LEIFHEIT

Our upward trend continues.

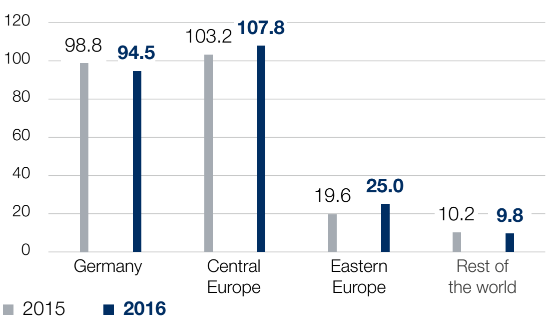
Annual financial report
2016

Key figures of the Group

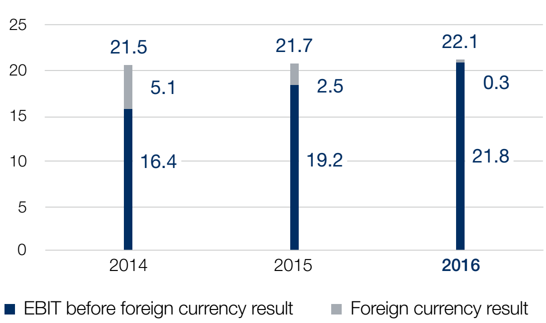
		2015	**2016**	Change
Turnover				
Group	€m	231.8	237.1	2.3%
Brand Business	€m	188.1	195.8	4.1%
Volume Business	€m	43.7	41.3	–5.7%
Profitability				
Gross margin	%	46.7	47.5	0.8 pps
Cash flow from operating activities	€m	20.8	21.8	5.2%
Free cash flow	€m	14.1	14.3	1.5%
Foreign currency result	€m	2.5	0.3	–85.7%
EBIT	€m	21.7	22.1	2.2%
EBIT adjusted [1]	€m	19.2	21.8	13.4%
EBIT margin	%	9.3	9.3	–
EBIT margin adjusted [1]	%	8.3	9.2	0.9 pps
EBT	€m	20.2	20.6	1.7%
Net result for the period	€m	14.3	14.5	1.4%
Net return on sales	%	6.2	6.1	–0.1 pps
Return on equity	%	13.4	13.9	0.5 pps
Return on total capital	%	6.0	6.1	0.1 pps
ROCE	%	18.1	16.3	–1.8 pps
Share				
Net result for the period per share [2]	€	3.02	3.06	1.3%
Free cash flow per share [2]	€	2.96	3.01	1.5%
Dividend per share	€	2.00	2.10 [3]	5.0%
Special dividend per share	€	0.75	0.80 [3]	6.7%
Employees at the end of the year	persons	1,074	1,093	1.8%
Investments	€m	7.1	7.8	9.2%
Depreciations	€m	5.8	6.2	7.7%
Balance sheet total	€m	237.9	239.4	0.6%
Equity	€m	106.7	104.6	–2.0%
Equity ratio	%	44.9	43.7	–1.2 pps

[1] Adjusted for foreign currency results.
[2] Not including repurchased treasury shares.
[3] Dividend proposal.
For the multi-year chart see the back cover.

Group turnover by region
in €m



Earnings before interest and taxes (EBIT)
in €m



"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.

See the following pages and the management report for more on "Leifheit 2020".

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 more easy and convenient.

Beside 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.

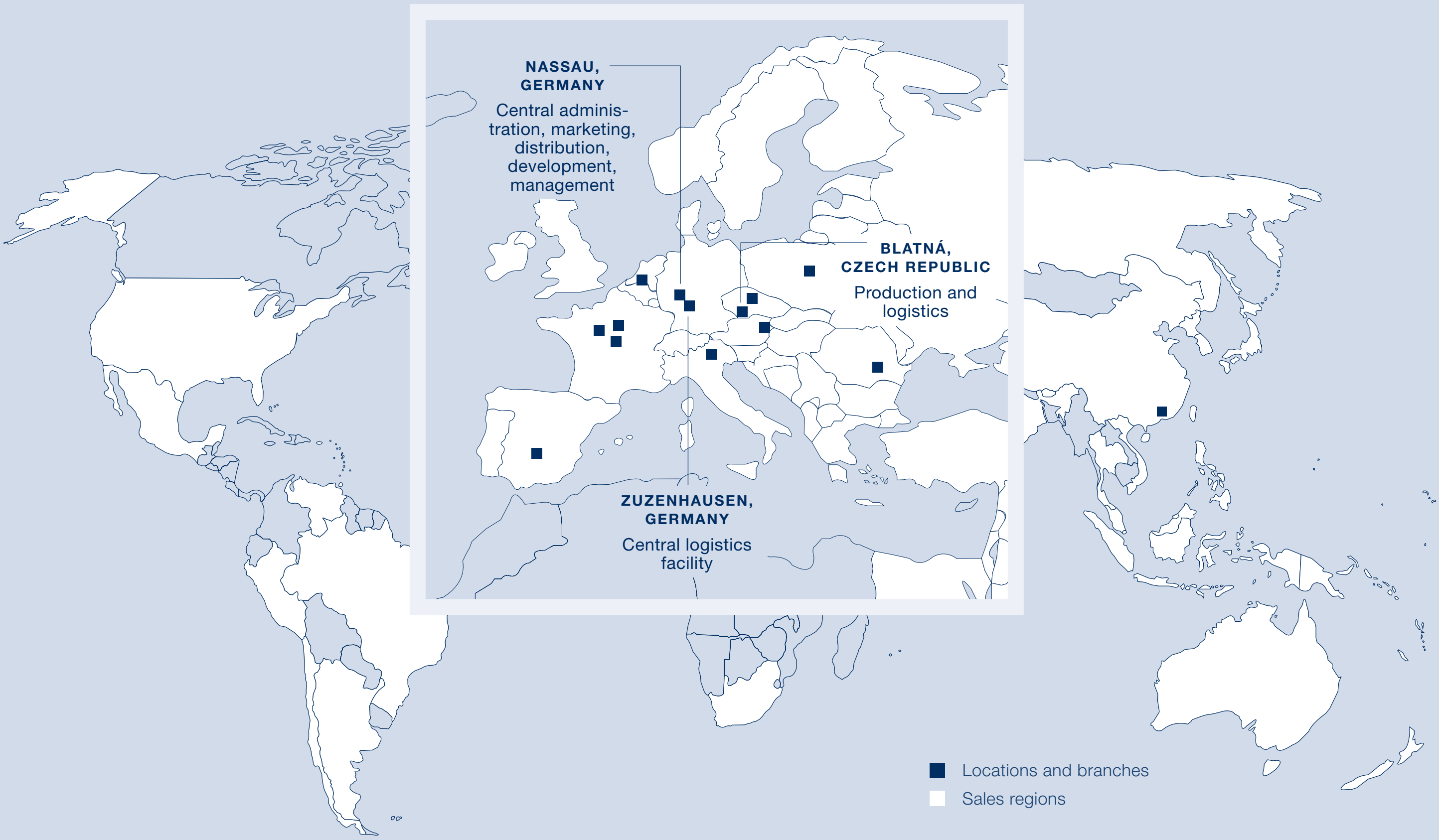
BRAND BUSINESS

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

Continual dividend increases

Positive dividend growth 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.

Growing with a system

Innovative system solutions for our target group

Making life at home easier and more convenient – that's our mission. Our products and system solutions ensure that consumers can face daily challenges effortlessly. Consumers and their needs are the focus of our work on development and innovation. This is how we come up with product ideas with a high level of consumer relevance and market potential.

One example of this is the new floor care system "CARE & PROTECT", with which we have expanded the competence of Leifheit as a cleaning specialist into a care expert: with a system for cleaning and regular care as well as protecting valuable wooden and laminate floors. Easy and convenient to use with effective results.

850

million sqm of wooden and laminate floors[1]

over 40 %

of consumers find taking care of wooden and laminate floors tiresome and time-consuming[2]

[1] In Germany.

[2] Monheimer Institut 2015.

»

With CARE & PROTECT we are expanding our field of cleaning competence by adding the areas ofcare and protection, therefore providing a simple, convenient system solution for high-quality wooden and laminate floors.

«

REBECCA MEHEUST

SENIOR BRAND MANAGER
FLOOR CLEANING

1 X PER WEEK

CLEAN

Wet floor cleaning, for example with the CLEAN TWIST System.

1 X PER MONTH

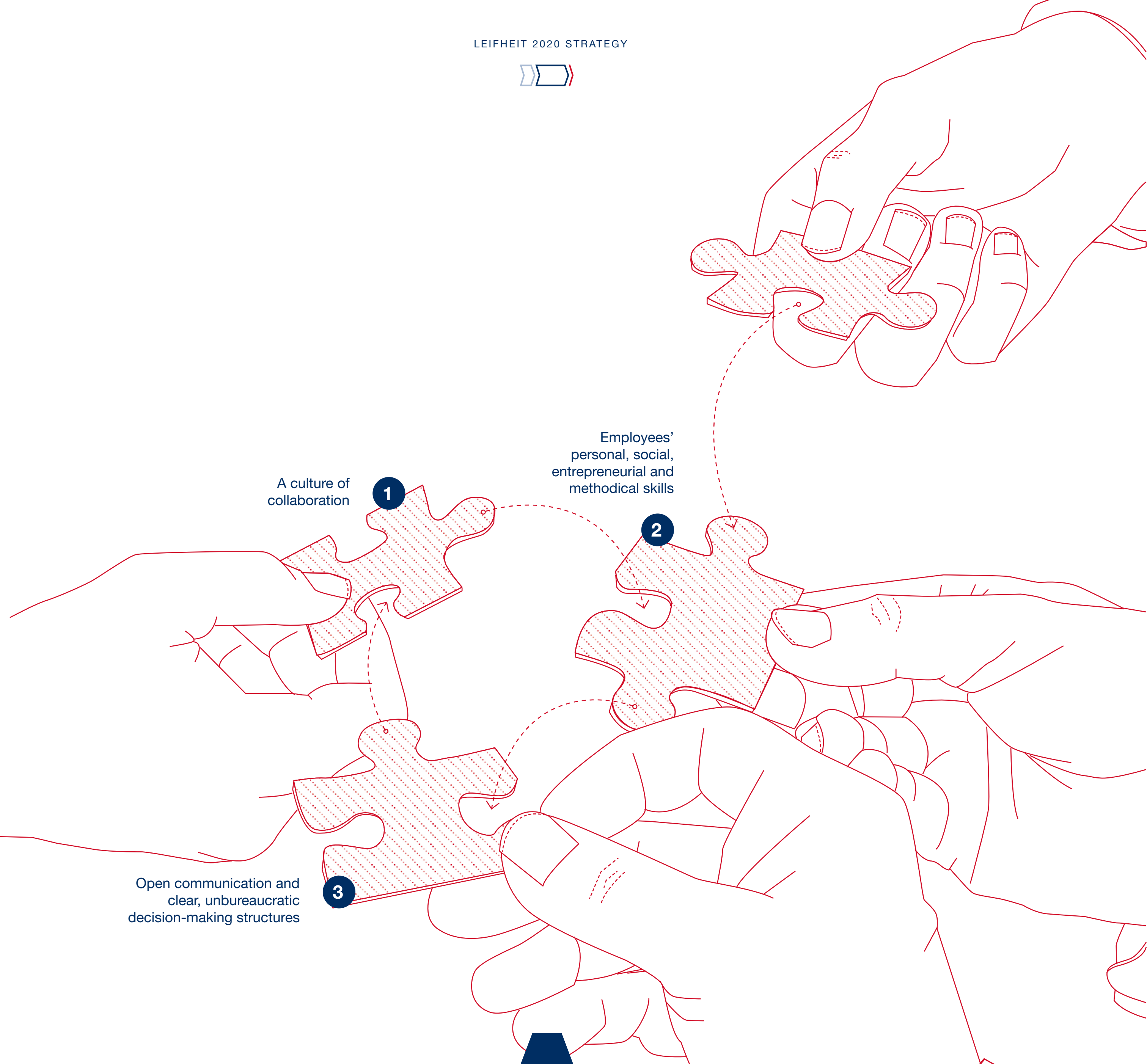
CARE

The CARE product gently cleans and takes care of floors, bringing back the original beauty of the surface.

2 X PER YEAR

PROTECT

The PROTECT product renews the protective layer of wooden and laminate floors, preventing abrasion and signs of wear and tear.



A question of culture

Corporate culture and management quality as keys to future success

Corporate success is not just dependent on the right strategy, but also on the way that it is implemented. The culture of collaboration within the company plays an important role in achieving the goals set out in our strategy “Leifheit 2020” and staying successful in the long term. Ideally, corporate culture and management quality go hand in hand. They are essential conditions for and the key to future success – especially in the age of increasing digitalisation. Personal, social, corporate and methodical skills are just as essential as an agile organisation, clear and unbureaucratic decision-making structures, open communication and the willingness to break new ground.

In order to drive cultural transformation, we have developed a competency model that depicts the expectations we have of our management and employees. We want to create a climate across all positions that fosters a willingness to perform and take on responsibility and, at the same time, an environment in which inventiveness and an innovative spirit can grow.

» Digital technology alone is not enough to make our company agile, innovative and efficient. Rather, we have to unite corporate culture and management in order to make sure we are up to the task of future transformation. «

ANDREA SCHRÖTER
HEAD OF HUMAN RESOURCES

1,093
employees

97 %
of our employees are proud of the work they do at the company [1]

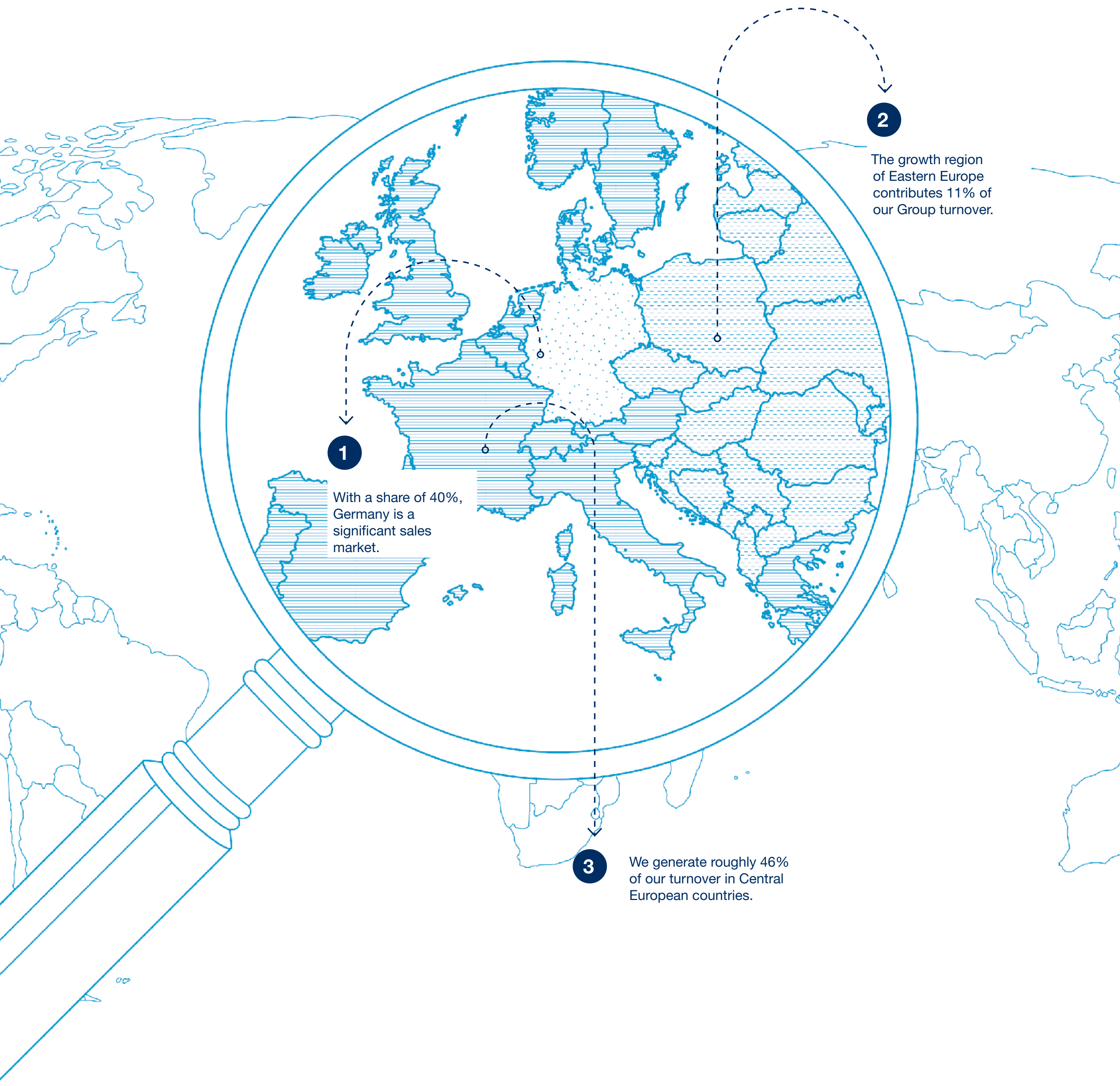
98 %
of our employees have a positive attitude toward the changes taking place at the company [1]

Once more
TOP EMPLOYER MIDSIZED

top EMPLOYER MIDSIZED GERMANY 2017 CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

[1] Result of the 2015/2016 employee survey in Germany.

Focus on growth



We leverage our growth potentials in Europe, but harness growth opportunities worldwide

We focus our sales and marketing activities on European target markets. Our brands already represent us in many European countries. But we also see potential growth here, which can be achieved by turning listings into distribution, by closing listing gaps with the help of improvements in sales efficiency and effectiveness and by implementing marketing activities.

We are using targeted promotions to tap into market entry opportunities in less developed European target markets.

Moreover, we are identifying possibilities for growth outside of Europe too, for example in the US, the Middle East and the Far East, where we are taking advantage of the market opportunities on offer.

» With country-specific sales strategies and a structured approach toward market cultivation, we have been able to significantly increase our turnover in East European markets and expand our distribution. «

MAREK TOMASZEWSKI
DIRECTOR SALES
EASTERN EUROPE

GROWTH SPURT IN EASTERN EUROPE

+28 %
in Eastern Europe

+16 %
in the Czech Republic

+50 %
in Poland

Our upward trend continues.

THOMAS RADKE
CHAIRMAN OF THE BOARD OF MANAGEMENT / CEO

ANSGAR LENGELING
MEMBER OF THE BOARD OF MANAGEMENT / COO

DR CLAUS-O. ZACHARIAS
MEMBER OF THE BOARD OF MANAGEMENT / CFO

Leifheit once again experienced growth in 2016. Are you happy with this development?

RADKE Our strategy “Leifheit 2020” was already beginning to bear fruit in the financial year 2015. This upward trend continued in 2016. It was a satisfying year for us. We achieved most of our goals and were able to increase Group turnover by 2.3%. Brand Business has shown sustainable growth of more than 4%, which is in line with our medium-term goal of 4 to 5% of organic growth per year. The Leifheit brand recorded increases in all product categories. Our cleaning products were particularly strong once more.

Our significantly smaller, but profitable Volume Business is shaped by a high proportion of Project Business and special offers, which means that it is significantly more susceptible to fluctuations. We did not quite meet our expectations here. We have ceased manufacturing operations for other companies and the basis of comparison was also high due to growth in the previous year. When the postponement of Project Business then materialised in the fourth quarter, Volume Business was below the value of the previous year by almost 6%.

What does 2016 look like in terms of results?

DR ZACHARIAS Leifheit did not just grow again in terms of turnover. In 2016, we once again improved our income as well. The result before interest and income taxes (EBIT) was up € 0.3 million on the previous year’s figures at € 22.1 million, although foreign currency gains were much lower than in the previous year. We had expected the dollar exchange rate to develop differently during the planning phase and were therefore expecting a higher foreign currency result.

But regardless of this: if we look at the adjusted result, it is clear that we have made significant operative gains. EBIT before the foreign currency result rose by € 2.6 million to € 21.8 million. Our EBIT margin remained stable at 9.3%, as in the previous year, although it increased by almost 1 percentage point once adjusted – as did our gross margin, which achieved 47.5%. This means that the upward trend has remained intact also in terms of results.

So should your shareholders be satisfied with the previous financial year?

DR ZACHARIAS Yes, I think so! The performance of our shares is nothing to be ashamed of either: the share price increased by more than 14% over the course of 2016. And, calculated on the basis of the last five years, this price increased on average by more than 20%. In October 2016, it reached a new high of € 60.24 per share; in February 2017, the share price reached an even newer high of over € 63. At the same time, there was an increase in trading volume. Our shares were included in the SDAX in September 2016 on the basis of market capitalisation and trade volumes. Innogy and Uniper shares were included in the MDAX in December. Unfortunately, it was within this context that our shares then left the SDAX.

In addition to the way that their shares performed, our shareholders profited from our shareholder-oriented dividend policy. In 2016, they were paid a dividend of € 2.00 for the previous year and a special dividend of € 0.75. For 2016 we will suggest a dividend of € 2.10 and furthermore a special dividend of € 0.80 per share to the AGM. With regard to the 2016 closing price, this means a return of 5.1%.

Beside this, we will propose a capital increase from the company’s funds at a ratio of 1:1 to the Annual General Meeting to further enhance the liquidity in the stock. As a result, the share capital shall be doubled from at present € 15 million to € 30 million by converting retained earnings.

» **Our upward trend continued in 2016. It was a satisfying year for us.** «

THOMAS RADKE
CHAIRMAN OF THE BOARD OF MANAGEMENT / CEO

»

The performance of our shares is nothing to be ashamed of either: the share price increased by more than 14% over the course of 2016.

«

DR CLAUS-O. ZACHARIAS
MEMBER OF THE BOARD OF MANAGEMENT / CFO

In 2016, Leifheit decided in favour of a new dividend policy. What were the reasons for this?

DR ZACHARIAS Our goal is sustainable turnover and income growth. Profitable growth is what makes us able to pay our shareholders regular and increasing dividends. This has been demonstrated by the past few years. During this period, we were able to increase annual dividends seven times consecutively. Because financial flexibility and independence from bank loans are important to us, we always kept this on a reasonable scale, which is why we simultaneously experienced increases in cash and cash equivalents. But a company is not a savings account; money should have to work.

This is why, in 2016, we expanded our dividend policy together with the Supervisory Board. As always, approximately 75% of the profit or the free cash flow for a year is to be distributed as the ordinary dividend. If the company's liquidity exceeds requirements for potential purchases, seasonal fluctuations in our current assets and the payment of the basis dividend, then the Board of Management and the Supervisory Board will examine whether a special dividend should be distributed. We have valued the requirement for the aforementioned liquidity buffer at roughly € 55 million. On the one hand, this new dividend policy ensures that Leifheit has the financial flexibility it requires and, on the other, it is a symbol of the company's shareholder-oriented style of management.

Leifheit is increasingly putting its trust in innovations. Will you be launching a product offensive this year?

RADKE Yes, we will be launching a whole series of new, consumer-oriented products over the course of the year. All of them are the result of our new innovation strategy that we call our "Innovation Factory". We will be increasingly integrating consumers into the development process, focussing more on design and utilising product systems, i.e. comprehensive solutions instead of just a single article. Let me tell you about some of our new launches:

In 2016, we produced and sold 260,000 Leifheit Linomatic rotary dryers. That was a new record! We are now complementing this product range with LinoProtect, the first Leifheit rotary dryer with a protective roof. The integrated company offers triple protection: it shelters the laundry against rain and bleading UV rays and keeps the lines clean. This makes life at home easier and more convenient – and that's our mission. The same applies to Leifheit Care & Protect, an innovative product system for taking care of and protecting wooden and laminate floors. The system comprises a protection sprayer, ready-to-use care products for different types of floors and special wiper covers.

In 2016, we completely overhauled our range of Soehnle bathroom scales. The new, well thought-out line-up stands for unique design and a high level of functionality. The Soehnle Connect System is also new – an innovative and easy-to-use digital body analysis system. It includes analytic scales, fitness trackers, a chest strap for measuring the user's pulse and, of course, the Soehnle Connect App, which allows users to control and analyse the data being transmitted to their smartphones via Bluetooth.

What are your goals for the current year?

RADKE We will continue to consistently pursue our growth strategy "Leifheit 2020". We want to expand our market position with innovative products – for which I just described a couple of examples – and tap into new target groups and markets. We will continue to develop our successful distribution channels and make every effort to support the powerful growth in our Eastern European target markets – without losing sight of Central Europe.

We believe that there will be further economic growth in our most important European sales markets. And we expect that private consumption will once again be an engine for growth.

However, there are still some risks, e.g. the economic policy of the United States, elections in many European countries and the rise in inflation in the Eurozone. All in all, we believe that the Leifheit Group's sustainable turnover growth will continue. Specifically, we expect that Group revenue will increase by 3,5 to 4,5% in 2017. We are once again counting on a rise in turnover of 4 to 5% in our Brand Business. In our significantly smaller Volume Business, we are making plans based on turnover growth of 2 to 3% in the current year. Our Group result will be influenced by one-off effects that will strengthen future growth in the Brand Business. For this reason, we expect an EBIT that is on the level of the previous year.

Where do you see need for future investment? Is there a fixed investment ratio?

DR ZACHARIAS In 2016, our investments reached a total volume of € 7.8 million. Essential items were the completion of a warehouse for the Eastern European logistics centre in Blatná and the warehouse management software it requires. In addition to this, we invested in a new powder-coating facility with increased capacity at our Czech production location. We plan for medium-term investments of roughly € 6 million per year. In 2017, we will need this sum above all for expansions to capacity in Blatná and Zuzenhausen, for tools, machines and production systems for new products and store fixtures, and for operating and business equipment. Moreover, we will invest more than € 1 million in the digitalisation and optimisation of our IT infrastructure. So overall, we have around € 7 million of investments planned for 2017, which we will finance using our own resources – as we did last year. By far, the lion's share of investments will once again be made in our Brand Business.

There were a few changes to the Board of Management and Supervisory Board in 2016. What was behind them?

RADKE There were no extraordinary events. In each case it was a matter of succession planning. Two long-term members of the Supervisory Board resigned. One of them was Dr Robert Schuler-Voith, who was with Home Beteiligungen GmbH our anchor shareholder for many years until April 2015. Leifheit has been able to gain excellent experts with its new Supervisory Board members, Sonja Wärntges and Ulli Gritzuhn.

My colleague on the Board of Management, Dr Zacharias, had long been planning to leave in 2017, which is why the Supervisory Board planned his successor in advance. Mr Ansgar Lengeling was appointed to the Board of Management for procurement, production, logistics, development and quality, and took over these responsibilities from Dr Zacharias on 1 November 2016.

On 1 April 2017, Mr Ivo Huhmann will also join the Board of Management. He will take charge of finance, controlling, legal affairs/IP, auditing and busines process/IT from Dr Zacharias, who will leave after the Annual General Meeting in May. In addition to this, the Supervisory Board has extended my contract by three years. This kind of orderly personnel planning on deck means that our ship will stay on course!

