational activities until the date of contribution and only performed a holding function.

The business combination resulted in a net cash inflow of EUR 25 thousands. The transaction costs incurred are not included here.

There were no other acquisitions during the reporting period.

IX. OTHER NOTES

30. OTHER FINANCIAL OBLIGATIONS

As of the balance sheet date of 12/31/2017, other financial obligations exist except for the non-terminable rental, lease, leasehold and service contracts that the Group entered into in the course of its ordinary business activities. The sum of future payments under the contracts is broken down as follows:

2016 EUR thousands	up to 1 year	1-5 years	over 5 years	Total
Rental and lease obligations	2,549	3,814	0	6,363
Other obligations	888	201	33	1,122
Total	3,437	4,015	33	7,485

2017 EUR thousands	up to 1 year	1-5 years	over 5 years	Total
Rental and leasing obligations	2,688	3,483	0	6,171
Other obligations	1,315	536	8	1,859
Total	4,003	4,019	8	8,030

The total amount of rental and lease obligations from operating leases in the amount of EUR 6,171 thousands (previous year: EUR 6,363 thousands) is divided between rental and leasing contracts for land and buildings in the amount of EUR 20 thousands (previous year: EUR 156 thousands) and operating lease agreements for technical equipment and machinery amounting to EUR 6,151 thousands (previous year: EUR 6,207 thousands).

Other financial obligations amounting to EUR 1,859 thousands (previous year: EUR 1,122 thousands) include maintenance and service contracts for machinery and equipment, software and other operating and office equipment.

On the balance sheet date 12/31/2017, order commitments in the amount of EUR 57,868 thousands exist (previous year: EUR 84,792 thousands). These consist primarily of long-term purchase commitments for lime and energy deliveries.

The total of future inflows of minimum lease payments from leased objects as of December 31, 2017, amounted to EUR 5,976 thousands (previous year: EUR 5,920 thousands).

2016 EUR thousands	up to 1 year	1-5 years	over 5 years	Total
Minimum leasing payments from operating lease agreements	1,344	2,862	1,714	5,920
Total	1,344	2,862	1,714	5,920
2017 EUR thousands	up to 1 year	1-5 years	over 5 years	Total
Minimum leasing payments from operating lease agreements	1,281	2,297	2,398	5,976
Total	1,281	2,297	2,398	5,976

31. CONTINGENCIES

For possible environmental obligations from the sale of the alloy plant in 2008, there are liabilities of EUR 2.1 mn until 2038. However, due to the industrial structure of the site, the company rules out such risk.

32. CORPORATE BODIES

The members of the Management Board of AlzChem Group AG were:

- Maik Brockmann, until October 6, 2017.
- Ulli Seibel, Dipl. Wirtsch.-Ing. (CEO), since October 2, 2017
- Klaus Englmaier, Dipl. Ing. (COO), since October 2, 2017
- Andreas Niedermaier, Dipl. Wirtsch.-Ing. (FH) (CFO), since October 2, 2017.

The Board members Ulli Seibel, Klaus Englmaier and Andreas Niedermaier were also appointed members of the Management Boards of AlzChem Trostberg GmbH in the previous year and throughout 2017 and were also appointed members of the Management Board of AlzChem Group AG. Mr. Maik Brockmann was only a member of the Management Board of AlzChem Group AG.

The Management Board members are the persons in key positions of the AlzChem Group in accordance with IAS 24. The remuneration of the members of the Management Board totaled EUR 1,701 thousands in fiscal year 2017 (previous year: EUR 1,761 thousands). A full-year period was used to determine the remuneration of the Management Board. The remuneration of the Management Board members Ulli Seibel, Klaus Englmaier and Andreas Niedermaier from the remuneration of AlzChem Trostberg GmbH (until September 2017) and from AlzChem Group AG (since appointment to the Management Board) was included in fiscal year 2017. The prior-year period relates to the remuneration of the members of the Management Board of the former AlzChem AG. The remuneration can be broken down as follows:

EUR thousands	2016	2017
Fixed salaries	615	680
Bonuses	964	801
Remuneration in kind	46	47
Benefits after the term of employment has ended	116	148
Share-based payment (Long-Term Incentive)	20	25
	1,761	1,701

The remuneration will be disclosed individually for the fiscal year beginning on January 1, 2017. Based on the sample tables of the German Corporate Governance Code, we report the expenses recognized in the year under review (see above), as well as the amount paid out in the year under review in the following table.

