LEIFHEIT

How housework's done today.

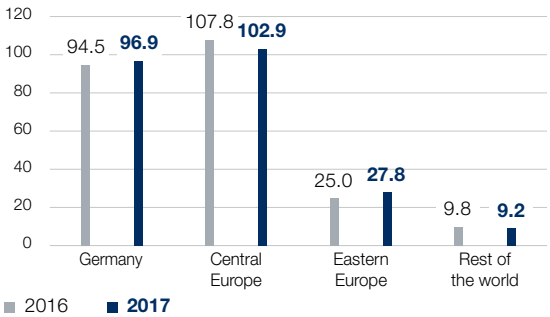
Annual financial report
2017

Key figures of the Group

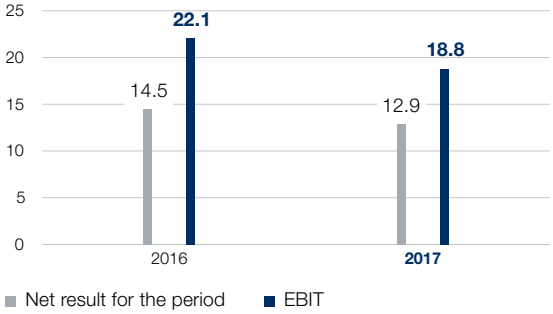
		2016	2017	Change
Turnover				
Group	m€	237.1	236.8	–0.1%
Brand Business	m€	195.8	196.7	0.5%
Volume Business	m€	41.3	40.1	–2.8%
Profitability				
Gross margin	%	47.5	46.4	–1.1 pps
Cash flow from operating activities	m€	21.8	7.2	–67.0%
Free cash flow	m€	14.3	1.5	–89.6%
Foreign currency result	m€	0.3	–1.5	>–100%
EBIT	m€	22.1	18.8	–14.8%
EBIT adjusted [1]	m€	21.8	20.3	–6.9%
EBIT margin	%	9.3	8.0	–1.3 pps
EBIT margin adjusted [1]	%	9.2	8.6	–0.6 pps
Earnings before taxes (EBT)	m€	20.6	17.7	–14.0%
Net result for the period	m€	14.5	12.8	–11.4%
Return on sales	%	6.1	5.4	–0.7 pps
Return on equity	%	13.9	13.0	–0.9 pps
Return on total capital	%	6.1	5.7	–0.4 pps
ROCE	%	16.3	12.8	–3.5 pps
Share [2]				
Net result for the period per share [3]	€	3.06	1.35	–11.8%
Free cash flow per share [3]	€	3.01	0.16	–89.6%
Dividend per share	€	1.05	1.05 [4]	–
Special dividend per share	€	0.40	– [4]	>–100%
Employees at the end of the year	people	1,093	1,168	6.9%
Investments	m€	7.8	7.8	–
Depreciation and amortisation	m€	6.2	6.4	3.4%
Balance sheet total	m€	239.4	224.9	–6%
Equity	m€	104.6	98.5	–5.8%
Equity ratio	%	43.7	43.8	0.1 pps

[1] Adjusted for foreign currency result.
[2] Capital increase from own funds with the issuing of new shares in 2017; data for 2016 adjusted for comparability.
[3] Not including repurchased treasury shares.
[4] Dividend proposal.

Group turnover by region
in m€



Group result
in m€



Our vision

»We are your leading experts for solutions that make your everyday life at home more easy and convenient.«

"Leifheit 2020" provides us with a strategic framework for securing sustainable and profitable growth. Our ten strategic principles show where and how we will be able to seize potential and opportunities.

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Group profile

The Leifheit Group is one of the leading European suppliers of household items in the cleaning, laundry care, kitchen and wellbeing sectors. Under the Leifheit and Soehnle brands – two of Germany's best-known brands – we offer high-quality, innovative products and solutions that make everyday life at home easier and more convenient.

Besides its Brand Business, the Group operates with French subsidiaries Birambeau and Herby in its service-oriented Volume Business, where products are sold at mid-range prices.

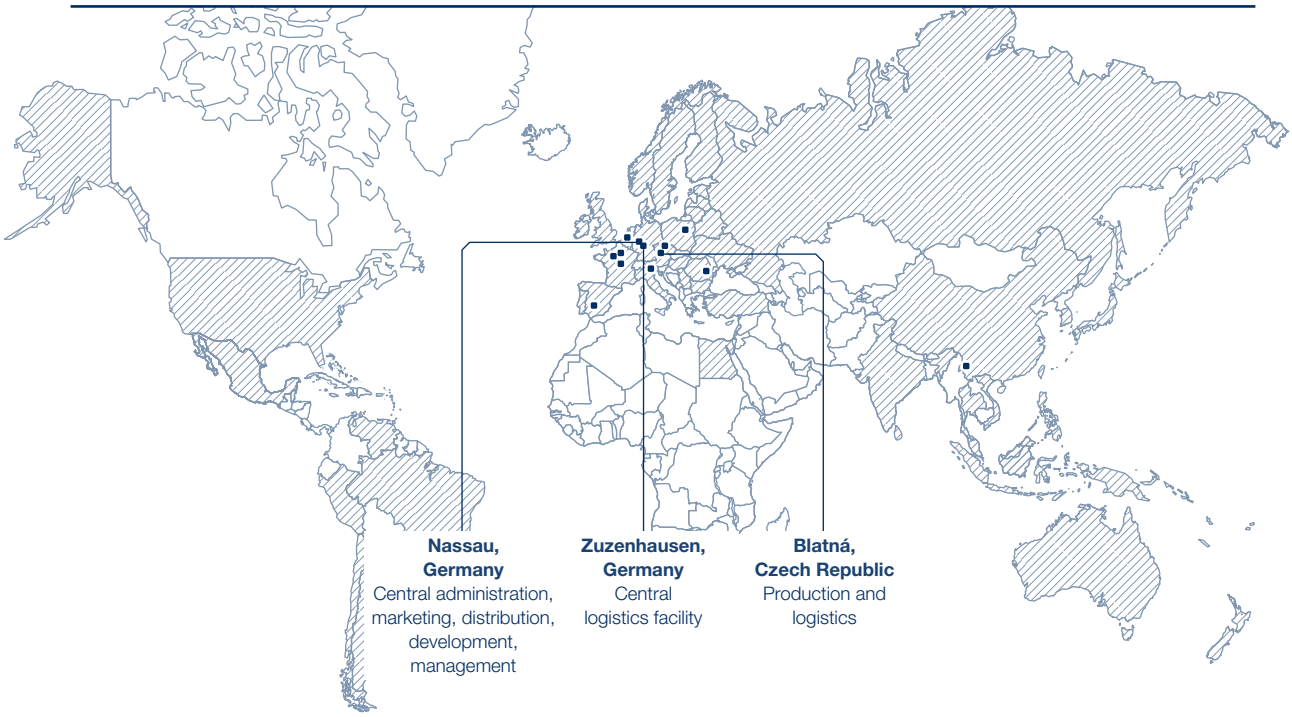
Brand Business

LEIFHEIT SOEHNLE

Volume Business

birambeau herby Project Business

Locations



Investment highlights

1 Strong brands

Well-known brands with high consumer confidence

Leading market positions in Germany and many other European countries

Quality supplier in the medium and high price segments

2 Stable business model

Non-cyclical business: our everyday products are always in demand

Well positioned to exploit e-commerce potential

Intelligent combination of external and internal manufacturing

3 Solid set-up

Efficient cost structure and sustained margin development

Strong cash position and high cash flows

High equity ratio and no financial debt

4 Reliable partner for shareholders

Shareholder-oriented dividend policy

Positive dividend development based on profitability and solid cash flows

Annual distribution of around 75% of the free cash flow or net result for the period

5 Significant growth potential

"Leifheit 2020" strategy for sustainable turnover and earnings growth

Organically: focus on core categories, consumers, innovation, digitalisation and efficiency

Externally: M&A activities with a focus on core categories

Product world

Cleaning

Superior cleaning systems for every demand

Leifheit has an easy and convenient system solution for every challenge in cleaning at home.

Laundry care

Fresh laundry – easy laundry care

Whether it's laundry drying racks for the house or rotary dryers for the garden, an ironing board or a complete steam ironing system – Leifheit ensures fresh, clean and well-kept laundry.

Kitchen goods

Always better conceived

Whether it's for opening, cooking, cutting or storing – Leifheit's kitchen accessories simplify work and keep hands and kitchens clean.

Wellbeing

For a life in balance

Under the Soehnle brand, we offer a multitude of products that make life easier. From innovative to classic – Soehnle scales cut a fine figure in the kitchen and the bathroom.

»The Leifheit brand has a strong foundation and a clear vision for the future.«

Andreas Groner
Head of Marketing

p. 8

»Our brand should be like our home: filled with life, passion and the dream of achieving great things.«

Nicole Simon
Team Leader Brand Communication

p. 10

»Good product design makes day-to-day life easier and allows us to have more time for the things that matter.«

Christian Sambale
Product Designer

p. 11

More time for the things truly important in life.

We are committed to ensuring this aim.

Leifheit makes housework easier and the home more attractive. **How housework's done today.**

Outstanding functionality, durability and high quality – people across generations have associated these attributes with Leifheit. We will continue to focus on these values in future while positioning Leifheit as a modern brand that helps people in today's ever faster-paced world by making housework easier and the home more attractive, so that there is more time for the important things in life. The claim "How housework's done today", developed in 2017, a fresh brand identity and products featuring impressive design and functionality underscore this positioning.

Our "Leifheit 2020" growth strategy is centred on the further expansion of our Brand Business. We intend to systematically develop our brands, enhance their profiles and strengthen their competitive positions.

»So that there is more time for the important things in life.«

Andreas Groner
Head of Marketing

Leifheit – one of the leading household brands

For almost six decades, Leifheit has been one of the leading brands for household products in Germany and many European markets. The brand offers product solutions in the cleaning, laundry care and kitchen goods categories which are easy to use while delivering the perfect result. "However, our brand had fallen a little behind the times," says Andreas Groner, who has been Head of Marketing at Leifheit since 2014. In 2017, the company therefore began taking steps to carefully reposition the brand.

"Our key concerns in this process related to the ability to identify the brand's core, monitoring our target groups and – above all – our corporate vision: We are your leading experts for solutions that make your everyday life at home more easy and convenient," Groner says.

Clean and tidy – but fast and without much fuss

In recent years, the importance of housework in Western society has decreased dramatically. Whereas women once used to be in charge of managing the household, they no longer define themselves through housework. Other things have become more important in their lives, such as their jobs, relationships, quality time with their children, hobbies, friends or simply time for themselves.

"Traditional gender roles have also long since collapsed," Groner says. This of course applies to housework as well, which women and men nowadays increasingly take care of together. At the same time, the importance of home is growing. Many people see it as their refuge, a haven of tranquillity and as an oasis of wellbeing.

Housework is no longer an end in itself, but rather a means to an end – a way to achieve a nice, beautiful home. These tasks have to be performed in between and alongside many other things, and they should deliver the perfect result, quickly and easily. Leifheit products help with this every day. How housework's done today. ■

»Housework is no longer an end in itself, but rather a means to an end – a way to achieve a nice, beautiful home.«

Andreas Groner
Head of Marketing

LEIFHEIT
How housework's done today.

Our brand is **part of life.**

By repositioning the Leifheit brand and through the claim "How housework's done today", we have redefined which values shape our brand experience, in addition to how the brand presents itself and communicates. It is important that all target groups always experience this brand experience in the same manner. This of course includes presenting a uniform appearance – and worldwide at that. At the same time, we are taking a close look at our communication activities: What can stay? What needs to be adjusted? And what needs to be entirely redesigned?

Some changes are already evident, for example in the new TV spots and visual motifs, while others are still a work in progress. "Leifheit products function simply and are well thought out. The same thing needs to be applied to our communications in order to convey the brand values," says Nicole Simon, who has been a member of Leifheit's Marketing team since 2013.

»Our brand is part of life. And that is also how we want to communicate.«

Nicole Simon
Team Leader Brand Communication

At the heart of life

"Our brand is part of life. And that is also how we want to communicate – with candour, vitality and approachability," Simon says. For us, this means leaving behind scenarios which feel staged and unnatural expressions and turning instead towards real people and spaces filled with life, with plenty of scope for surprising ideas and delight.

"Our brand appeals to people like you and me, which is why the people we present are not picture-perfect models. Our protagonists are likeable people. They may be interesting and attractive, but they certainly have minor flaws too. These are people who we can personally identify with, such as the jogger in our TV spot for the LinoProtect rotary dryer with a roof which lets him breathe easy when a sudden rain shower hits, even though he has hung his laundry out to dry," Simon explains.

Regardless of the medium, be it a film, advertisement, poster, sales folder, website or post, one rule applies to all areas of communication for the Leifheit brand: simple, but always with a dash of humour, esprit or playfulness. This approach is new, and it no longer only highlights the perfect functioning of a product, but the result instead.

"Housekeeping is not exactly the hottest topic around, and let's be honest, very few people actually enjoy cleaning or ironing. Even so, it has to get done. The world we live in isn't perfect, but we aim to show that it's possible to do these chores quickly and easily, so that there is more time for the things that matter in life. Here at Leifheit, we are committed to achieving this aim. That is our mission." ■

Cleanliness can be so easy! The new **Regulus PowerVac 2in1** cordless vacuum cleaner is perfect for the many little daily messes: a high-performance upright cordless vacuum cleaner and a practical handheld vacuum cleaner in one for daily cleaning needs.

You don't like bacteria? Neither do we! The Leifheit **CleanTenso** sanitises in the simplest way – all without chemicals! It uses hot steam to eliminate up to 99.99% of germs and bacteria.

Design is the **face of the brand.**

»Leifheit products are simple and well thought out. This is reflected in their ergonomic shape and streamlined design.«

Christian Sambale
Product Designer

Our brand makes a promise. A promise that our products have to deliver on, day after day. This is why we have the highest standards for our products in terms of their quality and workmanship, but above all their functionality and the results they provide.

And what role does product design play in all of this? How is it possible to translate the Leifheit brand values into design? How can design give our products even more of an impact? What demands do consumers have when it comes to the design of a household product? These are questions that product designer Christian Sambale, who has been a member of the Leifheit Development team since 2015, asks himself.

Ergonomics, practical utility and simplicity

On the question of whether design is truly important in terms of a household product, Sambale is certain: "It definitely is," he says. "When we design our Leifheit products, we focus above all on ergonomics, practical utility and intuitive use. Leifheit products are simple and well thought out. This is reflected in their ergonomic shape and streamlined design," he explains.

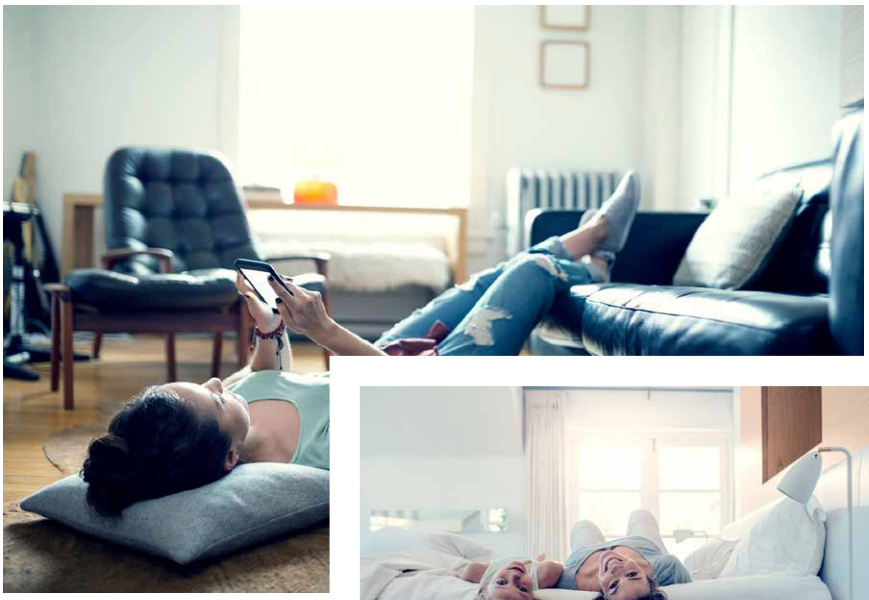
Innovations, such as the Regulus PowerVac 2in1 cordless vacuum cleaner or the CleanTenso steam cleaner already adhere closely to Leifheit's new design language.

Simple products reveal on their own how they function. Alongside shape, colour also plays a major role to this end. "We do not use colours primarily as a decorative element; rather, they explain the product. Highlighting controls through specific colours makes the product intuitive and even easier to use, so that you achieve the perfect result faster. In addition, we choose surfaces that can stand up to the demands placed on them and which provide a pleasant user experience, both in terms of how it looks and how it feels. At the same time, our products stay out of focus and blend discreetly into the background of a modern home." ■

Leifheit. How housework's done today.

Well-thought-out and easy-to-use products from Leifheit. Our Regulus PowerVac 2in1 cordless vacuum cleaner, the CleanTenso steam cleaner, the CLEAN TWIST cleaning system, the Air Board ironing board and the successful Leifheit window vacuum cleaner all have one thing in common:

they help people in today's ever faster-paced world by making housework easier and the home nicer so that there is more time for the truly important things in life. **Leifheit. How housework's done today.**



Foreword of the **Board of Management**

Ansgar Lengeling
Member of the Board of Management / COO

Thomas Radke
Chairman of the Board of Management / CEO

Ivo Huhmann
Member of the Board of Management / CFO

Dear Shareholders,
Dear Employees, Business Partners, Customers and Friends of the Company,

In the past financial year, we again aimed to continue the growth seen in 2015 and 2016. Our efforts were based on our "Leifheit 2020" strategy. But 2017 confronted us with some unexpected challenges. We were not able to implement fast solutions for every one of these challenges. As a result, business development in 2017 fell short of our expectations.

Although turnover was down year on year in the first and third quarters, we succeeded in generating growth in the second and fourth quarters. Over the year, our Group turnover of m€ 236.8 was approximately on par with the figure seen in 2016. However, development differed greatly depending on the region, segment and product category.

In our domestic market of Germany, we succeeded in building on the growth of previous years. We also continued our strong growth in Eastern Europe. In some key Central European markets, we were unable to implement our plans as expected, which had an accordingly negative impact on turnover.

In Brand Business, our strategic core business, we were able to increase turnover slightly to m€ 196.7. Leifheit's cleaning and laundry care products were the driving force behind this development. Turnover in e-commerce also continued to post double-digit growth rates. In Volume Business, we generated turnover of m€ 40.1, corresponding to a decline of 2.8%. The main reason for the drop was a general weakness among major retailers in France.

»We further sharpened our strategy in some respects.«

With regard to earnings, increased manufacturing costs put particularly currency developments last year thwarted our plans. All forecasts assumed that the US dollar would remain stable against the euro or even slightly gain value. In fact, the US dollar lost significant value, which had noticeably negative consequences for our foreign currency result.

As expected, the costs associated with the reoganisation of sales activities in Brand Business influenced our earnings compared to 2016. This measure allows us to make targeted investments in further strengthening our core business for the future. All told, earnings before interest and taxes (EBIT) fell by m€ 3.3 to m€ 18.8.

With our "Leifheit 2020" strategy, our aim is to grow sustainably in the long term. In parallel to observing the emerging market and turnover development, we used the past financial year to extensively analyse and review our strategy. The results indicated that we are fundamentally on the right track with our growth strategy. We further sharpened our strategy in some respects, such as with regard to our focus on channels and assortments. Essentially, however, we intend to make better use of the opportunities of digitalisation in many areas.

Our growth strategy remains centred on the further expansion of our Brand Business. We intend to systematically develop our brands, enhance their profiles and strengthen their competitive positions. In 2017, we repositioned Leifheit as a modern brand that helps people in today's increasingly fast paced world by making housework easier and home nicer – a sentiment also captured by our new brand claim: "Leifheit. How housework's done today."

The development of new, consumer-oriented products that make everyday life at home easier and more convenient also remains a pillar of our growth. Last year, we launched a wide range of new products in our cleaning and laundry care categories. Those products include Leifheit LinoProtect, the first rotary dryer with a roof; the Leifheit Combi Storage System, twelve storage helpers that keep homes neat; Leifheit Care & Protect, a system solution that enables simple care for all types of wood and laminate floors; and the Leifheit Regulus PowerVac 2in1, the battery-powered vacuum cleaner. They have already helped power growth significantly in Brand Business.

»We intend to make better use of the opportunities of digitalisation in many areas.«

The completely overhauled range of Soehnle bathroom scales was also launched last year. With Soehnle Connect, we have also been offering a comprehensive system featuring analysis scales, blood pressure gauges and fitness trackers, including the Soehnle app, which makes it easy to record and analyse important health and fitness data, since the end of the year. In addition, air treatment systems round out Soehnle's portfolio. We expect the new products to provide fresh momentum for the Soehnle brand this year as well.

According to our forecast, the upswing in our core markets will continue in 2018. We expect consumers' propensity to buy to remain high in our key target markets. But risks remain, such as an adjustment to the financial markets or a rise in inflation and in interest levels that is faster than expected in the Eurozone.

We expect to be able to continue building on our long-term course for growth over the coming year. We predict that the Group's turnover will grow by around 4% to 5% year on year. In Brand Business, we are counting on a rise in turnover of roughly 5% to 6%. Our smaller and more volatile Volume Business is managed with a clear focus on profitability. We envisage turnover here in 2018 to be at the level of 2017.

We anticipate earnings before interest and taxes (EBIT) of around m€ 17 to m€ 18. The key drivers behind the expected EBIT development are investments in future projects, anticipated price increases for materials and negative currency effects in manufacturing costs. Future projects are based on the analysis of the past financial year. They enable us to better utilise the growth opportunities of digitalisation in the medium term, to expand product categories and, at the same time, to improve our future profitability in the long term. The costs for these projects will be partially offset by optimisations and savings.

We expect to generate free cash flow of roughly m€ 5 to m€ 7 in 2018, and we plan to push ahead with our fundamentally conservative financial policy.

The capital increase from company funds that was resolved by the Annual General Meeting in May 2017 was completed on the stock market in June. Shareholders received one additional Leifheit share (a bonus share) for each Leifheit share held. Doubling the number of shares caused the share price to fall by half on that particular date. The average trading volume in electronic trading rose last year to more than twice the volume seen in 2016. As a result, the Group's capital increase achieved its goal of making the trade of Leifheit shares more attractive.

»We predict that the Group's turnover will grow by around 4% to 5% year on year.«

We would like to thank you, our esteemed shareholders, for your trust in our company, and we look forward to your continued support of Leifheit going forward. As you know, we have been pursuing a reliable dividend policy in the interest of our shareholders for many years now. We will propose to the Annual General Meeting on 30 May 2018 the payment of a dividend of € 1.05 per eligible share for financial year 2017. This results in a dividend yield of 3.8% for 2017 with respect to the closing price at the end of the year.

We would also like to take this opportunity to thank you, our valued employees, for your dedication. Your knowledge, experience, day-to-day commitment and performance are what make Leifheit special. You are a crucial factor in our long-term growth strategy.

In addition, we would like to thank all of our business partners, customers and suppliers for working with us this past year.

Yours faithfully,

Thomas Radke Ivo Huhmann Ansgar Lengeling

Report of the Supervisory Board

Dear Ladies and Gentlemen

I would like to inform you below of the work performed by the Supervisory Board in financial year 2017:

The Supervisory Board supported the Board of Management constructively, as well as with critical advice, and fulfilled all of its obligations under the law, the articles of incorporation and the rules of procedure. It was at all times informed promptly and in depth by the Board of Management with regard to business development, strategic measures, corporate planning and transactions requiring approval. The Supervisory Board was directly involved in all decisions of fundamental importance for the company at an early stage. The Supervisory Board made all decisions following thorough examination and discussion of the corresponding resolutions.

The Supervisory Board carefully and constantly monitored the management activities of the Board of Management. It confirms that the Board of Management acted properly, in accordance with the law and economically in every way. The Board of Management used the risk management system in operating, financial and legal matters and was supported in the process by the finance, controlling, legal affairs and auditing departments. The Supervisory Board was informed regularly and comprehensively about risks, opportunities and compliance. The remuneration system is the subject of regular discussion and review by the Supervisory Board in connection with concluding and extending Board of Management contracts.

In 2017, the Supervisory Board held four regular meetings and two extraordinary conference call meetings. Attendance at the meetings of the Supervisory Board and its committees stood at 100% respectively. As a result, no member of the Supervisory Board attended only half or fewer of the meetings of the Supervisory Board or of the committees of which he or she is a member.

The members of the Board of Management took part in Supervisory Board meetings, barring other decisions by the Chairman of the Supervisory Board. Furthermore, the Chairman of the Supervisory Board maintained regular personal and telephone contact with the Board of Management. He informed the other members of the Supervisory Board promptly about the results of these discussions. The self-evaluation of the Supervisory Board, which is to be performed regularly, revealed that all requirements for working efficiently have been met. In the reporting period, there was no indication of conflicts of interest among the members of either the Board of Management or the Supervisory Board that would have required immediate disclosure to the Supervisory Board and the Annual General Meeting.

Changes in Leifheit AG organs

The appointment of Mr Ivo Huhmann as a member of the Board of Management went into effect as at 1 April 2017. Upon the conclusion of the Annual General Meeting on 24 May 2017, Dr Claus-O. Zacharias stepped down as a member of the Board of Management, and Mr Huhmann assumed responsibility for the finance, controlling and business processes/IT divisions, as well as for ESG issues.

Mr Karsten Schmidt resigned his seat on the Supervisory Board on 21 December 2017 with effect as at 31 January 2018. The Supervisory Board and the Board of Management of Leifheit AG would like to thank Mr Schmidt for his 11 years Supervisory Board service and his great commitment to the board.

Important topics discussed at meetings

The Supervisory Board meetings regularly covered the development of turnover, results and employment at the Group, as well as the segments, the financial position, the main interests, the strategic focus of the company, potential acquisitions and the risk situation.

During an extraordinary conference call meeting on 9 February 2017, the Supervisory Board addressed the medium-term planning for 2017 to 2019.

At the meeting on 28 March 2017, the Supervisory Board, in the presence of the auditor, intensively discussed and reviewed the consolidated financial statements and the annual statements, the combined management report of Leifheit Aktiengesellschaft and the Leifheit Group, the draft resolution regarding the report of the Supervisory Board and the agenda of the Annual General Meeting on 24 May 2017. Other issues included the Leifheit brand's repositioning, market shares, distribution, the assessment of management potential and the departure of Dr Zacharias from the Board of Management. The results of the Supervisory Board's self-evaluation were presented and discussed. There were no further comments or suggestions for improvement.

Helmut Zahn
Chairman of the Supervisory Board

The Supervisory Board meeting on 24 May 2017 dealt with the preparations for the Annual General Meeting. Following the Annual General Meeting, the Supervisory Board attended to the Board of Management reports on strategy, strategic projects for 2017, quality management and the product development process. The specified targets for the proportion of women on the Supervisory Board, Board of Management and the first management level were also updated.

The medium-term planning for the period from 2018 to 2020 was discussed at the meeting on 21 September 2017. The Supervisory Board also addressed succession planning at management level. Amendments to the rules of procedure for the Board of Management and the Supervisory Board were discussed and approved. The Supervisory Board also took a close look at the corporate governance code and the Board of Management report on the supply chain. The Supervisory Board adopted the diversity concept for the composition of the Board of Management and the Supervisory Board

During an extraordinary conference call meeting on 6 November 2017, the Supervisory Board dealt with the current development of turnover at the Group.

The Supervisory Board's meeting on 6/7 December 2017 focused on the insights gleaned from business performance in 2017 for the current "Leifheit 2020" strategy. In addition, the Supervisory Board dealt with operational planning for 2018 and new products, and approved the corporate governance declaration of conformity.

Work of the committees

The Supervisory Board has formed Audit, Personnel and Nominating Committees.

The Audit Committee met twice to discuss the monitoring of accounting, the accounting process, the effectiveness of the internal control system, the risk management system, the internal audit system, the annual audit and compliance. The Audit Committee also presented a recommendation on the choice of auditor, monitored the auditor's independence and services additionally provided by it, issued the audit engagement to the auditor, determined certain focal points of the audit and agreed the auditor's fee. The Board of Management and the Financial Director attended both Audit Committee meetings and gave an in-depth presentation of the annual financial statements as well as all reports

to be published, explained them and answered the committee members' questions. Furthermore, the internal control system and the risk management system were examined, and the findings of the internal audits were presented and discussed. The auditors were also present at both meetings and reported in detail on all events that arose during performance of the audit which have a direct bearing on the work of the Supervisory Board.

The Personnel Committee examined all employment contracts for the members of the Board of Management, including remuneration and the remuneration system. The Personnel Committee met four times in financial year 2017 and looked intensively into the issue of succession planning for the Board of Management and into the Board of Management's remuneration system. In addition, the Personnel Committee addressed the departure of Dr Zacharias from the Board of Management.

The Nominating Committee's tasks include searching for and selecting suitable Supervisory Board candidates for election by the Annual General Meeting. It was not necessary for the Nominating Committee to meet in financial year 2017.

Audit and approval of the annual financial statements

The annual financial statements of the Leifheit Group and the combined management report for financial year 2017, which have been prepared in accordance with section 315e of the German commercial code (HGB) on the basis of the International Financial Reporting Standards (IFRS), as well as the financial statements of Leifheit AG for financial year 2017, which have been prepared in accordance with the provisions of the HGB, have been audited by the auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, and have not led to any reservations in its audit opinion. The audit – as reflected in the audit reports – did not result in any grounds for objection.

The documents pertaining to the financial statements, as well as the audit reports and the Board of Management's proposal for the appropriation of the balance sheet profit, were handed out to all members of the Supervisory Board. The documents pertaining to the financial statements and the audit reports were discussed in depth at the Audit Committee meeting on 22 March 2018; special attention was paid to the defined focal points of the audit. At the Supervisory Board's balance sheet meeting on 23 March 2018, the Audit Committee and its chair presented an in-depth report to all members of the Supervisory Board. The auditors took part in the meetings and reported on the key findings of their audit. Furthermore, they presented their findings on the internal control system and risk management with regard to the accounting process and found that the Board of Management had set up an appropriate information and monitoring system that was capable of promptly identifying developments that jeopardise the company's continued existence. The audit opinion was discussed with the auditors. The auditors were available for further questions and information. The Supervisory Board also reviewed and approved the separate non-financial report of the Group (sustainability report).

Based on its own examination of the annual financial statements, the consolidated financial statements and the combined management report, as well as the report and the recommendations of the Audit Committee, the Supervisory Board approved the findings of the audit by the auditor. The Supervisory Board has raised no objections to the final results of the audit. The Supervisory Board has approved both the financial statements and the consolidated financial statements. The financial statements are therefore adopted in accordance with section 172 of the German stock corporation act (AktG). On the recommendation of the Audit Committee, and following its own examination, the Supervisory Board endorses the Board of Management's proposal for the appropriation of the balance sheet profit involving the payment of a dividend of € 1.05 per dividend-bearing no-par-value bearer share for financial year 2017.

The Supervisory Board would like to thank all of the employees of the Group, the Board of Management and the workforce representatives for their dedicated commitment and their work in the past financial year. We would also like to thank our customers and shareholders for their trust and support.

Nassau/Starnberg, 23 March 2018

The Supervisory Board

Helmut Zahn
Chairman

Corporate governance report

The Board of Management and the Supervisory Board report below on corporate governance at Leifheit in accordance with 3.10 of the German corporate governance code (DCGK).

To us, trusting cooperation between the Board of Management and the Supervisory Board, efficient internal and external control mechanisms, and a high level of transparency in corporate communications are matters of central importance. This way, we hope to secure the confidence of investors, customers, employees and the public at large in our company in the long term.

We give corporate governance a high priority and are guided by the recommendations of the German corporate governance code (DCGK). The code represents key statutory regulations for the management and monitoring of German listed companies and contains internationally and nationally recognised standards for good and responsible corporate governance.

Leifheit AG is a publicly listed stock corporation with registered offices in Germany. The German law, the regulations of stock corporations and financial markets as well as the articles of incorporation of Leifheit AG in particular besides the DCGK provide the framework for structuring corporate governance.

Recommendations from the code implemented

In the reporting period, the Board of Management and the Supervisory Board vigorously discussed the recommendations of the government commission on the DCGK in the version of 7 February 2017 and updated the declaration of conformity in accordance with section 161 para. 1 German stock corporation act (AktG) in December 2017 on the basis of these discussions. Leifheit AG applies all of the government commission's recommendations. All previously issued declarations of conformity are publicly accessible on the company's website (corporate-governance.leifheit-group.com).

Shareholders and the Annual General Meeting

The shareholders of Leifheit AG exercise their rights at the Annual General Meeting of the company, which, according to the articles of incorporation, is chaired by the Chairman of the Supervisory Board. The Annual General Meeting is held once a year. Each share represents one voting right.

The invitation to the Annual General Meeting with the forthcoming agenda and an explanation of the conditions for participation are published in accordance with the legal regulations and the articles of incorporation.

Shareholders can either exercise their voting rights at the Annual General Meeting themselves, via a proxy of their choice or via a proxy of the company who is bound by instructions. Shareholders also have the option of casting their votes – without authorising a representative – by postal ballot. Voting instructions can be issued by post, fax, email or through an online service. Employees manning our Annual General Meeting hotline are available to answer questions about registration, proxy voting and postal voting.

All documents and information related to the Annual General Meeting are available on our website (agm.leifheit-group.com), which contains links to the online service and the live transmission of the public portion of the meeting as well. We also publish attendance figures and the voting results on the website immediately following the Annual General Meeting.

Cooperation between the Board of Management and the Supervisory Board

As a German stock corporation, Leifheit AG has three organs: the Board of Management, the Supervisory Board and the Annual General Meeting. Their responsibilities and powers result specifically from the AktG and the articles of incorporation.

The AktG provides for a clear separation between the persons staffing the management and supervisory organs. The management organ is the Board of Management, which is supervised and counselled by the Supervisory Board with regard to the management of the company.

The Board of Management and the Supervisory Board of Leifheit AG communicate openly with each other in a spirit of close cooperation. Transactions and decisions that are of fundamental importance to the company are coordinated closely between the Board of Management and the Supervisory Board. The Supervisory Board's rights to reserve approval are regulated by the articles of incorporation of Leifheit AG.

By virtue of systematic internal control and risk management, risks are identified early, assessed and monitored. The Board of Management reports existing risks and their development to the Supervisory Board at regular intervals.

The work method of the Board of Management and the Supervisory Board as well as the composition and work methods of their committees are described in detail in the statements regarding the company management and are publicly accessible on our website.

Taking into account the statutory requirements, Leifheit has taken out directors and officers liability insurance (known as D&O insurance) with an appropriate deductible for the members of the Board of Management and the Supervisory Board in accordance with section 93 para. 2 sentence 3 AktG and in accordance with the DCGK.

Remuneration of the Board of Management and the Supervisory Board

The main features of the remuneration system for the Board of Management as well as the components of the Supervisory Board's remuneration are described in detail in the remuneration report. It is part of the combined audited management report for both Leifheit AG and the Group.

Conflicts of interest of the Board of Management and the Supervisory Board

There were no conflicts of interest among the members of either the Board of Management or the Supervisory Board that would have required immediate disclosure to the Supervisory Board.

No consultancy agreements or other agreements for contractual performance existed between members of the Supervisory Board and the company in the reporting period. The memberships of Board of Management and Supervisory Board members in statutory supervisory boards or similar domestic and foreign control committees of enterprises can be found in the "Organs" section of the annual financial statements.

No member of the Board of Management currently holds mandates in supervisory boards at listed companies that are not part of the Group. In financial year 2017, there were no reportable relationships or transactions with related parties.

Compliance

Through our compliance management system (CMS), implemented as a Group-wide measure, we ensure compliance with laws and regulations, recognised standards and recommendations, as well as our own guidelines. Effectiveness is both a key basic principle for Leifheit and the goal of commercially responsible conduct.

We take guidance in particular from the German corporate governance code and in-house guidelines, such as the Leifheit competency model, the Leifheit Code of Conduct, the Antitrust Code of Compliance, insider guidelines and our own requirements for our suppliers.

The Board of Management and the management team of Leifheit are committed to compliance as a leadership duty. The principles of the compliance management system and standards of conduct have been in place for years and are part of the day-to-day business routine. More information is available on our website.

Appropriate control and risk management

Dealing with risks in a responsible manner is part of corporate governance at Leifheit. A fundamental requirement of professional corporate governance is the continuous and systematic management of business risks. By means of this process, it is possible to identify risks at an early stage, when they can be assessed and controlled by taking appropriate measures. The Board of Management reports regularly to the Supervisory Board on current developments regarding material risks. The Audit Committee regularly deals with monitoring of the accounting process as well as the effectiveness of the internal control, risk management and internal audit systems. The committee also deals with the annual audit of the financial statements and the independence of the auditors.

Composition of the Supervisory Board

In accordance with 5.4.1 of the DCGK, the Supervisory Board has named specific targets for its composition and has developed a competency profile for the board as a whole (diversity concept). The targets and concept have been implemented. Details on this matter may be found in the declaration of corporate management on the website. All current shareholder representatives – Ulli Gritzuhn, Karsten Schmidt, Sonja Wärntges and Helmut Zahn – are independent Supervisory Board members as defined by 5.4.2 of the DCGK.