Dr Zacharias has been a member of the Board of Management since 2008. He successfully restructured the company during his time there and built up a platform for growth. Leifheit is now well prepared to face the future. Dr Zacharias created the basis for our "Leifheit 2020" strategy, with which we are now enjoying increasing success. For this we thank him and we wish him all the best after Leifheit.

What do your employees think of the changes that took place last year?

RADKE Our environment, consumers, our customers and the industry are always changing. Transforming yourself is a part of success. New challenges require innovative solutions. Our employees know that. They understand that we intend to align the company with a successful future by pursuing our “Leifheit 2020” strategy. And by that I mean success for all stakeholders, shareholders and employees. An innovative and profitable company provides secure jobs and opportunities for professional development. In line with the definition of the “Leifheit 2020” strategy, we have informed and intensively trained all employees and remain in continuous dialogue with them. Our employees are helping us to uphold the goals of the company and were able to enjoy some of our first successes. I would like to thank them for their work.

Dr Zacharias, you are about to leave. What are your plans for the future?

DR ZACHARIAS During my time at Leifheit I faced many challenges. It was an exciting time with many facets, as I was not just a classic CFO. I had the privilege of working with interesting people. I am happy with the way the company is set up today. Sustainable, profitable growth in most recent times shows me that my work was worthwhile! I still don’t have much to say about what will happen after Leifheit. Currently I am preparing for the next chapter, true to the motto: The future depends on what we do in present, as Mahatma Gandhi said. It certainly won’t be a retirement, but rather an active restlessness. I haven’t had enough time for my family or my hobbies. This is definitely going to change.

» I will make my contribution to achieving our growth objectives with an efficient value-added chain. «

ANSGAR LENGELING
MEMBER OF THE BOARD OF MANAGEMENT / COO

Mr Lengeling, please take this opportunity to tell the readers of this annual financial report a bit about yourself.

LENGELING I would love to. I only recently started with the company – on 1 November 2016 to be precise – and for many I am certainly still “the new guy”. At any rate, I am excited to get to know Leifheit, our employees, customers and shareholders even better in the period ahead and look forward to more great collaboration on the Board of Management. A little information about my life: I was born in Gelsenkirchen, in the Ruhr region, and studied engineering at the TH Karlsruhe. I later graduated with an MBA. I spent large parts of my professional life at Bosch. For many years I worked as a plant manager for Robert Bosch GmbH in China and Hungary. I was most recently in charge of production, logistics, procurement and quality management in the management board of the Home & Garden business unit and responsible for plants in Hungary and England.

What are your main focal points as a new member of Leifheit’s Board of Management?

LENGELING Mr Radke just mentioned it: on Leifheit’s Board of Management, I am in charge of procurement, production, logistics, development and quality. In this role, I will be able to really contribute the experience I have gained during my career so far to its full extent. With the strategy “Leifheit 2020”, our company is in the midst of a transformation process. I will make my contribution to achieving our growth objectives with an efficient value-added chain.

To our shareholders

Combined management report

Consolidated financial statements

Further information

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Report of the Supervisory Board

Dear Ladies and Gentlemen

The Leifheit Group saw a number of changes in 2016. Our "Leifheit 2020" strategy is increasingly successful, and turnover is developing well. We are satisfied with the course of development in 2016, especially in the strategically important Brand Business. Also with the profitability we are on the right path. Despite significantly lower foreign currency gains the operating result was above the previous year.

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.

In 2016, the Supervisory Board held four regular meetings and one extraordinary meeting. Attendance at the meetings of the Supervisory Board and its committees averaged 88%. Mr Schmidt was prevented from attending three Supervisory Board meetings, one Audit Committee meeting and one Personnel Committee meeting; he therefore took part in only half or less of the meetings of the Supervisory Board and the Audit Committee. Mr Gritzuhn was prevented from attending one Supervisory Board meeting. He and all other members of the Supervisory Board otherwise attended all meetings of the Supervisory Board and its committees. As a result, no other member of the Supervisory Board attended only half or less of the meetings of the Supervisory Board or of the committees of which he or she was 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 to the Supervisory Board

At the request of the Board of Management of Leifheit AG, Ms Sonja Wärntges and Mr Ulli Gritzuhn were appointed as members of the Supervisory Board of Leifheit AG with effect from 4 February by the district court of Montabaur. The appointment became necessary after Dr Robert Schuler-Voith resigned as a member of the Supervisory Board and as its Deputy Chairman, and after Dr Friedrich M. Thomée also resigned as a member of the Supervisory Board within the stipulated period at the end of 2015.

The Supervisory Board and the Board of Management of Leifheit AG would like to thank the former Supervisory Board members for their many years of service and their great commitment to the board. Special thanks go out to Dr Schuler-Voith, who actively helped shape the strategic focus of Leifheit in his role as a major shareholder and Supervisory Board member starting in 1992, thereby strengthening the company on a lasting basis and positioning it excellently for the future.

HELMUT ZAHN
CHAIRMAN OF THE SUPERVISORY BOARD

In Sonja Wärntges, member of the Management Board and CFO of DIC Asset AG, and Ulli Gritzuhn, General Manager of Unilever Deutschland GmbH, the company succeeded in attracting both an acknowledged financial expert as well as an authority on the consumer goods industry for the Supervisory Board. The new members of the board were confirmed at the Annual General Meeting of Leifheit AG on 25 May 2016 for the remaining term of the Supervisory Board – and therefore for the period until the end of the Annual General Meeting that will decide on the approval of the actions of the Supervisory Board for financial year 2018.

Changes to the Board of Management

In June 2016, the Supervisory Board extended Thomas Radke's contract by 3 years until 31 December 2019. As Chairman of the Board of Management (CEO) of Leifheit AG, he continues to be responsible for marketing, sales and HR, as well as the Soehnle, Herby and Birambeau divisions.

In addition, the Supervisory Board made changes to the leadership of the board department operations and appointed Ansgar Lengeling as a member of the Board of Management from 1 November 2016. Having taken over operations from Dr Claus-O. Zacharias and development from Mr Radke, he is also responsible for procurement, production, logistics, quality and development.

Furthermore, the Supervisory Board appointed Mr Ivo Huhmann as a member of the Board of Management with effect from 1 April 2017. Mr Huhmann will take over responsibility for finance, controlling, business processes/IT, legal affairs and auditing from Dr Zacharias, who will leave the Board of Management as planned over the course of 2017. In doing so, the Supervisory Board has completed its prudent succession planning and has set the course for the future of the Board of Management.

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.

The new Supervisory Board members were welcomed as part of the extraordinary meeting on 13 February 2016. By elections were held following the personal introductions. Mr Karsten Schmidt was elected as Deputy Chairman of the Supervisory Board. Ms Wärntges and Mr Schmidt were elected to the Audit Committee, with Ms Wärntges taking over as Chairwoman of the Audit Committee. Furthermore, Mr Ulli Gritzuhn was elected to the Personnel Committee.

At the meeting on 30 March 2016, the Supervisory Board, in the presence of the auditor, intensively discussed and reviewed the consolidated financial statements and the annual financial statements, the management reports of the Leifheit Group and Leifheit AG, the report on relationships with related parties, the draft resolution regarding the report of the Supervisory Board and the agenda of the Annual General Meeting on 25 May 2016. Additional topics were the extension of Mr Radke's contract and consultations on the succession planning for the Board of Management. Another topic was the review of the remuneration system for the Board of Management, which was deemed to be effective. The results of the Supervisory Board's self-evaluation were presented and discussed. There were no further comments or suggestions for improvement. In addition, investment projects were discussed and approved; the objectives of the Supervisory Board and individual items regarding the corporate governance code were also discussed.

The Supervisory Board meeting on 25 May 2016 dealt with the preparations for the Annual General Meeting. Following the Annual General Meeting, the Supervisory Board confirmed – after the election of the new Supervisory Board members – the composition of the Supervisory Board and the committees as resolved at the extraordinary Supervisory Board meeting in February. Furthermore, the Supervisory Board examined the sales and communication strategy in depth. The heads of the respective departments also took part in the consultations. The Supervisory Board approved the motion by the Board of Management to confer the power of attorney to Leifheit AG directors.

On 24 June 2016, the Supervisory Board resolved in writing to extend Mr Radke's contract and appointed Mr Lengeling.

The medium-term planning for the period from 2017 to 2020 was discussed in depth at the meeting on 22 September 2016, as was the profitability target. In addition, the Supervisory Board discussed succession planning at management level and approved the continuation of the employee stock programme. The revision of the rules of procedure for the Board of Management and the allocation of duties (Geschäftsverteilungsplan) were discussed and approved. The Supervisory Board also took a close look at the corporate governance code. A Nominating Committee was formed, consisting of Mr Gritzuhn, Ms Wärntges and Mr Zahn, who took over the position of Chairman. A decision was also made to agree a D&O insurance deductible for the Supervisory Board from financial year 2017, in line with the recommendations of the corporate governance code.

The Supervisory Board meeting on 7 December 2016 focused on operational planning for 2017. The personnel and investment planning were discussed in depth and approved. Additional topics were the performance of the Supervisory Board's self-evaluation and the resolution of 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 the accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system, the annual audit (in particular, the independence of the auditor, the services provided additionally by the auditor, the issuing of the audit mandate to the auditor, the determination of the focal points of the audit and the fee agreement) and compliance. 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 that 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 five times in financial year 2016 and looked intensively into the issue of succession planning for the Board of Management. It prepared the extension of Mr Radke's Board of Management contract, the decision to make Mr Lengeling the Board of Management member responsible for operations and the appointment of Mr Huhmann as CFO.

The Nominating Committee's tasks include searching for and selecting suitable Supervisory Board candidates for election by the Annual General Meeting. The search for and selection of Ms Wärntges and Mr Gritzuhn took place in 2015, meaning that no Nominating Committee meetings were necessary in financial year 2016.

Audit and approval of the annual financial statements

The annual financial statements of the Leifheit Group and the combined management report for financial year 2016, which have been prepared in accordance with section 315a 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 2016, 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 statement, 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 statement and the audit reports were discussed in depth at the Audit Committee meeting on 27 March 2017; special attention was paid to the defined focal points of the audit. At the Supervisory Board's balance-sheet meeting on 28 March 2017, 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 auditors were available for further questions and information.

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 in accordance with section 172 of the German stock corporation act (AktG) are therefore adopted. 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 € 2.10 per share for financial year 2016. In view of the company's dividend policy expanded in 2016, the Board of Management and the Supervisory Board decided to propose in addition a special dividend of € 0.80 per share.

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, Germany, 28 March 2017

The Supervisory Board

Helmut Zahn
Chairman

Corporate governance report

The Board of Management and the Supervisory Board report below on corporate governance at Leifheit according to 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.

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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. Besides the DCGK, the German law, in particular the regulations of stock corporations and financial markets, and the articles of incorporation of Leifheit AG provide the framework for structuring corporate governance.

Large parts of the code recommendations implemented

In the reporting period, the Board of Management and the Supervisory Board discussed the recommendations of the DCGK in the version from 5 May 2015 and updated the declaration of conformity in accordance with section 161 para. 1 German stock corporation act (AktG) in December 2016 on the basis of these discussions. Leifheit AG currently applies most of the government commission's recommendations. The 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, 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 stock corporation act and the articles of incorporation.

The AkG 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. Dealings 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 on 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 (so-called 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.

Remuneration report see page 61 f.

Compliance

Compliance as a Group-wide action to ensure compliance with statutory provisions and internal guidelines forms an essential management and monitoring task at Leifheit AG.

With the Leifheit Code of Conduct, we have formulated fundamental rules that are intended to ensure compliance at all times with these provisions and guidelines. The Code of Conduct is intended to assist all Leifheit employees in their day-to-day tasks, thereby serving as a guide when addressing legal and ethical challenges. The management is fully committed to compliance and carries the corporate responsibility to adhere to statutory provisions and internal guidelines.

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 the 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 and the independence of the auditors.

Conflicts of interest

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.

Organs
see page 112

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 the financial year 2016, there were no reportable relationships or transactions with related parties.

Stakeholder dialogue
see page 45

Objectives of the Supervisory Board in terms of its composition

The Supervisory Board agreed at its meeting in March 2016 to adjust the objectives most recently set in December 2015 for its composition. In particular, the Supervisory Board resolved on the following specific objectives:

1. Each member of the Supervisory Board must immediately disclose any potential conflicts of interest.

Leifheit share
see page 10

2. The Supervisory Board should have at least two independent members within the meaning of no. 5.4.2 of the DCGK.
3. The Supervisory Board must have at least one independent member with specialist knowledge in the areas of accounting or audits of financial statements (section 100 para. 5 AktG).
4. The Supervisory Board must have at least one member with specialist knowledge of the consumer goods industry or branded companies in an international environment.
5. In order to represent the largest possible range of life experience, the difference in age between the youngest and oldest member of the Supervisory Board should be at least ten years. No member of the Supervisory Board should be older than 70 years of age.
6. Membership on the Supervisory Board should be limited to 25 years.

All objectives are met at the present time.

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 Leifheit website.

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.

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 includes capital market conferences, for example. More information on our capital market activities can be found in the "The Leifheit share" section of the 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 section 15a of the German securities trading act (WpHG), 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 where such transactions total or exceed € 5,000 in a calendar year. Notifications that are received are published on the website.

The total number of Leifheit shares held by members of the Board of Management and the Supervisory Board as at 31 December 2016 was neither directly nor indirectly larger than 1% of all shares issued by the company.

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 315a para. 1 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. 3 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 arise 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.

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The Annual General Meeting on 25 May 2016 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 the financial year 2016. KPMG has been the group auditor of Leifheit AG since the financial year 2016. The signatory auditors are Franz Andreas Höfter (since the financial year 2016) and Torsten Hofmann (since the financial year 2016). 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 section 289a HGB is publicly accessible on our website. It 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 and the declaration on the defined targets according to the German law on the equal participation of women and men in management positions.

The Leifheit share

Significant fluctuations shaped the development of share prices on the stock market in 2016. In this environment, the price of the Leifheit share developed very favourably once again, increasing by 14.1% over the year. The Board of Management and the Supervisory Board will propose to the Annual General Meeting a dividend of € 2.10 and furthermore a special dividend of € 0.80 per share for the financial year 2016.

A trading year filled with surprises

Trading year 2016 proved to be an eventful one filled with surprises. Concerns over global economic growth, the Brexit referendum in the United Kingdom, the problems faced by Italian banks, the continued debate over interest rates, the outcome of the presidential election in the United States and the government crisis in Italy following the constitutional referendum all had an impact on the development of share prices on the stock market.

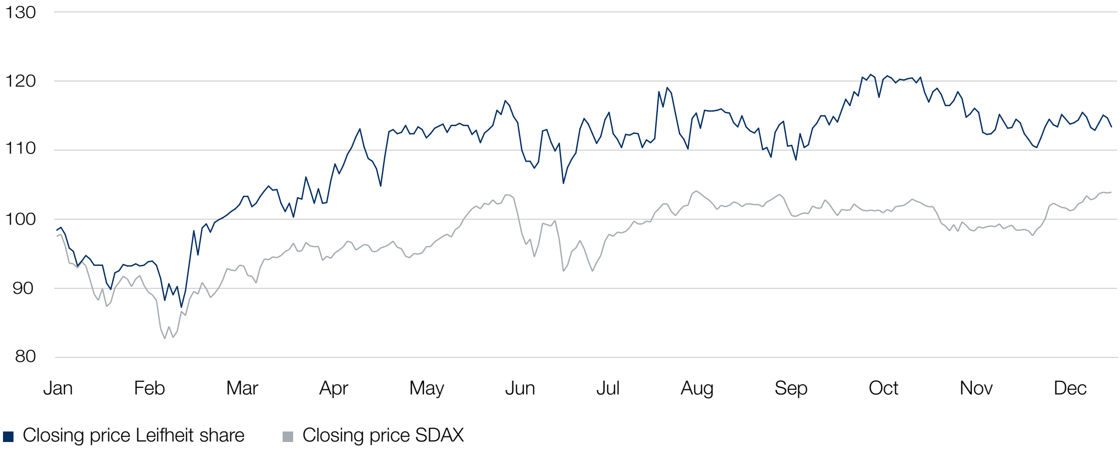
Weak economic data from China and the continued decline of crude oil prices triggered heavy losses right at the start of the year. The DAX, which is the benchmark index for Germany's stock market, lost around 19% in the first several weeks. It bottomed out in February when it reached a low of 8,752 points. Share prices had barely recovered when the majority decision reached by UK citizens to leave the European Union provided fresh turbulence. Against this backdrop, the German stock market languished for a long time without any momentum. Markets witnessed strong upward movement after the election of Donald Trump in early November to become the next US president. The DAX closed at 11,481 points on 30 December 2016, the last trading day of the year. This closing rate, which also marks the high for 2016, amounts to a 6.9% year on year increase.

The SDAX, which is Deutsche Börse's share index for smaller companies, is the relevant benchmark index for the Leifheit share. Its development in 2016 largely mirrored that of the DAX, also reaching its low in February of 7,579 points. The high for the year of 9,536 points occurred in August during the recovery phase after the Brexit vote. The index then proceeded to trend laterally until early November. The SDAX closed at 9,519 points on the final day of trading, up 4.6% from the end of 2015.

Leifheit share price rises once again

The price of the Leifheit share (ISIN DE0006464506) rose significantly once again in the past year. During the opening weeks of 2016, the price of the share in Xetra, Deutsche Börse's electronic trading system, largely mirrored developments of the SDAX at first. The Leifheit share recorded its low for the year of € 43.50 on 15 February. The share price then began to see development that ran contrary to the SDAX, trending between € 56 and € 58 in the middle of the year. The inclusion of the Leifheit share in the SDAX in September put additional wind in its sails. On 10 October, the share reached a new all-time high in electronic trading with a price of € 60.24.

Performance of the Leifheit share price in 2016
compared to the SDAX in % (indexed to 100)



Deutsche Börse decides once a quarter on the composition of its indices. The criteria for being included are market capitalisation and a share's trading volume. During the decision made in December, the shares of the companies Innogy and Uniper, which were created when the two utilities RWE and Eon both split, were admitted to the MDAX. In light of this, the Leifheit share left the SDAX again.

In the final weeks of 2016, the Leifheit share price began dropping from the record level it had previously reached and stabilised around the levels from the middle of the year. Trading closed at € 56.49 on 30 December 2016, which is a 14.1% increase on the closing price from 2015.

As a result, market capitalisation for Leifheit AG as calculated based on all issued shares was approximately € 282 million at the end of 2016, an increase of € 34 million as compared with the end of the previous year (31 December 2015: € 248 million). Adjusted for own shares, market capitalisation reached € 269 million (31 December 2015: € 235 million).

Further rise in trading volume

The trading volume for Leifheit shares in Xetra averaged 6,414 shares per day in the 2016 reporting period, which is significantly higher than the trading volume in the previous year (2015: 5,714 shares per day).

Return on an investment in Leifheit shares

1 year	14.1% p.a.
3 years	22.2% p.a.
5 years	22.4% p.a.
10 years	9.9% p.a.

Historical annual return at the end of 2016 without reinvestment of the dividend distributed. Calculated using the yield calculator on the Leifheit AG website (www.leifheit-group.com).

Key figures for the Leifheit share in €

	2012	2013	2014	2015	2016
Net result for the period per share	1.97	2.16	2.97	3.02	3.06
Free cash flow per share	–0.28	4.11	3.88	2.96	3.01
Dividend per share	1.50	1.65	1.80	2.00	2.10[6]
Special dividend per share	–	–	–	0.75	0.80[6]
Dividend yield (in %)[1]	5.2	5.3	3.9	5.6	5.1[6]
Equity per share[2]	17.98	18.30	18.16	19.70	19.10
High[3]	30.56	35.30	46.40	59.66	60.24
Low[3]	20.45	26.00	32.22	39.05	43.50
Year-end closing price[3]	29.00	30.93	46.40	49.50	56.49
Number of shares (in thousands)[4]	4,760	4,749	4,750	4,753	4,755
Year-end market capitalisation (in €m)[5]	145	155	232	248	282

1 Based on the year-end closing prices of the respective financial year.
2 Excluding the distribution of the proposed dividends and the share in the profits of the minority shareholders.
3 Closing prices on Xetra.
4 Number of outstanding shares as at 31 December (excluding treasury shares).
5 Based on all shares issued.
6 Dividend proposal.

Dividend increase plus special dividend

The Board of Management and Supervisory Board of Leifheit AG will be proposing to the Annual General Meeting on 24 May 2017 the payment of a dividend of € 2.10 per share for the financial year 2016 (2015: € 2.00) – the eighth consecutive dividend increase. In view of the company's dividend policy expanded in 2016, the Board of Management and the Supervisory Board will furthermore propose a special dividend of € 0.80 (2015: € 0.75) per share.

If approved by the Annual General Meeting, the dividend and special dividend will be paid out from 30 May 2017. The amount to be distributed comes to a total of € 13.8 million (2015: € 13.1 million). This results in a dividend yield of 5.1% for 2016 with respect to the closing price at the end of the year.

Shareholder-focused dividend policy

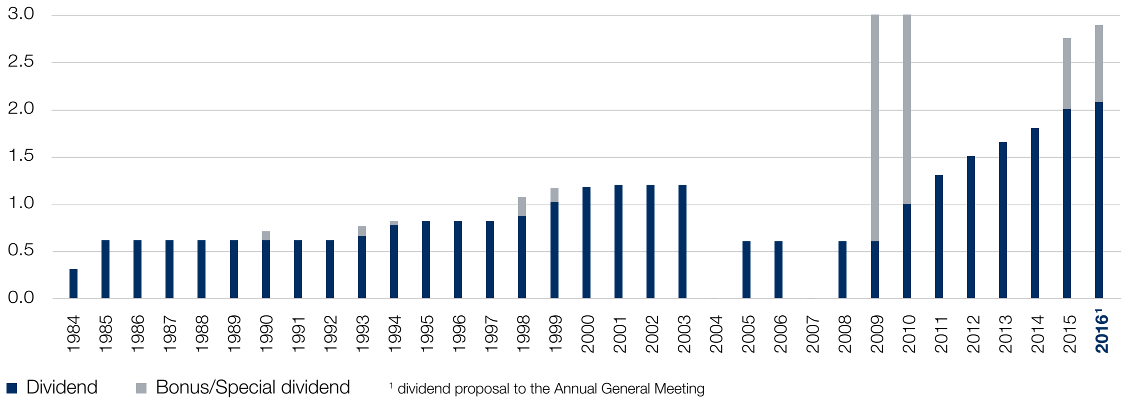
The Board of Management and Supervisory Board seek to have shareholders share commensurately in the company's success. The results-driven dividend policy principally provides for distributing around 75% of the net result for the period or the free cash flow of a financial year to the shareholders as dividends.

Provided that Group liquidity at the end of the year exceeds the expected liquidity requirements for the following year for potential M&A activities and seasonal working capital fluctuations (in the total amount of € 55 million) as well as for the dividend payments, the Board of Management and Supervisory Board will each also consider the distribution of special dividends.

Capital increase from the company's funds by issuing bonus shares

To further enhance the liquidity in the stock, we will propose a capital increase from the company's funds at a ratio of 1:1 to the Annual General Meeting. As a result, the share capital shall be doubled from at present € 15 million to € 30 million by converting retained earnings. This measure has no impact on the volume of the company's balance sheet equity. Therefore every shareholder would receive one additional share (so-called bonus share) for each Leifheit share held without additional payment. The share of equity for every shareholder remains unchanged. The new shares shall be entitled to participate in profits from 1 January 2017.

Historical dividend development
Dividend per share in €



[1] dividend proposal to the Annual General Meeting

Purchase of treasury shares

On 21 May 2015, the Annual General Meeting 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 in 2016. Leifheit used 1,582 treasury shares for the issuance of shares as part of an employee participation programme. As at the end of 2016, Leifheit AG held 245,485 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, this corresponds to an average of € 30.33 per share.

Changes to the shareholder structure

As at 31 December 2016, the portion of Leifheit shares that are in free float amounted to 76.7%. The calculation is performed in accordance with the definition set by Deutsche Börse for share indices, according to which blocks of shares below a threshold of 5% are considered to be part of free float.

Shares of funds and investment companies with short-term investment strategies are also free floating, provided the amount does not exceed 25% of the share capital. By contrast, non-free-floating or “fixed” holdings – regardless of the amount – include treasury shares that the company itself holds (4.91%), as well as employee shares subject to a vesting period (0.1%).

According to the information and voting rights notifications available to Leifheit AG, the company’s shareholder structure was as follows as at 31 December 2016:

Shareholder structure of Leifheit AG

MKV Verwaltungs GmbH, Grünwald (D)	10.03%
Joachim Loh, Haiger (D)	8.26%
Leifheit AG, Nassau (D) – treasury shares	4.91%
Employee shares subject to a vesting period	0.10%
Free float	76.70%
Shares above the disclosure threshold of 3% contained therein:	
Capital Income Builder, Los Angeles (USA)	5.60%
MainFirst SICAV, Sennigerberg (LUX)	5.04%
Nmás1 Asset Management, SGIIC, S.A., Madrid (ES)	3.01%

Analysts' recommendations: "holding" or "buying"

During the financial year 2016, analysts from a number of banks and research providers tracked Leifheit AG's business development and strategy from the standpoint of the capital markets. Investment recommendations were published by Berenberg Bank, Bankhaus Lampe, Oddo Seydler Bank and GSC Research. The analysts recommended that investors "hold" or "buy" the company's shares, with target prices ranging between € 58.00 and € 65.00. More detailed information is available on the Leifheit AG website at analysts.leifheit-group.com.

analysts.leifheit-group.com

Dialogue with shareholders and the capital market

Leifheit regards itself as a sound equity on the capital market with a long-term focus. Open communication with shareholders and potential investors is a matter of course for us. We aim to provide information about all relevant developments and events at our company in a comprehensive, prompt and transparent manner. In light of this, we once again actively maintained dialogue with analysts and investors in the reporting period.

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During the "Ambiente" international consumer goods trade fair in February, we provided the trade and business press, analysts and investors with information as part of a press conference and capital market presentation. We used the opportunity to unveil our strategy and new products. In March, the focus was on the press conference announcing Leifheit's balance sheet results and on the annual analysts' conference.

Many shareholders took the opportunity in May to personally receive information on the company's performance from the Board of Management and Supervisory Board as part of the Annual General Meeting, which was held in Frankfurt am Main, Germany, for the first time. At the same time, we also offered shareholders the option of voting through an online service. This new offer was supplemented by a hotline and a live stream of the public portion of the Annual General Meeting.

In November, Leifheit once again presented itself to the capital market at the German Equity forum. By participating in additional capital market conferences and roadshows in major European financial centres over the course of the year, we provided analysts and investors with additional opportunities to have direct contact.

