



**ANNUAL REPORT 2016    A.S. CRÉATION TAPETEN AG**



## A.S. CRÉATION: KEY FIGURES

|   |         | 2012    | 2013    | 2014    | 2015    | 2016           |
|---|---------|---------|---------|---------|---------|----------------|
| Sales                                     | € '000  | 198,909 | 199,818 | 189,128 | 166,515 | <b>152,608</b> |
| Earnings before interest and taxes (EBIT) | € '000  | 15,727  | 10,238  | 3,306   | 7,880   | <b>5,917</b>   |
| Earnings before income taxes              | € '000  | 11,346  | 5,233   | -5,052  | 5,622   | <b>10,202</b>  |
| Earnings after income taxes               | € '000  | 7,358   | 1,323   | -9,338  | 3,287   | <b>7,435</b>   |
| Cash-flow                                 | € '000  | 19,276  | 16,393  | 6,118   | 13,460  | <b>13,893</b>  |
| Capital expenditures                      | € '000  | 13,071  | 8,667   | 5,115   | 5,342   | <b>5,014</b>   |
| Depreciation                              | € '000  | 9,813   | 9,469   | 9,340   | 8,645   | <b>7,612</b>   |
| Non-current assets                        | € '000  | 68,662  | 63,961  | 54,265  | 50,210  | <b>50,270</b>  |
| Shareholders' equity                      | € '000  | 94,839  | 93,473  | 86,891  | 93,188  | <b>96,502</b>  |
| Non-current liabilities                   | € '000  | 40,114  | 37,184  | 32,730  | 23,947  | <b>22,951</b>  |
| Total assets                              | € '000  | 161,748 | 159,067 | 146,162 | 140,405 | <b>140,273</b> |
| Earnings per share                        | €/share | 2.67    | 0.48    | -3.39   | 1.19    | <b>2.70</b>    |
| Dividend                                  | €/share | 1.20    | 0.25    | 0.00    | 0.60    | <b>1.25</b>    |
| Number of employees (average)             |         | 820     | 837     | 822     | 801     | <b>768</b>     |

## TABLE OF CONTENT

|   |     |
|---|-----|
| Foreword  | 8   |
| Managing Board and Supervisory Board                              | 13  |
| Highlights 2016   | 14  |
| Report of the Supervisory Board                                   | 15  |
| Corporate Governance Statement and Report on Corporate Governance | 21  |
| Group Management Report   | 33  |
| The share and our shareholders                                    | 73  |
| Consolidated financial statements according to IFRS               | 83  |
| Corporate Calendar  | 131 |

This English translation of the annual report 2016 is merely a convenience translation.  
The German version is the prevailing one.

## FOREWORD

**Dear readers, dear shareholders,**

Unfortunately, 2016 was not a good "wallpaper year". The many political and economic crises of the year 2016 had an adverse impact on demand for wallpaper and led to a contraction in the international wallpaper markets as a whole. A.S. Création was unable to defy this trend. While the Managing Board had projected lower sales revenues than in 2015, the actual drop in Group revenues by 8.4% from € 166.5 million to € 152.6 million was higher than forecast by us, which is why we are definitely not satisfied with Group revenues in 2016.

By contrast, earnings showed a very positive trend in the past fiscal year, with earnings after taxes coming in at € 7.4 million (previous year: € 3.3 million) and earnings per share at € 2.70 (previous year: € 1.19). This notable improvement had been projected by us in our forecast for 2016, which means that earnings after taxes were in line with our expectations. Based on our dividend policy, which we have pursued consistently for many years, the shareholders of A.S. Création are to benefit from this earnings situation. The Managing Board will therefore propose a dividend of € 1.25 per share (previous year: € 0.60 per share) to the Annual General Meeting of Shareholders on May 4, 2017. This would be the highest dividend payment since the fiscal year 2010.

The improvement in 2016 earnings after taxes should not conceal the fact that A.S. Création is in a phase of transformation that is still ongoing. The environment in which A.S. Création operates has changed dramatically and profoundly in the past years, as the Eastern European wallpaper markets outside the European Union have almost ceased to exist as export markets. This is attributable to the financial and economic crises, the political crises, the strong depreciation of the local currencies against the euro and the emergence of strong wallpaper manufacturers, especially in Russia. The figures of the international wallpaper association (IGI) for Russia are a good example to show just how dramatic this trend is: in 2008, 186 million rolls of wallpaper were consumed in Russia, of which 49 million rolls were produced in Russia and 137 million rolls were imported from abroad. By the year 2015, consumption had dropped to 151 million rolls of wallpaper, of which 85 million rolls were produced locally and 66 million rolls were imported. Even though the figures for 2016 are not available yet, it is safe to assume that this trend continued in the past fiscal year, which means that Russian wallpaper manufacturers were able to increase their sales revenues in spite of Russia's financial and economic crisis, while foreign wallpaper manufacturers faced strong declines. These distortions are also reflected in A.S. Création's figures: In the fiscal year 2013, A.S. Création

generated consolidated sales revenues of € 200 million, of which 18.2% was generated in non-EU Eastern European countries. In the fiscal year 2016, this region accounted for only 9.6% of the Group's total sales revenues of € 153 million.

Although the Managing Board was unable to predict the extent of these distortions at the time, we started at an early stage to prepare A.S. Création for a deterioration in export possibilities to Eastern Europe and increased local wallpaper production. Already back in 2008, we strengthened our sales organisation through acquisitions in France, which is today our most important foreign market, thereby reducing our dependence on exports to Eastern Europe and reinforcing our position in the European Union. A.S. & Palitra, the newly established Russian wallpaper company in which A.S. Création holds a 50% stake, started production in 2012. Our plan to participate in the growing volume of locally produced wallpapers through this investment has come true. The joint venture's third production line was installed and taken into operation in 2016. In 2015 we decided to adjust our production capacity in Germany to the strongly declining export volumes, especially to Eastern Europe. The respective measures were implemented in 2016.

In the fiscal year 2016 our company devoted

a lot of energy to the concentration of production at Wiehl-Bomig and the shutdown of the production facility in Gummersbach-Derschlag. Apart from the related modernisation and relocation expenses, changes in the composition of the machine operating teams, adjusted responsibilities and the reorganisation of workflows led to frictions. These are now behind us and will not affect the fiscal year 2017. The successful completion of this step does not mean, however, that the change process as a whole is over for A.S. Création and that there is no more need for action. Right on the contrary, the fiscal year 2016 clearly shows that the measures implemented to date are not sufficient to guarantee A.S. Création's strength in the future. The drop in sales revenues that started in 2014 was not halted in 2016. At approx. 4%, the EBIT margin stands at a very low level, as the cost savings did not keep pace with the decline in revenues. The highly gratifying progress at the Russian joint venture, A.S. & Palitra, is reflected neither in consolidated sales revenues nor in earnings before interest and taxes, as A.S. Création holds only 50% of the company. Accordingly, A.S. Création's share in the result of A.S. & Palitra is recognised in the consolidated financial result.

Increasing our sales revenues will be key to improving our operating result. In our opinion, this can be achieved only on the basis of a

good, well-balanced product range meeting the design requirements of our many customers in different countries. This is why, even in the difficult year 2016, we did not let up in our efforts to offer end consumers a unique product range. We again developed and launched over 2,000 new wallpapers. The awards we received give impressive proof of our excellent position in the wallpaper market. The "Metropolis" wallpaper collection, which we developed jointly with our licensing partner, Michael Michalsky, has won the German Design Award 2016, and A.S. Création made first place in the "Product Innovation" category in a survey conducted by trade magazine BTH among specialist retailers. We see these great results as a vindication of our product development strategy.

The fact that the wallpaper market was unable to benefit from increased consumer spending in 2016 gave less cause for joy. Private consumption in Germany in 2016 was up by 2%, while wallpaper consumption declined by approx. 4% during the same period, according to the Association of German Wallpaper Manufacturers (VDT). To make wallpapers an attractive product to younger consumers, A.S. Création has played a pioneering role in the wallpaper industry in recent years and takes advantage of the possibilities of presenting and marketing wallpapers digitally. In the

meantime we have taken another step to reach out to a younger target group. In the course of 2016, A.S. Création entered a cooperation with blogger Laura Noltemeyer. In her blog entitled "Designdschungel by Laura N.", she reports on fashion, design and lifestyle. The "Designdschungel" wallpaper collection resulting from this cooperation was presented at the Heimtextil exhibition in Frankfurt in January 2017 and is already being discussed on the above blog and on other online channels.

As mentioned above, A.S. Création's export conditions to non-EU Eastern European countries have deteriorated notably. Much of the decline in Group revenues reported in the past three years is attributable to the short-fall of revenues in this region. The Managing Board believes it is not realistic that this short-fall of revenues will be offset by a strong (renewed) increase in exports from Germany. Now that the concentration of the German production activities at Wiehl-Bomig has been completed, A.S. Création has unused technical equipment and machinery in Germany, which are of an older date but still functioning. To partly close the gap in revenues in Eastern Europe caused by the loss of export revenues, some machines are to be relocated to Minsk, Belarus, and to be taken into operation there. Belarus is a member of the Eurasian Economic Union (EAEU), the alliance of Armenia, Kazakh-

stan, Kyrgyzstan, Russia and Belarus to form a single market and customs union, and is characterised by low production costs with regard to labour and energy. This makes Belarus an attractive location for the low-cost production of wallpapers satisfying the demand in the EAEU. We therefore intend to acquire an existing property in 2017 and to convert it for the production of wallpapers. Two printing presses incl. peripheral machines will then be relocated there and be taken into operation. We expect this measure to make an additional contribution in excess of € 10 million p.a. to A.S. Création's Group revenues starting 2018.

Parallel to increasing our revenues, our entire Group is working on the simplification and optimisation of our workflows and processes in order to save costs and achieve competitive advantages for A.S. Création. In fiscal 2016 we were unable to fully offset the adverse effects of the reduction in revenues on our earnings position through internal efficiency increases and cost savings. This is clearly reflected in the decline in the EBIT margin from 4.7% in the previous year to 3.9% in 2016. The latest increase in commodity and energy prices as well as the collective wage agreements in Germany will lead to additional costs for A.S. Création in 2017 and 2018, highlighting the need for significant productivity improve-

ments. We will systematically implement the necessary measures.

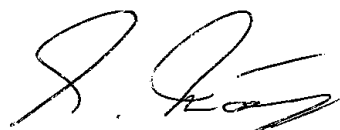
To achieve productivity improvements, investments will be required in many cases. A.S. Création continuously makes investments to improve the performance of our production and logistic facilities. In the fiscal year 2016, spending on property, plant and equipment totalled € 5.0 million, up 10.3% on the previous year's € 4.5 million, as the concentration of our wallpaper production activities at Wiehl-Bomig entailed several construction measures as well as technical replacements and capacity increases. This trend will continue as we plan additional investments of approx. € 2.0 million in the modernisation of our logistic centre in 2017. This way, we will ensure that A.S. Création is able to satisfy the trend towards smaller orders and the growing demands made on the speed of our deliveries and that we will continue to achieve top ratings from our customers with regard to "speed of delivery" and "reliability of delivery" as we have done in the past.

If we succeed in laying the basis on which A.S. Création can present itself as the reliable, innovative wallpaper company with good future prospects to our customers, we will emerge from the anticipated consolidation process in the international wallpaper industry stronger

than before. The adverse environment, which is characterised by much lower demand for wallpapers due to the many political and economic crises across the globe as well as by substantial overcapacities in the global wallpaper industry, will not improve in the short term. In this environment, we will continue the above-described transformation of A.S. Création with great determination and expect to generate moderate revenue growth between 2% and 5% in 2017 for the first time since 2013. Group sales revenues are projected to come in at between € 155 million and € 160 million in the fiscal year 2017. The anticipated price competition combined with an upward trend in commodity and energy costs will presumably weigh on the gross profit margin in 2017. Moreover, the start-up of production in Belarus will entail expenses while the additional sales revenues will remain negligible in 2017. Finally, it is doubtful whether the Russian rouble will again appreciate notably against the euro in 2017 and whether A.S. Création will again benefit from translation-related exchange gains as in 2016. As a result of these factors, earnings before interest and taxes will probably amount to between € 3 million and € 4 million in 2017, which would be lower than the € 5.9 million posted for the fiscal year 2016.

Dear shareholders, we are well aware that A.S. Création's performance in the past fiscal years has been unsatisfactory and that 2017 is unlikely to see the company's sales and profitability restored to a reasonable and sustainable level. Based on our current projections for the Group, this will not happen before 2018. Therefore fiscal year 2017 will be a transition period. On behalf of my fellow Board members I would therefore like to thank you for the confidence you have placed in us during this difficult phase. We would be pleased if you continued to support us and accompany A.S. Création on the exciting, yet challenging journey ahead of us.

Gummersbach, February 2017



Maik Holger Krämer  
Chairman of the Managing Board



## Managing Board

Maik Holger Krämer

Chairman

Finance and Controlling

Roland Werner Bantel

Sales and Marketing

Antonios Suskas

Production and Logistics

## MANAGING BOARD AND SUPERVISORY BOARD

13

## Supervisory Board

Franz Jürgen Schneider <sup>1),2),3)</sup>

Chairman

Jella Susanne Benner-Heinacher <sup>3)</sup>

Vice Chairwoman

Dr. Volker Hues <sup>1),2)</sup>

Peter Mourschinetz

Employee representative

Jochen Müller <sup>1),3)</sup>

Rolf Schmuck <sup>2)</sup>

Employee representative

<sup>1)</sup> Member of Committee for Managing Board Matters

<sup>2)</sup> Member of Audit Committee

<sup>3)</sup> Member of Nomination Committee

**January** The A.S. Création share starts the new year at € 31.47.

At the "Heimtextil" exhibition in Frankfurt am Main, A.S. Création presents its new products for 2016, including the "METROPOLIS" collection by Michael Michalsky, which wins the 2016 German Design Award later in the year. A.S. Création's true-to-the-original representation of the interior of an old industrial hall demonstrates the possibilities opened up by combination of digital reproduction technology and wallpapers.

**February** The A.S. Création share hits its low for the year at € 24.00 on February 9.

**March** The Wallpaper Academy established by A.S. Création launches its first course for "Specialist Wallpaper Advisors" certified by the Chamber of Commerce.

CEO Jörn Kämper leaves the company as planned on March 31, having held this position for 15 years during which he was instrumental in growing and building A.S. Création. Maik Holger Krämer is appointed new CEO.

**April** On April 14, the French court of appeal announces its verdict in the French anti-trust proceedings and, in granting the petitions lodged by the affected A.S. Création Group companies, reduces the total fines payable to € 2.1 million. The French competition authorities lodge an appeal against the verdict in the further course of the year.

**October** The A.S. Création share hits a high of € 32.10 on October 6.

A.S. Création and Laura Noltemeyer, who writes a blog on design, fashion and lifestyle called "Designschungel by Laura N.", launch their cooperation.

A.S. Création takes the well-established stationary "Tapetenbestellshop" to the next level and offers its customers a mobile version of this advisory tool which has been optimised for use on tablet computers providing advice and selection.

**December** The A.S. Création share closes the year 2016 at € 29.86 on December 30.

## REPORT OF THE SUPERVISORY BOARD

15

In the fiscal year 2016, the Supervisory Board met five times, namely on March 1, 2016, on April 28, 2016 (twice), on September 12, 2016 and on December 15, 2016. Each of these meetings was attended by all members of the Supervisory Board.

With Dr. Rüdiger Liebs having resigned from office in 2015 for reasons of age and Dr. Volker Hues elected to the Supervisory Board as successor to Dr. Liebs for the remaining tenure by the Annual General Meeting of Shareholders of the same year, the regular term of office of

all Supervisory Board members ended at the end of the Annual General Meeting of Shareholders on April 28, 2016. At the proposal of the Supervisory Board, this Annual General Meeting of Shareholders re-elected Mr Franz Jürgen Schneider, Ms Jella Susanne Benner-Heinacher, Dr. Volker Hues and Mr Jochen Müller for a term of office ending at the end of the Annual General Meeting of Shareholders resolving on the ratification of the acts for the fiscal year 2020. After the election by the workforce on April 19, 2016, Mr Peter Mourschinetz and Mr Rolf Schmuck remain on the

Supervisory Board as employee representatives pursuant to the German One-Third Participation Act ("Drittelbeteiligungsgesetz").

At the Supervisory Board Meeting held immediately after the Annual General Meeting of Shareholders on April 28, 2016, Mr Schneider and Ms Benner-Heinacher were re-elected Chairman and Vice Chairwoman, respectively, of the Supervisory Board.

The Supervisory Board Meeting held immediately after the Annual General Meeting of Shareholders on April 28, 2016 also confirmed the existing rules of internal procedure of the Supervisory Board. On this basis, the Supervisory Board has set up the following three committees to ensure that its tasks are performed efficiently:

- the Committee for Managing Board Matters, composed of Mr Schneider (Chairman), Dr. Hues and Mr Müller,
- the Audit Committee, composed of Dr. Hues (Chairman), Mr Schmuck and Mr Schneider and
- the Nomination Committee, composed of Ms Benner-Heinacher, Mr Müller and Mr Schneider.

The committees prepare the resolutions to be passed by the Supervisory Board as well as the topics that need to be addressed by the

Supervisory Board. In addition, the Supervisory Board has transferred decision-making powers to the committees within the limits of what is legally permissible. It has been ensured that the Supervisory Board is kept informed of the findings and decisions of the committees.

The Committee for Managing Board Matters, which is responsible for the preparation of the Managing Board contracts as well as for other personnel matters, held one meeting on March 1, 2016. Taking into account a horizontal and a vertical compensation comparison, the Committee examined and discussed the performance-linked and the non-performance-linked bonus of the Managing Board for the fiscal year 2015 and made a proposal to the Supervisory Board at this meeting.

The Audit Committee, which is primarily responsible for reviewing and auditing the financial statements and the consolidated financial statements, the interim report and the quarterly reports as well as for monitoring the effectiveness of the risk management system, met twice in the fiscal year, on February 29, 2016 and on September 12, 2016. Both meetings were attended by representatives of the auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, and Mr Maik Holger Krämer as representative of the Managing Board. The Chairman of the Audit

Committee, Dr. Hues, is an independent financial expert and has special knowledge and experience in accounting and auditing. At its meeting on February 29, 2016, the Committee primarily dealt with the audit of the financial statements and the consolidated financial statements for the year 2015 and discussed the report of the Supervisory Board and the corporate governance statement as well as the corporate governance report, the recommendation of the Supervisory Board regarding the proposal for the auditors of the financial statements and the consolidated financial statements for the year 2016 as well as the monitoring of the effectiveness of the internal control systems. At its meeting on September 12, 2016, it dealt with the latest risk report of the Managing Board as well as with the state of the compliance management measures at A.S. Création Tapeten AG, on which the Head of Legal and Compliance reported to the Audit Committee. The Committee also decided that the regular external review of the internal control systems at the Group companies be continued and defined the focal points of the audit as well as the conditions for the commissioning of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft for the 2016 audit as well as for potential non-audit services. The focal points of the 2016 audit include the disclosures in the notes on the effects that will arise at A.S. Création Tapeten AG from the coming into effect of IFRS 15 (Revenue from Contracts

with Customers) on January 1, 2018 as well as the recognition of sales revenues at the German Group companies under the provisions of the German Accounting Directive Implementation Act ("Bilanzrichtlinie-Umsetzungsgesetz – BilRUG").

The Nomination Committee, whose tasks include proposing suitable candidates for the election of new shareholder representatives to the Supervisory Board, did not meet in the fiscal year. The Nomination Committee made a recommendation to the Supervisory Board regarding the new election of the Supervisory Board members by the Annual General Meeting of Shareholders in 2016 already in 2015.

The Supervisory Board regularly advised the Managing Board on the management of the company and monitored its management activities. The Supervisory Board was directly involved in all decisions that were of fundamental importance for the company. It was informed about the course of business and the situation of the company in written monthly reports as well as in oral and written reports presented by the Managing Board at its meetings. Additional written reports were submitted to the Supervisory Board by the Managing Board on all special events. In addition, the Chairman of the Supervisory Board was regularly informed by the Managing Board in personal meetings.



The Supervisory Board reviewed important individual transactions and decided on all transactions requiring its approval by law, under the statutes or under the Managing Board's rules of internal procedure.