Transparency in favour of shareholders and the public

In order to ensure the greatest possible degree of transparency and equal opportunities, we have made it our goal to inform all our target groups comprehensively, equally and in a timely manner. For this purpose, interested parties can find key recurring dates in our financial calendar, which is published in our annual financial report, quarterly statements and half-yearly financial reports, as well as on the website (ir.leifheit-group.com).

We release information on the strategy, the situation of the Group, all major business changes, business development and the financial position and results of operations of our company regularly and in a timely manner in the quarterly statements, the half-yearly financial report and in detail in the annual financial report. These reports are also published on our website.

The Board of Management and the investor relations department are in regular contact with private and institutional investors as part of investor relations activities, which include capital market conferences, for example. More information about our capital market activities can be found in the “The Leifheit share” section of our annual financial report.

We also publish all press and ad-hoc announcements as well as presentations about press and analyst conferences, in addition to the Annual General Meeting, on our website.

Directors’ dealings and shareholdings of the Board of Management and the Supervisory Board

In accordance with article 19 of the market abuse regulation (EU) no. 596/2014, the members of the Board of Management and the Supervisory Board or their related parties are legally required to disclose all transactions involving the purchase or sale of Leifheit AG shares or related financial instruments if such transactions total or exceed € 5,000 in a calendar year. Notifications that are received are published on the website.

Accounting and auditing

As a listed company, Leifheit AG prepared its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, and the additional requirements of commercial law in accordance with section 315e para. 1 German commercial code (HGB). They also serve as the basis for the half-yearly financial report and the quarterly statements.

The separate financial statements of Leifheit AG, which are the deciding factor for the payment of the dividend, are prepared in accordance with the provisions of the HGB and the AktG.

The management report of Leifheit AG and the consolidated management report were combined in accordance with section 315 para. 5 and section 298 para. 2 HGB.

It was agreed with the auditors that the Chairman of the Supervisory Board will be informed immediately of any grounds for disqualification or partiality arising during the audit, unless such grounds are eliminated immediately.

The auditor must also report without delay on all findings and events that it acquires knowledge of during the performance of the audit that have a direct bearing on the work of the Supervisory Board. In addition, the auditor must inform the Supervisory Board or note in its audit report any facts ascertained during the performance of the audit that are inconsistent with the declaration of conformity issued by the Board of Management and the Supervisory Board in accordance with section 161 AktG regarding the DCGK.

The Annual General Meeting on 24 May 2017 accepted the proposal of the Supervisory Board in line with the recommendations of the Audit Committee and selected KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as the auditor for financial year 2017. KPMG has been the group auditor of Leifheit AG since financial year 2016. The signatory auditors are Franz Andreas Höfter (since financial year 2016) and Sebastian Hargarten (since financial year 2017). The statutory provisions and rotation obligations under sections 319 and 319a HGB have been complied with.

Declaration of corporate management

The declaration of corporate management in accordance with sections 289f and 315d HGB includes the declaration of conformity in accordance with section 161 AktG, relevant information about corporate management practices, and a description of the work methods of the Board of Management and the Supervisory Board, as well as the composition and work methods of their committees, the declaration on the defined targets according to the German law on the equal participation of women and men in leadership positions and the description of the diversity concept. It is publicly accessible on our website.

The Leifheit share

2017 was an excellent year on global stock markets. The Leifheit share deviated from this trend following the necessary adjustment of the turnover and earnings forecast in the second half of the year. The capital increase from retained earnings with bonus shares for shareholders doubled the number of shares issued. The Board of Management and the Supervisory Board will propose to the Annual General Meeting a dividend of € 1.05 per dividend entitled share for the financial year 2017.

Upward trend continues on stock markets

To the surprise of many market participants, 2017 ended up being an excellent trading year. The upward trend continued on stock markets in Europe, America and Asia. Volatility was at its lowest point in years. This development was impact by the ongoing growth of economies in nearly all regions. Political tensions in the Middle East or Korea, for example, did not have a negative impact on capital markets. Continued low interest rates and central banks' loose monetary policy supported the markets. The rebound in interest rates in the US did not change the overall picture.

The performance of the DAX was driven by the ongoing export success of German companies. Continued strong domestic consumption and rising corporate profits lifted stock markets. On 3 November 2017, the DAX reached a high of 13,479 points. On 29 December 2017, it ended the year at 12,917 points (30 December 2016: 11,481 points), for an increase of 12.5% over the course of the year.

The SDAX includes 50 smaller companies and is the relevant benchmark index for the Leifheit share. Like the DAX, the SDAX also posted constant gains over the course of the year. It peaked at 12,132 points on 12 October 2017. At the end of the year, it stood at 11,887 points (30 December 2016: 9,519 points). As a result, the SDAX rose by 24.9% year on year.

Capital increase from company funds in combination with the issuance of bonus shares

The ordinary Annual General Meeting on 24 May 2017 approved a capital increase from company funds at a ratio of 1 to 1 in combination with the issuance of bonus shares. The share capital was doubled from m€ 15 to m€ 30 by converting retained earnings. The issuance of new no-par-value bearer shares to shareholders doubled the number of issued shares from 5,000,000 to 10,000,000. The new shares are fully entitled to dividends for financial year 2017. The technical conversion was completed on 20 June 2017. On that date, trading in Leifheit shares started on the stock market on the basis of half of the previous day's closing price. The absolute value of every shareholder's investment remained unchanged.

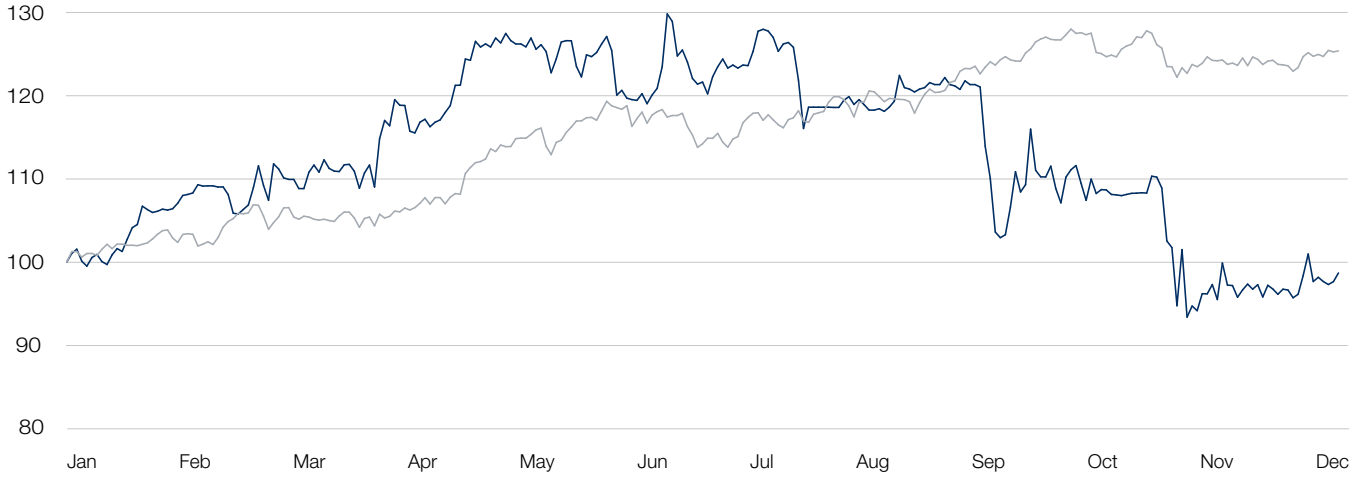
Adjustments to forecasts influence share price performance

Based on the double number of shares, the Leifheit share (ISIN DE0006464506) traded at € 28.54 on Xetra, Deutsche Börse's electronic trading system, on 2 January 2017. In the first few months of the year, the share price developed largely in line with the SDAX. By the middle of the year, the share was significantly outperforming the benchmark index. On 21 June 2017, it achieved its high for the year at € 36.50, which would have corresponded to a price of € 73.00 – a new record high – prior to the doubling of the number of shares.

In the second half of the year, Leifheit was forced to adjust the turnover and earnings forecast twice due to lower-than-expected business development and negative foreign currency effects. As a result, the performance of the Leifheit share deviated from the further growth of the SDAX. On 29 December 2017, electronic trading ended at a price of € 27.89, down slightly on the previous year's closing price (30 December 2016: € 28.25).

Leifheit AG's market capitalisation calculated on the basis of all issued shares stood at around m€ 279 (31 December 2016: m€ 282) as at the end of 2017. Adjusted for treasury shares, market capitalisation stood at m€ 265 (31 December 2016: m€ 269).

Performance of the Leifheit share price in 2017 [1]
compared to the SDAX in % (indexed to 100)



Closing price SDAX ■ Closing price Leifheit share

[1] Dividends adjusted before capital increase from company funds.

Significant rise in trading volume

The average trading volume for Leifheit shares in Xetra, Deutsche Börse's electronic trading system, rose significantly to 15,690 shares per day in 2017, more than twice the volume seen in the previous year (2016: 6,414 shares per day). As a result, the Group achieved its goal of making the trade of Leifheit shares more attractive and liquid through the capital increase from company funds. In 2015, the daily trading volume still stood at 5,714 shares.

Leifheit pursues shareholder-oriented dividend policy

The Board of Management and Supervisory Board aim to enable all shareholders to partake appropriately in the company's success. In principle, our dividend policy provides for distributing around 75% of the net result for the period or the free cash flow of a financial year to the shareholders as dividends. Provided that Group liquidity at the end of the year exceeds the expected liquidity requirements for the following year for potential corporate takeovers and seasonal working capital fluctuations (in the total amount of roughly m€ 55) as well as for the dividend payments, the Board of Management and Supervisory Board will each also consider the distribution of special dividends.

Dividend proposal for financial year 2017

The Board of Management and Supervisory Board of Leifheit AG will be proposing to the Annual General Meeting on 30 May 2018 the payment of a dividend of € 1.05 per share for the financial year 2017, corresponding to a total distribution to shareholders of m€ 10.0. If the Annual General Meeting approves the dividend proposal, it will be paid out from 4 June 2018. This results in a dividend yield of 3.8% for 2017 based on the closing price at the end of the year.

Leifheit AG's net income for financial year 2017 does not cover the proposed dividend due to the sharp rise in the interest expense for the compounding of pension obligations, the decrease in gross profit and the increase in distribution costs and other operating expenses. The Board of Management has therefore resolved to allocate an amount of k€ 5,870 from the other retained earnings to the balance sheet profit. By contrast, the Leifheit Group's net result for the period, which forms the basis of our dividend policy, covers the proposed dividend for financial year 2017.

A dividend of € 2.10 and a special dividend of € 0.80 per share entitled to a dividend (dividend yield of 5.1%) were distributed for the financial year 2016, prior to the capital increase in combination with the issuance of bonus shares at a ratio of 1 to 1. The amount

Key figures for the Leifheit share in €[1]

	2013	2014	2015	2016	**2017**
Net result for the period per share	1.08	1.49	1.51	1.53	1.35
Free cash flow per share	2.06	1.94	1.48	1.51	0.16
Dividend per share	0.83	0.90	1.00	1.05	1.05[2]
Special dividend per share	–	–	0.38	0.40	–
Dividend yield (in %)[3]	5.3	3.9	5.6	5.1	3.8[2]
Equity per share[4]	9.15	9.08	9.85	9.55	9.31
High[5]	17.65	23.20	29.83	30.12	36.50
Low[5]	13.00	16.11	19.53	21.75	26.43
Year-end closing price[5]	15.47	23.20	24.75	28.25	27.89
Number of shares (in thousands)[6]	9,498	9,500	9,506	9,509	9,509
Year-end market capitalisation (in m€)[7]	155	232	248	282	279

[1] Capital increase from company funds in combination with the issuance of new shares, data 2013 to 2016 were adjusted to enhance comparability.
[2] Dividend proposal.
[3] Based on the year-end-closing prices of the respective financial year.
[4] Excluding the distribution of the proposed dividends and the share in the profits oft he minority shareholders.
[5] Closing prices on Xetra, the electronic trading system of Deutsche Börse.
[6] Number of outstanding shares as at 31 December (excluding treasury shares).
[7] Based on all shares issued.

distributed totalled m€ 13.8, corresponding to a dividend of € 1.05 and a special dividend of € 0.40 per share when accounting for the number of shares, which has since been doubled.

Return on an investment in Leifheit shares

1 year	–1.3% p.a.
3 years	6.3% p.a.
5 years	13.9% p.a.
10 years	14.6% p.a.

Historical annual return at the end of 2017 without reinvestment of the dividend distributed.
Calculated using the yield calculator on the Leifheit AG website (www.leifheit-group.com).

Treasury shares unchanged

The Annual General Meeting of 21 May 2015 granted authorisation to the company to purchase treasury shares until 20 May 2020 in the amount of up to 10% of the existing share capital. No treasury shares were purchased i.e. used in 2017. On 31 December 2017, Leifheit AG held 490,970 treasury shares (corresponding to 4.91% of the share capital). An amount of k€ 7,445 was expended in previous periods for their purchase. Including ancillary costs, and taking into account the capital increase in 2017 (at a ratio of 1 to 1), this corresponds to an average of € 15.16 per share.

Shareholder structure largely stable

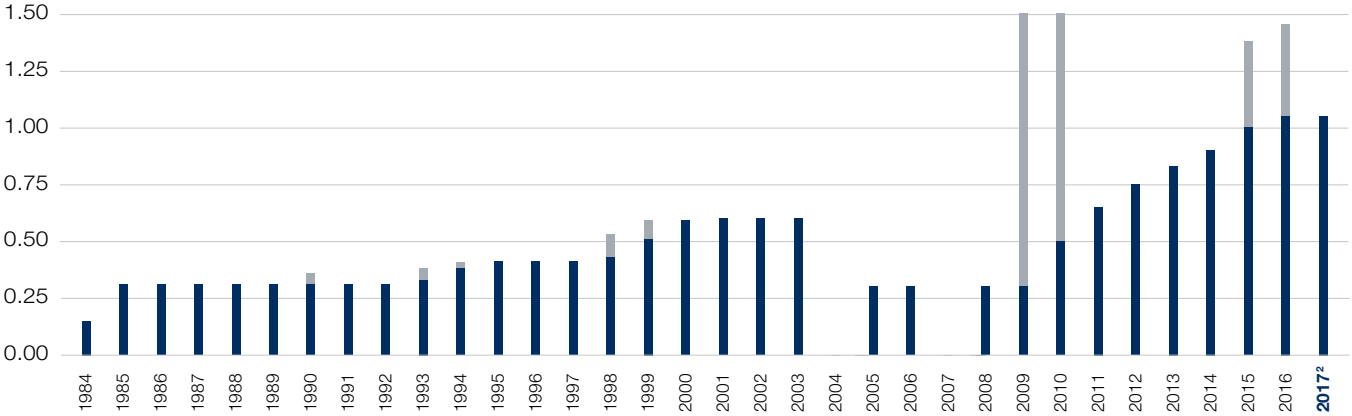
As at 31 December 2017, roughly 76.7% of all issued Leifheit shares were in free float.

According to the information and voting rights notifications available to Leifheit, the company's shareholders were as follows on 31 December 2017:

Shareholder structure of Leifheit AG

MKV Verwaltungs GmbH, Grünwald (DE)	10.03%
Joachim Loh, Haiger (DE)	8.26%
Leifheit AG, Nassau (DE) – treasury shares	4.91%
Employee shares subject to a vesting period	0.06%
Free float	76.74%
Shares above the disclosure threshold of 3% contained therein:	
Capital Income Builder, Los Angeles (US)	5.60%
MainFirst SICAV, Sennigerberg (LU)	5.04%
EQMC Europe Development Capital Fund plc, Dublin (IE)	5.09%
Teslin Capital Management BV/Gerlin NV, Maarsbergen (NL)	5.05%

Historical dividend development[1]
Dividend per share in €



Bonus/Special dividend ■ Dividend [1] Dividends adjusted before capital increase from company funds. [2] Dividend proposal

Regular communication with the capital market and shareholders

Leifheit regards itself as a sound equity on the stock market with a long-term focus. We aim to communicate actively and constantly with the market, current shareholders and potential investors. Our goal is to provide information about all relevant developments and events at our company in a comprehensive, prompt and transparent manner.

In 2017, the capital market kept a close eye on Leifheit AG's business development and strategy. Analyses were regularly published by Berenberg Bank, Bankhaus Lampe, Landesbank Baden-Württemberg and GSC Research. All analysts recommended holding or buying. More detailed information is available on our website at analysts.leifheit-group.com.

Looking back on 2017, the following opportunities for intensive dialogue with shareholders and the capital market deserve special mention:

We used the "Ambiente" consumer goods trade fair in Frankfurt in February 2017 to showcase our company to international investors. In March, the focus was on the press conference announcing Leifheit's balance sheet results and on the annual analysts' conference. The publication of the annual financial report gives the business press and bank representatives an opportunity to ask questions about business development in the previous year and discuss the expectations for the current year.

In May 2017, many shareholders once again used the Annual General Meeting in Frankfurt for personal interaction with the company. They appreciate the opportunity to ask questions and gain first-hand information about development in the previous year and future opportunities from the Board of Management and Supervisory Board. We offer shareholders who are unable to attend the Annual General Meeting personally a live stream of the public portion of the event. They can also use an online service to submit their votes on the individual items on the agenda.

In addition, Leifheit presented itself to participants at international capital market conferences several times over the course of the year. As usual, the German Equity forum in November marked the end of the conference season. We also visited important financial centres in Germany and Europe in connection with roadshows.

In the Investor Relations section of our website, we promptly provide our shareholders, the capital market and other interested parties with all key information related to our share, the strategy and the key figures of the Leifheit Group, the financial calendar as well as financial reports, quarterly statements, news and presentations. It offers you the opportunity to contact us as well if you have questions or comments.

You can also contact us as follows:

Leifheit Aktiengesellschaft
Investor Relations
PO Box 11 65
56371 Nassau/Lahn, Germany
Telephone: +49 2604 977-218
Telefax: +49 2604 977-121218
email: ir@leifheit.com

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Foundations of the Group

The Leifheit Group is one of the leading European brand suppliers of household items. The company offers high-quality and innovative products and solutions that make everyday life at home easier and more convenient.

As a listed company, Leifheit AG has drawn up its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU) and the additional requirements of German commercial law according to section 315e para. 1 of the German commercial code (HGB). The management report of Leifheit AG and the consolidated management report were combined in accordance with section 315 para. 5 and section 298 para. 2 HGB. Unless noted otherwise, the following information relates equally for the Leifheit AG and to the Leifheit Group. The particulars of Leifheit AG can be found in the section titled “Notes to the annual financial statements of Leifheit AG (HGB)”.

Activities and areas of business

The Leifheit Group divides its operating business into two divisions: Brand Business and Volume Business. In the Brand Business, which is the larger of the two reportable segments (hereinafter referred to as “segments” for short), we distribute our products under the two brands Leifheit and Soehnle. These products are characterised by high-quality workmanship in combination with a high degree of consumer benefit and are offered in the medium to upper price sector. The Volume Business includes the French subsidiaries Birambeau and Herby, as well as our Project Business. Here, we offer product ranges in the mid-price category, plus customer-specific developments and their production. In both segments, we focus on our core areas of expertise in the product categories of cleaning, laundry care, kitchen goods and wellbeing.

We primarily develop our products for the European market using our own in-house development departments. This is especially beneficial for Brand Business, which is driven by innovation. Production takes place at our own production plants in Germany, the Czech Republic and France, as well as at the facilities of suppliers located in various countries in Europe and Asia.

Segments

LEIFHEIT GROUP

BRAND BUSINESS

- High-quality brand products with a high degree of consumer benefit in the medium to upper price segment
- Consistent brand management
- Systematic processes for innovation and market launch
- Distribution in international markets
- Product categories: cleaning, laundry care, kitchen goods and wellbeing

LEIFHEIT SOEHNLE

VOLUME BUSINESS

- Products in mid-price ranges
- Customer-specific product developments
- Strong service components
- Distribution in international markets
- Product categories: cleaning, laundry care, kitchen goods and wellbeing

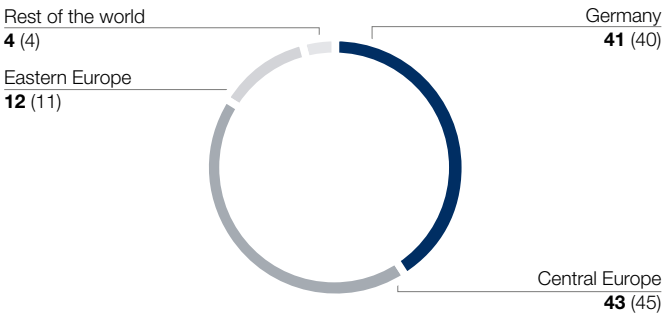
birambeau herby Project Business

Markets and market position

The Leifheit Group sells its products in more than 80 countries around the world. The focus sales markets are our domestic market of Germany, accounting for a share of around 41% of turnover, and the countries of Central Europe with a share of 43%. The sales and distribution region of Central Europe includes the Netherlands, France and Austria, for example. We currently generate around 12% of our turnover in Eastern European markets, such as the Czech Republic, Poland and Slovakia.

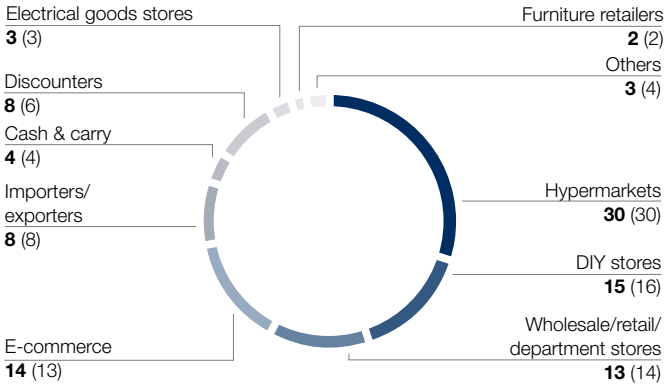
We are currently focusing our sales and marketing activities on European target markets. In addition, we are seizing opportunities to sell our products outside of Europe, such as in the US, the Middle East and the Far East. Here, we distribute our products mainly through distributors and conduct spot business if corresponding market opportunities present themselves. Non-European markets currently account for roughly 4% of Group turnover.

Sales markets
Proportion of turnover in % (previous year's figures)



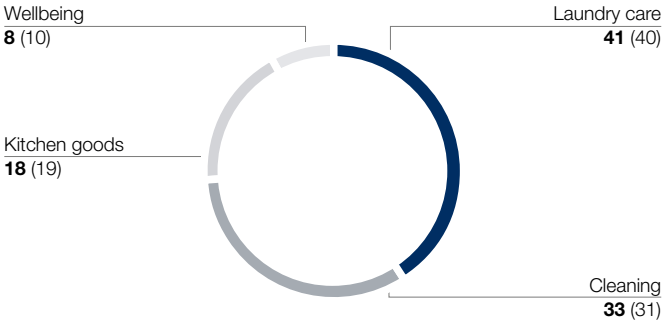
We sell our products where consumers want to buy them and have a presence in all the relevant sales channels. Department stores and hypermarkets, which account for a share of around 30% of turnover, are the Leifheit Group's most important sales channels. We generate about 15% of Group turnover at DIY stores and around 13% in traditional wholesale and retail. The proportion of modern home-shopping (e-commerce) has risen continuously in recent years and amounted to roughly 14% in 2017.

Distribution channels
Proportion of turnover in % (previous year's figures)



We focus on the product categories of cleaning, laundry care, kitchen goods and wellbeing. Laundry care products, accounting for around 41% of turnover, are the largest product category. We generate 33% of Group turnover with cleaning products; some 18% of Group turnover comes from kitchen goods. In Germany and many European markets, Leifheit is among the leading providers of cleaning appliances, especially flat mop systems, as they are known. The wellbeing category includes the Soehnle brand products and accounts for around 8% of turnover. Soehnle is the market leader for bathroom and kitchen scales in Germany. Here, we hold a market share of 37.4% for kitchen scales and 25.8% for bathroom scales. Soehnle is also among the leading providers in other European countries.

Group turnover by product categories
in % (previous year's figures)



Developments and the results of our business activities are also influenced by external factors, including macroeconomic developments, the economic conditions in our key markets, the consumer climate, the development of the US dollar against the euro and the weather conditions in seasonal business with rotary dryers.

Change in Group structure

There were no changes in the scope of consolidation or major changes in the organisational structure or business model in the reporting period.

Major changes since the balance sheet date

There were no events after the end of the financial year of material importance for assessing the net assets, financial position and results of operations of the Leifheit Group or Leifheit AG.

Organisation, corporate structure and management responsibility

Leifheit AG has been a listed stock corporation under German law since 1984. The shares of Leifheit AG are listed on the Frankfurt Stock Exchange Prime Standard and are traded on all German stock exchanges (ISIN DE0006464506). Under consideration of all issued shares, market capitalisation stood at roughly m€ 279 as at 31 December 2017. The company has been entered in the Commercial Register of Montabaur Local Court under HRB 2857, and its headquarters and administration offices continue to be based at its founding location in Nassau/Lahn, Germany. The main locations of Leifheit AG in Germany are Nassau (distribution, administration and production) and Zuzenhausen (logistics). There are also distribution offices outside of Germany which are not legally independent in Brescia, Italy (established in 1982), and in Aartselaar, Belgium (established in 1987).

Leifheit AG has 13 direct or indirect subsidiaries. Leifheit AG's main (partly indirect) interests are Leifheit s.r.o. in the Czech Republic (production and logistics), Birambeau S.A.S. in France (logistics and distribution) and Herby Industrie S.A.S. in France (production, logistics and distribution).

The Board of Management currently has three members. It defines the strategy of the Leifheit Group and is responsible for Group-wide central functions and steers the Group's business divisions. Each member of the Board of Management is responsible for multiple functions within the Leifheit Group. The rules of procedure for the Board of Management regulate the responsibilities of individual board members. Their personal knowledge of products and markets, customer- and country-specific features and their expertise in central Group functions ensure the efficient and professional management of the Leifheit Group. The Leifheit AG Board of Management is supported by 14 sector directors and department heads.

Group strategy and objectives

Since the start of financial year 2015, we have been pursuing the "Leifheit 2020" Group strategy, which outlines our vision and the strategic principles for the company's successful future.

Consumers are our most important target group. With their buying decisions, they determine our economic success. It is therefore crucial to understand their needs and to satisfy them through our products in the most optimal way possible. As a result, our aspiration is: "We are your leading experts for solutions that make your everyday life at home more easy and convenient."

Based on our vision, ten strategic principles answer the question as to where and how further growth potential can be leveraged and opportunities seized in a fast-changing world. They have been supplemented by a digitalisation component.

With regard to "where", significant points are a stronger focus on consumers and retail customers, clear brand positioning and clear positioning of categories and products that are to contribute to our success, as well as a deep understanding of the relevant sales markets and the right way to access them.

The question of "how" defines various areas in which we want to bundle our efforts and resources in future. Above all, the consistent focus will be on the needs of the consumer. We offer them best-in-class service and constantly exceptional product quality. In addition, we will continue to expand on our abilities to create innovative products for consumers. We offer our retail customers tailored product-range and presentation solutions. A streamlined, flexible value chain helps us safeguard our profitability. At the same

time, the digitalisation of processes and solutions is an integral part of our strategy. The basis for our success remains our employees and their dedication to providing extraordinary commitment every day.

"Leifheit 2020" is the foundation for the Group's stronger organic growth going forward. At the same time, Leifheit will review opportunities for external growth if and when they materialise. With a solid, financially debt-free balance sheet, we are well positioned for potential acquisitions to support our growth.

Financing strategy

The primary objective of our financing strategy is to maintain a healthy capital structure. Here, we place particular value on a sufficient equity ratio of at least 30% to ensure the confidence of investors, banks, suppliers, customers and our employees. We focus on maintaining a capital structure that allows coverage of our future potential financing requirements on reasonable terms in financial markets. We want to maintain a high level of independence, security and financial flexibility.

Control system principles

The Leifheit Group is managed centrally from a strategy point of view, while also providing for remote operations. Maintaining only a few divisions and levels of hierarchy allows us to ensure fast and efficient collaboration within the Group. Our organisation is designed so that we provide optimal support to both our customers and brand management to advance our Group's strategy. For this purpose, Brand Business and Volume Business are managed as separate segments. The organisational structure and the process organisation are structured in such a way that they enable us to achieve our strategic business alignment targets in the best possible way.

We ensure that corporate management is focused on ongoing increases in company value. We therefore apply a value-oriented management system. The major performance indicators of the Group are the turnover, the earnings before interest and taxes (EBIT) and the free cash flow. Free cash flow is the total of cash flow from operating activities and cash flow from investment activities, adjusted for incoming and outgoing payments in financial assets as well as, if existing, from the divestiture of business divisions. The key performance indicator return on capital employed (ROCE) is calculated annually at Group level, but is not used in the management of the Group. The ratio ROCE is defined from the sum of EBIT and actual taxes in relation to the capital employed, i.e. the sum of receivables, inventories and assets less trade payables.

The key measures of the two business segments are turnover, gross profit and EBIT.

No significant changes were made to the control system in financial year 2017. Going forward, we will report on non-financial performance indicators that are not used in the management of the company in a separate non-financial report (sustainability report), which was prepared for the first time for financial year 2017. According to section 315b para. 2 No. b HGB the sustainability report is available at financial-reports.leifheit-group.com on the website.

Innovation and product development

Leifheit aims to develop products and solutions that make consumers' lives at home easier and more convenient. Consumer-relevant products and solutions play an important role in the further organic growth of the Group. Our innovation strategy was developed in line with the "Leifheit 2020" Group strategy. We continued to forge ahead with the task of implementing it in 2017. The main features of the innovation strategy that we sum up under the motto "Innovation Factory" are

- integrating consumers into the innovation process,
- emphasising our design credentials,
- adopting a comprehensive innovative approach for optimal solutions,
- a strategic network of innovation partners,
- efficient idea generation, selection and qualification processes, and
- guaranteeing consistently high product quality.

The innovation process is being leveraged to develop a sustainable innovation pipeline for the years ahead. It gives our technical development efforts a long-term focus and delivers product concepts that are highly relevant for consumers in addition to corresponding economic potential.

Leifheit invests in innovation

Innovation enables us to create the preconditions for the further expansion of our market position and future growth. At the Leifheit Group, we invested m€ 5.2 in research and development activities in financial year 2017 (2016: m€ 5.1). The R&D ratio, which represents the ratio of research and development costs to Group turnover, amounted to 2.2% (2016: 2.1%). At the end of the year, 35 employees (2016: 37 employees) worked in the areas of development and patents.

New products for Leifheit and Soehnle

As a result of our development efforts, we were able to launch a range of innovations – especially in the product categories laundry care, cleaning and wellbeing – in the reporting period:

- Leifheit LinoProtect: the first Leifheit rotary dryer with a roof
- Leifheit Combi Storage System: twelve storage helpers that keep homes neat
- Leifheit Care & Protect: a system solution for the simple care of wood and laminate floors
- Leifheit Regulus PowerVac 2in1: the battery-powered vacuum cleaner
- Soehnle bathroom scales: completely overhauled range
- Soehnle Connect: a comprehensive system featuring the Soehnle app for the easy measurement of important fitness and health data

We have also developed new, brand-typical design language for Leifheit and Soehnle products over the past two years. They communicate the brand values while supporting and intuitively explaining how the devices work.

Industrial property rights safeguard competitive advantages

To safeguard the economic value of our development efforts for the company, we register corresponding industrial property rights (patents or utility model applications) prior to announcing new products and solutions. By doing so, we protect our ideas and investments from unauthorised reproduction. Whether we secure our competitive advantage in a certain country by applying for industrial property rights depends on the economic value of the innovation. The turnover to be expected and the respective competitive environment are the decisive criteria. As a rule, we chiefly assess this in connection with our most important sales markets.

Economic environment

The global economy expanded more strongly than expected in the reporting period. Growth in Germany was above the long-term average. Retail turnover and private consumer spending rose further. The US dollar lost substantial value.

Macroeconomic situation

Global economy expands more strongly than expected

In its January 2018 forecast, the International Monetary Fund (IMF) expects global economic performance, measured in terms of gross domestic product (GDP) development, to have increased by 3.7% in 2017 (2016: 3.2%). Although the IMF anticipated growth of 3.4% at the start of 2017, the economic upswing picked up steam in the final months of the year. The IMF reports impressively synchronous growth in many regions.

European economy achieves highest growth in ten years

In 2017, the European economy achieved its highest growth rates in ten years. In its autumn forecast in November 2017, the European Commission anticipated GDP growth of 2.3% (2016: 2.0%) throughout the European Union. The estimate for the Eurozone indicates growth of 2.2% (2016: 1.8%). In early 2017, the Commission was still forecasting growth rates of 1.9% (EU) and 1.7% (Eurozone). Consistent private consumption, stronger global economic growth with increased foreign trade and the decline in unemployment in member states contributed to this upswing. Investments were the strongest driving force in the Eurozone, according to the ifo (Munich), Istat (Rome) and KOF (Zürich) economic research institutes' joint outlook for the Eurozone.

According to data from the European Commission, economic performance in France improved by 1.6% (2016: 1.2%) in the reporting period. At 1.5%, gross domestic product posted significantly stronger growth year on year in Italy (2016: 0.9%). With an increase of 3.1%, the recovery process in Spain remained largely stable (2016: 3.3%). The Netherlands achieved a similar growth rate of 3.2% (2016: 2.2%). In Austria, the gross domestic product also grew by 2.6% at a significantly faster pace than in the previous year (2016: 1.5%).

Compared to older member states, most Eastern European countries continue to exhibit stronger economic growth. According to the autumn forecast, most of these countries also saw an increase of growth in the reporting period. Poland's GDP gained 4.2% (2016: 2.9%). In the Czech Republic, the growth rate stood at 4.3% (2016: 2.6%). In Slovakia, which is a member of the Eurozone, economic growth remained stable at 3.3% (2016: 3.3%).

Growth in Germany above the long-term average

According to preliminary calculations by the Federal Statistical Office (Destatis), the German economy once again posted significant growth in 2017. Adjusted for price, the GDP growth rate rose to 2.2% (2016: 1.9%). As a result, 2017 was the eighth year of growth in a row. The growth rate was nearly one percentage point above the average for the past ten years (1.3%). Wholesale/retail trade, transport and storage, and hotel and restaurant services saw above-average growth of 2.9% (2016: 2.3%).

US dollar loses substantial value

The US dollar lost substantial value against many currencies over the course of 2017, even though the US Federal Reserve raised prime interest rates at several intervals. This development was most strongly reflected in the euro. Factors included the marked improvement in economic indicators throughout the Eurozone as well as expectations that the European Central Bank (ECB) might end its loose monetary policy ahead of schedule. By contrast, the measures to promote the domestic economy announced by the new US administration were postponed. At the end of 2016, the ECB's reference rate for the euro stood at roughly 1.05 US dollars. Following a steep rise, mainly in the second and third quarters, the exchange rate stood at around 1.20 US dollars on 29 December 2017. By contrast, our expectations for the end of 2017 and the start of 2018 stood at 1.05 US dollars to the euro one year earlier.

Industry development

Further rise in retail turnover and private consumer spending

According to data from Eurostat, the European Union's statistical office, retail sales volume adjusted for price rose by 2.7% throughout the European Union between November 2016 and November 2017 (November 2015 to November 2016: 3.4%). In the Eurozone, growth stood at 2.8% (November 2015 to November 2016: 2.3%).

In Germany, retail turnover increased by 2.3% in real terms during the reporting period, according to preliminary findings by the Federal Statistical Office. One year earlier, the increase amounted around 2%. Turnover of furnishings, household appliances and building materials posted an increase of 2.0% (2016: 1.0%). Adjusted for price, online and mail-order retail sales once again grew strongly by 7.7% (2016: 5.4%). All told, private consumer spending was up 2.0% year on year in Germany in 2017 (2016: 2.1%).

The economic climate index published by the ifo Institute, Munich, Germany, monitors expectations of future development and the current situation in various sectors of the German economy on an ongoing basis. After starting at 6.3 points in January, the retail index rose to 15.7 points (2016: 9.2 points) at the end of 2017. The index reached 16.2 points, its highest reading for the year, in October.

However, non-food retail barely benefited overall from the good consumer sentiment. According to the GfK market research institute, Nuremberg, Germany, it grew by just 0.2% in 2017. Household goods also saw only low growth rates. The kitchen accessories and household helpers product group grew by 0.6%.

Consumer confidence improves slightly once again

The European Commission is responsible for determining the Consumer Confidence Indicator as a benchmark of consumers' propensity to consume. The Consumer Confidence Indicator saw further improvement over the course of 2017. The indicator for the Eurozone rose by 0.5 points as at the end of the year, reaching +0.5 points (2016: −5.1 points). The indicator for the entire European Union finished the year at −0.6 points (2016: −4.6 points). The Consumer Confidence Indicator's long-term average for the Eurozone stands at −12.4 points.