Our website also makes it possible to get to know the Leifheit Group and its brands and products. In the Investor Relations section, 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

Combined management report

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 315a para. 1 of the German commercial code (HGB). The management report of Leifheit AG and the Group management report have been combined according to sections 315 para. 3 and 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 one of the both reportable segments (in the following shortform segments), we distribute our products under the two well-known 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. Contract manufacturing for third parties was ceased in the fourth quarter of 2015. 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

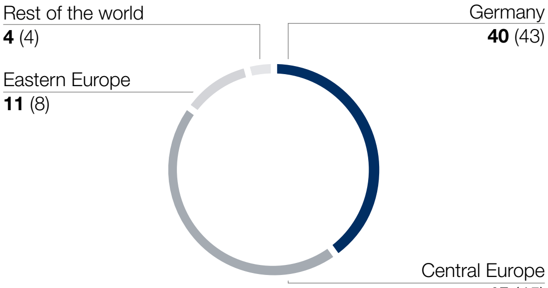
BRAND BUSINESS	VOLUME BUSINESS
- High-quality brand products with a high degree of consumer benefit in the medium to upper price segment - Consistent brand management - Systematic processes for innovation and market launch - Distribution in international markets - Product categories: cleaning, laundry care, kitchen goods and wellbeing	- 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
LEIFHEIT SOEHNLE	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 40% of turnover, and the countries of Central Europe with a share of 45%. The sales and distribution region of Central Europe includes the Netherlands, France and Austria, for example. We currently generate around 11% of our turnover in Eastern European markets, such as the Czech Republic, Poland and Slovakia.

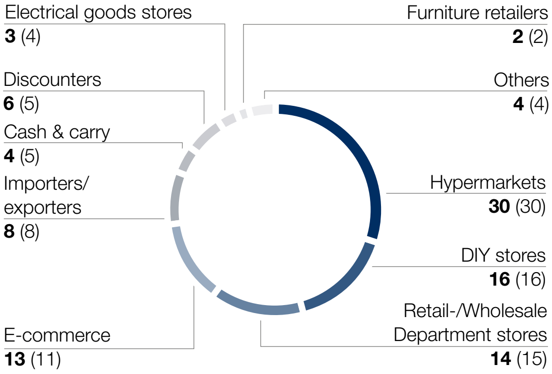
We focus our sales and marketing activities on European target markets. We also draw on growth opportunities outside of Europe, such as in the US, the Middle East and the Far East. Here, we distribute our products mainly through distributors and conduct spot business if corresponding market opportunities 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 just over 30% of turnover, are the Leifheit Group's most important sales channels. We generate around 16% of Group turnover at DIY stores and about 14% in traditional wholesale and retail. The proportion of modern home-shopping (e-commerce) has risen continuously in recent years and amounted to roughly 13% in 2016.

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

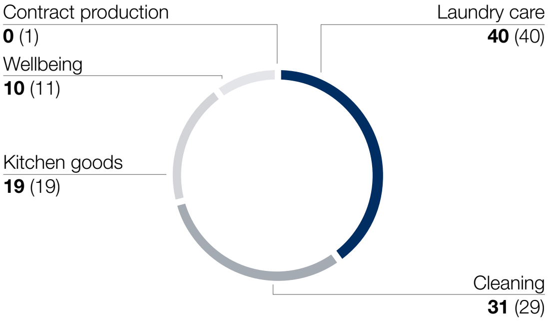


For more information about sales channels see page 42

We focus on the product categories of cleaning, laundry care, kitchen goods and wellbeing. In Germany and many European markets, Leifheit is among the leading providers of cleaning appliances, especially flat mop systems, as they are known. Laundry care products, accounting for around 40% of turnover, are the largest product category. We generate some 31% of Group turnover with cleaning products; some 19% of Group turnover comes from kitchen goods. The wellbeing category includes Soehnle brand products and accounts for around 10% of turnover. Soehnle is the market leader for bathroom and kitchen scales in Germany. Here, we hold a market share of 42.4% for kitchen scales and 22.9% for bathroom scales. Soehnle is also among the leading providers in other European countries.

For more information about regions see page 24 f.

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

Effective 1 January 2016, Leifheit AG acquired from the minority shareholder the remaining 29% of the shares of Leifheit CZ a.s., Hostivice, Czech Republic, which is already controlled and fully consolidated.

In the second quarter in 2016 the wholly owned subsidiary Leifheit Österreich GmbH, Wiener Neudorf, Austria, has been founded.

There were no other 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

The management board of Leifheit AG decided as at 8 March 2017 to propose a capital increase from the company's funds at a ratio of 1:1 to the Annual General Meeting scheduled for 24 May 2017 to further enhance the liquidity in the stock. As a result, the share capital shall be doubled from at present € 15 million to € 30 million by converting retained earnings. This measure has no impact on the volume of the company's balance sheet equity.

Every shareholder will receive one additional share (so-called bonus share) for each Leifheit share held without additional payment. The share of equity for every shareholder will remain unchanged. The new shares will be entitled to participate in profits from 1 January 2017.

There were no further 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). As at 31 December 2016, the market capitalisation amounted to approximately € 282 million. 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 branches outside of Germany which are not legally independent – particularly distribution offices – in Brescia, Italy (established in 1982), and in Aartselaar, Belgium (established in 1987). The permanent establishments of the previous Austrian branch were with retroactive effect to 1 January 2016 included in the wholly owned subsidiary Leifheit Österreich GmbH, which was founded in 6 June 2016.

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 logistic), 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 15 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 ten 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.

With regard to "where", significant points are a stronger focus on consumers and retail customers, clear brand positioning and clear positioning of the 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. In addition, we want to continue to expand on our abilities and implement innovative solutions – both with regard to consumers and with regard to retail customers and dealers. In doing so, we will continue to offer exceptional product quality. A streamlined, flexible value chain helps us to do this. 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, financial 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 in 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.

"Leifheit 2020"

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. In addition, the key performance indicator return on capital employed (ROCE) is calculated annually, which measures the profitability of the capital employed. The key measures of both business segments are the turnover and the EBIT. No significant changes were made to the control system in financial year 2016.

Economic environment

The global economy continued its moderate growth in 2016. In spite of many political uncertainties and weak global trade, the European economy remained on course for growth. The growth rate in Germany was above the European average owing first and foremost to domestic demand, which was fuelled by private and government consumption expenditure.

Macroeconomic situation

With an increase of 3.1% (2015: 3.2%), the global economy continued its moderate growth in 2016. However, development was lacklustre, according to the International Monetary Fund (IMF) in its estimates for the reporting period. Growth rates did not pick up in many advanced economies until the second half of the year. By contrast, other regions – such as Latin America and Turkey – fell behind. The prices of many commodities recovered slightly over the course of the year. Oil prices also rose towards the end of the year after oil-producing countries agreed to limit production. All told, the year was full of political surprises, such as British voters' decision to exit the European Union, the election of Donald Trump as the president of the US or the failure of the Italian referendum on changes to the country's constitution. So far, none of the events have resulted in the feared negative consequences.

+ **1.8**%

GDP growth in the EU

The European economy continued its upturn in the reporting year 2016 in spite of the political uncertainties and weak global trade. The European Commission anticipates adjusted gross domestic product (GDP) growth of 1.8% (2015: 1.9%) for the European Union as a whole. For the Eurozone, the Commission expects growth of 1.7% (2015: 1.6%). This growth is being driven by private and public consumption, the ifo (Munich), Insee (Paris) and Istat (Rome) economic research institutes write in their joint forecast. An increase in construction activity in Germany, France and Italy is another factor. In France, economic momentum picked up slightly, according to the Commission's projections. Growth of 1.3% (2015: 1.1%) is expected. By contrast, GDP growth in Italy is estimated at 0.7% (2015: 0.9%). As in France, growth picked up in Spain, with the increase here reaching an estimated 3.2% (2015: 3.1%).

Economic development also gathered speed in Germany. Adjusted for price, GDP grew by 1.9% (2015: 1.7%), according to initial calculations by the German Federal Statistical Office, thereby placing it somewhat ahead of the European average. At the same time, the growth rate was slightly higher than the German average over the past ten years. Domestic demand was the main driving force. It was fuelled by the continued positive development of the labour market; by private and government consumption expenditure as a result of migration by people seeking protection, among other factors; and by investments in construction and equipment.

Despite greater political instability in some cases, Eastern Europe continued to record higher rates of growth than most Western and Southern European countries. A European Commission estimate places economic growth in Poland in the reporting year at 3.1% (2015: 3.5%). Growth of 2.2% (2015: 4.3%) is expected for the economy of the Czech Republic. The estimated growth rate for Slovakia, a member of the Eurozone, stands at 3.4% (2015: 3.2%). Economic development in Russia outperformed expectations in 2016 due primarily to the higher price of oil. At −0.6%, the drop in economic growth was significantly less pronounced than in the previous year, according to IMF estimates. GDP contracted by 3.7% in 2015 mainly on account of the development of commodity prices and the economic sanctions.

In the US, economic growth disappointed expectations in the reporting period. Although economic growth gathered strength in the second half of the year following a weak first half, the IMF estimates an increase of only 1.6% (2015: 2.6%). In China, the momentum of economic development has been slowing for several years now. The continued measures by the government are apparently having an effect. At 6.7% (2015: 6.9%), growth in 2016 was probably stronger than expected by the IMF.

Currency development

At the beginning of the year, 1 euro traded for approximately 1.09 US dollars. After that, the euro gained value. The exchange rate's development in the months that followed was influenced by uncertainty in connection with the UK's referendum on EU membership, weak economic data from the US and the decision by the country's central bank not to offer the prospect of a date for raising the benchmark interest rate. From February to September, the exchange rate ranged between 1.11 and 1.13 US dollars. Following the election of the new American president, the expectation of sweeping spending programmes led to a significant rise in the value of the US dollar. At the end of the year, the European Central Bank's reference rate for the euro stood at 1.05 US dollars.

Industry development

As in Germany, private consumption is responsible for more than 50% of gross domestic product on average in the countries of the European Union. The European Commission's monthly Consumer Confidence Indicator measures consumers' future propensity to consume. It increased significantly in the Eurozone towards the end of the reporting period, and throughout the entire European Union over the course of the year. Consumer confidence in the Eurozone reached a value of –5.1 points (2015: –5.7 points). The figure for the entire European Union stood at –4.6 points (2015: –3.7 points). The indicator's long-term average stands at –12.7 points.

Eurostat, the European Union's statistical office, constantly monitors the development of the retail sector in the member states. Between November 2015 and November 2016, retail sales volume rose by 2.3% in the Eurozone and by 3.4% throughout the entire European Union. In the previous twelve months, the corresponding growth rates stood at 1.4% and 2.6% respectively.

In Germany, the number of people employed reached a new post-reunification high on average in 2016. At the same time, incomes rose. As a result, private consumption expenditure increased by 2.0% (2015: 1.9%) adjusted for price. Government and private consumption expenditure were also the main driving force behind the country's growth in 2016. According to preliminary estimates by the Federal Statistical Office, retail turnover rose by 1.8% to 2.1% (2015: 2.8% to 3.1%) adjusted for price. Turnover of furnishings, household appliances and building materials posted a real increase of 1.0% (2015: 2.4%).

Following a slight decline in October and November, consumer sentiment in Germany rose again at the end of 2016. Consumers' economic expectations and propensity to buy recovered; only their income expectations worsened slightly. The GfK market research institute's overall consumer climate indicator reached 9.8 points in December (2015: 9.3 points). Over the course of the year, it remained largely constant at a high level of between 9.4 and 10.2 points.

Accompanied by minor fluctuation, the business climate in the German industrial sector, which is monitored by the Munich-based ifo Institute, rose constantly in the reporting year. The economic climate index rose from 108.4 points in December 2015 to 111.0 points in December 2016. In retail, the index remained steady at a high level in the last quarter of the year. The European Commission's Business Climate Indicator to the Eurozone countries also posted significantly positive development in December. Starting from 0.3 points in January, the indicator climbed to 0.8 points by the end of the year.

Regulatory environment

The regulatory environment for the Leifheit Group's business model and products remained largely unchanged in financial year 2016.

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

Turnover at the Leifheit Group rose by 2.3% to € 237.1 million in financial year 2016. With an increase of 4.1%, the strategically important Brand Business was once again the driving force of growth. The development of Volume Business disappointed expectations somewhat. Earnings before interest and taxes reached € 22.1 million.

Comparison of actual performance with projected business performance

For the most part, we met business expectations in 2016.

Turnover at the Leifheit Group rose by 2.3% to € 237.1 million. The original plan envisaged an increase of 3 to 4%. The turnover growth was mainly built on the positive trend in Brand Business, with greater demand for Leifheit brand products. The segment posted an increase of 4.1% to € 195.8 million. Its development was therefore in line with our plan, which envisaged a 4 to 5% rise in turnover. We expected turnover approximately on par with the previous year in the significantly smaller and more volatile Volume Business. At € 41.3 million, turnover in the segment was down 5.7% year on year due mainly to the postponement of Project Business, which was included in the plan for the fourth quarter.

Earnings before interest and taxes (EBIT) reached € 22.1 million. Our forecast for the fiscal year stood at € 22 million to € 23 million, including a foreign currency result of around € 1 million. We expected appreciation of the US dollar and a euro exchange rate of 1.05 US dollars for the end of 2016 and the start of 2017. However, the development of the dollar exchange rate contradicted our forecast for quite some time. As a result, foreign currency gains, at € 0.3 million at the end of the year, lagged behind our original expectations. Adjusted for the foreign currency result, EBIT rose by 13.4% year on year to € 21.8 million. The higher contribution margins due to the rise in turnover and the increase in the gross margin played a major role in the improvement in earnings.

At 16.3%, return on capital employed fell short of our expectations of 18% in financial year 2016. There were two main factors behind this development: the elimination of loss carry-forwards led to an increase in actual taxes, and the expanded volume of business resulted in a rise in working capital.

In terms of free cash flow, by contrast, we slightly exceeded our forecast of € 14 million and achieved € 14.3 million. Compared to the previous year, the further increase in earnings and the somewhat lower-than-planned investment volume were the main reasons behind the rise.

The forecasts contained in the financial report for 2015 for business performance in the subsequent year were continuously reviewed by Leifheit. Where necessary, they were adjusted to the current developments or defined more clearly as the year progressed based on the respective quarterly statements in August and November 2016.

Our forecast for financial year 2016 had called for EBIT of € 22 million to € 23 million. At the time, we expected a positive foreign currency result of around € 1.0 million. Due to a development of the euro to US dollar exchange rate that deviated from our assumptions, we stopped expecting a positive foreign currency result after two quarters and therefore adjusted our EBIT forecast to € 21 million to € 22 million in our half-yearly financial report. In Volume Business, turnover development remained lower than expected in the first nine months. The earnings forecast was defined more clearly in November following the additional postponement of Project Business, which was expected for the fourth quarter. From that time on, we expected earnings to be at the lower end of the forecast corridor of € 21 million to € 22 million. The US dollar gained value over the course of the fourth quarter following the election of Donald Trump as the US president. As a result, the Group still managed to achieve a positive foreign currency result of € 0.3 million after all. At € 22.1 million, EBIT therefore fell within the originally expected range at the end of the year.

At Group level, we had originally expected turnover growth of 3 to 4% in financial year 2016. We anticipated growth of 4 to 5% in Brand Business and turnover on par with the previous year in Volume Business. In light of developments in the first nine months, we defined the forecast for Brand Business more clearly in November in the Q3 quarterly statement and adjusted our growth expectations to around 5%. However, customers did not take advantage of special offers to the full extent in the fourth quarter. The increase of 4.1% in Brand Business was ultimately within the original annual forecast. In Volume Business, turnover development failed to live up to our expectations in the first nine months. The postponement of Project Business, which was expected for the fourth quarter, also materialised. We therefore lowered our forecast in November and adjusted our expectations to include a decline in turnover of around 7%.

At the end of the year, turnover in Volume Business added up to € 41.3 million, thereby resulting in a decline of 5.7% instead of the expected turnover on par with the previous year.

We had planned total investments of € 8 million in financial year 2016, primarily in connection with the construction and expansion of the distribution centre in Blatná, Czech Republic, for Eastern European markets. After nine months, we expected investments to total € 7 million due to delays in certain measures and adjusted the forecast when we published the figures for the quarter in November. At the time, we also expected free cash flow of € 12 million to € 13 million due to earnings development following a forecast of € 14 million at the start of the year. We reached a free cash flow of € 14.3 million actually.

Forecast comparison	Actual 31 Dec 2015	Forecast 2016	August 2016	November 2016	**Actual 31 Dec 2016**
Group turnover	€m 231.8	+3 to 4%		lower end of the range of +3 to 4%	€m 237.1 +2.3%
Turnover Brand Business	€m 188.1	+4 to 5%		around +5%	€m 195.8 +4.1%
Turnover Volume Business	€m 43.7	on par with the previous year		around −7%	€m 41.3 −5.7%
Foreign currency result	€m 2.5	around €m 1	no positive foreign currency result	no positive foreign currency result	€m 0.3
Group EBIT	€m 21.7	€m 22 to 23	€m 21 to 22	lower end of the range of €m 21 to 22	€m 22.1
EBIT share Brand Business	71%	80%			76%
EBIT share Volume Business	29%	20%			24%
Investments	€m 7.1	€m 8		€m 7	€m 7.8
Free cash flow [1]	€m 14.1	€m 14		€m 12 to 13	€m 14.3
ROCE [2]	18.1%	18%		15 to 17%	16.3%

[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 on course for growth

€m 237.1
Group turnover

In financial year 2016, the Leifheit Group achieved turnover in the amount of € 237.1 million (2015: € 231.8 million). The € 5.3 million year on year rise corresponds to an increase of 2.3%. The further growth of the strategically important Brand Business was mainly supported by Leifheit brand products. The product category cleaning posted particularly successful development. A high base effect in Volume Business in the second half of the year, the discontinuation of contract management for third parties at the end of the previous year and postponed or absent business relating to special offers put a damper on development at the end of the year.

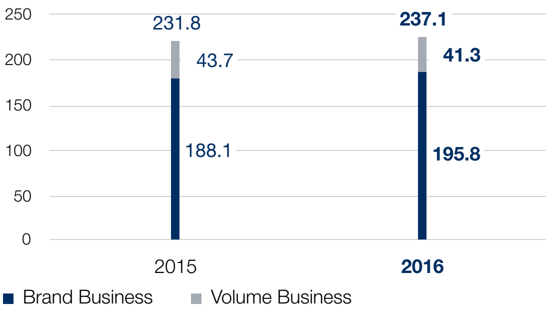
Growth in Germany slowed by extraordinary effects

60.1%
Foreign share

Regional turnover development was influenced by a variety of extraordinary effects in the reporting period. An important mail-order customer moved its delivery operations from Germany to Luxembourg, shifting turnover to that particular country. We also ceased contract manufacturing operations for a German customer as planned at the end of financial year 2015 in order to make use of the capacities freed up by this move.

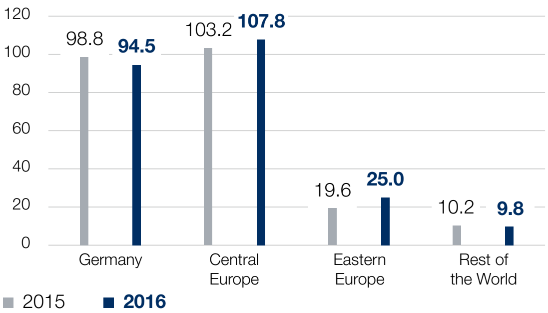
+4.5%
Turnover growth in Central Europe

Group turnover by segment
in €m



As a result, the Leifheit Group recorded a 4.4% overall decline in turnover to € 94.5 million (2015: € 98.8 million). On a like-for-like basis, turnover would have risen by just under 2% in Germany. Because business from special offers failed to materialise to the same extent as in the previous year, turnover development was also lower than expected in the fourth quarter in 2016. Our domestic market accounted for 39.9% of Group turnover (2015: 42.6%) in the reporting period.

Group turnover by region
in €m



Central Europe is the highest turnover region

All told, we generated 60.1% of turnover abroad (2015: 57.4%). Central Europe is the Leifheit Group's highest turnover sales and distribution region. Here, turnover climbed by € 4.6 million, or 4.5%, to € 107.8 million (2015: € 103.2 million) in the reporting period. The share of total turnover represented by the region therefore increased to 45.5% (2015: 44.5%). The relocation of an important retail customer's delivery operations from Germany to Luxembourg at the start of financial year 2016 had a positive impact. Strong growth rates in various markets – such as Italy, Belgium and Scandinavia – also played an important role in supporting the continuation of growth in this target region. By contrast, weaker development year on year in Volume Business put a damper on growth. Turnover had seen disproportionate growth in the second half of 2015 owing to the initial supply of a new retail customer in France.

Turnover in Eastern Europe rises sharply

We succeeded in expanding business significantly in our Eastern European markets in the reporting period. Group turnover there totalled € 25.0 million (2015: € 19.6 million), equating to a rise of € 5.4 million, or 27.8%. The region's share of turnover amounted to 10.5% in the reporting period (2015: 8.4%). Turnover in Eastern Europe continued to be generated exclusively in Brand Business. Despite the difficult political and economic situation in some parts, all of the target region's countries contributed to this growth. Turnover saw clearly double-digit growth rates in nearly all the markets we serve. The Czech Republic, Poland and Slovakia were the main drivers of growth.

Non-European markets post slight declines

Group turnover fell slightly in non-European markets in the reporting period. At € 9.8 million in total (2015: € 10.2 million), it declined by € 0.4 million, or 4.4%, and therefore accounted for a 4.1% share of turnover (2015: 4.5%). Growth in certain regions, such as the Middle East, stood in contrast to declines in regions such as Australia, the Far East and South America. Turnover in the US remained stable. The "Leifheit 2020" strategy envisages also seizing sales opportunities outside Europe. However, our focus is currently on the development of European markets.

Previous year's base effect has substantial influence on quarters

The quarterly development of turnover over the course of 2016 was decisively influenced by a base effect from the previous year. Leifheit has been supplying kitchen products made by the Group subsidiary Birambeau to a new retail customer in France since the third quarter of 2015. Turnover in Volume Business saw disproportionately high growth in the second half of 2015 and at the start of 2016 thanks to the initial supply of the customer. The strong first quarter had a substantial influence on the first half of the year.

The strategically important Brand Business continued its growth in the third quarter, whereas turnover declined year on year in the far smaller Volume Business, as expected, due to the disappearance of the initial equipment effect. In the fourth quarter, both segments were affected by slower business from special offers and the shift of planned volume to 2017. As a result, turnover generated in the final quarter was slightly lower than expected.

+27.8%

Turnover growth in Eastern Europe

Group turnover development by quarter in €m	2015	**2016**	Change
Q1	58.1	64.7	+11.5%
Q2	55.1	56.4	+2.4%
Q3	60.0	58.4	−2.7%
Q4	58.6	57.6	−1.9%
	231.8	**237.1**	**+2.3%**

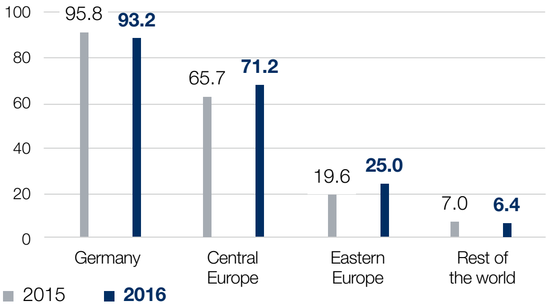
Brand Business continues sustainable growth

Brand Business encompasses the business activities involving Leifheit and Soehnle branded products and is the heart of our "Leifheit 2020" long-term growth strategy. We managed to further expand turnover in the segment in financial year 2016. Turnover rose by 4.1% to € 195.8 million (2015: € 188.1 million). In the reporting year, Brand Business accounted for 82.6% of Group turnover (2015: 81.1%). The sustainable development was once again driven by the Leifheit brand, which saw growth in all product categories. The category cleaning, with the successful Leifheit window vacuum cleaner and new floor cleaning products, posted particularly strong growth. Turnover in the e-commerce sales channel rose once again by around 18% in financial year 2016. By contrast, the unexpected failure of promotional business to materialise in the final quarter slowed the pace of development slightly.

+4.1%

Turnover growth in Brand Business

Brand Business: turnover by region
in €m



€m **22.1**
Group EBIT

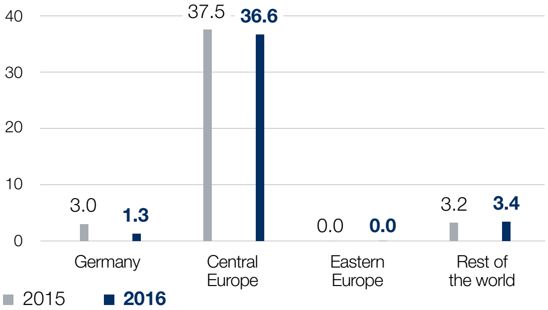
Turnover in Volume Business down year on year

Volume Business complements business with the Leifheit and Soehnle brands. It is clearly geared towards profitability, and Project Business makes a substantial contribution to the segment's turnover.

In financial year 2016, we achieved turnover of € 41.3 million (2015: € 43.7 million), corresponding to a 17.4% share of Group turnover. There were various reasons for the 5.7% decline: We ceased contract manufacturing operations for third parties at the end of 2015. A base effect from the previous year started having an impact after six months. At the start of the third quarter of 2015, we began supplying Birambeau kitchen products to a new retail customer in France. Finally, the fourth quarter of 2016 saw a postponement of Project Business that was planned for the final quarter.

€m **14.5**
Net result for the period

Volume Business: turnover by region
in €m



Development of results of operations

EBIT up slightly year on year

In financial year 2016, we achieved EBIT in the amount of € 22.1 million (2015: € 21.7 million) despite reduced foreign currency gains. At € 0.3 million (2015: € 2.5 million), foreign currency gains were significantly lower year on year in the reporting period due mainly to the development of the euro to US dollar exchange rate. 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.

Earnings before the foreign currency result were € 21.8 million in the reporting period (2015: € 19.2 million). This corresponds to an increase of € 2.6 million or 13.4% over the previous year. The contribution margins from the increased turnover and the rise in the gross margin were instrumental in this development.

As in the previous year, the EBIT margin stood at 9.3%. It is calculated as the ratio of EBIT to turnover. Adjusted for the foreign currency result, however, the margin rose by 0.9 percentage points to 9.2% (2015: 8.3%).

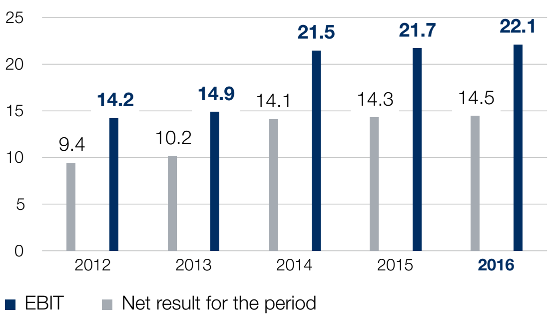
Earnings before taxes (EBT) were € 20.6 million in financial year 2016 (2015: € 20.2 million). The interest and financial result contained therein fell year on year by € 0.1 million to € –1.5 million (2015: € –1.4 million). After deduction of taxes, we ultimately achieved a net result for the period of € 14.5 million (2015: € 14.3 million).