In the past fiscal year, the activities of the Supervisory Board focused on the following

- analysis, discussion and resolution regarding the adoption of the financial statements and the consolidated financial statements for the year ended December 31, 2015;
- consultation and resolution on the approval of the installation of a production facility in Belarus; monitoring the progress of this project through continuous reports by the Managing Board; discussion of the status reports on the Supervisory Board;
- discussion on the performance of A.S. Création (RUS) against the background of reports by the Managing Board and the Directorate General of A.S. Création (RUS);
- discussion of the future positioning of A.S. Création Tapeten AG in Russia with regard to the investments in OOO A.S. & Palitra,
- approval of the extension to the small order warehouse in Bomig;
- approval of the Group's operating plans and budgets for the fiscal years 2017 and 2018, the Group's investment plan for 2017 as well as the strategic planning until 2021;
- discussion on the Online/Digital Printing/Digital Media unit against the background of a presentation of the unit;
- discussion of the latest developments in the anti-trust proceedings in Germany and France as well as
- definition of the targets for the share of women for filling positions on the Supervisory Board and the Managing Board by December 31, 2020.

The Supervisory Board and the Managing Board jointly issued a declaration of conformity and explained which recommendations of the German Corporate Governance Code have not and will not be adopted.

The financial statements of A.S. Création Tapeten AG and the consolidated financial statements for 2016 as well as the management report of A.S. Création Tapeten AG and the Group management report were made

available to the Supervisory Board. They were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Cologne, and received their unqualified audit opinion.

In response to a proposal submitted by the Supervisory Board, the Annual General Meeting of Shareholders on April 28, 2016 elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft auditors of the financial statements for the fiscal year 2016.

The auditor for the fiscal year 2016 was commissioned by the Audit Committee on the basis of a resolution adopted on September 12, 2016. In accordance with the recommendations made by the German Corporate Governance Code, the Supervisory Board, which was represented by the Chairman of the Audit Committee, obtained a statement from the auditor stating which professional, financial and other relations exist between the auditors and the company that might raise doubts about their independence before awarding the audit assignment. The statement also covers other services provided to the company in the past fiscal year. The statement issued by the auditors to the Supervisory Board raised no doubts about their independence.

The auditors' reports were submitted to the Supervisory Board members in good time. They

were discussed in detail at the meeting of the Audit Committee on March 6, 2017 and at the Supervisory Board's annual accounts meeting on March 8, 2017. At the latter meeting, the Chairman of the Audit Committee provided the Supervisory Board with an overview of the treatment of the financial statements and the consolidated financial statements by the Audit Committee. Both the Audit Committee meeting and the Supervisory Board's annual accounts meeting were attended by representatives of the auditors, who reported on the key results of their audit. In the context of their audit, the auditors noted, among other things, that potential developments that may jeopardise the continued existence of the company and the Group can be identified and are recorded by the risk management system implemented in accordance with Article 91 (2) of the German Stock Corporation Act (Aktien-gesetz AktG) and are properly presented in the management report of A.S. Création Tapeten AG and the Group management report. The results of the audit were approved by the Audit Committee and the Supervisory Board.

No objections were raised following the Supervisory Board's own review of the financial statements, the consolidated financial statements, the two management reports and the profit appropriation proposal.

The Supervisory Board therefore approves the financial statements of A.S. Création Tapeten AG and the consolidated financial statements prepared by the Managing Board for the year ended December 31, 2016 as well as the management report of A.S. Création Tapeten AG and the Group management report. The financial statements are therefore adopted. The Supervisory Board also supports the Managing Board's profit appropriation proposal.

In accordance with the corresponding recommendation of the German Corporate Governance Code, the Supervisory Board members of A.S. Création Tapeten AG immediately disclose any conflicts of interest to the Supervisory Board. There were no potential conflicts of interest in the fiscal year which would have

had to be disclosed to the Supervisory Board and be reported to the Annual General Meeting of Shareholders.

The Supervisory Board would like to thank the members of the Managing Board and all employees for their successful commitment to the company, its customers and its shareholders.

Gummersbach, March 8, 2017



Franz Jürgen Schneider  
Chairman of the Supervisory Board

## CORPORATE GOVERNANCE STATEMENT AND REPORT ON CORPORATE GOVERNANCE

21

### Introduction

In the present statement, the Managing Board and the Supervisory Board of A.S. Création Tapeten AG report on corporate governance in accordance with Article 289a of the German Commercial Code (Handelsgesetzbuch HGB) and Section 3.10 of the German Corporate Governance Code.

Good and responsible corporate governance is today defined by nationally and internationally recognised standards. Efficient cooperation between the Managing Board and the

Supervisory Board, respect of shareholders' interests as well as open and transparent corporate communication are key aspects of good corporate governance. The Managing Board and the Supervisory Board of A.S. Création Tapeten AG have traditionally been committed to these standards.

### **German Corporate Governance Code**

The German Corporate Governance Code (hereinafter referred to as the "Code") was published by the Government Commission of the same name in 2002. The Code is normally reviewed once a year against the background of national and international developments and amended if required. The latest amendments were decided by the Government Commission on May 5, 2015. The current version of the Code can be viewed at [www.dcgk.de/en/](http://www.dcgk.de/en/).

While the cross-industry and cross-company recommendations and suggestions of the Code are not binding, Article 161 of the German Stock Corporation Act (Aktiengesetz AktG) and Article 285 (16) of the German Commercial Code (Handelsgesetzbuch HGB) require an annual declaration by the Managing Board and the Supervisory Board in connection with the publication of the financial statements as to which recommendations of the Code

have been and are being complied with and which recommendations have not been and are not being applied ("declaration of conformity"). The latest declaration of conformity issued by the Managing Board and the Supervisory Board of A.S. Création Tapeten AG can be found below.

The Managing Board and the Supervisory Board of A.S. Création Tapeten AG consider the recommendations and suggestions of the Code an integral element of their work for the company. They regularly review the relevance of these standards, so that adequate compliance with the standards is ensured for the shareholders, the employees and, last but not least, for the company itself.

### **Declaration of conformity pursuant to Article 161 of the German Stock Corporation Act (Aktiengesetz AktG)**

The latest declaration of conformity was issued on March 8, 2017 and had the following wording:

The Managing Board and the Supervisory Board of A.S. Création Tapeten AG declare that the company has complied with the recommendations of the Government Com-



mission on the German Corporate Governance Code published by the Federal Ministry for Justice in the official section of the electronic Federal Gazette (as amended on May 5, 2015) since last year's declaration of conformity dated March 1, 2016, save for the following exception and will continue to do so:

Pursuant to Section 5.4.1 of the Code the Supervisory Board shall specify concrete objectives regarding its composition which take into account, among other things, an age limit for the members of the Supervisory Board and a regular limit of length of membership as well as diversity. The Supervisory Board of A.S. Création Tapeten AG is convinced that the proposals for the election of Supervisory Board members should be based exclusively on the functional and personal suitability of the candidates. As this suitability does not depend on formal criteria such as age and the length of membership, the Supervisory Board does not comply with this recommendation of the Code.

### **Work of the Managing Board and the Supervisory Board**

A.S. Création Tapeten AG is a joint stock company under German law. One of the fundamen-

tal principles of German Stock Corporation Law is the dual management system comprising a Managing Board and a Supervisory Board, each of which has its own authorities. When it comes to managing and supervising the company, the Managing Board and the Supervisory Board of A.S. Création Tapeten AG cooperate closely and in a spirit of trust.

The members of the Managing Board are appointed by the Supervisory Board, which may also appoint a Chairman of the Managing Board. The Managing Board of A.S. Création Tapeten AG currently consists of the following members, whose individual and collective responsibilities are regulated by the rules of internal procedure:

- Maik Holger Krämer (Chairman),  
Finance and Controlling
- Roland Werner Bantel,  
Sales and Marketing
- Antonios Suskas,  
Production and Logistics

The tenure of the current Board members will end on March 31, 2021 for Mr Krämer, on March 31, 2020 for Mr Suskas and on March 31, 2018 for Mr Bantel.

The Managing Board is responsible for managing the company with due regard to

the duties of care and diligence incumbent on the management team of a commercial organisation.

The Supervisory Board advises and supervises the Managing Board in managing the company. For major transactions, e.g. large investment projects or changes in the corporate structure, the Managing Board requires the prior approval of the Supervisory Board. The transactions requiring approvals are listed in the rules of internal procedure of the Managing Board.

The Managing Board informs the Supervisory Board about the course of the business and the situation of the company by monthly written reports as well as by oral and written reports presented at the Supervisory Board meetings. Extraordinary events are additionally reported to the Supervisory Board in writing. In addition, the Chairman of the Supervisory Board is regularly informed by the Managing Board in personal meetings.

In accordance with the law and the statutes, the Supervisory Board of A.S. Création Tapeten AG consists of four members who are elected by the General Meeting of Shareholders and two members who are elected by the workforce. The Supervisory Board elects a Chairman and a Vice Chairman from among its members. The Supervisory Board currently has the following members:

- Franz Jürgen Schneider,  
Chairman
- Jella Susanne Benner-Heinacher,  
Vice Chairwoman
- Dr. Volker Hues
- Peter Mourschinetz,  
employee representative
- Jochen Müller
- Rolf Schmuck,  
employee representative

The terms of office of all Supervisory Board members will expire at the end of the General Meeting of Shareholders that will ratify their acts for fiscal 2020, i.e. presumably in spring 2021.

The Supervisory Board of A.S. Création Tapeten AG formed three committees:

- the Committee for Managing Board Matters with the members  
Mr Schneider (Chairman),  
Dr. Hues and Mr Müller,
- the Audit Committee with the members  
Dr. Hues (Chairman),  
Mr Schneider and Mr Schmuck,  
as well as
- the Nomination Committee  
with the members  
Ms Benner-Heinacher, Mr Müller  
and Mr Schneider.

The committees prepare the resolutions passed by the Supervisory Board as well as the topics to be discussed by it. In addition, the Supervisory Board has transferred certain decision-making powers to the committees to the extent this is permissible under applicable laws. The individual tasks and powers are laid down in the rules of internal procedure of the Supervisory Board which also ensure that the full Supervisory Board is informed of the findings and decisions of the committees.

The Committee for Managing Board Matters prepares the personnel decisions of the Supervisory Board, especially the appointment and discharge of Managing Board members and the renewal of their terms of office. It also prepares the resolutions passed by the Supervisory Board with regard to the fixing of the compensation of the Managing Board.

The Audit Committee is responsible for monitoring the accounting process and reviewing the effectiveness of the internal control, risk management and audit systems. It also deals with the audit of the annual accounts and addresses compliance issues. The Chairman of the Audit Committee is an independent financial expert and has special knowledge and experience in the application of accounting principles and internal control procedures.

The task of the Nomination Committee is to propose suitable candidates for the shareholder representatives for elections to the Supervisory Board. It is exclusively composed of Supervisory Board members elected by the shareholders.

#### **Targets for the share of women pursuant to Article 76 (4) and Article 111 (5) AktG**

Under the "Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst" ("FührposGleichberG" – Law for the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector), which came into force in May 2015, certain companies are obliged to define targets for the share of women on the Managing Board and the Supervisory Board as well as the two management levels below the Managing Board. If the share of women is below 30 percent at the time the targets are set, the targets may no longer fall below this percentage. The deadlines for reaching and reviewing the targets can be chosen freely, with the maximum deadline being five years.

The Supervisory Board has specified a share of women of 16.7% for the Supervisory Board,

which is to be reached by December 31, 2020. This percentage corresponds to the current composition of the Supervisory Board, which is composed of one woman and five men. As outlined above, the tenure of all Supervisory Board members will end only in spring 2021, which means that the planned increase in the share of women on the Supervisory Board cannot be achieved before that date. Both the shareholder representatives and the employee representatives on the Supervisory Board will make preparations for a corresponding increase during the current term of office.

The Supervisory Board has specified a share of women of 0% for the Managing Board of A.S. Création Tapeten AG, which is to be reached by December 31, 2020. The Managing Board in its current composition has led A.S. Création only since April 1, 2016. The respective personnel decisions had been made by the Supervisory Board already prior to the coming into force of the FührungsG. It does not seem to be advisable to revise these decisions at the present stage. The Supervisory Board will give special consideration to the aspect of improved diversity on the Managing Board – especially a higher share of women – every time the composition of the Managing Board changes in order to meet its social responsibility. However, the qualification of

a candidate will remain the most important criterion for appointments to the Managing Board also in the future.

The Managing Board of A.S. Création Tapeten AG has specified a share of women of 14.3% for the first management level below the Managing Board, which is to be reached by December 31, 2021. The target for the share of women corresponds to the actual current level, as the change of generation was initiated prior to the coming into force of the FührungsG and has been implemented in the meantime. Consequently no further changes are planned or expected until December 31, 2021. This does not mean that an increased share of women at this management level is impossible. The Managing Board will give special consideration to this aspect when appointing replacements in the future, although in this case, too, the qualification of the candidate will be the most important decision-making criterion. The share of women at the second management level of A.S. Création Tapeten AG is to be increased from the current level of 8.7% to 13.0% by December 31, 2021. The activities for the long-term development of young talent for functional and management positions were expanded already in 2016. For instance, new cooperations with schools and universities were agreed and existing contacts intensified.

This approach addresses and supports both young women and young men.

### **Shares held by the Managing Board and the Supervisory Board**

As of the balance sheet date, members of the Managing Board held 2,633 shares, while members of the Supervisory Board held 885,646 shares in A.S. Création Tapeten AG. Managing Board and Supervisory Board thus hold 29.61% of the share capital of A.S. Création Tapeten AG.

### **Accounting and audit**

The consolidated financial statements and the consolidated interim financial statements of A.S. Création Tapeten AG are prepared by the Managing Board on the basis of the International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements of A.S. Création Tapeten AG are prepared in accordance with the German Commercial Code (Handelsgesetzbuch HGB). The consolidated financial statements and the financial statements are audited by the auditors and the Supervisory Board. The consolidated interim financial statements are neither audited nor reviewed by the auditors but are discussed by the Managing Board and the Audit Committee prior to their publication.

The General Meeting of Shareholders of the year 2016 elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Cologne, (Ernst & Young) as auditor. Prior to the election, Ernst & Young issued a statement of independence as recommended by the German Corporate Governance Code. This statement has not given rise to any doubt about the independence of Ernst & Young as an auditor. It was contractually agreed with the auditor that the Supervisory Board would be informed immediately of

- any grounds for disqualification or impartiality arising during the audit,
- any findings or incidents arising during the audit that are material for the tasks of the Supervisory Board and
- any findings indicating that the declaration issued by the Managing Board and the Supervisory Board with regard to the German Corporate Governance Code is incorrect.

### **Transparent corporate communication**

Open and transparent corporate communication is an important aspect of good corporate governance. Apart from clear and comprehensible contents, this aspect also calls for



all stakeholders to have equal access to company information. A.S. Création attaches great importance to the Internet as an information medium that is freely accessible irrespective of time and place. The website of A.S. Création ([www.as-creation.de](http://www.as-creation.de)) therefore provides a wealth of well-structured company information for interested users, e.g. in the "Investor Relations" section, which contains comprehensive financial information on A.S. Création such as annual and interim

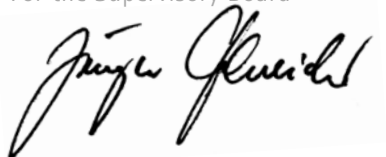
reports as well as ad-hoc and press releases. All information is simultaneously available in German and English.

The planned dates of major regular events, i.e. the publication dates of the annual report and the interim reports as well as the date of the General Meeting of Shareholders, are compiled in a financial calendar. It is published sufficiently in advance and posted on the website of A.S. Création.

Gummersbach, March 8, 2017

#### **A.S. Création Tapeten AG**

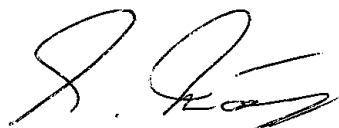
For the Supervisory Board



Franz Jürgen Schneider

Chairman of the Supervisory Board

For the Managing Board



Maik Holger Krämer

Chairman of the Managing Board



## 1. General corporate information

The A.S. Création Group comprises two Divisions (segments), the Wallpaper Division and the Furnishing Fabrics Division. The Wallpaper Division produces and markets wallpapers and borders on a global scale; accounting for more than 90% of 2016 Group sales, it is the larger of the two Divisions. The wallpapers are primarily produced in Germany at A.S. Création Tapeten AG. In addition, wallpapers are produced by the Russian joint venture, A.S. & Palitra. The other entities that form part of the Wallpaper Division are pure sales and trading companies without their own production facilities. They are based in the UK, the Netherlands, France and Russia. Headquartered in Germany, the Furnishing Fabrics Division markets curtains and furnishing fabrics and has no manufacturing resources of its own.

The operating result (earnings before interest and taxes EBIT) as well as the EBIT margin play an important role for controlling the Group. The cost of materials and personnel expenses are the biggest and the second biggest expense item, respectively, for both the Wallpaper Division and the Furnishing Fabrics Division. Accordingly, both expense types have a material impact on earnings before interest and taxes. This means that, besides the EBIT margin, the gross profit margin (gross profit as a percentage of total output) and personnel expenses

as a percentage of total output play an important function in managing and controlling operations.

As the Russian production company, A.S. & Palitra, is a joint venture in which A.S. Création Tapeten AG holds a 50% interest, i.e. no majority, the share in the result for the year that is attributable to A.S. Création is shown under "financial result" in the consolidated financial statements. This share in the result is therefore not included in the consolidated operating result but in A.S. Création's consolidated earnings before taxes. Accordingly, earnings before taxes (EBT) and the EBT margin are also important performance indicators of the Group.

The most important output markets of A.S. Création are in Europe. In the fiscal year 2016, the countries of the European Union (EU) accounted for 83.2% of the Group's gross sales revenues (previous year: 81.9%), while non-EU Eastern European countries accounted for 9.6% (previous year: 10.5%). Representing 42.6% (previous year: 41.5%), Germany is the company's single most important market.

The company's product portfolio is clearly positioned in the consumer goods sector – over 90% of the wallpapers are used for renovation purposes, while less than 10% are used for new buildings. Because of their use, furnishing fabrics also qualify as consumer

goods. A.S. Création thus operates in consumer goods markets which are influenced by colour and design trends and by the general trend in private consumption.

Given that wallpapers and furnishing fabrics are not technical products but fashion-driven products, the research and development activities of A.S. Création primarily focus on the development of new designs. In the fiscal year 2016, the company spent € 2.6 million (previous year: € 2.5 million) in these creative activities. These expenses are not capitalised as the criteria of IAS 38 are not met.

## 2. Economic report

### 2.1. Macroeconomic environment

With economic growth in the eurozone slowing down towards the end of 2015, only moderate GDP growth of 1.3% was projected for 2016 in view of declining demand from China and other emerging countries. This modest forecast of economic growth in the eurozone did not materialise, however, as eurozone GDP expanded by 1.7% in 2016. After the moderate economic growth rate of 0.9% in 2014 and the strong 1.5% increase in 2015, this economic recovery is gratifying. Eight years after the financial crisis of 2008, the eurozone's gross domestic product is back at the pre-crisis

level. The unemployment rate dropped to 10.0% in 2016 (previous year: 10.9 %). This was one reason for the continued strong consumer sentiment, which was reflected in a 1.7% increase in consumer spending in the eurozone in 2016. This trend was supported by the still low oil price, as the declining energy costs brought relief for private households. The corporate sector also benefited from this energy market trend, especially at the beginning of 2016. On the downside, however, the effects of the Ukraine crisis were still being felt. The weakness of important Eastern European currencies against the euro and the economic sanctions put a damper on exports.

Over the past ten years, growth in the German economy clearly exceeded average growth in the other eurozone countries. This special trend ended in 2016, when the German economy grew by 1.9%, which was only marginally higher than the eurozone average of 1.7%. Growth was primarily driven by higher consumer spending and additional government spending. Consumer spending, which benefited not only from lower energy prices but also from higher real wages, advanced by 1.9% (previous year: 2.0%). Dropping from 6.4% in the previous year to 6.1% in 2016, the unemployment rate also contributed to this upward trend in consumer spending.

The economic situation in Russia remains very

tight. Having contracted by 3.7% in 2015, the Russian economy declined by another 0.5% in 2016. Although the oil price picked up somewhat in the course of 2016, Russia continued to suffer from the low oil price level, as commodity and energy-oriented companies are of special importance for the Russian economy. The sanctions imposed in conjunction with the Ukraine crisis and the weakness of the Russian rouble also had an adverse impact. While the rouble exchange rate improved slightly in the fiscal year, the 2016 average of RUB/€ 73.75 still exceeded the 2013 average of RUB/€ 42.39 by as much as 74%. As a result, the prices of imported goods are significantly higher than in the past. In the previous years, Russia consequently recorded high inflation rates, which reached 7.1% in 2016. It is therefore not surprising that consumer spending, a pillar of the Russian economy in the past, has been on the decline, dropping by -0.3% in 2016.