The comparable consumer confidence index for Germany (GfK) saw only minor fluctuation in the reporting period. After starting at 9.9 points in January, the index reached 10.7 points at the end of the year (2016: 9.8 points). Propensity to consume in Germany therefore remained at a good level throughout the year.

Regulatory environment

The regulatory environment for the Leifheit Group's business model and products remained largely unchanged in financial year 2017.

Net assets, financial position and results of operations of the Group

In financial year 2017, the Leifheit Group generated turnover of m€ 236.8, which was approximately on par with the previous year. Brand Business recorded a slight increase in turnover, whereas as Volume Business saw a decrease year on year. Earnings before interest and taxes reached m€ 18.8.

Comparison of actual performance with projected business performance

All told, financial year 2017 failed to live up to our expectations, both with regard to Group turnover, which we managed to stabilise at the level seen in the previous year, and earnings before interest and taxes (EBIT). Here, we were forced to accept a year on year decline.

The forecast for the development of turnover, earnings and other key performance indicators that we released upon the publication of the financial report for 2016 were subject to constant review over the course of the year. They were adjusted or defined more clearly according to business development. The adjustments to the forecast were made in an ad hoc announcement in September and in the quarterly statement for the first nine months of the year.

Group turnover totalled m€ 236.8 in the reporting period, thereby placing it virtually on par with the previous year's figure of m€ 237.1. In the original forecast, we had predicted an increase of 3.5% to 4.5%. At 0.5%, Brand Business once again recorded slight growth, whereas turnover in Volume Business fell by 2.8%. Domestic business resumed its long-term growth trend, and the strong growth seen in past years continued in our Eastern European target markets. By contrast, turnover volume was lacking in key Central European markets such as France. As a result of the business development, we adapted our expectations for the first time in September 2017 to reflect growth slightly below the originally forecast increase of 3.5% over the course of the year. In light of the further development and the updated planning, we refined the forecast in November upon the publication of the figures for the first nine months of the year. Accordingly, we expected Group turnover on par with the previous year.

We increased turnover to m€ 196.7 in our strategic core business, Brand Business, for a slight year on year rise (2016: m€ 195.8). The segment's development benefited from the Leifheit cleaning and laundry care products. Newly launched products helped power growth. The kitchen goods and wellbeing product categories, however, failed to live up to our expectations. The rollout of the new Soehnle products did not start until late 2017. In our original forecast, we anticipated growth of 4% to 5% in Brand Business. After nine months, we adapted the forecast in November 2017 to expect slight year on year growth.

In our second segment, Volume Business, we expected an increase of 2% to 3% at the time of the original forecast. Contrary to our expectations, turnover in our primary market of France decreased due to a lack of volume in our business with various retailers. By contrast, the German market and Project Business developed favourably. In view of turnover development and with knowledge of the further planning, we also had to adapt our forecast in Volume Business. After nine months, we expected lower turnover year on year. At m€ 40.1 as at the end of financial year 2017, turnover ultimately declined by 2.8% in Volume Business.

Earnings before interest and taxes (EBIT) reached m€ 18.8 – a decrease of m€ 3.3. In our plan, we had expected EBIT on par with the previous year and taken into account non-recurring expenses for the reorganisation of our sales activities in Brand Business. The deviation in terms of EBIT also resulted from lower contribution margins due to lower turnover, increases in the price of materials and the decline in the foreign currency result.

In our earnings forecast, we expected the US dollar exchange rate to remain largely stable over the course of the year. At the end of 2016, the reference rate for the euro stood at 1.05 US dollars. Following a steep rise, the exchange rate stood instead at around 1.20 US dollars at the end of the year, resulting in a negative foreign currency result.

Due to the aforementioned effects, we were forced to reduce our EBIT expectations in September 2017 to a decrease of m€ 1 to m€ 2.5. Owing to the further development of turnover and the foreign currency result, the forecast was again adjusted slightly upon the publication of the quarterly statement for the third quarter in November 2017 to include a drop of m€ 2 to m€ 3 compared to the previous year's EBIT of m€ 22.1. After twelve months, EBIT was down m€ 3.3 year on year to m€ 18.8. Adjusted for the foreign currency result, EBIT stood at m€ 20.3 for a decrease of m€ 1.9.

We originally expected an earnings share of around 80% for Brand Business. After the end of financial year 2017, however, the share stood at 76%, as in the previous year. For Volume Business, we had forecast a share of around 20%. In fact, the segment accounted for 24% of EBIT in the reporting period, as in the previous year.

We expected the return on capital employed (ROCE) to decline slightly from the previous year's figure of 16.3%. Earnings development over the course of 2017 and the increase in working capital made it necessary to adjust our forecast to between 12% and 13% after nine months. Ultimately, ROCE reached 12.8% in financial year 2017. Working capital includes inventories, trade receivables and trade payables.

We expected free cash flow of between m€ 4 and m€ 6 in our forecast. In financial year 2016, free cash flow stood at m€ 14.3. The lowered expectations were the result of the rise in working capital due to the increase in inventories in connection with new products, for example, or the payment of long-term Board of Management remuneration. Due to a lower-than-planned earnings development and a more marked rise in working capital, we expected free cash flow of between m€ 0 and m€ 2 after nine months. Free cash flow stood at m€ 1.5 as at the balance sheet date in 2017.

In line with the medium-term plan, investments of roughly m€ 6 were planned for 2017, mainly for expanding capacity at our Czech production site and at the logistics centre in Zuzenhausen. In addition, some m€ 1 were earmarked for the digitalisation and optimisation of our IT infrastructure. Investments at the Group stood at m€ 7.8 after twelve months, as in the previous year.

Forecast/ actual comparison	Actual 31 Dec 2016	Forecast 2017	Adjustment September 2017	Adjustment November 2017	**Actual 31 Dec 2017**
Group turnover	m€ 237,1	+3,5% to 4,5%	down slightly +3,5 %	on par with previous year	m€ 236,8 −0,1%
Turnover Brand Business	m€ 195,8	+4% to 5%		slight growth	m€ 196,7 +0,5%
Turnover Volume Business	m€ 41,3	+2% to 3%		down year on year	m€ 40,1 −2,8%
Group EBIT	m€ 22,1	on par with previous year	down m€ 1 to m€ 2,5 year on year	down m€ 2 to m€ 3 year on year	m€ 18,8
EBIT share Brand Business	76%	around 80%			76%
EBIT share Volume Business	24%	around 20%			24%
Free Cashflow [1]	m€ 14,3	m€ 4 to m€ 6		m€ 0 to m€ 2	m€ 1,5
ROCE [2]	16,3%	down slightly year on year		12% to 13%	12,8%

[1] Free cash flow is the total of cash flow from operating activities and cash flow from investment activities, adjusted for incoming and outgoing payments in financial assets as well as, if existing, from the divestiture of business divisions.

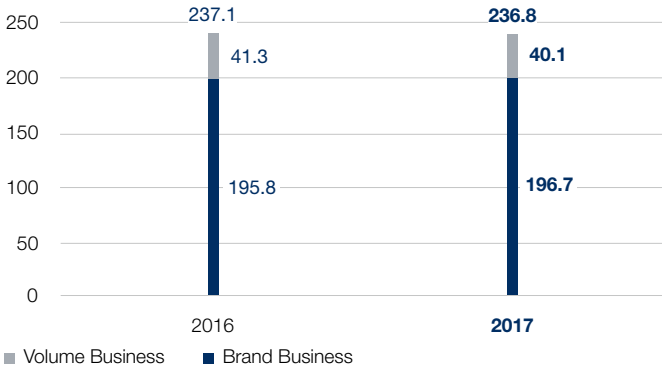
[2] The ratio ROCE is defined from the sum of EBIT and actual taxes in relation to the capital employed, i.e. the sum of receivables, inventories and assets less trade payables.

Business performance

Group turnover roughly on par with previous year

In financial year 2017, the Leifheit Group achieved turnover in the amount of m€ 236.8, which was approximately on par with the previous year (2016: m€ 237.1). We succeeded in raising turnover in the strategic Brand Business. By contrast, Volume Business fell short of the previous year's figure. We expanded our business in Germany and the Eastern European target markets, whereas turnover was down in key Central European markets. Turnover attributable to Leifheit cleaning and laundry care products developed largely in line with our long-term expectations. Turnover in e-commerce once again saw double-digit growth in the reporting period.

Group turnover by segment
in m€



Germany resumes long-term growth trend

In our domestic market, we recorded turnover in the amount of m€ 96.9 in total in the reporting period (2016: m€ 94.5), equating to a rise of m€ 2.4, or 2.5%. As a result, our domestic business resumed its long-term growth trend, which had been interrupted by a major mail-order customer moving its headquarters in the previous year. Both segments, Brand Business and Volume Business, made a contribution to growth in Germany. Volume Business benefited from special offers that we were able to position in the first few months of the year in particular. The share of Group turnover accounted for by domestic business rose to 40.9% (2016: 39.9%).

Lack of turnover volume in key markets in Central Europe

We experienced a drop in turnover in the target region of Central Europe. Turnover here totalled m€ 102.9 (2016: m€ 107.8) – a decline of 4.6%. As a result, the share of Group turnover accounted for by Central European markets fell to 43.5% (2016: 45.5%). We saw double-digit growth in Belgium and stabilised our business in the Netherlands at a high level. By contrast, turnover in key individual markets – such as France, Italy and Luxembourg – was down year on year due to fewer special offers. In France, the difficult situation for certain retail customers was one of the main reasons for the drop in turnover.

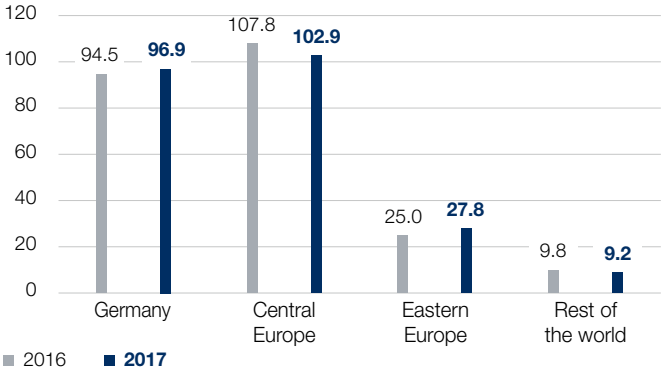
Eastern European markets continue strong growth

We succeeded in expanding our business in our Eastern European markets once again in the reporting period. We continue to maintain a presence solely in Brand Business in these markets. With an increase of m€ 2.8, turnover rose by 11.3% to m€ 27.8 (2016: m€ 25.0). The region accounted for 11.7% of Group turnover (2016: 10.5%). The Czech Republic, Hungary, the Ukraine and Romania in particular stood out thanks to strong growth.

Non-European markets continue to post slight declines

At the present time, we seize sales opportunities outside Europe largely as they arise. The primary focus of our "Leifheit 2020" growth strategy is the further development of markets in Central and Eastern Europe. Turnover generated outside Europe continued to fall slightly in financial year 2017 (–5.7%) and reached a volume of m€ 9.2 (2016: m€ 9.8). Growth in South America was offset by declines in the Far East and the United States.

Group turnover by region
in m€



Base effect impacts turnover development at the start of the year

The development of Group turnover was impacted by a base effect in the first quarter. The comparable quarter in the previous year was the strongest quarter of 2016, with extensive special offers in Brand Business. Special offers of a similar extent did not materialise in the first quarter of 2017 or were planned for later in the year. Growth in Volume Business was unable to balance out this effect, resulting in a 3.5% drop in turnover. With growth of 3.6%, we were able to make up for the year on year shortfall in the second quarter. This development was fuelled by strong growth in Brand Business with products for floor and surface cleaning, ironing and laundry drying. The third quarter saw weaker-than-expected development overall and finished down 3.0% year on year. The lack of turnover volume in key target markets had an impact. A strong fourth quarter with 3.0% growth followed at the end of the year. The increase in the fourth quarter was once again the result of Brand Business. Turnover in Volume Business was on par with the previous year.

Group turnover development by quarter in m€	2016	**2017**	Change
Q1	64.7	62.5	–3.5%
Q2	56.4	58.4	3.6%
Q3	58.4	56.6	–3.0%
Q4	57.6	59.3	3.0%
	237.1	**236.8**	**–0.1%**

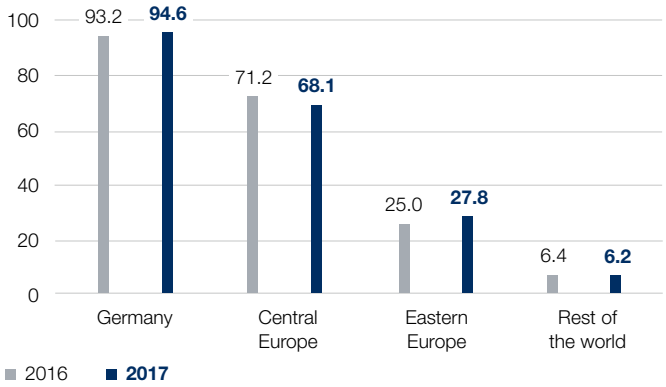
Brand Business benefits from continued growth of the Leifheit brand

Brand Business is the strategic core of the Leifheit Group. The larger of our two segments encompasses the activities with Leifheit and Soehnle branded products. We succeeded in continuing to slightly expand turnover in Brand Business in the reporting period, which amounted to m€ 196.7 (2016: m€ 195.8). The share of Group turnover accounted for by Brand Business rose to 83.1% (2016: 82.6%).

The development of the segment was bolstered by continuing growth in Leifheit cleaning and laundry care products. Turnover in these product categories increased largely in line with our long-term “Leifheit 2020” growth targets. The Leifheit LinoProtect rotary dryer with a roof, the Leifheit Care & Protect System for floor care and the Leifheit Click System, for example, made a substantial contribution. By contrast, turnover in the product categories kitchen goods and wellbeing (Soehnle branded products) was down year on year. At the end of the year, the launch of the new Soehnle Connect System, blood pressure monitor and air treatment started, as a result of which we expect significant growth momentum for the wellbeing category.

Growth in Germany and our Eastern European target markets was contrasted by a substantial decrease in Central Europe. Turnover volume was lacking in key individual markets, such as France, Italy and Luxembourg. In Eastern Europe, the Czech Republic, Hungary, the Ukraine and Romania in particular stood out thanks to strong growth. Turnover in the e-commerce sales channel once again grew strongly with an increase of 10%.

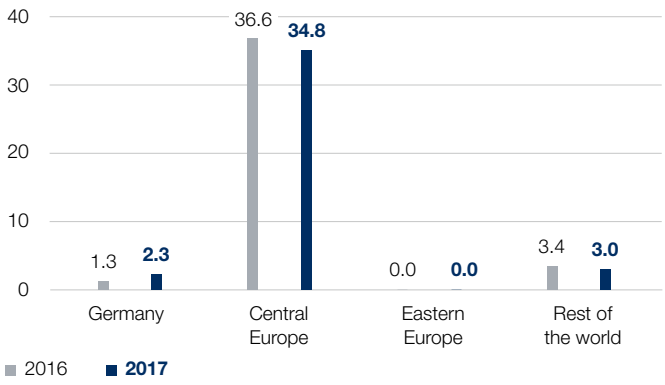
Brand Business: turnover by region
in m€



Turnover in Volume Business down year on year

Volume Business is the second, smaller segment at the Leifheit Group. The segment is characterised by a high share of special offers and Project Business, and is strongly focused on individual markets and customers. France, along with Germany and the US, is the strongest market. In financial year 2017, turnover in Volume Business amounted to m€ 40.1, which corresponds to a decline of 2.8% (2016: m€ 41.3). Volume Business accounted for a 16.9% share of turnover (2016: 17.4%). France was hit hardest by the decline. Here, turnover volume involving Birambeau kitchen products and Herby laundry care products with various retailers was lacking. Less Project Business took place in the US as well. By contrast, we managed to considerably expand turnover in Germany through special offers.

Volume Business: turnover by region
in m€



Development of results of operations

Currency development and one-off effect negatively impact earnings

In financial year 2017, the Leifheit Group achieved EBIT in the amount of m€ 18.8 (2016: m€ 22.1). The year on year decline of m€ 3.3 was mainly the result of the negative foreign currency result, non-recurring expenses for the reorganisation of sales activities, higher investment in customer conditions and advertising, and higher material prices. Adjusted for the foreign currency result, EBIT stood at m€ 20.3 (2016: m€ 21.8).

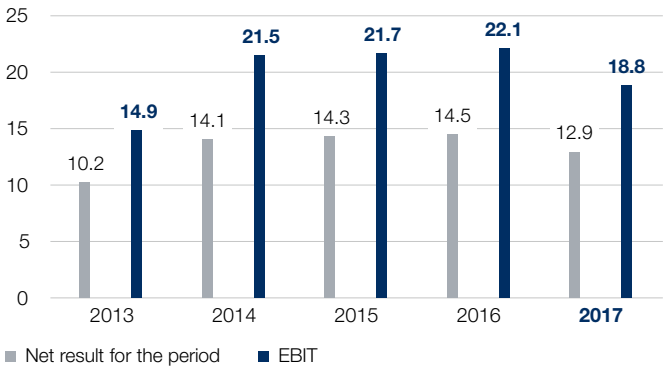
In the reporting period, the EBIT margin therefore stood at 8.0% (2016: 9.3%). It is calculated as the ratio of EBIT to turnover. Adjusted for the foreign currency result, this corresponds to an EBIT margin of 8.6% (2016: 9.2%).

Earnings before taxes (EBT) were m€ 17.7 in financial year 2017 (2016: m€ 20.6). The interest and financial result contained therein rose year on year by m€ 0.4 to m€ –1.1 (2016: m€ –1.5). After deduction of taxes, Leifheit ultimately generated a net result for the period of m€ 12.9 (2016: m€ 14.5).

Comprehensive income after taxes amounted to m€ 7.7 in the reporting period (2016: m€ 10.9). It includes the net result for the period and, in addition, other comprehensive income. The other comprehensive income also includes components that are recorded directly under equity as other reserves. This relates to the foreign currency effects from the conversion of financial statements in foreign currencies, value changes from hedging transactions, currency effects of equity-replacing loans from Group companies and actuarial gains and/or losses from pension obligations. Other comprehensive income fell to m€ –5.2 (2016: m€ –3.6) in the reporting period. The m€ 1.6 decline was due mainly to the significant decline in the change in fair values of forward foreign exchange transactions for which a hedging relationship exists.

We calculate the profitability of the capital employed using the indicator return on capital employed (ROCE). This ratio is derived from the sum of EBIT and actual taxes in relation to the capital employed, i.e. the sum of receivables, inventories and assets less trade payables. In 2017, ROCE fell by 3.5 percentage points to 12.8% (2016: 16.3%). This was primarily attributable to the lower earnings and the rise in working capital.

Group result
in m€



Development of prices reduces gross profit

Gross profit fell by m€ 2.7 to m€ 109.9 (2016: m€ 112.6) in the reporting period. The year on year decline was mainly the result of higher customer conditions and price increases on the purchasing side.

With turnover nearly constant, the gross margin therefore fell by 1.1 percentage points to 46.4% (2016: 47.5%). The gross margin is defined as gross profit in relation to turnover.

Research and development costs on par with the previous year

At m€ 5.2, expenditure on research and development was approximately on par with the previous year (2016: m€ 5.1). These costs mainly include personnel costs, costs for services and patent fees.

Non-recurring expenses raise distribution costs

Distribution costs rose to m€ 71.6 (2016: m€ 70.1) in the reporting period. They include advertising costs, commissions, marketing costs, freight out, delivery charges and the costs incurred by the internal and external teams.

In the reporting period, the distribution costs contained non-recurring expenses for the reorganisation of our field sales force in Brand Business (m€ 1.8) and higher advertising costs (m€ 0.8). At the same time, other distribution costs fell by m€ 1.1.

Administrative costs down year on year

Our administrative costs decreased by m€ 1.9 to m€ 14.7 (2016: m€ 16.6) in financial year 2017. First and foremost, these costs include personnel costs and services to support our financial and administrative functions.

Expenses for long-term Board of Management remuneration decreased by m€ 1.7 in the reporting period. These were offset by severance payments in the amount of m€ 0.9. Savings of m€ 0.8 were made with regard to other administrative costs in addition to personnel costs.

Other operating income and expenses up

Other operating income rose in the reporting period by m€ 1.2 to m€ 2.4 (2016: m€ 1.2). This income mainly includes fees and licensing royalties, as well as revenue from the disposal of non-current assets. In financial year 2017, we generated one-off income from the sale of land not used for operating purposes in the amount of m€ 1.1. Other operating expenses stood at m€ 0.3, as in the previous year.

Foreign currency result down significantly year on year

Due to the development of the euro to US dollar exchange rate, the foreign currency result fell by m€ 1.8 to m€ –1.5 (2016: m€ 0.3). The foreign currency result includes changes in the fair values of forward foreign exchange transactions for which no hedging relationship exists, foreign currency valuations and foreign currency gains and losses realised.

The result from changes in the fair value of forward foreign exchange transactions stood at m€ –1.5 (2016: m€ –0.9) and resulted mainly from the significant appreciation of the euro against the US dollar. At the same time, we saw foreign currency losses from completed transactions in the amount of m€ –0.1 (2016: foreign currency gains of m€ 1.4). Unrealised gains from foreign currency valuations amounting to m€ 0.1 (2016: losses of m€ 0.2) primarily related to the valuation as at the balance sheet date of receivables and liabilities in foreign currencies.

Income statement (short version) in m€	2016	2017
Turnover	237.1	236.8
Earnings before foreign currency result, interest and taxes	**21.8**	**20.3**
Foreign currency result	0.3	–1.5
Earnings before interest and taxes (EBIT)	**22.1**	**18.8**
Interest and financial result	–1.5	–1.1
Earnings before taxes (EBT)	**20.6**	**17.7**
Income taxes	–6.1	–4.8
Net result for the period	**14.5**	**12.9**
Other comprehensive income	–3.6	–5.2
Comprehensive income after taxes	**10.9**	**7.7**

Interest and financial result improved

The interest and financial result rose by m€ 0.4 to m€ –1.1 (2016: m€ –1.5). At m€ 0.1, interest income was on par with the previous year on account of the still low interest rates. Interest expenses fell by m€ 0.4 to m€ 1.2 (2016: m€ 1.6). Of the interest expenses, m€ 1.2 were due to the compounding of pension obligations (2016: m€ 1.5).

Income taxes down year on year

In financial year 2017, income taxes at the Leifheit Group totalled m€ 4.8 (2016: m€ 6.1). The drop was the result of lower earnings before taxes. Income taxes included income taxes in Germany in the amount of m€ 3.6 (2016: m€ 4.2), foreign income taxes in the amount of m€ 1.3 (2016: m€ 2.3) and deferred taxes in the amount of m€ –0.1 (2016: m€ –0.4).

The tax ratio was therefore 27.2% (2016: 29.4%). This ratio is the relationship of taxes on income to EBT.

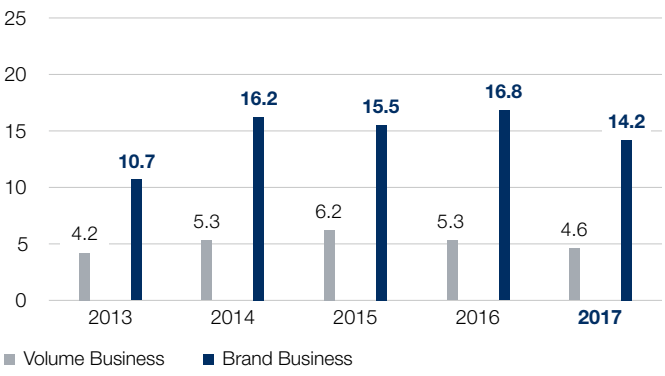
Segment results

In Brand Business, we generated EBIT in the amount of m€ 14.2 in financial year 2017 (2016: m€ 16.8). The decline of m€ 2.6 was mainly the result of the negative foreign currency result, non-recurring expenses for the reorganisation of sales activities, higher investment in customer conditions and advertising, and material prices. Gross profit in the Brand Business fell by m€ 1.8 to m€ 96.5 (2016: m€ 98.3). Costs in Brand Business decreased by m€ 1.5. The foreign currency result fell by m€ 1.1.

This means that Brand Business accounted for around 76% of Group EBIT in financial year 2017, as in the previous year.

In Volume Business, EBIT stood at m€ 4.6 (2016: m€ 5.3). Adjusted for the foreign currency result, however, EBIT stood at m€ 5.2, as in the previous year. Gross profit fell by m€ 0.9 to m€ 13.4 (2016: m€ 14.3) in Volume Business.

EBIT by segment
in m€



Development of the financial situation

Financial management

Leifheit maintains a centralised financial management for liquidity and currency management. An important goal of our financial management strategy is to ensure a minimum Group liquidity in order to meet our payment obligations at all times. To this end, most Group companies have been integrated by Leifheit into central cash management operations. Cash and cash equivalents are pooled throughout the Group, monitored and invested according to uniform principles. High levels of liquid assets improve our financial flexibility and secure our solvency and independence across the Group. Further lines of credit available at short notice enable us to draw on further liquidity reserves if necessary.

The Group liquidity and lines of credit available mean that we are always in a position to meet our payment obligations. There are no restrictions regarding the availability of cash.

We also control our currency exchange risks on a Group-wide basis. We guarantee this through the use of selected derivatives. The use of derivatives is exclusively for the purpose of hedging our underlying business. They are not used for speculative purposes. We have clear rules in place in the area of financial risk management, which also cover the use of derivative financial instruments.

Liquidity management

Our operating activity is the primary source of building up and expanding cash, cash equivalents, other investments and short-term securities. In the past, cash and cash equivalents have been largely used for our business activities and the resulting investments, the acquisition of companies or parts of companies, the payment of dividends and the repurchase of our own shares. We aim to continue generating sufficient liquidity in the future to ensure the distribution of annual dividends in the context of a continuous dividend policy.

As at 31 December 2017, we held cash, cash equivalents, other investments and current financial assets primarily in Euros, US dollars, Czech korunas and Polish zloty. We also invest in near-money-market funds to reduce counterparty risks with banks. In the process, we pursue a prudent investment policy. As a result, we generally only invest in financial assets of issuers that have a minimum credit rating of BBB and/or in financial instruments with an average rating of at least 90% investment grade.

Management of capital structure

Our primary objective in the management of the capital structure is maintaining a strong financial profile. As a result, we focus on maintaining sufficient levels of equity. We do this in order to boost the trust that investors, banks, customers, suppliers and employees have in our company. We focus the management of our capital structure on ensuring that we can meet our future potential financing requirements on reasonable terms in the capital market.

Capital structure

Equity and liabilities	31 Dec 2016		**31 Dec 2017**	
	m€	Share in %	**m€**	**Share in %**
Equity	104.6	43.7	98.5	43.8
Current liabilities	58.0		53.1	
Non-current liabilities	76.8		73.3	
Liabilities	134.8	56.3	126.4	56.2
	239.4	**100.0**	**224.9**	**100.0**

The equity ratio stood at 43.8% (2016: 43.7%) at the end of financial year 2017. It is calculated from the proportion of equity to the total of equity and liabilities. Our debt level came to 56.2% (2016: 56.3%) and was therefore virtually on par with the previous year. This key figure is the result of the ratio of current and non-current liabilities to the sum of equity and liabilities.

As at 31 December 2017, liabilities at the Group mainly consisted of pension obligations in the amount of m€ 69.5 (2016: m€ 70.2), trade payables and other liabilities of m€ 43.8 (2016: m€ 51.2), other provisions with a value of m€ 9.1 (2016: m€ 10.0), derivative financial instruments of m€ 2.4 (2016: m€ 0) and deferred tax liabilities in the amount of m€ 1.0 (2016: m€ 3.1). As in previous years, Leifheit had no liabilities to banks at the end of financial year 2017.

Analysis of Group liquidity

Net liquidity in m€	31 Dec 2016	31 Dec 2017	Change
Credit balances at banks	45.5	28.2	–38.0%
Current financial assets	24.0	29.0	20.9%
Group liquidity	**69.5**	**57.2**	**–17.7%**
Financial liabilities	–	–	–
	69.5	**57.2**	**–17.7%**

As at 31 December 2017, Group liquidity totalled m€ 57.2 (2016: m€ 69.5). Group liquidity includes cash and cash equivalents, as well as current financial assets. Cash and cash equivalents in the amount of m€ 28.2 (2016: m€ 45.5) mainly included demand deposits with banks. The current financial assets included bond funds of m€ 29.0 (2016: m€ 24.0). As at the balance sheet date, credit balances at banks primarily consisted of euros in the amount of m€ 16.9 (2016: m€ 37.8), US dollars in the amount of m€ 7.3 (2016: m€ 6.0), Czech korunas in the amount of m€ 2.4 (2016: m€ 1.1), Chinese renminbi in the amount of m€ 0.7 (2016: m€ 0.2) and Polish zloty in the amount of m€ 0.3 (2016: m€ 0.4).

Analysis of the Group statement of cash flow

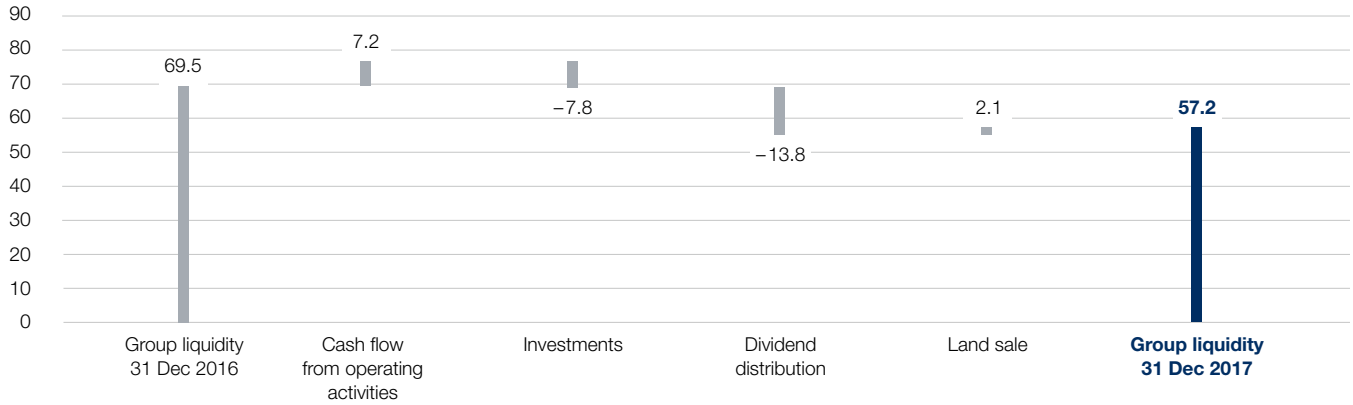
m€	2016	2017	Change
Cash flow from operating activities	21.8	7.2	–14.6
Cash flow from investment activities	–27.5	–10.7	16.8
Cash flow from financing activities	–13.0	–13.8	–0.8

Cash flow from operating activities in financial year 2017 came to m€ 7.2 (2016: m€ 21.8) and resulted mainly from the net result for the period of m€ 12.9 (2016: m€ 14.5); depreciation of m€ 6.4 (2016: m€ 6.2); the increase in inventories, trade receivables and other assets of m€ 4.7 (2016: m€ 0.2); and the decline in trade payables and other liabilities of m€ 5.9 (2016: m€ 0). The main reason for the significant decline in cash flow from operating activities is the rise in working capital. Trade receivables increased by m€ 2.1, inventories rose by m€ 2.2, and trade payables decreased by m€ 4.4. In addition, long-term Board of Management remuneration of m€ 6.2 was paid.

Cash flow from investment activities stood at m€ 10.7 in the reporting period (2016: m€ 27.5). Payments for the purchase of tangible and intangible assets contributed m€ 7.8 to this figure, as in the previous year. The sale of land not used for operating purposes generated proceeds of m€ 2.1. No further material assets were sold. Inflow from the disposal of fixed assets amounted to m€ 0.2 in the previous year. Cash flow from investment activities also includes incoming and outgoing payments in financial assets. In net terms, we invested a further m€ 5.0 in financial assets in financial year 2017.

The cash flow from financing activities amounted to m€ 13.8 (2016: m€ 13.0). It consisted of the payment of dividends in the amount of m€ 13.8 (2016: m€ 13.1).

Group liquidity
in m€



Free cash flow

m€	2016	2017	Change
Cash flow from operating activities	21.8	7.2	–14.6
Cash flow from investment activities adjusted[1]	–7.5	–5.7	–1.8
Free cash flow	14.3	1.5	–12.8

[1] Adjusted for financial assets.

Free cash flow fell in financial year 2017 by m€ 12.8 to m€ 1.5 (2016: m€ 14.3) due to the significant decline in cash flow from operating activities. As a key figure, free cash flow indicates how much liquidity was available for the repayment of debt financing or for the distribution of dividends to shareholders. Free cash flow is the total of cash flow from operating activities and cash flow from investment activities, adjusted for incoming and outgoing payments in financial assets as well as, if existing, from the acquisition and divestiture of business divisions.

Lines of credit

In financial year 2017, Leifheit had short-term revolving credit lines in the amount of m€ 11.5 (2016: m€ 11.5). As at 31 December 2017, m€ 0.4 had been utilised in the form of guarantees, as in the previous year.

Development of net assets

Balance sheet structure

The balance sheet total of the Leifheit Group decreased as at 31 December 2017 by m€ 14.5 year on year to m€ 224.9 (2016: m€ 239.4). On the asset side, this decrease was largely due to lower liquid assets and derivative financial instruments.

As at the balance sheet date, current assets totalled m€ 156.6, m€ 13.9 less than as at 31 December 2016. Cash had decreased by m€ 17.3 to m€ 28.2 as at 31 December 2017 (2016: m€ 45.5). Current derivative financial instruments fell by m€ 6.3 to m€ 0.1 (2016: m€ 6.4). This decline was offset by the increase in financial assets in the form of bond funds of m€ 5.0 to m€ 29.0 (2016: m€ 24.0), as well as the rise in trade receivables of m€ 2.1 to m€ 50.8 (2016: m€ 48.7) and inventories of m€ 2.2 to m€ 44.5 (2016: m€ 42.3). Trade receivables increased mainly due to shifts in turnover to customers with longer payment targets, whereas overdue receivables were largely on par with the previous year. Inventories rose due to the balance sheet date and to ensure the ability to deliver.

Current and non-current derivative active financial instrument assets fell by m€ 8.2 in total to m€ 0.1 (2016: m€ 8.3), whereas current and non-current derivative financial instrument liabilities increased by m€ 2.4 in total to m€ 2.4 (2016: m€ 0). This change resulted primarily from the use of the exchange transactions concluded in previous years for financial year 2017 and the change in the fair values of forward exchange transactions for 2018 and 2019 (due to the significant appreciation of the euro against the US dollar).

Our non-current assets fell by m€ 0.6 to m€ 68.3 (2016: m€ 68.9) as at 31 December 2017. This development was primarily the result of the decline in non-current derivative active financial instrument assets to m€ 0 (2016: m€ 1.9). Non-current assets increased by m€ 1.2 to m€ 57.3 year on year on account of the continued investment in software and the expansion at our German logistics facility.

Current liabilities, i.e. those with maturities of less than one year, fell by m€ 4.9 to m€ 53.1 (2016: m€ 58.0). Trade payables and other liabilities fell by m€ 7.4 to m€ 43.8 (2016: m€ 51.2). Trade payables decreased by m€ 4.4, and the payment of long-term Board of Management remuneration led to a further m€ 4.0 decline in liabilities. This was offset by higher liabilities related to customer bonuses, discounts and advertising cost subsidies of m€ 2.2. Current derivative financing instruments increased to m€ 1.8 (2016: m€ 0.0).

Non-current liabilities fell by m€ 3.5 to m€ 73.3 as at the end of the financial year (2016: m€ 76.8). They chiefly include pension obligations in the amount of m€ 69.5 (2016: m€ 70.2). The decrease resulted primarily from the drop in deferred tax liabilities to m€ 1.0 (2016: m€ 3.1) due to the decline in active financial instrument assets and other provisions to m€ 2.3 (2016: m€ 3.4) on account of the payment of further long-term Board of Management remuneration of m€ 2.2.

Equity reached a high of m€ 98.5 as at 31 December 2017 and therefore fell by m€ 6.1 year on year (2016: m€ 104.6). The primary reason was the m€ 5.2 decrease in other reserves due mainly to the change in fair values of forward foreign exchange transactions, which is recognised directly in equity. The equity ratio, i.e. the proportion of equity capital to total assets, increased by 0.1 percentage points to 43.8% as at the end of financial year 2017 (2016: 43.7%) due to the lower balance sheet total.

Investments

We invested a total of m€ 7.8 in financial year 2017, as in the previous year. This total includes the investment in the expansion of a warehouse at our German logistics location. All major investments in the financial year were largely completed at year's end.

Additions to tangible assets totalled m€ 6.7 in financial year 2017 (2016: m€ 6.6). These mainly involved tools for new products, machines, streamlining and replacement investments for production plants, operating and business equipment and the expansion of the warehouse. In addition, we invested m€ 1.1 in intangible assets (2016: m€ 1.2). This mainly concerned the purchase of software, especially for product- and customer-oriented systems.