Remuneration share in EUR thousands	CEO	CFO	COO	Σ
	Fiscal year 2017			
Fixed remuneration	280	220	180	680
Benefits	12	20	16	48
Σ	292	240	196	728
One year variable remuneration	407	479	172	1,058
Multiyear variable remuneration	Long-Term Incentive until March 31, 2020			
Plan description (Term of plan)	Long-Term Incentive until March 31, 2020			
Σ	699	719	368	1,786
Benefit expense	71	42	35	148
Total remuneration	770	761	402	1,933

The outstanding balances as of December 31, 2017, amount to EUR 801 thousands (previous year: EUR 964 thousands) and are reported under other current liabilities. Provisions for post-employment benefits amount to EUR 995 thousands (previous year: EUR 1,205 thousands) for the members of the Management Board and are reported under provisions for pensions and similar obligations. The provision for the share-based payment in the amount of EUR 25 thousands (previous year: EUR 20 thousands) is reported under other long-term provisions.

The Supervisory Board of the parent company AlzChem Group AG, consisting of four members, convenes at least once every six months in accordance with the Articles of Association.

The following persons belonged to the Supervisory Board in the year under review:

- Mark Wechselmann, until June 9, 2017
- Constantin Häfner, until August 4, 2017
- Andreas von Kontz, until August 4, 2017
- Bernhard Riedel, from May 23, 2017, until August 4, 2017
- Markus Zöllner (Chairman), since August 4, 2017
- Steve Röper, since October 2, 2017
- Prof. Dr. Martina Heigl-Murauer, since August 4, 2017
- Dr. Caspar Frhr. von Schnurbein, since August 4, 2017.

The members of the Supervisory Board Markus Zöllner, Steve Röper, Prof. Dr. Martina Heigl-Murauer and Dr. Caspar Frhr. von Schnurbein were also appointed members of the Supervisory Board of AlzChem Trostberg GmbH during the entire fiscal year 2017. In addition, the employee representatives Karl Held and Otto Wolf were appointed as members of the Supervisory Board of AlzChem Trostberg GmbH for the entire fiscal year 2017. The aforementioned Supervisory Board members are also persons in key positions of the AlzChem Group in accordance with Art. IAS 24. In fiscal year 2017, the members of the Supervisory Board received remuneration of EUR 150 thousands (previous year: EUR 91 thousands) from AlzChem Trostberg GmbH, which led to outstanding balances of the same amount as of the balance sheet date. In fiscal year 2017, the members of the Supervisory Board received no compensation for their work at AlzChem Group AG. No expense allowances were paid in the year under review. The employee representatives on the Supervisory Board received a fair salary for their activities.

33. SHARE-BASED PAYMENT

Stock Appreciation Rights 2017

The Management Board members Ulli Seibel, Klaus Englmaier and Andreas Niedermaier have concluded Management Board contracts in which so-called "Stock Appreciation Rights" (SARs) are granted as a "Long-Term Incentive." The granting of the SAR depended on the contribution of the shares in AlzChem Trostberg GmbH to AlzChem Group AG. An SAR grants a cash payment based on the development of the market price of AlzChem Group AG. In total, the Management Board was granted 2,250,000 SARs in fiscal year 2017.