Prices in the international commodity and energy markets clearly declined in 2016. According to the Hamburg Institute of International Economics (HWWI), global commodity and energy prices fell by 12% on a euro basis in 2016. This drop was primarily due to the continued slump in the oil price. While the average oil price of the year 2015 stood at approx. USD 53 per barrel, it reduced by another 15% in 2016 to an average of approx. USD 45. This decline is mainly attributable to

a clear oversupply in the international oil market, especially in the first months of 2016. The greatly increased oil production resulting from OPEC's continued high outputs did not meet with growing demand due to the weaker world economy. As the OPEC countries generally agreed to reduce their output, the oil price climbed to approx. USD 56 per barrel by the end of the year. This increase was not sufficient, however, to lift the average price of 2016 to the prior year level. While A.S. Création benefited from the downward trend in commodity and energy prices in 2016, the decline in the prices of the raw materials used by A.S. Création was much lower.

## 2.2. Industry-specific environment

According to the Association of German Wallpaper Manufacturers (VDT), the difficult economic environment prevailing in 2016 had an adverse impact on both domestic and export sales of German wallpaper manufacturers. The VDT members' domestic revenues declined by 4.2% in 2016. At 8.9%, the drop in export revenues was even higher. Following a 13.5% decline in VDT members' total sales revenues in 2015, sales revenues of the German wallpaper industry declined by another 7.0% in 2016. The 8.9% decline in the sales revenues of A.S. Création's Wallpaper Division from € 153.6 million in the previous year to € 139.9 million



in the past financial year should also be seen against this background. The underutilised production capacities of the wallpaper industry have led to fiercer price competition, which, in turn, has resulted in accelerated consolidation.

While sales revenues in the home textiles sector declined in 2015, no figures for 2016 have yet been published by the Association of German Home Textiles Manufacturers. It is safe to assume that sales revenues in the furnishing fabrics/curtains segment continued to decline, as the industry remains in a consolidation process. This trend is also reflected in 2016 sales revenues of the Furnishing Fabrics Division, which fell by 2.3% from € 13.2 million in the previous year to € 12.8 million in the fiscal year 2016.

### 2.3. Overview of the business trend

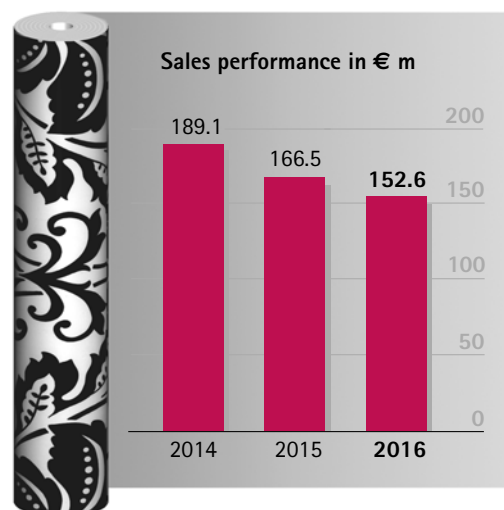
In 2016, the macroeconomic conditions had a much stronger adverse effect on the business performance of A.S. Création than expected. The original revenue forecast, according to which sales revenues were expected to amount to between € 160 million and € 170 million, had to be downgraded to between € 150 million and 160 million in the course of the year 2016. At € 152.6 million, A.S. Création's consolidated sales revenues in the fiscal year

2016 were in line with the revised forecast. This represents a decline by 8.4% from the previous year's € 166.5 million. As in the previous year, the markets as a whole were in a poor state; consequently, A.S. Création recorded declining sales revenues in all regions in the past fiscal year.

Unlike the revenue forecast, the original earnings forecast, which projected a marked improvement in earnings before taxes in 2016, was met. The Group increased its earnings before taxes from € 5.6 million in the previous year by 81.5% to € 10.2 million in the fiscal year 2016. However, earnings before taxes were greatly influenced by extraordinary factors both in the previous year and in the past fiscal year. These extraordinary factors are outlined below:

- The declining rouble exchange rate led to a depreciation of the euro against the rouble and improved the Group's earnings before taxes in 2016 due to translation-related exchange gains of € 4.5 million, compared to exchange losses of € 3.5 million in the previous year.
- In 2015, the former owners of two French companies contributed an amount of € 2.1 million to the penalty imposed by the French competition authorities. No comparable effects occurred in the past fiscal year.

- Against the background of the negative economic developments, the parameters for the risk assessment of trade receivables were reviewed and adjusted in 2015. This led to a € 1.2 million increase in valuation allowances. No further adjustment of the parameters was required in 2016.
- In conjunction with the concentration of the German production activities in Wiehl-Bomig, one-time expenses of € 1.3 million were incurred in the fiscal year 2016, compared to € 0.9 million in the previous year.



Adjusted for the above extraordinary effects, earnings before taxes declined from € 9.1 million in the previous year to € 7.0 million in the past financial year. This € 2.1 million decline ultimately reflects the profit shortfall resulting from the above-described € 13.9 million reduction in sales revenues in the fiscal year 2016, which was not offset by cost-cutting measures.

### 3. Net asset, financial and earnings position

#### 3.1. Earnings position

##### 3.1.1. Sales revenues

A.S. Création's sales revenues declined by € 13.9 million or 8.4% from € 166.5 million in the previous year to € 152.6 million in the

past financial year. An amount of € 0.8 million of this decline is due to changes in exchange rates of the Russian rouble and the British pound, respectively, against the euro.

While both divisions of A.S. Création were affected by this decline in sales revenues, the Wallpaper Division accounted for the biggest portion. Sales revenues in the Furnishing Fabrics Division were down by only 2.3% on the previous year, whereas the Wallpaper Division recorded an 8.9% drop in revenues in 2016. In spite of these differences, the breakdown of Group sales revenues by divisions has not changed materially. The Wallpaper Division accounted for € 139.8 million or 91.6% (previous year: € 153.4 million or 92.1%) of the Group's total 2016 revenues in the amount of € 152.6 million (previous year: € 166.5 million), while the Furnishing Fabrics Division contrib-

uted € 12.8 million or 8.4% (previous year: € 13.1 million or 7.9%).

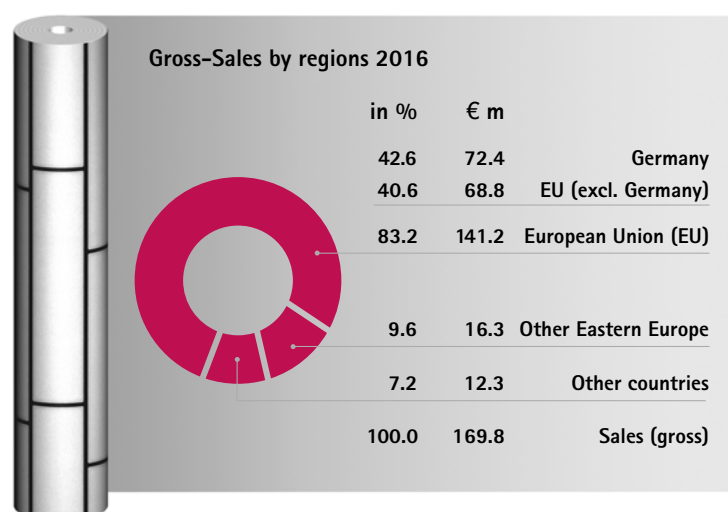
As in the previous year, the breakdown of sales revenues by regions shows that A.S. Création's revenues declined in all regions in the past financial year. In the German home market, the changed purchasing behaviour of DIY stores led to a reduction in A.S. Création revenues. The wholesale and specialist retail sector also failed to provide any stimulation. As a result of these effects, the company's domestic gross revenues dropped by 6.1%. Due to the changed situation in the DIY store sector, A.S. Création recorded moderate market share losses in Germany, as the Association of German Wallpaper Manufacturers posted a 4.2% decline in domestic sales revenues for 2016.

A.S. Création's revenues in the rest of the European Union (EU) fell by 8.6% in the past fiscal year. This was mainly due to the fact that the French (wallpaper) market remained in a poor state. Moreover, A.S. Création's sales revenues in the Baltic states reduced notably. The Russian crisis is having an adverse impact on the Baltic states, as the latter have traditionally maintained close economic relations with Russia. As a consequence, some of A.S. Création's Baltic customers filed for insolvency in the course of 2015. The revenues generated with these customers in 2015 did not recur in the fiscal year 2016. Finally,

A.S. Création's sales revenues in the UK DIY store segment showed a negative trend in 2016, as customers closed stores and reduced their inventories, which led to reduced top-up orders. Although A.S. Création recorded growing sales revenues in other European countries such as the Czech Republic and Italy, these were insufficient to offset the reduction in revenues in the larger EU wallpaper markets.

As a result of the above developments, gross revenues in the EU including Germany were down by € 11.2 million or 7.3% on the previous year's € 152.4 million in the past fiscal year and amounted to € 141.2 million.

At € 16.3 million, gross revenues in non-EU Eastern European countries were down by € 3.2 million or 16.4% on the previous year's € 19.5 million. Wallpaper exports to Russia, and Belarus, A.S. Création's most important



output markets in this region recorded the strongest fall in this region. The declining general consumer sentiment resulting from the poor economic situation in combination with the depreciation of the local currencies against the euro led to reduced demand for A.S. Création's German-made wallpapers. The depreciation of these currencies made imports much more expensive for local customers. Moreover, there was a shortfall in revenues as customers filed for insolvency and/or had to cope with continued financing problems due to the economic crisis in Russia. Demand for locally produced wallpapers increased commensurately. So far, A.S. Création has been unable to offset the slump in wallpaper exports to this region with additional sales of Russian-made wallpapers distributed by A.S. Création (RUS), the Russian distribution company. Moreover, exports to Turkey were adversely affected by the more difficult economic and political situation as well as by import duties imposed on wallpapers by the Turkish government. Between them, the structural changes that are weighing on sales to non-EU Eastern European countries have meanwhile clearly left their marks on A.S. Création's consolidated sales revenues. In the fiscal year 2008, i.e. prior to the financial crisis and the Ukraine crisis, A.S. Création generated gross revenues of € 58.9 million in non-EU Eastern European countries – compared to only € 16.3 million in 2016. This means that A.S. Création's

sales revenues in non-EU Eastern European countries declined by over 70% or approx. € 43 million since 2008. Consequently, the region's share in total Group revenues fell from 30.7% in 2008 to 9.6% in 2016.

As a result of the regional developments described above, the breakdown of sales revenues by regions continued to shift in the fiscal year 2016. The share of gross revenues generated in Germany increased moderately from 41.5% in the previous year to 42.6% in the fiscal year 2016. As a consequence, the EU's share in gross revenues also climbed from 81.9% in 2015 to 83.2% in 2016. This means that A.S. Création's Group revenues clearly focus on the EU. As outlined above, the Eastern European countries' share declined to 9.6% (previous year: 10.5%). The remaining 7.2% (previous year: 7.6%) of the Group's sales revenues are generated in some 70 other countries in which A.S. Création operates. These countries also failed to stimulate growth in 2016, as A.S. Création recorded lower demand for wallpapers especially in Asia due to the unfavourable economic trend.

As the drop in sales revenues in the past fiscal year is not attributable to individual countries but occurred in all regions, 2016 was clearly not a good year for wallpaper in the opinion of the Managing Board. While the Managing Board had projected a decline in sales rev-

venues for the past fiscal year in view of the difficult environment, the € 152.6 million in revenues generated by the Group is not satisfactory from the point of view of the Managing Board.

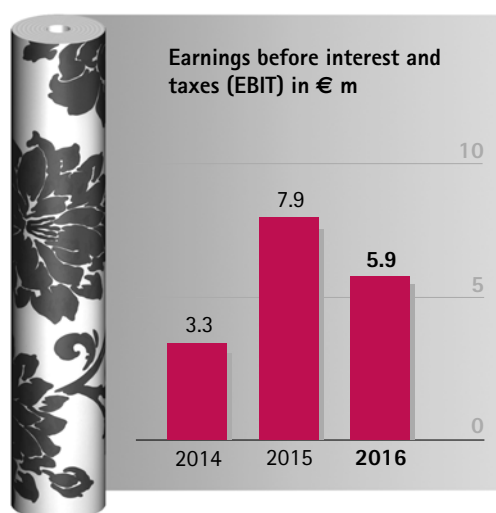
### 3.1.2. Earnings

At € 5.9 million, A.S. Création's earnings before interest and taxes in 2016 were down by € 2.0 million on the previous year's € 7.9 million. The EBIT margin declined to 3.9% (previous year: 4.7%).

Earnings before interest and taxes were influenced by material extraordinary effects both in the previous year and in the past year. The following material events should be considered when analysing the Group's operating performance:

- **Exchange gains and losses**

The rouble exchange rate dropped from RUB/€ 79.70 to RUB/€ 63.81 in the course of 2016, which means that the euro depreciated against the rouble (and the rouble appreciated against the euro) by approx. 20%. As A.S. Création (RUS) is financed in euros, this exchange rate trend led to translation-related exchange gains. On balance, exchange gains totalling € 0.8 million (previous year: exchange



losses of € -0.8 million) influenced A.S. Création's EBIT in the fiscal year 2016.

- **French anti-trust proceedings**

In June 2015, A.S. Création and the former owners of the two French companies acquired in late 2008 agreed that the latter would bear part of the penalty imposed in conjunction with the French anti-trust proceedings. The income of € 2.1 million resulting from this agreement was included in other income in the previous year.

- **Valuation allowances on receivables**

As a result of the negative macroeconomic developments in 2015, especially in Eastern Europe, some customers experienced financial bottlenecks. Against this background, A.S. Création reviewed and adjusted the parameters applied to assess the risks

relating to trade receivables in the previous year. This led to a € 1.2 million increase in valuation allowances. This one-time effect was reflected in other operating expenses in the fiscal year 2015. No further adjustment of the parameters has been required in the current fiscal year.

- **Plant concentration**

In conjunction with the concentration of the German production activities in Wiehl-Bomig, one-time expenses for the relocation and adjustment of plant and machinery were incurred in the fiscal year 2016. As a result, the respective expense items exceeded the prior year level by approx. € 1.2 million in 2016. In the previous year, the company had established provisions for severance payments in the amount of € 0.9 million, which contrasted with severance payments of only € 0.1 million in the fiscal year.

Adjusted for these four factors, earnings before interest and taxes amounted to € 6.4 million in fiscal 2016, down by € 2.3 million or 26.4% on the previous year's € 8.7 million. The adjusted EBIT margin stood at 4.2% (previous year: 5.2%). Given that the positive and negative effects of the special factors on the bottom line more or less offset each other, the decline in adjusted EBIT by € 2.3 million in 2016 is

almost equivalent to the decline in recognised EBIT by € 2.0 million. Recognised EBIT thus reflect the actual situation. The moderate improvement in EBIT and the EBIT margin planned by the Managing Board for 2016 was not achieved as sales revenues declined more strongly than expected. As outlined in paragraph 3.1.1. ("Sales revenues"), there was a € 13.9 million shortfall in revenues in 2016 compared to the previous year. While the Managing Board notes the successful containment of the decline in EBIT to € 2.3 million despite this shortfall in revenues, it is obvious that A.S. Création's result of operations in fiscal 2016 was not satisfactory.

The analysis of the result of operations shows that A.S. Création's gross profit margin deteriorated moderately to 52.5% in the past fiscal year (previous year: 53.3%). This reduction in the gross profit margin shaved an amount of € 1.2 million off earnings before interest and taxes. This was due to the fact that inventories were reduced by only € 1.1 million compared to € 4.1 million in the previous year and that average selling prices declined moderately compared to 2015. A.S. Création benefited only to a limited extent from the general decline in global commodity and energy prices outlined in paragraph 2.1. ("Macroeconomic environment"), as the prices of the raw materials used by A.S. Création declined only

moderately. The lower gross profit margin shows that the resulting slight reduction in manufacturing costs was insufficient to offset the factors that weighed on the margin. Apart from the € 1.2 million in gross profits lost as a result of the lower margin, 2016 also saw gross profits down by € 5.8 million because of the lower level of sales revenues. All told, A.S. Création's sales process in the reporting period yielded gross profits of € 79.5 million, down by € 7.0 million on the prior-year figure of € 86.5 million.

Other income declined by € 1.2 million from € 3.1 million in the previous year to € 1.9 million. It was, however, positively influenced by the effects of the exchange gains (€ 1.1 million) in 2016 and by the income generated in the context of the French anti-trust proceedings (€ 2.1 million) in the previous year. Adjusted for these extraordinary effects, other income declined by only € 0.2 million in the past fiscal year.

At € 40.7 million, personnel expenses were down by € 2.3 million on the previous year's € 43.0 million in the fiscal year 2016. Adjusted for the above-mentioned severance payments, personnel expenses were € 1.5 million or 3.6% lower than in the previous year, which contributed to the improved result. The measures taken to cut personnel expenses reduced

the average headcount by 4.1% from 801 in the previous year to 768 in the past financial year. However, the headcount adjustment and the reduction in personnel expenses fell short of the marked decline in sales revenues by 8.4%. The collective pay rises of 2.6% in November 2015, which increased the wages and salaries of most domestic employees in 2016, had an adverse effect on personnel expenses. At 26.8%, personnel expenses as a percentage of total output exceeded the previous year's high level of 26.5% and reached the highest level in the more recent history of A.S. Création. The fiscal year 2016 has shown that the measures taken so far were insufficient to reduce personnel expenses as a percentage of total output.

The above-mentioned extraordinary effects made a small contribution to the marked drop in other operating expenses by € 2.8 million or 9.4% from € 30.0 million in the previous year to € 27.2 million in fiscal 2016. The lower exchange losses reduced other operating expenses by € 0.6 million in 2016. By contrast, the effects of the additional write-downs of receivables in 2015 and the additional other operating expenses relating to the plant concentration in 2016 both amounted to € 1.2 million and thus offset each other. At € 2.2 million, the biggest portion of the reduction in other operating expenses is attributable to cost

savings, especially freight charges, commissions, licensing fees and advertising costs. On balance, the relation of other operating expenses to total output improved to 18.0% in 2016 (previous year: 18.5%).

At € 7.6 million, depreciation was down by € 1.0 million on the previous year's € 8.6 million, which helped to improve the result in the fiscal year.

As a result of the above factors, the decline in EBIT could be limited to only € 2.0 million in spite of the gross profit shortfall of € 7.0 million. This should not conceal the fact that EBIT deteriorated by 24.9% from € 7.9 million in the previous year to € 5.9 million in the past fiscal year.

In contrast to the operating result, the financial result improved notably in the fiscal year 2016. The earnings situation of the Russian joint venture, A.S. & Palitra, has the biggest influence on the consolidated financial result of A.S. Création. Given that A.S. Création Tapeten AG and the second shareholder, Kof Palitra, each own 50% of this company, the Russian wallpaper company is accounted for using the equity method, which means that the share in net result after taxes that is attributable to A.S. Création is recognised in the Group's financial result. While the Group generated a pro-rated loss of € -2.5 million

from the joint venture in the previous year, a pro-rated profit of € 3.9 million was achieved in the past fiscal year. As the joint venture is largely financed with euro loans, its earnings were affected by translation-related exchange losses and exchange gains, respectively, both in 2015 and in 2016. As the Russian rouble appreciated against the euro in 2016, A.S. & Palitra posted translation-related exchange gains of € 3.7 million in 2016, compared to exchange losses of € 2.7 million in the previous year.

This means that, adjusted for the translation-related exchange gains, A.S. Création's share in the profit after taxes amounted to € 0.2 million as in the previous year. The fact that additional machine operators were hired and inducted at an early stage for the third production line taken into operation in autumn 2016 prevented an improvement in the result, as this led to increased personnel expenses in the fiscal year, which were not offset by corresponding revenues. Moreover, increased depreciation of tools also weighed on A.S. & Palitra's result, as new collections were developed for the new production plant. On balance, the Managing Board of A.S. Création believes that the Russian production company is well positioned to increase its profit.