The investment ratio – additions to assets related to the historic procurement and production costs – amounted to 4.5% in financial year 2017 (2016: 4.4%).

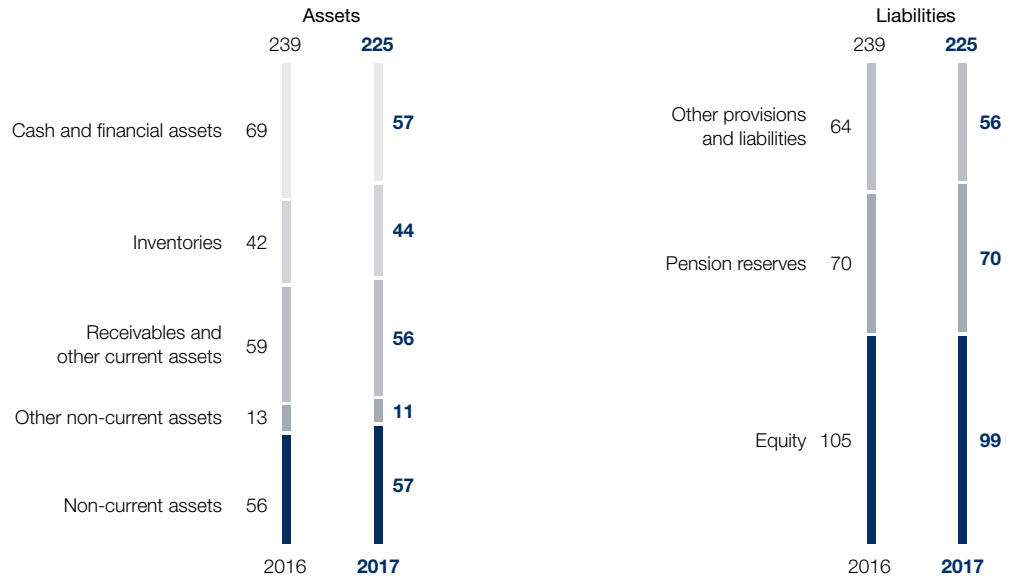
We invested m€ 6.7 in Brand Business (2016: m€ 7.1); investments in Volume Business amounted to m€ 1.1 (2016: m€ 0.7). Investments were offset by depreciation on tangible assets in the amount of m€ 5.6 (2016: m€ 5.6) and amortisation on intangible assets of m€ 0.8 (2016: m€ 0.6).

On 31 December 2017, there were contractual obligations to acquire items of tangible assets – mainly for equipment, tools and fire protection systems – in the amount of m€ 2.3 (2016: m€ 1.7). These will be financed by cash and cash equivalents.

Off-balance sheet assets and off-balance sheet financing instruments

In addition to the assets reported in the consolidated balance sheet, Leifheit also used assets that cannot be recorded in the balance sheet to a far lesser extent. This largely concerns leased goods, such as printers and copiers, as well as rented spaces. As in previous years, we did not use any off-balance sheet financing instruments in financial year 2017.

Balance sheet ratios
in m€



Overall assessment of management in regard to the economic situation

All told, developments in financial year 2017 failed to live up to our expectations. After weak first and third quarters, we succeeded in restoring strength to our business towards the end of 2017. As a result, we achieved Group turnover of m€ 236.8, which was approximately on par with the previous year (2016: m€ 237.1). Our domestic business resumed its long-term growth trend, and we were able to continue the strong growth seen in past years in our Eastern European target markets. By contrast, turnover in key Central European markets was down year on year.

We succeeded in continuing to slightly raise turnover in Brand Business, our strategic core business, to m€ 196.7 (2016: m€ 195.8). The Leifheit cleaning and laundry care ranges made a substantial contribution. The launch of new products also had a positive effect. By contrast, development in the kitchen goods and wellbeing product categories was down year on year. The e-commerce and discounter sales channels were instrumental in the segment's growth. At a rate of 10%, growth in e-commerce was once again strong.

In the far smaller Volume Business, we generated turnover of m€ 40.1, corresponding to a decline of 2.8%. The drop was mainly due to our business in France. Here, turnover volume involving Birambeau and Herby branded products with various retailers was lacking. By contrast, the German market and Project Business developed favourably. In Volume Business, which we manage with a clear focus on profitability, our goal continues to be to stabilise the development of turnover in the medium term.

At m€ 18.8, EBIT was down from m€ 22.1 in the previous year. Causes included the unexpected appreciation of the euro against the US dollar, which led to a negative foreign currency result of m€ 1.5, and the expenses for the reorganisation of sales activities in Brand Business in the amount of m€ 1.8. Due to higher customer conditions and price increases on the purchasing side, the gross margin also fell by 1.1 percentage points to 46.4%. Adjusted for the foreign currency result, the EBIT margin fell slightly by 0.6 percentage points to 8.6%.

The Leifheit Group's non-current liabilities consisted mainly of pension obligations as at the balance sheet date. As in previous years, we also had no liabilities to banks. The equity ratio stood nearly unchanged at 43.8%. Cash flow from operating activities decreased, primarily due to the lower net result for the period and higher working capital to ensure our ability to deliver. In combination with the payment of the dividend for the previous financial year and the investment activities, Group liquidity fell to m€ 57.2 – coupled with current liabilities of m€ 53.1.

This capital structure secures our financial stability and independence. As a result, we believe we are well equipped to continue on our long-term growth trajectory in future. High liquidity is also the basis for annual dividend payments to our shareholders, in keeping with our dividend policy.

Non-financial performance indicators

Employees

Leifheit aims to be an attractive and responsible employer. Only in this way will we be able to retain skilled and dedicated employees for the company. Highly qualified employees are of fundamental importance for the ability to achieve our demanding operating and strategic goals. We strive to create a working environment that allows every individual to perform to the best of their ability and invest in the further development of our workforce.

The rest of the text refers solely to "employee(s)". However, both genders are always intended. For reasons of readability, the terms are used to represent all members of our workforce.

Number of employees at the Group rises

As at 31 December 2017, the Leifheit Group had 1,168 employees (2016: 1,093 employees) in total. The number of employees was therefore up 6.9%.

As at that date, 443 employees worked at German locations (2016: 423 employees), corresponding to 37.9% of the Group's workforce (2016: 38.7%). In Germany, the reorganisation of sales activities meant switching from commercial agents to employees.

As at the balance sheet date, we had 500 employees at the production and distribution locations in the Czech Republic (2016: 439 employees), or 42.8% of all employees at the Group (2016: 40.2%). Here, the number of production staff increased as a result of new products and insourcing projects and due to the replacement of temporary workers with in-house employees.

At the end of the reporting period, 163 employees (2016: 169 employees), or 14.0% of the Group's workforce (2016: 15.5%), worked in France. The remaining 5.3% of employees are spread among various European countries.

A total of 1,003 employees were part of our Brand Business division (2016: 913 employees). At 85.9% (2016: 83.5%), they accounted for the majority of all employees. Our second segment, Volume Business, had 165 employees (2016: 180 employees) as at the end of the reporting period.

As at 31 December 2017, 72 employees worked part-time at the Group (2016: 86 employees).

Temporary workers are employed during peak order times primarily in production and logistics. Compared with the number of permanent staff, their numbers were negligible in 2017.

The average number of employees at the Leifheit Group was 1,121 people (2016: 1,062 people) in financial year 2017. Personnel costs at the Group rose by 4.7% to m€ 47.9 (2016: m€ 45.7) in the reporting period.

A total of 27 young people were in training at Leifheit AG's German locations at the end of 2017.

Employee structure of the Leifheit Group	31 Dec 2016	**31 Dec 2017**
Group	1,093	1,168
Brand Business	913	1,003
Volume Business	180	165
Germany	423	443
Czech Republic	439	500
France	169	163
Other countries	62	62

Leifheit aims for diversity in its workforce

We foster a working environment that welcomes diversity so as to benefit from our employees' different personal abilities, talents and experiences. Our diversity management focuses on the three aspects of our workforce's gender, age structure and internationality.

Characteristics of the workforce of the Leifheit Group	2016	**2017**
Average length of service	11.4 years	11.0 years
Age structure of employees		
under 30 years	15.6%	17.1%
30 to 40 years	23.5%	21.7%
40 to 50 years	25.4%	26.1%
50 to 60 years	29.5%	29.9%
over 60 years	6.0%	5.2%
Average age	43 years	43 years
Percentage of women in the workforce	49%	50%
Percentage of women at the first management level	14%	14%
Number of trainees	28	27

Opportunities and risks report

Strategic management of opportunities and risks serves as the basis for the sustainable development of the Leifheit Group. Profitable growth is ensured by identifying opportunities and taking advantage of potential for success. Comprehensive risk management and an internal control system help the Leifheit Group to deal responsibly with business risks.

Opportunities

An important part of corporate activity is identifying business opportunities early on and making consistent use of them. The opportunities presented here are not necessarily the only ones available to Leifheit. In addition, our assessment of individual opportunities may change because the business climate, markets, key trends and technologies are all in a state of constant development. As a result, new opportunities may arise, existing ones may lose their significance or the significance of an individual opportunity may change.

The Leifheit Group takes business opportunities into account in its medium-term and budget planning and tracks them in conjunction with periodic reporting. Opportunities may exceed our expectations in future and lead to a positive deviation from our forecast or the targets that we set for ourselves. The Board of Management and the management of the applicable areas of operation are responsible for the prompt identification, analysis and utilisation of opportunities that arise. We regularly consider detailed market and competition analyses, relevant cost parameters and critical success factors, which we then take into account in our strategy. Our overriding objective is to strike a healthy balance between opportunities and risks.

The Leifheit Group's opportunity management remained unchanged as compared with the previous year. In our view, the general situation with regard to opportunities for our company did not change significantly in the reporting period.

Macroeconomic opportunities

General economic conditions affect the Leifheit Group's business. Accordingly, our financial targets and medium-term planning are based on the macroeconomic development estimates described in the forecast. If basic conditions and consumer sentiment, especially in our important markets in Europe, develop more positively than assumed in the forecast, there might be a chance that we would exceed our turnover and earnings expectations.

Industry-specific opportunities

As a European brand supplier of household products, we can benefit from trends and market developments in relation to these products. In order to actively meet market and customer demands, we put particular emphasis in our product portfolio on the design and development of system solutions that make life at home easier and more convenient. In our view, the following trends will be of importance to our company in the coming years and harbour the potential to have a positive effect on our business development.

Digitalisation is making new processes and products possible
The ongoing digital transformation affects every aspect of a company's value chain. Digitalisation presents the Leifheit Group with numerous opportunities. Apart from increases in efficiency and productivity and further optimisation of existing business processes, there are also opportunities for innovative business models. The Soehnle Connect products, which we launched in the final months of the reporting period, are just one example. We have added a digitalisation component to our "Leifheit 2020" strategy to drive the digital transformation of the Leifheit Group.

Consumers are making increasing use of the internet
Consumers are taking ever greater advantage of the internet, from the search for information to the purchase of goods from online shops and other similar services. For Leifheit, this results in numerous opportunities to tap into above-average growth potential. The expansion of our e-commerce activities is intended to strengthen consumers' brand loyalty while allowing us to reach new customer groups.

The Leifheit and Soehnle ranges are well-suited to online retail. While lower-priced items are predominantly sold at bricks-and-mortar shops, we offer many products in the medium-to-high price category for online retail. What is more, consumers increasingly appreciate having the option of having bulky items, such as our laundry dryers or cleaning devices, delivered to their front doors. Not least, online retail offers consumers the opportunity to make purchasing decisions around the clock from almost anywhere in the world, regardless of store locations or opening times. By cooperating with online distributors, we can also increase our footprint in international markets that we have yet to fully tap into. These effects can impact turnover in e-commerce faster or more favourably than planned and, as a result, influence the operating result more positively than expected.

Quality awareness on the rise
Besides price and functionality, factors such as quality and durability once again held greater sway over consumers' decisions to purchase a product. Production conditions are also playing an increasing role. This trend is particularly prevalent among the younger members of our target group and is likely to continue gaining significance in future. Leifheit is a brand supplier of high-quality and long-lasting products that are manufactured at the company's own production facilities or by partners under controlled conditions in accordance with the Leifheit Social Code of Conduct. In light of the development described, this allows us to continue improving our market position and to appeal to future generations of shoppers.

Customers are looking for easy and convenient solutions
Increased pressure and greater stress at work can be observed today across all generations. We see opportunities in this increasingly fast-paced world for our system solutions and products that make life at home a little easier and more convenient.

Increasing number of households
According to forecasts, Germany can expect to see an increasing number of households, especially single-person and two-person households. This may lead to greater demand for household items. We expect that this development will have a positive effect on the Leifheit Group in future and believe it represents an opportunity for further growth.

Strategic business opportunities

As a leading company for household products in Europe, the company enjoys strategic business opportunities with a focus on system solutions and products that make life at home easier and more convenient. We rely on our own development department and invest in the expansion of internal and external expertise, including through establishing partnerships. This approach results in a pipeline of medium- and long-term innovation projects.

At the same time, we invest in new processes and technologies to be able to continuously develop new, innovative products that offer consumers added value. We are also structuring our organisation in a way that it can respond with greater flexibility whenever new opportunities arise from market trends and customer needs. Through the "Leifheit 2020" strategy, the aim to create additional opportunities based on understanding consumers and customers has become entrenched within our organisation and processes.

In addition, we see strategic business opportunities in the expansion of our market presence – both in traditional retail and in e-commerce. To take advantage of the opportunities arising from this, we will invest in future in various distribution channels and support them with smart communication concepts.

Expanding distribution in existing markets and additional regional diversification also offer opportunities. Leifheit focuses its business activities on Europe. Country-specific sales programmes serve to consolidate or expand our position in the region, for example in the Eastern European growth markets. We also take advantage of opportunities that arise outside of Europe, where partnering with distributors makes it possible for us to benefit from the momentum of large, rapidly growing markets, especially in emerging economies – and this largely without making our own investments. Unexpected positive economic developments in these markets therefore harbour the potential for us to surpass our targets.

We constantly monitor our current and future markets in search of opportunities for strategic acquisitions and partnerships. Our Group has the good financial situation and liquidity necessary for acquisitions. This puts us in a position to seize acquisition opportunities that could meaningfully enhance our product portfolio, strengthen our market position and ultimately boost our turnover and earnings situation disproportionately and more strongly than forecast.

Economic performance opportunities

There are economic performance opportunities for Leifheit that arise, in particular, with regard to business operations, cost management and greater efficiency. Our operating activities harbour significant opportunities due to the fact that we can achieve additional success by combining our product portfolio with innovative sales measures through integrated consumer-oriented communication, for example, specifically at the point of sale (POS) – both online and offline.

Cost management and greater efficiency offer the opportunity to boost the long-term earning power of Leifheit. In addition to reducing non-value-adding costs, we are primarily focused on the efficiency of product development processes, as well as of various manufacturing and distribution processes along the entire value chain. We regularly check whether products that have been manufactured so far by suppliers could alternatively be produced more efficiently at our own facilities. Targeted relocation of the production of specific products can boost our flexibility and competitiveness and might even reduce costs.

Other opportunities

Our employees are a source of new product developments and a cornerstone of the Leifheit Group's successful growth in the long term. We regularly invest in their expertise. In this context, we also promote various measures to further boost the commitment and motivation of our employees.

Risks

Leifheit is exposed to various risks as part of its business activities. The Group has therefore set up a risk management system that allows it to identify risks early on, analyse them and take suitable countermeasures. We use this system to identify potential incidents that could have significant adverse effects on our business situation, net assets, financial position and results of operations, as well as on our reputation, or which could even compromise the survival of the company. To ensure the effectiveness of risk management, allow the aggregation of risks and facilitate transparent reporting, we take a uniform, Group-wide approach for the management of business risks.

As a listed stock corporation with headquarters in Germany, the Board of Management has set up a monitoring system in accordance with section 91 para. 2 of the German stock corporation act. In addition, the Board of Management is responsible for the effectiveness of the internal control system.

Risk management system

The risk management manual issued by the Board of Management governs the handling of risks within the Leifheit Group and defines a uniform methodology that applies across the Group to all company divisions. The risk management manual delineates responsibilities for the performance of risk management tasks as well reporting structures. The effectiveness of the risk management system is monitored through regular internal audit checks.

Our risk strategy is based on the global objective of ensuring the continuation of our business activities.

Our risk management organisation consists of a risk manager working across the Group and risk owners in the individual operational areas. The risk manager is responsible for updating the risk management manual and the uniform implementation of the measures it contains, for risk aggregation and for standardised risk reporting to the various levels of the company. The Brand Business and Volume Business segments are completely divided into risk areas. The respective risk owner is responsible for risk management within the risk areas. The risk owner's job is to identify and evaluate all risks continuously, notify the company about them and monitor the implementation of countermeasures. Opportunities are not determined as part of risk management.

The central element of the risk management system is the systematic risk management process that is implemented every six months. It includes the risk identification, risk evaluation, risk aggregation, risk control, risk monitoring and risk reporting phases. This process begins with risk identification, during which all risks, sources of danger, damage and potential disruptions are systematically documented in uniform risk tables and then analysed every six months. If new risks arise that could have a material impact on the economic results or the further development of the company, the risk owner immediately notifies all responsible offices.

Identified risks are assessed and categorised according to their impact and probability of occurrence. In addition, individual risks are systematically analysed for dependencies and merged into new risks, if necessary. The aggregated form of all individual risk tables that emerge from this constitutes the risk inventory.

This is represented graphically in a risk map and communicated to the Board of Management and the Supervisory Board at regular intervals. In the risk control phase, each risk owner defines, documents, actively implements and monitors measures to avoid, reduce or transfer risks in each case using the risk table. The status of each countermeasure is also documented in the risk table by the risk owner.

In risk monitoring, general warning indicators are defined, as well as case-by-case indicators for specific individual risks. All indicators are regularly monitored in order to better control risks and the effectiveness of countermeasures that have been initiated.

The risk management system periodically undergoes an internal audit. No significant changes were made to the risk management system in financial year 2017 compared to the previous year.

Internal control and risk management system in the accounting process

The internal control system (ICS) is an integral part of the risk management system. Our ICS manual defines the creation of the internal control and monitoring system for all material business processes at the company and describes the structural organisation. Our goal is the systematic creation and documentation of control measures in the processes in order to comply with laws, standards and directives, avoid financial loss and ensure the functional capability and profitability of business processes. The ICS officer is responsible for designing the content of the system, coordinating ICS tasks and ensuring central documentation. Process officers see to it that material process risks are documented and guarantee the effectiveness, efficiency and execution of adequate and specific controls. Apart from directives and work instructions, risk control matrices are the central element in risk-related processes. They define the material risks in processes, the risk analysis and the required controls and responsibilities of the control officers. The principles of functional separation and dual control are followed.

With respect to the ICS and risk management system when it comes to accounting, our goal is to ensure and uniformly implement the statutory requirements, generally accepted accounting principles, rules of the International Financial Reporting Standards (IFRS), as they are to be applied within the EU, and those of the ICS. Our internal control and risk management system for accounting is embedded in the Group-wide risk management system. With respect to organisational, control and monitoring structures, we ensure that business matters are recorded, processed and analysed in accordance with the law and entered into the separate and consolidated financial statements.

In addition, our system includes guidelines, procedures and measures designed to ensure that our accounting complies with applicable laws and standards. To this end, we analyse new laws, accounting standards and other pronouncements where non-compliance would represent a material risk to the correctness of our accounting. The Group's accounting department presents uniform Group-wide accounting and evaluation methods in the Group's accounting manual in accordance with IFRS. These guidelines, in conjunction with the schedule for drawing up the annual financial statements, constitute the foundation of the annual financial statements preparation process. As part of this process, all Group companies and accounting areas must present their

financial statements to the Group's accounting department with the consolidation software used throughout the Group. Subsidiaries and accounting areas are responsible for compliance with the accounting regulations applicable throughout the Group when preparing their financial statements and are supported and monitored by the Group's accounting department in this process. They carry out the adjustment of intragroup assets and liabilities as well as supply and service relationships according to Group guidelines.

Consolidation is carried out globally by the Group's accounting department. In addition, we use external service providers for the evaluation of pension obligations or long-term incentive pay, for example. Employees in charge of financial reporting are familiar with our internal guidelines and processes and undergo regular training. Our ICS covers the process for drawing up the separate and consolidated financial statements. The risks and controls are defined in the corresponding risk control matrices. They include IT-supported and manual controls and adjustments, the establishment of functional separation and the dual control principle, rules governing access to the IT system and monitoring.

The purpose of the ICS in accounting and financial reporting is to ensure with adequate certainty that financial reporting is reliable and that the separate and consolidated financial statements give a true and fair view of the net assets, financial position and results of operations.

Internal auditing projects include both process- and function-related aspects of ICS.

Risk assessment

Our goal is to determine what adverse effects could have risks in defined risk areas, such as the business situation, net assets, financial position and results of operations or our image, and what risks pose the greatest danger to Leifheit as a going concern. For this purpose, the individual risks are rated as critical, medium or low in terms of their estimated probability of occurrence and their effects on our business objectives. The effects are presented in front of the measures implemented to mitigate risk. The scales for measuring these two indicators are shown in the tables below.

Probability of occurrence	Description
1% – 20%	very low
21% – 40%	low
41% – 60%	medium
61% – 80%	high
81% – 99%	very high

According to this classification, we define a very low risk as one that occurs only under extraordinary circumstances and a very high risk as one whose occurrence is expected within a specific time period.

Extent of effect	Definition of effect
very low	Low risks that do not have a noticeable effect on business activities, financial position and results of operations, cash flows, company objectives and image (< m€ 1)
low	Medium risks that have a noticeable effect on business activities, financial position and results of operations, cash flows, company objectives and image (m€ 1–2)
medium	Significant risks that have a strong effect on business activities, financial position and results of operations, cash flows, company objectives and image (m€ 2–5)
high	Serious risks that have a considerable effect on business activities, financial position and results of operations, cash flows, company objectives and image (m€ 5–25)
very high	Risks that jeopardise the company's continued existence (> m€ 25)

According to their probability of occurrence and the extent of their effect on our business activities, our financial position and results of operations, our cash flows and our image, we classify risks as critical, medium or low in the form of a risk map.

Probability of occurrence/ effect	very low 1% – 20%	low 21% – 40%	medium 41% – 60%	high 61% – 80%	very high 81% – 99%
very low	low	low	low	low	low
low	low	low	low	medium	medium
medium	low	medium	medium	medium	critical
high	medium	medium	critical	critical	critical
very high	critical	critical	critical	critical	critical

Risk factors

We describe below risk factors that we identify and track using our risk management system. They are aggregated more closely in the following description than they are used for internal control. The risk factors generally affect both segments: Brand Business and Volume Business.

Macroeconomic, political, social and regulatory risks
Uncertainty in the global economy, on financial markets or in the political sphere could have a negative effect on our business activities, our financial position, results of operations and our cash flows, as well as increase pressure on our EBIT. In particular, terrorist attacks, the escalation of violence in crisis-prone regions and other external shocks might have a greater impact on the economy, which we are unable to avoid entirely. Geopolitical instability may also negatively affect our business in Eastern Europe. Unresolved sovereign debt crises in the Eurozone could reduce our market prospects in Southern Europe in particular.

Even if the vast majority of our business is not cyclical in nature, growth in the consumer goods sector is also dependent on consumer confidence and consumption expenditure. Therefore, declining sales resulting from the general economic situation or social and political factors, especially in regions where we have a strong presence, represent a risk to the development of turnover. In addition, changes in the regulatory environment (e.g. trade policies, tax regulations, or product quality and safety standards) can also bring about potential turnover shortfalls and cost increases.

We consider the probability of this risk's occurrence to be medium, and we expect it would have a medium effect on our business activities, financial position, results of operations and cash flows.

We are monitoring the macroeconomic, political and regulatory situation in our major markets in order to identify potential problem areas early and to be able to adapt our business activity quickly. To mitigate macroeconomic, political, social and regulatory risks, we strive to have a balanced distribution of turnover among the important regions and respond to current changes at short notice by taking various steps to cushion potential negative effects. Due to the Group's low level of business activity in the United Kingdom, Britain's plans to exit the European Union do not have a direct material impact on Leifheit.

Turnover and pricing risks
In order to achieve our turnover and profitability targets, we must generate turnover growth, step up communication with consumers, promote sales at the point of sale and pay attention to product prices to ensure they are competitive. In addition, it is possible that rising product costs might not be offset by higher prices on the market. This would have a negative effect on our margins. Furthermore, lower turnover could lead to lower contribution margins.

We currently believe the potential effects of turnover and pricing risks can be classified as medium and the probability of their occurrence as medium.

We counteract these risks with our international sales strategy, country-specific implementation plans, an increase in consumer communication, measures from our "POS Excellence" initiative and our e-commerce activities.

Competitive risks
We are exposed to risks from competitors and alliances by competitors. The competition for consumers between established industry players and new market participants (especially in home-shopping) poses a risk for us that may jeopardise the development of the company's turnover and profitability as well as the competitiveness of our brands.

We consider the impact and probability of occurrence of competitive risks to be medium.

To limit competitive risks, we constantly monitor and analyse market and competitor data so as to be able to react promptly.

Dependence risks
Dependence on specific suppliers, customers, products or even markets harbours risks. If a large part of our product volume were concentrated with one supplier, or if our dependence on a specific customer were too great, it would increase vulnerability to non-delivery, turnover shortfalls and business interruptions. Strong dependence on individual products, product groups or markets could lead to decreases in turnover and margins in the event of fluctuations.

We estimate the potential effects of dependence risks as being high and their probability of occurrence as being low.

To minimise these risks, we rely on a broad supplier network and a balanced customer and product portfolio. Although we reduce possible dependences through our diversification activities, we remain vulnerable to negative developments concerning several customers, in important procurement countries, such as China, and in important sales markets, such as Germany, France, Austria and the Netherlands.

Risks inherent in product innovation and development
Innovative products and solutions with great practical utility, an attractive design and high standards in terms of product quality and safety generate high turnover and comfortable margins for us as a brand seller. If, over the longer term, we are incapable of developing innovative products continuously, this could expose us to a considerable decline in turnover and margins. Moreover, poor product quality could lead to turnover shortfalls and higher costs.

Innovation is a key success factor. Due to our innovative strength, we rate the potential effects of risks inherent in product innovation and development as high and their probability of occurrence as very low.

We have have continued to revise our product development process and strengthen our teams to allow us to launch our products more quickly. Product management and product development collaborate closely in a clearly defined brainstorming process and utilise external providers as well in the search for ideas.

Product quality risks
Any possible product defects could lead to consumer injuries or damage the image of our brands and products, for example.

We rate the potential effects of product liability cases and product recalls as low and the probability of occurrence as medium.

To reduce these risks, we have set up interdisciplinary teams that deal with product quality across the entire procurement chain. We perform in-depth quality checks in our own laboratories and with external providers, and we work closely with suppliers. We counteract possible claims for damages that may nonetheless arise by taking out product liability insurance.

Risks due to increasing procurement costs
Wage costs and raw materials are responsible for a large portion of the cost of turnover. Above all, materials such as plastics, aluminium, cotton and steel are subject to the risk of price fluctuations. Rising wage costs and changes in exchange rates among suppliers, particularly in the Far East, increase the risk of price increases for merchandise.

We consider the effect of potentially increasing procurement costs to represent a low risk with a medium probability of occurrence.

We reduce the financial effects of higher procurement costs on our product margins by concluding long-term delivery agreements and by saving money during procurement. We revise our products and respond to price increases. The aim of strategic procurement is to maintain the competitiveness of the procurement chain amid increasing purchase costs.

Risks due to extraordinary external incidents
We are exposed to external risks such as natural disasters, fire, accidents and malicious acts. Such events may inflict material damage on buildings, production facilities and warehouses or cause interruptions to business activities both within our company and among suppliers.

The occurrence of such risks could have major financial effects. However, we believe the probability of occurrence is low.

We counteract risks caused by extraordinary external incidents in a variety of ways. For example, we cooperate with reliable suppliers and service providers. In addition to insurance cover, we have put preventive measures in place, such as fire-detection and fire-extinguishing systems in buildings, as well as emergency plans for promptly resuming business activities. They are intended to minimise potential effects of external incidents.

Risks in the control environment
The failure to identify considerable risks, to take active steps against them and to introduce and maintain adequate internal control systems within the Group could result in inappropriate decisions, higher costs, breaches of compliance, fraud, corruption and damage to the Group's reputation. Furthermore, there is the danger that employees will breach internal guidelines, standards and statutory provisions.

The potential effects of these risks could be high. We believe their probability of occurrence is very low.

We mitigate the risks in the control environment by introducing directives and guidelines that are available to all employees on the intranet. In addition, we use a risk management system consisting of early detection, an internal control system and internal auditing. With guidelines such as the Leifheit Code of Conduct and the Leifheit Antitrust Code of Compliance, clear rules and principles for the conduct of our employees are in use in key areas.

Legal risks
As an international company, Leifheit is exposed to various legal risks. These include contractual risks, liability risks or the risk that third parties could assert claims or pursue legal action due to infringement of trademark, patent or other rights.

We rate the potential effects and the probability of occurrence as medium.

In order to reduce any such contractual infringements, we monitor compliance with our contractual obligations and consult internal and external legal advisers. We minimise the risk of an infringement of third-party industrial property rights by diligently reviewing constructions, designs and product names. Our legal & IP department optimises our patent portfolio and reviews and analyses third-party patent rights.

Provisions concerning legal disputes arising from severance payments of m€ 0.1, of m€ 0.1m for potential exclusivity infringements and of m€ 0.2 for litigation costs and legal fees from active cases, and of m€ 0.2 related to claims for damages were made in the consolidated financial statements. There were no material legal disputes or litigation risks beyond this.

Default risks
Default risks occur if a customer or another counterparty of a financial instrument does not meet the contractual obligations. Default risks result from trade receivables and other contractual obligations of a counterparty, such as for deposits and financial investments.

The potential financial effects of default risks could be high. However, we believe their probability of occurrence is very low.

According to our credit guidelines, new customers are reviewed for creditworthiness and caps on receivables are set. Creditworthiness, caps on receivables and amounts overdue are constantly monitored. In order to reduce the risk of default, we selectively use credit insurance and bank guarantees.

Only banks that have a high credit rating are selected for currency hedging transactions and investments of liquid assets. Group companies are only permitted to work with banks that have a rating of BBB or higher. Cash and cash equivalents are only invested in instruments with an average rating of minimum 90% investment grade. In addition, maximum investment amounts are determined for each counterparty. We continued to reduce the counterparty limits for banks in financial year 2017. The highest individual counterparty limit at the end of the reporting period stood at m€ 15.

Financing and liquidity risks
Liquidity risks arise from a possible lack of funds required to satisfy due liabilities in respect of maturity, volume and currency structure. As at 31 December 2017, cash and cash equivalents and financial assets at the Group amounted to m€ 57.2. There were no interest-bearing financial liabilities, such as bank loans. Current lines of credit in the amount of m€ 11.5 are available, which are used only to a very small extent for bill guarantees. Liquidity is managed across the Group by employees in the treasury department at headquarters.

Due to our current financing structure, we consider both the probability of occurrence and the potential impact of financing and liquidity risks to be very low.

Currency risks
Leifheit is exposed to currency risks, as cash flows occur in various currencies. Furthermore, currency effects from the translation of results not denominated in euros, the functional currency of the Group, may affect other comprehensive income. Risks are created in particular due to the fact that our products are procured and sold in different currencies in different amounts on different dates. A large part of our procurement costs are incurred in US dollars and HK dollars, while the majority of Group turnover is generated in euros.

Due to the volatility of the US dollar and HK dollar exchange rates, we generally categorise the probability of occurrence as high and the potential financial effects of currency risks as medium, especially from 2019.

Leifheit operates a centralised system for managing currency risks. We hedge units of the planned currency requirements for up to two financial years in advance and, in cases of exception, for up to three years in advance. According to the treasury principles, hedging instruments such as forward foreign exchange contracts, currency options, currency swaps or combinations of options may be used to safeguard against negative currency fluctuations and, at the same time, offer the potential to benefit from future exchange rate developments on the financial markets. The scope of currency hedging is evaluated on a regular basis.

For 2018, we have hedged approximately 95% to 100% of the US dollar and HK dollar requirements through forward foreign exchange contracts. For 2019, we have hedged approximately 50% to 60% of the requirements. Most of our hedging is done through hedge accounting.

In line with the requirements of IFRS 7, we have estimated the effects of changes to our key exchange rates on result and equity and listed them under Note 33 of the financial statements. The effects are primarily due to the change in the fair values of our hedging instruments. As a result of this sensitivity analysis, a 10% appreciation of the euro against the US dollar as at the balance sheet date, 31 December 2017, would have led to a reduction of earnings before taxes of m€ 0.6 and a reduction of the other comprehensive income of m€ 4.4.

Due the existing hedges, however, the risks for 2018 and 2019 are limited. Depending on the future development of the exchange rates, we are in a position to limit the risk for subsequent years in line with our expectations regarding the exchange rate trend and our hedging strategy with contracting further derivatives.

The following hedges existed as at 31 December 2017:

	Foreign currency	Value of liability	Nominal value	Fair value
Buy USD/€	mUSD 59.3	m€ 50.4	m€ 48.4	m€ –2.0
of which hedge accounting	mUSD 57.5	m€ 48.8	m€ 46.9	m€ –1.9
Buy HKD/€	mHKD 70.5	m€ 7.7	m€ 7.4	m€ –0.3
of which hedge accounting	mHKD 54.0	m€ 5.9	m€ 5.7	m€ –0.2
Buy CNH/€	mCNH 30.0	m€ 3.7	m€ 3.8	m€ 0.1
of which hedge accounting	mCNH 18.0	m€ 2.2	m€ 2.3	m€ 0.1

Interest rate risks
Changes to market interest rates impact future interest payments for financial investments and for variable interest-bearing liabilities. Because the Leifheit Group does not have any bank loans or other interest-bearing liabilities with its current financing structure, changes in interest rates do not affect the profitability, liquidity or financial situation of the Group. However, there is the risk that negative interest rates on balances at banks will put further strain on net interest income.

Changes to the actuarial interest for discounting pension obligations affect the other comprehensive income significantly. For this reason, we consider both the probability of occurrence and the potential financial effects of interest risks for the other comprehensive income to be high.

Tax risks
Tax risks arise in particular due to increasingly complex national and international tax rules. The tax authorities are reviewing international intragroup transfer prices more frequently. VAT regulations in the Europe-wide provision of goods and services are also very complex. Adjustments to tax payments have an impact on liquidity and the net result for the period after taxes.

We consider the potential financial effects of tax risks to be medium and the probability of occurrence low.

We counteract these risks with assistance from international tax consultants.

Information security risks
Our IT-based business processes are subject to various information security risks. Risks may occur as a result of human error, organisational or technical processes and/or security breaches when processing information. These may all jeopardise the confidentiality, availability and integrity of the information.

We consider the potential effects of information security risks to be high and the probability of occurrence low.

In partnership with our service providers and out sourcing partners, we mitigate these risks by adopting organisational and technical precautions, and through professional project management. The IT security structure is verified regularly and improved, if necessary.

Risks related to a decrease in brand awareness
The Leifheit and Soehnle brands are a material asset in our Brand Business. We strengthen awareness of our brands and their image through a wide range of target-group-oriented communication and marketing measures that take into account changes in consumer behaviour, demographics and technical advancement.

We consider the impact of a decrease in brand awareness to be high. Due to our activities, however, we believe the probability of occurrence is very low.

Overall assessment of opportunities and risks

Taking into consideration each probability of occurrence and the potential financial effects of the explained risks, as well as in light of the solid balance sheet structure and the current business outlook, the Board of Management does not anticipate any substantial risk to the continuation of the company as a going concern. We continue to be confident that our earning power and balance sheet structure provide a sound basis for future business development and contain the necessary resources to leverage potential opportunities.

The changes to individual risks compared to the previous year do not have a significant effect on the overall risk profile.

Group forecast

We anticipate economic development will rise and our most important sales markets will enjoy consistent consumer behaviour. By contrast, an adjustment to the financial markets, protectionist measures and political tensions could stifle growth and dampen consumer confidence. Against this backdrop, we expect increase in Group around 4% to 5% and EBIT around m€ 17 to m€ 18.

Sharpened strategic focus of the Group

We will continue to systematically pursue our "Leifheit 2020" growth strategy throughout financial year 2018. Our focus has been sharpened by intensive analyses in sub-sectors during the last financial year. It continues to centre on the expansion of our Brand Business. We intend to systematically develop the Leifheit and Soehnle brands, enhance their profiles and continue to strengthen their competitive positions. We want to attract new groups of customers and expand on our existing market position using innovative, consumer-centric products that boast exceptional quality. We will continue to develop our successful sales channels and put particular emphasis on e-commerce. The digitalisation of product and service solutions and processes has become an integral part of our strategy. Our overarching goals remain to generate sustainable, organic growth, to attain high efficiency in the value chain and continually improve our operating result. The solid balance sheet structure of the Leifheit Group gives us the opportunity to make use of opportunities for external growth through acquisitions, provided they are financially viable.