The exercise of the SAR can only be carried out if the following conditions of exercise apply:

As of 01/01/2020, the SARs may only be exercised if the average of the closing prices of the company's share in the last 30 trading days prior to 01/01/2020 is EUR 0.75 or more above the average closing price of the AlzChem Group AG share in the 60 trading days following the day of contribution, whereby this average price must be at least EUR 2.50. For the beneficiaries, a maximum payout limit in relation to the total LTI of the Management Board of EUR 2,950 thousands has been defined.

The cash amount payable on exercise of the SAR is calculated as the product between the number of SARs exercised and the average closing price of the company's shares during the last 30 trading days prior to 01/01/2020 less the average closing price of the AlzChem Group AG share in the 60 trading days from 10/09/2017 (inclusive).

As of December 31, 2017, the number of SARs granted in response to a successful listing is 2,250,000. The fair value was determined on the basis of a Monte Carlo model and the expense reported under operating personnel expenses is distributed on a straight-line basis from the date of grant until the start of the exercise period. As of December 31, 2017, this plan included a provision and personnel expenses of EUR 25 thousands. The valuation was based on the following parameters as of December 31, 2017:

• Remaining time (in years)	2.13
• Expected volatility	21.61%
• Risk-free interest rate	-0.62%
• Dividend yield	2%
• Exercise price	EUR 4.17
• Share price at the valuation point	EUR 2.89

The expected volatility of the AlzChem share was determined on the basis of the maturity-appropriate historical volatility of comparable companies. Since the existing subscription rights (SARs) are not options and the subscription rights represent a payment equal to the share price in effect on exercise, the exercise price for the SAR is EUR 0.00.

Stock Appreciation Rights 2016

In the previous year, AlzChem Trostberg GmbH was preparing for admission to the stock exchange and also granted its Management Board members "Stock Appreciation Rights" (SAR) as a "long-term incentive," the Stock Appreciation Rights 2016. After canceling the originally planned IPO in fiscal year 2017, Stock Appreciation Rights 2016 could not be granted. The provision of EUR 20 thousands formed as of December 31, 2016, was derecognized in full in fiscal year 2017.

The granting of Stock Appreciation Rights in 2016 depended on the admission of the company's shares to a regulated market within the meaning of Section 3 (2) of the German Stock Corporation Act. In the event of a successful IPO, the Management Board would have been granted a total of 45,000 SARs. An SAR would have granted a cash payment subject to the development of the company's stock market price.

Although the contracts legally came into effect only on January 1, 2017, the regulations of IFRS 2 require accounting from the date of granting the share-based payment. Since the grant was granted in fiscal year 2016, the effect of the share-based payment was already recognized for the first time as of December 31, 2016.

The granting of the SAR depended on a successful IPO. The assessment of the very high probability of a successful IPO led to the fact that the granted Stock Appreciation Rights had already been accounted for as of December 31, 2016.

The exercise of the SAR could have been carried out only if the following exercise conditions existed:

The waiting period for the exercise of the SAR would have ended at the end of the day on 07/31/2019. However, as of 08/01/2019, the SARs could only have been exercised if the average closing price of the company's stock during the last 30 trading days prior to 08/01/2019 was 25% or more above the closing price of the stock on the day of admission to the exchange, however, at least EUR 39.00. The SAR could only have been exercised in whole or in part in the period from 08/01/2019 to 12/31/2019. After this period, non-exercised SARs would have expired. For the beneficiaries of Stock Appreciation Rights 2016, a maximum payout limit in relation to the total LTI of the Management Board of EUR 2,950 thousands was defined.

The cash amount on exercise of the SAR would have been calculated as the product between the number of SARs exercised and the average closing price of the company's shares during the last 30 trading days prior to the exercise date.