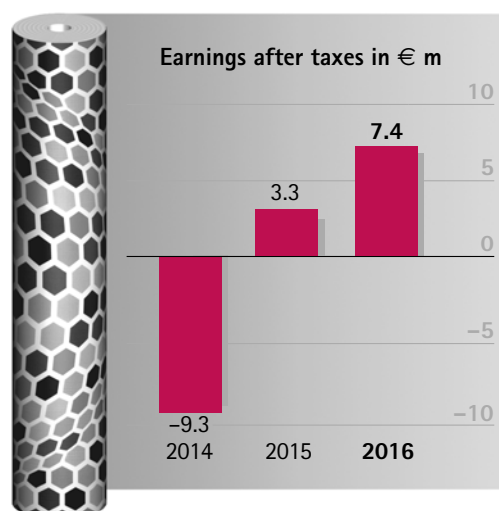
Besides the improved earnings position of the Russian joint venture, the increase in the net credit position from € 0.3 million on December 31, 2015 to € 11.7 million on the



balance sheet date had a positive impact on A.S. Création's financial result. Net interest income of € 0.4 million was generated in 2016 (previous year: € 0.2 million). Together with the € 6.3 million increase in the pro-rated income from the Russian joint venture, this helped improve the financial result by € 6.5 million from € -2.2 million in the previous year to € 4.3 million in the past fiscal year.

Earnings before interest and taxes and the financial result led to a profit before tax of € 10.2 million in the fiscal year 2016, which was up by € 4.6 million or 81.5% on the previous year's € 5.6 million. The extraordinary factors outlined in the context of the analysis of the operating result and the financial result had a positive effect of € 3.2 million on profit before tax in the fiscal year 2016 and a negative effect of € 3.5 million in the previous year. Adjusted for these extraordinary effects, profit before tax declined by € 2.1 million from € 9.1 million in the previous year to € 7.0 million in fiscal 2016.

The past fiscal year saw after-tax earnings increase much more strongly than earnings before tax. At € 7.4 million, the former exceeded the previous year's € 3.3 million by 126.2%. This is primarily attributable to the pro-rated result of the joint venture A.S. & Palitra, which is included in earnings before tax. As this is



A.S. Création's share in the after-tax result of the Russian company, this component of the consolidated result before tax has no tax effect, which means that the pro-rated loss of the previous year did not lead to a reduction in tax expenses in the consolidated income statement, while this year's pro-rated profit did not lead to an increase. Moreover, the Group's imputed tax rates in 2016 (27.1%) and 2015 (41.5%) differed strongly due to the tax-free income of € 2.1 million resulting from the agreement reached with the former owners of the French Group companies affected by the anti-trust proceedings, which was included in the result of the previous year.

The marked improvement in earnings before and after taxes projected by the Managing Board for the fiscal year 2016 has been achieved.

Based on the average number of shares outstanding, which remained unchanged at 2,756,351 in 2016, earnings per share amounted to € 2.70 (previous year: € 1.19).

### 3.1.3. Profit appropriation

The Managing Board of A.S. Creation Tapeten AG has always pursued a dividend policy that provides for a high payout ratio as long as this is permitted by the company's financial situation. In the past years, the payout ratio of A.S. Création settled at a level of between 45% and 50%. This means that the dividend policy of A.S. Création is characterised by continuity and reliability.

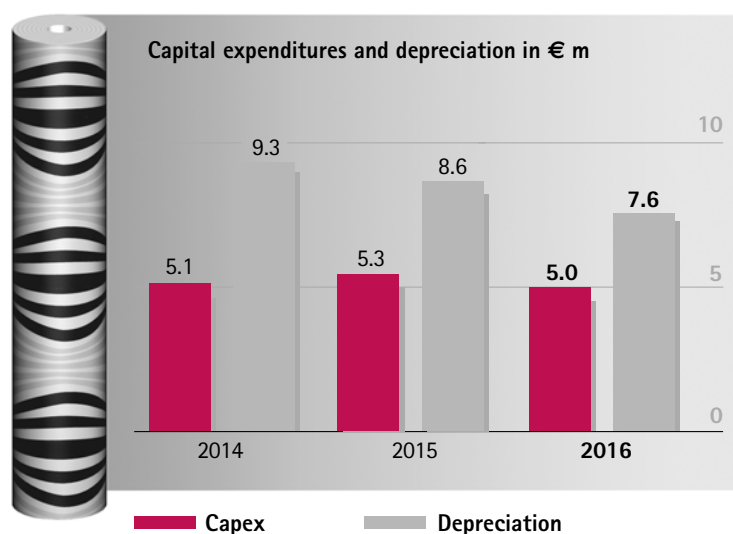
The fixed payout ratio means that the absolute amounts of the dividend payments are not smoothened over time but increase or decrease

in line with earnings. As explained in paragraph 3.1.2. ("Earnings"), net income improved from € 3.3 million in the previous year to € 7.4 million in fiscal 2016. In keeping with the dividend policy, the improved earnings position will result in a much higher dividend. A dividend of € 1.25 per share will therefore be proposed to the Annual General Meeting of Shareholders scheduled for May 4, 2017. In terms of earnings per share, this represents a payout ratio of 46.3%. A dividend of € 0.60 per share was paid in the previous year, which was equivalent to a payout ratio of 50.4% (in terms of earnings per share of € 1.19 recognised in 2015). Based on the number of 2.756 million shares outstanding as of December 31, 2016, this will result in a total dividend volume of € 3.4 million (previous year: € 1.7 million).

## 3.2. Financial position

### 3.2.1. Capital expenditures

Capital expenditures totalled € 5.0 million in the fiscal year 2016, which was more or less on a par with the previous year's € 5.3 million. In 2015, capital expenditures of € 0.8 million related to shareholder loans granted by A.S. Création to the Russian joint venture, A.S. & Palitra, for financing purposes. These long-term loans are stated as capital expen-



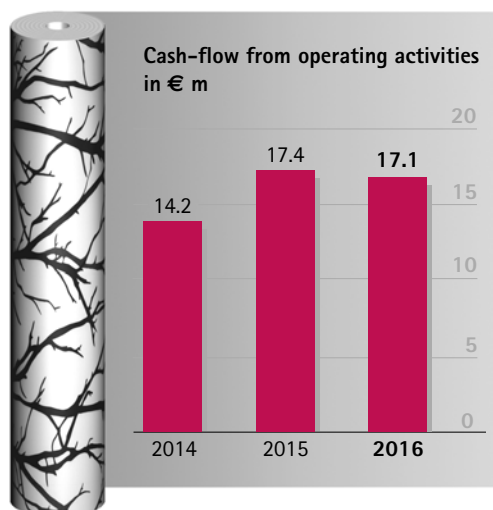
ditures in the consolidated financial statements of A.S. Création.

Adjusted for the financing of the joint venture, capital expenditures in the fiscal year 2016 amounted to € 5.0 million, which was slightly above the previous year's € 4.5 million, and primarily related to printing tools for the new wallpaper collections as well as to replacement investments and building measures in conjunction with the concentration of production in Wiehl-Bomig. As in the previous year, no major investments in new plant capacity were required.

As of the balance sheet date, the company had financial obligations from order commitments for investments in tangible fixed assets in the amount of € 1.1 million (previous year: € 1.4 million).

### 3.2.2. Cash flow statement and net financial liabilities

As outlined in paragraph 3.1.2. ("Earnings"), the strong increase in earnings after taxes in fiscal 2016 is attributable to the improved profit contribution made by the Russian joint venture. As this is a non-cash profit contribution, the improved Group result is not reflected in a corresponding increase in operating cash flow. At € 17.1 million, the latter re-



mained almost unchanged from the previous year's € 17.4 million. A.S. Création thus confirmed its high internal financing strength also under the difficult conditions prevailing in 2016.

The analysis of the operating cash flow revealed the following special aspects:

- The developments in the French anti-trust proceedings had the biggest positive impact on the cash position. In April 2016, the French court of appeal ("Cour d'appel") decided on A.S. Création's appeal in the French appeal proceedings and reduced the penalty imposed by the French competition authorities and paid by A.S. Création in 2015 by € 2.9 million. Following the Court of Appeal's verdict, the amount of € 2.9 million was refunded by the French

competition authorities and improved the company's operating cash flow in the past fiscal year. The refund has not (yet) had a positive effect on A.S. Création's net profit, however, as the French competition authorities have lodged an appeal with the French supreme court ("Cour de cassation"). The verdict of the court of appeal has consequently not become final yet. A.S. Création will therefore post the income of € 2.9 million resulting from the verdict of the court of appeal only once it has been confirmed by the French supreme. A non-current provision in the same amount was therefore established in fiscal 2016.

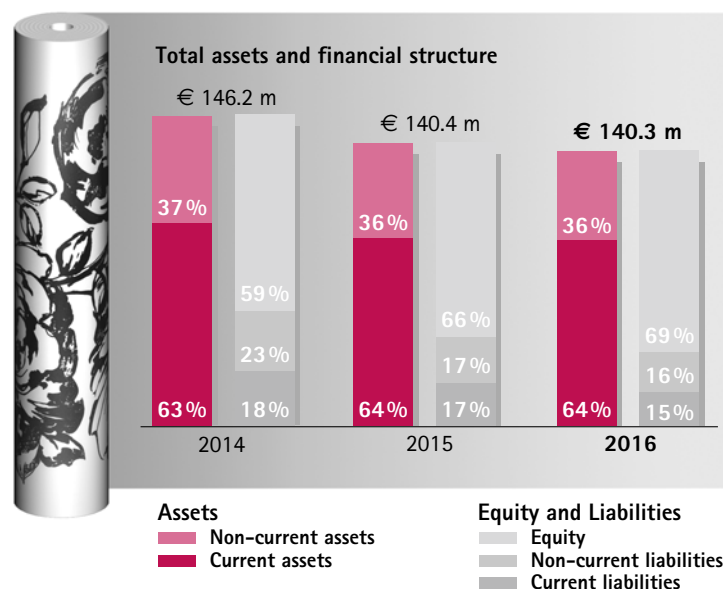
- Inventories were reduced by another € 1.7 million in the fiscal year 2016, especially at A.S. Création Tapeten AG, which released tied-up capital. Due to the decline in sales revenues in the fiscal year, the reduction in inventories did not lead to an improvement in inventory turnover. At 4.0x p.a. (previous year: 4.0), the latter remained unchanged in 2016.
- Trade receivables declined by € 3.5 million in the past fiscal year. As a result, the imputed receivables collection period reduced from the previous year's high level of 68 days to 63 days in the past fiscal year.

Capital expenditures declined from € 5.3 million in the previous year to € 5.0 million in 2016, leading to lower financing requirements. At the same time, A.S. & Palitra repaid shareholder loans in the amount of € 0.5 million (previous year: € 0.0 million) and current financial investments of € 9.2 million became due (previous year: investment of € 6.5 million). As a result, net cash in the amount of € 4.9 million was provided by investing activities in 2016, (previous year: net cash used of € 11.7 million).

Increased financing requirements resulted from the dividend payment in the past fiscal year. While no dividend was paid out in the previous year due to the loss incurred in fiscal 2014, a dividend totalling € 1.7 million was paid out in the past fiscal year from the profit generated in 2015.

Against the background of the reduced financing requirements, A.S. Création used the high cash flow to significantly improve its own financial position in the past fiscal year. The company was able to completely eliminate its net financial liabilities (difference between interest-bearing financial liabilities and cash and cash equivalents as well current financial assets) already in the fiscal year 2015. As a result, A.S. Création had a net credit position of € 0.3 million on December 31, 2015, which was increased to € 11.7 million in the course of the past fiscal year. This improvement is the

result of a € 6.6 million reduction in interest-bearing financial liabilities and a € 4.8 million increase in cash and cash equivalents and current financial assets. As of the balance sheet date, A.S. Création thus had cash and cash equivalents as well as current financial assets in the amount of € 21.2 million (previous year: € 16.4 million), which contrasted with interest-bearing financial liabilities of € 9.6 million (previous year: € 16.2 million).



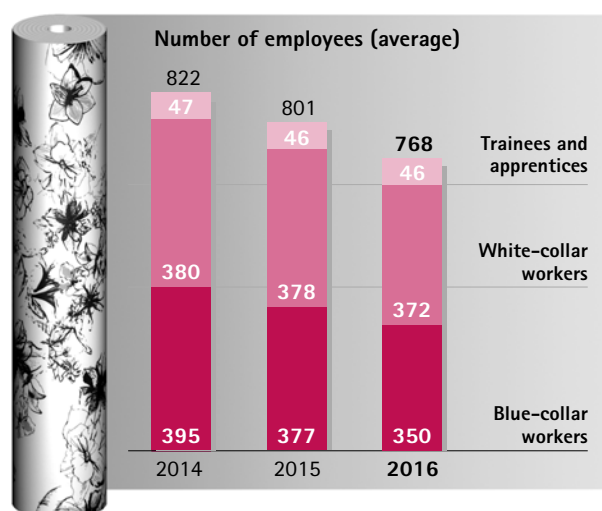
### 3.2.3. Balance sheet structure

A.S. Création's conservative financing policy is characterised by long-term debt at fixed interest rates as well as by repayments during the term of the loans and has proven its worth especially during the past turbulent years. In the past years, A.S. Création did not face a reduction in credit lines or had to renegotiate the conditions of its existing loans. Only where unused credit lines appeared to be too high were they reduced in agreement with the lending banks. The Group has a very robust and sound financial structure, which is reflected in the following balance sheet figures:

- Due to the improved result, equity increased to € 96.5 million in the fiscal year 2016 (previous year: € 93.2 million).

With equity on the increase and total assets remaining almost unchanged, the equity ratio of 68.8% clearly exceeded the previous year's high equity ratio of 66.4%.

- Equity and non-current liabilities are more than sufficient to finance non-current assets. As of December 31, 2016, the respective ratio stood at 237.6% (previous year: 233.3%), which means that the "golden rule of financing" was more than fulfilled.
- Thanks to the high cash flow of the fiscal year 2016, the net credit position was increased significantly to € 11.7 million on December 31, 2016 (previous year: € 0.3 million).



## 4. Material non-financial indicators

### 4.1. Employees

The average headcount of A.S. Création declined by 33 people or 4.1% from 801 to 768 in the course of 2016. 696 employees (previous year: 728) worked in the Wallpaper Division and 72 (previous year: 73) in the Furnishing Fabrics Division. A majority of 618 people or 80.6% (previous year: 651 people or 81.3%) are employed by the domestic Group companies.

Against the background of the declining sales revenues, A.S. Création has reduced its headcount since 2014. The headcount reduction in 2016 primarily resulted from the concentration of the German production activities in Wiehl-Bomig. The shutdown of production facilities in Gummersbach-Derschlag helped to adjust the production capacity to the lower sales revenues.

As the average headcount declined by 4.1% and sales revenues decreased by 8.4% in the past fiscal year, sales per employee continued to decline from € 0.208 million to € 0.199 million in 2016. Paragraph 3.1.2. ("Earnings") addresses the increase in personnel expenses as a percentage of total output and further burdens resulting from the latest collective pay rises. In the absence of revenue and earnings growth which could offset these additional

As of December 31, 2016, the Group's total assets amounted to € 140.3 million (previous year 140.4 million) of which 78.4% (previous year: 80.3%) related to property, plant and equipment, inventories, trade receivables, current financial assets as well as cash and cash equivalents. By contrast, intangible assets (including goodwill) stated in the balance sheet as of the balance sheet date merely play a minor role and represented only 5.8% (previous year: 5.7%) of total assets and 8.4% of equity (previous year: 8.7%).

The Managing Board of A.S. Création believes that the net asset and financial position of A.S. Création is robust and sound and will enable the company to further pursue its long-term growth strategy in spite of uncertain conditions.

expenses, the staff reductions will continue in 2017.

A.S. Création's traditionally strong commitment to training young people has not and will not be restricted. In 2016, A.S. Création trained an average of 46 (previous year: 46) young people in one of the eleven occupations for which A.S. Création offers vocational training. The Managing Board of A.S. Création is convinced that the training and further education of its workforce are important factors for the future of the company. Consequently, the training activities were not reduced in spite of the economically challenging conditions prevailing over the past years. Trainees/apprentices represented 7.3% of the domestic workforce (previous year: 7.1%).

#### **4.2. Product safety and environmental protection**

All A.S. Création wallpapers are produced to EN or DIN standards and thus comply with legal provisions. For instance, all wallpapers made by A.S. Création bear a qualified CE mark to EN 15102. This shows that A.S. Création wallpapers have proven to meet the fire protection criteria defined by the EU.

To establish the fundamentals for a uniform and reproducible health-related evaluation of

building products in Germany, the Committee for Health-related Evaluation of Building Products (Ausschuss zur gesundheitlichen Bewertung von Bauprodukten AgBB) has developed criteria for testing and an evaluation scheme for emissions from building products suitable for indoor usage. According to these provisions, such building products, which also include wallpapers, must be tested by an independent testing institute. Tested building products meeting the requirements obtain an approval from Deutsches Institut für Bautechnik (DIBT) and may be labelled with the "Ü" sign. The wallpapers of A.S. Création have obtained this approval and are labelled accordingly.

Emissions from building products for indoor usage are also addressed by a French regulation, according to which all building products used indoors must be marked with their emission class. The results of an analysis performed by an accredited test institute, demonstrate that all wallpapers made by A.S. Création meet the limits of the emission class "A+" (the lowest class), so that they are all labelled accordingly.

But apart from complying with legal requirements, A.S. Création offers its customers even greater safety, as the company's wallpapers meet the more stringent requirements of Germany's "Gütegemeinschaft Tapete e. V.", which are documented in RAL GZ-479.

Compliance with this standard is reviewed by the internationally renowned Fraunhofer Society on a random basis.

To promote environmental protection and sustainability, A.S. Création exclusively uses water-based paints on its heliogravure printing machines. Moreover, the company has used only FSC®-certified papers and nonwovens, which means that all wallpapers carry the FSC® seal. The FSC® (Forest Stewardship Council) is a non-governmental, non-profit organisation committed to the environmentally and socially compatible and economically viable management of the world's forests. The FSC® label tells consumers that wood from responsible and sustainable forest management was used for the product in question.

Our capital expenditures also reflect our commitment to a sparing use of resources. While all capital expenditures required to meet the increasingly stringent legal and regulatory requirements count as direct capital expenditures in environmental protection, capital expenditures in modernisation contribute to environmental protection given that the use of advanced technologies usually also entails a higher degree of efficiency with regard to the resources used. Such capital expenditures in modernisation are made continuously by A.S. Création. The same applies to the improvement of production processes, which also

leads to increased efficiency. Consequently, the reject rate and the average energy consumption in the production of a wallpaper roll have been reduced over the past years. This trend is to be continued over the next years.

A.S. Création Tapeten AG has a certified energy management system to ISO 50001:2011 and a certified quality management system to ISO 9001:2008.

## 5. Important events in 2016

Mr Jörn Kämper, member of the Managing Board of A.S. Création Tapeten AG in charge of Sales and Marketing since April 8, 1998 and Chairman of the company's Managing Board since June 28, 2001, did not renew his contract, which expired on March 31, 2016, for personal reasons and has left the company. Mr Maik Holger Krämer was appointed Chairman of the Managing Board by the Supervisory Board with effect from April 1, 2016.

In April 2016, the French court of appeal ("Cour d'appel") decided on A.S. Création's appeal in the French appeal proceedings in April 2016 and reduced the penalty imposed by the French competition authorities and paid by A.S. Création in 2015 by € 2.9 million. The amount was refunded by the French competition authorities and improved the company's



operating cash flow in the past fiscal year. The refund has not (yet) had a positive effect on A.S. Création's net profit, however, as the French competition authorities have lodged an appeal with the French supreme court ("Cour de cassation") and a non-current provision in the same amount was established in the fiscal year 2016.

## **6. Important events after the end of the fiscal year**

The Managing Board is of the opinion that no reportable events occurred after the end of the fiscal year.

## **7. Opportunity and risk report**

### **7.1. Opportunity management**

The company's product portfolio is clearly positioned in the consumer goods sector – over 90% of the wallpapers are used for renovation purposes, while less than 10% are used for new buildings. Because of their use, furnishing fabrics also qualify as consumer goods. A.S. Création thus operates in consumer goods markets which are influenced, on the one hand, by the general trend in consumer

spending and spending behaviour. On the other hand, demand for such fashionable products as wallpapers and furnishing fabrics depends on the latest colour and design trends.

If potential future developments or events which may have a positive impact on the business of A.S. Création are regarded as opportunities, it is critical for the success of the company to identify and exploit such opportunities at an early stage. At A.S. Création, this kind of "opportunity management" is the responsibility of the management teams of the Group companies. The different local wallpaper and furnishing fabrics markets are characterised by country-specific particularities regarding colour and design trends, the relative importance of the different distribution channels through which the products are marketed and the stage of market consolidation. Accordingly, the opportunities arising in the individual markets may differ significantly. This is why A.S. Création has refrained from installing a standardised global opportunity management system. According to the Managing Board, such a system is not required, as the simple and well-arranged corporate structure of A.S. Création and the company's direct reporting lines ensures that information about opportunities which have been identified and may be relevant for the Group as a whole, are communicated to the Managing Board in a timely manner.