Global economy is growing

The IMF anticipates that the global economy will continue to grow. Since growth over the past year was stronger than expected, the IMF has raised its forecast for the next two years. The reduction in business tax in the US will have an additional stimulating effect, according to the IMF. The IMF predicts that the global gross domestic product (GDP) will grow by 3.9% in 2018. A year ago, the forecast for 2017 was 3.4%.

Upswing in European economy

The Eurozone economy is set to grow. Key drivers behind this are the steady increase in private consumption and private investments. The European Commission's economic forecast for autumn 2018 anticipates a GDP growth rate of 2.1% in the Eurozone and 2.2% in the European Union as a whole. The Commission had expected growth rates of 1.5% and 1.6%, respectively, for 2017.

In southern Europe, Spain is likely to show the highest growth again in 2018. The Commission anticipates growth a growth of 2.5% for the country. France and Italy follow behind with anticipated growth rates of 1.7% and 1.3%, respectively. The economies of the Netherlands and Austria are set to boast above-average growth rates. Forecasts predict growth of 2.7% and 2.4%, respectively. EU member states in Eastern Europe will continue to boast strong performance thanks to the strong gross domestic product growth. The Commission expects growth of 3.8% in Poland and Slovakia. The forecast for the Czech Republic is around 3.0%.

Growth in Germany picking up

The German economy has been experiencing an upswing for several years, which gathered speed in 2017. In its autumn projection, the German government anticipated that the gross domestic product would grow by 2.0% in 2017 and 1.9% in 2018. At the beginning of the year, the Federal Statistical Office of Germany reported that GDP was expected to have increased by 2.2% in 2017. Against this background, the ifo Institute in Munich expects Germany's GDP to grow by 2.6% in 2018. In its autumn forecast, the European Commission anticipates a growth rate of 2.1% for Germany in the coming year.

European consumers are optimistic

The European Commission's Consumer Confidence Indicator once again improved significantly in January 2018. The indicator for measuring consumer sentiment in the Eurozone increased by 0.8 points to +1.3 points compared to the previous month. The indicator for the whole of the EU went up by 1.0 point to a value of +0.4 points. At the start of 2017, the Consumer Confidence Indicator specified −4.9 points for the Eurozone and −4.3 points for the overall EU.

German consumers started the new year with optimism. The Nuremberg-based GfK's consumer climate indicator rose to 11.0 points. All components of the behaviour indicator for German consumers went up: economic expectations, income expectations and propensity to buy. At the start of the previous year, the consumer climate indicator reached 10.2 points. In addition, the purchasing power of German consumers will rise by 2.8% in 2018 according to the GfK's purchasing power study. This forecast is based on growing income in many industries and the stable employment market. For 2017, the GfK had forecast a purchasing power increase of 1.7%. The sentiment in the German industrial sector is also excellent, as shown by the ifo Institute economic climate index. The retail indicator reached 15.1 points in January 2018 (January 2017: 5.9 points). In the past 12 months, the indicator only exceeded this value in the months of June and December.

US dollar exchange rate likely to remain stable over the course of the year

The development of the US dollar exchange rate in 2017 surprised the markets. Contrary to expectations, the US dollar was significantly devalued and ended the year at approximately 1.20 US dollars to the euro. After the euro rose considerably to approximately 1.24 US dollars in the first few weeks of the year, the exchange rate is largely expected to continue on a stable path for the rest of 2018. The average forecast exchange rate for the end of 2018 and beginning of 2019 is at approximately 1.23 US dollars to one euro.

Group forecast and overall statement of prospective development

Based on the current economic forecasts, we expect the upswing in our core European markets to continue over the coming year. According to these, growth rates should reach the level of the previous year or even exceed them. We also believe that the situation on the employment markets and the amount of disposable income will at least remain stable. Consumers' purchasing power and propensity to buy in our key target markets are likely to remain high.

A whole host of existing risks could have a negative impact on the development we expect. These include, for example, a sharper adjustment to the financial markets, a rise in inflation and in interest levels that is faster than expected in the Eurozone, isolationist and protectionist trends in certain countries and tensions in the Middle East or Asia.

We will continue to systematically pursue our more focused "Leifheit 2020" growth strategy in the current financial year and against this backdrop, we expect to be able to continue building on our long-term course for growth over the coming year. We predict that the Group's turnover will grow around 4% to 5% year on year. Our growth strategy is centred on the further expansion of our Brand Business. Here, we expect increase in turnover around 5% to 6%. Our smaller and more volatile Volume Business is managed with a clear focus on profitability. We envisage turnover here in 2018 to be at the level of 2017.

We expect EBIT around m€ 17 to m€ 18. The key drivers behind the expected EBIT development are investments in future projects, anticipated price increases for materials and negative currency effects in manufacturing costs. Future projects are based on the analysis of financial year 2017. They enable us to better utilise the growth opportunities of digitalisation in the medium term, to expand product categories and at the same time to improve our future profitability in the long term. The costs for these projects will be partially offset by optimisations and savings.

We are planning to generate free cash flow around m€ 5 to m€ 7 in 2018. We will continue to push ahead with our fundamentally conservative financial policy.

Legal information

Information under takeover law and explanatory report

Takeover information required under section 289a para. 1 and section 315a para. 1 German commercial code (HGB) as at 31 December 2017 is presented below: criteria that do not apply to Leifheit are not included.

The subscribed capital (share capital) of Leifheit AG as at 31 December 2017 amounts to k€ 30,000 and is divided into 10,000,000 no-par-value bearer shares. This corresponds to a theoretical value per no-par-value bearer share of € 3.00. Each share grants the same rights and entitles the holder to one vote at the Annual General Meeting.

A lock-up period is established for the shares issued by Leifheit AG in the context of the employee share programme – and therefore a restriction is set on the transferability of these shares – for at least two years. Apart from the employee share programme, there are no additional restrictions on voting rights or the transfer of shares that the Board of Management is aware of. However, the statutory voting rights limitations apply according to section 28 sentence 1 German securities trading act (WpHG) (violation of voting rights information duties), section 71b German stock corporation act (AktG) (no rights from own shares) and section 136 para. 1 AktG (exclusion of voting rights in the presence of certain conflicts of interest).

Direct and indirect equity interests exceeding 10% of the voting rights are held in the capital of Leifheit AG: MKV Verwaltungs GmbH, Grünwald, Germany, informed us in February 2009 that it holds 10.03% of the voting rights in Leifheit AG.

There are no shares in Leifheit AG with special rights. There are also no employee participation schemes with voting rights.

Members of the Board of Management of Leifheit AG are appointed and dismissed according to the stipulations of section 84 and section 85 AktG. In addition, art. 6 para. 1 of the articles of incorporation stipulates that the Board of Management consists of one or several members, and art. 6 para. 2 stipulates that the Supervisory Board appoints the members of the Board of Management, determines their number, appoints deputy Board of Management members and may appoint a member of the Board of Management as chairperson of the Board of Management.

Changes to the articles of incorporation are resolved by the Annual General Meeting according to section 179 AktG. Unless it is a change of the company purpose (which requires a majority of three-quarters of the share capital represented in the resolution), any resolution by the Annual General Meeting to alter the articles of incorporation requires the simple majority of the share capital represented in the resolution in accordance with art. 18 para. 1 therein. According to art. 18 para. 3 of the articles of incorporation, the Supervisory Board is authorised to make amendments to the articles of incorporation, provided these amendments relate solely to the wording of the articles of incorporation.

By resolution of the Annual General Meeting 2017, the Board of Management is authorised, subject to the approval of the Supervisory Board, to increase the share capital on one or more occasions by a total of up to k€ 15,000 until 23 May 2022 by issuing up to 5,000,000 new no-par-value bearer shares in exchange for cash and/or non-cash contributions (authorised capital 2017). The Board of Management is also authorised by resolution of the Annual General Meeting 2015 to buy back and appropriate shares amounting to up to 10% of the share capital until 20 May 2020. The terms of both resolutions can be found in the respective agendas of the Annual General Meeting on our website.

There are no substantial agreements which take effect upon a change of control. A loan agreement for a line of credit merely contains an agreement that in the event of a change of control, the parties shall conclude a satisfactory agreement with regard to the continuation of the loan agreement.

No agreements with members of the Board of Management or employees that take effect upon a change of control existed at the balance sheet date.

Treasury shares

For the statement on treasury shares in accordance with section 160 para. 1 no. 2 AktG, please see the Notes to the balance sheet.

Declaration of corporate management

The declaration of corporate management according to section 289f/315d HGB is not part of the combined management report but can be found on our homepage (unternehmensfuehrung.leifheit-group.com). It includes the declaration of conformity regarding the German corporate governance code (DCGK), information about our relevant corporate management practices, and a description of the work methods of the Board of Management and the Supervisory Board, as well as the composition and work methods of their committees, the declaration on the defined targets according to the German law on the equal participation of women and men in management positions and the description of the diversity concept.

Report on equal pay in line with the German law on pay transparency

As a general rule, companies in Germany with more than 500 employees must produce a report on equal pay. Since Leifheit AG falls short of this threshold, no such report has been drawn up.

Remuneration report

The remuneration report was prepared in accordance with the recommendations of the DCGK and contains the statements that are required according to the HGB and respectively the International Financial Reporting Standard (IFRS). It describes the characteristics of the remuneration system for the Board of Management as well as the components of the Supervisory Board remuneration.

Remuneration of the Board of Management

After preparation by the Personnel Committee of the Supervisory Board, the plenary session of the Supervisory Board is responsible for establishing the individual remuneration of the Board of Management members. The remuneration structure is based on long-term corporate performance.

At the current time, the members of the Board of Management receive remuneration consisting of a fixed basic annual salary, annual variable remuneration and longer-term variable remuneration.

The fixed basic annual salary is paid monthly and is based on the area of responsibility and individual performance of the respective Board of Management member. It is reviewed at regular intervals to determine if it is appropriate and in line with market standards.

The amount of short-term variable remuneration paid is 1.00% or 0.75% of the earnings of the Leifheit Group before income tax and is capped. Payment is made within four weeks of the resolutions on the appropriation of profits by the Annual General Meeting.

The amount of long-term variable remuneration paid is calculated using an EBIT multiplier and a market capitalisation multiplier. The market capitalisation multiplier for the relevant agreements in the financial year 2017 is 2.0% or 1.5% of the growth in the market capitalisation of Leifheit AG on the basis of average prices over the last 90 trading days prior to the commencement of the contract and the last 90 trading days prior to the expiration of the contract. The EBIT multiplier is based on the average performance in the Group's EBIT reported in the consolidated financial statements in the respective calendar years. Both the EBIT multiplier and the payment amount are capped. The annual remuneration from all remuneration elements is also capped. If the EBIT multiplier falls below 0.5, the long-term variable remuneration no longer applies. The value of the long-term variable remuneration granted is calculated within the vesting period each year on the basis of analyses by a third-party expert using Monte Carlo simulations and is transferred to provisions pro rata temporis over the respective vesting period.

The value is calculated using historical data at the end of the vesting period. The payment will be made within four weeks following the adoption of the annual financial statements by the Annual General Meeting of the last contractual year. The Supervisory Board can determine appropriate advance wage payments. There were no provisions for long-term variable Board of Management remuneration as of the balance sheet date as it was not expected that the threshold of the EBIT multiplier would be reached.

The members of the Board of Management do not receive remuneration for their work on the Board of Management, Administrative or Supervisory Boards at subsidiaries in addition to the remuneration for their activities as members of the Board of Management of Leifheit AG.

There are no share option programmes. The acting members of the Board of Management have not received any performance-oriented pension commitments (defined benefit obligations in accordance with IFRS).

The company does not provide fringe benefits other than the use of a company car and the reimbursement of travel expenses.

The Board of Management contracts do not contain an express commitment to severance payment in the event of early termination. Indemnity payments can, however, be stipulated in individual termination agreements.

The contract of a Board of Management member who retired in 2017 contained a change of control clause, according to which the fixed remuneration to be paid until the regular end of the contract was paid in full as indemnity and the variable remuneration paid on the basis of a regular termination of the employment status in the event that a change of control causes the loss of the Board position and is associated with the early termination of the employment or the resignation of the Board position by the Board member.

		Thomas Radke CEO Joined on 1 January 2014		
Granted benefits in k€	2016	**2017**	2017 (min.)	2017 (max.)
Fixed remuneration	330	360	–	–
Fringe benefits	25	26	–	–
Total	**355**	**386**	**–**	**–**
Single-year variable remuneration	205	171	0	275
Multi-year variable remuneration				
LTI 2014–2016	1,920	–	0	4,000
LTI 2017–2019	–	–	0	3,000
Other	–	–	–	–
Total	**2,125**	**171**	**–**	**–**
Pension expenses	–	–	–	–
Total remuneration	**2,480**	**557**	**0**	**1,645**

		Ivo Huhmann CFO Joined on 1 April 2017		
Granted benefits in k€	2016	**2017**	2017 (min.)	2017 (max.)
Fixed remuneration	–	219	–	–
Fringe benefits	–	9	–	–
Total	**–**	**228**	**–**	**–**
Single-year variable remuneration	–	97	0	200
Multi-year variable remuneration				
LTI 2017–2020	–	–	0	2,250
Other	–	–	–	–
Total	**–**	**97**	**–**	**–**
Pension expenses	–	–	–	–
Total remuneration	**–**	**325**	**0**	**1,240**

		Ansgar Lengeling COO Joined on 1 November 2016		
Granted benefits in k€	2016	**2017**	2017 (min.)	2017 (max.)
Fixed remuneration	21	252	–	–
Fringe benefits	2	24	–	–
Total	**23**	**276**	**–**	**–**
Single-year variable remuneration	10	129	0	200
Multi-year variable remuneration				
LTI 2017–2019	–	–	0	2,250
Other	–	–	–	–
Total	**10**	**129**	**–**	**–**
Pension expenses	–	–	–	–
Total remuneration	**33**	**405**	**0**	**1,212**

		Dr Claus-O. Zacharias CFO Joined on 1 December 2008 Retired on 24 May 2017		
Granted benefits in k€	2016	**2017**	2017 (min.)	2017 (max.)
Fixed remuneration	300	125	–	–
Fringe benefits	9	4	–	–
Total	**309**	**129**	**–**	**–**
Single-year variable remuneration	205	72	0	250
Multi-year variable remuneration				
LTI 2015–2017	769	994	0	4,000
Other	–	–	–	–
Total	**974**	**1,066**	**–**	**–**
Pension expenses	–	–	–	–
Total remuneration	**1,283**	**1,195**	**0**	**1,880**

	Thomas Radke CEO Joined on 1 January 2014		Ivo Huhmann CFO Joined on 1 April 2017	
Cash flow/payment in k€	2016	**2017**	2016	**2017**
Fixed remuneration	330	360	–	219
Fringe benefits	25	26	–	9
Total	**355**	**386**	**–**	**228**
Single-year variable remuneration	202	206	–	–
Multi-year variable remuneration				
LTI 2014–2016	–	4,000	–	–
LTI 2017–2019	–	–	–	–
LTI 2017–2020	–	–	–	–
Other	–	–	–	–
Total	**202**	**4,206**	**–**	**–**
Pension expenses	–		–	–
Total remuneration	**557**	**4,592**	**0**	**228**

	Ansgar Lengeling COO Joined on 1 November 2016		Dr Claus-O. Zacharias CFO Joined on 1 December 2008 Retired on 24 May 2017	
Cash flow/payment in k€	2016	**2017**	2016	**2017**
Fixed remuneration	21	252	300	125
Fringe benefits	2	24	9	4
Total	**23**	**276**	**309**	**129**
Single-year variable remuneration	10	–	202	206
Multi-year variable remuneration				
LTI 2017–2019	–	–	–	–
LTI 2015–2017	–	–	–	2,243
Other	–	–	–	–
Total	**10**	**–**	**202**	**2,449**
Pension expenses	–	–	–	–
Total remuneration	**33**	**276**	**511**	**2,578**

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is regulated by the articles of incorporation of Leifheit AG. The remuneration accords with the responsibilities and extent of activities of the members of the Supervisory Board.

Besides the compensation of their expenses and the value added tax incurred for the Supervisory Board activity, each member of the Supervisory Board shall receive an allowance for meetings in the amount of € 2,500.00 per Supervisory Board meeting day as well as an annual remuneration in the amount of € 20,000.00, which shall be paid out annually after the end of the financial year. The chairman shall receive three times this remuneration, while his or her deputy shall receive 1.5 times this amount.

If a member of the Supervisory Board is only a member for a part of a financial year, the annual remuneration shall be paid merely on a pro rata basis. For their membership in a committee, each member of the Supervisory Board shall receive an additional meeting allowance in the amount of € 2,500.00 per committee meeting day. The chairman of a committee shall receive twice this amount. If several Supervisory Board and/or committee meetings take place on one day, a member of the Supervisory Board attending several meetings may not claim more than € 2,500.00 in total.

No remuneration was paid to the members of the Supervisory Board for personally performed services. The company does not provide fringe benefits other than the reimbursement of travel expenses and flat-rate office expenses.

The remuneration of the Supervisory Board in financial year 2017 amounted to k€ 296 and can be broken down as follows:

k€	2017
Ulli Gritzuhn	32.5
Baldur Groß	32.5
Karsten Schmidt	53.8
Thomas Standke	32.5
Sonja Wärntges	42.5
Helmut Zahn	102.5

Notes to the annual financial statements of Leifheit AG (HGB)

Foundations and economic environment

Leifheit AG is the parent company of the Leifheit Group and has its registered office in Nassau, Germany (Leifheitstraße, 56377 Nassau, Germany). The business activities of Leifheit AG primarily comprise development, production and procurement; the distribution of Leifheit and Soehnle brand products; and the management of the Leifheit Group.

Administration and the production of selected cleaning and laundry care products, such as floor wipers and rotary dryers, are located in Nassau. The logistics centre is located in Zuzenhausen. In addition, Leifheit AG has distribution offices that are not legally independent at locations in Brescia (Italy) and Aartselaar (Belgium).

Leifheit AG prepares its annual financial statements in accordance with the provisions of the German commercial code (HGB) and the German stock corporation act (AktG). It is by far the most important part of the Leifheit Group. The statements regarding the foundations of the Leifheit Group and the conditions in the economic report therefore also apply largely to Leifheit AG.

Leifheit AG has been integrated into the control system of the Leifheit Group. In essence, the Leifheit and Soehnle sectors correspond to Leifheit AG. The major performance indicators are turnover and the operating result. The cash flow is managed at Group level and therefore no longer forms part of the Leifheit AG control system. In addition, no further major changes were made to the control system in financial year 2017.

The organisation, the company structure, the management responsibility, the strategy and the financing strategy correspond to the Group.

Major changes

No major changes were made to the organisation, the company structure, the management responsibility or the financing strategy in financial year 2017.

Business performance

The business performance of Leifheit AG largely corresponds to the performance of the Brand Business in the Leifheit Group, which is presented in the net assets, financial position and results of operations of the Group.

Comparison of actual performance with projected business performance

The expectations for financial year 2017 were not met.

Leifheit AG turnover grew by 1.2%; we had forecast growth of 3% to 4%. While the turnover in our domestic market, Germany, grew by close to 3%, we recorded a slight drop in foreign turnover. Leifheit cleaning and laundry care products contributed to the growth. By contrast, turnover in the kitchen goods and wellbeing categories (Soehnle brand products) fell short of the figures from the previous year.

The operating result of Leifheit AG stood at m€ 10.9. We had forecast an operating result of m€ 15.9 to m€ 16.9. We missed our target due to the lower gross profit and higher foreign currency losses.

Free cash flow at m€ 1.4 was below the forecast value of m€ 4 to m€ 6, due to the lower operating result and the increase in the working capital.

Forecast/ actual comparison	Actual 31 Dec 2016	Forecast 2017	**Actual 31 Dec 2017**
Turnover	m€ 215.2	+3 to 4%	m€ 217.7 +1.2%
Operating result	m€ 18.4	m€ 15.9 to m€ 16.9	m€ 10.9
Free cash flow	m€ 14.4	m€ 4 to m€ 6	**m€ 1.4**

Results of operations

Income statement (short version) in m€	2016	2017
Turnover	215.2	217.7
Operating result	**18.4**	**10.9**
Income from shareholdings	–	–
Net interest result	–0.6	–3.3
Change in financial assets	–0.2	0.2
Income taxes	–4.3	–3.7
Earnings after taxes	**13.3**	**4.1**
Other taxes	–0.2	–0.2
Net income	**13.1**	**3.9**

In 2017, Leifheit AG achieved an operating result of m€ 10.9 (2016: m€ 18.4) and a net income of m€ 3.9 (2016: m€ 13.1). The fall in the operating result of m€ 7.5 was mainly a result of higher expenses for sales deductions and advertising, currency effects, price increases for materials, expenses for sales restructuring and a reversal of the pension provision in the previous year. Furthermore, the fall in net income of m€ 9.2 was mainly a result of the increased interest expense of pension obligations.

Gross profit

Leifheit AG turnover grew by m€ 2.5 to m€ 217.7 (2016: m€ 215.2), which was mainly due to the increase in turnover of Leifheit-branded household items in Germany. The cost of turnover rose disproportionately by m€ 5.7 to m€ 144.6. Gross profit fell by m€ 3.2 to m€ 73.1 (2016: m€ 76.3). Higher sales deductions, price increases for materials, more expensive purchases in Czech koruna related to currency and personnel cost increases were the main causes of this.

Distribution costs

Distribution costs of Leifheit AG in the reporting period stood at m€ 52.4 (2016: m€ 49.6). Distribution costs included advertising costs, commissions, marketing costs, freight out, delivery charges and the costs incurred by the internal and external teams. Restructuring of sales incurred m€ 1.8 (one-off effect) in the financial year 2017. In addition, advertising costs for brand communication increased by m€ 1.1.

General administrative costs

Administrative costs fell in the reporting period by m€ 1.5 to m€ 9.2 (2016: m€ 10.7). This drop was primarily due to the Board of Management's variable remuneration. First and foremost, administrative costs include personnel costs and costs for services to support our financial and administrative functions.

Other operating income

Other operating income at Leifheit AG fell by m€ 0.8 to m€ 8.3 (2016: m€ 9.1). It includes foreign currency gains of m€ 6.2 (2016: m€ 5.8) and income from the reversal of provisions of m€ 1.7 (2016: m€ 3.1). In the previous year, income from the reversal of provisions included one-off income from the reversal of pension provisions of m€ 1.3.

Other operating expenses

Other operating expenses increased by m€ 2.3 to m€ 9.0 (2016: m€ 6.7). Foreign currency losses, mainly from cash and cash equivalents and forward foreign exchange transactions, rose by m€ 2.3 to m€ 4.1 (2016: m€ 1.8).

Other operating expenses also included research and development costs of m€ 4.8 (2016: m€ 4.8).

Income from shareholdings

As in the previous year, subsidiaries did not distribute any profits in financial year 2017. The net income of the subsidiaries was carried forward to new accounts in all cases.

Interest income and interest expenses

Income from other securities and loans of financial assets and other interest income of Leifheit AG was slightly above the previous year's level at m€ 0.9 (2016: m€ 0.8). Interest expenses increased by m€ 2.9 to m€ 4.2 (2016: m€ 1.3). The interest expense from the compounding of the pension obligation was m€ 4.1 (2016: m€ 1.2).

The lower amount in the previous year resulted from the one-off conversion of the discount rate from the average market interest rate of the past seven years to the average market interest rate of the past ten years.

Revaluation and depreciation and amortisation of financial assets

The revaluation of financial assets in the amount of m€ 1.1 (2016: m€ 0) concerned the reversal of a write-down on a loan to Meusch-Wohnen-Bad und Freizeit GmbH due to the sale of non-operational land.

Depreciation and amortisation of financial assets and of securities of current assets in the amount of m€ 0.9 (2016: m€ 0.2) mainly related to impairments on the shareholdings of the wholly owned subsidiaries Leifheit España S.A, Meusch-Wohnen-Bad und Freizeit GmbH and Soehnle GmbH.

Income taxes

In financial year 2017, the income taxes of Leifheit AG amounted to m€ 3.7 (2016: m€ 4.3).

Financial situation

Liquidity at Leifheit AG stood at m€ 52.0 as at 31 December 2017 (2016: m€ 65.5), including cash and cash equivalents as well as securities.

Cash and cash equivalents in the amount of m€ 23.0 (2016: m€ 41.5) included demand deposits at banks and cash on hand.

Securities in the amount of m€ 29.0 (2016: m€ 24.0) included bond funds.

m€	2016	2017	Change
Cash flow from operating activities	17.2	4.7	–12.5
Cash flow from investment activities	–23.0	–9.4	13.6
Free cash flow	14.4	1.4	–13.0
Cash flow from financing activities	–13.0	–13.8	–0.8

At m€ 4.7, cash flow from operating activities in 2017 was significantly less than in the previous year (2016: m€ 17.2). This was mainly a result of the lower net income of m€ 3.9 (2016: m€ 13.1) and the working capital increase of m€ 5.1. Working capital includes inventories, receivables and assets less liabilities.

Cash flow from investment activities in financial year 2017 came to m€ 9.4 (2016: m€ 23.0). Payments for the acquisition of tangible and intangible assets totalled m€ 3.4 (2016: m€ 2.9) and payments in financial assets and securities came to m€ 6.1 (2016: m€ 20.0).

Cash flow from financing activities came to m€ 13.8 (2016: m€ 13.0) and included only the payment of dividends of m€ 13.8 (2016: m€ 13.1).

In 2017, Leifheit AG achieved free cash flow of m€ 1.4 (2016: m€ 14.4). This key figure indicates how much liquidity was available for the repayment of debt financing or for the distribution of dividends to shareholders. Free cash flow is the total of cash flow from operating activities and cash flow from investment activities, adjusted for incoming and outgoing payments in securities and from the divestiture of business divisions as well as incoming and outgoing payments in financial assets for the financing of shareholdings.

As at 31 December 2017, the debt level of Leifheit AG rose by 2.5 percentage points to 52.1% (2016: 49.6%). This key figure is calculated as a ratio of liabilities to the sum of equity and liabilities.

As at 31 December 2017, our liabilities consisted primarily of provisions for pension obligations of m€ 51.4 (2016: m€ 49.3), tax provisions of m€ 0.6 (2016: m€ 0.9), other provisions of m€ 28.6 (2016: m€ 28.1) and liabilities of m€ 20.7 (2016: m€ 23.1). As in the previous years, Leifheit AG did not have any liabilities to banks.

In financial year 2017, Leifheit had short-term revolving credit lines in the amount of m€ 11.5 (2016: m€ 11.5), of which m€ 0.5 was utilised as at 31 December 2017 in the form of guarantees and letters of credit (2016: m€ 0.5).

Net assets

Balance sheet (short version) in m€	2016	2017
Intangible assets	2.2	2.4
Tangible assets	15.7	15.9
Financial assets	53.1	53.3
A. Fixed assets	**71.0**	**71.6**
Inventories	26.6	29.8
Receivables and other assets	41.4	40.9
Securities	24.0	29.0
Cash and cash equivalents	41.5	23.0
B. Working assets	**133.5**	**122.7**
C. Accrued expenses	**0.1**	**0.2**
Total assets	**204.6**	**194.5**
A. Equity	**103.1**	**93.2**
Provisions for pensions and similar obligations	49.3	51.4
Tax provisions	0.9	0.6
Other provisions	28.2	28.6
B. Provisions	**78.4**	**80.6**
C. Liabilities	**23.1**	**20.7**
Total equity and liabilities	**204.6**	**194.5**

The balance sheet total of Leifheit AG as at 31 December 2017 fell by m€ 10.1 compared to the previous year's balance sheet date to m€ 194.5 (2016: m€ 204.6). This decline resulted primarily from lower liquidity and the decrease in equity.

At m€ 71.6, fixed assets were almost on a par with the previous year (2016: m€ 71.0). Inventories increased by m€ 3.2 to m€ 29.8 (2016: m€ 26.6). Receivables and other assets declined by m€ 0.5 to m€ 40.9 (2016: m€ 41.4), due mainly to lower sales tax claims; receivables from affiliated companies offset by higher trade receivables. Securities included bond funds in the amount of m€ 29.0 (2016: m€ 20.0). In the previous year, this included an investment in the form of a registered bond of over m€ 4.0, which was repaid in financial year 2017. Cash and cash equivalents decreased by m€ 18.5 to m€ 23.0 due, in particular, to the payment of dividends and further investments in bond funds (2016: m€ 41.5).

Leifheit AG equity fell by m€ 9.9 to m€ 93.2 (2016: m€ 103.1). The dividend payment of m€ 13.8 was offset by a net income of m€ 3.9. The equity ratio stood at 47.9% (2016: 50.4%). Provisions for pensions and similar obligations rose by m€ 2.1 to m€ 51.4 (2016: m€ 49.3), due in particular to the decrease in the average market interest rate of the past ten years to 3.68% (2016: 4.01%). Other provisions increased by m€ 0.4 to m€ 28.6 (2016: m€ 28.2) and include the provision for anticipated losses for forward foreign exchange transactions of m€ 1.8. Liabilities fell by m€ 2.4 to m€ 20.7 due to the balance sheet date (2016: m€ 23.1).

Leifheit AG invested m€ 3.4 in financial year 2017 (2016: m€ 2.9). Of this amount, intangible assets amounted to m€ 0.9 (2016: m€ 1.0), mainly software, and tangible assets amounted to m€ 2.5 (2016: m€ 1.9), which involved mainly tools for new products, operating and office equipment, as well as the expansion to our logistics location in Zuzenhausen, Germany. There were no considerable disposals of assets in reporting year 2017. All investments in financial year 2017 have been largely completed.

As of 31 December 2017 there were contractual obligations arising out of contracts relating to the acquisition of tangible assets in the amount of m€ 1.4 (2016: m€ 1.1), primarily relating to equipment, tools and fire protection systems. These will be financed by cash and cash equivalents.

In addition to the assets reported in the balance sheet, we also used assets which cannot be recorded in the balance sheet, but to a far lesser extent. This largely concerns leased goods, e.g. printers and copiers and leased premises.

Non-financial performance indicators/ employees

Leifheit AG's non-financial performance indicators are largely concurrent with those of the Leifheit Group, which are described in the section entitled "Non-financial performance indicators".

Leifheit AG employed a total of 459 employees as at 31 December 2017 (2016: 438 employees). The average number of employees in financial year 2017 was 447 people (2016: 429 employees).

Opportunities and risks

Leifheit AG is essentially subject to the same opportunities and risks as the Leifheit Group. As the parent company of the Leifheit Group, Leifheit AG is included in the Group-wide internal control and risk management system. Please consult the "Opportunities and risks report" for explanations and quantitative statements.

Forecast

The anticipated business development of Leifheit AG is for the most part subject to the same influences as that of the Group. Please consult the section entitled "Forecast for the Group" for explanations and quantitative statements.

We anticipate turnover growth around 4% to 5% at Leifheit AG in financial year 2018. We anticipate an operating result around m€ 9 to m€ 10.

Nassau/Lahn, 22 March 2018

Leifheit Aktiengesellschaft

The Board of Management

Thomas Radke Ivo Huhmann Ansgar Lengeling

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Statement of profit or loss and statement of comprehensive income

k€	Notes	2016	2017
Turnover	1	237,057	236,803
Cost of turnover	2	–124,472	–126,874
Gross profit		**112,585**	**109,929**
Research and development costs	3	–5,073	–5,227
Distribution costs	6	–70,092	–71,625
Administrative costs	7	–16,623	–14,710
Other operating income	8	1,231	2,353
Other operating expenses	9	–258	–347
Foreign currency result	10	350	–1,533
EBIT		**22,120**	**18,840**
Interest income	11	99	101
Interest expenses	12	–1,638	–1,274
Net other financial result		–	23
EBT		**20,581**	**17,690**
Income taxes	13	–6,054	–4,812
Net result for the period		**14,527**	**12,878**
Contributions that are not reclassified in future periods in the statement of profit or loss			
Actuarial gains/losses on defined benefit pension plans	25	–3,853	211
Income taxes from actuarial gains/losses on defined benefit pension plans		1,123	–66
Contributions that may be reclassified in future periods in the statement of profit or loss			
Currency translation of foreign operations		50	250
Currency translation of net investments in foreign operations		8	853
Income taxes from currency translation of net investments in foreign operations		–2	–249
Net result of cash flow hedges		–1,324	–8,781
Income taxes from cash flow hedges		368	2,598
Net result from the sale of financial assets available		–1	9
Income taxes from the sale of financial assets available		–	–2
Other comprehensive income	30	**–3,631**	**–5,177**
Comprehensive income after taxes		**10,896**	**7,701**
Earnings per share based on net result for the period (diluted and undiluted) [1]	14	**€ 1.53**	**€ 1.35**

[1] Based on 10 million no-par-value bearer shares.

Balance sheet

k€	Notes	31 Dec 2016	31 Dec 2017
Current assets			
Cash and cash equivalents	15	45,507	28,221
Financial assets	16	23,994	29,008
Trade receivables	17	48,703	50,783
Inventories	18	42,294	44,474
Income tax receivables		525	1,149
Derivative financial instruments	19	6,405	74
Other current assets	20	3,138	2,910
Total current assets		**170,566**	**156,619**
Non-current assets			
Tangible assets	21	36,911	37,760
Intangible assets	22	19,261	19,585
Deferred tax assets	13	10,616	10,844
Derivative financial instruments	19	1,914	–
Other non-current assets		148	127
Total non-current assets		**68,850**	**68,316**
Total assets		**239,416**	**224,935**
Current liabilities			
Trade payables and other liabilities	23	51,166	43,824
Derivative financial instruments	19	–	1,818
Income tax liabilities		299	651
Other provisions	24	6,544	6,785
Total current liabilities		**58,009**	**53,078**
Non-current liabilities			
Provisions for pensions and similar obligations	25	70,218	69,502
Other provisions	24	3,434	2,296
Deferred tax liabilities	13	3,132	978
Derivative financial instruments	19	7	552
Total non-current liabilities		**76,791**	**73,328**
Equity			
Subscribed capital	26	15,000	30,000
Capital surplus	27	17,026	17,026
Treasury shares	28	–7,445	–7,445
Retained earnings	29	91,991	76,081
Other reserves	30	–11,956	–17,133
Total equity		**104,616**	**98,529**
Total equity and liabilities		**239,416**	**224,935**

Statement of changes in equity

k€	Subscribed capital	Capital surplus	Treasury shares	Retained earnings	Other reserves	Total
As at 1 Jan 2016	**15,000**	**16,984**	**–7,493**	**90,536**	**–8,325**	**106,702**
Issue of treasury shares – Note 28	–	42	48	–	–	90
Dividends – Note 29	–	–	–	–13,071	–	–13,071
Comprehensive income after taxes	–	–	–	14,527	–3,631	10,896
of which net result for the period	–	–	–	14,527	–	14,527
of which actuarial gains/losses on defined benefit pension plans – Note 25	–	–	–	–	–2,730	–2,730
of which currency translation of foreign operations – Note 30	–	–	–	–	50	50
of which currency translation of net investments in foreign operations – Note 30	–	–	–	–	6	6
of which from cash flow hedges – Note 30	–	–	–	–	–956	–956
of which from the sale of financial assets available – Note 30	–	–	–	–	–1	–1
As at 31 Dec 2016	**15,000**	**17,026**	**–7,445**	**91,991**	**–11,956**	**104,616**
Change from capital increase – Note 26	15,000	–	–	–15,000	–	–
Dividends – Note 29	–	–	–	–13,788	–	–13,788
Comprehensive income after taxes	–	–	–	12,878	–5,177	7,701
of which net result for the period	–	–	–	12,878	–	12,878
of which actuarial gains/losses on defined benefit pension plans – Note 25	–	–	–	–	145	145
of which currency translation of foreign operations – Note 30	–	–	–	–	250	250
of which currency translation of net investments in foreign operations – Note 30	–	–	–	–	604	604
of which from cash flow hedges – Note 30	–	–	–	–	–6,183	–6,183
of which from the sale of financial assets available – Note 30	–	–	–	–	7	7
As at 31 Dec 2017	**30,000**	**17,026**	**–7,445**	**76,081**	**–17,133**	**98,529**

Statement of cash flow

k€	Notes	2016	**2017**
Net result for the period		14,527	12,878
Depreciation and amortisation	4	6,198	6,411
Change in provisions		982	–1,408
Result from disposal of fixed assets and other non-current assets		1	–1,052
Change in inventories, trade receivables and other assets not classified as investment or financing activities		–165	–4,656
Change in trade payables and other liabilities not classified as investment or financing activities		–42	–5,904
Other non-cash income		338	948
Cash flow from operating activities		**21,839**	**7,217**
Proceeds from the sale of tangible assets and other non-current assets		236	2,086
Proceeds from the sale of financial assets	16	–	13,999
Outflow for the acquisition of tangible assets and intangible assets	21, 22	–7,782	–7,809
Outflow for the acquisition of financial assets	16	–19,994	–19,013
Cash flow from investment activities		**–27,540**	**–10,737**
Changes in treasury shares	28	90	–
Dividends paid to the shareholders of the parent company		–13,071	–13,788
Cash flow from financing activities		**–12,981**	**–13,788**
Change in cash and cash equivalents		–18,682	–17,308
Change in cash and cash equivalents due to exchange rates		–11	22
Cash and cash equivalents at the start of the reporting period		64,200	45,507
Cash and cash equivalents at the end of the reporting period	15	**45,507**	**28,221**
Income taxes paid [1]		–6,240	–5,893
Income taxes received [1]		822	822
Interest paid [1]		–2	–1
Interest received [1]		40	102

[1] Included in cash flow from operating activities.