As of December 31, 2016, the number of SARs granted in response to a successful listing was 45,000. The fair value was determined on the basis of a Monte Carlo model and the expense reported under operating personnel expenses was distributed on a straight-line basis from the date of grant until the start of the exercise period. As of December 31, 2016, this plan included a provision and personnel expenses of EUR 20 thousands. The valuation was based on the following parameters as of December 31, 2016:

• Remaining time (in years)	2.79
• Expected volatility	25.87%
• Risk-free interest rate	-0.73%
• Dividend yield	2%
• Exercise price	EUR 0.00
• Share price at the valuation point	EUR 31.82

The expected volatility of the AlzChem share was determined on the basis of the maturity-appropriate historical volatility of comparable companies. The SARs had to be accounted for prior to the IPO of AlzChem Trostberg GmbH, so that at the time of granting and on December 31, 2016, no traded share price of AlzChem Trostberg GmbH was available. For this reason, the best possible estimate for the stock price on the IPO was used for the valuation as of 12/31/2016. As the Stock Appreciation Rights 2016 were not options and the subscription rights represented a payment equal to the stock price valid on exercise, the exercise price for the SAR was EUR 0.00.

34. RELATED PARTY RELATIONSHIPS

Related persons include key persons in the AlzChem Group. These are listed by name and with their remuneration in Note 33.

The companies controlled by the shareholders LIVIA Corporate Development SE, HDI Vier CE GmbH (both based in Munich), and the companies controlled by four two na GmbH, Bichl, and by their shareholders or legal representatives are considered to be related parties to the AlzChem Group.

At the time of the capital increase against contribution in kind, AlzChem Group AG had a liability to Livia Corporate Development S.E. in the amount of EUR 74 thousands, which was paid after the execution of the company transaction.

The shareholders of AlzChem Trostberg GmbH had undertaken to bear the costs incurred in preparing for the IPO in the previous year, but which were not directly attributable to the capital increase of the company. These costs incurred by the company were reported in the previous year as financial receivables under current receivables and other assets and amounted to EUR 1,024 thousands on the balance sheet date of December 31, 2016 (previous year: EUR 0 thousands). The claim was settled in fiscal year 2017.

There were no other related party transactions in the period under review.

35. LITIGATION AND CLAIMS FOR DAMAGES

The AlzChem Group is not involved in any legal or arbitration proceedings with a significant impact on the position of the Group. The current, rather insignificant proceedings overall have not been or the management does not expect them to entail any material obligations. In general, the exact amount of a possible obligation or claims cannot be reliably determined due to the high level of uncertainty associated with such proceedings.

36. FEES FOR AUDITORS

In fiscal year 2017, fees totaling EUR 769 thousands (previous year: EUR 858 thousands) were incurred for services of the auditors of the Consolidated Financial Statements within the meaning of Section 318 HGB. This includes EUR 178 thousands (previous year: EUR 0 thousands), which are attributable to the previous year.

EUR thousands	2016	2017
Other testing and certification services	601	481
Audit services	243	288
Tax advisory services	14	0
Total	858	769

37. EVENTS AFTER THE BALANCE SHEET DATE

After the end of the fiscal year, there were no circumstances with a significant impact on the net assets, financial position and results of operations until the date of preparation of the Consolidated Financial Statements.

Trostberg, February 28, 2018

AlzChem Group AG

Management Board



Ulli Seibel
(CEO)



Klaus Englmaier
(COO)



Andreas Niedermaier
(CFO)

RESPONSIBILITY STATEMENT

We assure to the best of our knowledge that the consolidated financial statements in accordance with the applicable accounting principles for financial reporting give a true and fair view of the Group's net assets, financial position and earnings position, and that the course of business, including the business results and the position of the Group, are presented in the Group Management Report such that they accurately describe the actual situation and the main opportunities and risks of the expected development of the Group.

