



# Internal control and risk management system

## Compliance

The Company attaches great importance to compliance by taking steps to ensure conformity with applicable legislation and internal company policies and make sure they are observed by the Group's companies. As part of its responsibilities in this area, the general partner's Executive Board has implemented various mechanisms designed to ensure optimal fulfilment of these compliance requirements.

The compliance officer appointed for this purpose continuously addresses the maintenance and development of the Company's and/or Group's compliance organisation in line with applicable requirements and the needs of the Company, focusing particularly on employee training and statutory risk management. They report to the CFO of the general partner. The compliance officer consults the responsible individuals in each of the Company's divisions and, where necessary, seeks external legal advice for help with specific issues.

The Company has also appointed an external lawyer as an ombudsman. Employees and third parties may contact this individual to notify them of potential violations of the law or company policies within Group companies. One report was filed with the ombudsman during the reporting period, and this was investigated accordingly. However, no relevant violations were ultimately detected.

According to Recommendation A.5 of the German Corporate Governance Code (GCGC), the management report shall describe the main characteristics of the entire internal control system and risk management system, and provide comment upon the appropriateness and effectiveness of these systems. These disclosures exceed the statutory requirements for a management report and have therefore been excluded from the auditor's audit of the content of the management report ("non-management report disclosures"). They are included as part of the corporate governance statement and are also disclosed in separate paragraphs to distinguish them from the disclosures to be audited.

## Risk management system

### Goals and strategy of the risk management system

As an international group of companies, CEWE Stiftung & Co. KGaA and its subsidiaries are exposed to various risks that may adversely affect their business activities as well as their net assets, financial position and results of operations. As a result, CEWE has established an internal control and risk management system in accordance with industry standards and statutory provisions to identify and assess potential opportunities and risks and counteract them with suitable measures where necessary. This control and risk management system is incorporated into the CEWE Group's information and communication system as an integral part of its business, planning, accounting and control processes and is a key element of the CEWE Group's management

system. Its control and risk management system is based on a systematic risk identification, assessment and management process for the entire Group. CEWE has set up its risk management system based on the COSO model and is constantly improving it. This includes interlinking it further with the internal control system and other management systems.

As a function that identifies risks at an early stage, monitors them continually and contributes to risk control, risk management forms part of the second line of CEWE's integrated governance, risk and compliance approach.

### Organisation and structure of the risk management system

The Executive Board, managers of the Company's regional profit centres in Germany and other countries, and its central departments and project managers are responsible for the control and risk management system. The Executive Board has overall responsibility for organising the control and risk management system. From a functional perspective, the Executive Board has handed over the operational implementation of monitoring, coordination and ongoing development tasks within risk management processes to the Group Risk Management team.

The risk management system covers the opportunities and risks associated with individual risk areas within the scope of an annual, Group-wide risk inventory. The annual report on opportunities and risks is prepared on the basis of this risk inventory.



The Company's opportunity and risk assessments are reviewed on at least a quarterly basis each year. The Supervisory Board and the Audit Committee are notified of these reviews at least once a quarter. Any new opportunities and risks that arise are incorporated into the risk management system and assigned to a risk manager once the risk officer has been notified. In addition to these regular processes, there is always the option to record and report ad-hoc risks in the event of any sudden developments. Corresponding measures are also taken into account when assessing risk. As a result, a net risk assessment is also carried out.

## Internal control system

### Key features of the internal control system

The internal control system (ICS) is an integral component of the business processes of CEWE Stiftung & Co. KGaA and the CEWE Group. The aim is for all operating units where risks may arise and must be managed to be able to use internal controls to identify such risks at an early stage and deal with them. This system is designed to ensure compliance with external and internal requirements. As a result, the internal control system represents the first line of the integrated management approach. It encompasses several monitoring and control mechanisms and is essentially based on five principles:

- Dual-control principle
- Signature guidelines
- IT authorisation policy
- Separation of functions
- Integrated reporting

The dual-control principle is safeguarded by rules and regulations such as articles of association, policies, rules of procedure, instructions, powers of representation and signatory powers. The operationally effective signature guidelines are an important component of these. The CEWE Group's coordinated IT authorisation policy is an additional control and monitoring mechanism that specifically governs the activities of individual persons and groups of persons and their access to the Group's primarily SAP-based applications and their functional areas.

To ensure the reliability of procedures and thus the quality of individual processes, the CEWE Group maintains a strict separation of functions for critical business processes. Central tasks are also assigned to specific departments, giving them reciprocal responsibility for supervision of the Group's activities. Integrated reporting includes a detailed planning, management and reporting framework covering the Group's current position and its outlook. The planning process is based on a combined bottom-up and top-down approach, in line with monthly target figures. The existing Group information system relies on a monthly comparison of targets, actual results and prior-year figures as well as supplementary cross-location business reviews at the level of the individual profit centres as well as at Group level. Developments, opportunities, risks and measures are discussed here and documented accordingly.

The CEWE Group also monitors the intrinsic value of its investments in subsidiaries as part of the control and risk management system. The carrying amounts of these investments undergo regular and ad-hoc impairment tests.

Furthermore, as the third line of our integrated management approach, all Group companies and profit centres regularly undergo specialised, in-depth audits covering the areas of finance and accounting, IT, technical security and insurance policies as well as other functional areas. These audits are carried out by external or internal specialists. The central Group Risk Management function is also audited accordingly.

### Key features of the internal control system relevant for the consolidated financial reporting process

The internal control system relevant for the financial reporting process is embedded within the Company-wide risk management system as part of the internal control system (ICS) of CEWE Stiftung & Co. KGaA and the CEWE Group. Its purpose is to minimise the risk of a material misstatement in the Company's accounting and external reporting, identify undesirable developments at an early stage and implement countermeasures. This ensures that facts relevant to the Group are presented in its individual and consolidated financial statements in compliance with applicable legislation and standards.



The consolidated financial statements, including all consolidation adjustments, are prepared by the Consolidated Accounts unit within the central Finance division. The process for preparing the CEWE Group's financial statements is based on a standard Group-wide accounting policy that is regularly adjusted to reflect the current legislative framework. The Executive Board is solely responsible for issuing this accounting policy.

The Group's accounting policy governs IFRS accounting for all Group companies in Germany and other countries to ensure that recognition, measurement and presentation methods are applied consistently for its IFRS consolidated financial statements. Binding instructions have been stipulated for internal reconciliations and other tasks relating to the preparation of the financial statements. In addition, all key dates have been set out Group-wide in the Group policy.

The local companies are responsible for compliance with relevant rules and regulations and are supported and monitored by the Group Accounting unit. The Group Accounting unit centrally handles consolidation of the separate financial statements prepared by the Group companies – which are mainly prepared using SAP – using a specific consolidation module.

The steps required as part of the accounting process undergo a variety of automatic and manual controls and plausibility checks. In addition, the effectiveness of internal controls relevant for the financial reporting process is continually reviewed via internal auditing. This task is handled by internal auditors as well as external auditors appointed by the Company. A rolling process ensures that all companies within the group of consolidated entities undergo this control process. The Executive Board and Supervisory Board are regularly notified of the results of these effectiveness reviews.

The separate financial statements included in the consolidated financial statements are audited by various local auditors to ensure compliance with applicable accounting rules and the accuracy and completeness of all other locally prepared documents relevant to the consolidated financial statements. The audit findings at the level of the separate and consolidated financial statements regarding the effectiveness of the CEWE Group's internal control system relevant for the financial reporting process are summarised by the external auditor of the consolidated financial statements, reported to the Supervisory Board and used by the Executive Board in the process of further enhancing the internal control system.