Notes: General information as well as accounting and valuation principles

General information

Leifheit AG, whose registered office is in Leifheitstraße, Nassau/Lahn, Germany, focuses on the development and distribution of high-quality branded products for selected areas of the household. The company has been entered in the Commercial Register of Montabaur Local Court under HRB 2857. The shares of Leifheit AG are traded in the Prime Standard trading segment in the stock markets of Xetra, Frankfurt am Main, Berlin, Düsseldorf, Hamburg, Hanover and Stuttgart under ISIN DE0006464506.

In accordance with section 315e para. 1 of the German commercial code (HGB), the consolidated financial statements for 2017 have been prepared according to the International Financial Reporting Standards (IFRS) formulated by the International Accounting Standards Board (IASB) as applicable in the EU. All of the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and interpretations of the IFRS Interpretation Committee (IFRIC and SIC) requiring application in financial year 2017 were applied. The figures for the previous year were calculated on the same basis.

The financial statements were drawn up in euros. The financial statements provide a true and fair view of the net assets, financial position and results of operations of the Leifheit Group. Unless stated otherwise, all figures are shown in thousands of euros (k€).

The statement of profit or loss was prepared according to the cost of turnover method.

Leifheit AG, Nassau/Lahn, is the company that prepares the consolidated financial statements for the largest and smallest group of consolidated companies. The consolidated financial statements are published in the Federal Gazette (Bundesanzeiger) and can be accessed online at leifheit-group.com.

The Board of Management of Leifheit AG prepared the consolidated financial statements and approved them for publication on 22 March 2018. The period in which adjusting events would be accounted for thus expired as of this date.

Consolidation principles

The consolidated financial statements include Leifheit AG and the companies controlled by it. The Group controls a holding company specifically when it possesses all of the following attributes:

- full control over the holding company (i.e. based on its current rights, the Group is entitled to control those activities of the holding company which have a significant influence on its returns),
- risk exposure or entitlements to fluctuating returns through its interests in the holding company, and
- the ability to use its control over the holding company in such a way that influences the returns of the holding company.

If the Group does not hold the majority of voting rights or similar rights in a holding company, the Group must consider all facts and circumstances when assessing whether it has full control over the holding company. This includes:
- a contractual agreement with other persons entitled to vote,
- rights based on other contractual agreements and
- voting rights and potential voting rights of the Group.

The financial statements of subsidiaries are prepared in application of standardised accounting policies as at the same balance sheet date as the financial statements of the parent company and the Group.

Acquired companies are included in the consolidated financial statements starting when control is obtained (acquisition date). If the control is lost, deconsolidation takes place at this time. Intragroup balances and transactions and resulting unrealised intragroup profits and losses as well as dividends are fully eliminated. Deferred taxes are recognised for temporary differences from consolidation as required by IAS 12.

The same consolidation methods were used for the financial statements for 2017 and 2016.

Business combinations before 1 January 2010:

The acquisition method according to IFRS 3 rev. 2004 (Business Combinations) is applied for companies acquired before 1 January 2010. All identifiable assets and liabilities were valued in their attributable fair value at the time of acquisition. Non-controlling interests (minority interests) were therefore carried at their share in the fair value of the assets and liabilities. If the acquisition cost of an interest exceeded the Group's share in the net assets of the company concerned as determined by this method, the resulting goodwill had to be capitalised. Previously undisclosed reserves and liabilities are carried, written down or dissolved during subsequent consolidation, depending on the corresponding assets and liabilities. Goodwill is tested at least annually for impairment at the level of the cash-generating units and written down to the recoverable amount as necessary. Difference amounts in liabilities were recognised as affecting net income. Transaction costs directly allocable to the acquisition of the company were a part of cost.

Business combinations from 1 January 2010 on:

The acquisition method according to IFRS 3 rev. 2008 (Business Combinations) is applied for companies acquired on or after 1 January 2010. All identifiable assets and liabilities are measured at fair value at the time of acquisition. Cost is measured as the total of the consideration transferred (valued at the fair value at the date of acquisition) and the value of the shares without controlling interest. Non-controlling interests therefore continued to be carried at their share in the fair value of the identifiable assets and liabilities. If the acquisition cost of an interest exceeds the Group's share in the net assets of the company concerned as determined by this method, the resulting goodwill must be capitalised. Previously undisclosed reserves and liabilities are carried, written down or dissolved during subsequent consolidation, depending on the corresponding assets and liabilities. Goodwill is tested at least annually for impairment at the level of the cash-generating units and written down to the recoverable amount as necessary. Negative goodwill is recognised in profit or loss. Transaction costs incurred during the company acquisition are reported as administrative costs affecting net income.

In step acquisitions, the share of equity is assessed again at the date of acquisition and the amount exceeding the book value is recognised in profit or loss. Contingent purchase price liabilities from business combinations that took or take place after 1 January 2010 are recognised at fair value on the balance sheet date. The adjustments of these liabilities are recognised as affecting net income in the statement of profit or loss.

Scope of consolidation

There were no changes in the scope of consolidation or major changes in the organisational structure or business model in the reporting period.

There were no business combinations in the 2017 reporting period. In the previous year, Leifheit AG acquired the remaining 29% of the shares of Leifheit CZ a.s., Hostivice, Czech Republic, from the minority shareholder. In 2016, Leifheit AG included the permanent establishments of the Austrian branch in the wholly-owned subsidiary Leifheit Österreich GmbH, Wiener Neudorf, Austria.

The following companies based both inside and outside Germany were included in the consolidated financial statements in addition to Leifheit AG. Leifheit AG directly or indirectly held the majority of the voting rights in these companies as at 31 December 2017.

	Date of initial consolidation	Interest in capital and voting rights in 2017 in %
Unterstützungseinrichtung Günter Leifheit e.V., Nassau (DE)	1 Jan 1984	–
Leifheit España S.A., Madrid (ES)	1 Jan 1989	100.0
Leifheit s.r.o., Blatná (CZ)	1 Jan 1995	100.0
Leifheit International U.S.A. Inc., Hauppauge, NY (US)	1 Jan 1997	100.0
Meusch-Wohnen-Bad und Freizeit GmbH, Nassau (DE)	1 Sep 1999	100.0
Birambeau S.A.S., Paris (FR) [1]	1 Jan 2001	100.0
Leifheit-Birambeau S.A.S., Paris (FR) [1]	1 Jan 2001	100.0
Leifheit Distribution S.R.L., Bucharest (RO)	18 Dec 2007	100.0
Herby Industrie S.A.S., La Loupe (FR) [1]	1 Jul 2008	100.0
Leifheit France S.A.S., Paris (FR)	23 Nov 2009	100.0
Leifheit CZ a.s., Hostivice (CZ)	1 Dec 2011	100.0
Leifheit Polska Sp. z o.o., Warsaw (PL)	11 Okt 2012	100.0
Soehnle GmbH, Nassau (DE)	25 Jun 2015	100.0
Leifheit Österreich GmbH, Wiener Neudorf (AT)	6 Jun 2016	100.0

[1] Indirect shareholding through Leifheit France S.A.S.

Foreign currency translation

Where individual financial statements of consolidated companies are prepared in local currencies, monetary items in foreign currencies (cash and cash equivalents, receivables, liabilities) are measured at the exchange rate as at the balance sheet date, with any differences recognised in profit or loss. Exceptions thereof include translation differences for monetary items which substantially form part of the net investment in an independent foreign entity (e. g. non-current loans replacing equity). Currency translation of the financial statements of consolidated companies prepared in foreign currencies is performed on the basis of the functional currency concept using the modified closing rate method in accordance with IAS 21.

As our subsidiaries and branches operate independently in financial, commercial and organisational terms, their functional currency is usually the local currency. For inclusion in the consolidated financial statements, the assets and liabilities of the subsidiaries and branches are translated at the exchange rate as at the balance sheet date and income and expenses are translated at annual average exchange rates. The exchange rate differences arising from currency translation are recognised in other reserves in equity. Exchange rate differences that arise as against the previous year's translation are taken to this translation reserve without affecting net income.

The exchange rates applied to the translation of the relevant currencies are shown in the following table:

	Mid-market rate as at the balance sheet date		Annual average prices	
Base: € 1	31 Dec 2016	**31 Dec 2017**	2016	**2017**
CZK	27.02	25.54	27.04	26.42
USD	1.06	1.20	1.11	1.12
PLN	4.42	4.18	4.34	4.27
HKD	8.19	9.39	8.59	8.80

Assessment of fair value

The fair value is the price which would be received for the sale of an asset or paid for the transfer of a liability in the context of an orderly business transaction between market participants on the valuation date. The assessment of the fair value is based on the presumption that the business transaction in the context of which the asset is sold or the liability is transferred occurs in either the primary market for the asset or liability in question or, where no primary market exists, the most advantageous market for the asset or liability in question. The Group must have access to the primary or most advantageous market.

The fair value of an asset or a liability is determined by reference to the assumptions on which the market participants would base their pricing of the asset or liability. In this regard, it is assumed that the market participants would thereby be acting in their own best economic interests. The assessment of the fair value of a non-financial asset takes account of the market participant's capability to generate economic benefits by opting to use the asset to the greatest and best degree or to sell it to another market participant able to use it to the greatest and best degree. The Group applies valuation techniques which are appropriate in the individual circumstances and for which sufficient data is available to carry out an assessment of the fair value. In this context, relevant and observable input factors are to be applied to the greatest possible extent and the application of non-observable input factors to be kept to a minimum.

All assets and liabilities for which the fair value is determined or reported in the financial statements are classified in accordance with the following fair value hierarchy, based on the input parameter at the lowest level which is of overall significance for the valuation at fair value.

- Level 1: (Unadjusted) prices quoted in active markets for identical assets or liabilities
- Level 2: Assessment procedures pursuant to which the input parameter at the lowest level which is of overall significance for the valuation at fair value can be observed either directly or indirectly in the market
- Level 3: Assessment procedures pursuant to which the input parameter at the lowest level which is of overall significance for the valuation at fair value cannot be observed in the market

In the case of assets or liabilities which are recognised in the financial statements on a recurring basis, the Group will decide whether the levels within the hierarchy have been reached by carrying out a review of the classification (on the basis of the input parameter at the lowest level which is of overall significance for the valuation at fair value) at the end of each reporting period.

Cash and cash equivalents

Cash includes cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible into a given amount of cash at any time and are subject to an insignificant risk of changes in value. Their remaining term is not more than three months. These are assessed at their amortised cost (nominal value).

Inventories

Inventories are recognised at the lower of acquisition or production cost or the net realisable value. Cost is measured on the basis of the weighted average cost method.

The cost of internally manufactured products includes the full production cost based on normal capacity utilisation. In detail, cost includes the direct costs directly attributable to products (e.g. material and labour) and fixed and variable production overheads (e.g. material and production overheads, depreciation and amortisation). In particular, costs incurred by the specific cost centres are taken into account.

The risks in holding inventories due to reduced realisable value are taken into account through appropriate write-downs, which are recognised as cost of materials. These write-downs are calculated on the basis of the future sales plan or actual consumption. Depending on the respective inventory item, individual periods are applied and subsequently reviewed and modified on the basis of objective evaluation criteria. The lower net realisable value at the balance sheet date is taken into account in valuation. If the circumstances which previously caused inventories to be written down no longer apply such that the net realisable value is increased, the resulting increase in value is recognised as a reduction in the cost of materials.

Tangible assets

Tangible assets are carried at cost less cumulative scheduled depreciation and cumulative impairment. If items of tangible assets are sold or scrapped, the associated costs and cumulative depreciation are charged off; any realised profit or loss from the disposal is reported in the statement of profit or loss.

The cost of an item of tangible assets comprises the purchase price including import duties and non-refundable purchase taxes, and any directly attributable costs incurred for bringing the asset into working condition and to the location for its intended use. Subsequent expenses, such as maintenance and repair costs, which arise after the fixed assets are put into operation, are recorded as expenses in the period in which they are incurred.

The useful lives and depreciation methods for tangible assets are reviewed periodically to ensure that the method of depreciation and the depreciation period comply with the expected useful life of the items of tangible assets. If a useful life must be changed, this is done prospectively as at the date of reassessment.

Assets under construction are classified as unfinished tangible assets and are carried at cost. Assets under construction are depreciated from the time at which the respective asset is completed and used in operation. Depreciation is performed on a straight-line basis using the expected useful life:

	Years
Buildings	25–50
Other structures	10–20
Injection-moulding machines	10
Technical equipment and other machinery	5–10
Injection-moulding and stamping tools	3–6
Vehicles	6
Operating and office equipment	3–13
Display and POS stands	3

Leases

The Leifheit Group is exclusively the lessee. In the case of finance leases where, in essence, all the risks and rewards of ownership of an asset are transferred to Leifheit, the leased asset is capitalised from the date on which the lease is arranged. The asset is recognised at the lower of its fair value or the present value of the minimum lease payments if this is the lower value. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability over the lease term. Financing expenses are recognised immediately in profit or loss.

If it is not reasonably certain that Leifheit will obtain ownership of the asset at the end of the lease term, the asset is depreciated in full over the shorter of the lease term and its useful life. There were no finance leases at the balance sheet date.

Operating lease payments are recognised as an expense in the statement of profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Patents, licences and software

Expenses for patents and licences are capitalised and subsequently amortised over their expected useful life on a straight-line basis. The estimated useful life of patents and licences varies between three and fifteen years. Assets are regularly tested for indications of an impairment.

The cost of new software and implementation costs are capitalised and treated as an intangible asset unless these costs are not an integral part of the associated hardware. The economic useful life is between three and eight years.

Brands

Consideration paid for brands is capitalised. Brands are recognised as intangible assets with indefinite useful lives and are not amortised, as no time limit can be set for the period during which the asset generates economic benefits for the company. Brands are not subject to scheduled amortisation, but they are assessed annually for possible impairment in accordance with IAS 36 and written down to their fair value as necessary.

Goodwill

The excess of the cost of an acquisition over the company's interest in the fair value of the identifiable assets and liabilities acquired on the acquisition date is known as goodwill and is recognised as an asset. In accordance with IFRS 3 in conjunction with IAS 36, goodwill is not subject to scheduled amortisation but it is tested for impairment annually and written down to the recoverable amount as necessary.

For the impairment test, the value of the asset at the acquisition date is allocated to the cash-generating units at the lowest level of the company at which the asset is monitored for internal management purposes.

Impairment of tangible assets and intangible assets

Tangible assets and intangible assets are tested for impairment if there is a change in circumstances or there are material grounds for believing that the book value of an asset may not be recoverable (IAS 36). As soon as the book value of an asset exceeds its recoverable amount, an impairment loss is recognised in profit or loss. The recoverable amount is the higher of the asset's net selling price and its value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction (fair value) less the cost of disposal.

Value in use is the present value of the estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The recoverable amount is identified for each asset individually or, if this is not possible, for the cash-generating unit to which the asset belongs.

Research and development costs

Research costs cannot be capitalised in accordance with IAS 38 and are therefore recognised directly as an expense in the statement of profit or loss.

Development costs are capitalised in accordance with IAS 38 if they can be clearly allocated and both the technical feasibility and marketing of the newly developed products are ensured. Furthermore, there must be sufficient probability that the development work will generate future economic benefits. Leifheit has smaller research and development projects involving further development of existing products and/or components. They are not recorded in terms of development cost to be capitalised for reasons of negligibility. For larger research and development projects, the point at which it is clear whether future benefits will be generated from the potential product is extremely late in the overall project phase, so that the costs allocated to development are immaterial and recognised in profit or loss like the research costs.

Deferred taxes

Deferred taxes are recognised using the balance sheet liability method for all temporary differences between the tax base of an asset or liability and its amount in the consolidated balance sheet (temporary concept). In addition, deferred tax assets from loss carry-forwards are recognised if it can be assumed that it is highly probable that Leifheit will be able to utilise these tax loss carry-forwards over the next five years.

Deferrals are the probable tax liability or relief in the following financial year based on the prevailing tax rate at the realisation date.

Deferred tax assets whose realisation is or becomes improbable are not recognised or adjusted.

Deferred taxes are reported separately within the non-current items on the balance sheet.

Other provisions

Under IAS 37, other provisions are recognised where there is a current obligation to third parties as a result of a past event which will probably lead to an outflow of resources and which can be reliably estimated.

Provisions for warranty claims mainly relate to products that have been sold in the last 18 months and are based on estimates due to historical warranties of similar products. These provisions are recognised at the time of the sale of the underlying products to the customer.

The remaining other provisions are recognised under IAS 37 for all identifiable risks and uncertain obligations in the amount that is likely to be required to settle them and are not offset against reimbursement claims.

Other provisions which do not lead to an outflow of resources in the following year are recognised at the discounted amount required to settle the obligations at the balance sheet date. The discount rate is based on market interest rates.

Share-based payment

The obligations of share-based payment, which provide for a settlement in cash, are calculated during the vesting period on the basis of analyses using Monte Carlo simulations. The obligations are deferred on a pro rata temporis basis over the respective vesting period.

Provisions for pensions and similar obligations

The actuarial valuation of the defined benefit obligation arising out of the defined benefit plans is based on the projected unit credit method. Revaluations, including actuarial gains and losses, are directly recorded on the balance sheet and included in other reserves via other comprehensive income in the period in which they accrue. Revaluations may not be reclassified as profit or loss in subsequent periods. Any adjustments to the pension plans are recognised in profit or loss.

Under this method, the post-employment benefits and vested benefits known at the balance sheet date are taken into account along with the expected future increases in salaries and pensions.

Equity

Treasury shares reduce the equity reported in the balance sheet under a separate item. The acquisition of treasury shares is shown as a change in equity. Any sale, issue or cancellation of treasury shares is recognised without affecting net result. Consideration received is recognised in the financial statements as a change in equity.

Provisions for currency translation are recognised in other reserves for exchange rate differences arising from the consolidation of the financial statements of independent foreign subsidiaries or branches.

Exchange rate differences for monetary items which become a part of the company's net investment in an independent foreign entity, for example long-term loans, are recognised in equity in the consolidated financial statements without affecting net income until disposal or repayment. When the relevant assets are sold, the translation reserves are recognised in other reserves as income or expenses in the same period as the profit or loss from the sale is recognised.

Revaluations, including actuarial gains and losses arising out of the valuation of pension obligations, are recorded in other reserves.

Profits and losses from effective hedging transactions are likewise recorded as not affecting net income in the reserve for hedging cash flows in other reserves, to the extent effectiveness can be proven.

Financial assets and financial liabilities

Financial assets within the meaning of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, investments held to maturity or investments held for sale. Derivatives that are not formally designated as hedging instruments are valued at fair value through profit or loss in accordance with IAS 39 and classified as financial assets or liabilities.

Financial liabilities within the meaning of IAS 39 are classified as financial liabilities carried at amortised cost.

The Group establishes the classification of its financial assets and liabilities on initial recognition. Reclassifications are carried out at the end of the financial year to the extent that they are permitted and required. Financial assets and liabilities are recognised at fair value on initial recognition on the settlement date.

Available for sale financial assets

Available for sale financial assets include non-derivative financial assets not classified as "financial assets and liabilities at fair value through profit or loss", "held-to-maturity investments" or "loans and receivables" categories. These financial assets are subsequently measured at fair value. Changes in fair value are generally not recognised in equity without affected net income and are not recognised through profit or loss in the Group's statement of profit or loss until the financial asset is derecognised.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. After initial recognition, loans and receivables are carried at amortised cost using the effective interest rate method less any write-downs. Gains and losses are recognised in the net result for the period if the loans and receivables are derecognised or written down. Loans and receivables include trade receivables, cash and cash equivalents and other financial assets held by the Group.

Financial liabilities and interest-bearing loans

Financial liabilities and interest-bearing loans are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss if liabilities are derecognised or in the case of write-downs.

Derivative financial instruments

The Group utilises derivative financial instruments (forward exchange contracts) and foreign exchange swaps in order to hedge against exchange rate risks.

For accounting purposes, the hedging instruments are differentiated as follows:

- As cash flow hedges to protect against the risk of cash flow fluctuations, which can be attributed to the currency risk of an asset on the balance sheet, a liability on the balance sheet or a fixed liability not on the balance sheet that is related to a highly probable future transaction. In the process, both the hedging relation as well as the risk management objectives and the strategies of the Group with regard to the hedging are defined formally and documented at the beginning of hedging. The documentation contains the definition of the hedging instrument, the underlying transaction or the hedged transaction, as well as the nature of the hedged risk and a description of how the company assesses the effectiveness of the changes in the attributable fair value of the hedging instrument in the compensation of risks from changes in the attributable fair value or the cash flows of the hedged underlying transaction that are based on the hedged risk. Hedging relations of this kind are assessed to be highly effective with regard to achieving a compensation of risks from changes in the attributable fair value or the cash flows. They are evaluated continuously as to whether they have in fact been highly effective during the entire reporting period for which the hedging relation was defined.

  In hedging transactions that fulfil the strict criteria for the recognition of hedging relationships (hedging of cash flows/cash flow hedges), the ineffective part of the profit or loss from the hedging instrument is recorded immediately in the foreign currency result as affecting net income. In contrast, the effective part is recorded as not affecting net income in the reserve for hedging cash flows in other reserves. Recognition in terms of the result is performed by way of entering the material consumption to accounts upon the disposal of inventories.

- As cash flow hedges to protect against the risk of cash flow fluctuations, which can be attributed to the currency risk of an asset on the balance sheet or a liability on the balance sheet but that is not related to a highly probable future transaction.

  These hedges are assessed at the fair value to be attributed at the time of closing the contract and are revalued in the following periods at the attributable fair value. They are assessed as financial assets if there is a positive attributable fair value and as financial liabilities if their attributable fair value is negative. Gains or losses from changes in the attributable fair value of derivatives are immediately recorded as affecting net income.

Forward foreign exchange transactions were valued in accordance with the fair value method, with the forward rate and the nominal amount having been discounted to the reporting date, taking into account the interest rate (swap curve). The swap curves applied relate solely to market data.

The applied market values are calculated at the respective middle rate.

Impairment of financial assets

At each balance sheet date, the Group determines whether there are indications of impairment of a financial asset or if a group of financial assets exists. The objective indication for impairment is if the fair value is consistently and significantly below the book value. If such an asset is impaired, this effect is recognised in profit or loss. A cumulative loss that was previously recognised directly in equity (in the case of available for sale financial assets) is recognised in profit or loss. In the case of trade receivables, impairments are recognised in separate adjustment accounts.

Derecognition of financial assets and financial liabilities

A financial asset is derecognised if the Group loses control of the contractual rights embodying the financial asset. A financial liability is derecognised if the obligation it is based on is fulfilled or cancelled or has expired.

Recognition of income and expenses

Turnover and other operating income are only recognised when the service has been provided or the goods or products have been delivered and the risk has thus passed to the customer. Revenue-dependent sales deductions in the form of advertising cost subsidies, customer bonuses or discounts are reflected in turnover.

The cost of turnover includes costs incurred to generate turnover and the cost of merchandise purchased and held for resale. This item also includes the cost of additions to provisions for warranty obligations.

Distribution costs include labour and materials costs and the depreciation and amortisation attributable to selling activities, as well as shipment, advertising, sales promotion, market research and customer service costs, and freight out.

Administrative costs include labour and materials costs and the depreciation and amortisation attributable to administration.

Taxes such as real estate tax and vehicle tax are attributed to production, research and development, distribution or administrative costs in accordance with the respective source.

Interest income and interest expenses are recognised on a pro rata basis. In all financial instruments valued at their amortised costs, as well as the interest-bearing financial assets that are classified as available for sale, the interest income and interest expenses are recorded by means of the effective interest rate. This involves the calculatory interest rate, by which the estimated future incoming and outgoing payments are discounted over the expected term of the financial instrument, or, if applicable, over a shorter period, precisely to the net book value of the financial asset or financial liability.

Borrowing costs

All borrowing costs are recognised as an expense affecting net income in the period they are incurred. There are no significant interest expenses that would have to be capitalised in manufacturing costs.

Contingent liabilities and assets

Contingent liabilities are not recognised in the financial statements. They are shown in the Notes, except when the probability of an outflow of resources embodying economic benefits is extremely low. Contingent assets are also not recognised in the financial statements. However, they are disclosed in the Notes if it is likely that an inflow of economic benefits will arise.

Events after the balance sheet date

Events after the balance sheet date that provide additional information on conditions that existed at the balance sheet date (adjusting events) are included in the financial statements. Non-adjusting events after the balance sheet date are shown in the Notes if they are material.

Material exercises of discretion, estimates and assumptions

In certain instances, preparing the annual financial statements requires exercises of discretion and estimates and assumptions about the amounts or fair values of receivables, liabilities and other provisions (Note 24), depreciation and amortisation periods, deferred taxes, contingent liabilities, impairment tests and recognised income and expenses. The actual figures may differ from these estimates. The most important assumptions and estimates in connection with impairment testing of intangible assets and tangible assets are stated in Note 22, the assumptions and estimates in connection with the recognition of pension liabilities in Note 25, and the assumptions and estimates in connection with the recognition of deferred tax assets in Note 13.

Changes in accounting and valuation principles

Leifheit applied the following standards and amendments published by the IASB for the first time in financial year 2017:

Standard/interpretation		Must be applied to financial years beginning on or after	Adopted by the European Commission	Impact on Leifheit
Amendment to IAS 7	Disclosure initiative	1 Jan 2017	yes	none
Amendment to IAS 12	Recognition of deferred tax assets for unrealised losses	1 Jan 2017	yes	no major
Improvements to IFRS (2014–2016)	Amendments to IFRS 12	1 Jan 2017	yes	none

New accounting standards applicable in future

Leifheit did not elect early application of the following standards and amendments that have been adopted into the law of the European Union (endorsement) but for which application has not become mandatory:

Standard/interpretation		Must be applied to financial years beginning on or after	Adopted by the European Commission
Improvements to IFRS (2014–2016)	Amendments to IFRS 1 and IAS 28	1 Jan 2018	yes
IFRS 2	Classification and measurement of share-based payment transactions	1 Jan 2018	yes
Amendment to IFRS 4	Application of IFRS 9 Financial instruments and IFRS 4 Insurance contracts	1 Jan 2018	yes
IFRS 9	Financial instruments	1 Jan 2018	yes
IFRS 15	Revenue from contracts with customers	1 Jan 2018	yes
Amendment to IFRS 15	Clarification to IFRS 15	1 Jan 2018	yes
IFRS 16	Leases	1 Jan 2019	yes

Improvements to IFRS (2014–2016):
Amendments to IFRS 1 and IAS 28
The new regulations listed in the following are not applicable to the Group and therefore have no effects on the net assets, financial position and results of operations of the Group.

IFRS 2: Classification and measurement of share-based payment transactions
The changes affect the consideration of exercise conditions within the scope of measuring share-based payment transactions to be settled in cash, the classification of share-based payment transactions that allow for a net settlement amount for taxes to be retained and the recognition of a change to the classification of payment transactions from “cash-settled” to “equity-settled”.

The changes are to be applied to payment transactions that are granted or changed in financial years starting on or after 1 January 2018. They cannot be applied before this date. Retroactive application is only possible without application of subsequent better understanding.

The Group currently believes that there will be no material effects on the consolidated financial statements.

Amendment to IFRS 4: Application of IFRS 9 Financial instruments and IFRS 4 Insurance contracts
The new regulations listed in the following are not applicable to the Group and therefore have no effects on the net assets, financial position and results of operations of the Group.

IFRS 9: Financial instruments
This standard specifies the requirements for the recognition and measurement of financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 and is to be applied for the first time for financial years that start on or after 1 January 2018. With the exception of the recognition of hedging transactions, the standard can be applied retroactively, but the provision of comparative information is not necessary. The provisions for the recognition of hedging transactions are in general to be applied prospectively, apart from a few exceptions.

We intend to apply IFRS 9 starting on the prescribed date of its coming into force and to dispense with the adjustment of comparative information. We have extensively evaluated the effects of all three aspect of IFRS 9. This assessment was based on currently available information and may change due to more detailed information that will become available in 2018 after the first application of IFRS 9.

- **Classification and measurement**
  IFRS 9 contains new specifications for classifying and measuring financial assets based on the business model for managing the asset and the asset's cash flow characteristics. We do not anticipate that the application of the classification and measurement provisions of IFRS 9 will have a significant impact on the balance sheet or the equity. We believe that all financial assets classified at fair value will continue to be classified at fair value. As of 1 January 2018, we hold bond funds with a nominal volume of m€ 29.0 and a fair value of m€ 29.0, which had so far been measured at fair value with changes in value through other comprehensive income. Due to the structure of these funds, we can conclude that these shares fundamentally do not meet the cash flow requirements and will therefore be measured at fair value with changes in value through profit or loss pursuant to IFRS 9. As of 1 January 2018, there was no material impact on the other reserves or the statement of profit or loss (less than m€ 0.1). Based on this assessment, we do not believe that the new classification specifications will have a major impact on the recognition of trade receivables, loans or derivative financial instruments. For this reason, reclassification of these instruments is not necessary.

- **Impairment**
  IFRS 9 replaces the “incurred losses” model specified in IAS 39 with a future-oriented model of “expected credit losses”. According to IFRS 9, the expected credit losses from all liability instruments, credits and trade receivables are to be measured either based on the “12-month credit losses” or “full lifetime expected credit losses”. We will apply the simple approach and will record “full lifetime expected credit losses” from all trade receivables. A large part of trade receivables will be secured by credit on goods insurance policies, usually with deductibles of between 5% and 10%. The estimated expected credit losses have been calculated based on experiences with actual credit losses over the last three years. Thanks to the credit on goods insurance policy, there were no significant expected credit losses. Segments identified according to geographical location of customers did not reveal any significant discrepancies either.

  Due to the application of IFRS 9, there were no material additional applications of the risk provision for loans and receivables (less than m€ 0.1) as at 1 January 2018.

- **Hedge accounting**
  We have determined that all hedging transactions currently designated as effective hedging relationships also satisfy the criteria for hedge accounting as stipulated by IFRS 9. We have decided to apply the standard relating to hedge accounting from 1 January 2018 as part of the transition to IFRS 9. The hedging relationships existing as of 31 December 2017 will be adjusted in order to be accounted for in line with IFRS 9.

  According to IFRS 9, the objective is to ensure that hedge accounting complies with the goals and strategy of the Group’s risk management activities, and that a more qualitative and future-oriented approach is taken when measuring the effectiveness of the hedging transactions. IFRS 9 also introduces new requirements concerning the re-evaluation of hedging relationships and prohibits the optional completion of hedge accounting. According to the new model, it is possible that more risk management strategies are expected to meet the requirements for hedge accounting.

This applies in particular to those that include a risk hedging component of a non-financial item (with the exception of foreign currency risk). At the moment, we do not carry out hedging of such risk components.

We use forward foreign exchange transactions to hedge against the risk of cash flow fluctuations in connection with changes to the exchange rates mainly for purchases of inventories in foreign currency.

We specified the change of the overall fair value of the forward foreign exchange transaction and designate this as the hedging instrument for cash flow hedging relationships. According to IAS 39, the overall change in fair value of forward foreign exchange transactions is recorded in other comprehensive income up to the point of realisation.

In the application of IFRS 9, we have chosen to separate the fair value into spot components and forward components. This process recognises the forward components separately as hedging costs. In this case, they are recorded in other comprehensive income, reported as a separate part of the equity in a reserve for hedging costs and subsequently recognised as profit and loss in the reserve for cash flow hedging.

According to IAS 39, the amounts reported in the reserve for cash flow hedges are classified as reclassification amounts in profit and loss for all cash flow hedges, and also in the same period in which the expected hedged cash flows influence the profit or loss. According to IFRS 9, however, for cash flow hedges (for the foreign currency risk associated with the expected purchases of non-financial assets), the amounts recognised in the cash flow hedge reserve and in the hedging costs reserve are instead directly included in the cost of the non-financial asset.

We do not expect a significant impact on retained earnings and the other reserves as at 1 January 2018 from the application of the IFRS 9 requirements on hedge accounting (less than m€ 0.1). The reclassification from cumulative profits from the cash flow hedge reserve to inventories is not considered as material (less than m€ 0.1).

IFRS 15 and amendment to IFRS 15: Revenue from contracts with customers, clarification

IFRS 15 specifies the broad scope for determining whether, how much and when revenue will be reported. It replaces the existing guidelines on reporting of revenue, including IAS 18, IAS 11 and IFRIC 13. The standard is to be applied for the first time for financial years that start on or after 1 January 2018. We intend to apply the modified retrospective method recognising the cumulative adjustment amounts as of 1 January 2018 as part of the transition to IFRS 15. Leifheit studied the effects of the conversion in detail as part of a project.

Leifheit provided the information known or reasonably estimable at the time of preparing the financial statements that is relevant for assessing the potential impact of the application of new IFRS on its consolidated financial statements in the period of initial application.

Sale of goods

For contracts with our customers, it is generally expected that the sale of products is almost exclusively the sole contractual obligation According to IFRS 15, revenue is reported as soon as a customer obtains the control or power of disposal over the goods. When applying IFRS 15 at Leifheit, the following aspects must be taken into consideration:

- **Consignment arrangements**
  The consignment stock agreements with our customers are structured so that customers obtain the power of disposal over the products in the consignment warehouse. This means that, according to IFRS 15, the revenue is already reported at the time of delivery to the consignment warehouse and not at the time of removal from the consignment warehouse, as has been the case up to now. With this application, the retained earnings in the Group will rise by m€ 0.6 as at 1 January 2018.

- **Sale with a right of return**
  If a contract with a customer includes the right to return the products within a certain time frame, revenue for these contracts is reported in the way practised up to now, provided it is not likely that a considerable correction of the reported revenue will take place. Up to now, the obligation to take back appears netted in the provisions. In the future, the reimbursement obligation and an asset for the right to take products back from a customer will be reported separately in the balance sheet. As at 1 January 2018, as asset of m€ 0.3 and a reimbursement obligation of m€ 0.7 were reported, which was a decrease in provisions of m€ 0.4. Impact on the retained earnings has not been reported.

- **Advance consideration received from customers**
  In principle, we receive short-term advance consideration from customers only in exceptional cases for purchase contracts without cancellation option, which do not contain any financing components and which are reported upon payment as part of the trade payables and other liabilities. In the future, the receivable due from the contractual obligations will be recognised right at the point of concluding the contract without cancellation option. As at 1 January 2018, there were no contracts without cancellation option that would have led to payment demands falling due.

- **Contracts with more than one contractual component**
  In a few cases, contracts with overseas customers receive the Incoterm "CIF" (cost, insurance and freight). These represent several contractual obligations. While revenue has to date been reported only at the time of transfer of risk, the delivery and insurance contractual obligations will already be reported pro rata temporis upon procuration of the power of disposal, according to IFRS 15. As at 1 January 2018, there were no material contracts (less than m€ 0.1) with this Incoterm.

Furthermore, no other material effects were identified within the scope of the conversion to IFRS 15.

IFRS 16: Leases

IFRS 16 replaces the current regulations on leases, including IAS 17, IFRIC 4, SIC 15 and SIC 27. The standard is to be applied for the first time for financial years that start on or after 1 January 2019. Earlier application is not intended.

As a lessee, the Group can apply the standard according to the retrospective method or the modified retrospective method with optional exemptions. The lessee applies the chosen method consistently to all of its leases.

Leifheit intends to apply IFRS 16 as of 1 January 2019 for the first time, using the modified retrospective method. For this reason the cumulative effect of the application of IFRS 16 will be reported as an adjustment of the opening carrying value of the retained earnings as at 1 January 2019, without an adjustment of the comparative information.

When applying the modified retrospective method to leases that have been classified as operating leases according to IAS 17, the lessee can choose for each lease whether exemptions are to be used during the conversion. Leifheit is currently calculating the potential effects resulting from the use of these exemptions.

IFRS 16 establishes a uniform accounting model whereby leases are to be reported in the lessee's balance sheet. A lessee reports a right of use, which constitutes a right to use the underlying asset, and a liability from the lease, which describes its lease payment obligations. There are exemptions for short-term leases and regarding lower assets.

Leifheit has completed an initial assessment of the possible impact to its consolidated financial statements, but a detailed assessment has not yet been finalised. The actual impact from the application of IFRS 16 on the consolidated financial statements at the time of the initial application will depend on future economic conditions, e.g. the Group's interest rate as at 1 January 2019, the breakdown of the leasing portfolio at that time, the estimation of the Group regarding the exercise of extension options and the extent to which exemptions and projection exemptions will be utilised.

So far, one material impact has been identified in the fact that the Group will report new assets and liabilities for its operating leases mainly via leased office premises and company cars. As at 31 December 2017, future minimum lease payments for operating leases without cancellation option stood at (on non-discounted basis) m€ 0.8 (see Note 35).

In addition, the nature of the costs connected with these leases will change from 2019, since IFRS 16 replaces the straight-line costs for operating leases with a depreciation of right-of-use assets and interest expenses for liabilities from the lease.