## 7.2. Risks

### 7.2.1. Risk management system

Any business activity inevitably entails not only opportunities but also certain risks. As a general rule, these risks can be divided into external risks such as the amendment of legal provisions and internal risks such as the liquidity risk. Throughout its company history, A.S. Création Tapeten AG has demonstrated its responsible approach to such risks. In the opinion of the Managing Board, the high quality of our risk management system is an important basis for the successful development of our company.

In the context of the risk management system, potential risks identified at A.S. Création are assessed by the company's managers with regard to two criteria, namely "likelihood" and "amount of loss/damage". The amount of the loss/damage is classified as "manageable", "high" and "very high". The Managing Board is constantly kept informed of the risks and pays special attention to risks with a high or very high damage potential. The Managing Board is of the opinion that the risk management system, which is an integral element of A.S. Création's reporting system, is of a sufficient size. Based on statutory requirements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Cologne, examined the early risk identification

system of A.S. Création in the context of last year's audits and confirmed that risks which may potentially jeopardise the continued existence of the company can be identified by the early risk identification system established in accordance with section 91 AktG and are adequately presented in the management report. The early risk identification system was again checked by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Cologne in the context of this year's annual audit.

The risks which entail a high or very high potential damage/loss and have been identified by the risk management system are explained below.

### 7.2.2. Macroeconomic and industry-specific risks

The Managing Board is of the opinion that the future political and macroeconomic conditions in non-EU Eastern European countries, especially Russia, pose risks with a high to very high potential damage for A.S. Création. In this context, the permanent depreciation of the Russian rouble against the euro is a material risk, as it has a sustainable adverse impact on export possibilities to Russia. A.S. Création believes that, in conjunction with an improved performance of Russian wallpaper manufacturers, this could turn the Russian wallpaper

market from a mass market into a speciality market, as the wallpapers exported from Germany to Russia would become much more expensive and no longer be competitive against locally produced wallpapers. Moreover, a strong long-term depreciation of the Russian rouble would cause the translation-related exchange losses incurred so far, which primarily result from the fact that the Russian production facility is financed with euro loans (for details see paragraph 3.1.2. of the management report), to materialise. This means that the currently non-cash currency-related exchange losses would become cash exchange losses when the loans are repaid. Also, the poor macroeconomic trend in Russia could result in major customers no longer meeting their payment obligations and A.S. Création facing bad debts. Finally, a negative scenario is possible in which an escalating political conflict in Russia would lead to expropriation and capital freezes and A.S. Création would have to write off the Russian investment entirely.

Industry-specific risks result from existing overcapacities in the wallpaper industry. Against the background of the positive trend in demand seen until 2008, new capacities for the production of wallpapers were installed in Western and Eastern Europe in the past years. Due to the sudden drop in demand in 2009 resulting from the global financial and economic crisis, the large European wallpaper

manufacturers are currently no longer able to fully utilise their own production capacities. The situation for Western European wallpaper manufacturers deteriorated even further as a result of the negative impact of the Ukraine crisis on export possibilities to Eastern Europe and demand in local markets. The Managing Board of A.S. Création Tapeten AG believes that there are currently significant overcapacities in the Western European wallpaper industry. At the same time, substantial capacity is being added in Eastern Europe, especially in Russia. Russian wallpaper manufacturers benefit from the fact that wallpaper imports from Western Europe have become very expensive and that imports of affordable wallpapers from Ukraine have become more difficult for political reasons. It is possible that investment activity in Russia will lead to overcapacities in this market, too. The Managing Board believes there is a risk that this underutilisation on the manufacturing side, in conjunction with the growing market clout of major customers, may lead to ruinous price competition and, hence, to a new consolidation process in the global wallpaper industry. Nevertheless, the Managing Board is of the opinion that, should a new consolidation process arise, A.S. Création will be able to actively shape this consolidation process thanks to its innovation and financial strength as well as to the adjustment of the production capacities in Germany. In this respect, the Managing Board sees a high potential risk,

which is not very high or existence-threatening, though.

Another high potential risk for the wallpaper industry results from the more stringent legal provisions regarding the use of chemicals in the production of wallpapers. The REACH chemicals regulation, for instance, is applicable throughout the European Union (EU). The acronym REACH stands for "Registration, Evaluation, Authorisation and Restriction of Chemicals". On the basis of this regulation, the hazards which chemicals may pose to human health and the environment are assessed. Substances of very high concern are put on a SVHC list, which means that the use of these chemicals may be reportable. In extreme cases, certain substances may be banned throughout the EU. Just like other industries, the wallpaper industry uses such additives, e.g. plasticisers, in the production of flat and expanded vinyl wallpapers. In the worst-case scenario of a general prohibition of e.g. plasticisers, the entire wallpaper industry would be equally affected. Such a change would therefore not lead to any distortions in the competitive situation. A high risk could arise, if a competitor were able to secure exclusive access to an equivalent substitute product for PVC, which would result in a permanent competitive advantage for that competitor. To minimise this risk, A.S. Création is constantly looking at ways of processing substitute products in its

existing production facilities. The Managing Board therefore believes that the likelihood of such a scenario materialising is not high.

Apart from the opportunities arising from the fact that wallpaper is a fashionable product, this fact also entails the risk of fashion trends leading to declining demand for the product. This could happen, for instance, in case of a general and sustained trend towards smooth white walls. As such cyclical fashion trends have occurred before, it is safe to assume that they will reoccur in the future. However, the Managing Board does not consider this risk to be existence-threatening, as the same fashion trend would normally not occur in all regional output markets of A.S. Création at the same time and wallpaper cannot only be produced as a design wallpaper but also as a plain wallpaper.

### **7.2.3. Risks arising from the functional areas**

In view of the special market conditions, a potential risk exists with regard to the company's procurement activities. For A.S. Création as a customer, there are only few suppliers in these markets, and the quantities purchased by the wallpaper industry in general and A.S. Création in particular are relatively small

from the suppliers' viewpoint. In the event of rising raw materials prices, A.S. Création therefore has only limited negotiating clout and few alternatives to choose from. The strategy pursued by A.S. Création aims to prevent long-term pressure on margins with the help of an innovation-driven product policy. However, this strategy entails the risk that price increases on the procurement side can be passed on to customers only with a certain delay. Fluctuations in the gross profit margin in individual fiscal years can therefore not be ruled out. The long-term analysis shows that these fluctuations stayed within a narrow bandwidth of  $\pm 2.5$  percentage points around the 50% mark in the period from 1997 to 2016. 2007, 2008 and 2011 were the only fiscal years in which the company was unable to maintain the gross profit margin within this bandwidth due to the "explosion" in commodity and energy prices. In spite of these adverse impacts, A.S. Création still generated positive results and sufficient cash flows to finance the regular capital expenditures even in these years. This is why the Managing Board believes that the very strong increase in procurement prices poses a high, but not a very high, existence-threatening, risk for A.S. Création. Against the background of the current commodity price level and the relatively cautious forecasts for the world economy and, hence, for global demand for commodities, the probability of such a scenario actually materialising is currently low.

In the distribution area, there are risks that relate to the changing structures in the output markets. On the one hand, there is a notable concentration process leading to larger companies in the wholesale and retail sector as well as in the DIY store and discount store sector. On the other hand, a trend is emerging which may lead to increased demand in the high-priced premium segment and the price-conscious discount segment at the expense of the medium market segment. Moreover, online distribution of wallpapers has meanwhile established itself as an additional distribution channel and is increasingly competing with the traditional distribution formats. Should A.S. Création be unable to adapt its product and pricing policy as well as its own company structure to these changing market structures, this could lead to strong and sustainable pressure on revenues and earnings. There is therefore a high potential risk, even though the Managing Board considers it rather unlikely to materialise.

Apart from the above, there are currently no signs of high or very high risks in production and logistics having nameable occurrence probability. The production plants represent the state of the art, necessary capital expenditures in replacements and new capacity are made on an ongoing basis and can be funded from the company's cash flow.

#### 7.2.4. Financial risks

As outlined in the analysis of the financial situation in paragraph 3.2, the traditionally strong cash flow and the robust financial structure mean that no finance and liquidity bottlenecks are expected. Due to the specific structure of the A.S. Création Group, interest rate or currency hedges and financial derivatives play only a minor role. Such hedges are generally taken out only for specific underlying transactions. For details, please refer to No. 30 in the Notes to the consolidated financial statements.

#### 7.2.5. Risks from anti-trust proceedings

Risks result from the pending anti-trust proceedings in Germany and France, as violations of competition law generally entail the risk of significant penalty payments. Also, there is a potential risk of claims for damages being raised by third parties in conjunction with anti-trust proceedings as well as with regard to charges resulting from the release of the company's directors and officers from potential penalty payments and claims for damages.

Following on from the search of the offices in November 2010 and the opening of administrative offence proceedings in November 2011,

the German Federal Cartel Office issued penalty notices against the company and some of its employees in February 2014. The German Federal Cartel Office claims that they violated anti-trust law in the period from 2005 to 2008. During this time, price fixing practices are said to have occurred between A.S. Création Tapeten AG and other German wallpaper manufacturers. The penalty notices relate to two of the originally five allegations. The other three allegations have been dropped by the German Federal Cartel Office after four years of thorough investigations. The penalty imposed on A.S. Création Tapeten AG amounts to € 10.0 million, while the penalties imposed on the responsible persons total € 0.5 million. A.S. Création Tapeten AG has released these persons from potential penalty payments with the consent of the Annual General Meeting of Shareholders. A.S. Création Tapeten AG and the persons affected have appealed against the penalty notices in March 2014. The German Federal Cartel Office has delegated the case to the Public Prosecutor in Düsseldorf. The trial before the Düsseldorf Supreme Court is scheduled to commence on March 21, 2017.

The Managing Board of A.S. Création Tapeten AG and its legal counsel are of the opinion that even if the allegations were correct, the amount of the penalties in the German anti-trust proceedings appears to be out of proportion.

Also, the material arguments that speak against a violation of anti-trust law have not sufficiently been taken into account by the authorities. The Managing Board therefore assumes that the amount of the penalties will not be confirmed by the courts. Due to the uncertainties generally arising from court proceedings, however, a risk provision in the amount of € 2.0 million (previous year: € 2.0 million) for the German anti-trust proceedings has been established since 2013 until the balance sheet date. There is a risk that this provision – against today's estimates – may turn out to be insufficient as the proceedings continue. In Germany a duty to pay the penalties will not arise before a legally enforceable penalty notice or a final verdict is issued. A.S. Création Tapeten AG nevertheless paid part of the penalty in the amount of € 2.0 million in 2014. The payment was made exclusively because of commercial considerations, as it avoids the obligation to pay interest on a potential fine up to this amount. As this payment was made voluntarily and is subject to repayment in the event of a successful appeal procedure, it does not constitute an admission of guilt. With regard to the penalty imposed by the German Federal Cartel Office, there remains an earnings and liquidity risk of € 8.5 million. As the Düsseldorf Supreme Court is entitled to reduce or to increase the penalty, this amount may become even higher.

In December 2014, the French competition authorities ("Autorité de la concurrence") issued a penalty notice against SCE – Société de conception et d'édition SAS ("SCE") and MCF Investissement SAS ("MCF"), the two French member companies of the A.S. Création Group, and imposed penalties totalling € 5.0 million. The French competition authorities accuse the two French member companies of the A.S. Création Group and other French wallpaper companies to have exchanged information in breach of French competition law between 2006 and 2010. A.S. Création acquired the majority in both companies only in December 2008. Liability for the penalty therefore also falls on the former owners SCE and MCF. In June 2015, an agreement was signed with the former owners, under which they were to contribute € 2.1 million to the penalty as well as the legal costs and fees. This amount was received by A.S. Création in June 2015 and is not conditional to the outcome of the pending appeal against the penalty notice. An appeal was filed against the penalty notice in February 2015. On April 14, 2016 the court of appeal ("Cour d'appel") in Paris announced the verdict in the appeal proceedings and reduced the penalties to be paid by SCE and MCF by € 2.9 million to a total amount of € 2.1 million. Following the court of appeal's verdict, the amount of € 2.9 million was refunded by the French competition authorities

in April 2016. The verdict of the court of appeal has not become final yet, as the French competition authorities have lodged an appeal with the French supreme court ("Cour de cassation"). SCE and MCF therefore established provisions in the amount of € 2.9 million in the fiscal year 2016.

The penalty imposed in the French anti-trust proceedings may result in a maximum expense of € 2.9 million for A.S. Création, as the former owners of SCE and MCF contributed an amount of € 2.1 million to the imposed penalty of € 5.0 million. This maximum amount was already fully recognised in A.S. Création's consolidated financial statements in the form of a provision of € 5.0 million in 2014 and other operating income of € 2.1 million in 2015, which means that there is no earnings risk. With regard to the cash position, there is a maximum remaining risk of € 2.9 million. This is the amount refunded by the French competition authorities in 2016. If the verdict of the court of appeal does not become final, SCE and MCF will have to pay this amount.

In view of the good financial position of A.S. Création, the Managing Board considers the risks associated with the anti-trust proceedings to be high but not existence-threatening. The probability of occurrence is also considered to be low for the above reasons.

#### **7.2.6. Accounting-related internal control and risk management system**

The A.S. Création Group is characterised by a clear and manageable corporate structure. Besides A.S. Création Tapeten AG, the basis of consolidation comprises only nine companies, which are fully consolidated, and one company that is accounted for using the equity method.

The accounting process in the A.S. Création Group is decentralised, i.e. the member companies of the Group are responsible for preparing their individual financial statements in accordance with local GAAP. The individual companies use different accounting programmes, most of which are standard software that is adapted to specific local and corporate requirements. Standardised bulk processes such as invoicing and payroll accounting are also processed using IT-based systems, which are connected with the accounting systems via interfaces. This way, potential errors in the accounting process are reduced to a minimum.

Internal control of the accounting process is performed on the basis of the "four-eye principle" and through regular plausibility checks. Within the A.S. Création Group, internal monthly reports are derived from the accounting system. As the company does not use imputed or flat charges, the internal controlling system is not



based on "artificial" results but on those that are taken from the accounting process. Accordingly, internal control of the accounting process is an integral element of the controlling system.

External control of the accounting process is performed, on the one hand, through the annual audit of the financial statements by the auditors. To avoid habituation effects in the audit, the A.S. Création Group has a policy of changing its auditor from time to time. In keeping with this policy, Ernst & Young was appointed the new auditor of the financial statements as of fiscal 2014 as successor to the former auditors KPMG. To ensure a consistent auditing standard within the A.S. Création Group, A.S. Création has a policy of using as few accounting firms as possible. Accordingly, the financial statements of nine of the eleven Group companies were audited or reviewed by Ernst & Young or by Ernst & Young in cooperation with KPMG in 2016. On the other hand, the internal control systems of the Group companies (and, hence, those that are used in the accounting process) are regularly reviewed by external specialists with a view to refining and updating the processes. The Supervisory Board of A.S. Création Tapeten AG – in particular its Audit Committee – is involved in the evaluation of the results of these reviews.

To prepare the consolidated financial statements, the Group companies' financial statements are transferred into the Group accounting system and complemented with additional information to form a reporting package. This standardised reporting package is defined by A.S. Création Tapeten AG for all Group companies and is used not only for the financial statements but also for monthly reporting. The data from the reporting packages is transferred via an interface to the consolidation system in which the consolidated financial statements of A.S. Création are prepared. The consolidated financial statements and the consolidated presentations of the Wallpaper and Furnishing Fabrics Divisions are produced centrally. To ensure that consistent and standardised valuation criteria are applied, key parameters such as the discount rate for the calculation of pension provisions are predefined centrally by A.S. Création Tapeten AG. For the same reason, the goodwill impairment test is performed centrally.

At Group level, the internal control systems used to ensure proper Group accounting primarily comprise plausibility and completeness checks of the reporting packages received. Whenever required, representatives of A.S. Création Tapeten AG attend the final meetings with the auditors of the Group companies. In addition, controls of the main consolidation processes – e.g. debt, income and expenses, capital – are

integrated in the software used. Finally, the consolidated financial statements (and the financial statements of A.S. Création Tapeten AG) are audited by the Supervisory Board and its Audit Committee.

External control of the Group accounting process is performed by the auditors of the Group companies, who check that the reporting package is fully consistent with the respective financial statements and confirm the completeness and accuracy of the information contained therein. Additional controls are performed by the Group auditor, who defines consistent audit standards for the auditors of the individual Group companies. In this context, the Group auditor may take into account a special focus of the audit that may have been defined by the Supervisory Board of A.S. Création Tapeten AG or its Audit Committee for the audit of the consolidated financial statements. The Group auditors also review the compilation of the consolidated financial statements from the financial statements taking the consolidation processes into account.

The above control systems used by A.S. Création for the (Group) accounting process are designed to minimise the risk that important facts are omitted or presented incompletely or incorrectly in the financial statements or the consolidated financial statements. However, they cannot

provide absolute certainty that the individual financial statements or the consolidated financial statements are free of errors.

#### **7.2.7. Assessment of the overall risk**

The Managing Board of A.S. Création Tapeten AG considers the overall risk to be manageable. The likelihood of risks materialising that would jeopardise the company's continued existence tends to be low.

### **8. Forecast report**

According to the World Bank, growth in the world economy will probably accelerate somewhat in 2017 and reach 2.7% (previous year: 2.3%). This breaks down into 1.8% for the industrialised countries and 4.2% for the emerging and developing countries. The stronger economic growth projected for 2017 is essentially attributable to the anticipated moderate increase in commodity and energy prices. The World Bank sees major downside risks for the future in the protectionist tendencies that have become apparent.

Eurozone GDP is expected to grow by 1.8% in 2017, following a 1.7% increase in 2016. The situation is similar for consumer spending,

which is expected to rise by 1.7% in 2017, compared to 1.6% in the previous year. Unlike the past years, expectations regarding consumer spending in Germany are no longer much better than those for the other eurozone countries. Right on the contrary – consumer spending in Germany, where A.S. Création generated as much as 42.6% of its Group revenues in 2016, are projected to increase by only 1.6% in 2017.

The expectations for non-EU Eastern European countries are somewhat better than in the previous years. Some economic researchers expect the gross domestic product of Russia – which, together with China, is one of the world's two biggest wallpaper markets – to grow by a moderate 1.3% in view of rising oil prices and the stabilisation of the rouble; in 2016, Russia's GDP declined by 0.5%. Russia's rate of inflation is also expected to be more moderate in 2017 than in the previous years. It remains to be seen whether this moderate easing will translate into higher demand for wallpapers.

A general increase in commodity and energy prices is projected for 2017, as the anticipated growth in the world economy should lead to rising demand for raw materials and energy. This means that the trend observed towards the end of 2016 would continue.

The Managing Board of A.S. Création expects

to see further material structural changes in the international wallpaper industry in the coming years. Over the past years, the importance of Western European manufacturers has already declined, while Eastern European producers have gained importance. This trend, which is attributable to deteriorating export possibilities to the Eastern European wallpaper markets on the one hand and to declining market volumes resulting from economic and political crises on the other hand, is likely to continue. In view of the existing overcapacity, the Managing Board projects fierce price competition, which will probably lead to a further consolidation of the international wallpaper industry. This process will be intensified by the growing market concentration in the output markets.

In spite of the anticipated unfavourable environment, the Managing Board expects A.S. Création to return to growth in 2017. With regard to the projected revenue growth, there will not be a single growth region in 2017 but growth should come from several sources.

In view of the uncertainties regarding the future trend in export revenues in Eastern European markets, it remains A.S. Création's primary objective to increase its revenues within the EU. Because of the moderate economic expectations for the EU, this will lead to

fiercer competition. A.S. Création will continue to face this competition with an innovation-oriented product policy and creative marketing concepts. In this context, A.S. Création will use its own strength, which results from the fact that the company has its own sales organisations in the individual countries. This sales network puts A.S. Création in an excellent position to offer its customers a better service than its competitors. This applies both to local customers and to customers who wish to operate at an international level and look for a partner who can support this internationalisation strategy.

Notwithstanding the uncertainties outlined above, A.S. Création intends to increase its sales revenues in non-EU Eastern European countries in 2017. This applies to both exports to these countries and to the sales revenues generated by the Russian distribution company, A.S. Création (RUS). The customer base, which has been broadened in the course of 2016, and the product policy specifically matched to this market will support the achievement of this goal.