Trostberg, March 26, 2018

AlzChem Group AG

The Management Board



Ulli Seibel
(CEO)



Klaus Englmaier
(COO)



Andreas Niedermaier
(CFO)

AUDIT REPORT OF THE INDEPENDENT AUDITOR

TO THE ALZCHEM GROUP AG, TROSTBERG

AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Audit opinions

We have audited the Consolidated Financial Statements of AlzChem Group AG (formerly Softmatic AG), Trostberg, and its subsidiaries (the Group); these were comprised of the Consolidated Balance Sheet as of December 31, 2017, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement for the fiscal year from January 1 to December 31, 2017, and the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. In addition, we have audited the Group Management Report of AlzChem Group AG for the fiscal year from January 1 to December 31, 2017. In accordance with German law, we have not examined the content of the components of the Group Management Report referred to in the "Other information" section of our Audit Report.

In our opinion based on the findings of our audit,

- the accompanying Consolidated Financial Statements comply in all material respects with IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB and give a true and fair view of the net assets, financial position and Group operating results as of December 31, 2017, and of its financial position for the fiscal year from January 1 to December 31, 2017, in accordance with these requirements; and
- the accompanying Group Management Report provides a suitable understanding of the Group's position. In all material respects, the Group Management Report is consistent with the Consolidated Financial Statements, complies with German law and accurately presents the opportunities and risks of future development. Our Audit Report on the Group Management Report does not extend to the content of the components of the Group Management Report referred to in the section "Other information".

In accordance with Section 322 (3.1) HGB, we declare that our audit has not led to any objections to the correctness of the Consolidated Financial Statements and the Group Management Report.

Basis for audit opinions

We conducted our audit of the Consolidated Financial Statements and the Group Management Report in accordance with Section 317 HGB and the EU Auditor Regulation (537/2014; hereinafter "EU APrVO") and generally accepted German standards for auditing financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility in accordance with these regulations and principles is further described in the section of our Audit Report entitled "Responsibility of the auditor for the audit of the Consolidated Financial Statements and the Group Management Report." We are independent of the Group in accordance with European and German commercial law and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. In addition, we declare in accordance with Section 10 (2f) EU APrVO that we have not provided any prohibited non-audit services pursuant to Section 5 (1) EU APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our Audit Report on the Consolidated Financial Statements and the Group Management Report.

Particularly important audit issues in the audit of the Consolidated Financial Statements

Particularly important audit issues are those which, in our opinion, were most significant in our audit of the Consolidated Financial Statements for the fiscal year from January 1 to December 31, 2017. These matters have been considered in connection with our audit of the Consolidated Financial Statements as a whole and in forming our opinion thereon; we do not express a separate opinion on these matters.

In our opinion, the following matters were most significant in our audit:

- 1 Pension provisions
- 2 Reverse company acquisition

We have structured our presentation of these particularly important audit issues as follows:

- 1 Facts and problems
- 2 Audit approach and findings
- 3 Reference to further information

The most important audit issues are as follows:

- 1 Pension provisions
 - 1 In the Consolidated Financial Statements of AlzChem Group AG, provisions for pensions and similar obligations total EUR 07.2 million (38.3% of the Consolidated Balance Sheet total). Pension provisions comprise obligations from defined benefit plans for retirement, disability and surviving dependents' benefits in the amount of EUR 107.4 million less plan assets in the amount of EUR 0.2 million. Obligations from defined benefit plans are measured using the projected unit credit method. In particular, assumptions must be made about long-term salary and pension trends, average life expectancy and fluctuation. The discount rate on the balance sheet date is derived from the yield on high-quality, currency-congruent corporate bonds with maturities comparable to the expected maturities of the obligations. Extrapolations must be carried out regularly as there are insufficient long-term corporate bonds. Plan assets are measured at fair value, which in turn is associated with estimation uncertainties. In our opinion, these matters were of particular importance in the context of our audit, as the recognition and measurement of this significant item are based to a significant extent on estimates and assumptions made by the Company's legal representatives.
 - 2 In the course of our audit, we acknowledged the actuarial reports obtained from the respective Group companies and the professional qualifications of external experts. In view of the specific characteristics of actuarial calculations, our internal specialists for pension valuations supported us in this. Our audit included the valuation method on which valuations are based, the quantity structure and the actuarial valuation parameters applied for standard conformity and appropriateness. In addition, obligation development and expense components were analyzed and plausibility checked in accordance with the actuarial reports in light of the changes that have occurred in the valuation parameters and the quantity structure. For the audit of the fair value of the plan assets, we have assessed evidence from an insurance institution. Based on our audit procedures, we were able to satisfy ourselves that the assessments and assumptions made by the legal representatives are well-founded and adequately documented.