Comprehensive income after taxes amounted to € 10.9 million in the reporting period (2015: € 20.4 million). 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, in particular, actuarial gains and losses from pension obligations. Other comprehensive income fell to € –3.6 million (2015: € 6.0 million). The € 9.6 million decline was due mainly to actuarial gains and losses from the change in pension obligations (€ 4.6 million) and from the decline in the change in fair values of forward foreign exchange transactions for which a hedging relationship exists (€ 4.6 million).

We measure 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 2016, ROCE fell by 1.8 percentage points to 16.3% (2015: 18.1%). This was primarily attributable to the increase in actual taxes due to the elimination of loss carry-forwards and the increase in working capital due to the expanded volume of business. Without accounting for the foreign currency result, ROCE rose by 0.5 percentage points to 16.0% (2015: 15.5%).

Group result
in €m



Gross profit up significantly again

In the reporting period, gross profit increased by € 4.3 million, or 4.0%, to € 112.6 million (2015: € 108.3 million). The year on year rise resulted from the contribution margins of the increased turnover and the continued consistent focus on high-margin products and business and optimisations in purchasing.

Group turnover rose € 5.3 million year on year. At the same time, the gross margin increased slightly by 0.8 percentage points to 47.5% (2015: 46.7%). The gross margin is defined as gross profit in relation to turnover.

47.5%
Gross margin

Research and development costs rose slightly

Expenditure for research and development rose slightly by € 0.3 million to € 5.1 million (2015: € 4.8 million). These costs mainly include personnel costs, costs for services and patent fees. The rise is due to our innovation strategy ("Innovation Factory") and the associated personnel recruitment as well as an increase in external services.

Best-in-class user focus

Distribution costs on par with the prior year

Distribution costs in the reporting period amounted to € 70.1 million (2015: € 70.2 million) and were therefore on par with the previous year. Distribution costs included advertising costs, commissions, marketing costs, freight out, delivery charges and the costs incurred by the internal and external teams. Turnover-dependent costs such as freight out, commissions and packaging materials, as well as services for demonstration and promotional staff, rose along with the increased turnover. This stood in contrast to a positive one-off effect from the reversal of provisions formed in the previous year for compensation payments in the amount of € 0.4 million as well as a decrease in advertising costs of € 0.4 million.

Administrative costs rose

Our administrative costs rose by € 1.3 million to € 16.6 million (2015: € 15.3 million) in financial year 2016. 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 increased by € 1.2 million. Expenses for services in connection with succession planning for the Supervisory Board and Board of Management also rose by € 0.4 million.

Other operating income and expenses down

Other operating income fell in the reporting period by € 0.3 million to € 1.2 million (2015: € 1.5 million). This mainly includes fees and licensing royalties. The previous year saw one-off income from the reversal of provisions of € 0.2 million. Other operating expenses stood at € 0.3 million (2015: € 0.2 million) in the reporting period.

Foreign currency result down year on year

€m 0.3
Foreign currency result

In the reporting period, the foreign currency result fell significantly to € 0.3 million (2015: € 2.5 million). The foreign currency gains were mainly the result of exchange rate gains realised through forward foreign exchange transactions. The foreign currency gains realised from forward foreign exchange transactions due in the reporting period, realised receivables and liabilities, and from the valuation of cash totalled € 1.4 million (2015: € 2.2 million). Unrealised losses from foreign currency valuations amounting to € 0.2 million (2015: € 0.4 million) primarily related to the valuation as at the balance sheet date of receivables and liabilities in foreign currencies. The change in the valuation of forward foreign exchange transactions that are not reported in hedge accounting resulted in unrealised foreign currency losses in the amount of € 0.9 million (2015: foreign currency gains of € 0.7 million).

Income statement (short version) in €m	2015	**2016**
Turnover	231.8	237.1
Earnings before foreign currency result, interest and taxes	**19.2**	**21.8**
Foreign currency result	2.5	0.3
Earnings before interest and taxes (EBIT)	**21.7**	**22.1**
Interest and financial result	–1.5	–1.5
Earnings before taxes (EBT)	**20.2**	**20.6**
Income taxes	–5.9	–6.1
Net result for the period	**14.3**	**14.5**
Other comprehensive income	6.1	–3.6
Comprehensive income after taxes	**20.4**	**10.9**

Interest and financial result down

The interest and financial result fell by € 0.1 million to € –1.5 million (2015: € –1.4 million) in the reporting year. At € 0.1 million, interest income was on par with the previous year on account of the still low interest rates. Interest expenses rose slightly by € 0.1 million to € 1.6 million (2015: € 1.5 million). Of the interest expenses, € 1.5 million were due to the compounding of pension obligations (2015: € 1.4 million) and € 0.1 million to other compounding of liabilities (2015: € 0.1 million).

Income taxes up slightly

29.4%
Tax rate

In financial year 2016, income taxes totalled € 6.1 million (2015: € 5.9 million), including income taxes in Germany in the amount of € 4.2 million (2015: € 2.8 million), foreign income taxes in the amount of € 2.3 million (2015: € 2.0 million), deferred taxes in the amount of € –0.4 million (2015: € 1.1 million). Income taxes in Germany rose by € 1.5 million, mainly due to lower corporation tax loss carry-forwards. Whereas the previous year still saw the use of € 8.1 million in corporation tax loss carry-forwards, the remaining loss carry-forwards in the amount of € 0.7 million were depleted in the reporting period. The tax ratio was therefore 29.4% (2015: 29.2%). This ratio is the relationship of taxes on income to EBT.

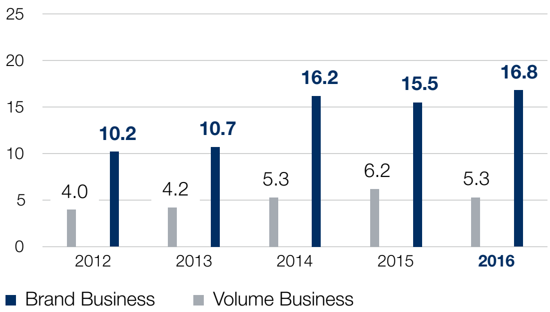
Segment results

In Brand Business, we generated EBIT in the amount of € 16.8 million in financial year 2016 (2015: € 15.5 million), equating to an increase of € 1.3 million, or 8.9%. The contribution margins of the increased turnover exceeded the total from the additional costs and the lower foreign currency result. The gross margin in the segment rose by 0.9 percentage points to 50.2% (2015: 49.3%). The continued consistent focus on high-margin products and business and optimisations in purchasing contributed to this. The contribution margin in Brand Business increased by € 6.5 million to € 83.8 million (2015: € 77.3 million). This rise resulted from the additional increased turnover and the enhancement of the gross margin. Costs in Brand Business increased by € 4.5 million, and the foreign currency result fell by € 0.7 million.

This means that Brand Business accounted for around 76% of the Group-EBIT (2015: around 71%) in financial year 2016. This is in line with our strategic focus on higher-margin Brand Business.

In Volume Business, EBIT was € 5.3 million in the reporting period (2015: € 6.2 million) – a decline of € 0.9 million. Adjusted for the foreign currency result, EBIT in the segment stood at € 5.2 million, which was € 0.6 million higher than the adjusted previous year (2015: € 4.6 million). The gross margin in Volume Business fell by 0.6 percentage points to 34.8% (2015: 35.4%). Due to lower contribution margins from the lower turnover, and on account of the lower gross margin, the contribution margin in Volume Business fell by € 0.9 million to € 12.8 million (2015: € 13.7 million).

EBIT by segment
in €m



€m 16.8
Brand Business EBIT

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. Additional lines of credit available at short notice enable us to draw on further liquidity reserves if necessary.

€m 5.3
EBIT Volume Business

The Group liquidity and lines of credit available mean that we are always in a position to be able 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, for the acquisition of companies or parts of companies, the payment of dividends and the repurchase of 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.

43.7%
Equity ratio

As at 31 December 2016, we held cash, cash equivalents, other investments and current financial assets primarily in euros, US dollars, Czech korunas and Polish zloty. 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 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 2015		**31 Dec 2016**	
	€m	Share in %	**€m**	**Share in %**
Equity	106.7	44.9	104.6	43.7
Current liabilities	58.3		58.0	
Non-current liabilities	72.9		76.8	
Liabilities	131.2	55.1	134.8	56.3
	237.9	**100.0**	**239.4**	**100.0**

The equity ratio stood at 43.7% (2015: 44.9%) at the end of financial year 2016. It is calculated from the proportion of equity to the total of equity and liabilities. Our debt level therefore increased by 1.2 percentage points to 56.3% (2015: 55.1%) compared to the previous year's balance sheet date as at 31 December 2016. This key figure is the result of the ratio of current and non-current liabilities to the sum of equity and liabilities. The slight rise in the liability ratio was primarily a result of the increase in pension obligations.

As at 31 December 2016, liabilities at the Group mainly consisted of pension obligations in the amount of € 70.2 million (2015: € 66.4 million), trade payables and other liabilities of € 51.2 million (2015: € 50.8 million), other provisions with a value of € 10.0 million (2015: € 8.6 million) and deferred tax liabilities in the amount of € 3.1 million (2015: € 4.3 million). As in previous years, Leifheit had no liabilities to banks at the end of financial year 2016.

€m 21.8
Cash flow from operating activities

€m 69.5
Group liquidity

Analysis of Group liquidity

Net liquidity in €m	31 Dec 2015	31 Dec 2016	Change
Credit balances at banks	64.2	45.5	–29.1%
Current financial assets	4.0	24.0	> 100.0%
Group liquidity	**68.2**	**69.5**	1.91%
Financial liabilities	–	–	–
	68.2	**69.5**	**1.91%**

As at 31 December 2016, Group liquidity totalled € 69.5 million (2015: € 68.2 million). Group liquidity includes cash and cash equivalents, as well as current financial assets. Cash and cash equivalents in the amount of € 45.5 million (2015: € 64.2 million) included demand deposits and fixed deposits that may be terminated within three months. The current financial assets of € 24.0 million (2015: € 4.0 million) included bond funds of € 20.0 million and a registered bond in the amount of € 4.0 million (with a term to maturity until March 2017). As at the balance sheet date, Group liquidity primarily consisted of euros in the amount of € 61.3 million (2015: € 59.8 million), US dollars in the amount of € 6.0 million (2015: € 4.2 million), Czech korunas in the amount of € 1.1 million (2015: € 1.6 million) and Polish zloty in the amount of € 0.4 million (2015: € 1.9 million).

Analysis of the Group statement of cash flow

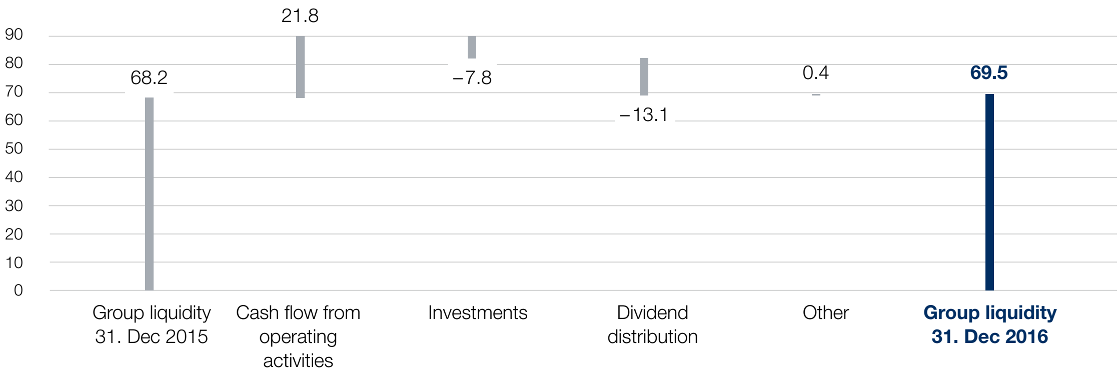
€m	2015	2016	Change
Cash flow from operating activities	20.8	21.8	1.0
Cash flow from investment activities	–6.7	–27.5	–20.8
Cash flow from financing activities	–8.5	–13.0	–4.5

In 2016, cash flow from operating activities rose by € 1.0 million to € 21.8 million (2015: € 20.8 million), resulting mainly from the net result for the period of € 14.5 million (2015: € 14.3 million), depreciation of € 6.2 million (2015: € 5.8 million) and the € 1.4 million higher increase in provisions.

Cash flow from investment activities increased to € 27.5 million (2015: € 6.7 million) in financial year 2016. We invested € 20.0 million in bond funds to reduce counterparty risks with banks. Payments for the purchase of tangible and intangible assets contributed € 7.8 million (2015: € 7.1 million) in total to this figure. The disposal of fixed assets generated inflow of € 0.2 million (2015: € 0.5 million). No material assets were sold.

The cash flow from financing activities amounted to € 13.0 million (2015: € 8.5 million). It essentially consisted of the payment of dividends in the amount of € 13.1 million (2015: € 8.6 million). The payment of the dividend in the reporting period contained a special dividend of € 3.6 million.

Group liquidity
in €m



Free cash flow

€m	2015	2016	Change
Cash flow from operating activities	20.8	21.8	1.0
Cash flow from investment activities adjusted [1]	–6.7	–7.5	–0.8
Free cash flow	14.1	14.3	0.2

[1] Adjusted for financial assets.

€m 14.3
Free cash flow

Free cash flow rose slightly in financial year 2016 to € 14.3 million (2015: € 14.1 million). 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 financial assets as well as, if existing, from the divestiture of business divisions.

Lines of credit

In financial year 2016, Leifheit had short-term revolving credit lines in the amount of € 11.5 million (2015: € 11.5 million). On 31 December 2016, € 0.4 million was utilised in the form of guarantees (2015: € 0.5 million).

Development of net assets

Balance sheet structure

The balance sheet total of the Leifheit Group increased as at 31 December 2016 by € 1.5 million, compared to the previous year's balance sheet date, to € 239.4 million (2015: € 237.9 million). On the asset side, this increase was largely due to higher current assets. At the balance sheet date, current assets amounted to € 170.6 million, € 3.0 million more than as at 31 December 2015. One reason for this development was the € 2.6 million rise in receivables due to the balance sheet date. We invested € 20 million in bond funds to reduce contracting party limits with banks. As a result, cash fell accordingly. Inventories decreased by € 0.7 million to € 42.3 million (2015: € 43.0 million). Inventories of raw materials, consumables and supplies increased by € 3.0 million due to price-related stockpiling, whereas the optimisation of finished goods inventories led to a reduction of € 4.1 million. Other current assets declined by € 1.3 million to € 3.1 million, mainly due to lower sales tax claims.

Current and non-current derivative active financial instrument assets fell by € 2.1 million in total to € 8.3 million (2015: € 10.4 million). The decline was based mainly on the realisation of the forward foreign exchange transactions concluded in previous years for 2016. No material new forward foreign exchange transactions were concluded in 2016.

Our non-current assets fell by € 1.5 million to € 68.9 million (2015: € 70.4 million) as at 31 December 2016. This development was primarily the result of the € 2.9 million decline in non-current derivative financial instruments to € 1.9 million (2015: € 4.8 million). Non-current assets increased by € 1.3 million to € 56.2 million year on year on account of the continued investment in warehouse software and the expansion of our production plant in the Czech Republic.

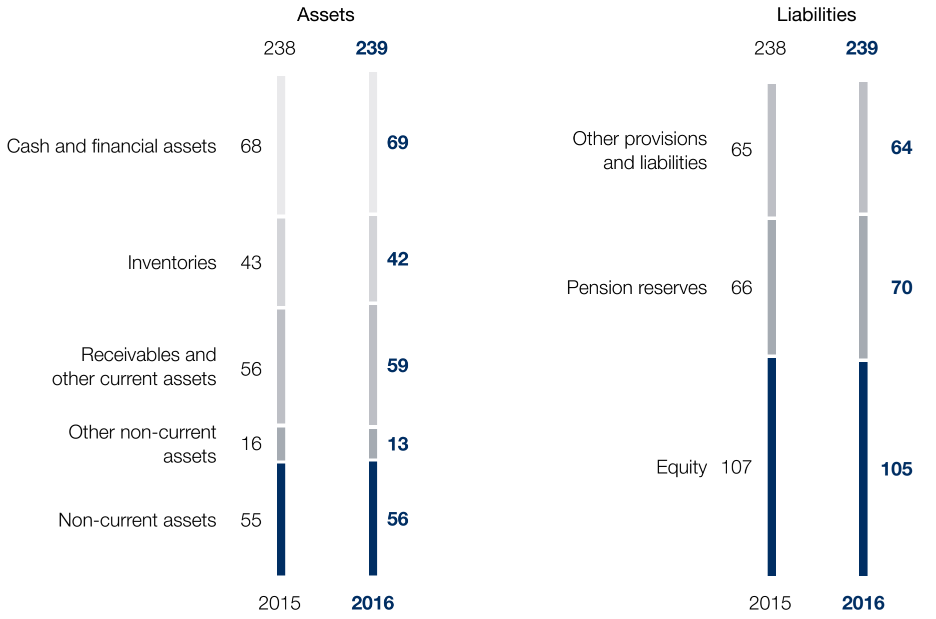
Current liabilities, i.e. those with maturities of less than one year, included trade payables and other liabilities, derivative financial instruments, liabilities from income taxes and other provisions. As at 31 December 2016, they decreased slightly to € 58.0 million, € 0.3 million less than at the end of the previous year (2015: € 58.3 million).

Non-current liabilities rose by € 3.9 million to € 76.8 million at the end of financial year 2016 (2015: € 72.9 million). They chiefly included pension obligations in the amount of € 70.2 million (2015: € 66.4 million). The increase of € 3.8 million in pension obligations primarily resulted from actuarial losses of € 3.9 million (2015: gains of € 2.5 million). This was mainly due to the decrease in actuarial interest rates for the pension obligations in Germany to 1.7% (2015: 2.3%). Non-current other provisions rose by € 1.3 million to € 3.4 million (2015: € 2.1 million) due to the increase in provisions for long-term Board of Management remuneration. By contrast, deferred tax liabilities decreased by € 1.2 million to € 3.1 million (2015: € 4.3 million) due to the decline in active derivative financial instrument assets.

Equity reached a high of € 104.6 million as at 31 December 2016 and therefore fell by € 2.1 million year on year (2015: € 106.7 million). The main reason for the decline in equity was the special dividend of € 3.6 million, which was additionally distributed to shareholders in May 2016. The equity ratio, i.e. the proportion of equity capital to total assets, was therefore 43.7% as at the end of financial year 2016 (2015: 44.9%).

43.7%
Equity ratio

Balance sheet ratios
in €m



Investments

€m 7.8
Investments

We invested a total of € 7.8 million in financial year 2016 (2015: € 7.1 million), including investments in the completion of a warehouse and the warehouse management software as well as a powder-coating facility at our Czech production and logistics location. All major investments in the financial year were largely completed at year's end.

Additions to tangible assets in financial year 2016 totalled € 6.6 million (2015: € 6.1 million). These mainly involved tools for new products, machines, streamlining and replacement investments for production plants, operating and business equipment and also investments in the Eastern Europe logistics centre in the Czech Republic. In addition, we invested € 1.2 million in intangible assets (2015: € 1.0 million). This mainly concerned the purchase of software, especially warehouse management software at our Czech logistics centre.

4.4%
Investment ratio

The investment ratio – additions to assets related to the historic procurement and production costs – amounted to 4.4% in financial year 2016 (2015: 4.1%).

We invested € 7.1 million in Brand Business (2015: € 6.4 million); investments in Volume Business amounted to € 0.7 million (2015: € 0.7 million). Investments were offset by depreciation on tangible assets in the amount of € 5.6 million (2015: € 5.0 million) and amortisation on intangible assets of € 0.6 million (2015: € 0.8 million).

As at 31 December 2016, there were contractual obligations to acquire items of tangible assets – mainly for software, tools, fire protection systems, assembly systems and operating and office equipment – in the amount of € 1.7 million (2015: € 1.2 million). 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, to a far lesser extent Leifheit also used assets which cannot be recorded in the balance sheet. This largely concerns leased goods. As in previous years, we did not use any off-balance sheet financing instruments in financial year 2016.

Overall assessment of management in regard to the economic situation

Financial year 2016 was satisfactory overall for the Leifheit Group. With growth in turnover of 2.3% to € 237.1 million, we succeeded in continuing the upward trend of the previous two years. The consistent implementation of our "Leifheit 2020" strategy is therefore having a lasting effect.

The increase in turnover was supported by the strategically important Brand Business. Here we grew by 4.1% to € 195.8 million, thereby allowing us to continue the positive development of the previous year. The Leifheit brand, where we once again recorded an increase in all product categories, was the driver of this sustainable growth in Brand Business. First and foremost, the category cleaning continued its dynamic development.

With turnover of € 41.3 million, the significantly smaller Volume Business failed to live up to our expectations. The 5.7% decline was due both to the base effect from the initial supply of a new retail customer in France in the second half of the previous year and to the scheduled discontinuation of contract manufacturing for third parties at our production location in Blatná, Czech Republic. The postponement of Project Business, which was included in the plan for the fourth quarter, also materialised. Our aim is to stabilise the development of turnover in Volume Business in the medium term.

By the growth in Group turnover, we achieved earnings before interest and taxes of € 22.1 million in the reporting period. EBIT was therefore up from the previous year's figure of € 21.7 million despite reduced foreign currency gains. Adjusted for the foreign currency result, the operating result grew by € 2.6 million to € 21.8 million, and the adjusted margin increased by around 1 percentage point to 9.2%. We therefore believe we are also on the right track when it comes to profitability.

Due to the cash flow, liquidity at the Group grew by € 1.3 million to € 69.5 million in total as at the end of the reporting period. The high liquidity secures our financial flexibility and independence, as well as the option of paying appropriate dividends and potential special dividends. At the same time, the Leifheit Group had no liabilities to credit institutions, as was already the case in the previous year. Our equity ratio stood at 43.7%. With this sound financial profile, we believe we are well equipped to continue on our sustainable growth trajectory for turnover and earnings.

Non-financial performance indicators

Non-financial performance indicators – such as relationships with customers and employees, the constant development of innovative products and the safeguarding of efficient production and logistics processes – are also of importance for the sustainable success of our company.
In addition, acting responsibly towards society and the environment determines the value of our brands.

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.

Promoting the development of expertise

Our strategic HR work is based on the “Leifheit 2020” Group strategy and is being further developed at the same time. Accordingly, HR planning was expanded in the reporting period by a long-term component that takes the growing digitalisation into account.

Culture and employees

A competency model that reflects our interdisciplinary expectations of employees and management personnel has been developed in connection with the introduction of our Group strategy. The defined competencies provide orientation in daily working life and are the foundation on which cooperation at the company is built. They are essential to achieving our strategic goals and therefore to the success of Leifheit.

In 2016, the competency model was put into practice and is now an integral part of the regular appraisal meeting – the main tool of our HR development efforts – among other things. In in-depth training sessions, management personnel and employees were educated on the use of the competency model in appraisal meetings.

Accordingly, we promote the capabilities and expert knowledge of our employees at all Group locations. As in past years, we further intensified our training measures in financial year 2016. The Group invested a total of k€ 581 (2015: k€ 374) in training. In addition to specific Group-wide training measures, we rely on a wide range of various HR development tools as indicated in the individual appraisal meetings.

Leifheit aims to offer all employees fair remuneration in line with the market. The current remuneration structure at the company, which was developed in 2014 on the basis of a global grading, was therefore adjusted accordingly in the reporting period.

Leifheit aims for diversity in its workforce

The Leifheit Group is an internationally operating company. Being open towards people from a wide variety of regions and cultures is therefore essential to our success. We foster a working environment that welcomes diversity so as to benefit from our employees’ different personal abilities, talents and experiences, regardless of age, sexual orientation, background, culture or religion.

Our diversity management focuses on the three aspects of our workforce's gender, age structure and internationality.

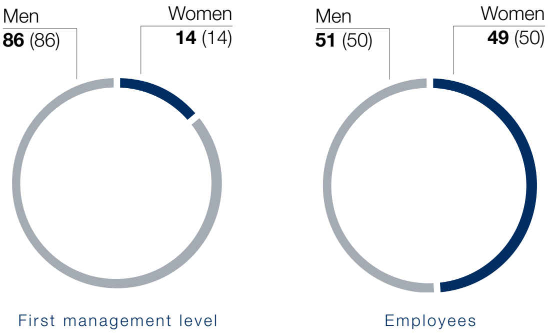
Gender diversity

An appropriate proportion of women to men at the company is very important to us. Today we already have almost balanced numbers in our workforce: 48.9% of our staff is female, and 51.1% is male. Our goal is to see that the already existing diversity of our employees is also reflected at management level. However, our focus when hiring new employees is always on their individual qualifications as well as their social, business and methodological skills and abilities. After all, we aim to fill any job vacancy with the best candidate for the job.

As a listed company subject to the obligation that one-third of its Supervisory Board consist of employee representatives, Leifheit AG is required to set targets for the proportion of women on the Board of Management and at the top management level and publish them in the declaration of corporate management. The target for the proportion of women at the first management level has been set at 14.29% and achieved. The target of 0% for the Board of Management corresponds with its current composition.

According to the valid remuneration system at the Group, women and man receive the same pay for comparable positions. Pay is determined solely by function and qualification on the basis of the aforementioned global grading, which serves to systematically describe and evaluate individual positions within the context of the company structure.

Composition of the workforce by gender
in % (previous year)



Age structure

Leifheit employs people of all age groups. The goal is to achieve an appropriate ratio of trainees, young recruits and managers, and employees who have been actively serving the Group for many years. This healthy mix has many advantages. It is the basis for agility and the willingness to change within the organisation and for a culture in which ideas and innovative solutions can grow. At the same time, it is the key to the successful transfer of knowledge and the maintenance of expertise and experience. The high number of long-serving employees shows that Leifheit is an attractive employer and is capable of retaining employees for many years.

Characteristics of the workforce of the Leifheit Group	2015	2016
Average length of service	11.8 years	11.4 years
Age structure of employees		
under 30 years	16.9%	15.6%
30 to 40 years	21.4%	23.5%
40 to 50 years	25.5%	25.4%
50 to 60 years	30.1%	29.4%
over 60 years	6.1%	6.0%
Average age	43 years	43 years
Number of trainees	30	28

Internationality

The Leifheit Group supplies products to some 80 countries around the world. At the same time, we employ staff in 9 different countries. The workforce of our German locations includes 16 different nationalities. Promoting internationality and cooperation across borders and cultures are key targets for the company. They are the foundation for the expansion of our international business in line with the "Leifheit 2020" strategy.