Just like other Russian wallpaper manufacturers, the Russian joint venture, A.S. & Palitra, has benefited from the changed framework conditions and will continue to do so going forward. The third production line, which was taken

into operation in autumn 2016, has laid the foundation for continued strong revenue growth in the future. It will probably be possible to fully utilise this production line in the course of the next two years. The Managing Board is very confident that A.S. & Palitra will generate substantial profits – regardless of potential exchange gains or losses – in the fiscal year 2017. Given that A.S. & Palitra is accounted for using the equity method, the planned revenue and earnings growth of the joint venture will not be reflected in the A.S. Création Group's operating result but in the financial result, which means that the past declines in sales revenues and earnings cannot be offset this way.

Now that the concentration of the German production activities at Wiehl-Bomig has been completed, A.S. Création has unused technical equipment and machinery in Germany, which are of an older date but still functioning. To partly close the gap in revenues in Eastern Europe caused by the loss of export revenues, some machines are to be relocated to Minsk, Belarus, and to be taken into operation there. Belarus is a member of the Eurasian Economic Union (EAEU), the alliance of Armenia, Kazakhstan, Kyrgyzstan, Russia and Belarus to form a single market and customs union, and is characterised by low production costs with regard to labour and energy. In the opinion of

the Managing Board, this makes Belarus an attractive location for the low-cost production of wallpapers satisfying the demand in the EAEU. It is therefore planned to acquire and convert an existing property and to relocate two printing machines incl. peripheral equipment to Belarus during the course of 2017, where they are to be taken into operation. The Belarus company is expected to make an additional contribution in excess of € 10 million p.a. to A.S. Création's Group revenues starting 2018.

With regard to the result from operations, the Managing Board expects the gross profit margin to be adversely affected in 2017, as the growing price competition will probably lead to a decline in average selling prices, with commodity and energy costs rising at the same time.

In order to offset this adverse impact on the gross profit at least partly, A.S. Création will focus on increasing its productivity notably and on further reducing the reject rate. In 2017, special attention will be paid to the Group's personnel expenses as a percentage of total output, which reached a historical high in 2016 and need to be reduced. The collective wage agreement that is relevant for A.S. Création in Germany will lead to additional costs of 2.1% p.a. in 2017 and 2018, i.e. to a sustainable rise

in collective wages of 4.2%. This will increase the need for notable productivity growth, resulting in further headcount reductions.

In addition, the operating result will be adversely affected by start-up losses in conjunction with the start-up of production in Belarus.

With regard to the key performance indicators, the Managing Board expects the following for 2017:

- Group sales revenues should amount to between € 155 million and € 160 million in 2017, compared to € 152 million in the past fiscal year.
- The gross profit margin will probably decline moderately against the previous year. This expectation is based on the assumption that the positive effects resulting from a reduced reject rate and increased efficiency will be offset by rising commodity and energy costs and the anticipated price competition.
- The measures implemented by the end of 2016 to reduce the headcount will take full effect in the fiscal year 2017. These savings will partly be offset, however, by the 2.1% collective wage increase which became effective on January 1, 2017 for

most of the domestic employees. The further staff cuts planned for 2017 are expected to lead to a reduction in personnel expenses as a percentage of total output, provided that the planned revenue growth is achieved. As production is built up in Belarus, leading to anticipated revenues of around € 10 million as of 2018, personnel expenses as a percentage of total output should again reach 23% in the medium term.

- Earnings before interest and taxes should come in at between € 3 and 4 million in 2017. This figure does not include any exchange gains or losses and no additional burdens arising from the anti-trust proceedings exceeding the amounts already recognised.
- On the additional condition that the Russian joint venture will post a clear profit for 2017, A.S. Création could achieve earnings after taxes of between € 4 and 5 million in the fiscal year 2017.

Following implementation of the planned measures to improve the revenue and earnings situation in 2017 and the start-up of wallpaper production in Belarus, the Managing Board of A.S. Création projects notable revenue growth and a sustainable improvement in earnings for

the fiscal year 2018. This said, the Managing Board considers fiscal 2017 to be a year of transition.

This Group management report contains statements and projections which relate to the future development of the companies of the A.S. Création Group. These projections represent estimates that were made by the Managing Board on the basis of currently available information. Should the assumptions on which the projections are based be incorrect or should risks such as those outlined in the risk report materialise, the actual results may differ from current expectations. Except for statutory disclosure duties, the Managing Board is under no obligation to update the information contained in this Group management report.

## 9. Statutory information

### 9.1. Corporate governance statement and report on corporate governance

The latest corporate governance statement of A.S. Création Tapeten AG pursuant to section 289a of the German Commercial Code (Handelsgesetzbuch HGB) and the report on corporate governance are published on the website of

A.S. Création ([www.as-creation.com](http://www.as-creation.com)) under "Investor Relations – Corporate Governance" and in the chapter "Corporate governance statement and report on corporate governance" of the 2016 Annual Report.

## 9.2. Compensation report

The annual salaries earned by the Managing Board members comprise performance-linked and non-performance-linked components. The latter consist of a fixed monthly salary and the value of non-monetary compensation that needs to be stated under applicable tax legislation and merely consists of the use of a company car. Tax on such non-monetary compensation is to be paid by each individual Board member. While all Board members are basically entitled to the same non-monetary compensation, the corresponding value differs depending on the member's personal circumstances.

In 2015, the Supervisory Board decided to change the basis of assessment for the calculation of the performance-linked component from the weighted average consolidated cash flow of the past three fiscal years to the Group's weighted average earnings after taxes of the past three fiscal years. This compensation system for the Managing Board was approved by the Annual

General Meeting of Shareholders on April 28, 2016.

The new basis of assessment had already been considered, as of this date, in the management contract of Mr Bantel, who was appointed new Managing Board member with effect from April 1, 2015. For Mr Krämer and Mr Suskas, the adjusted basis of assessment was considered in the new management contracts that became effective on April 1, 2016. Consequently, the performance-linked component for the fiscal year 2016 is partly calculated on the basis of the weighted average consolidated cash flow of the past three fiscal years and partly on the basis of the Group's weighted average earnings after taxes of the past three fiscal years. According to the current contracts, the performance-linked component may not exceed a total amount of € 1.7 million ("bonus cap").

The total compensation of the Managing Board is defined by the Supervisory Board and its amount and structure are regularly reviewed by the same body. The respective decisions are prepared by the Committee for Managing Board Matters.

In accordance with the recommendation to provide incentives for responsible management, the performance-linked, variable component has traditionally represented a major portion

of the Managing Board compensation paid by A.S. Création Tapeten AG. Consequently, an improvement or a deterioration in the basis of assessment, i.e. the Group's earnings after taxes or the cash flow, have great influence on the Managing Board's total compensation. The increase in these performance indicators in fiscal 2016 resulted in a higher performance-linked component for the individual Managing Board members. Due to the fact, however, that the number of Managing Board members declined as a result of Mr Kämper's departure on March 31, 2016, the Managing Board's performance-based compensation of € 0.684 million in 2016 exceeded the previous year's € 0.663 million only slightly although the basis of assessment improved. As a result of the change in the number of Board members, the non-performance-linked component declined to € 0.760 million (previous year: € 0.902 million). The Managing Board's annual income for the fiscal year 2016 thus totalled € 1.444 million (previous year: € 1.565 million).

In the past, the members of the Managing Board additionally benefited from pension commitments. These are guaranteed fixed amounts that will be payable by the company when the pension entitlements arise. This performance-oriented system entails two imponderables from the company's point of view. First, it is uncertain, in view of the changing

life expectancy, whether the provisions that have been established will be sufficient when the pension entitlements arise. Second, the outflow of funds is delayed in time, which means that today's pension commitments will limit the financial scope available to the company's future management.

To mitigate these disadvantages for A.S. Création Tapeten AG, the transfer of the pension commitments for the Managing Board members from the performance-oriented system to a contribution-based system was initiated in 2006. Since then, a constant annual amount has been paid to an external relief fund, which will make the future pension payments. Accordingly, A.S. Création Tapeten AG's liabilities under the performance-based commitments are reduced. This transfer was completed in 2016, which means that no more pension obligations towards the active Managing Board members existed as of the balance sheet date. As a result, it was possible to release the corresponding pension provisions in the amount of € 0.013 million that existed as of December 31, 2015.

In fiscal 2016, the payments to the external relief fund led to expenses of € 0.054 million (previous year: € 0.069 million). At the same time, pension provisions in an amount of € 0.013 million (previous year: € 0.040 million) were released through the profit and loss account.



As a result, total pension expenses for the members of the Managing Board amounted to € 0.041 million in the fiscal year 2016 (previous year: € 0.029 million).

The table below shows the total compensation of the Managing Board for the fiscal year 2016 (accrual principle):

|   | 2016<br>€ '000 | 2015<br>€ '000 |
|---|----------------|----------------|
| Fixed salary                                    | 680            | 815            |
| Side benefits                                   | 80             | 87             |
| Non-performance-related component               | 760            | 902            |
| Performance-related component (bonus)           | 684            | 663            |
| <b>Annual compensation</b>                      | <b>1,444</b>   | <b>1,565</b>   |
| Payment to an external relief fund              | 54             | 69             |
| +/- Addition to / release of pension provisions | -13            | -40            |
| <b>Pension expenses</b>                         | <b>41</b>      | <b>29</b>      |
|   | <b>1,485</b>   | <b>1,594</b>   |

The bonus for the fiscal year is paid in the following year at the end of the month in which the consolidated financial statements are sub-

mitted to the shareholders. The table below shows the total compensation of the Managing Board for the fiscal year 2016 (payout principle):

|   | 2016<br>€ '000 | 2015<br>€ '000 |
|---|----------------|----------------|
| Fixed salary                                    | 680            | 815            |
| Side benefits                                   | 80             | 87             |
| Non-performance-related component               | 760            | 902            |
| Performance-related component (bonus)           | 663            | 502            |
| <b>Annual compensation</b>                      | <b>1,423</b>   | <b>1,404</b>   |
| Payment to an external relief fund              | 54             | 69             |
| +/- Addition to / release of pension provisions | -13            | -40            |
| <b>Pension expenses</b>                         | <b>41</b>      | <b>29</b>      |
|   | <b>1,464</b>   | <b>1,433</b>   |

The compensation of the Managing Board members is not reported individually, as the Annual General Meeting of Shareholders on April 28, 2016 voted against this form of disclosure.

The compensation of the Supervisory Board is defined by the Annual General Meeting of Shareholders and is documented in the statutes of A.S. Création Tapeten AG. According to Article 14 of the statutes (as amended on May 7, 2015), the members of the Supervisory Board receive a fixed compensation in an amount of € 12,500 in addition to the reimbursement of their expenses. The Chairman receives three times that amount and the Vice Chairman 1.5 times that amount. A performance-linked

component is not provided for. The members of a committee formed by the Supervisory Board receive an additional compensation of € 6,250 for this activity, with the total compensation for committee work limited to the double amount of the fixed compensation. In accordance with these regulations, the compensation of the Supervisory Board members for the past fiscal year totalled € 162,500 (previous year: € 162,500) and breaks down as follows:

|                               | <b>2016</b><br><b>€ '000</b> | <b>2015</b><br><b>€ '000</b> |
|-------------------------------|------------------------------|------------------------------|
| Mr Schneider                  | 56                           | 56                           |
| Ms Benner-Heinacher           | 25                           | 23                           |
| Dr. Hues (since May 7, 2015)  | 25                           | 16                           |
| Mr Mourschinetz               | 13                           | 13                           |
| Mr Müller                     | 25                           | 25                           |
| Mr Schmuck                    | 19                           | 19                           |
| Dr. Liebs (until May 7, 2015) | 0                            | 11                           |
|                               | <b>163</b>                   | <b>163</b>                   |

### 9.3. Information to section 315 para. 4 of the German Commercial Code (Handelsgesetzbuch HGB) and explanatory report

According to Article 4 paragraph 1 and Article 18 paragraph 1 of the current statutes of A.S. Création Tapeten AG (as amended on May 7, 2015), the share capital of A.S. Création Tapeten AG amounts to € 9,000,000 and is divided into 3,000,000 no par value registered shares. Each share has one vote at the General Meeting of Shareholders. This does not apply to own shares held by the company, from which no rights arise to the company.

According to the share register and the notifications received in the past in accordance with sections 21 and 41 of the German Securities Trading Act (Wertpapierhandelsgesetz WpHG) more than 10% of the voting rights in A.S. Création Tapeten AG are held by Mr Franz Jürgen Schneider, who holds 35.27%, Lins Wallpaper Limited (and indirectly Mr Oleg Dzhagayev, to whom all shares in Lins Wallpaper Limited are imputable) which holds 15.01% and Mrs Karin Schneider, who holds 10.09%. The 5.67% voting interest held by A.S. Création Tapeten-stiftung and the 0.08% voting interest held by Franz Jürgen Schneider Stiftung are also attributable to Mr Schneider in addition to his directly held voting interest of 29.52%.

According to section 76 and 84 of the German Stock Corporation Act (Aktiengesetz AktG) and Article 6 of the current statutes of A.S. Création Tapeten AG, the Managing Board must consist of a minimum of two people. The exact number of Managing Board members is determined by the Supervisory Board of A.S. Création Tapeten AG. The Supervisory Board appoints the members of the Managing Board for a maximum term of five years. A re-appointment is permissible. The Supervisory Board may appoint one member as Chairman of the Managing Board. The Supervisory Board may revoke the appointment of a member or the Chairman for an important reason. Such important reasons are gross breach of duty, inability to manage the business properly or withdrawal of confidence by the Annual General Meeting of Shareholders.

According to section 179 AktG and Article 18 paragraph 2 of the current statutes of A.S. Création Tapeten AG, the statutes may be amended by a resolution of the Annual General Meeting of Shareholders with a simple majority of the votes cast. A majority of three quarters of the votes cast is required to change the business purpose of the company.

According to a resolution of the Annual General Meeting of Shareholders dated May 7, 2015, the Managing Board is authorised to acquire

own shares up to a par value of € 900,000 (which represents a maximum of 10% of the share capital) until May 6, 2020. The Managing Board is also authorised to call in the shares acquired, to resell them, in which case shareholders' subscription rights may be excluded under certain circumstances, or to use the shares acquired for company acquisitions or equity investments. As of December 31, 2016 the company holds 243,649 own shares.

According to Article 4 paragraph 3 of the current statutes of A.S. Création Tapeten AG, the Managing Board is authorised, until May 6, 2020, to increase the share capital, subject to the approval of the Supervisory Board, by up to € 4,500,000 through the issue of new shares against contributions in cash or kind (authorised capital). Shareholders' subscription rights may be excluded in certain cases. As no use has been made of this authorisation so far, the authorised capital still amounted to € 4,500,000 as of December 31, 2016.

A.S. Création Tapeten AG and OOO Kof Palitra established a Russian joint venture under the name of OOO A.S. & Palitra, in which each of the partners holds 50% of the shares. In the event of a material change in the shareholder structure of one of the two founding partners,

the partnership agreement grants the respective other party a purchase option for the other party's shares in the joint venture.

**10. Statement pursuant to section 315  
para. 1 sentence 6 of the  
German Commercial Code  
(Handelsgesetzbuch HGB)**

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Gummersbach, February 20, 2017

**A.S. Création Tapeten AG**  
**The Managing Board**

Krämer      Bantel      Suskas

## THE SHARE AND OUR SHAREHOLDERS

73

### 2016: A mixed bag for the stock market

The stock market environment continued to be influenced by very low interest rates in 2016. Due to the turnaround in the oil price, the commodities sector showed a clear upward trend. Negative news only caused temporary uncertainty among investors, who continued to prefer investments in shares and investment funds instead of alternative investments in fixed-income bonds. On balance, 2016 was a successful stock market year, although it was weaker than the previous year.

Having gained 9.6% in 2015, Germany's DAX<sup>®</sup> index picked up in the course of 2016 and stood at 11,481 points on December 31, 2016, 6.9% higher than at the beginning of the year. Second-tier and third-tier shares also appeared to be in demand in 2016, with the SDAX<sup>®</sup> and the MDAX<sup>®</sup>, in which small and medium-sized companies are listed, gaining 4.6% and 6.8%, respectively, in 2016.

However, these growth rates for the full year 2016 mask the fact that share prices went on an extreme roller-coaster ride in the course

of the year, as they had done in 2015. Capital market participants' future expectations in 2016 were influenced by political risks, concern about the world economy, the turnaround in energy prices and the low-interest policy pursued by the central banks. These factors either fuelled the markets or caused uncertainty, leading to a strong up and down in share prices.

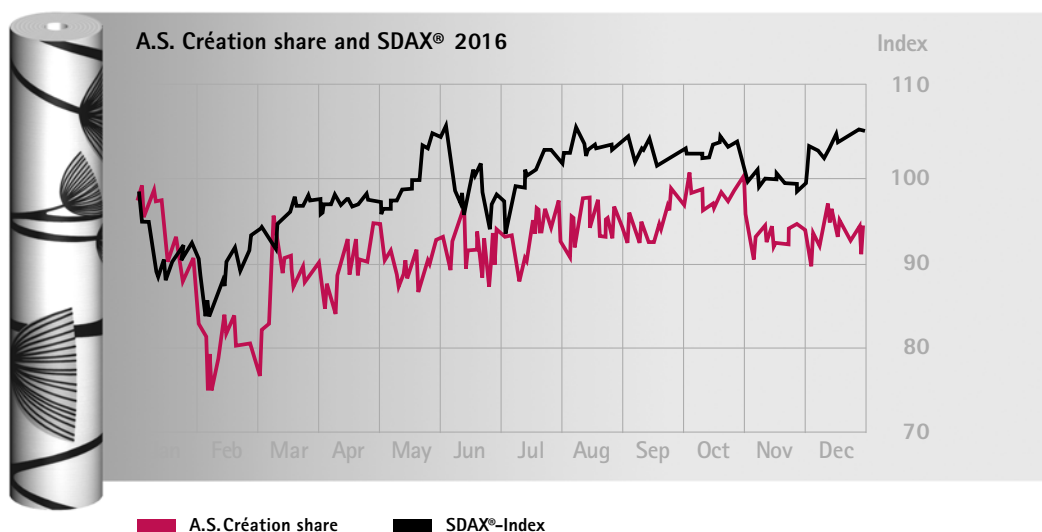
Concern about the future of the Chinese economy led to a bad start to 2016, with the DAX<sup>®</sup> dropping sharply during the first two months of the year and hitting a low of 8,753 points in February. This was equivalent to a loss of 18.5% compared to the beginning of the year. Having recovered moderately to 10,263 points by the end of May, the DAX<sup>®</sup> lost some 1,000 points within a few days following the unexpected outcome of the Brexit referendum on June 23, 2016, and stood at 9,680 points at the end of June. The turbulence caused by the Brexit vote did not last long, with the DAX<sup>®</sup> making up for the losses within a month. Between the end of July and the end of November, the index moved sideways. After the US presidential elections, the DAX<sup>®</sup> benefited from the Wall Street rally and gained as much as 7.9% in the final month of the year alone. Thanks to this year-end rally, the DAX<sup>®</sup> closed the year 2016 successfully at 11,481 points.

### Losses for the A.S. Création share

The A.S. Création share failed to benefit from the positive overall stock market performance in 2016. Dropping from € 31.47 at the beginning of the year to € 29.86 at the end of the year, the A.S. Création share lost a strong 5.1%. Compared to the 4.6% gain of the SDAX<sup>®</sup>, this was a disappointing performance. The chart on the next page compares the performance of the A.S. Création share with that of the SDAX<sup>®</sup>.

Until early February 2016, the A.S. Création share moved more or less in sync with the SDAX<sup>®</sup> and then dropped to € 24.00 within only a few days on February 9, 2016. This marked the lowest level of the year and represented a loss of 23.7% compared to the beginning of the year, when the share price stood at € 31.47. The SDAX<sup>®</sup> also recorded a strong decline by 16.7% during this period.