③ The Company's disclosures on provisions for pensions and similar obligations are contained in Sections V and VII (No. 20) of the Notes to the Consolidated Financial Statements.

② Reverse company acquisition

① In fiscal year 2017, the AlzChem Group was listed on the regulated market (Prime Standard) of the Frankfurt Stock Exchange, where the shareholders of the former AlzChem AG (now AlzChem Trostberg GmbH) transferred their shares to the former Softmatic AG (now AlzChem Group AG) in a capital increase in kind, the shares of which were admitted to trading on the regulated market (General Standard) of the Frankfurt Stock Exchange and which had no operating business. As part of the capital increase through contributions in kind, Softmatic AG was renamed AlzChem Group AG. Legally, the former Softmatic AG acquired all shares in the former AlzChem AG in the course of the transaction. Today's AlzChem Group AG is therefore the legal acquirer, whereas the former AlzChem AG is legally the acquired company. For accounting purposes, however, the former AlzChem AG was identified as the acquirer and the present AlzChem Group AG as the acquired company within the meaning of IFRS 3 (reverse acquisition). However, the former Softmatic AG was a shell company without operational business operations, so that the general rules of reverse acquisition accounting with the exception of the recognition of goodwill had to be applied. The Consolidated Financial Statements of the former AlzChem AG have been continued. As the present AlzChem Group AG is the legal acquirer, the subscribed capital of AlzChem Group AG and its previous year's figures must be continued. The adjustment of the subscribed capital is shown in the capital reserve under the item "Capital reserve adjustment item reverse acquisition". Due to the risk of misstatement in the Consolidated Financial Statements and the complexity of the presentation in the financial statements, this matter was, in our opinion, of particular importance in the course of our audit.

② In the context of our audit of the balance sheet presentation of the corporate transaction, we dealt with the resolution of the Annual General Meeting of the former Softmatic AG and the contribution agreement between the shareholders of the former AlzChem AG and the former Softmatic AG. We also established whether the former AlzChem AG acquired control over the former Softmatic AG in the context of the business merger in accordance with the requirements of IFRS 10 and is therefore to be regarded as an acquirer within the meaning of IFRS 3. In this context, we also assessed whether this is not an acquisition transaction under joint control. In particular, the shareholder structure of the two stock corporations before and after the transaction was acknowledged. Furthermore, it was verified that the former Softmatic AG does not have its own business operations. We assessed whether the general rules of reverse acquisition accounting with the exception of the recognition of goodwill were applied appropriately and whether the acquired assets and liabilities were included in the Consolidated Financial Statements of AlzChem Group AG at their fair values. In our opinion, the valuation parameters and assumptions applied by the legal representatives, taking into account the available information, are suitable overall for an appropriate presentation of the reverse company acquisition in the balance sheet.

③ The Company's information on the reverse acquisition is included in Section II of the Notes to the Consolidated Financial Statements.

Other information

The legal representatives are responsible for "Other information". "Other information" includes the following components of the Group Management Report that have not been audited for their content:

- the Corporate Governance Statement contained in Section 8 of the Group Management Report in accordance with Section 289f HGB and Section 315d HGB
- the Corporate Governance Report in accordance with Section 3.10 of the German Corporate Governance Code
- the Non-Financial Statement in accordance with Section 289b (1) HGB and Section 315b (1) HGB contained in Section 7 of the Group Management Report.

"Other information" also includes the remaining parts of the Annual Report – without further cross-references to external information – with the exception of the audited Consolidated Financial Statements, the audited Group Management Report and our Audit Report.