Employee structure of the Leifheit Group	31 Dec 2015	31 Dec 2016
Group	1,074	1,093
Brand Business	865	913
Volume Business	209	180
Germany	410	423
Czech Republic	423	439
France	175	169
Other countries	66	62

Number of employees at the Group largely unchanged

1,093
Employees as at the end of the year

As at 31 December 2016, the Leifheit Group had 1,093 employees (2015: 1,074 employees) in total. As at that date, 423 employees worked at German locations (2015: 410 employees), corresponding to 38.7% (2015: 38.2%) of the Group's workforce. We had 439 employees at the production and distribution locations in the Czech Republic (2015: 423 employees). In France, 169 employees (2015: 175 employees) worked for Group companies as at the end of the reporting period.

At the same time, 913 employees were part of our Brand Business division (2015: 865 employees). At 83.5% (2015: 80.5%), they accounted for the majority of all employees. Our Volume Business had 180 employees (2015: 209 employees) as at the end of the reporting period.

As at the balance sheet date of 31 December 2016, 106 employees worked part-time at the Group (2015: 109 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 2016.

Culture and employees

The average number of employees at the Leifheit Group was 1,062 people (2015: 1,076 people) in financial year 2016. Personnel costs at the Group rose by 0.8% to € 45.7 million (2015: € 45.4 million) in the reporting period.

Modern vocational training

As an employer we also have social responsibility to the regions with our large locations, and offer young people there the opportunity of vocational training. Through these various training courses we also find qualified junior staff for Leifheit. Trainees are involved in specific projects at an early stage in their training and are given an opportunity to work independently and take on responsibility.

28
Trainees in Germany

A total of 28 young people were training as industrial managers, IT specialists, graphic designers, tool mechanics or industrial mechanics, or as specialists in warehouse logistics at Leifheit AG's German locations at the end of 2016 – including a young man who started his commercial vocational training following a work-placement programme and after gaining initial qualifications as part of the "Perspektiven für junge Flüchtlinge" (prospects for young refugees) project. In the reporting period we took over eight young people who successfully managed to complete their vocational training.

Focus on employee health

In view of demographic trends and the raising of the retirement age, we take the topic of our employees' health seriously. We therefore make every effort to create an appropriate work environment in order to avoid health hazards. Through corresponding activities, such as a rotating sport programme, health days or smoking cessation courses, we sensitise our workforce to preventing health issues and support appropriate employee initiatives, such as participation in company running events.

We rely on information and dialogue

We value openness and trust in internal communication. Every employee needs to be able to understand the company's goals and how he or she can make a contribution to them to make the implementation of our "Leifheit 2020" strategy a success. Against this backdrop, the Board of Management personally explains the Group's current business situation and key decisions or changes in their contribution to the strategy at quarterly staff meetings at the German locations.

In addition to the regular staff meetings, we offer our workforce supplementary information and dialogue formats. The annual appraisal meeting with their direct supervisors plays a central role. The meeting provides an opportunity for in-depth discussion and forms the foundation for individual development measures.

For an extended circle of mid-level specialists and management personnel, we also offer dialogue events with members of the Board of Management and the management team. Following introductory presentations, the participants receive topics for discussion and information straight from the source in direct dialogue.

Leifheit once again honoured as a top employer

Leifheit AG was once again certified by the Top Employers Institute as a top employer in the German SME sector in financial year 2016. This once again provides outside confirmation that we offer our employees an ideal environment in which they can develop and utilise their individual strengths. In view of our constant efforts aimed at sustainable and professional HR work, we are delighted to receive this award once again.

Innovation and product development

Leifheit aims to develop products and solutions that make consumers' lives at home easier and more convenient. An innovation strategy designed to support the Group's organic growth has been developed on the basis of the "Leifheit 2020" Group strategy. We forged ahead with the task of implementing it in 2016. The main features of the innovation strategy that we sum up under the motto "Innovation Factory" are

- integrating consumers more clearly into the innovation process,
- adopting a comprehensive innovative approach,
- establishing a strategic network of innovation partners,
- improving the efficiency of the idea generation, selection and qualification processes,
- guaranteeing consistently high product quality and
- strengthening our design credentials.

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 € 5.1 million in research and development activities in financial year 2016 (2015: € 4.8 million). The R&D ratio, which represents the ratio of research and development costs to Group turnover, amounted to 2.1% (2015: 2.1%). At the end of the year, 37 employees (2015: 31 employees) worked in the areas of development and IP/patents. The additional hiring was aimed at strengthening pre-development, design and consumer research.

€m 5.1
Research and development expenses

The result: new products and solutions

As a result of our development efforts in the reporting period, a range of innovations in the Group's four product categories – laundry care, cleaning, kitchen goods and wellbeing – is slated for launch in 2017.

In the category laundry care, the focus – in addition to developing new laundry drying rack models – was on LinoProtect, the first Leifheit rotary dryer with a roof to protect clothes from rain and UV radiation. The Combi Storage System also saw the development of twelve storage helpers that keep homes neat.

Best-in-class user focus

The focus in the category cleaning was the new Leifheit Care & Protect System: a system solution for the simple care for all types of wood and laminate floors. The user-friendly spray wiper applies the ready-to-use care products for various types of flooring in easy-to-change cartridges in a clean, fast way that is easy on the back.

Innovative and leading solutions for target users

In the category of wellbeing, we sell our products under the Soehnle brand. The entire range of bathroom scales has been overhauled. It now features a clear product range architecture, unique design and large, particularly easy-to-read displays. The Soehnle Connect System, which makes it easy to check important health and fitness data, has also been developed. The system is made up of three parts: analysis scales, the matching fitness and activity trackers and the Soehnle Connect app, which sums up all data in an informative and easy-to-understand manner.

The new innovation process has been 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. “Growth through innovation” is therefore becoming a main element of the overall “Leifheit 2020” strategy.

New, brand-typical design language that communicates the brand values while supporting and intuitively explaining how the devices work has also been developed for Leifheit and Soehnle products.

Industrial property rights safeguard competitive advantages

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Patent and utility model applications

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. Leifheit registered 15 patents and utility model applications in financial year 2016 (2015: 13).

Numerous awards for brands and products

Many of our products received awards for their innovation, user-friendliness and product quality in 2016. Examples include the TÜV seal of customer approval for the AirBoard M Solid line of ironing boards and the Plus-X-Award for high quality, design and functionality for our stainless steel salad spinners. Our Soehnle Genio kitchen scale also received a number of awards, including the iF Design Award and the RedDot Design Award.

Procurement, logistics and production

Leifheit has three production locations of its own. They are situated in Nassau (Germany, the home location of Leifheit AG), in Blatná (Czech Republic) and La Loupe (France). Blatná is the most important production location and is where the majority of our in-house production activities are concentrated. We also rely on a network of partners and suppliers, especially in Eastern Europe and Asia.

In financial year 2016, roughly 50.4% (2015: 48.8%) of the goods supplied by use were manufactured using own production capacities within the Leifheit Group. On the procurement side, Leifheit primarily purchased materials, energy and services and, in part, intermediate products and merchandise.

Increased procurement in Europe limits currency-related risks

In 2015, we started increasing the share of procurement with European suppliers to lessen our dependency on procurement regions with relevant currency risks and long delivery times. These efforts were systematically continued in the reporting period. We succeeded in concluding cooperation agreements with European supply partners for various product innovations.

The qualification of selected manufacturers as "preferred suppliers" with whom we intend to maintain and expand long-term partnerships founded on trust and excellent performance represents a further step towards improving cooperation with external partners. To safeguard the uninterrupted supply of raw materials, primary products and selected finished products, we rely fundamentally on a network of potential suppliers. As a matter of course, a prerequisite for a relationship with suppliers is always their compliance with Leifheit's Social Code of Conduct, which we use to monitor the working conditions of our suppliers.

Efficient logistics make fast and flexible distribution possible

The fast, flexible and global distribution of our products and solutions is a decisive basis for the further growth of our company. Leifheit AG's central logistics hub is the distribution centre in Zuzenhausen, in the north of the German region of Baden. Since the middle of financial year 2016, it has been complemented by the Leifheit Distribution Center Eastern Europe at our location in Blatná, Czech Republic. The logistics processes of our distribution company in Prague have also been moved there. As a result, all markets in our growth region of Eastern Europe are directly tied into production.

The organisational structures at both locations enable us to react flexibly and efficiently to challenges from the market and customers. At the same time, we are prepared for the complex logistical demands resulting from the rise in e-commerce.

In financial year 2015, we focused on the Group-wide introduction of the new SAP EWM (Extended Warehouse Management) logistics system. As a result of scalable processes, the new system offers all the prerequisites for ongoing further adaptation to meet the rising needs. In addition to the construction of the new distribution centre for Eastern Europe, a focus was placed on adapting the central distribution hub in Zuzenhausen to the rising throughput of goods. Among other things, several new conveyor lines for packages and pallets were put into operation at the location.

Furthermore we operate a logistics centre in Chablis, France, for our French subsidiary Birambeau.

Expanded manufacturing capacity for increased needs

The plant in Blatná, Czech Republic – at roughly 25,000 m^2, the largest in the Leifheit Group – produces laundry dryers, ironing boards and cleaning appliances in particular. Our subsidiary Leifheit s.r.o. employed 421 people there as at the end of the reporting period (2015: 410). Manufacturing for third parties was ceased at the end of 2015 to use capacities freed up by the move for the company's own products, such as the new generation of the Leifheit window vacuum cleaner. Additional injection-moulding machines and new employees were utilised in production in the reporting period. Efforts were also made to promote automation in injection moulding. In addition, investments were made in a new powder-coating facility in the reporting year. The new facility has 1.4 times the capacity of the old one.

Social responsibility see page 44 f.

The demands also rose at our home location in Nassau. With 63 employees (2015: 55 employees), Leifheit AG operates an injection-moulding plant and a highly automated production line for rotary dryers at the location. In the reporting period, almost 260,000 sold rotary dryers were produced in Nassau, Germany – a new record following around 250,000 dryers in each of the two previous years. Constant technical improvement to equipment and the employees' flexibility made it possible to produce these quantities without downtime.

Value-chain efficiency

Our French subsidiary Herby, located in La Loupe, chiefly produces tower dryers, classic dryer racks and wall dryer racks for Volume Business. As at the end of financial year 2016, it had 87 employees (2015: 83 employees). The integrated manufacturing process includes metal forming, surface finishing and injection moulding processes. Herby products are sold mainly in France.

Marketing and distribution

Innovative and leading solutions for retail

The Leifheit Group and Leifheit AG distribute their products through all relevant channels, from classic brick-and-mortar retail to pure e-commerce. We offer our retail customers a wide range of services and extensive sales support at the point of sale (POS). We address the consumer as the end user of our products through the combination of classic and modern communication, marketing and sales measures.

Changes in purchasing behaviour challenge retail and manufacturers

New sales channels are gaining importance, triggered by changes in the purchasing behaviour of consumers, who today are looking for flexibility in terms of when and where they shop in addition to one-to-one advice. E-commerce and brick-and-mortar retail are increasingly combining to create interactive cross-channel services. Leifheit is adjusting to these changes. In recent years, we have invested in expertise, product information systems and modern, flexible logistics processes so as to benefit from developments. In 2015 and 2016, Group turnover accounted for by e-commerce rose by 18% each year; its share reached 13% (2015: 11%) in the reporting period.

around 18%
Turnover growth e-commerce

However, hypermarkets remain our most important sales channel, accounting for a 30% share of turnover in 2016 (2015: 30%). DIY stores are the second-largest sales channel, accounting for a 16% share of turnover (2015: 16%), followed by traditional wholesale and retail with 14% (2015: 15%). Turnover generated by discounters increased in the reporting period; they now account for 6% of Group turnover (2015: 5%).

Tailored communication concepts

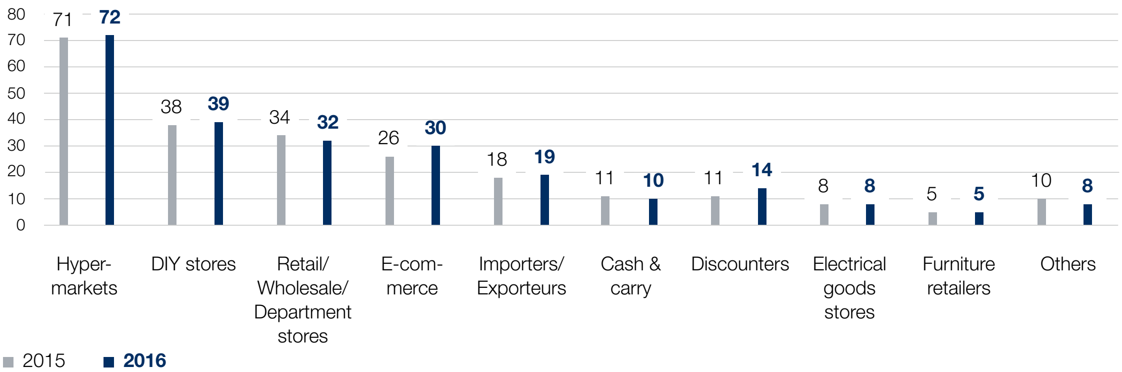
We support all retail partners with tailored POS concepts. Our accompanying initiative is called “POS excellence”. Essentially, the concept consists of merchandise components and special presentation solutions adapted to them for the various distribution channels, both in brick-and-mortar retail and for online shops. For bricks-and-mortar retail, our offerings focus on shop-in-shop presentations, known as brand shops, the number of which we have continued to expand internationally. In the reporting period, such brand shops were employed in Germany, Austria, the Czech Republic, Spain, Italy, Belgium and Russia. The “POS excellence” initiative also includes product presentations by demonstration staff, video promotions and special displays for the secondary placement of products.

As part of our “experience the Leifheit-effect” umbrella brand campaign, we took advantage of PR, online and print options in various channels to communicate in 2016. TV advertising with contemporary adverts for our most important products, such as the Clean Twist System or the window vacuum cleaner, rounded out the 360-degree campaign. The expansion of online communication with a view to social media, search engine optimisation, newsletters and online campaigns was an additional focal point of our communication measures.

Focal points in the product categories

Our marketing and sales activities continued to focus on the launch of new products and solutions for consumers in the reporting period. One focal point in the cleaning product category was the launch of the new, second generation of our successful Leifheit window vacuum cleaner. We added new products to the Leifheit range of mops in 2016. For the first time, we also offered an additional mid-segment price category for countries with lower market prices that complies with our brand-specific quality standards through a selection of products called Leifheit Classic.

Group turnover by distribution channels
in €m



In the laundry care product category, the focus was on more ironing convenience. Our new ironing board covers are easy to put on and are a perfect fit, featuring a built-in elastic band and tension clip plus thick padding, to make everyday life at home easier and more convenient. Another highlight was the continuation of our Colour Edition laundry care products following their successful launch. With Leifheit Classic, we also expanded our range of laundry drying racks to include an entry-level price point in the laundry care category.

In the kitchen product category, we once again focused our activities on the consumer trend for preserving in 2016. We offered consumers a wide range of products and accessories as part of our “Alle lieben MEingemachtes” (“Everybody loves it when it’s home-made”) campaign. The proven POS market stall was expanded and now makes it possible to present products for preserving and salads. Brochures, recipes, giveaways and the partnership with a gelling sugar company round out our marketing concept.

In the wellbeing category, all activities focused on new models of our Soehnle kitchen and bathroom scales, as well as aroma diffusers. Efforts centred on the multi-award-winning, space-saving Genio kitchen scale, the Vintage Style kitchen scale featuring retro design and a dual display, as well as new materials such as bamboo and the latest trendy colours.

We offer customers information on new products at trade fairs

National and international consumer goods trade fairs are important places for retail and industry to meet. They are also a forum for presenting new products and solutions. Attracting visitors from around the world, they allow us to network with international customers and give Leifheit an opportunity to find out first-hand about market developments and trends. In financial year 2016, Leifheit took part in 20 national and international trade fairs (2015: 23 trade fairs). Ambiente in Frankfurt, EK LIVE and EK HOME in Bielefeld and the International Home + Houseware Show in Chicago were focal points of particular importance.

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Trade fairs

Environment and resources

leifheit-group.com/en/company/sustainability

Leifheit AG takes its responsibility towards the environment and resources seriously. Our goal is to reduce the impact on the environment and preserve resources. Ecologically efficient processes reduce the material and energy intensity of products, lower emissions and increase the recyclability and recycling of the materials used. We consider aspects such as energy requirements, climate change, water shortages and other scarce resources in every new project in logistics, production and the supply chain. We want to achieve more with less use of resources and develop high-quality, long-lasting, environmentally friendly products. When it comes to products that we produce in large quantities, even saving a small amount of material leads to a significant reduction in the consumption of resources.

New powder-coating facility reduces energy consumption

In-house production within the Leifheit Group has been concentrated at the location in Blatná at our Czech subsidiary Leifheit s.r.o. to a great extent in recent years. In conjunction with the expansion of production capacities in financial year 2016, investments were also made there in a powder-coating facility that was put into operation in early 2017, allowing us to increase production capacity by 40% compared to the previous facility. At the same time, we expect the use of cutting-edge technology to lower energy needs by around 15%.

In financial year 2015, we conducted an energy audit at our Leifheit AG locations in Nassau and Zuzenhausen. Subsequently, efforts were launched to replace the entire lighting at the central logistics hub – including outdoor facilities, parking spaces and access roads – with energy-saving LED systems, among other measures. Intelligent control solutions featuring motion detectors and light sensors were also installed. These efforts continued in the reporting period, allowing us to further reduce power consumption in Zuzenhausen.

Reducing CO_2 emissions through our Eastern Europe logistics centre

We also put the new Leifheit Distribution Center Eastern Europe in Blatná into operation in the reporting period. With its help, we are able to conveniently supply our customers in Eastern European growth markets. The distribution centre is also directly connected to the production facility. Apart from the mere strategic advantage, this allows us to reduce transport volume from and to our central logistics location in Germany. We expect to be able to reduce our annual CO_2 emissions by around 330 t through the new logistics satellite and the increased integration of the production location into our Eastern European distribution logistics alone.

Social responsibility

Acting responsibly towards the society in which our business is active is one of the foundations of lasting success. We hold our employees and suppliers accountable for compliance with ethical and legal principles.

We hold our employees and suppliers to our principles

The principles of business management at the Leifheit Group go beyond statutory requirements in some cases. We therefore require all persons employed by the company to observe the Leifheit Code of Conduct, which stipulates guidelines for behaviour in accordance with internal rules, applicable laws and other standards. Our employees are required to notify their supervisors, the works council or a responsible contact in Human Resources in cases of infringement.

We hold our suppliers accountable for compliance with Leifheit's Social Code of Conduct, which stipulates consistent work conditions, both within Germany and abroad, among other things. By doing so, we intend to guarantee appropriate and dignified working conditions for everyone who makes products or intermediate products for us, wherever they happen to be. We check compliance with our guidelines through regular on-site inspections.

We keep an eye on the quality of our products

We bear responsibility for the safety of our products, which should pose no danger to people or to the environment. For this reason, we have a comprehensive quality management system in place that covers both product quality and our production processes. Leifheit stands for products that feature high quality and above-average durability. We naturally dispense with any type of planned product lifetime, a principle that is also reflected in the warranty periods of our products. We do not use any permanently fixed batteries and rely, wherever it makes sense to do so, on solar cells.

We are in dialogue with our stakeholders

The reputation of our brands and the perception of our products by the target groups are of the utmost importance for us as a brand supplier. For this reason, we maintain an intensive dialogue with consumers and our retail partners. Against this backdrop, we regularly take part in exhibitions and trade fairs in Germany and abroad, for example. We are also in contact with various professional organisations and interest groups. This constant exchange promotes our understanding of the requirements and needs of all sides.

Consumers also have the option of consulting our consumer hotline at the Group's headquarters. By closely involving quality management, we ensure that comments and criticism always reach the right people. Our websites (leifheit-group.com, leifheit.com, soehnle.com) and social media accounts, such as on Facebook, offer additional contact options. We receive further feedback on our products and brands through market research institutes.

As a listed stock corporation, we also communicate actively and frequently with the capital market. We are guided in the process by the provisions of the German stock corporation act, the recommendations of the German corporate governance code and the more far-reaching transparency standards of the German stock exchange for the Prime Standard segment, where shares of Leifheit AG are traded. We answer questions from the news, business, financial and trade media, as well as the local press, as part of at least one annual press conference, in interviews and at press events. Our presence in the media boosts public awareness of our brands and strengthens the company's reputation.

ir.leifheit-group.com

We are committed to our communities

Leifheit is aware of its responsibility as a company and as an employer. We feel a strong connection to the communities at our locations. As a result, we regularly support social, sports and cultural projects there. One special example is our efforts to promote education and training at our headquarters in Nassau.

For more information about trade fairs see page 43

Leifheit is a business partner of the private Leifheit-Campus (grammar school) in Nassau, which was founded in 2015. The school is the result of a private-sector initiative in reaction to the closure of local state schools. The grammar school offers secondary education and is open to all gifted young people, regardless of their parents' income. The G. und I. Leifheit Stiftung, a foundation that is financed by the legacy of company founder Günter Leifheit, is the school's largest sponsor. Leifheit AG provides support primarily in the form of a scholarship programme. We also offer work-placement programmes for pupils, career-orientation measures and instructional support whenever appropriate.

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 Connected" products, which we are going to launch in 2017, 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

Leifheit is a leading company for household products in Europe. As such, 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.

"Leifheit 2020"

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.

Cooperation with our distribution partners provides further opportunities. Traditional retail is relying more heavily on its suppliers' expertise in category management. We are responding to this development, which enables us to optimally position our product portfolio and seize the opportunity for additional turnover growth, as part of our "POS Excellence" initiative.

Risks

We are exposed to various risks as part of our business activities. We have therefore set up a risk management system that allows us to identify risks early, 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 an uniform, company-wide approach to managing business risks.

As a listed stock corporation with headquarters in Germany, the company's Board of Management set up a monitoring system in accordance with section 91 para. 2 of the German stock corporation act (AktG) to ensure compliance with statutory regulations and the effective management of risks. 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 presents a uniform methodology that applies to all company divisions. This 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 on a regular basis. 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 severity and their 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 quarterly. 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 the financial year 2016 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 correctly and completely 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 strictly 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 on 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 (< € 1 million)
low	Medium risks that have a noticeable effect on business activities, financial position and results of operations, cash flows, company objectives and image (€ 1–2 million)
medium	Significant risks that have a strong effect on business activities, financial position and results of operations, cash flows, company objectives and image (€ 2–5 million)
high	Serious risks that have a considerable effect on business activities, financial position and results of operations, cash flows, company objectives and image (€ 5–25 million)
very high	Risks that jeopardise the company’s continued existence (> € 25 million)

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, financial markets or 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.

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 our product prices to ensure they are competitive in the respective country. 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, potentially 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 low.

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.

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 dependence 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 thoroughly revised our product development process and strengthened our teams so that we are able 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

Potential product defects could lead to consumer injuries and damage the image of our brands and products.

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

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 represent 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 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 low probability of occurrence.

We reduce the financial effects of higher procurement costs on our product margins by concluding long-term delivery agreements and by resorting to time- and cost-saving procurement measures. We revise our products and respond with 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 risk and 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 guidelines and standards.

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

We mitigate these risks in the risk and 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 have been laid down 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 as medium and the probability of occurrence as high.

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 € 0.4 million, of € 0.1 million for potential exclusivity infringements and of € 0.3 million for litigation costs and legal fees from active cases were made in the consolidated financial statements. There were no 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 very high. We consider this risk to be critical, but we believe the 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.

Currency hedging transactions and investments of liquid assets are only performed with banks that have a high credit rating. 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 subject to an average rating of minimum 90% investment grade. Furthermore, maximum investment amounts are determined for each counterparty. We reduced the counterparty limits for banks in the financial year 2016 and added bond funds, in addition to time deposits and notes, to the investment portfolio. The highest individual counterparty limit at the end of the year was € 20 million.

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 2016, cash and cash equivalents and financial assets at the Group amounted to € 69.5 million. There were no interest-bearing financial liabilities, such as bank loans. Current lines of credit in the amount of € 11.5 million 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 effect 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, while the majority of Group turnover is generated in euros.

Based on the influences of the US dollar, we categorise the probability of occurrence and the potential financial effects of currency risks as generally high, especially from 2019.

Leifheit operates a centralised system for managing currency risks. We hedge units of the planned currency requirements up to two financial years in advance and, in cases of exception, 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.

The following hedges existed as at 31 December 2016:

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

For the years 2017 to 2018, we have hedged approximately 95% to 100% of the US dollar and HK dollar requirements through forward foreign exchange contracts. Most of our hedging is done through hedge accounting.

According to the requirements of IFRS 7, we have estimated the effects of changes to our key exchange rates (US dollar and Czech koruna) on result and equity and listed them under Note 34 of the financial statements. The effects are primarily due to the change in the fair values of our hedging instruments. As a result of that sensitivity, a 10% appreciation of the euro against the US dollar as at balance sheet date 31 December 2016 would have led to a reduction of earnings before taxes of € 1.8 million and a reduction of the other comprehensive income of € 5.6 million.

However, due to our hedges the risk for 2017 and 2018 is limited. In relation to the future development of the exchange rates, we could limited the risk for subsequent years in line with our expectations regarding the exchange rate trend and our hedging strategy with contracting further derivates.

Interest rate risks

Changes to market interest rates impact future interest payments for financial investments and for variable interest-bearing liabilities. Because the Group does not currently have any bank loans or other interest-bearing liabilities in its 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 the findings of tax audits. The tax authorities are increasingly reviewing international intragroup transfer prices. VAT regulations in the Europe-wide provision of goods and services are 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 outsourcing 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.

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 our 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 expect the upward trend in terms of economic development to continue at roughly the same rate as the previous year and anticipate the same level of consumer sentiment in our most important sales markets. At the same time, economic development is subject to a number of uncertainties, including changes in economic policy, a rise in inflation in Europe and regional conflicts. Against this backdrop, we expect Group turnover to increase by 3.5 to 4.5% and a operating result in the line with 2016.

Strategic focus of the Group remains unchanged

We will continue to pursue our growth strategy "Leifheit 2020" in the current financial year. Our focus is on further expansion of our Brand Business. We intend to systematically develop the Leifheit and Soehnle brands, enhance their profiles and strengthen their competitive positions. We want to attract new groups of customers and expand our existing market position using innovative, consumer-centric products that complement our established range. Using a holistic category-based approach, we are looking to tap into new price segments and additional buyer groups. We will also continue to develop our successful sales channels and support the growth of our Eastern European sales markets. 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.

"Leifheit 2020"

Economic upward trend continues

In its latest forecast, the International Monetary Fund (IMF) forecasts that the global economy will grow by 3.4% in 2017. The IMF emphasised that its forecasts are subject to a certain degree of uncertainty. Actual developments may be worse, especially as there is widespread uncertainty over the future policies of the US and the effects of these on the rest of the world.