On March 1, 2016, the Managing Board published the positive key figures for the fiscal year 2015 and announced a dividend of € 0.60 per share. The share price then picked up notably and was back at € 30 by mid-March. The upward trend in A.S. Création's share price continued until the end of October and was supported by the figures published for the first two quarters as well as by the announcement



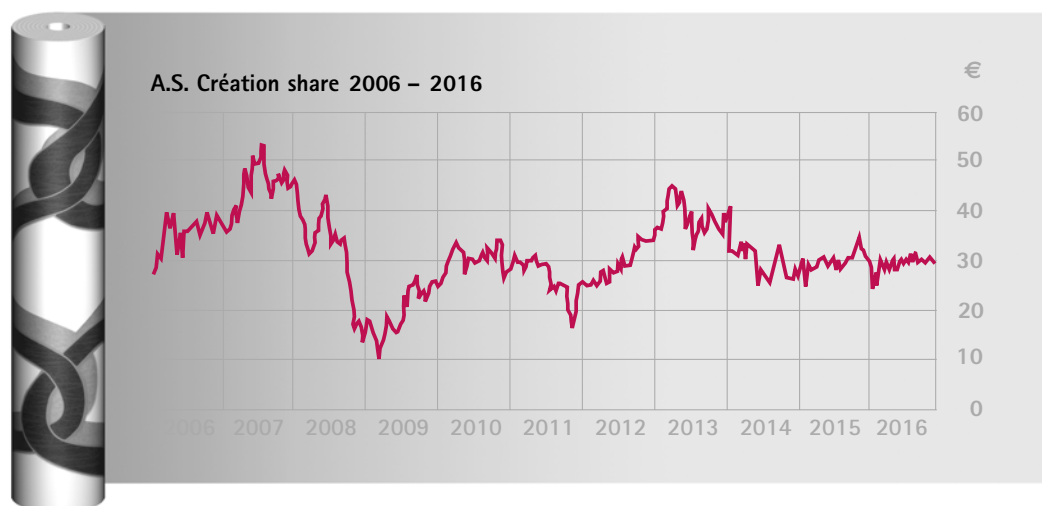
of A.S. Création's successful appeal in the French anti-trust proceedings. During this phase, the price of the A.S. Création share reached its highest level of the year at € 32.10 on October 6, 2016.

On November 3, 2016, A.S. Création published the interim report for the period ended September 30, 2016, in which the Managing Board reported on the improved earnings situation of the Russian joint venture and confirmed the forecast for the full year 2016. In spite of this news, the trading volume increased and weighed on the price of the A.S. Création share, which fell from approx. € 32 to € 29.86 at the end of the year. This represented a loss of 5.1% or € 1.61 compared to the € 31.47

at which the share traded at the beginning of the year. Even when taking into account the dividend of € 0.60 per share paid out at the end of April, the share price performance fell short of our expectations.

### Market valuation still unsatisfactory

As a result of the decline in the share price in 2016, the valuation of A.S. Création has deteriorated. Based on the year-end closing price of € 29.86 and the 2,756,351 shares outstanding as of December 31, 2016, the market values A.S. Création at € 82.3 million. This market capitalisation is down by € 4.4 million on the market value of € 86.7 million recorded



on December 31, 2015. Due to this unsatisfactory performance, it remains below the target set by the Managing Board, which had aimed for the market capitalisation to exceed the company's equity capital again following the decline in 2014. The current market capitalisation remains at a 14.7% discount on the equity capital of € 96.5 million carried in the company's balance sheet on December 31, 2016. A valuation below the equity capital and the net asset value is not satisfactory in view of A.S. Création's strong competitive position and the positive medium to long-term growth prospects. We therefore need to further improve our communication with the capital market and to better explain A.S. Création's future prospects to shareholders and investors.

The analysis of the longer-term performance of the A.S. Création share also shows that the share price of A.S. Création has not yet reached a satisfactory level. The share has not yet recovered from the losses incurred in conjunction with the 2008 financial crisis. The A.S. Création share still has a long way to go to match the 2007 year-end share price of € 45.50 or the 2007 high of € 53.40.

When assessing the current share price level, the uncertainty surrounding A.S. Création's Russian business should be taken into account, as the current RUB/EUR exchange rate is weighing heavily on wallpaper exports to Russia and total demand for wallpapers in Russia has declined due to the difficult economic



situation and the drop in consumer spending. Moreover, the uncertainty about the ultimate burdens resulting from the anti-trust proceedings will probably not be fully eliminated before the proceedings are closed.

### Stable shareholder structure

A.S. Création has a stable shareholder structure. In 2016, only minor changes occurred compared to the previous year. In November, Universal-Investment-Gesellschaft mbH informed us that it holds over 3% of the shares in A.S. Création. The table below shows the current shareholder structure:

### Consistent dividend policy

The Managing Board of A.S. Création Tapeten AG has always pursued a dividend policy that provides for a high payout ratio as long as this is permitted by the company's financial situation. In the past years, the payout ratio of A.S. Création settled at a level of between 45% and 50%. This shows that the dividend policy of A.S. Création is characterised by continuity and reliability.

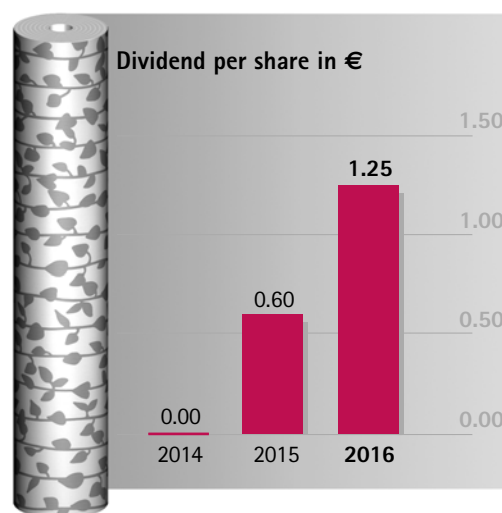
The fixed payout ratio means that the absolute amounts of the dividend payments are not smoothened over time but increase or decrease in line with earnings. In view of the improved



|                                       |                 |
|---------------------------------------|-----------------|
| Franz Jürgen Schneider*               | 29.52 %         |
| A.S. Création Tapeten-Stiftung*       | 5.67 %          |
| Franz Jürgen Schneider-Stiftung*      | 0.08 %          |
|                                       | 35.27 %         |
| Lins Wallpaper Ltd., UK               | 15.01 %         |
| Karin Schneider                       | 10.09 %         |
| Own shares                            | 8.12 %          |
| QUAERO Capital S.A., Switzerland      | 5.12 %          |
| Universal-Investment Gesellschaft mbH | 3.13 %          |
| Free Float                            | 23.26 %         |
| <b>Total</b>                          | <b>100.00 %</b> |

\* Pursuant to section 22 para. 2 WpHG, the voting rights of Mr Schneider, A.S. Création Tapeten-Stiftung and Franz Jürgen Schneider-Stiftung are mutually attributable.

earnings situation and the very good financial position of A.S. Création in the fiscal year 2016, a dividend of € 1.25 per share for fiscal 2016 will be proposed to the Annual General Meeting of Shareholders scheduled for May 4, 2017. In relation to earnings per share in an amount of € 2.70, this proposed dividend represents a payout ratio of 46.3%. The chart shows the dividends of the past three years:



| Key figures of the A.S. Création share |         | 2012   | 2013   | 2014   | 2015   | 2016          |
|--|---------|--------|--------|--------|--------|---------------|
| Earnings per share                     | €/share | 2.67   | 0.48   | -3.39  | 1.19   | <b>2.70</b>   |
| Dividend                               | €/share | 1.20   | 0.25   | 0.00   | 0.60   | <b>1.25</b>   |
| Payout ratio                           | %       | 44.9   | 52.1   | n.a.   | 50.4   | <b>46.3</b>   |
| Year-closing-price                     | €/share | 34.00  | 36.00  | 26.20  | 31.47  | <b>29.86</b>  |
| High                                   | €/share | 34.68  | 44.55  | 40.40  | 33.60  | <b>32.10</b>  |
| Low                                    | €/share | 23.86  | 32.43  | 25.37  | 24.42  | <b>24.00</b>  |
| Shares outstanding (year end)          | million | 2.756  | 2.756  | 2.756  | 2.756  | <b>2.756</b>  |
| Average trading volume *               | pieces  | 2,232  | 1,611  | 1,213  | 628    | <b>667</b>    |
| Market value (year-end)                | € '000  | 93,716 | 99,229 | 72,216 | 86,742 | <b>82,305</b> |
| Equity                                 | € '000  | 94,839 | 93,473 | 86,891 | 93,188 | <b>96,502</b> |
| Market value/Equity                    | %       | 98.8   | 106.2  | 83.1   | 93.1   | <b>85.3</b>   |
| Price-earnings-ratio                   |         | 12.7   | 75.0   | n.a.   | 26.4   | <b>11.1</b>   |
| Dividend yield                         | %       | 3.5    | 0.7    | 0.0    | 1.9    | <b>4.2</b>    |

\* Average daily trading volume of A.S. Création shares at Frankfurt Stock Exchange and via Xetra® (electronic trading system).

## CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

83

|  |     |
|--|-----|
| Consolidated balance sheet                     | 84  |
| Consolidated income statement                  | 86  |
| Consolidated statement of comprehensive income | 87  |
| Consolidated statement of changes in equity    | 88  |
| Consolidated cash flow statement               | 89  |
| Notes to the consolidated financial statement  | 90  |
| Auditor's report                               | 128 |

# A.S. Création Tapeten AG, Gummersbach

## Consolidated balance sheet

as per December 31, 2016

| Assets                              |              |                       |                       |
|-------------------------------------|--------------|-----------------------|-----------------------|
|                                     | Notes<br>No. | 31.12.2016<br>€       | 31.12.2015<br>€       |
| Tangible fixed assets               | (1)          | 26,239,932.87         | 29,145,852.43         |
| Intangible fixed assets             | (2)          | 8,105,914.00          | 8,056,968.87          |
| Investments accounted for at equity | (3)          | 0.00                  | 0.00                  |
| Financial assets                    | (4)          | 10,548,531.76         | 8,510,114.58          |
| Other assets                        | (5)          | 4,894,719.38          | 3,690,599.30          |
| Income tax receivables              | (6)          | 0.00                  | 294,735.00            |
| Deferred tax assets                 | (7)          | 481,161.79            | 512,099.59            |
| <b>Non-current assets</b>           |              | <b>50,270,259.80</b>  | <b>50,210,369.77</b>  |
|                                     |              |                       |                       |
| Inventories                         | (8)          | 37,680,642.73         | 38,858,685.49         |
| Trade receivables                   | (9)          | 24,829,847.27         | 28,240,486.90         |
| Other assets                        | (5)          | 5,818,682.27          | 14,223,295.69         |
| Income tax receivables              | (6)          | 847,418.03            | 1,954,801.09          |
| Cash and cash equivalents           | (10)         | 20,826,054.86         | 6,917,723.23          |
| <b>Current assets</b>               |              | <b>90,002,645.16</b>  | <b>90,194,992.40</b>  |
|                                     |              |                       |                       |
| <b>Total assets</b>                 |              | <b>140,272,904.96</b> | <b>140,405,362.17</b> |

| <b>Equity and Liabilities</b>            |                      |                         |                         |
|--|----------------------|-------------------------|-------------------------|
|  | <b>Notes<br/>No.</b> | <b>31.12.2016<br/>€</b> | <b>31.12.2015<br/>€</b> |
| Capital stock                            |                      | 9,000,000.00            | 9,000,000.00            |
| Capital reserves                         |                      | 13,756,740.32           | 13,756,740.32           |
| Revenue reserves                         |                      | 83,176,899.27           | 81,132,986.50           |
| Profit carried forward                   |                      | -18,489,915.64          | -17,216,204.59          |
| Earnings after taxes                     |                      | 7,434,839.48            | 3,287,042.16            |
| Adjustment for own shares                |                      | -4,020,836.57           | -4,020,836.57           |
| Currency translation differences         |                      | 5,643,882.03            | 7,248,330.37            |
| <b>Equity</b>                            | <b>(11)</b>          | <b>96,501,608.89</b>    | <b>93,188,058.19</b>    |
| Financial liabilities (interest-bearing) | (12)                 | 5,777,124.33            | 10,004,707.41           |
| Other liabilities                        | (13)                 | 637,940.08              | 781,251.04              |
| Provisions                               | (14)                 | 15,644,888.00           | 11,124,325.00           |
| Deferred tax liabilities                 | (7)                  | 891,252.21              | 2,036,614.86            |
| <b>Non-current liabilities</b>           |                      | <b>22,951,204.62</b>    | <b>23,946,898.31</b>    |
| Financial liabilities (interest-bearing) | (12)                 | 3,797,809.29            | 6,172,491.21            |
| Other liabilities                        | (13)                 | 9,663,307.23            | 10,584,613.64           |
| Trade payables                           |                      | 7,118,777.81            | 6,069,663.34            |
| Provisions                               | (15)                 | 117,220.00              | 131,220.00              |
| Tax liabilities                          |                      | 122,977.12              | 312,417.48              |
| <b>Current liabilities</b>               |                      | <b>20,820,091.45</b>    | <b>23,270,405.67</b>    |
| <b>Total equity and liabilities</b>      |                      | <b>140,272,904.96</b>   | <b>140,405,362.17</b>   |

# A.S. Création Tapeten AG, Gummersbach

## Consolidated income statement

for the period from January 1, 2016 to December 31, 2016

|   | Notes<br>No. | 2016<br>€             | 2015<br>€             |
|---|--------------|-----------------------|-----------------------|
| <b>Sales</b>  | (17)         | <b>152,607,665.59</b> | <b>166,515,340.15</b> |
| Increase or decrease in unfinished and finished goods |              | -1,148,854.90         | -4,145,752.01         |
| <b>Total output</b>                                   |              | <b>151,458,810.69</b> | <b>162,369,588.14</b> |
| Cost of materials                                     | (18)         | 71,988,503.89         | 75,872,682.26         |
| <b>Gross profit</b>                                   |              | <b>79,470,306.80</b>  | <b>86,496,905.88</b>  |
| <b>Other income</b>                                   | (19)         | <b>1,935,256.74</b>   | <b>3,076,439.74</b>   |
|   |              | <b>81,405,563.54</b>  | <b>89,573,345.62</b>  |
| Personnel expenses                                    | (20)         | 40,656,752.15         | 43,014,760.46         |
| Depreciation  | (21)         | 7,612,408.27          | 8,645,318.08          |
| Other operating expenses                              | (22)         | 27,219,610.78         | 30,033,712.71         |
| <b>Operating expenses</b>                             |              | <b>75,488,771.20</b>  | <b>81,693,791.25</b>  |
| <b>Earnings before interest and taxes (EBIT)</b>      |              | <b>5,916,792.34</b>   | <b>7,879,554.37</b>   |
| Interest and similar income                           |              | 1,175,768.82          | 1,136,254.17          |
| Results from investments accounted for at equity      |              | 3,850,131.12          | -2,484,116.04         |
| Interest and similar expenses                         |              | 741,113.62            | 909,735.20            |
| <b>Financial result</b>                               | (23)         | <b>4,284,786.32</b>   | <b>-2,257,597.07</b>  |
| <b>Earnings before income taxes</b>                   |              | <b>10,201,578.66</b>  | <b>5,621,957.30</b>   |
| Income taxes  | (24)         | 2,766,739.18          | 2,334,915.14          |
| <b>Earnings after taxes</b>                           |              | <b>7,434,839.48</b>   | <b>3,287,042.16</b>   |
| <b>Earnings per share</b>                             | (25)         | <b>2.70</b>           | <b>1.19</b>           |

**A.S. Création Tapeten AG, Gummersbach**  
**Consolidated statement of comprehensive income**  
for the period from January 1, 2016 to December 31, 2016

|  | Notes<br>No. | 2016<br>€ '000 | 2015<br>€ '000 |
|--|--------------|----------------|----------------|
| <b>Earnings after taxes</b>  |              | <b>7,435</b>   | <b>3,287</b>   |
| Items, that will never be reclassified to profit or loss:                        |              |                |                |
| Actuarial gains/losses from pension provisions                                   | (14)         | -1,425         | 1,751          |
| Deferred taxes on other comprehensive income                                     |              | 445            | -546           |
|  |              | <b>-980</b>    | <b>1,205</b>   |
| Items, that are or may be reclassified to profit or loss:                        |              |                |                |
| Foreign currency translation differences for fully consolidated companies        |              | -45            | 214            |
| Foreign currency translation differences for investments accounted for at equity |              | -1,559         | 1,454          |
| Change in fair value of interest rate hedges                                     | (30)         | 169            | 199            |
| Deferred taxes on other comprehensive income                                     |              | -52            | -62            |
|  |              | <b>-1,487</b>  | <b>1,805</b>   |
| <b>Other comprehensive income (outside profit or loss)</b>                       | (11)         | <b>-2,467</b>  | <b>3,010</b>   |
| <b>Total comprehensive income</b>  |              | <b>4,968</b>   | <b>6,297</b>   |

# A.S. Création Tapeten AG, Gummersbach

## Consolidated statement of changes in equity

for the period from January 1, 2016 to December 31, 2016

|                                    | Capital<br>stock | Capital<br>reserves | Revenue<br>reserves | Profit<br>carried<br>forward | Earnings<br>after<br>taxes | Adjust-<br>ment for<br>own<br>shares | Currency<br>translation<br>differences | Total         |
|------------------------------------|------------------|---------------------|---------------------|------------------------------|----------------------------|--------------------------------------|--|---------------|
|                                    | € '000           | € '000              | € '000              | € '000                       | € '000                     | € '000                               | € '000                                 | € '000        |
| <b>January 1, 2015</b>             | <b>9,000</b>     | <b>13,757</b>       | <b>70,939</b>       | <b>974</b>                   | <b>-9,338</b>              | <b>-4,021</b>                        | <b>5,580</b>                           | <b>86,891</b> |
| Earnings after<br>taxes 2014       | 0                | 0                   | 0                   | -9,338                       | 9,338                      | 0                                    | 0                                      | 0             |
| Allocation to<br>revenue reserves  | 0                | 0                   | 8,852               | -8,852                       | 0                          | 0                                    | 0                                      | 0             |
| Total comprehensive<br>income 2015 | 0                | 0                   | 1,342               | 0                            | 3,287                      | 0                                    | 1,668                                  | 6,297         |
| <b>December 31, 2015</b>           | <b>9,000</b>     | <b>13,757</b>       | <b>81,133</b>       | <b>-17,216</b>               | <b>3,287</b>               | <b>-4,021</b>                        | <b>7,248</b>                           | <b>93,188</b> |
| Earnings after<br>taxes 2015       | 0                | 0                   | 0                   | 3,287                        | -3,287                     | 0                                    | 0                                      | 0             |
| Dividend payments                  | 0                | 0                   | 0                   | -1,654                       | 0                          | 0                                    | 0                                      | -1,654        |
| Allocation to<br>revenue reserves  | 0                | 0                   | 2,907               | -2,907                       | 0                          | 0                                    | 0                                      | 0             |
| Total comprehensive<br>income 2016 | 0                | 0                   | -863                | 0                            | 7,435                      | 0                                    | -1,604                                 | 4,968         |
| <b>December 31, 2016</b>           | <b>9,000</b>     | <b>13,757</b>       | <b>83,177</b>       | <b>-18,490</b>               | <b>7,435</b>               | <b>-4,021</b>                        | <b>5,644</b>                           | <b>96,502</b> |



# A.S. Création Tapeten AG, Gummersbach

## Consolidated cash flow statement

for the period from January 1, 2016 to December 31, 2016

|  | 2016<br>€ '000 | 2015<br>€ '000 |
|--|----------------|----------------|
| <b>Operating activities</b>  |                |                |
| Earnings after taxes   | 7,435          | 3,287          |
| + Depreciation on tangible and intangible fixed assets                           | 7,612          | 8,645          |
| +/- Increase/decrease in long-term provisions                                    | 3,096          | 249            |
| -/+ Income/expenses from investments accounted for at equity                     | -3,850         | 2,484          |
| -/+ Increase/decrease in present value of corporate income tax credit            | 286            | 267            |
| -/+ Income/expenses from changes in deferred taxes                               | -686           | -1,472         |
| <b>Cash-flow</b>   | <b>13,893</b>  | <b>13,460</b>  |
| -/+ Profit/losses from disposal of tangible and intangible fixed assets          | -6             | -52            |
| -/+ Increase/decrease in inventories   | 1,708          | 4,409          |
| -/+ Increase/decrease in trade receivables                                       | 3,545          | 6,333          |
| +/- Increase/decrease in trade payables  | 783            | 126            |
| -/+ Increase/decrease in other net working capital                               | -2,828         | -6,832         |
| <b>Cash-flow from operating activities</b>                                       | <b>17,095</b>  | <b>17,444</b>  |
| <b>Investing activities</b>  |                |                |
| - Cash outflows for capital expenditures on tangible and intangible fixed assets | -5,014         | -4,545         |
| - Cash outflows for credits and bonds granted                                    | 0              | -797           |
| <b>Capital expenditures</b>  | <b>-5,014</b>  | <b>-5,342</b>  |
| -/+ Cash outflows / proceeds from current financial investments                  | 9,150          | -6,500         |
| + Proceeds from credits and bonds granted  | 455            | 0              |
| + Proceeds from the disposal of tangible and intangible fixed assets             | 271            | 170            |
| <b>Cash-flow from investing activities</b>                                       | <b>4,862</b>   | <b>-11,672</b> |
| <b>Financing activities</b>  |                |                |
| - Dividends paid to shareholders of A.S. Création Tapeten AG                     | -1,654         | 0              |
| +/- Raising/repayment of financial liabilities (interest-bearing)                | -6,602         | -4,577         |
| <b>Cash-flow from financing activities</b>                                       | <b>-8,256</b>  | <b>-4,577</b>  |
| <b>Net change in cash and cash equivalents</b>                                   | <b>13,701</b>  | <b>1,195</b>   |
| +/- Change in cash and cash equivalents due to exchange rate fluctuations        | 207            | -52            |
| + Cash and cash equivalents at January 1   | 6,918          | 5,775          |
| <b>Cash and cash equivalents at December 31</b>                                  | <b>20,826</b>  | <b>6,918</b>   |

Further information on the cash flow statement are presented in the notes (see No. 26).