Leifheit does not use finance leases.

The IASB has published the standards and interpretations listed below that were not yet to be mandatorily applied in financial year 2017. These standards and interpretations have not been endorsed by the EU to date and are not applied by the Group.

Standard/interpretation		Must be applied to financial years beginning on or after	Adopted by the European Commission	Impact on Leifheit
Amendment to IAS 40	Transfer of investment property	1 Jan 2018	no	none
IFRIC 22	Foreign currency transactions and advance consideration	1 Jan 2018	no	no major
Amendment to IFRS 9	Prepayment features with negative compensation	1 Jan 2019	no	none
Amendment to IAS 19	Employee benefits in the event of adjustment, reduction or compensation of defined benefit pension plan	1 Jan 2019	no	no major
Amendment to IAS 28	Long-term interests in associates and joint ventures	1 Jan 2019	no	none
Improvements to IFRS (2015–2017)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	1 Jan 2019	no	no major
IFRIC 23	Uncertainty over income tax treatments	1 Jan 2019	no	no major
IFRS 17	Insurance contracts	1 Jan 2021	no	none
Amendment to IFRS 10 and IAS 28	Disposal or contribution of assets of an investor to or within an associated company or joint venture	postponed by IASB indefinitely	no	none

Segment reporting

The Leifheit Group is divided into divisions for internal management purposes and has two segments which are subject to reporting requirements, the Brand Business and the Volume Business.

Key figures by divisions in 2017		Brand Business	Volume Business	**Total**
Turnover	m€	196.7	40.1	236.8
Gross profit	m€	96.5	13.4	109.9
Segment result (EBIT)	m€	14.2	4.6	18.8
Segment result (EBIT) adjusted [1]	m€	15.1	5.2	20.3
Depreciation and amortisation	m€	5.5	0.9	6.4
Employees on annual average	people	951	170	1,121

[1] Adjusted for foreign currency result.

Key figures by divisions in 2016		Brand Business	Volume Business	**Total**
Turnover	m€	195.8	41.3	237.1
Gross profit	m€	98.3	14.3	112.6
Segment result (EBIT)	m€	16.8	5.3	22.1
Segment result (EBIT) adjusted [1]	m€	16.6	5.2	21.8
Depreciation and amortisation	m€	5.3	0.9	6.2
Employees on annual average	people	874	188	1,062

[1] Adjusted for foreign currency result.

Segments are identified on the basis of regular internal reporting and comprise the Brand Business and Volume Business segments, which are subject to reporting requirements.

The Brand Business segment develops, produces and distributes household goods and appliances under the Leifheit brand, as well as scales and wellbeing products under the Soehnle brand. The Leifheit and Soehnle operating segments are reported separately in the regular internal reports; however, the segments are aggregated in the segment reporting on account of their current and also anticipated future comparable gross margins.

The Volume Business segment develops, produces and distributes household goods under the Birambeau and Herby brands, as well as in the Project Business (products under customers' own brands). The Birambeau, Herby and Project Business operating segments are reported separately in the regular internal reports; however, the segments are aggregated in the segment reporting on account of their current and also anticipated future comparable gross margins.

There are no unconsolidated transactions between the two segments of Brand Business and Volume Business.

The Board of Management monitors the result generated by the divisions for the purposes of deciding upon the allocation of resources and ascertaining the profitability of the units. The performance of the segments is assessed on the basis of the result generated and evaluated in line with the result as reported in the consolidated financial statements. The financing of the Group (including financial expenses and income) and any income taxes are managed on a uniform Group-wide basis and are not attributed to the individual segments.

The regular internal reporting for the operating segments covers turnover, the gross profit and EBIT. These are based on IAS/IFRS valuations.

Gross profit will be used as a control parameter from now on instead of gross margin and contributions as these figures do not differ significantly from each other.

Notes to the statement of profit or loss and statement of comprehensive income

(1) Turnover

Turnover is almost exclusively a result of the sale of household goods and can be broken down as follows:

k€	2016	2017
Domestic	94,514	96,900
Central Europe	107,777	102,942
Eastern Europe	24,997	27,819
Rest of the world	9,769	9,142
	237,057	**236,803**

The location of the customer's registered offices is decisive for the regional attribution of the turnover.

Turnover can be broken down by segments, which are subject to reporting requirements, as follows:

k€	2016	2017
Brand Business	195,803	196,694
Volume Business	41,254	40,109
	237,057	**236,803**

(2) Cost of turnover

k€	2016	2017
Cost of materials	93,252	93,181
Personnel costs	12,054	13,642
Purchased services	4,501	4,752
Depreciation and amortisation	3,257	3,284
Services	1,966	2,169
Maintenance	1,605	1,776
Consumables and supplies	1,525	1,598
IT costs and other allocations	1,415	1,362
Customs and services	1,458	1,235
Energy	1,039	1,098
Value adjustments for inventories (net change)	–248	511
Rent	237	283
Cost of cars, travel and entertainment	173	160
Other cost of turnover	2,238	1,823
	124,472	**126,874**

(3) Research and development costs

k€	2016	2017
Personnel costs	2,714	2,912
Services	1,051	893
IT costs and other allocations	337	459
Fees	339	333
Cost of materials	144	134
Depreciation and amortisation	87	121
Maintenance	159	105
Other research and development costs	242	270
	5,073	**5,227**

(4) Depreciation and amortisation

k€	2016	2017
Tangible assets		
Cost of turnover	3,251	3,278
Research and development costs	76	81
Distribution costs	1,112	1,113
Administrative costs	236	232
IT costs and other allocations	887	899
	5,562	**5,603**
Intangible assets		
Cost of turnover	6	6
Research and development costs	11	40
Distribution costs	146	232
Administrative costs	49	47
IT costs and other allocations	424	483
	636	**808**
Total depreciation and amortisation	**6,198**	**6,411**

(5) Personnel costs/employees

k€	2016	2017
Wages and salaries	36,936	38,905
Social security contributions	7,985	8,266
Cost of employment benefits	803	702
	45,724	**47,873**

Employees on annual average	2016	2017
Germany	414	431
Czech Republic	415	460
France	171	165
Other countries	62	65
	1,062	**1,121**

(6) Distribution costs

k€	2016	2017
Personnel costs	18,249	19,773
Advertising costs	15,449	16,207
Freight out	12,170	12,295
Commissions	4,921	6,022
IT costs and other allocations	5,860	5,478
Services	4,619	3,957
Cost of cars, travel and entertainment	1,558	1,479
Depreciation and amortisation	1,258	1,345
Packaging materials	1,539	1,309
Rent	648	647
Payments to customers	758	569
Maintenance	530	563
General operation and administrative costs	289	285
Insurance	250	280
Office and other overhead costs	362	167
Post and telephone costs	173	159
Other distribution costs (less than k€ 100)	1,459	1,090
	70,092	**71,625**

Distribution costs include expenses of k€ 1,847 for the reorganisation of sales activities.

(7) Administrative costs

k€	2016	2017
Personnel costs	10,015	8,917
Services	2,018	1,837
IT costs and other allocations	834	622
Costs of financial statements	485	518
Supervisory Board remuneration	303	296
Rent	294	295
Maintenance	571	293
Office and other overhead costs	339	289
Depreciation and amortisation	286	279
General operation and administrative costs	344	265
Cost of cars, travel and entertainment	343	265
Post and telephone costs	202	219
Expenses from claims for damages	1	211
Other administrative costs (less than k€ 100)	588	404
	16,623	**14,710**

(8) Other operating income

k€	2016	2017
Income from disposal of assets	54	1,084
Commission income	592	610
Royalty revenue	255	214
Other operating income (less than k€ 100)	330	445
	1,231	**2,353**

(9) Other operating expenses

k€	2016	2017
Other operating expenses (less than k€ 100)	258	347
	258	**347**

(10) Foreign currency result

k€	2016	2017
Realised foreign currency gains/losses	1,402	–141
Result from changes in the fair value of forward foreign exchange transactions	–898	–1,526
Effects of foreign currency valuations	–154	134
	350	**–1,533**

The result from changes in the fair values of forward foreign exchange transactions concerned forward foreign exchange transactions for which no hedging relations exist.

(11) Interest income

k€	2016	2017
Interest income from compound interest	59	–
Interest income from financial instruments	40	101
	99	**101**

Interest income from financial instruments related to interest income from credit balances at banks as well as income resulting from investments in the form of registered bonds.

(12) Interest expenses

k€	2016	2017
Interest expenses from interest on pension obligations	1,505	1,175
Interest expenses from compound interest and taxes	133	99
	1,638	**1,274**

(13) Income taxes

k€	2016	2017
Corporation tax (Germany)	2,374	2,020
Trade tax (Germany)	1,833	1,584
Foreign income taxes	2,268	1,310
Deferred income taxes	–421	–102
	6,054	**4,812**

k€	2016	2017
Actual income tax on income from other periods	28	–60
Deferred taxes due to temporary differences and tax loss carry-forwards	–421	–102
Current tax expense	6,447	4,974
Tax liability	**6,054**	**4,812**

The combined tax rate for Leifheit AG for corporation tax and trade tax in Germany was 29.1% (2016: 29.1%).

Income tax can be reconciled with the theoretical amount applicable in line with the tax rate valid for the country where the company has its headquarters, as follows:

k€	2016	2017
Earnings before taxes	20,581	17,690
Tax expense based on the tax rate applicable to the parent company	**5,989**	**5,148**
Actual income tax on income from other periods	28	–60
Different foreign tax rates	74	–107
Adjustment of the recognition of deferred tax assets on loss carry-forwards	–29	–29
Adjustment of deferred taxes	–94	–52
Non tax-deductible losses of Group companies	4	9
Non tax-deductible expenses/income of Group companies	175	–61
Adjustment of the deferred tax rate France	–79	–
Other	–14	–36
Tax liability	**6,054**	**4,812**

Deferred taxes are recognised for all material temporary differences between the tax base and the book values in the consolidated statement of financial position. Deferred taxes in the statement of profit or loss are broken down as follows:

k€	2016	**2017**
Different depreciation or amortisation periods for assets	27	–82
Measurement of inventories	–23	112
Measurement of receivables and other assets	–136	–27
Measurement of securities	–	–40
Measurement of derivative financial instruments	–299	–210
Measurement of pensions	–28	155
Different recognition rules for other provisions	16	–142
Measurement of liabilities	–9	115
Other temporary differences	–60	17
Tax loss carry-forwards	91	–
Deferred taxes	**–421**	**–102**

Deferred tax assets are only recognised on loss carry-forwards if their utilisation is expected within a five-year period.

No deferred tax assets were created for corporation tax loss carry-forwards in the amount of k€ 10,723 (2016: k€ 11,332) or trade tax loss carry-forwards of k€ 1,895 (2016: k€ 2,410) as it is not highly probable that Leifheit will be able to utilise these tax loss carry-forwards over the next five years. The tax loss carry-forwards in Germany (k€ 10,633 from corporation tax, as well as k€ 1,895 from trade tax) have an unlimited utilisation period. The tax loss carry-forwards in Spain amounted to k€ 90 (from corporation tax), of which k€ 15 can be utilised by 2025 and k€ 75 can be utilised by 2029.

The temporary differences in connection with shares in subsidiaries amount to k€ 366 (2016: k€ 219). For this purpose deferred taxes of k€ 106 (2016: k€ 64) were created as future distributions are expected. No deferred taxes were created for temporary differences of k€ 415 (2016: k€ 332) as future distributions are not expected.

Deferred taxes on the balance sheet are broken down as follows:

	31 Dec 2017	
k€	**Deferred tax assets**	**Deferred tax liabilities**
Different depreciation or amortisation periods for assets	306	2,650
Measurement of inventories	323	44
Measurement of receivables and other assets	52	549
Measurement of securities	38	–
Measurement of derivative financial instruments	522	22
Measurement of pensions	11,062	–
Different recognition rules for other provisions	646	–
Measurement of liabilities	60	4
Other temporary differences	126	–
Gross amount	**13,135**	**3,269**
Offsetting	–2,291	–2,291
Balance sheet amount	**10,844**	**978**

	31 Dec 2016	
k€	Deferred tax assets	Deferred tax liabilities
Different depreciation or amortisation periods for assets	489	2,915
Measurement of inventories	486	95
Measurement of receivables and other assets	77	352
Measurement of securities	–	–
Measurement of derivative financial instruments	2	2,310
Measurement of pensions	11,284	–
Different recognition rules for other provisions	504	–
Measurement of liabilities	171	–
Other temporary differences	143	–
Gross amount	**13,156**	**5,672**
Offsetting	–2,540	–2,540
Balance sheet amount	**10,616**	**3,132**

(14) Earnings per share

Earnings per share are calculated by dividing the portion of the net result attributable to the shareholders of Leifheit AG by the weighted average number of shares outstanding during the financial year. No financing or remuneration instruments were employed which would lead to a dilution of earnings per share.

In the two tables below, the values of number of shares and earnings per share of the previous year were adjusted for comparison purposes (due to capital increase in June 2017 – see Note 26).

		2016	**2017**
Shares issued	thousands	10,000	10,000
Weighted average number of treasury shares	thousands	494	491
Weighted average number of no-par-value bearer shares	thousands	**9,506**	**9,509**

		2016	**2017**
Net result for the period allocated to the shareholders of the parent company	k€	14,527	12,878
Weighted average number of no-par-value bearer shares	thousands	9,506	9,509
Earnings per share based on net result for the period (diluted and undiluted)	€	**1.53**	**1.35**

Notes to the balance sheet

(15) Cash and cash equivalents

The credit balances at banks and cash on hand amounting to k€ 28,221 (2016: k€ 45,507) were valued at their amortised cost (nominal value).

(16) Financial assets (current)

The current financial assets included funds (Allianz Floating Rate Notes Plus – WT – EUR from Allianz Global Investors, Deutsche Floating Rate Notes from DWS and UniInstitutional Euro Reserve Plus from Union Investment) for short-term, variable interest-bearing eurobonds of k€ 29,008 (2016: k€ 23.994), which are recognised as financial assets measured at fair value without effects on net result for the period.

(17) Trade receivables

k€	31 Dec 2016	31 Dec 2017
Trade receivables	46,779	49,656
Trade bills	1,924	1,127
	48,703	**50,783**

As at 31 December 2017, k€ 47,348 were secured by credit on goods insurance policies (2016: k€ 37,055). The deductible is normally 5% or, for Russia, 10%.

The development of the adjustment account for trade receivables is shown below:

k€	2016	2017
As at 1 January	1,005	812
Foreign currency differences	–	6
Additions recognised in profit and loss	195	164
Utilisation	192	69
Reversal	196	221
As at 31 December	**812**	**692**

The maturity structure of trade receivables as at 31 December:

k€	2016	2017
Neither overdue nor impaired	**46,943**	**49,034**
Overdue, but not impaired		
1 to 30 days	1,722	1,635
31 to 60 days	94	245
61 to 90 days	307	–95
91 to 120 days	126	76
Over 120 days	–661	–126
Overdue in total but not impaired	**1,588**	**1,735**
Specific allowances on doubtful accounts (gross)	**984**	**706**
Value adjustment	**–812**	**–692**
Trade receivables (net)	**48,703**	**50,783**

Trade receivables that are neither overdue nor impaired also contain trade bills. Insofar as a credit on goods insurance policy is present, overdue receivables are only adjusted by the amount of the deductible.

Reference is made to Note 33 (Default/credit risk) with respect to the default/credit risk in relation to trade receivables.

(18) Inventories

k€	31 Dec 2016	31 Dec 2017
Raw materials, consumables and supplies	8,615	8,493
Unfinished products	1,931	2,050
Finished products and goods purchased and held for resale	31,748	33,931
	42,294	**44,474**

k€	31 Dec 2016	31 Dec 2017
Raw materials, consumables and supplies measured at fair value	143	105
Unadjusted raw materials, consumables and supplies	8,472	8,388
Total raw materials, consumables and supplies	**8,615**	**8,493**
Unfinished products measured at fair value	24	53
Unadjusted unfinished products	1,907	1,997
Total unfinished products	**1,931**	**2,050**
Finished products and goods purchased and held for resale measured at fair value	1,921	2,418
Unadjusted finished products and goods purchased and held for resale	29,827	31,513
Total finished products and goods purchased and held for resale	**31,748**	**33,931**

Some of the inventories for which no payments have been made owing to their maturity are subject to retention of title by suppliers.

(19) Derivative financial instruments

Derivative financial instruments include forward foreign exchange transactions and foreign exchange swaps, measured at fair value, for buying US dollars, HK dollars and Chinese renminbi from January 2018 to December 2019.

The following liabilities from foreign exchange transactions were recorded on the balance sheet as at 31 December 2017:

	Value of liability	Foreign currency	Nominal value
Buy USD/€	m€ 50.4	mUSD 59.3	m€ 48.4
of which hedge accounting	m€ 48.8	mUSD 57.5	m€ 46.9
Buy HKD/€	m€ 7.7	mHKD 70.5	m€ 7.4
of which hedge accounting	m€ 5.9	mHKD 54.0	m€ 5.7
Buy CNH/€	m€ 3.7	mCNH 30.0	m€ 3.8
of which hedge accounting	m€ 2.2	mCNH 18.0	m€ 2.3

In the previous year, the following liabilities from foreign exchange transactions existed:

	Value of liability	Foreign currency	Nominal value
Buy USD/€	m€ 66.4	mUSD 79.6	m€ 74.1
of which hedge accounting	m€ 52.9	mUSD 64.0	m€ 59.4
Buy HKD/€	m€ 10.9	mHKD 96.0	m€ 11.5
of which hedge accounting	m€ 6.7	mHKD 60.0	m€ 7.2
Buy CNH/€	m€ 7.6	mCNH 60.0	m€ 7.6
of which hedge accounting	m€ 4.5	mCNH 36.0	m€ 4.6

Financial instruments cannot be netted on the balance sheet: this option exists for derivatives. This option is provided by the master agreements for financial futures that Leifheit concludes with commercial banks. Leifheit does not net financial assets and financial liabilities on the balance sheet.

The following table shows the potential offsetting amounts for the reported derivative assets and liabilities:

	31 Dec 2016			**31 Dec 2017**		
k€	Gross and net amounts of financial instruments on the balance sheet	Corresponding derivative financial instruments that are not netted	Net amount	**Gross and net amounts of financial instruments on the balance sheet**	**Corresponding financial instruments that are not netted**	**Net amount**
Derivative financial assets	8,319	7	8,312	74	74	–
Derivative financial liabilities	7	7	–	2,370	74	2,296

The adjustments for the credit risk relating to counterparties (credit value adjustment) in the amount of k€ 0 and the adjustments for the credit risk relating to the Group itself (debt value adjustment) in the amount of k€ 1 were taken into account.

The maturities of foreign exchange transactions as at 31 December 2017 were as follows:

	less than 1 year	**1 to 3 years**
Buy USD/€	mUSD 33.5	mUSD 25.8
Buy HKD/€	mHKD 41.5	mHKD 29.0
Buy CNH/€	mCNH 30.0	mCNH 0.0

The maturities of foreign exchange transactions as at 31 December 2016 were as follows:

	less than 1 year	1 to 3 years
Buy USD/€	mUSD 45.8	mUSD 33.8
Buy HKD/€	mHKD 49.5	mHKD 46.5
Buy CNH/€	mCNH 30.0	mCNH 30.0

Overall changes in value for currency translation of derivative assets and liabilities amounting to k€ –8,781 (2016: k€ –1,324) were recorded in other comprehensive income without affecting profit or loss.

(20) Other current assets

k€	31 Dec 2016	**31 Dec 2017**
VAT receivables	2,425	1,633
Current prepayments and accrued income	191	328
Other current assets (less than k€ 100)	522	949
	3,138	**2,910**

(21) Tangible assets

k€	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Advances paid and assets under construction	**Total**
Acquisition and manufacturing costs					
As at 1 Jan 2016	53,561	40,225	42,027	3,486	139,299
Foreign currency differences	4	5	2	–3	8
Additions	52	318	2,034	4,225	6,629
Disposals	3	5,110	7,884	68	13,065
Reclassifications	1,932	2,720	219	–4,877	–6
As at 31 Dec 2016	**55,546**	**38,158**	**36,398**	**2,763**	**132,865**
Foreign currency differences	821	1,015	97	138	2,071
Additions	176	329	1,805	4,378	6,688
Disposals	1,508	1,981	1,538	–	5,027
Reclassifications	153	4,554	231	–4,939	–1
As at 31 Dec 2017	**55,188**	**42,075**	**36,993**	**2,340**	**136,596**
Cumulative depreciation					
As at 1 Jan 2016	33,196	35,009	35,008	–	103,213
Foreign currency differences	4	4	–	–	8
Additions	1,422	2,097	2,043	–	5,562
Additions due to impairment	–	–	–	–	–
Disposals	3	5,084	7,742	–	12,829
Reclassifications	–	–	–	–	–
As at 31 Dec 2016	**34,619**	**32,026**	**29,309**	**–**	**95,954**
Foreign currency differences	406	829	38	–	1,273
Additions	1,447	2,117	2,017	–	5,581
Additions due to impairment	–	22	–	–	22
Disposals	611	1,979	1,404	–	3,994
Reclassifications	–	–	–	–	–
As at 31 Dec 2017	**35,861**	**33,015**	**29,960**	**–**	**98,836**
Net book value					
As at 1 Jan 2016	20,365	5,216	7,019	3,486	36,086
As at 31 Dec 2016	20,927	6,132	7,089	2,763	36,911
As at 31 Dec 2017	**19,327**	**9,060**	**7,033**	**2,340**	**37,760**

Of the k€ 37,760 tangible assets as at the balance sheet date (2016: k€ 36,911), k€ 15,261 were located in Germany (2016: k€ 16,117), k€ 16,782 in the Czech Republic (2016: k€ 15,140), k€ 5,091 in France (2016: k€ 4,981) and k€ 626 in other countries (2016: k€ 673).

(22) Intangible assets

k€	Brands	Goodwill	Other tangible assets	Advances paid	Total
Acquisition and manufacturing costs					
As at 1 Jan 2016	7,224	11,821	19,749	199	38,993
Foreign currency differences	–	–	–	2	2
Additions	–	–	888	265	1,153
Disposals	–	–	118	–	118
Reclassifications	–	–	207	–201	6
As at 31 Dec 2016	**7,224**	**11,821**	**20,726**	**265**	**40,036**
Foreign currency differences	–	–	35	–	35
Additions	–	–	720	400	1,120
Disposals	–	–	329	–	329
Reclassifications	–	–	268	–267	1
As at 31 Dec 2017	**7,224**	**11,821**	**21,420**	**398**	**40,863**
Cumulative depreciation					
As at 1 Jan 2016	2,420	–	17,835	–	20,255
Foreign currency differences	–	–	2	–	2
Additions	–	–	636	–	636
Additions due to impairment	–	–	–	–	–
Disposals	–	–	118	–	118
Reclassifications	–	–	–	–	–
As at 31 Dec 2016	**2,420**	**–**	**18,355**	**–**	**20,775**
Foreign currency differences	–	–	24	–	24
Additions	–	–	808	–	808
Additions due to impairment	–	–	–	–	–
Disposals	–	–	329	–	329
Reclassifications	–	–	–	–	–
As at 31 Dec 2017	**2,420**	**–**	**18,858**	**–**	**21,278**
Net book value					
As at 1 Jan 2016	4,804	11,821	1,914	199	18,738
As at 31 Dec 2016	4,804	11,821	2,371	265	19,261
As at 31 Dec 2017	**4,804**	**11,821**	**2,562**	**398**	**19,585**

Of the k€ 19,585 tangible assets as at the balance sheet date (2016: k€ 19,261), k€ 8,390 were located in Germany (2016: k€ 8,184), k€ 1,083 in the Czech Republic (2016: k€ 1,105), k€ 10,098 in France (2016: k€ 9,966) and k€ 14 in other countries (2016: k€ 6).

The remaining amortisation periods of significant other intangible assets are:

- Leifheit CZ a.s. customer base 4 years
- Leifheit AG warehouse management system 3 years
- Leifheit AG e-commerce software 3 years
- Leifheit AG Soehnle app 2 years

Impairment testing of intangible assets

In accordance with IAS 36.10, the goodwill and brands reported under intangible assets must be subjected to annual impairment testing. This test was performed as at 30 September 2017. There was no indication or evidence of an impairment of these assets that would have required an extraordinary impairment test (IAS 36.12). The corresponding assets were attributed to the following cash generating units (CGUs):

- "Leifheit"
- "Soehnle"
- "Birambeau"
- "Herby"

The CGUs are based directly on internal management reporting.

In accordance with IAS 36, the book values of the CGU, including the goodwill attributable to them, are compared with the higher of the asset's fair value less costs of disposal and value in use (known as the recoverable amount). If a write-down is necessary, the impairment loss for a CGU is first attributed to the goodwill. Any remaining impairment loss is subsequently recognised for the remaining assets of the CGU. However, write-downs are only made up to the recoverable amount of the individually identifiable asset. Revaluations to goodwill are not made.

In order to determine the recoverable amount of the CGU in question, the value in use is determined using cash flow forecasts. Assumptions are made for future trends in turnover and costs on the basis of an one-year budget and were compared to external information. Moderate rises in turnover and earnings were taken into account for "Leifheit", "Birambeau" and "Herby" for the next four years (detailed planning phase). In light of new projects, turnover at "Soehnle" is expected to rise by an average of 12.0% during the detailed planning phase, resulting in a significant increase in earnings. Furthermore, long-term growth rates of 0.5% are also expected for all CGUs.

The discount rate (average costs of capital after taxes) used in the cash flow forecasts amounted to 5.7% for the "Leifheit" CGU (2016: 6.3%), 7.6% for the "Soehnle" CGU (2016: 6.3%) and 5.5% for the "Birambeau" and "Herby" CGUs (2016: 6.3%). These figures are based on parameters, shown in the table stated below.

The average costs of capital before taxes amounted to 7.9% for the "Leifheit" CGU, 10.5% for the "Soehnle" CGU, 7.7% for the "Birambeau" CGU and 7.6% for the "Herby" CGU.

As at 30 September 2017, the recoverable amounts calculated in this way were greater than the book value. The impairment tests did not identify any impairment requirements.

If the turnover target for the "Soehnle" CGU had missed by an average of 20.0%, this would have led to a value in use which would have corresponded to the book value.

As at the balance sheet date, the book values of goodwill and brands were as follows:

	Goodwill		Brand rights	
k€	31 Dec 2016	**31 Dec 2017**	31 Dec 2016	**31 Dec 2017**
Leifheit	1,919	1,919	–	–
Soehnle	162	162	4,804	4,804
Birambeau	3,299	3,299	–	–
Herby	6,441	6,441	–	–
	11,821	**11,821**	**4,804**	**4,804**

	31 Dec 2016			**31 Dec 2017**		
	Leifheit	Soehnle	Birambeau/ Herby	**Leifheit**	**Soehnle**	**Birambeau/ Herby**
Risk-free interest rate	0.5%	0.5%	0.5%	1.3%	1.3%	1.3%
Market risk premium	7.0%	7.0%	7.0%	6.8%	6.8%	6.4%
Beta factor	0.85	0.85	0.85	0.70	1.00	0.70
Borrowing costs	1.6%	1.6%	1.6%	1.8%	1.8%	2.2%
Tax rate	29.1%	29.1%	33.3%	29.1%	29.1%	33.3%
Growth rate	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%

(23) Trade payables and other liabilities

k€	31 Dec 2016	31 Dec 2017
Trade payables	19,939	15,523
Customer bonuses and discounts	8,820	9,211
Employees	10,764	6,631
Advertising cost subsidies	3,721	5,493
Other taxes (excluding income taxes)	1,996	1,690
Outstanding invoices	1,590	994
Social security contributions	751	890
Debtors with credit balances	983	877
Customer discounts	605	673
Annual financial statement costs	408	450
Energy costs	206	209
Tax advice	176	207
Commission obligations	219	149
Purchase commitments	163	125
Rent	17	118
Other liabilities (less than k€ 100)	808	584
	51,166	**43,824**

As in the previous year, the trade payables and other liabilities had a remaining term of up to one year.

Liabilities to employees related in particular to December wages paid in January, residual holiday and overtime entitlements, as well as severance payments and bonuses.

(24) Other provisions

Provisions for warranties are recognised for future repair work, supplies of replacement products and compensation payments deriving from legal or statutory warranties.

The provisions for warranties, compensation payments and litigation costs totalling k€ 5,889 (2016: k€ 5,445) reflected uncertainties regarding the amount and/or maturity of outflows. The uncertainty for warranty provisions results from the possible future change in warranty claims. The uncertainty for provisions for compensation payments and litigation costs is due to the unknown outcome of pending proceedings.

Personnel-related provisions are mainly recognised for long-service bonuses and severance pay.

Provisions for onerous contracts primarily related to severance payments to sales representatives and violations of exclusivity agreements.

The remaining other provisions mainly included take-back agreements, internal annual financial statement costs and record-keeping obligations. The increase in the amount of non-current provisions discounted over time was k€ 22 in the reporting period (2016: k€ 78).

The breakdown and the development are shown in the following tables:

k€	31 Dec 2017 Total	of which current	of which non-current
Warranties	5,329	4,597	732
Litigation costs and compensation payments	560	560	–
Personnel	1,615	85	1,530
Onerous contracts	326	326	–
Remaining other provisions	1,251	1,217	34
Balance sheet amount	**9,081**	**6,785**	**2,296**

k€	31 Dec 2016 Total	of which current	of which non-current
Warranties	5,015	4,283	732
Litigation costs and compensation payments	430	430	–
Personnel	2,765	97	2,668
Onerous contracts	531	531	–
Remaining other provisions	1,237	1,203	34
Balance sheet amount	**9,978**	**6,544**	**3,434**

	Current provisions				
k€	Warranties	Litigation costs and compensation payments	Personnel	Onerous contracts	Remaining other current provisions
As at 1 Jan 2017	4,283	430	97	531	1,203
Foreign currency differences	1	–	–	–	6
Utilisation	3,198	–	–	342	475
Reversal	–	160	12	74	225
Addition	3,511	290	–	211	708
As at 31 Dec 2017	**4,597**	**560**	**85**	**326**	**1,217**

	Non-current provisions				
k€	Warranties	Litigation costs and compensation payments	Personnel	Onerous contracts	Remaining other non-current provisions
As at 1 Jan 2017	732	–	2,668	–	34
Foreign currency differences	–	–	–	–	–
Utilisation	549	–	1,260	–	–
Reversal	–	–	36	–	–
Addition	549	–	158	–	–
As at 31 Dec 2017	**732**	**–**	**1,530**	**–**	**34**

(25) Provisions for pensions and similar obligations

The pension obligations within the Leifheit Group in Germany comprised defined post-employment benefit commitments and included both obligations from current pensions and vested benefits in pensions to be paid in the future. They included direct commitments of Leifheit AG as well as obligations of support organisation Günter Leifheit e. V. The commitments included retirement, disability and survivor benefits. The defined pension obligations were based on post-employment provisions with benefit commitments related to length of service and final salary. In addition, there were post-employment provisions in the form of reinsured direct commitments for management staff under deferred compensation schemes. The entitlement to benefits arose out of an insurance contract in the amount of a one-time payment made upon the commencement of the post-employment benefit commitment.

The pension obligations in France were commensurate with the relevant national statutory provisions.

The pension obligations were subject to risks relating to changes in inflation rates, interest rates and the life expectancy of the persons entitled to a pension. The plan assets consisted of reinsurance policies which were subject to interest rate risks.

The following table shows the changes in pension obligations in the relevant reporting periods:

k€	31 Dec 2016	**31 Dec 2017**
Present value of defined benefit obligations (DBO)	71,432	70,730
Fair value of plan assets	–1,214	–1,228
Provisions for pensions and similar obligations	**70,218**	**69,502**

The cost of post-employment benefits recorded with effects on net result can be broken down as follows:

k€	2016	**2017**
Current service cost	652	631
Interest expense on the obligation	1,505	1,175
Income from plan assets	–8	–10
Total cost of post-employment benefits	**2,149**	**1,796**

The expenses and income recorded in other comprehensive income without effects on net result amounted to:

k€	2016	**2017**
Actuarial gains/losses due to adjustment of the obligation to reflect historical data	–2,215	–215
Actuarial gains/losses due to changes in actuarial assumptions	6,070	8
Amount by which the actual income from the plan assets in the current financial year falls short of the income calculated on the basis of the discount rate	–2	–4
Adjustment effects recognised in other comprehensive income	**3,853**	**–211**

The following changes in the net pension liability were recognised in the balance sheet:

k€	2016	**2017**
Net liability at start of year	66,448	70,218
Net expense recognised in net result for the period	2,149	1,796
Adjustment effects recognised in other comprehensive income	3,853	–211
Payments to beneficiaries	–2,232	–2,301
Recognised net liability at end of year	**70,218**	**69,502**

In addition, contributions of k€ 3,579 were paid to government pension providers (2016: k€ 3,436).

The present value of defined benefit obligations (DBO) developed as follows:

k€	2016	2017
DBO at start of year	67,607	71,432
Current service cost	652	631
Interest expense	1,505	1,175
Benefit payments	–2,232	–2,301
Adjustment to reflect historical data	–2,215	–215
Actuarial gains/losses	6,070	8
Other	45	–
DBO at end of year	**71,432**	**70,730**

The fair value of plan assets changed as follows:

k€	2016	2017
Fair value of plan assets at start of year	1,159	1,214
Income from plan assets	8	10
Amount by which the income exceeds/falls short of calculated income	2	4
Other	45	–
Fair value of plan assets at end of year	**1,214**	**1,228**

In Germany, plan assets cover reinsurance policies with German insurance companies, while in France they cover certain bank balances.

The essential actuarial assumptions used as the basis for measuring obligations under post-employment benefit plans were as follows at 31 December:

	Germany		France	
	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017
Discount rate	1.7%	1.7%	1.6%	1.5%
Future income trend	2.5%	2.5%	1.4%	1.0%
Future pension trend	2.0%	2.0%	–	–
Mortality tables	Prof. Dr K. Heubeck 2005 G	Prof. Dr K. Heubeck 2005 G	TF00-002	TF00-002
Arithmetical final age	RVAG AnpG 2007	RVAG AnpG 2007	65	65

The following amounts are likely to be paid out in the context of these obligations in the next few years:

k€	2016	2017
Within the next 12 months (following financial year)	2,426	2,533
Between 2 and 5 years	10,722	10,809
Between 6 and 10 years	14,786	15,546

The following overview shows how the present value of all defined contractual obligations would have been affected by changes in the material actuarial assumptions. Sensitivities were determined by varying each parameter while keeping the other valuation assumptions constant.

k€	Basic value	Sensitivity	Effect on the DBO
Discount rate	1.7/1.5%	–0.25 pps	2,574
Discount rate	1.7/1.5%	+0.25 pps	–2,738
Inflation rate/pension trend	2.0%	–0.5 pps	–4,230
Inflation rate/pension trend	2.0%	+0.5 pps	4,643
Future salary increase	2.5/1.0%	–0.5 pps	–602
Future salary increase	2.5/1.0%	+0.5 pps	641
Life expectancy		+1 year	2,428

The payment-weighted duration of the defined post-employment benefit obligations in Germany amounted to 15.5 years (2016: 15.9 years).

(26) Subscribed capital

The subscribed capital of Leifheit AG in the amount of k€ 30,000 (2016: k€ 15,000) is denominated in euros and is divided into 10,000,000 no-par-value bearer shares. This corresponds to a theoretical value per no-par-value bearer shares of € 3.00. All shares accord the same rights. Shareholders receive dividends as resolved and have one vote for each share at the Annual General Meeting.

The no-par-value bearer shares are deposited in a permanent global certificate at Clearstream Banking AG, Frankfurt am Main, Germany.

The Leifheit AG Annual General Meeting of 24 May 2017 resolved to increase capital from company funds. The full text of the resolution can be found in Item 6 of the invitation to the Annual General Meeting, which was published in the Federal Gazette

(Bundesanzeiger) on 12 April 2017. The share capital was doubled by converting retained earnings and bonus shares at a ratio of 1 to 1 and were issued to Leifheit shareholders at the same time. The technical conversion (doubling of number of shares and halving of price) was completed on the morning of 20 June 2017, after entry of the capital increase into the commercial register.

In addition, the Annual General Meeting of Leifheit AG on 25 May 2016 authorised the Board of Management to increase the share capital on one or several occasions by up to k€ 15,000 in total by issuing up to 5,000,000 new no-par-value bearer shares – also excluding subscription rights – in exchange for cash and/or non-cash contributions with the approval of the Supervisory Board by 23 May 2022. The full text of the resolution can be found in Item 7 of the invitation to the Annual General Meeting, which was published in the Federal Gazette (Bundesanzeiger) on 12 April 2017.

(27) Capital surplus

The capital surplus in the amount of k€ 17,026 (2016: k€ 17,026) consists of the premium on the capital increase in the autumn of 1989 amounting to k€ 16,934 and the issuance of employee shares in 2014, 2015 and 2016 amounting to k€ 92.

(28) Treasury shares

Including the treasury shares acquired and issued in previous years, Leifheit held 490,970 treasury shares on 31 December 2017. This corresponds to 4.91% of the share capital. The corresponding interest in the share capital was k€ 1,473. An amount of k€ 7,445 was expended for this.