The European Union is continuing on its path of economic growth. The European Commission expects to see economic growth in every member state for the first time since 2008. Private consumption will remain the primary driver of growth, bolstered by positive development on the employment market and real income growth. However, a further hike in inflation would restrict purchasing power and see the rate of growth in consumer spending decline.

The EU-Commission also points to a high level of forecast risk in its winter forecast published in February 2017. This, it believes, it is not simply due to the new administration in the US and its intervention in key areas of the economy, it is also the result of the fact that a number of member states are set to hold elections in the near future, while negotiations are also scheduled to commence with the United Kingdom concerning its departure from the European Union. The Commission expects the Eurozone's gross domestic product (GDP) to increase by 1.6% in 2017. It forecasts growth of 1.8% across the EU as a whole.

In its projection for the year 2017, the German government anticipates solid growth in the German economy and a continuation of the upward trend. It forecasts expansion of 1.4%. The year on year decline in the rate of growth is partly due to the fewer number of working days in 2017 compared to 2016. Adjusted for this effect, the forecast rate of growth stands at 1.6%. The European Commission expects the German economy to grow by 1.6% in 2017.

According to the Commission, the French economy is expected to grow by 1.4% in 2017, while growth of 0.9% is forecast for the Italian economy. The highest rate of growth in Central Europe is once again expected to be recorded in Spain, where the Commission anticipates expansion of 2.3% in 2017.

EU member states in Eastern Europe will continue to boast above-average growth rates. According to the latest Commission forecast, the Polish economy is set to expand by 3.2%, while the Czech Republic is expected to generate economic growth of 2.6% in 2017. In Slovakia, the economy is forecast to expand by 2.9%.

The International Monetary Fund believes that the period of recession in Russia is coming to an end. It expects Russian GDP to grow by 1.1% in 2017, largely as a result of the stabilisation in the price of oil. The US economy is set to expand by 2.3%, bolstered by plans announced by the new administration. The IMF has also raised its forecast for China in anticipation of further state intervention. Chinese GDP is now expected to increase by 6.5% in 2017.

Positive consumer sentiment continues

Market research company GfK expects private consumer spending to increase by 1.0 to 1.5% in the European Union and by 1.5% in Germany in 2017. Bolstered by falling unemployment across Europe, increasing incomes and low interest rates, coupled with positive expectations in terms of economic growth, private consumption remains the cornerstone of growth in Germany and Europe, GfK believes.

The GfK's consumer climate indicator for Germany is formed on the basis of economic expectations, income expectations and consumers' propensity to buy. All three of these criteria have improved markedly once again since the start of 2017. The consumer climate indicator for February 2017 reached 10.2 points, up from 9.9 points in January and 9.8 points in December 2016. The European Commission is responsible for determining the Consumer Confidence Indicator for the Eurozone and the European Union as a whole. It also improved slightly in January 2017 compared to the previous month. Consumer confidence rose by 0.2 points to –4.9 points in the Eurozone and by 0.3 points to –4.3 points in the European Union.

German companies start year in less-optimistic mood

The economic climate index published by the ifo Institute summarises sentiment in relation to the German economy. Satisfaction with the current economic situation may have risen once again in January, but expectations in terms of future development are less optimistic. The economic climate index declined from 111.0 points in December 2016 to 109.8 points in January 2017. However, the index still remains at a high level. By contrast, the European Commission's Business Climate Indicator for the Eurozone remained stable. In January 2017, it stood at 0.77 points – as in previous months. Expectations of future development for Eurozone companies improved considerably, whereas the assessment of the past has deteriorated.

US dollar likely to increase slightly in value

In January 2017, the average exchange rate for the euro stood at 1.06 US dollar, where it remained until mid-February. The financial markets expect the US Federal Reserve to stick with its plans to gradually raise interest rates. Two or three additional increases in interest rates and the prospect of more-frequent rate hikes in 2018 could result in the US dollar gaining ground on the euro. Elsewhere, the European Central Bank will likely continue its expansive monetary policy apace in spite of initial signs of rising interest rates. It remains to be seen what kind of impact the economic and financial policy of the new US-administration will have. Against this backdrop, it is expected that the euro-dollar exchange rate will either remain largely stable in 2017 or there will be a slight rise in the value of the US dollar towards parity. The average forecasts for the euro-dollar exchange rate for 2017/2018 stood at 1.05 US dollars per euro at the end of 2016.

Group forecast: sustainable turnover growth

We expect the process of economic growth to continue in our most important sales markets, with growth rates set to remain on par with those recorded in 2016. We expect private consumption to remain the driver of growth against the backdrop of positive employment figures and rises in real income. At the same time, there are a number of uncertain factors, including the economic policies of the new US administration, the results of upcoming elections in several EU member states, a hike in inflation in the Eurozone and geopolitical tensions and conflicts such as in the Middle East and North Africa.

On this basis, we expect the process of sustainable growth to continue in 2017. Specifically, we expect Group turnover to increase by 3.5 to 4.5% in 2017. Our growth strategy is centred on the further expansion of our Brand Business. To do so, we will be launching a number of new products in the current financial year. In our Brand Business, we expect to increase turnover by 4 to 5%. Our smaller and more volatile Volume Business is managed with a clear focus on profitability. Here, we plan to increase turnover by 2 to 3% in 2017.

Earnings after one-off effects in line with previous year

With a view to strengthening future growth in Brand Business, we intend to invest part of the contribution margins from rising turnover in the reorganisation of our sales structure in 2017. This will likely result in one-off effects of between € 2.0 million to € 2.5 million, which we have already taken into account in our earnings forecast for financial year 2017. We therefore expect earnings before interest and taxes (EBIT) in line with previous year. According to our assumptions, Brand Business is likely to contribute around 80% of EBIT and Volume Business 20%.

Investments for our growth

In the medium term, we are planning investments of around € 6 million per year, which roughly corresponds to the level of annual depreciation. In 2017, this amount will primarily be invested in expanding capacity at our Czech production site. We will also be investing in our logistics centre in Zuzenhausen as well as in tools, machinery and production systems for new products, store fixtures and operating and office equipment. In addition, we will be investing some € 1 million in the digitalisation and optimisation of our IT infrastructure. Planned investments in 2017 total aprox € 7 million and will be financed from own funds. Over 90% of investments will be made in Brand Business.

aprox €m 7
Investments

Solid financial and liquidity position

+3.5 to 4.5%
Group turnover growth

+4 to 5%
Brand Business turnover growth

We will also maintain our conservative financial policy in the financial year 2017. We are planning to generate free cash flow of between € 4 million to € 6 million in 2017. The anticipated year on year decline is due to non-periodic bonus payments, the rise in working capital as a result of the planned turnover growth and the likely increase in inventories following the new listing with an important customer in France.

We expect the return on capital employed (ROCE) to decline slightly on the previous year in 2017. This is due to the anticipated disproportionately high increase in earnings compared to turnover due to the aforementioned one-off effects, the elimination of loss carryforwards and the resulting rise in actual taxes and working capital.

Overall statement of prospective development

We will systematically pursue our growth strategy "Leifheit 2020". We will expand our existing market position and tap into new markets with our innovative products. We expect our course of sustained growth to continue in 2017. We will maintain our conservative financial policy and base investment decision on sound judgement.

Legal information

Information under takeover law and explanatory report

Takeover information required under section 289 para. 4 and section 315 para. 4 German commercial code (HGB) as at 31 December 2016 is presented below:

The subscribed capital (share capital) of Leifheit AG as at 31 December 2016 remains unchanged at k€ 15,000 and is divided into 5,000,000 no-par-value bearer shares. This corresponds for each no-par-value bearer share to 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 stock programme – and therefore a restriction is set to the transferability of these shares – for at least two years. Apart from the employee stock 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 and no controls on 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), the resolution by the Annual General Meeting in accordance with the articles of incorporation in accordance with art. 18 para. 1 therein requires the simple majority of the share capital represented in the resolution. 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 2016, 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€ 7,500 until 24 May 2021 by issuing up to 2,500,000 new no-par-value bearer shares in exchange for cash and/or non-cash contributions (authorised capital 2016). 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.

A Board of Management contract contains a change of control clause, according to which the fixed remuneration to be paid until the regular end of the contract shall be 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.

No additional 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. 2 AktG, please see the notes to the balance sheet.

Declaration of corporate management

The declaration of corporate management in accordance with section 289a HGB is accessible on our website. 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 and the declaration on the defined targets according to the German law on the equal participation of women and men in management positions.

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 Standards (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 measured against 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 2016 is 2.5% of the growth in the market capitalisation of Leifheit AG on the basis of average prices on 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 value of granted long-term variable remuneration 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. The provision recorded on the balance sheet amounted to k€ 5,249 and correspondens to the fair value of the obligation.

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 stock 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.

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

A Board of Management contract contains a change of control clause, according to which the fixed remuneration to be paid until the regular end of the contract shall be 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€	2015	**2016**	2016 (min.)	2016 (max.)
Fixed remuneration	330	330	–	–
Fringe benefits	25	25	–	–
Total	**355**	**355**	**–**	**–**
Single-year variable remuneration	210	205	0	250
Multi-year variable remuneration				
LTI 2014–2016	1,030	1,920	0	4,000
Other	–	–	–	–
Total	**1,240**	**2,125**	**–**	**–**
Pension expenses	–	–	–	–
Total remuneration	**1,595**	**2,480**	**–**	**–**

	Dr Claus-O. Zacharias CFO Joined on 1 December 2008			
Granted benefits in k€	2015	**2016**	2016 (min.)	2016 (max.)
Fixed remuneration	300	300	–	–
Fringe benefits	9	9	–	–
Total	**309**	**309**	**–**	**–**
Single-year variable remuneration	210	205	0	250
Multi-year variable remuneration				
LTI 2015–2017	480	769	0	4,000
Other	–	–	–	–
Total	**690**	**974**	**–**	**–**
Pension expenses	–	–	–	–
Total remuneration	**999**	**1,283**	**–**	**–**

Granted benefits in k€	Ansgar Lengeling COO Joined on 1 November 2016 2015	2016	2016 (min.)	2016 (max.)
Fixed remuneration	–	21	–	–
Fringe benefits	–	2	–	–
Total	**–**	**23**	**–**	**–**
Single-year variable remuneration	–	10	10	10
Multi-year variable remuneration	–	–	–	–
Other	–	–	–	–
Total	**–**	**10**	**–**	**–**
Pension expenses	–	–	–	–
Total remuneration	**–**	**33**	**–**	**–**

	Thomas Radke CEO Joined on 1 January 2014		Dr Claus-O. Zacharias CFO Joined on 1 December 2008		Ansgar Lengeling COO Joined on 1 November 2016	
Cash flow/payment in k€	2015	**2016**	2015	**2016**	2015	**2016**
Fixed remuneration	330	330	300	300	–	21
Fringe benefits	25	25	9	9	–	2
Total	**355**	**355**	**309**	**309**	**–**	**23**
Single-year variable remuneration	198	202	250	202	–	10
Multi-year variable remuneration						
LTI 2014–2016	–	–	–	–	–	–
LTI 2011–2014	–	–	2,749	–	–	–
LTI 2015–2017	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**198**	**202**	**2,999**	**202**	**–**	**10**
Pension expenses	–	–	–	–	–	–
Total remuneration	**553**	**557**	**3,308**	**511**	**–**	**33**

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is regulated by the articles of incorporation of Leifheit AG. The remuneration accords to 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 demand more than € 2,500.00 in total.

No remuneration was paid to the members of the Supervisory Board for personally performed services.

The remuneration of the Supervisory Board in financial year 2016 amounted to k€ 303 and can be broken down as follows:

k€	2016
Ulli Gritzuhn	35.6
Baldur Groß	32.5
Karsten Schmidt	43.8
Thomas Standke	32.5
Sonja Wärntges	40.6
Helmut Zahn	117.5

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 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, the operating result and free cash flow. No significant changes were made to the control system in financial year 2016.

Major changes

On 6 June 2016, Leifheit AG included the permanent establishment of the previous Austrian branch in the newly founded Leifheit Österreich GmbH with retroactive effect from 1 January 2016. The permanent establishment in Austria is therefore no longer included in the figures for financial year 2016. Furthermore, the new regulations of the German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz – BilRUG) were applied for the first time in 2016. The figures in the balance sheet and the statement of profit or loss are therefore only comparable with previous years to a limited extent. The major changes are described below.

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 Leifheit AG forecast for financial year 2016 featured neither the inclusion of the permanent establishment in Austria in an independent company nor the reclassifications under BilRUG. This information has therefore been added to the following comparison of actual performance versus forecast performance.

The expectations for financial year 2016 were only partially met.

Adjusted turnover of Leifheit AG rose by 1.8%. This figure fell short of expectations both in Germany and outside of Germany, with an increase of 4 to 5% originally forecast.

The adjusted operating result of Leifheit AG stood at € 18.7 million. We had forecast an operating result of € 16 million to € 17 million. Lower advertising costs and higher income from the reversal of provisions contributed to this development.

Free cash flow came in at € 14.4 million, down on our forecast of € 16 million to € 17 million, as no dividends from shareholdings were distributed.

Forecast comparison	Actual 31 Dec 2015	Forecast 2016	**Actual 31 Dec 2016**	Impact Austria	Actual 31 Dec 2016 adjusted [1]
Turnover excluding BilRUG	€m 182.4	+4 to 5%	€m 181.7	€m 4.0	€m 185.7 +1.8%
BilRUG effect on turnover	€m 27.7		€m 33.5		€m 33.5
Turnover including BilRUG	€m 210.1		€m 215.2	€m 4.0	€m 219.2
Operating result excluding Austria	€m 15.2 [2]		€m 18.4		€m 18.4
Operating result Austria	€m 0.3			€m 0.3	€m 0.3
Operating result	€m 15.5 [2]	€m 16 to 17	€m 18.4	€m 0.3	€m 18.7 > €m 17
Free cash flow	€m 14.4	€m 16 to 17	€m 14.4		€m 14.4

[1] Including Leifheit Österreich GmbH.
[2] Excluding BilRUG.

Results of operations

Income statement (short version) in €m	2015 [1]	**2016**
Turnover	182.4	215.2
Operating result	**7.2**	**18.4**
Income from shareholdings	3.2	–
Net interest income	–5.7	–0.6
Change in financial assets	0.1	–0.2
Income taxes	–2.8	–4.3
Earnings after taxes	**2.0**	**13.3**
Other taxes	–0.2	–0.2
Net income	**1.8**	**13.1**

[1] Classified in accordance with BilRUG.

In 2016, Leifheit AG achieved an operating result of € 18.4 million (2015: € 7.2 million) and net income of € 13.1 million (2015: € 1.8 million). The previous year contained the one-time total addition to expenses of the difference resulting from the change in the measurement of pension reserves due to the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG) of € 8.3 million; until the end of 2015, the difference had not been added.

Decrease in gross profit

Turnover at Leifheit AG rose by € 32.8 million to € 215.2 million (2015: € 182.4 million) and also comprised turnover from the sale of production material to manufacturing subsidiaries as well as turnover from commissions, licences, allocated Group costs and canteens of € 33.5 million in total due to the first-time application of BilRUG. On a like-for-like basis, turnover increased by € 5.1 million, which was mainly the result of the rise in the sale of production material. The cost of turnover rose disproportionately, as sales of production material have significantly smaller margins compared to the sales of Leifheit and Soehnle brand products. Gross profit fell by € 0.7 million to € 76.3 million (2015: € 77.0 million) in the reporting period.

Distribution costs

Distribution costs of Leifheit AG in the reporting period stood at € 49.6 million (2015: € 54.8 million). Adjusted for the disposal of the permanent establishments in Austria and the first-time application of BilRUG, the decline amounted to € 0.5 million and resulted primarily from lower advertising costs. Distribution costs included advertising costs, commissions, marketing costs, freight out, delivery charges and the costs incurred by the internal and external teams.

General administrative costs

Administrative costs rose by € 0.8 million to € 10.7 million (2015: € 9.9 million). Adjusted for the disposal of the permanent establishment in Austria, administrative costs rose by € 1.4 million. This increase 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 in the reporting period by € 3.4 million to € 9.1 million (2015: € 12.5 million). It includes foreign currency gains of € 5.8 million (€ 4.9 million of which from forward foreign exchange transactions) and income from the reversal of provisions of € 3.1 million. Adjusted for the reclassification of income to turnover due to BilRUG and the disposal of the permanent establishment in Austria, other operating income fell by € 1.6 million. The € 3.6 million decline in foreign currency gains stood in contrast to higher income from the reversal of provisions of € 2.2 million.

Other operating expenses

Other operating expenses fell by € 10.9 million to € 6.7 million (2015: € 17.6 million). The previous year contained the one-time total addition of the difference resulting from the change in the measurement of pension reserves due to the BilMoG of € 8.3 million; until the end of 2015, the difference had not been added. Adjusted for this extraordinary effect in the previous year, the drop in other operating expenses stood at € 2.6 million and mainly reflected the decline in foreign currency losses. Foreign currency losses fell by € 2.8 million to € 1.8 million, which was mainly attributable to the decline in foreign currency losses from forward foreign exchange transactions.

Other operating expenses also include research and development costs, which rose by € 0.3 million to € 4.8 million (2015: € 4.5 million). The rise also resulted from our activities in connection with the new "Innovation Factory" innovation strategy. Additional staff were recruited for development to expand internal and external development projects.

Income from shareholdings

Subsidiaries did not distribute any profits in financial year 2016. Income from shareholdings of € 3.2 million in the previous year related to the dividend of Leifheit France S.A.S. for 2014. The net income for the year of Leifheit France S.A.S. from the financial year 2015 was carried forward to new account.

Interest income and interest expenses

At € 0.8 million, income from loans of financial assets and other interest income at Leifheit AG was on par with the previous year (2015: € 0.8 million). Interest expenses fell sharply by € 5.2 million to € 1.3 million (2015: € 6.5 million). This decline was almost solely attributable to the lower interest rate for pension reserves, which takes into account the average market interest rate for the past ten years of 4.01% and was applicable for the first time in financial year 2016. The corresponding market interest rate for the past seven years of 3.24% led to interest expenses that were € 5.3 million higher.

Depreciation and amortisation on financial assets

Depreciation and amortisation on financial assets related to impaired on shareholdings of the wholly owned subsidiaries Leifheit España S.A. and Meusch-Wohnen-Bad und Freizeit GmbH.

Income taxes

In financial year 2016, income taxes of Leifheit AG amounted to € 4.3 million (2015: € 2.8 million). The remaining trade tax loss carry-forwards of € 0.7 million were completely used up (2015: € 8.1 million).

Financial situation

Liquidity at Leifheit AG stood at € 65.5 million as at 31 December 2016 (2015: € 64.3 million), including cash and cash equivalents as well as securities.

Cash and cash equivalents came to € 41.5 million (2015: € 60.3 million) and included demand deposits and fixed deposits that may be terminated within three months.

Securities in the amount of € 24.0 million (2015: € 4.0 million) included bond funds of € 20.0 million and, as in the previous year, a registered bond of € 4.0 million with a term to maturity until March 2017.

€m	2015	2016	Change
Cash flow from operating activities	17.0	17.2	0.2
Cash flow from investment activities	−3.6	−23.0	19.4
Free cash flow	14.4	14.4	0.0
Cash flow from financing activities	−8.5	−13.0	4.5

At € 17.2 million, cash flow from operating activities in 2016 was almost on par with the previous year (2015: € 17.0 million). It resulted mainly from net income for the year of € 13.1 million (2015: € 1.8 million), depreciation and amortisation of € 2.8 million (2015: € 3.2 million) and a € 1.6 million increase in liabilities (2015: € 3.0 million).

Cash flow from investment activities in financial year 2016 came to € 23.0 million (2015: € 3.6 million). Payments for the purchase of property, plant and equipment and intangible assets amounted to € 2.9 million (2015: € 3.0 million) in total, and outgoing payments in financial assets and securities stood at € 20.0 million (2015: € 0.0 million).

Cash flow from financing activities was € 13.0 million (2015: € 8.5 million) and consisted primarily of the dividend payment of € 13.1 million (2015: € 8.6 million).

In 2016, Leifheit AG achieved free cash flow of € 14.4 million (2015: € 14.4 million). 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 2016, the debt level of Leifheit AG stood at 49.6%, which was approximately on par with the level in the previous year (2015: 49.9%). This key figure is calculated as a ratio of liabilities to the sum of equity and liabilities.

As at 31 December 2016, our liabilities consisted primarily of provisions for pension obligations of € 49.3 million (2015: € 51.4 million), tax provisions of € 0.9 million (2015: € 0.9 million), other provisions of € 28.1 million (2015: € 28.7 million) and liabilities of € 23.1 million (2015: € 21.5 million). As in the previous years, Leifheit AG did not have any liabilities to banks.

In financial year 2016, we had short-term revolving credit lines of € 11.5 million (2015: € 11.5 million); on 31 December 2016, € 0.5 million (2015: € 0.5 million) of that amount was utilised in the form of guarantees and letters of credit.

Net assets

Balance sheet (short version) in €m	2015	2016
Intangible assets	1.7	2.2
Property, plant and equipment	16.4	15.7
Financial assets	52.6	53.1
A. Fixed assets	**70.7**	**71.0**
Inventories	27.3	26.6
Receivables and other assets	43.1	41.4
Securities	4.0	24.0
Cash and cash equivalents	60.3	41.5
B. Working assets	**134.7**	**133.5**
C. Accrued expenses	**0.1**	**0.1**
Total Assets	**205.5**	**204.6**
A. Equity	**102.9**	**103.1**
Provisions for pensions and similar obligations	51.4	49.3
Tax provisions	0.9	0.9
Other provisions	28.7	28.2
B. Provisions	**81.1**	**78.4**
C. Liabilities	**21.5**	**23.1**
Total equity and liabilities	**205.5**	**204.6**

The balance sheet total of Leifheit AG fell by € 0.9 million compared to the previous year's balance sheet date to € 204.6 million (2015: € 205.5 million) as at 31 December 2016. This decline resulted primarily from lower inventories and receivables as well as from the decrease in provisions for pension obligations.

At € 71.0 million, fixed assets were on par with the previous year (2015: € 70.7 million). Inventories fell by € 0.7 million to € 26.6 million (2015: € 27.3 million) due to the balance sheet date. Receivables and other assets declined by € 1.7 million to € 41.4 million (2015: € 43.1 million) due mainly to lower receivables from related parties. Securities included bond funds of € 20.0 million (2015: € 0.0 million) and an investment in the form of registered bonds of € 4.0 million (2015: € 4.0 million). Cash and cash equivalents decreased by € 18.8 million to € 41.5 million (2015: € 60.3 million) due, in particular, to the investment in bond funds.

Leifheit AG's equity rose by € 0.2 million to € 103.1 million (2015: € 102.9 million). The dividend payment of € 13.1 million was compensated for by net income for the year of € 13.1 million. The equity ratio stood at 50.4% (2015: 50.1%). Provisions for pensions and similar obligations fell by € 2.1 million to € 49.3 million (2015: € 51.4 million) due, in particular, to the first-time application of the average market interest rate for the past ten years of 4.01% (2015: average market interest rate of the past seven years of 3.89%). Other provisions fell by € 0.6 million to € 28.1 million (2015: € 28.7 million). This development was primarily attributable to the decline in provisions for bonuses and advertising cost subsidies. Inventories rose by € 1.6 million to € 23.1 million (2015: € 21.5 million) largely on account of a rise in trade payables due to the balance sheet date.

Leifheit AG invested € 2.9 million (2015: € 3.0 million) in financial year 2016. Of this amount, € 1.0 million (2015: € 1.0 million) was accounted for by intangible assets, mainly software, and € 1.9 million was used to pay for property, plant and equipment (2015: € 2.0 million), mainly tools for new products as well as operating and business equipment. There were no considerable disposals of assets in reporting year 2016. All investments in financial year 2016 have been largely completed.

As at 31 December 2016, there were contractual obligations to acquire items of assets – mainly for software, tools, fire protection systems, assembly systems and operating and office equipment – in the amount of € 1.1 million (2015: € 0.7 million). 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.

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 438 employees (2015: 450 employees) as at 31 December 2016. The average number of employees in financial year 2016 was 429 people (2015: 450 people). The previous year's figures included 25 employees as of the balance sheet date and an average of 25 employees over the year from our permanent establishment in Austria.

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 of between 3 to 4% at Leifheit AG in financial year 2017.

In order to strengthen future growth, we intend to invest part of the contribution margins from rising turnover in restructuring our sales organisation in 2017. This is likely to result in one-off effects of between € 2.0 million to € 2.5 million, which we have taken into account in our earnings forecast for financial year 2017. We expect to generate an operating result of between € 1.5 million to € 2.5 million, down on the figure recorded in financial year 2016. We continue to anticipate free cash flow of € 4 million to € 6 million.