Our opinion on the Consolidated Financial Statements and the Group Management Report does not extend to "Other information", and accordingly we do not express an audit opinion or any other form of conclusion on it.

In the context of our audit, we have the responsibility to read "Other information" and to assess whether it includes

- material inconsistencies with the Consolidated Financial Statements, with the Group Management Report or with our understanding gained during the audit, or
- is otherwise materially misrepresented.

Responsibility of the legal representatives and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The legal representatives are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB and for the presentation of a true and fair view of net assets, the financial position and Group operating results in accordance with these requirements. In addition, the legal representatives are responsible for the internal controls they have determined necessary to enable the preparation of the Consolidated Financial Statements that are free from material misstatements, whether intentional or not.

In preparing the Consolidated Financial Statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing, where relevant, matters relating to the continuation of the Company's activities. In addition, they are responsible for accounting on the basis of the going concern principle, unless there is the intention to liquidate the Group or to discontinue operations, or if there is no realistic alternative.

The legal representatives are also responsible for the preparation of the Group Management Report, which as a whole provides a suitable view of the Group's position and appropriately presents the opportunities and risks of future development in accordance with German law. Furthermore, the legal representatives are responsible for the precautions and measures (systems) which they have deemed necessary to enable the preparation of a Group Management Report in accordance with the applicable German legal provisions and to provide sufficient suitable evidence for the statements in the Group Management Report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the Consolidated Financial Statements and the Group Management Report.

Responsibility of the auditor for the audit of the Consolidated Financial Statements and the Group Management Report

Our objective is to obtain reasonable assurance as to whether the Consolidated Financial Statements as a whole are free from material misstatements, whether the Group Management Report as a whole provides a suitable view of the Group's position and appropriately presents the opportunities and risks of future development in all material respects in accordance with German law and with the findings of our audit, as well as to issue an Audit Report.

Sufficient certainty is a high degree of certainty, but no guarantee that an audit conducted pursuant to Section 317 HGB and the EU APiVO in accordance with the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always reveal a material misstatement. Misstatements may result from infringements or inaccuracies and are considered material if they could reasonably be expected to influence the economic decisions of addressees made individually or collectively on the basis of the Consolidated Financial Statements and the Group Management Report.

During the audit, we exercised due discretion and maintained a critical attitude. In addition,

- we identified and assessed the risks of material misstatements in the Consolidated Financial Statements and the Group Management Report, planned and performed audit procedures in response to these risks, and obtained audit evidence sufficient and appropriate to form the basis for our Audit Report. The risk that material misrepresentations are not detected is higher in the case of violations than in the case of inaccuracies, since violations may involve fraudulent interaction, forgery, intentional incompleteness, misleading representations or the repeal of internal controls;
- we obtained an understanding of the internal control system relevant to the audit of the Consolidated Financial Statements and of the precautions and measures relevant to the audit of the Group Management Report in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of expressing an opinion on the effectiveness of these systems;
- we assessed the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values and related disclosures presented by the legal representatives;
- we drew conclusions about the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there was material uncertainty in connection with events or circumstances that could raise significant doubts about the Group's ability to continue as a going concern. If we came to the conclusion that there was material uncertainty, we were obliged to draw attention to the relevant information in the Consolidated Financial Statements and the Group Management Report in our Audit Report, or if this information is inappropriate, to modify our respective Audit Report. We drew our conclusions based on evidence obtained by the date of our Audit Report. However, future events or circumstances may prevent the Group from continuing its business activities;
- we expressed an opinion on 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 such that the Consolidated Financial Statements give a true and fair view of the net assets, financial position and Group operating results in accordance with IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB;
- we obtained sufficient suitable audit evidence for the accounting information of the companies or business activities within the Group to enable us to express an opinion on the Consolidated Financial Statements and the Group Management Report. We are responsible for the management, supervision and execution of the audit of the Consolidated Financial Statements. We are solely responsible for our audit opinions;
- we expressed an opinion on the conformity of the Group Management Report with the Consolidated Financial Statements, its discussion of the law and the Group's position as presented by it;
- we performed audit procedures on the forward-looking statements presented by the legal representatives in the Group Management Report. On the basis of sufficient suitable audit evidence, we followed in particular the significant assumptions underlying the forward-looking statements made by the legal representatives and assessed the appropriate derivation of the forward-looking statements from these assumptions. We did not express an independent opinion on these forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events could differ materially from the forward-looking statements.