Statement on treasury shares in accordance with section 160 para. 1 No. 2 AktG

At the Annual General Meeting on 21 May 2015 the Board of Management was authorised to acquire treasury shares in the form of no-par-value bearer shares of the company before 20 May 2020 up to an amount of 10% of the current capital share as of the time at which the authorisation comes into effect, or – if this amount is lower – at such time as the authorisation is exercised. The full text of the resolution can be found in Item 6 of the invitation to the Annual General Meeting, which was published in the Federal Gazette (Bundesanzeiger) on 9 April 2015.

In the reporting period, treasury shares were neither purchased nor used. In the previous year, no treasury shares were purchased – although Leifheit used 1,582 treasury shares in the form of issuance of employee shares. This corresponded to 0.03% of the share capital. The corresponding interest in the share capital was k€ 5. The values mentioned here are based on the share capital (k€ 15,000) and the total number of shares (5,000,000) before implementation of the capital increase in June 2017.

There are no subscription rights for members of Group organs and employees in accordance with section 160 para. 1 No. 5 AktG.

(29) Retained earnings

Retained earnings include the statutory reserve in the amount of k€ 1,023 (2016: k€ 1,023), other retained earnings in the amount of k€ 62,180 (2016: k€ 76,441) and the net result for the period allocated to the shareholders of the parent company in the amount of k€ 12,878 (2016: k€ 14,527). The other retained earnings include the part of consolidated net result earned in past years which was not distributed to shareholders. In the reporting period, the dividend for financial year 2016 in the amount of k€ 13,788 (2016: k€ 13,071) was paid and k€ 15,000 (2016: k€ 0) was reclassified to share capital as part of the capital increase.

(30) Other reserves

k€	2016	2017
Actuarial gains/losses on defined benefit pension plans	–26,781	–26,569
Deferred taxes	7,788	7,721
Currency translation of foreign operations	919	1,169
Currency translation of net investments in foreign operations	1,859	2,712
Deferred taxes	–541	–790
Net result of cash flow hedges	6,816	–1,965
Deferred taxes	–2,015	583
Net result from the sale of financial assets available	–1	8
Deferred taxes	–	–2
	–11,956	**–17,133**

With regard to the hedging of cash flows against exchange rate risks, k€ 5,275 (2016: k€ 3,956) before deferred taxes were shifted from other reserves to net result for the reporting period.

Other notes

(31) Proposal for the appropriation of the balance sheet profit

The Board of Management proposes appropriating the Leifheit AG balance sheet profit of € 10,000,000.00 for financial year 2017 as follows:

Payment of a dividend of € 1.05 per eligible no-par-value bearer share	€ 9,984,481.50
Retained earnings	€ 15,518.50

Leifheit AG's net income for financial year 2017 does not cover the proposed dividend due to the sharp rise in the interest expense for the compounding of the pension obligations, the decrease in gross profit and the increase in distribution costs and other operational expenses. This is why the Board of Management resolved to allocate an amount of k€ 5,870 from the other retained earnings to the balance sheet profit.

By contrast, the Leifheit Group's net result for the period, which forms the basis of our dividend policy, covers the proposed dividend for financial year 2017.

(32) Capital management

The primary aim of capital management is to achieve an equity ratio of at least 30%. Leifheit manages its capital structure and makes adjustments to reflect changes in macroeconomic conditions. Maintaining or adjusting the capital structure may lead to changes in dividend payments to shareholders.

(33) Financial instruments

The material financial liabilities in the Group – with the exception of derivatives – comprise trade payables, other liabilities and current and non-current liabilities. The Group has various financial assets, primarily trade receivables, other receivables, cash and cash equivalents and deposits repayable at short notice as well as investment funds.

The material risks to the Group arising from these financial instruments are credit, liquidity and foreign currency risks; these are described in detail in the combined management report in the section entitled "Opportunities and risks". Management is responsible for determining strategies and methods for managing the individual types of risk, which are described below.

- **Currency risk**

The Group is exposed to foreign currency risks from purchases and sales in currencies other than the functional currency of the relevant Group operating unit.

Around 9% (2016: 10%) of the Group turnover was earned in foreign currencies, 30% (2016: 29%) of the costs were incurred in foreign currencies.

The following table shows the sensitivity of consolidated earnings before taxes and Group equity regarding the foreign currency valuation on the balance sheet date alongside a change in the exchange rate of the major foreign currencies – the US dollar, the HK dollar, the Czech koruna, the Polish zloty and the Chinese renminbi – deemed generally possible based on reasonable assumptions. All other respective variables are assumed to be unchanged.

The effects on the earnings before income taxes and Group equity are as follows:

k€	Currency performance	Effects as at 31 Dec 2016	**Effects as at 31 Dec 2017**
US dollar	+5%	–951	–337
	–5%	1,051	372
	+10%	–1,815	–643
	–10%	2,218	786
Czech koruna	+5%	–99	–69
	–5%	109	76
	+10%	–189	–131
	–10%	230	160
HK dollar	+5%	–222	–91
	–5%	245	101
	+10%	–423	–174
	–10%	517	213
Polish zloty	+5%	–11	–31
	–5%	12	34
	+10%	–21	–59
	–10%	26	72
Chinese renminbi	+5%	–153	–104
	–5%	236	127
	+10%	–292	–199
	–10%	357	243

In addition to the effects listed in the table above, the following changes to equity not affecting net income would result from potential changes:

k€	Currency performance	Effects as at 31 Dec 2016	**Effects as at 31 Dec 2017**
US dollar	+5%	–2,913	–2,308
	–5%	3,220	2,551
	+10%	–5,562	–4,406
	–10%	6,798	5,385
Czech koruna	+5%	–1,012	–1,135
	–5%	1,119	1,255
	+10%	–1,933	–2,167
	–10%	2,362	2,649
HK dollar	+5%	–342	–269
	–5%	378	298
	+10%	–654	–514
	–10%	799	629
Polish zloty	+5%	–8	–10
	–5%	8	11
	+10%	–14	–20
	–10%	18	24
Chinese renminbi	+5%	–217	–107
	–5%	240	119
	+10%	–415	–205
	–10%	507	250

– Cash flow hedges

The Group holds derivative financial instruments. These include in particular forward exchange contracts as described in more detail under Note 19. The aim of these derivatives is to hedge against currency risk arising from the Group's operations.

As at 31 December 2017, there were forward exchange contracts for future payment obligations in US dollars, HK dollars and Chinese renminbi, which can be attributed to a transaction that is highly likely to materialise in the future. It involved the expected and highly probable future purchases of goods in the months of January 2018 to December 2019 from suppliers in the Far East amounting to kUSD 57,500, kHKD 54,000 and kCNH 18,000.

The following table shows the periods in which cash flows are expected to occur, as well as the book values of the corresponding hedging instruments:

	2017			
	Expected cash flows			
k€	**Within 12 months**	**More than 1 year**	**Total**	**Book value**
Assets	74	–	74	74
Liabilities	1,818	552	2,370	2,370

	2016			
	Expected cash flows			
k€	Within 12 months	More than 1 year	Total	Book value
Assets	6,405	1,914	8,319	8,319
Liabilities	–	7	7	7

The following table shows the periods in which cash flows are expected to impact profit or loss, as well as the book values of the corresponding hedging instruments:

	2017			
	Expected cash flows			
k€	**Within 12 months**	**More than 1 year**	**Total**	**Book value**
Assets	72	–	72	74
Liabilities	1,794	502	2,296	2,370

	2016			
	Expected cash flows			
k€	Within 12 months	More than 1 year	Total	Book value
Assets	6,293	2,026	8,319	8,319
Liabilities	–	7	7	7

- **Liquidity risk**

  The Group constantly monitors the risk of any short-term liquidity bottlenecks using a liquidity planning tool. This takes into account the maturities of the financial assets (e. g. receivables, other financial assets) and the financial liabilities and expected cash flows from operating activities.

  The Group's aim is to strike a balance between continuous cover for its financing requirements and ensuring flexibility through the use of deposits and bank overdrafts.

- **Interest rate change risk**

  An interest rate change risk relates to changes in the short-term money market rates. There were no long-term interest-bearing bank loans or similar interest-bearing financial liabilities for the Leifheit Group in financial year 2017.

  There is, however, an interest rate change risk for the Leifheit Group, mainly relating to the change of actuarial interest rate, which was used for the determination of pension obligations. A decline of 0.25 percentage points would have resulted in a reduction of other comprehensive income of k€ 2,574 on the balance sheet date.

- **Default/credit risk**

  As a general rule, the Group only conducts transactions with creditworthy parties. Credit checks are performed for all major customers wishing to do business with Leifheit. Balances of receivables are continuously monitored.

  Some of the company's receivables are covered by credit insurance (see Note 17). There is still a risk of default in the amount of the uninsured share of the receivables.

  For other financial assets and cash and cash equivalents, the maximum credit risk due to counterparty default is the book value.

- **Financial assets and liabilities**

  The book values of the derivative financial assets and financial liabilities correspond to their fair values. The other book values all correspond to amortised cost.

  Derivative financial assets in the amount of k€ 74 (2016: k€ 8,319) as well as derivative financial liabilities in the amount of k€ 2,370 (2016: k€ 7) were included at their attributable fair value on the balance sheet as at 31 December 2017.

  All financial instruments are recorded at fair value. The fair value is determined on the basis of present value under consideration of current exchange rates as well as the underlying interest curves of the respective currencies and therefore on the basis of input parameters observed in the market (level 2, see page 80). There was no reclassification among the levels in the reporting period.

  For current assets and liabilities, the book value is always assumed to be a reasonable approximation of the fair value (IFRS 7.29 a).

  Short-term lines of credit in the amount of k€ 11,500 were available on the balance sheet date (2016: k€ 11,500). Thereof k€ 435 was used for bills of guarantee (2016: k€ 360) as at the balance sheet date. Unused lines of credit were therefore k€ 11,065 (2016: k€ 11,140).

The following table shows the book values of financial assets and financial liabilities as at the balance sheet date 2017. The book values correspond to fair values, which were all allocated to level 2 of the fair value hierarchy.

k€	Held for trading	Available for sale	Fair value (hedging instruments)	Held to maturity	Loans and receivables	**31 Dec 2017 Total**
Financial assets measured at fair value						
Forward foreign exchange transactions – Note 19 (designated as hedging transactions)	–	–	44	–	–	44
Forward foreign exchange transactions – Note 19 (not designated as hedging transactions)	30	–	–	–	–	30
Fund shares – Note 16	–	29,008	–	–	–	29,008
Financial assets not measured at fair value						
Trade receivables, other receivables – Notes 17, 20	–	–	–	–	51,859	51,859
Cash and cash equivalents – Note 15	–	–	–	–	28,221	28,221
Financial liabilities measured at fair value						
Forward foreign exchange transactions – Note 19 (designated as hedging transactions)	–	–	2,077	–	–	2,077
Forward foreign exchange transactions – Note 19 (not designated as hedging transactions)	293	–	–	–	–	293
Financial liabilities not measured at fair value						
Trade payables and other liabilities – Note 23	–	–	–	–	34,613	34,613

The net gains and losses of the financial instruments according to measurement categories (excluding the amounts recognised in other comprehensive income) were as follows in the reporting period:

k€	Interest income	Currency translation	Value adjustment	Fair value adjustment	**2017 Total**
Held for trading	–	323	–	–1,526	–1,203
Available for sale	23	–	–	–	23
Held to maturity	5	–	–	–	5
Loans and receivables	96	–330	57	–	–177

The following table shows the book values of financial assets and financial liabilities as at the balance sheet date 2016. The book values correspond to fair values, which were all allocated to level 2 of the fair value hierarchy.

k€	Held for trading	Available for sale	Fair value (hedging instruments)	Held to maturity	Loans and receivables	31 Dec 2016 Total
Financial assets measured at fair value						
Forward foreign exchange transactions – Note 19 (designated as hedging transactions)	–	–	7,054	–	–	7,054
Forward foreign exchange transactions – Note 19 (not designated as hedging transactions)	1,265	–	–	–	–	1,265
Fund shares – Note 16	–	19,994	–	–	–	19,994
Financial assets not measured at fair value						
Trade receivables, other receivables – Notes 17, 20	–	–	–	–	49,373	49,373
Cash and cash equivalents – Note 15	–	–	–	–	45,507	45,507
Promissory notes	–	–	–	4,000	–	4,000
Financial liabilities measured at fair value						
Forward foreign exchange transactions – Note 19 (designated as hedging transactions)	–	–	4	–	–	4
Forward foreign exchange transactions – Note 19 (not designated as hedging transactions)	3	–	–	–	–	3
Financial liabilities not measured at fair value						
Trade payables and other liabilities – Note 23	–	–	–	–	37,605	37,605

The net gains and losses of the financial instruments according to measurement categories (excluding the amounts recognised in other comprehensive income) were as follows in the previous year:

k€	Interest income	Currency translation	Value adjustment	Fair value adjustment	2016 Total
Held for trading	–	1,334	–	–915	419
Available for sale	–	–	–	–1	–1
Held to maturity	20	–	–	–	20
Loans and receivables	20	69	1	–	90

(34) Commitments

As in the previous year, the Group companies did not enter into any commitments.

(35) Operating leases

As lessee, Leifheit rents or leases office premises, shops, office equipment and company cars as part of operating leases. The rental and lease agreements usually have a term of less than five years. Lease payments are renegotiated at regular intervals in order to reflect standard market terms. Some rental agreements provide for rent payments based on changes in value of regional price indices. No subletting arrangements have been made.

As at 31 December 2017, future minimum lease payments for leases without cancellation option stood at k€ 830 (2016: k€ 910), of which k€ 579 within a year (2016: k€ 585) and k€ 251 longer than one and up to five years (2016: k€ 325). In financial year 2017, the statement of profit or loss reported k€ 821 (2016: k€ 721) as rental and leasing expenditure.

(36) Other financial liabilities

As at 31 December 2017, there were contractual obligations arising out of contracts without cancellation option, e.g. maintenance, service and insurance agreements, in the amount of k€ 2,302 (2016: k€ 2,959). The future minimum payments on the basis of these contracts without cancellation option amount up to one year of k€ 1,924 (2016: k€ 2,009) and between one and five years of k€ 378 (2016: k€ 950). As in the previous year, there were no corresponding payment obligations with a term of more than five years.

As at 31 December 2017, purchase commitments for raw materials totalled k€ 1,896 (2016: k€ 1,361).

There were contractual obligations to acquire items of tangible assets in the amount of k€ 2,285 (2016: k€ 1,722), relating to facilities, tools and fire protection systems in particular. Moreover, there were contractual obligations arising out of contracts relating to marketing measures in the amount of k€ 524 (2016: k€ 800) and other agreements in the amount of k€ 494 (2016: k€ 592).

(37) Remuneration of the Board of Management and Supervisory Board in accordance with section 314 para. 1 No. 6a HGB and IFRS 2

The remuneration of the Board of Management amounted to k€ 2,482 (2016: k€ 3,796), of which variable remuneration amounted to k€ 1,463 (2016: k€ 3,109). The total cost of short-term variable remuneration recognised in the reporting period amounted to k€ 469. The total cost of share-based long-term variable remuneration recognised in the reporting period amounted to k€ 994. The provision recorded on the balance sheet as at 31 December 2017 corresponds to the fair value of the obligation and amounted to k€ 0. The share-based long-term variable remuneration of the Board of Management members is calculated using an EBIT multiplier and a market capitalisation multiplier; this is calculated based on the growth in the market capitalisation of Leifheit AG. Payment is made in cash.

As in the previous year, no remuneration was paid to the Board of Management for the assumption of responsibilities at subsidiaries. The members of the Board of Management who were active during financial year 2017 do not hold performance-oriented pension entitlements. Therefore, as in the previous year, no addition to the pension commitments (DBO according to IFRS) was made for the active members of the Board of Management in the reporting year.

The remuneration of the Supervisory Board amounted to k€ 296 (2016: k€ 303).

The remuneration system for the Board of Management and Supervisory Board as well as the individual Board of Management remuneration are described in detail in the “Legal Information” section of the combined management report.

(38) Total remuneration and pension reserves for former members of the Board of Management and/or Supervisory Board in accordance with section 314 para. 1 No. 6b HGB

The total remuneration of the former members of the Board of Management amounted to k€ 485 in the reporting year (2016: k€ 471). Provisions created for the current pensions (DBO according to IFRS) in financial year 2017 amounted to k€ 8,224 (2016: k€ 8,423).

(39) Advances and loans to the Board of Management and/or Supervisory Board in accordance with section 314 para. 1 No. 6c HGB

Neither in the previous year nor in the reporting year have any advances or loans been granted to the aforementioned group of persons.

(40) Related party transactions

There were no reportable relationships or transactions with related companies or persons outside the Group during the reporting year.

(41) Declaration in accordance with section 161 AktG

In December 2017, the Board of Management and the Supervisory Board issued the Declaration required under section 161 AktG stating that the recommendations of the "Government Commission on the German Corporate Governance Code" published by the German Federal Ministry of Justice and Consumer Protection were complied with and will continue to be complied with. The Declaration of compliance is permanently available on the company's website at corporate-governance.leifheit-group.com.

(42) Existence of an equity interest in accordance with section 160 para. 1 No. 8 AktG

In accordance with section 160 para. 1 No. 8 AktG, disclosures must be made about the existence of shareholdings communicated to Leifheit AG in accordance with section 20 paras. 1 or 4 AktG or in accordance with section 33 paras. 1 or 2 of the German securities trading act (WpHG). Leifheit published all voting rights notifications in accordance with section 40 para. 1 WpHG; these notifications are available at leifheit-group.com on the company's website. The following tables show the reported shareholdings of at least 3%; the disclosures correspond to the most recent notifications of the persons subject to an obligation to file a notification. Please note that these disclosures may now be outdated.

(43) Information under takeover law in accordance with section 315a para. 1 HGB

Please refer to the combined management report for information on takeovers in accordance with section 315a para. 1 HGB.

(44) Remuneration of the auditor in accordance with section 314 para. 1 No. 9 HGB

The remuneration of the auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, recorded as expenses in 2017, amounted to k€ 321 (thereof K€ 35 for 2016) for the audit of the financial statements. The auditor did not provide any other services, such as tax consultancy services, certification or other services, during the reporting period.

KPMG has been the auditor of the financial statements and consolidated financial statements of Leifheit AG since financial year 2016. The signatory auditors for financial year 2017 are Franz Andreas Höfter (since financial year 2016) and Sebastian Hargarten (since financial year 2017).

(45) Events after the balance sheet date

There were no events after the end of the financial year of material importance for assessing the net assets, financial position and results of operations of the Leifheit Group.

Report	Reportable party	Registered office	Attributions in accordance with WpHG	Shareholding	Voting rights[1]
November 2017	EQMC Europe Development Capital Fund, plc	Dublin, Ireland		5.09%	509,081
September 2017	Teslin Capital Management BV Gerlin NV	Maarsbergen, Netherlands	section 22	5.05%	504,534
November 2015	MainFirst SICAV	Senningerberg, Luxembourg		5.04%	504,444 (252,222)
May 2015	Capital Income Builder Capital Research and Management Company Capital Group Companies, Inc.	Los Angeles, California, USA	section 22 (1) sent. 1 no. 6 section 22 (1) sent. 1 no. 6, sent. 2 and 3	5.60%	560,000 (280,000)
July 2014	Leifheit Aktiengesellschaft	Nassau, Germany		4.97%	497,344 (248,672)
February 2009	Manuel Knapp-Voith MKV Verwaltungs GmbH	Grünwald, Germany	section 22 (1) sent. 1 no. 1	10.03%	1,002,864 (501,432)
October 2007	Joachim Loh	Haiger, Germany		6.96%	662,102 (331,051)

[1] Values from reports before implementation of the capital increase in June 2017 have been doubled for comparison purposes.

Organs of Leifheit AG

Supervisory Board

Ulli Gritzuhn
General Manager of Unilever Deutschland GmbH, Hamburg
* 1962 Nationality: German

Shareholder representative
- Member of the Supervisory Board since 4 Feb 2016
- Member of the Personnel Committee since 13 Feb 2016
- Member of the Nominating Committee since 22 Sep 2016
- Member of the Audit Committee since 6 Mar 2018

Baldur Groß
Head of Maintenance, Electrics and Facility Management of Leifheit AG, Nassau
* 1958 Nationality: German

Employee representative
- Member of the Supervisory Board since 22 May 2014 (previously 1994 to 1999)

Karsten Schmidt (until 31 Jan 2018)
Acting Chairman of Schleich GmbH, Schwäbisch Gmünd
* 1956 Nationality: German

Shareholder representative
- Deputy Chairman of the Supervisory Board since 13 Feb 2016, Member since 15 Jan 2007
- Member of the Audit Committee since 13 Feb 2016
- Member of the Personnel Committee since 24 Jan 2007

Thomas Standke
Toolmaker at Leifheit AG, Nassau
* 1968 Nationality: German

Employee representative
- Member of the Supervisory Board since 27 May 2004

Sonja Wärntges
Chairwoman of the Board of Management (CEO) of DIC Asset AG, Frankfurt am Main
* 1967 Nationality: German

Shareholder representative
- Member of the Supervisory Board since 4 Feb 2016
- Chairwoman and Member of the Audit Committee since 13 Feb 2016
- Member of the Nominating Committee since 22 Sep 2016
- Member of the Personnel Committee since 6 Mar 2018

Memberships in other Supervisory Boards required by law:
- DIC Real Estate Investments GmbH & Co. KGaA, Frankfurt/Main (Chairwoman of the Supervisory Board)

Helmut Zahn
Independent consultant, Starnberg
* 1955 Nationality: German

Shareholder representative
- Chairman of the Supervisory Board since 24 Jan 2007, Member since 30 Apr 2001
- Member of the Audit Committee since 28 Sep 2001
- Chairman of the Personnel Committee since 24 Jan 2007, Member since 27 May 2004
- Chairman and Member of the Nominating Committee since 22 Sep 2016

Memberships in other Supervisory Boards required by law:
- Flossbach von Storch AG, Cologne (Deputy Chairman of the Supervisory Board)
- Hahn-Immobilien-Beteiligungs-AG, Bergisch-Gladbach (Member of the Supervisory Board)

The members of the Supervisory Board are appointed for the period until the end of the Annual General Meeting, which resolves on the approval of the actions of the Supervisory Board for financial year 2018. In accordance with section 125 para. 1 sentence 5 AktG, external mandates of members of organs are, where applicable, to be listed as memberships in other Supervisory Boards required by law or, in accordance with section 125 para. 1 sentence 5 AktG, as memberships in comparable domestic and foreign governing bodies of enterprises. The profiles of the members of the Board of Management and Supervisory Board are available on the company's website at organe.leifheit-group.com.

Board of Management

Thomas Radke
Place of residence: Wiesbaden
* 1961 Nationality: German

Chairman of the Board of Management (CEO)
since 1 Jan 2014, appointed until 31 Dec 2019

Responsible for Marketing, Sales, HR, Legal/IP, Birambeau and Herby divisions

Memberships in domestic and foreign governing bodies:
- Böck Silosysteme GmbH, Tacherting
  (Chairman of the Advisory Board)

Ansgar Lengeling
Place of residence: Wiesbaden
* 1966 Nationality: German

Member of Board of Management (COO)
since 1 Nov 2016, appointed until 30 Oct 2019

Responsible for Production, Procurement, Development, Logistics, Quality Management

Ivo Huhmann
Place of residence: Wiesbaden
* 1969 Nationality: German

Member of Board of Management since 1 Apr 2017,
CFO since 25 May 2017, appointed until 31 Mar 2020

Responsible for Finance, Controlling, Audit,
Business Processes/IT, ESG issues

Dr Claus-O. Zacharias (until 24. May 2017)
Place of residence: Düsseldorf
* 1954 Nationality: German

Member of Board of Management (CFO) since 1 Dec 2008

Responsible for Finance, Controlling, Legal/IP, Audit,
Business Processes/IT

Memberships in domestic and foreign governing bodies:
- Peacock Capital GmbH, Düsseldorf
  (Member of the Advisory Board)

Nassau/Lahn, 22 March 2018

Leifheit Aktiengesellschaft

The Board of Management

Thomas Radke Ivo Huhmann Ansgar Lengeling

Responsibility statement

We declare that, to the best of our knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the combined management report presents a true and fair view of the business and situation of the Group, together with the principal opportunities and risks associated with the expected development of the Group.

Nassau/Lahn, 22 March 2018

Leifheit Aktiengesellschaft

The Board of Management

Thomas Radke Ivo Huhmann Ansgar Lengeling

Auditor's report

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Opinions

We have audited the consolidated financial statements of Leifheit Aktiengesellschaft, Nassau/Lahn, and it subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report for the financial year from 1 January to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

– Impairment testing of trademarks and goodwill of the cash-generating unit Soehnle

For more information on the accounting policies applied please refer to the section "General information and accounting policies" with the sub-sections "Intangible assets" and "Impairment of property, plant and equipment, and intangible assets" in the notes

to the consolidated financial statements. The assumptions underlying the measurement as well as the disclosures on the impairment testing of intangible assets at the CGU Soehnle can be found in section 22 of the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK

The consolidated financial statements of Leifheit Aktiengesellschaft recognise trademarks in the amount of EUR 4.8 million and goodwill in the amount of EUR 11.8 million. Trademarks and EUR 0.2 million of goodwill are attributable to the cash-generating unit (CGU) Soehnle.

Impairment of goodwill and trademarks is tested annually at the level of the CGUs Leifheit, Soehnle, Birambeau and Herby. The reporting date for the impairment test is 30 September of the financial year. The measurement was performed using the discounted cash flow method. For the impairment test, the Company primarily determines the value in use and compares this with the respective carrying amount.

Impairment testing of goodwill and trademarks is complex and based on a range of assumptions that require judgement. These include the expected business and earnings development of the business segments for the next four years, the assumed long-term growth rates and the discount rate used.

Based on the impairment tests conducted, the Company did not identify any need to recognise impairment losses. For CGU Soehnle, however, the Company's sensitivity analyses determined that a reasonably possible change to the expected revenue performance over the medium term would cause a decline in the recoverable amount. In this context we considered this CGU to be of particular significance for the purposes of our audit.

There is the risk for the financial statements that an impairment loss at CGU Soehnle existing as at the reporting date will not be recognised. There is also the risk that the related disclosures in the notes to the consolidated financial statements are not appropriate.

OUR AUDIT APPROACH

By involving our valuation specialists, we have also assessed the appropriateness of the key assumptions and calculation methods of the Company. As even just minor changes to expected revenue performance at CGU Soehnle can significantly impact the results of impairment testing, we discussed the expected business and earnings development and the assumed long-term growth rates with those responsible for planning. We have also reconciled these with internally available forecasts, e.g. for tax purposes, as well as the budgets prepared by the board of management. Furthermore, we evaluated the consistency of assumptions with external market assessments.

Furthermore, we confirmed the accuracy of the Company's previous forecasts by comparing the budgets of previous financial years with actual results and by analysing deviations. We compared the assumptions and parameters underlying the discount rate at CGU Soehnle, in particular the risk-free rate, the market risk premium and the beta factor with our own assumptions and publicly available data.

To ensure the computational accuracy of the valuation model used, we verified the Company's calculations on the basis of selected risk-based elements.

In order to take account of forecast uncertainty and the earlier cut-off date selected for impairment testing, we investigated the impact of potential changes in the discount rate, revenue and earnings performance and the long-term growth rate on the recoverable amount (sensitivity analysis), by calculating alternative scenarios and comparing these with the values stated by the Company. We also assessed the accuracy of the sensitivity analyses prepared by the Group by reconciling them with our own sensitivity analyses.

Finally, we assessed whether the disclosures in the notes to the consolidated financial statements regarding the impairment of goodwill and trademarks at CGU Soehnle were appropriate. This also included an assessment of the appropriateness of disclosures in the notes to the consolidated financial statements in accordance with IAS 36.134(f) on sensitivity in the event of a reasonably possible change in key assumptions used for measurement.

OUR OBSERVATIONS

The calculation method used for impairment testing of goodwill as well as the trademarks of CGU Soehnle is appropriate and in line with the accounting policies to be applied.

The Company's assumptions and parameters used for measurement of CGU Soehnle are appropriate on the whole.

The related disclosures in the notes to the consolidated financial statements are appropriate.

– Completeness and accuracy of other liabilities from customer bonuses and advertising subsidies

The disclosures made by the Company on other liabilities from customer bonuses and advertising subsidiaries can be found in Section 23 of the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK

The consolidated financial statements of Leifheit Aktiengesellschaft recognise other liabilities from customer bonuses in the amount of EUR 9.2 million and other liabilities from advertising subsidies in the amount of EUR 5.5 million.

There are numerous individual condition agreements in place with customers, which are generally updated on an annual basis in the course of negotiations. There are also additional agreements in order to set short-term buying incentives for customers. Therefore, the complete and precise recognition of other liabilities from customer bonuses and advertising subsidies is complex and requires the assurance that all existing customer agreements are recorded in full centrally and that the calculation of the resulting liabilities is computationally accurate.

There is the risk for the financial statements that other liabilities from customer bonuses and advertising subsidies were not recognised in full or in an incorrect amount.

OUR AUDIT APPROACH

We evaluated the accounting policies applied for other liabilities from customer bonuses and advertising subsidies in respect of their conformity with the applicable accounting standards. We assessed the controls identified to ensure the complete recording of customer agreements in an inventory and to ensure that the recording by the system is complete and accurate, in respect of their design, set up and effectiveness. Using a specified, risk-based sample of the Company's customers that generate the highest level of revenue, we also inspected the contractual agreements, evaluated the obligations in place as at the balance sheet date in respect of their conformity with the individual agreements and confirmed that other liabilities from customer bonuses and advertising subsidies in the new financial year, in particular, were recognised in the correct period.

OUR OBSERVATIONS

The process used to recognise other liabilities from customer bonuses and advertising subsidies at Leifheit Aktiengesellschaft is appropriate.

– Revenue recognition on an accrual basis

The disclosures made by the Company on the recognition of revenue are contained in the Section "General information and accounting policies" with the sub-section "Recognition of income and expenditure" of the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK

The Group's revenue amounted to EUR 236.8 million in financial year 2017.

The Company recognizes revenue from the sale of products when the preconditions pursuant to IAS 18 are in place. For this to take place, the significant risks and rewards of ownership of the sold goods must have been transferred to customers.

The Group's key markets are in Germany and Central Europe. Group entities agree different incoterms to deliver the products. The incoterms set down the transfer of risk and thereby also the date of revenue recognition.

Due to the fact that in part different incoterms are used for the customers in each individual case and the differing transport times with the same number of deliveries, there is the risk for the financial statements that revenue is not recognised on an accrual basis as at the reporting date.

OUR AUDIT APPROACH

We evaluated the accounting policies applied by the Company for their compliance with the applicable accounting standard IAS 18.

In order to assess whether revenue is recognised on an accrual basis, we assessed the design, setup and effectiveness of internal controls relating to order acceptance, outgoing goods and invoicing, as well as (in particular) the determination and verification of the proper/actual transfer of risk.

Using surveys and discussions with the Group's representatives, we obtained an understanding of the business. Building upon this we formed our own expectations regarding revenue development and reconciled these with the revenue that was actually recorded. We investigated any discrepancies for inconsistencies, particularly at year-end.

Furthermore, we also assessed revenue recognition cut-off by obtaining third-party confirmations or reconciling invoices with the related external delivery records. The basis for this was revenue that was selected based on a mathematical-statistical procedure, which was recognised in a set period before the year-end closing date. Moreover, based on a specified, risk-based sample of credits granted in the new year we assessed whether these were recorded on an accrual basis.

OUR OBSERVATIONS

Leifheit Aktiengesellschaft's approach for revenue recognition cut-off is appropriate.

Other Information

The board of management is responsible for the other information. The other information comprises the remaining parts of the annual financial report of the Leifheit Group, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.

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

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

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

Responsibilities of the Board of Management and Supervisory Board for the consolidated financial statements and combined management report

The board of management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the board of management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of management is responsible for assessing the Group's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used by the board of management and the reasonableness of estimates made by the board of management and related disclosures.

- Conclude on the appropriateness of the board of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the board of management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the board of management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 24 May 2017. We were engaged by the supervisory board on 19 September 2017. We have been the group auditor of Leifheit AG since the financial year 2016.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the consolidated financial statements, we audited the annual financial statements of Leifheit AG.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Franz Andreas Höfter.

Frankfurt/Main, 22 March 2018

KPMG AG Wirtschaftsprüfungsgesellschaft

Original German version signed by

Franz Andreas Höfter	Sebastian Hargarten
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Information, Disclaimer

Individual financial statement of Leifheit AG

The individual financial statement of Leifheit AG, audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, which did not lead to any reservations in its audit opinion, was prepared in accordance with the provisions of the HGB (German commercial code) and the AktG (German stock corporation act).

Additional information on the website

The annual financial statement of Leifheit AG, the combined management report of Leifheit AG and Leifheit Group, as well as the report of the Supervisory Board, the corporate governance report and the sustainability report are available on the internet at financial-reports.leifheit-group.com in addition to these consolidated financial statements.

Note on rounding

Minor differences may occur when using rounded amounts and percentages due to commercial rounding.

Forward-looking statements

This financial report contains forward-looking statements which are based on the management's current estimates with regard to future developments. Such statements are subject to risks and uncertainties which are beyond Leifheit's ability to control or estimate precisely, such as statements on the future market environment and economic conditions, the behaviour of other market participants and government measures. If one of these uncertain or unforeseeable factors occurs or the assumptions on which these statements are based prove inaccurate, actual results could differ materially from the results cited explicitly or contained implicitly in these statements. Leifheit neither intends to, nor does it accept any specific obligation to, update forward-looking statements to reflect events or developments after the date of this report.

Discrepancies due to technical factors

Technical factors (e.g. conversion of electronic formats) may lead to discrepancies between the financial statements contained in this financial report and those submitted to the Federal Gazette (Bundesanzeiger). In this case, the version submitted to the Federal Gazette is binding.

In the event of any discrepancies between this English translation of the financial report and the German version, the German version shall take precedence.

Key figures 5-year-history

		2013	2014	2015	2016	**2017**
Turnover						
Group	m€	220.9	220.7	231.8	237.1	236.8
Group adjusted [1]	m€	219.5	220.7	231.8	237.1	236.8
Brand Business [1]	m€	172.8	180.4	188.1	195.8	196.7
Volume Business	m€	46.7	40.3	43.7	41.3	40.1
Foreign share [1]	%	57.6	57.0	57.4	60.1	59.1
Profitability						
Gross margin	%	44.9	47.7	46.7	47.5	46.4
Cash flow from operating activities	m€	22.9	24.5	20.8	21.8	7.2
Free cash flow	m€	19.5	18.4	14.1	14.3	1.5
EBIT	m€	14.9	21.5	21.7	22.1	18.8
EBIT adjusted [2]	m€	16.9	16.4	19.2	21.8	20.3
EBIT margin	%	6.8	9.8	9.3	9.3	8.0
EBT	m€	13.3	19.8	20.2	20.6	17.7
Net result for the period	m€	10.2	14.1	14.3	14.5	12.8
Net return on sales	%	4.6	6.4	6.2	6.1	5.4
Return on equity	%	10.8	14.9	13.4	13.9	13.0
Return on total capital	%	5.0	6.3	6.0	6.1	5.7
ROCE	%	12.6	20.3	18.1	16.3	12.8
Share [3]						
Net result for the period per share [4]	€	1.08	1.49	1.51	1.53	1.35
Free cash flow per share [4]	€	2.06	1.94	1.48	1.51	0.16
Dividend per share	€	0.83	0.90	1.00	1.05	1.05 [5]
Special dividend per share	€	–	–	0.38	0.40	– [5]
Employees at the end of the year						
Group	people	1,049	1,068	1,074	1,093	1,168
Brand Business	people	754	792	865	913	1,003
Volume Business	people	295	276	209	180	165
Investments	m€	3.6	6.2	7.1	7.8	7.8
Investment ratio	%	2.0	3.6	4.1	4.4	4.5
Depreciations	m€	6.8	6.3	5.8	6.2	6.4
Balance sheet total	m€	203.8	223.3	237.9	239.4	224.9
Equity	m€	94.7	94.8	106.7	104.6	98.5
Equity ratio	%	46.5	42.5	44.9	43.7	43.8

[1] Turnover 2013 adjusted for discontinued business with Dr Oetker Bakeware.
[2] EBIT 2013 to 2017 adjusted by foreign currency results.
[3] Capital increase from own funds with the issuing of new shares in 2017; data for the previous year adjusted for comparability.
[4] Not including repurchased treasury shares.
[5] Dividend proposal.

Financial calendar

15 MAY 2018

QUARTERLY STATEMENT
for the period ending 31 March 2018

30 MAY 2018

ANNUAL GENERAL MEETING
10:30 Uhr a.m. (CEST),
Deutsche Nationalbibliothek, Frankfurt/Main, Germany

14 AUGUST 2018

FINANCIAL REPORT FOR THE FIRST HALF-YEAR
ending 30 June 2018

14 NOVEMBER 2018

QUARTERLY STATEMENT
for the period ending 30 September 2018

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