Nassau/Lahn, Germany, 27 March 2017

Leifheit Aktiengesellschaft

The Board of Management

Thomas Radke   Dr Claus-O. Zacharias   Ansgar Lengeling

Consolidated financial statements

Statement of profit or loss and statement of comprehensive income

k€	Notes	2015	2016
Turnover	1	231,832	237,057
Cost of turnover	2	–123,554	–124,472
Gross profit		**108,278**	**112,585**
Research and development costs	3	–4,824	–5,073
Distribution costs	6	–70,221	–70,092
Administrative costs	7	–15,326	–16,623
Other operating income	8	1,456	1,231
Other operating expenses	9	–169	–258
Foreign currency result	10	2,457	350
EBIT		**21,651**	**22,120**
Interest income	11	115	99
Interest expenses	12	–1,527	–1,638
Net other financial result		–1	–
EBT		**20,238**	**20,581**
Income taxes	13	–5,905	–6,054
Net result for the period		**14,333**	**14,527**
Contributions that are not reclassified in future periods in the statement of profit or loss			
Actuarial gains/losses on defined benefit pension plans	26	2,531	–3,853
Effect from income taxes		–640	1,123
Contributions that may be reclassified in future periods in the statement of profit or loss			
Currency translation of foreign operations		299	50
Currency translation of net investments in foreign operations		302	8
Income taxes from currency translation of net investments in foreign operations		–95	–2
Net result of cash flow hedges		5,147	–1,324
Income taxes from cash flow hedges		–1,524	368
Net result from the sale of financial assets available		–	–1
Income taxes from net result from the sale of financial assets available		–	–
Other comprehensive income		**6,020**	**–3,631**
Comprehensive income after taxes		**20,353**	**10,896**
Earnings per share based on net result for the period (diluted and undiluted)	14	**€ 3.02**	**€ 3.06**

Balance sheet

k€	Notes	31 Dec 2015	31 Dec 2016
Current assets			
Cash and cash equivalents	15	64,200	45,507
Financial assets	16	4,000	23,994
Trade receivables	17	46,063	48,703
Inventories	18	42,985	42,294
Income tax receivables		224	525
Derivative financial instruments	19	5,639	6,405
Other current assets	20	4,441	3,138
Total current assets		**167,552**	**170,566**
Non-current assets			
Tangible assets	21	36,086	36,911
Intangible assets	22	18,738	19,261
Deferred tax assets	13	9,837	10,616
Income tax receivables	23	762	–
Derivative financial instruments	19	4,773	1,914
Other non-current assets		156	148
Total non-current assets		**70,352**	**68,850**
Total assets		**237,904**	**239,416**
Current liabilities			
Trade payables and other liabilities	24	50,816	51,166
Derivative financial instruments	19	11	–
Income tax liabilities		947	299
Other provisions	25	6,540	6,544
Total current liabilities		**58,314**	**58,009**
Non-current liabilities			
Provisions for pensions and similar obligations	26	66,448	70,218
Other provisions	25	2,075	3,434
Deferred tax liabilities	13	4,262	3,132
Derivative financial instruments	19	3	7
Other non-current liabilities		100	–
Total non-current liabilities		**72,888**	**76,791**
Equity			
Subscribed capital	27	15,000	15,000
Capital surplus	28	16,984	17,026
Treasury shares	29	–7,493	–7,445
Retained earnings	30	90,536	91,991
Other reserves	31	–8,325	–11,956
Total equity		**106,702**	**104,616**
Total equity and liabilities		**237,904**	**239,416**

Statement of changes in equity

k€	Subscribed capital	Capital surplus	Treasury shares	Retained earnings	Other reserves	Total
As at 1 Jan 2015	**15,000**	**16,956**	**−7,542**	**84,755**	**−14,345**	**94,824**
Issue of treasury shares	–	28	49	–	–	77
Dividends	–	–	–	−8,552	–	−8,552
Comprehensive income after taxes	–	–	–	14,333	6,020	20,353
of which net result for the period	–	–	–	14,333	–	14,333
of which actuarial gains/losses on defined benefit pension plans	–	–	–	–	1,891	1,891
of which currency translation of foreign operations	–	–	–	–	299	299
of which currency translation of net investments in foreign operations	–	–	–	–	207	207
of which net result of cash flow hedges	–	–	–	–	3,623	3,623
of which net result from the sale of financial assets available	–	–	–	–	–	–
As at 31 Dec 2015	**15,000**	**16,984**	**−7,493**	**90,536**	**−8,325**	**106,702**
Issue of treasury shares	–	42	48	–	–	90
Dividends	–	–	–	−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	–	–	–	–	−2,730	−2,730
of which currency translation of foreign operations	–	–	–	–	50	50
of which currency translation of net investments in foreign operations	–	–	–	–	6	6
of which net result of cash flow hedges	–	–	–	–	−956	−956
of which net result from the sale of financial assets available	–	–	–	–	−1	−1
As at 31 Dec 2016	**15,000**	**17,026**	**−7,445**	**91,991**	**−11,956**	**104,616**

Statement of cash flow

k€	Notes	2015	2016
Net result for the period		14,333	14,527
Adjustments for depreciation and amortisation	4	5,757	6,198
Change in provisions		546	982
Result from disposal of fixed assets and other non-current assets		–69	1
Change in inventories, trade receivables and other assets not classified as investment or financing activities		–4,063	–165
Change in trade payables and other liabilities not classified as investment or financing activities		3,790	–42
Other non-cash income		462	338
Cash flow from operating activities		**20,756**	**21,839**
Acquisition of tangible and intangible assets	21, 22	–7,128	–7,782
Outflow for financial assets	16	–	–19,994
Proceeds from the sale of tangible assets and other non-current assets		455	236
Cash flow from investment activities		**–6,673**	**–27,540**
Changes in treasury shares	29	77	90
Dividends paid to the shareholders of the parent company		–8,552	–13,071
Cash flow from financing activities		**–8,475**	**–12,981**
Change in cash and cash equivalents		5,608	–18,682
Change in cash and cash equivalents due to exchange rates		–216	–11
Cash and cash equivalents at the start of the reporting period		58,808	64,200
Cash and cash equivalents at the end of the reporting period	15	**64,200**	**45,507**
Income taxes paid [1]		–3,104	–6,240
Interest paid [1]		–3	–2
Interest received [1]		49	40

[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 315a para. 1 of the German commercial code (HGB), the consolidated financial statements for 2016 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 2016 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 small group of 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 27 March 2017. 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 any activities by the holding company that may 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.
- 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 2016 and 2015.

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 equity of the company concerned, 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 allocated 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 assets and liabilities. If the acquisition cost of an interest exceeds the Group's share in the equity of the company concerned, 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 remeasured 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

Effective 1 January 2016, Leifheit Aktiengesellschaft acquired from the minority shareholder the remaining 29% of the shares of Leifheit CZ a.s., Hostivice, Czech Republic, which is already controlled and fully consolidated.

The purchase price was k€ 102. As a result of the provisions for the acquisition of the outstanding shares, the Group company was already fully included in the consolidated financial statements in accordance with IFRS 3 in previous years.

On 6 June 2016, Leifheit AG included the permanent establishments of the Austrian branch in the wholly-owned subsidiary Leifheit Österreich GmbH, Wiener Neudorf, Austria, effect from 1 January 2016.

Neither event had an impact on the consolidated financial statements.

There were no other 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 2016 reporting period, as in the prior year.

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 2016.

	Date of initial consolidation	Interest in equity and voting rights in 2016 in %
Leifheit España S.A., Madrid (E)	1 Jan 1989	100.0
Leifheit s.r.o., Blatná (CZ)	1 Jan 1995	100.0
Leifheit International U.S.A. Inc., Hauppauge, NY (USA)	1 Jan 1997	100.0
Meusch-Wohnen-Bad und Freizeit GmbH, Nassau (D)	1 Sep 1999	100.0
Birambeau S.A.S., Paris (F) [1]	1 Jan 2001	100.0
Leifheit-Birambeau S.A.S., Paris (F) [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 (F) [1]	1 Jul 2008	100.0
Leifheit France S.A.S., Paris (F)	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 Oct 2012	100.0
Soehnle GmbH, Nassau (D)	25 Jun 2015	100.0
Leifheit Österreich GmbH, Wiener Neudorf (A)	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 on the balance sheet date		Annual average rate	
Base: € 1	31 Dec 2015	**31 Dec 2016**	2015	**2016**
CZK	27.03	27.02	27.35	27.04
USD	1.09	1.06	1.11	1.11
PLN	4.26	4.42	4.20	4.34
HKD	8.44	8.19	8.60	8.59

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.

Inventories

Inventories are recognised at the lower of cost and 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. 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 depreciation and 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 of 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 taken 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 and the present value of the minimum lease payments. 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.

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 15 years. Assets are subject to regular impairment tests.

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 3 and 8 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 combination with IAS 36, goodwill is not subject to scheduled amortisation but it's 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. Development work must also generate probable 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 negligibleness. 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 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 asset 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 are adjusted.

Deferred taxes are reported separately 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 are recognised under IAS 37 on a case-by-case basis and based on the present or estimated future outflows for the warranty obligations on the products sold.

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 (debit or credit balance) 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. 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 are classified as financial assets at fair value through profit or loss, loans and receivables, investments held to maturity or investments held for sale within the meaning of IAS 39. 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 to the "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. The amounts included in other comprehensive income are reposted upon the receipt of the hedged goods as a part of the purchase costs. 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 sespective 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 delivered and the risk has thus been transferred to the customer. Revenue-dependent sales deductions in the form of 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 25), 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 26 and the assumptions and estimates in connection with the recognition of deferred taxes 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 2016:

Standard/interpretation		Must be applied to financial years beginning on or after	Adopted by the European Commission	Impact on Leifheit	
Amendment to IAS 19	Defined benefit plans: employee contributions	1 Feb 2015	yes	none	1
Amendment to IAS 16 and IAS 38	Clarification of permissible depreciation methods	1 Jan 2016	yes	none	2
Amendment to IAS 1	Disclosure initiative	1 Jan 2016	yes	none	3
Amendment to IAS 16 and IAS 41	Bearer plants	1 Jan 2016	yes	none	4
Amendment to IFRS 11	Joint arrangements: accounting for acquisitions of shares in joint operations	1 Jan 2016	yes	none	4
Amendment to IAS 27	Equity method in separate financial statements	1 Jan 2016	yes	none	4
Amendment to IFRS 10, IFRS 12 and IAS 28	Investment companies: applying the consolidation exception	1 Jan 2016	yes	none	4
Improvements to IFRS (2010-2012)	Amendment to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38	1 Feb 2015	yes	none	4
Improvements to IFRS (2012-2014)	Amendment to IFRS 5, IFRS 7, IAS 19 and IAS 34	1 Jan 2016	yes	none	4

1 The amendment did not have any effects on the consolidated financial statements because contributions from employees are not provided under current pension plans.
2 The amendment had no effects on the consolidated financial statements because turnover is not used for depreciation of tangible assets.
3 These amendments largely consist of conceptual clarifications and therefore did not affect the consolidated financial statements.
4 These new regulations are not applicable to the Group and therefore had no effects on the net assets, financial position and results of operations of the Group.

New accounting standards mandatorily 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	Impact on Leifheit	
IFRS 15	Revenue from contracts with customers	1 Jan 2018	yes	nothing significant	1
IFRS 9	Financial instruments	1 Jan 2018	yes	nothing significant	2

1 For virtually all of our contracts with customers, the sale of goods constitutes the sole contractual obligation. Revenue is realised when the power of disposal over the assets passes to the customer. As a result, there will be no material impact on the consolidated financial statements. The only possible changes in the single-digit million range are in the allocation of advertising cost subsidies to sales deductions or distribution costs. We grant guarantees going beyond the statutory requirements in some cases. Since it is not possible to assign a value to this service, we do not expect any effects on the consolidated financial statements.
2 Leifheit intends to apply the new standard beginning on the prescribed date when it comes into force. We evaluated the effects of all three aspect of IFRS 9 in financial year 2015. This preliminary assessment was based on currently available information and may change due to more detailed analyses or further appropriate and reliable information. The assessment did not change in financial year 2016. Overall we do not expect any material effects on the balance sheet and equity. With regard to the application of the impairment rules in IFRS 9, we do not expect significantly higher risk provisioning with a negative impact on equity. The standard will be implemented in financial year 2017.

The IASB has published the standards and interpretations listed below that were not yet to be mandatorily applied in financial year 2016. 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	
IFRS 16	Leases	1 Jan 2019	no	nothing significant	1
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 the IASB until further notice	no	none	2
Amendment to IFRS 2	Classification and measurement of share-based payment transactions	1 Jan 2018	no	nothing significant	1
Amendment to IFRS 4	Application of IFRS 9 financial instruments and IFRS 4 Insurance contracts	1 Jan 2018	no	none	2
Amendment to IFRS 15	Clarification to IFRS 15	1 Jan 2018	no	nothing significant	1
Amendment to IAS 7	Disclosure initiative	1 Jan 2017	no	none	2, 3
Amendment to IAS 12	Recognition of deferred tax assets for unrealised losses	1 Jan 2017	no	nothing significant	2
Amendment to IAS 40	Transfer of investment property	1 Jan 2018	no	none	2
IFRIC 22	Foreign currency transactions and advance consideration	1 Jan 2018	no	nothing significant	1
Improvements to IFRS (2014-2016)	Amendment to IFRS 12	1 Jan 2017	no	none	2
Improvements to IFRS (2014-2016)	Amendments to IFRS 1 and IAS 28	1 Jan 2018	no	none	2

1 We intend to apply the new standard starting on the prescribed date when it comes into force. Applying the new standard is expected to result in a balance sheet extension. However, the precise scope of the effects remains to be determined.

2 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.

3 Additional note disclosures or accounting changes may be required.

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 2016		Brand Business	Volume Business	Total
Turnover	€m	195.8	41.3	237.1
Gross margin	%	50.2	34.8	47.5
Contribution margin [1]	€m	83.8	12.8	96.6
Segment result (EBIT)	€m	16.8	5.3	22.1
Segment result (EBIT) adjusted [2]	€m	16.6	5.2	21.8
Depreciation and amortisation	€m	5.3	0.9	6.2
Employees on annual average	persons	874	188	1,062

[1] The contribution margin results from the gross profit less directly attributable distribution costs such as commissions and freight out.
[2] Adjusted for foreign currency result.

Key figures by divisions in 2015		Brand Business	Volume Business	Total
Turnover	€m	188.1	43.7	231.8
Gross margin	%	49.3	35.4	46.7
Contribution margin [1]	€m	77.3	13.7	91.0
Segment result (EBIT)	€m	15.5	6.2	21.7
Segment result (EBIT) adjusted [2]	€m	14.6	4.6	19.2
Depreciation and amortisation	€m	4.9	0.9	5.8
Employees on annual average	persons	806	270	1,076

[1] The contribution margin results from the gross profit less directly attributable distribution costs such as commissions and freight out.
[2] 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 relaxation 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 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. 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 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 margin, the contribution margin and EBIT. These are based on IAS/IFRS valuations.

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

(1) Turnover

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

k€	2015	2016
Domestic	98,876	94,514
Central Europe	103,178	107,777
Eastern Europe	19,556	24,997
Rest of the world	10,222	9,769
	231,832	**237,057**

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€	2015	2016
Brand Business	188,103	195,803
Volume Business	43,729	41,254
	231,832	**237,057**

(2) Cost of turnover

k€	2015	2016
Cost of materials	91,313	93,252
Personnel costs	12,315	12,054
Purchased services	4,529	4,501
Depreciation and amortisation	2,856	3,257
Services	1,792	1,966
Maintenance	1,925	1,605
Consumables and supplies	1,655	1,525
Customs and services	1,400	1,458
IT costs and other allocations	1,983	1,415
Energy	1,164	1,039
Rent	214	237
Royalties	255	206
Cost of cars, travel and entertainment	156	173
Value adjustments for inventories (net change)	99	–248
Other cost of turnover	1,898	2,032
	123,554	**124,472**

(3) Research and development costs

k€	2015	2016
Personnel costs	2,601	2,714
Services	1,096	1,051
Fees	400	339
IT costs and other allocations	266	337
Maintenance	194	159
Cost of materials	82	144
Office and other overhead costs	47	123
Other research and development costs	138	206
	4,824	**5,073**

(4) Depreciation and amortisation

k€	2015	2016
Tangible assets		
Cost of turnover	2,834	3,251
Research and development costs	51	76
Distribution costs	1,037	1,112
Administrative costs	210	236
IT costs and other allocations	825	887
	4,957	**5,562**
Intangible assets		
Cost of turnover	22	6
Research and development costs	13	11
Distribution costs	159	146
Administrative costs	54	49
IT costs and other allocations	552	424
	800	**636**
Total depreciation and amortisation	**5,757**	**6,198**

(5) Personnel costs/employees

k€	2015	2016
Wages and salaries	36,591	36,936
Social security contributions	7,954	7,985
Cost of employment benefits	809	803
	45,354	**45,724**

Employees on annual average	2015	2016
Germany	409	414
Czech Republic	433	415
France	168	171
Other countries	66	62
	1,076	**1,062**

(6) Distribution costs

k€	2015	2016
Personnel costs	18,322	18,249
Advertising costs	15,827	15,449
Freight out	11,652	12,170
IT costs and other allocations	5,265	5,860
Commissions	6,729	4,921
Services	4,654	4,619
Cost of cars, travel and entertainment	1,612	1,558
Packaging materials	1,429	1,539
Depreciation and amortisation	1,196	1,258
Payments to customers	616	758
Rent	670	648
Maintenance	491	530
Office and other overhead costs	156	362
General operation and administrative costs	243	289
Insurance	374	250
Post and telephone costs	172	173
Other distribution costs (less than k€ 100)	813	1,459
	70,221	**70,092**

(7) Administrative costs

k€	2015	2016
Personnel costs	8,950	10,015
Services	1,771	2,018
IT costs and other allocations	798	834
Maintenance	646	571
Year-end costs	513	485
Office and other overhead costs	360	339
General operation and administrative costs	196	344
Cost of cars, travel and entertainment	320	343
Supervisory Board remuneration	280	303
Rent	325	294
Depreciation and amortisation	264	286
Post and telephone costs	224	202
Insurance	104	106
Other administrative costs (less than k€ 100)	575	483
	15,326	**16,623**

(8) Other operating income

k€	2015	2016
Commission income	632	592
Royalty revenue	249	255
Other operating income (less than k€ 100)	575	384
	1,456	**1,231**

(9) Other operating expenses

k€	2015	2016
Other operating expenses (less than k€ 100)	169	258
	169	**258**

(10) Foreign currency result

k€	2015	2016
Realised foreign currency gains	2,178	1,402
Result from changes in the fair value of forward foreign exchange transactions	651	–898
Effects of foreign currency valuations	–372	–154
	2,457	**350**

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€	2015	2016
Interest income from compound interest	67	59
Interest income from financial instruments	48	40
Interest income from taxes	–	–
	115	**99**

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€	2015	2016
Interest expenses from interest on pension obligations	1,445	1,505
Interest expenses from compound interest and taxes	79	133
Interest expenses from financial instruments	3	–
	1,527	**1,638**

(13) Income taxes

k€	2015	2016
Corporation tax (Germany)	2,124	2,374
Trade tax (Germany)	633	1,833
Foreign income taxes	2,040	2,268
Deferred income taxes	1,108	–421
	5,905	**6,054**

k€	2015	2016
Actual income tax on income from other periods	10	28
Deferred taxes due to temporary differences and tax loss carry-forwards	1,108	–421
Current tax expense	4,787	6,447
Tax liability	**5,905**	**6,054**

The combined tax rate for Leifheit AG for corporation tax and trade tax in Germany was 29.1% (2015: 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€	2015	2016
Earnings before taxes	20,238	20,581
Tax expense based on the tax rate applicable to the parent company	**5,889**	**5,989**
Actual income tax on income from other periods	10	28
Different foreign tax rates	131	74
Adjustment of the recognition of deferred tax assets on loss carry-forwards	–132	–29
Adjustment of deferred taxes	–	–94
Non tax-deductible losses of Group companies	27	4
Non tax-deductible expenses of Group companies	112	175
Adjustment of the deferred tax rate France (2015: Germany)	–111	–79
Others	–21	–14
Tax liability	**5,905**	**6,054**

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€	2015	**2016**
Different depreciation or amortisation periods for non-current assets	−408	27
Measurement of inventories	120	−23
Measurement of receivables and other assets	223	−136
Measurement of derivative financial instruments	104	−299
Measurement of pensions	−16	−28
Measurement of provisions for partial retirement	1	–
Different recognition rules for other provisions	215	16
Measurement of liabilities	−81	−9
Other temporary differences	−20	−60
Tax loss carry-forwards	1,055	91
Foreign currency effects	−85	–
Deferred taxes	**1,108**	**−421**

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€ 11,332 (2015: k€ 13,025) or trade tax loss carry-forwards of k€ 2,410 (2015: k€ 3,640) 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€ 11,156 from corporation tax, as well as k€ 2,410 from trade tax) have an unlimited utilisation period. The utilisation period in Spain (k€ 176 from corporation tax) is 17 years.

The temporary differences in connection with shares in subsidiaries amount to k€ 219 (2015: k€ 122). For this purpose deffered taxes of k€ 64 (2015: k€ 36) were created as future distributions are expected. No deferred taxes were created for temporary differences of k€ 332 (2015: k€ 281) as future distributions are not expected.

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

	31 Dec 2016	
k€	**Deferred tax assets**	**Deferred tax liabilities**
Different depreciation or amortisation periods for non-current assets	489	2,915
Measurement of inventories	486	95
Measurement of receivables and other assets	77	352
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	–
Tax loss carry-forwards	–	–
Gross amount	**13,156**	**5,672**
Offsetting	−2,540	−2,540
Balance sheet amount	**10,616**	**3,132**

	31 Dec 2015	
k€	Deferred tax assets	Deferred tax liabilities
Different depreciation or amortisation periods for non-current assets	631	3,030
Measurement of inventories	478	110
Measurement of receivables and other assets	83	492
Measurement of derivative financial instruments	4	2,977
Measurement of pensions	10,133	–
Different recognition rules for other provisions	525	5
Measurement of liabilities	166	4
Other temporary differences	82	–
Tax loss carry-forwards	91	–
Gross amount	**12,193**	**6,618**
Offsetting	−2,356	−2,356
Balance sheet amount	**9,837**	**4,262**

(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.

		2015	2016
Shares issued	thousand shares	5,000	5,000
Weighted average number of treasury shares	thousand shares	248	247
Weighted average number of no-par-value bearer shares	thousand shares	**4,752**	**4,753**

		2015	2016
Net result for the period allocated to the shareholders of the parent company	k€	14,333	14,527
Weighted average number of no-par-value bearer shares	thousand shares	4,752	4,753
Earnings per share based on net result for the period (diluted and undiluted)	€	**3.02**	**3.06**

Notes to the balance sheet

(15) Cash and cash equivalents

The credit balances at banks and cash on hand amounting to k€ 45,507 (2015: k€ 64,200) were valued at their respectively attributable fair value.

(16) Financial assets (current)

The current financial assets are an investment in the form of a registered bond to the amount of k€ 4,000 that was carried at amortised cost using the effective interest rate method. On the basis of their short-term character and interest yields near the market rate, fair value was approximately equivalent to book value.

Furthermore, financial assets included funds for short-term, variable interest-bearing eurobonds of k€ 19,994 (2015: k€ 0), which are recognised as financial assets measured at fair value without effects on net result for the period.

(17) Trade receivables

k€	31 Dec 2015	31 Dec 2016
Trade receivables	44,745	46,779
Trade bills	1,318	1,924
	46,063	**48,703**

As at 31 December 2016, k€ 41,437 were secured by credit on goods insurance policies (2015: k€ 36,296). The cost-sharing amount is normally 10%.

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

k€	2015	2016
As at 1 January	2,582	1,005
Foreign currency differences	1	–
Additions recognised in profit and loss	112	195
Utilisation	1,403	192
Reversal	287	196
As at 31 December	**1,005**	**812**

The maturity structure of trade receivables as at 31 December:

k€	2015	2016
Neither overdue nor impaired	**45,238**	**46,943**
Overdue, but not impaired		
1 to 30 days	1,113	1,722
31 to 60 days	14	94
61 to 90 days	–110	307
91 to 120 days	16	126
Over 120 days	–540	–661
Overdue in total but not impaired	**493**	**1,588**
Specific allowances on doubtful accounts (gross)	**1,337**	**984**
Value adjustment	**–1,005**	**–812**
Trade receivables (net)	**46,063**	**48,703**

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 cost-sharing.

Reference is made to Note 34 (Default/credit risk) with respect to the default/credit risk in relation to trade receivables.

(18) Inventories

k€	31 Dec 2015	31 Dec 2016
Raw materials, consumables and supplies	5,578	8,615
Unfinished products	1,513	1,931
Finished products and goods purchased and held for resale	35,894	31,748
	42,985	**42,294**

k€	31 Dec 2015	31 Dec 2016
Raw materials, consumables and supplies measured at fair value	150	143
Unadjusted raw materials, consumables and supplies	5,428	8,472
Total raw materials, consumables and supplies	**5,578**	**8,615**
Unfinished products measured at fair value	4	24
Unadjusted unfinished products	1,509	1,907
Total unfinished products	**1,513**	**1,931**
Finished products and goods purchased and held for resale measured at fair value	2,241	1,921
Unadjusted finished products and goods purchased and held for resale	33,653	29,827
Total finished products and goods purchased and held for resale	**35,894**	**31,748**

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 2017 to January 2019.

The following liabilities from foreign exchange transactions were recorded on the balance sheet as at 31 December 2016:

	Value of liability	**Foreign currency**	**Nominal amount**
Buy USD/€	€m 66.4	USDm 79.6	€m 74.1
of which hedge accounting	€m 52.9	USDm 64.0	€m 59.4
Buy HKD/€	€m 10.9	HKDm 96.0	€m 11.5
of which hedge accounting	€m 6.7	HKDm 60.0	€m 7.2
Buy CNH/€	€m 7.6	CNHm 60.0	€m 7.6
of which hedge accounting	€m 4.5	CNHm 36.0	€m 4.6

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

	Value of liability	Foreign currency	Nominal amount
Buy USD/€	€m 105.8	USDm 129.0	€m 115.2
of which hedge accounting	€m 78.2	USDm 96.5	€m 86.2
Buy HKD/€	€m 17.9	HKDm 166.6	€m 18.8
of which hedge accounting	€m 6.7	HKDm 60.0	€m 6.9

Finance instrument 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 nett 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 2015			**31 Dec 2016**		
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	10,412	14	10,398	8,319	7	8,312
Derivative financial liabilities	14	14	–	7	7	–

The adjustments for the credit risk relating to counterparties (credit value adjustment) in the amount of k€ 52.0 and the adjustments for the credit risk relating to the Group itself (debt value adjustment) in the amount of k€ 0.0 were taken into account.

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

	less than 1 year	**1 to 3 years**
Buy USD/€	USDm 45.8	USDm 33.8
Buy HKD/€	HKDm 49.5	HKDm 46.5
Buy CNH/€	CNHm 30.0	CNHm 30.0

The maturities of foreign exchange transactions as at 31 December 2015 were as follows:

	less than 1 year	1 to 3 years
Buy USD/€	USDm 50.2	USDm 78.8
Buy HKD/€	HKDm 87.1	HKDm 79.6

Overall changes in value for currency translation of derivative assets and liabilities amounting to k€ –1,324 (2015: k€ 5,147) were recorded in other comprehensive income without affecting profit or loss.

(20) Other current assets

k€	31 Dec 2015	**31 Dec 2016**
VAT receivables	3,075	2,425
Current prepayments and accrued income	329	191
Other current assets (less than k€ 100)	1,037	522
	4,441	**3,138**

(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 2015	53,859	39,032	43,333	1,403	137,627
Foreign currency differences	315	386	38	27	766
Additions	223	222	1,822	3,874	6,141
Disposals	883	1,039	3,304	9	5,235
Reclassifications	47	1,624	138	–1,809	–
As at 31 Dec 2015	**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**
Cumulative depreciation					
as at 1 Jan 2015	32,349	34,158	36,113	–	102,620
Foreign currency differences	151	316	13	–	480
Additions	1,388	1,520	2,049	–	4,957
Additions due to impairment	–	–	–	–	–
Disposals	692	985	3,167	–	4,844
Reclassifications	–	–	–	–	–
As at 31 Dec 2015	**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**
Net book value					
As at 1 Jan 2015	21,510	4,874	7,220	1,403	35,007
As at 31 Dec 2015	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**

Of the k€ 36,911 tangible assets as at the balance sheet date (2015: k€ 36,086), k€ 16,117 were located in Germany (2015: k€ 16,600), k€ 15,140 in the Czech Republic (2015: k€ 13,627), k€ 4,981 in France (2015: k€ 5,255) and k€ 673 in other countries (2015: k€ 604).