We discussed with those responsible for monitoring on topics including the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system that we identified during our audit.

We made a statement to supervisors that we complied with the relevant independence requirements and discussed with them all relationships and other matters that can reasonably be expected to affect our independence and the safeguards taken to that end.

From the matters that we have discussed with those responsible for supervision, we determined those matters that were most significant in the audit of the Consolidated Financial Statements for the current reporting period and are therefore particularly important audit matters. We described these matters in the Auditor's Report, unless laws or other legal provisions exclude public disclosure of the facts.

FURTHER STATUTORY AND LEGAL REQUIREMENTS

Other information referred to in Section 10 EU APrVO

We were elected as Group auditors by the Annual General Meeting on August 4, 2017. We were appointed by the Supervisory Board on December 4, 2017. We have been the Group auditors of AlzChem Group AG, Trostberg, since fiscal year 2017.

We declare that the audit opinions contained in this Audit Report are consistent with the additional report to the Audit Committee under Section 11 EU APrVO (Audit Report).

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Anita Botzenhardt.

Munich, February 28, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Anita Botzenhardt
Certified Public Accountant

ppa. Marcel Hohbein
Certified Public Accountant

LIST OF ABBREVIATIONS

AB	Aktiebolag
€ / EUR	Euro
AG	Aktiengesellschaft
CEO	Chief Executive Officer (Vorstandsvorsitzender)
CFO	Chief Financial Officer (Finanzvorstand)
COO	Chief Operating Officer (Produktionsvorstand)
CNY	Renminbi Yuan
DBO	Defined Benefit Obligation
EBIT	Earnings before interest and taxes (Ergebnis vor Zinsen und Steuern)
EBITDA	Earnings before interest, taxes, depreciation and amortization (Ergebnis vor Zinsen, Steuern und Abschreibungen)
EFRAG	European Financial Reporting Advisory Group
EU	European Union
GmbH	Gesellschaft mit beschränkter Haftung
HGB	Handelsgesetzbuch
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Standards
IPO	Initial Public Offering
JPY	Yen
LLC	Limited Liability Company
Ltd.	Limited
LTI	Long Term Incentive
mn	million
Nr.	Nummer
OCI	Other Comprehensive Income
p.a.	per anno
SAR	Stock Appreciation Rights
S.à.r.l.	société à responsabilité limitée
SEK	Schwedische Krone
SIC	Standing Interpretations Committee
USA	United States of America (Vereinigte Staaten von Amerika)
USD	United States Dollar

IMPRINT

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FINANCIAL CALENDAR 2018

Financial Calendar

May 15, 2018	Q1 Financial Report 2018 (1–3)
May 23, 2018	1st Annual General Meeting 2018
June 30, 2018	End of the short fiscal year 2018
September 24, 2018	Financial report on the short fiscal year 2018 (1–6)
November 12, 2018	Q1 Financial Report 2018 (7–9)
November 2018	2nd Annual General Meeting 2018

REMARKS

This report may contain forward-looking statements based on current assumptions and forecasts made by the management of AlzChem Group AG. Such statements are subject to risks and uncertainties. These and other factors may cause actual results, financial position, development or performance of the Company to differ materially from the estimates made here. The company assumes no liability whatsoever to update such forward-looking statements or to conform them to future events or developments.

AlzChem Group AG

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