(22) Intangible assets

k€	Brands	Goodwill	Other intangible assets	Advances paid	Total
Acquisition and manufacturing costs					
As at 1 Jan 2015	7,224	11,821	18,169	804	38,018
Foreign currency differences	–	–	14	6	20
Additions	–	–	787	200	987
Disposals	–	–	32	–	32
Reclassifications	–	–	811	–811	–
As at 31 Dec 2015	**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**
Cumulative write-downs					
As at 1 Jan 2015	2,420	–	17,063	–	19,483
Foreign currency differences	–	–	4	–	4
Additions	–	–	766	–	766
Additions due to impairment	–	–	34	–	34
Disposals	–	–	32	–	32
Reclassifications	–	–	–	–	–
As at 31 Dec 2015	**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**
Net book value					
As at 1 Jan 2015	4,804	11,821	1,106	804	18,535
As at 31 Dec 2015	4,804	11,821	1,914	199	18,738
As at 31 Dec 2016	**4,804**	**11,821**	**2,371**	**265**	**19,261**

Of the k€ 19,261 intangible assets as at the balance sheet date (2015: k€ 18,738), k€ 8,184 were located in Germany (2015: k€ 7,719), k€ 1,105 in the Czech Republic (2015: k€ 1,104), k€ 9,966 in France (2015: k€ 9,902) and k€ 6 in other countries (2015: k€ 13).

The remaining amortisation periods of significant other intangible assets are:

- Leifheit AG warehouse management system 4 years
- Leifheit CZ a.s. customer base 4 years

Impairment testing of intangible assets and tangible assets

Intangible assets including goodwill and brands acquired from business combinations and tangible assets are subjected to annual impairment testing under IAS 36.11. There was no indication for 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 AG"
- "Soehnle"
- "Birambeau"
- "Herby"

The CGUs are based directly on internal management reporting. 2016 the prospective internal management reporting was adjusted and specified in greater detail. In this context, the impairment tests were also adjusted 2016 and the "Leifheit/Soehnle", which had been the major CGU until 2015, was split to form the "Leifheit" and "Soehnle" CGUs. This required the reallocation of goodwill. Prior to this reallocation, impairment tests had been performed on the basis of the previous structure. Goodwill was later split and the impairment tests for the "Leifheit" and "Soehnle" CGUs performed separately. This saw the goodwill of the previous "Leifheit/Soehnle" CGU, of k€ 2,081 split between the "Leifheit" CGU (k€ 1,919) and the "Soehnle" CGU (k€ 162). This allocation was based on the relative values of the new CGUs.

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 the medium-term planning for 2017 through 2020, 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 9.5% 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 for all CGUs, amounted to 6.3% (2015: 5.6%). These figures are based on the following parameters:

	31 Dec 2015	**31 Dec 2016**
Risk-free interest rate	1.5%	0.5%
Market risk premium	6.5%	7.0%
Beta factor	0.65	0.85
Borrowing costs	1.6%	1.6%
Growth rate	1.0%	0.5%

The average costs of capital after taxes amounted to 8.7% for the "Leifheit" and "Soehnle" CGU, to 9.2% for the "Birambeau" CGU and 8.6% for the "Herby" CGU.

As at 30 September 2016, the recoverable amounts calculated in this way were greater than the book value. The impairment tests did not identify any impairment requirements. This also applies to the impairment tests performed in the course of the aforementioned adjustment to the CGU structure.

When applying the following individual sensitivities, there was no need for value adjustment in the "Leifheit", "Birambeau" and "Herby" CGUs:

- Cash flow forecast on the basis of the current earnings level with costs and turnover development remaining constant
- Cash flow forecast on the basis of the medium-term planning for 2017 through 2020 allowing for a 20% discount
- Increase of the discount rate by 2.0 percentage points
- Cash flow forecast on the basis of turnover decreases between 0 and 3% annually with the corresponding decreases in result

Even the combination of the two most significant changes in parameters did not result in any impairment requirements.

At the "Soehnle" CGU, the estimated recoverable amount exceeded the book value by € 6.2 million. The change in a key parameter could result in the book value exceeding the recoverable amount. If the planned average increase in turnover in the detail planning phase were missed by 1.3 percentage points, the recoverable amount would just be equal to the book value.

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

	Goodwill		Brands	
k€	31 Dec 2015	**31 Dec 2016**	31 Dec 2015	**31 Dec 2016**
Leifheit	–	1,919	–	–
Soehnle	–	162	4,804	4,804
Leifheit/Soehnle	2,081	–	–	–
Birambeau	3,299	3,299	–	–
Herby	6,441	6,441	–	–
	11,821	**11,821**	**4,804**	**4,804**

(23) Income tax receivables

In the prior year, non-current income tax receivables related to the non-current portion of a Leifheit AG corporation tax credit (2015: k€ 762).

(24) Trade payables and other liabilities

k€	31 Dec 2015	**31 Dec 2016**
Trade payables	20,148	19,939
Employees	10,599	10,764
Customer bonuses	7,539	8,820
Advertising cost subsidies	3,634	3,721
Other taxes (excluding income taxes)	1,595	1,996
Outstanding invoices	1,465	1,590
Debtors with credit balances	1,666	983
Social security contributions	941	751
Customer discounts	521	605
Annual financial statement costs	460	408
Royalties	265	274
Commission obligations	234	219
Energy costs	128	206
Tax advice	181	176
Purchase commitments	210	163
Other liabilities (less than k€ 100)	1,230	551
	50,816	**51,166**

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.

(25) Other provisions

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

Personnel-related provisions are recognised for long-service bonuses and obligations from share-based long-term variable remuneration of the Board of Management members.

The provisions for warranties, compensation payments and litigation costs of k€ 5,445 reflected uncertainties regarding the amount and/or likelihood of outflows (2015: k€ 5,407). 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. The uncertainty for the provision from share-based long-term variable remuneration of the Board of Management members is due to the future development of the Leifheit share price and the EBIT of the Leifheit Group.

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€ 78 in the reporting period (2015: k€ 8).

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

	31 Dec 2016		
k€	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**

	31 Dec 2015		
k€	Total	of which current	of which non-current
Warranties	4,702	3,970	732
Litigation costs and compensation payments	705	705	–
Personnel	1,395	125	1,270
Onerous contracts	118	45	73
Remaining other provisions	1,695	1,695	–
Balance sheet amount	**8,615**	**6,540**	**2,075**

	Current provisions				
k€	Warranties	Litigation costs and compensation payments	Personnel	Onerous contracts	Remaining other current provisions
As at 1 Jan 2016	3,970	705	125	45	1,695
Foreign currency differences	–	–	–	–	–
Reclassification	–	–	–	–	–
Utilisation	3,965	96	125	45	738
Reversal	–	400	–	–	674
Addition	4,278	221	97	531	920
As at 31 Dec 2016	**4,283**	**430**	**97**	**531**	**1,203**

	Non-current provisions				
k€	Warranties	Litigation costs and compensation payments	Personnel	Onerous contracts	Remaining other non-current provisions
As at 1 Jan 2016	732	–	1,270	73	–
Foreign currency differences	–	–	–	–	–
Reclassification	–	–	–	–	–
Utilisation	–	–	13	73	–
Reversal	–	–	–	–	–
Addition	–	–	1,411	–	34
As at 31 Dec 2016	**732**	**–**	**2,668**	**–**	**34**

(26) 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 2015	31 Dec 2016
Present value of defined benefit obligations (DBO)	67,607	71,432
Fair value of plan assets	−1,159	−1,214
Provisions for pensions and similar obligations	**66,448**	**70,218**

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

k€	2015	2016
Current service cost	715	652
Interest expense on the obligation	1,445	1,505
Income from plan assets	−7	−8
Total cost of post-employment benefits	**2,153**	**2,149**

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

k€	2015	2016
Actuarial gains/losses due to adjustment of the obligation to reflect historical data	−936	−2,215
Actuarial gains/losses due to changes in actuarial assumptions	−1,591	6,070
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	−4	−2
Adjustment effects recognised in other comprehensive income	**−2,531**	**3,853**

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

k€	2015	2016
Net liability at start of year	69,013	66,448
Net expense recognised in net result for the period	2,153	2,149
Adjustment effects recognised in other comprehensive income	−2,531	3,383
Payments to beneficiaries	−2,187	−2,232
Recognised net liability at end of year	**66,448**	**70,218**

In addition, contributions of k€ 2,858 were paid to government pension providers (2015: k€ 2,570).

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

k€	2015	2016
DBO at start of year	70,106	67,607
Current service cost	715	652
Interest expense	1,445	1,505
Benefit payments	–2,187	–2,232
Adjustment to reflect historical data	–936	–2,215
Actuarial gains/losses	–1,591	6,070
Others	55	45
DBO at end of year	**67,607**	**71,432**

The fair value of plan assets changed as follows:

k€	2015	2016
Fair value of plan assets at start of year	1,093	1,159
Income from plan assets	7	8
Amount by which the income exceeds/falls short of calculated income	4	2
Others	55	45
Fair value of plan assets at end of year	**1,159**	**1,214**

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

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

	Germany		France	
	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016
Discount rate	2.3%	1.7%	2.1%	1.6%
Future income trend	2.5%	2.5%	1.4%	1.4%
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€	2015	2016
Within the next 12 months (following financial year)	2,289	2,426
Between 2 and 5 years	10,525	10,722
Between 6 and 10 years	14,834	14,786

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	1.7/1.6%	–0.25 PP	2,840
Discount rate	1.7/1.6%	+0.25 PP	–2,674
Inflation rate/pension trend	2.0%	–0.5 PP	–4,308
Inflation rate/pension trend	2.0%	+0.5 PP	4,733
Future salary increase	2.5/1.0%	–0.5 PP	–683
Future salary increase	2.5/1.0%	+0.5 PP	713
Life expectancy		+1 year	2,434

As in the prior year, the payment-weighted duration of the defined post-employment benefit obligations in Germany amounted to 15.9 years.

(27) Subscribed capital

The subscribed capital of Leifheit AG in the amount of k€ 15,000 (2015: k€ 15,000) is denominated in euros and is divided into 5,000,000 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 declared 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.

Leifheit AG's Annual General Meeting on 25 May 2016 authorised the Board of Management, subject to the approval of the Supervisory Board, to increase the share capital on one or more occasions by a total of up to € 7,500,000 until 24 May 2021 by issuing up to 2,500,000 new no-par-value bearer shares in exchange for cash and/or non-cash contributions – with the exclusion of subscription rights. 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 13 April 2016.

(28) Capital surplus

The capital surplus in the amount of k€ 17,026 (2015: k€ 16,984) 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.

(29) Treasury shares

Including the treasury shares acquired and issued in previous years, Leifheit held 245,485 treasury shares on 31 December 2016. This corresponds to 4.91% of the share capital. The corresponding interest in the share capital was k€ 736. 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.

No treasury shares were purchased in the reporting period nor in the prior year. Leifheit used 1,582 treasury shares (2015: 1,605 treasury shares) in the form of the issuance of employee shares. This corresponded to 0.03% of the share capital (2015: 0.03%). The corresponding interest in the share capital was k€ 5 (2015: k€ 5).

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

(30) Retained earnings

Retained earnings include the statutory reserve in the amount of k€ 1,023 (2015: k€ 1,023), other retained earnings in the amount of k€ 76,441 (2015: k€ 75,180) and the net result for the period allocated to the shareholders of the parent company in the amount of k€ 14,527 (2015: k€ 14,333). The other retained earnings include the part of consolidated net result earned in past years which was not distributed to shareholders. In the reporting year, the dividend for financial year 2015 was paid in the amount of € 2.75 per share, or a total of k€ 13,071 (2015: k€ 8,552).

(31) Other reserves

k€	2015	**2016**
Actuarial gains/losses on defined benefit pension plans	−22,928	−26,781
Deferred taxes	6,665	7,788
Currency translation of foreign operations	869	919
Currency translation of net investments in foreign operations	1,851	1,859
Deferred taxes	−539	−541
Net result of cash flow hedges	8,140	6,816
Deferred taxes	−2,383	−2,105
Net result from the sale of financial assets available	–	−1
Deferred taxes	–	–
	−8,325	**−11,956**

With regard to the hedging of cash flows against exchange rate risks, k€ 6,542 (2015: k€ 3,329) before deferred taxes were shifted from other reserves to net result for the period.

Other notes

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

The Board of Management propose appropriating the Leifheit AG balance sheet profit of € 13,969,000.00 for financial year 2016 as follows:

Payment of a dividend of € 2.10 per eligible no-par-value bearer share	9,984,481.50 €
Retained earnings	3,984,518.50 €

(33) Capital management

The major 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.

(34) 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, promissory notes 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 turnover in currencies other than the functional currency of the relevant Group operating unit.

Around 10% (2015: 11%) of the Group turnover was earned in foreign currencies, 29% (2015: 23%) 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 relevant foreign currencies – the US dollar, the HK dollar, the Czech koruna and the Polish zloty – 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 2015	**Effects as at 31 Dec 2016**
US dollar	+5%	–1,364	–951
	–5%	1,508	1,051
	+10%	–2,605	–1,815
	–10%	3,183	2,218
Czech koruna	+5%	99	–99
	–5%	–109	109
	+10%	189	–189
	–10%	–231	230
HK dollar	+5%	–558	–222
	–5%	616	245
	+10%	–1,065	–423
	–10%	1,301	517
Polish zloty	+5%	–73	–11
	–5%	81	12
	+10%	–139	–21
	–10%	170	26
Chinese renminbi	+5%	–	–153
	–5%	–	236
	+10%	–	–292
	–10%	–	357

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 2015	**Effects as at 31 Dec 2016**
US dollar	+5%	–4,180	–2,913
	–5%	4,620	3,220
	+10%	–7,979	–5,562
	–10%	9,752	6,798
Czech koruna	+5%	411	–1,012
	–5%	–738	1,119
	+10%	908	–1,933
	–10%	–1,408	2,362
HK dollar	+5%	–330	–342
	–5%	364	378
	+10%	–629	–654
	–10%	769	799
Polish zloty	+5%	–2	–8
	–5%	2	8
	+10%	–3	–14
	–10%	4	18
Chinese renminbi	+5%	–	–217
	–5%	–	240
	+10%	–	–415
	–10%	–	507

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 2016, 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 2017 to January 2019 from suppliers in the Far East amounting to kUSD 64,000, kHKD 60,000 and kCNH 36,000. Forward foreign exchange transactions (CNH) were acquired in early 2016; these were attributed to hedge accounting until September 2016. The forward foreign exchange transactions served to hedge future transactions concluded in this currency. As a result of changed expectations regarding future transaction, kCNH 24,000 was formally not designated as a hedging instrument and, as a result, was recognised as a stand-alone derivative.

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:

	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

	2015			
	Expected cash flows			
k€	Within 12 months	More than 1 year	Total	Book value
Assets	5,639	4,773	10,412	10,412
Liabilities	11	3	14	14

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:

	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

	2015			
	Expected cash flows			
k€	Within 12 months	More than 1 year	Total	Book value
Assets	5,527	4,885	10,412	10,412
Liabilities	11	3	14	14

- **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**
  The interest rate change risk of the Leifheit Group primarily relates to changes in the short-term money market rates. There are no long-term interest-bearing bank loans or similar interest-bearing financial liabilities. Accordingly, there is no calculation and presentation of interest sensitivity.

- **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, such as 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€ 8,319 (2015: k€ 10,412) as well as derivative financial liabilities in the amount of k€ 7 (2015: k€ 14) were included at their attributable fair value on the balance sheet as at 31 December 2016.

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 78). 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).

The following tables show the book values of financial assets and financial liabilities as at the balance sheet date. The book values correspond to fair values, all of them are 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 note – Note 16	–	–	–	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 24	–	–	–	–	37,605	37,605

k€	Held for trading	Available for sale	Fair value (hedging instruments)	Held to maturity	Loans and receivables	31 Dec 2015 Total
Financial assets measured at fair value						
Forward foreign exchange transactions – Note 19 (designated as hedging transactions)	–	–	8,230	–	–	8,230
Forward foreign exchange transactions – Note 19 (not designated as hedging transactions)	2,180	–	–	–	–	2,180
Financial assets not measured at fair value						
Trade receivables, other receivables – Notes 17, 20	–	–	–	–	47,100	47,100
Cash and cash equivalents – Note 15	–	–	–	–	64,200	64,200
Promissory note – Note 16	–	–	–	4,000	–	4,000
Financial liabilities measured at fair value						
Forward foreign exchange transactions – Note 19 (designated as hedging transactions)	–	–	11	–	–	11
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 24	–	–	–	–	37,680	37,680

The net gains and losses of the financial instruments according to measurement categories (excluding the amounts recognised in other comprehensive income) were as follows:

k€	Interest income/ expense	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

k€	Interest income/ expense	Currency translation	Value adjustment	Fair value adjustment	2015 Total
Held for trading	–	2,667	–	650	3,317
Available for sale	–	–	–	–	–
Held to maturity	19	–	–	–	19
Loans and receivables	26	–860	175	–	–659

Short-term lines of credit in the amount of k€ 11,500 were available on the balance sheet date (2015: k€ 11,500). Thereof k€ 360 was used for bills of guarantee (2015: k€ 480). Unused lines of credit were therefore k€ 11,140 (2015: k€ 11,020).

(35) Commitments

As in the previous year, the Group companies did not enter into any commitments.

(36) Other financial liabilities

There were rental and leasing agreements for business premises, IT and telephone equipment, vehicles and similar assets, and licensing agreements with an annual expense of k€ 3,794 (2015: k€ 2,159). The future minimum payments on the basis of lease and rental agreements without cancellation option amount to k€ 2,518 up to a term of one year (2015: k€ 1,993), and k€ 1,276 between one and five years (2015: k€ 166). As in the previous year, there were no corresponding payment obligations with a term of more than five years. The rent and lease agreements constitute operating leases in the definition of IAS 17.

As at 31 December 2016, purchase commitments for raw materials totalled k€ 1,361 (2015: k€ 2,946).

There were contractual obligations to acquire items of tangible assets in the amount of k€ 1,722 (2015: k€ 1,235), relating to tools in particular. Moreover, there were contractual obligations arising out of contracts relating to marketing measures in the amount of k€ 800 (2015: k€ 867) and other agreements in the amount of k€ 592 (2015: k€ 860).

(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€ 3,796 (2015: k€ 2,594), of which variable remuneration amounted to k€ 3,109 (2015: k€ 1,930). The total cost of short-term variable remuneration recognised in the reporting period amounted to k€ 420. The total cost of share-based long-term variable remuneration recognised in the reporting period amounted to k€ 2,689. The provision recorded on the balance sheet corresponds to the fair value of the obligation and amounted to k€ 5,249. 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 2016 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€ 303 (2015: k€ 280).

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€ 471 in the reporting year (2015: k€ 714). Provisions created for the current pensions (DBO according to IFRS) in financial year 2016 amounted to k€ 8,423 (2015: k€ 8,133).

(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 2016, 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 and continue to be complied with, and noting which recommendations had not been or were not currently being applied. The declaration of compliance is permanently available on the company’s website at corporate-governance.leifheit-group.com.

(42) Information under takeover law in accordance with section 315 para. 4 HGB

Please refer to the combined management report for information on takeovers in accordance with section 315 para. 4 HGB.

(43) 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 2016, amounted to k€ 254 for the audit of the financial statements. The auditor did not provide any other services, such as tax consultancy services or certification services, during the reporting year.

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 Torsten Hofmann (since financial year 2016).

(44) 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 21 paras. 1 or 1a of the German securities trading act (WpHG). Leifheit published all voting rights notifications in accordance with section 26 para. 1 WpHG and are available on the company's website at leifheit-group.com. The following tables show the reported shareholdings of at least 3%; the disclosures correspond to the most recent reportable notification. Please note that these disclosures may now be outdated.

Report	Reportable party	Registered office	Attributions in accordance with WpHG	Share-holding	Voting rights
September 2016	Nmás1 Dinamia, S.A. Nmás1 Asset Management, SGIIC, S.A	Madrid, Spain	section 22	3.01%	150,290
November 2015	MainFirst SICAV	Senninger-berg, Luxembourg		5.04%	252,222
May 2015	Capital Income Builder Capital Research and Management Company Capital Group Companies, Inc.	Los Angeles, California, USA	section 22 para. 1 sentence 1 no. 6 section 22 para. 1 sentence 1 no. 6, section 22 para. 1 sentences 2 and 3	5.60%	280,000
July 2014	Leifheit Aktiengesellschaft	Nassau, Germany		4.97%	248,672
February 2009	Manuel Knapp-Voith MKV Verwaltungs GmbH	Grünwald, Germany	section 22 para. 1 sentence 1 no. 1	10.03%	501,432
October 2007	Joachim Loh	Haiger, Germany		6.96%	331,051

(45) Events after the balance sheet date

The Board of Management of Leifheit AG resolved on 8 March 2016 to propose a capital increase from own funds at a ratio of 1:1 to the Annual General Meeting scheduled for 24 May 2017 to further enhance the liquidity of the share. This is designed to double share capital from € 15 million to € 30 million by converting retained earnings. This measure will not impact the volume of the company's balance sheet equity.

Every shareholder will receive one additional share (so-called bonus share) for each Leifheit share held without additional payment. The share of equity for every shareholder will remain unchanged. The new shares will be entitled to participate in profits from 1 January 2017.

There were no other 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.

Organs of Leifheit AG

Supervisory Board

Ulli Gritzuhn
General Manager of Unilever Deutschland GmbH, Hamburg
born 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

Baldur Groß
Energy electronics engineer at Leifheit AG, Nassau
born 1958 Nationality: German

Employee representative
- Member of the Supervisory Board since 22 May 2014 (as well as from 1994 through 1999)

Karsten Schmidt
Chairman of the Board of Management of Ravensburger AG, Ravensburg
born 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
born 1968 Nationality: German

Employee representative
- Member of the Supervisory Board since 27 May 2004

Sonja Wärntges
Member of the Board of Management/CFO of DIC Asset AG, Frankfurt am Main
born 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

Memberships in other Supervisory Boards required by law:
- DIC Real Estate Investments GmbH & Co. KGaA, Frankfurt am Main (Member of the Supervisory Board)

Helmut Zahn
Independent consultant, Starnberg
born 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 Board 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 since 25 May 2016)

Memberships in comparable domestic and foreign governing bodies:
- Maschinenbau Oppenweiler Binder GmbH & Co. KG, Oppenweiler (Member of the Advisory Board until 11 Jan 2017)

The members of the Supervisory Board are appoint 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
born 1961 Nationality: German

Chairman of the Board of Management (CEO)
since 1 Jan 2014, appointed until 31 Dec 2019

Responsible for Marketing, Sales, HR

Memberships in domestic and foreign governing bodies:
- Böck Silosysteme GmbH, Tacherting
  (Chairman of the Advisory Board)

Dr Claus-O. Zacharias
Place of residence: Düsseldorf
born 1954 Nationality: German

Member of the Board of Management (CFO)
since 1 Dec 2008, appointed until 31 Dec 2017

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)

Ansgar Lengeling
Place of residence: Wiesbaden
born 1966 Nationality: German

Member of the Board of Management (COO)
since 1 Nov 2016, appointed until 30 Oct 2019

Responsible for Production, Procurement, Development,
Quality Management

Nassau/Lahn, Germany, 27 March 2017

Leifheit Aktiengesellschaft

The Board of Management

Thomas Radke Dr Claus-O. Zacharias 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, Germany, 27 March 2017

Leifheit Aktiengesellschaft

The Board of Management

Thomas Radke   Dr Claus-O. Zacharias   Ansgar Lengeling

Auditor's report

We have audited the consolidated financial statements prepared by Leifheit Aktiengesellschaft, Nassau/Lahn, comprising the statement of profit or loss as well as the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flow and the notes to the Group accounts, together with the combined management report for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the combined management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and supplementary provisions of the articles of association and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, Germany, 27 March 2017

KPMG AG Wirtschaftsprüfungsgesellschaft

Franz Andreas Höfter	Torsten Hofmann
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 and the corporate governance report are available at financial-reports.leifheit-group.com on the internet 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.

Legal notice

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Key figures of the Group

		2012	2013	2014	2015	2016
Turnover						
Group	€m	224.2	220.9	220.7	231.8	237.1
Group adjusted [1]	€m	217.4	219.5	220.7	231.8	237.1
Brand Business [1]	€m	170.9	172.8	180.4	188.1	195.8
Volume Business	€m	46.5	46.7	40.3	43.7	41.3
Foreign share [1]	%	57.1	57.6	57	57.4	60.1
Profitability						
Gross margin	%	43.6	44.9	47.7	46.7	47.5
Cash flow from operating activities	€m	8.2	22.9	24.5	20.8	21.8
Free cash flow	€m	–1.4	19.5	18.4	14.1	14.3
EBIT	€m	14.2	14.9	21.5	21.7	22.1
EBIT adjusted [2]	€m	13.0	16.9	16.4	19.2	21.8
EBIT margin	%	5.8	6.8	9.8	9.3	9.3
EBT	€m	12.2	13.3	19.8	20.2	20.6
Net result for the period	€m	9.4	10.2	14.1	14.3	14.5
Net return on sales	%	4.3	4.6	6.4	6.2	6.1
Return on equity	%	10.1	10.8	14.9	13.4	13.9
Return on total capital	%	4.6	5.0	6.3	6.0	6.1
ROCE	%	10.2	12.6	20.3	18.1	16.3
Share						
Net result for the period per share [3]	€	1.97	2.16	2.97	3.02	3.06
Free cash flow per share [3]	€	–0.28	4.11	3.88	2.96	3.01
Dividend per share	€	1.50	1.65	1.80	2.00	2.10 [4]
Special dividend per share	€	–	–	–	0.75	0.80 [4]
Employees at the end of the year						
Group	persons	1,049	1,049	1,068	1,074	1,093
Brand Business	persons	757	757	792	865	913
Volume Business	persons	292	295	276	209	180
Investments	€m	9.8	3.6	6.2	7.1	7.8
Investment ratio	%	5.8	2.0	3.6	4.1	4.4
Depreciations	€m	6.7	6.8	6.3	5.8	6.2
Balance sheet total	€m	205.9	203.8	223.3	237.9	239.4
Equity	€m	92.8	94.7	94.8	106.7	104.6
Equity ratio	%	45.0	46.5	42.5	44.9	43.7

1 Turnover 2012 to 2013 adjusted for discontinued business with Dr Oetker Bakeware.
2 EBIT 2012 adjusted for a one-time extraordinary effect from the sale of assets relating to the termination of a licence agreement
EBIT 2013 to 2016 adjusted by foreign currency results.
3 Not including repurchased treasury shares.
4 Dividend proposal.

Financial calendar

11 MAY 2017

QUARTERLY STATEMENT
for the period ending 31 March 2017

24 MAY 2017

ANNUAL GENERAL MEETING
12:00 p.m. (CEST),
Deutsche Nationalbibliothek, Frankfurt/Main, Germany

10 AUGUST 2017

FINANCIAL REPORT FOR THE FIRST HALF-YEAR
ending 30 June 2017

9 NOVEMBER 2017

QUARTERLY STATEMENT
for the period ending 30 September 2017

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