# A.S. Création Tapeten AG, Gummersbach

## Notes to the consolidated financial statement

### for fiscal year 2016

#### General

A.S. Création Tapeten AG is a joint stock company registered in the Federal Republic of Germany. The address of the headquarters is Südstrasse 47, D-51645 Gummersbach.

The consolidated financial statements and the Group management report were prepared by A.S. Création Tapeten AG on the basis of the International Financial Reporting Standards (IFRS) as adopted by the European Union and the additional requirements pursuant to section 315a (1) of the German Commercial Code (Handelsgesetzbuch HGB).

A.S. Création Tapeten AG has a policy of applying new IFRS as soon as they become effective. In the fiscal year 2016, no new or revised standards and interpretations had to be observed.

The following standards and interpretations have been published, a number of which have been endorsed by the EU:

- IAS 7 "Disclosure Initiative – Statement of Cash Flows"; first-time adoption for fiscal years beginning on or after January 1, 2017.
- IAS 12 "Recognition of deferred tax assets"; first-time adoption for fiscal years beginning on or after January 1, 2017.
- IFRS 2 "Share-based Payment"; first-time adoption for fiscal years beginning on or after January 1, 2018.
- IFRS 9 "Financial Instruments"; first-time adoption for fiscal years beginning on or after January 1, 2018.
- IFRS 15 "Revenue from Contracts with Customers"; first-time adoption for fiscal years beginning on or after January 1, 2018.
- IFRS 16 "Leases"; first-time adoption for fiscal years beginning on or after January 1, 2019.

IFRS 9 "Financial Instruments" includes new regulations regarding the classification and measurement of financial instruments and the impairment of financial instruments. As financial

instruments are of minor importance for A.S. Création, no material impact on the consolidated financial statements is expected.

In May 2014, the IASB published the new IFRS 15 "Revenue from Contracts with Customers". The main objective is to pool the existing regulations as to how and when revenue is to be recognised in a new standard. An initial detailed analysis conducted by A.S. Création on the basis of existing contractual obligations has identified certain accounting aspects which should be qualified as a separate performance obligation influencing the recognition of revenue over time. According to the current state of the analysis, however, these accounting aspects are only of little importance at A.S. Création in relation to the consolidated revenues generated. The costs of obtaining a contract, which generally should be recognised and amortised over the term of the contract, are qualified as immaterial as they are very low. No material impact on the consolidated financial statements is expected. A.S. Création intends to adopt IFRS 15 as of January 1, 2018 and to use the option of the modified retrospective first-time adoption based on the current state of the analysis. The full analysis and any potential adjustments of systems and processes that may be required will be completed by the end of 2017.

91

According to IFRS 16 "Leases", lessees should recognise all leases and the associated rights and obligations in the balance sheet. This will lead to a moderate increase in assets and equity and liabilities, as operating leases play only a minor role at A.S. Création. In addition, the disclosures in the notes will become more extensive.

Taking into account the above, the other new or revised standards and interpretations that are applicable in subsequent years are expected to have no material impact on the consolidated financial statements of A.S. Création from today's point of view.

For the sake of clarity, individual items have been summarised in the balance sheet, the income statement and the cash flow statement. The summarised items are shown and explained in detail in the notes. Also for reasons of clarity, some amounts are shown in thousand euros.

The type of expenditure format has been chosen for the income statement.

The Group's business activities mainly comprise the development, production and sale of wall-

papers in all main materials and for all main purposes. The spectrum of activities is complemented by the trade in furnishing fabrics. In line with the Group's products and services, segment reports according to IFRS 8 are prepared for the Wallpaper Division (segment) and the Furnishing Fabrics Division (segment).

### **Consolidation principles**

Subsidiaries, in which A.S. Création Tapeten AG has the majority of voting rights and, hence, control over the financial and business policy, are fully consolidated. In accordance with IFRS 11 and IFRS 12, jointly controlled companies are accounted for using the equity method. The financial statements of domestic and foreign companies included in the consolidated financial statements were prepared using consistent Group-wide accounting and valuation principles in accordance with IFRS regulations.

Capital consolidation is effected using the purchase method. Under this method, the book values of the consolidated subsidiaries are set off against their respective shares in the revalued equity at the time of first consolidation. In the revaluation, the assets and liabilities of the acquired companies are stated at their current market values at the time of first consolidation. Goodwill arising in the first consolidation is capitalised and, in accordance with IFRS 36, subjected to an impairment test on an annual basis or, if special incidents suggest a value impairment, also in the course of a year. According to IFRS, this impairment test must be performed on the basis of the so-called cash generating units to which the goodwill is assigned. In the case of A.S. Création, these are the Wallpaper Division and the Furnishing Fabrics Division. In the context of this impairment test, the book value of the division is compared with the so-called "recoverable amount". This amount is the present value of the future cash flows that will be derived from the division (so-called value in use). If the book value exceeds the recoverable amount, the difference represents the impairment that needs to be stated as extraordinary depreciation in the income statement of the respective financial year. If the book value is lower than the recoverable amount, no impairment is required.

Receivables and liabilities, intragroup sales as well as expenses and income are set off against each other. Intercompany profits and losses in tangible fixed assets, in intangible fixed assets and

in inventories are eliminated with the effect shown in the income statement. Intragroup value adjustments and provisions are written back.

Where transactions are carried out with a jointly controlled entity, the resulting unrealised gains or losses are eliminated in accordance with the share held in the jointly controlled enterprise.

Where consolidation processes whose effects are shown in the income statement are concerned, the effects on income taxes are taken into account and deferred taxes are established for temporary differences resulting from consolidation processes.

#### Notes on the basis of consolidation

The consolidated financial statements comprise A.S. Création Tapeten AG as well as ten other entities. As a result of the foundation of OOO A.S. Création Belrus, the number of consolidated entities increased by one compared to the previous year.

The table below shows the fully consolidated companies:

| No.                                | Company, location  | held by | Share in % | Nominal capital Dec. 31, 2016 |
|------------------------------------|--|---------|------------|-------------------------------|
| <b>Wallpaper Division</b>          |  |         |            |                               |
| 1.                                 | A.S. Création Tapeten AG, Gummersbach/Germany            |         |            | 9,000,000 €                   |
| 2.                                 | AS Creation (UK) Limited, Merseyside/UK                  | No. 1   | 100.0      | 100,000 £                     |
| 3.                                 | A.S. Création (NL) B.V., Werkendam/Netherlands           | No. 1   | 100.0      | 20,000 €                      |
| 4.                                 | A.S. Création (France) SAS, Lyon/France                  | No. 1   | 100.0      | 4,000,000 €                   |
| 5.                                 | MCF Investissement SAS, Ballancourt/France               | No. 4   | 100.0      | 460,350 €                     |
| 6.                                 | SCE-Société de conception et d'édition SAS, Boves/France | No. 4   | 100.0      | 2,000,000 €                   |
| 7.                                 | SCE Investissements SC, Boves/France                     | No. 6   | 100.0      | 1,000 €                       |
| 8.                                 | OOO A.S. Création (RUS), Moscow/Russia                   | No. 1   | 100.0      | 25,000,000 RUB                |
| 9.                                 | OOO A.S. Création Belrus, Minsk/Belarus                  | No. 1   | 100.0      | 6,500,000 BYN                 |
| <b>Furnishing Fabrics Division</b> |  |         |            |                               |
| 10.                                | Indes Fuggerhaus Textil GmbH, Marienheide/Germany        | No. 1   | 100.0      | 550,000 €                     |

In addition, OOO A.S. & Palitra, Dzerzhinsk/Russia, in which A.S. Création Tapeten AG holds 50.0%, is accounted for using the equity method. This joint venture forms part of the Wallpaper Division.

All financial statements included in the consolidated financial statements were established as of December 31, 2016 and were audited by independent chartered accountants or reviewed by the Group's auditors.

### Currency translation

A.S. Création Tapeten AG's reporting currency is the euro (€).

Assets and debts denominated in foreign currencies are translated at the exchange rate at the time of addition and adjusted to the respective closing rate at every balance sheet date. Resulting translation differences are shown in the income statement.

In accordance with IAS 21, foreign currencies in the financial statements of consolidated companies in non-EMU countries are translated according to the functional currency concept using the modified closing rate method. Under this method, changes in tangible fixed assets and in intangible fixed assets are translated at average annual rates, equity is translated at historical rates and all other balance sheet items are translated at closing rates. Differences referring to tangible fixed assets and intangible fixed assets are itemised in the "Currency translation differences" line. All items in the income statement are translated at the average annual rate. Currency differences are not recognised in the income statement but are allocated to the currency translation differences within the equity.

Translation differences from debt consolidation are recognised in the income statement.

The table below shows the changes in exchange rates based for currency translation:

|                        | Year-end-rate |               | Average annual rate |          |
|------------------------|---------------|---------------|---------------------|----------|
|                        | Dec. 31, 2016 | Dec. 31, 2015 | 2016                | 2015     |
| Pound Sterling (GBP/€) | 0.85860       | 0.73505       | 0.81954             | 0.72577  |
| Russian rouble (RUB/€) | 63.81110      | 79.69720      | 73.74545            | 67.99153 |
| Belarus rouble (BYN/€) | 2.06860       | 2.03660       | 2.12694             | 1.93506  |

## Accounting and valuation principles

Tangible fixed assets are reported at the cost of acquisition or production to be capitalised. If more time is needed to get an asset ready for its intended use, directly attributable borrowing costs incurred during this time are capitalised. Assets acquired under finance leases are shown at the lower of their current market value at the beginning of the lease or the present value of the minimum lease payments in accordance with IAS 17.

With the exception of printing tools, tangible fixed assets subject to depreciation are written off using the straight-line method. Depreciation is based on the following useful economic lives:

|                                     |                |
|-------------------------------------|----------------|
| Buildings                           | 10 to 30 years |
| High-bay warehouses                 | 20 years       |
| Large machines                      | 8 to 15 years  |
| Other machines                      | 5 to 10 years  |
| Other plant, furniture and fixtures | 3 to 10 years  |

Fixed assets are written off on a pro rata temporis basis in the year of acquisition.

Printing and embossing rollers and rotary screens are written off using the unit-of-production method over a period of three years. For reasons of simplification it is assumed that the printing tools are disposed from fixed assets after they have been written off completely.

Fixed assets are written off for impairment if the fair value of the asset is below the net carrying amount. If the reasons for the write-downs for impairment no longer apply, the impairment is reversed provided that this does not state the asset at more than amortised original cost.

Intangible fixed assets – with the exception of the goodwill acquired – are valued at cost less scheduled depreciation. They are written off using the straight-line method over their expected useful economic lives of mostly three to five years and no more than ten years.

Acquired goodwill is not written off systematically but is regularly subjected to an impairment test. Accordingly, acquired goodwill is measured at cost less the value impairment potentially resulting from the impairment test.

Development costs for new designs are not capitalised, as the criteria of IAS 38 are not met.

In accordance with IFRS 11 and IFRS 12, jointly controlled entities are recognised using the equity method. The investment is recognised at cost at the time of acquisition and the respective carrying amount of the investment is subsequently increased or decreased to reflect changes in equity of the jointly controlled entity through changes affecting income and through changes affecting other comprehensive income, provided that these changes relate to the shares of A.S. Création Tapeten AG. The same also applies to long term shareholder's loan in case they belong to net investment of A.S. Création for economic content.

Financial assets are accounted for as of the settlement amount.

Raw materials and supplies as well as merchandise are shown at the weighted average cost of acquisition or the lower fair value on the balance sheet date less cost to sell. Finished and unfinished products are reported at the cost of acquisition or production or the lower fair value on the balance sheet date less cost to sell. The cost of production includes not only the directly attributable cost but also the factory overhead as well as depreciation. Interest on borrowings is not included in the cost of acquisition or production.

Receivables are measured at amortised cost using the effective interest method less potential value impairments. The value impairments appropriately reflect the expected risk of default. The allowances are booked in separate allowance accounts. Receivables are written off only in case of an actual default. Where trade receivables are concerned, the risk of default is initially determined by analysing the customer's historical payment behaviour (itemised allowance). Thereafter, receivables are grouped on the basis of identical risk features and the risk of default of the respective groups is analysed (generalised itemised allowance).

Other assets and cash and cash equivalents are shown at their nominal values.

Provisions are established for contingent liabilities from pension obligations. These are determined in accordance with IAS 19 (rev. 2011) by using the actuarial projected unit credit method. Actuarial gains or losses are recognised in equity. Interest costs included in the pension expenses are shown in the financial result. All other provisions are reported at the amount likely to be required to cover discernible risks and contingent liabilities.

Liabilities under finance leases are reported at the present value using the interest rates on which the individual leasing agreements are based.



Other liabilities are initially recognised at the fair value and subsequently amortised at cost using the effective interest method.

In accordance with IAS 12, deferred taxes are recognised for different valuations of assets and liabilities to IFRS and in the tax balance sheet, for consolidation processes and for tax losses carried forward. Expected country-specific tax rates are applied in this context. Deferred tax assets are recognised only if there is sufficient likelihood that they can be realised within the next five fiscal years.

Financial instruments such as derivatives are recognised at their fair value in accordance with IFRS 13. The fair value is the price that would be paid between market participants for the sale of an asset or the transfer of a liability.

Expenses and income are shown at the time of realisation. Sales revenues are realised at the time of the passage of risk, usually upon delivery. The regional breakdown of sales is based on the locations of customers' headquarters or, if the delivery address differs from the address of the headquarters, on the delivery address. Operating expenses are recognised at the time the underlying services are used, while advertising and sales promotion expenses as well as other sales related expenses are recognised at the time they are incurred. Interest and other cost of debt are accounted for as expenditure in the accounting period.

To prepare the consolidated financial statements, the Managing Board must make estimates and assumptions that influence the recognition of assets and liabilities as well as income and expenses. All estimates and assumptions are made to the best of the Managing Board's knowledge to give a true and fair view of the net worth, financial and earnings position of the Group. The actual values may nevertheless deviate from the estimates. The same applies to the information provided in the Group management report.

The following estimates and assumptions have a material effect on the consolidated financial statements:

In the case of business acquisitions, all acquired assets and liabilities are measured at the fair value at the time of first consolidation ("purchase price allocation"). Material assumptions must be made especially for the measurement of intangible assets, e.g. trademark rights, as the fair value is determined through the present value of the anticipated future cash flows. Insofar, the estimates of the future development of the asset and its useful economic life as well as the choice of the discount factor have a material impact on the fair value.

As outlined under the consolidation principles, goodwill is tested for impairment. The underlying profit projections of the two divisions and the choice of the discount factor constitute estimates that have a material impact on the result of the impairment test. Although the Managing Board believes that the assumptions made are appropriate, an unexpected need for adjustment of these assumptions may lead to an impairment that has an adverse impact on the net worth, financial and earnings position of A.S. Création.

A.S. Création must examine at every balance sheet date whether there are indications of impairment regarding other intangible assets, property, plant and equipment and financial assets. Such impairment may be the consequence of a number of factors including changed competitive conditions, shorter useful economic lives resulting from technological progress or increased capital charges. Accordingly, the Managing Board's estimates are based on certain assumptions regarding the economic environment. Although the Managing Board believes that the assumptions made are appropriate, an unexpected need for adjustment of these assumptions may lead to an impairment that has an adverse impact on the net worth, financial and earnings position of A.S. Création.

Pension provisions are recognised for current pension obligations as well as future old age, disability and survivors' pension commitments. Pension provisions are calculated using actuarial methods. For this purpose, assumptions must be made regarding the discount factor, the anticipated future salary and pension trends and the mortality rate. These actuarial assumptions may deviate materially from actual future developments and may lead to material changes in future obligations and future expenses.

Some companies of the A.S. Création Group are involved in litigations or similar proceedings, whose outcome may have a material impact on the net worth, financial and earnings position of the Group. The Managing Board and the Managing Directors of the Group companies analyse the available information on these cases. External lawyers are consulted as well. As part of the decision on the need to establish provisions, assumptions must be made regarding the likely outcome of the proceedings and a well-founded estimate should be made of the potentially resulting obligations. The disclosure of a litigation or similar proceedings in the Notes or the actual filing of an action or of a claim for damages against a company of the A.S. Création Group do not automatically mean that, a provision has been established for this risk. Further more there is a risk that the provision – against estimations at the time of establishing – turns out to be insufficient in the future.

## Notes to the balance sheet

## (1) Tangible fixed assets

The table below shows a breakdown of, as well as the changes in, tangible fixed assets:

|  | Land, buildings,<br>and similar<br>rights<br>€ '000 | Plant and<br>machinery<br>€ '000 | Other fixtures<br>and fittings, tools<br>and equipment<br>€ '000 | Advance payments<br>and assets<br>under construction<br>€ '000 | Total<br>€ '000 |
|--|---|----------------------------------|--|--|-----------------|
| <b>Gross cost of acquisition or production</b> |   |                                  |  |  |                 |
| <b>Dec 31, 2014</b>                            | <b>35,239</b>                                       | <b>78,166</b>                    | <b>22,702</b>  | <b>0</b>   | <b>136,107</b>  |
| Addition                                       | 57  | 295                              | 3,677  | 450  | 4,479           |
| Reclassifications                              | 0   | 0                                | 0  | 0  | 0               |
| Disposals                                      | 0   | 6                                | 3,912  | 0  | 3,918           |
| Currency<br>translation differences            | 0   | 0                                | -19  | 0  | -19             |
| <b>Dec 31, 2015</b>                            | <b>35,296</b>                                       | <b>78,455</b>                    | <b>22,448</b>  | <b>450</b>   | <b>136,649</b>  |
| Addition                                       | 981   | 402                              | 3,416  | 11   | 4,810           |
| Reclassifications                              | 61  | 389                              | 0  | -450   | 0               |
| Disposals                                      | 0   | 2,428                            | 4,299  | 0  | 6,727           |
| Currency<br>translation differences            | 0   | 0                                | 2  | 0  | 2               |
| <b>Dec 31, 2016</b>                            | <b>36,338</b>                                       | <b>76,818</b>                    | <b>21,567</b>  | <b>11</b>  | <b>134,734</b>  |
| <b>Depreciation</b>                            |   |                                  |  |  |                 |
| <b>Dec 31, 2014</b>                            | <b>19,111</b>                                       | <b>66,861</b>                    | <b>16,850</b>  | <b>0</b>   | <b>102,822</b>  |
| Addition                                       | 1,539   | 2,886                            | 4,069  | 0  | 8,494           |
| Disposals                                      | 0   | 6                                | 3,801  | 0  | 3,807           |
| Currency<br>translation differences            | 0   | 0                                | -6   | 0  | -6              |
| <b>Dec 31, 2015</b>                            | <b>20,650</b>                                       | <b>69,741</b>                    | <b>17,112</b>  | <b>0</b>   | <b>107,503</b>  |
| Addition                                       | 1,515   | 2,361                            | 3,587  | 0  | 7,463           |
| Disposals                                      | 0   | 2,428                            | 4,040  | 0  | 6,468           |
| Currency<br>translation differences            | 0   | 0                                | -4   | 0  | -4              |
| <b>Dec 31, 2016</b>                            | <b>22,165</b>                                       | <b>69,674</b>                    | <b>16,655</b>  | <b>0</b>   | <b>108,494</b>  |
| <b>Net book value</b>                          |   |                                  |  |  |                 |
| <b>Dec 31, 2015</b>                            | <b>14,646</b>                                       | <b>8,714</b>                     | <b>5,336</b>   | <b>450</b>   | <b>29,146</b>   |
| <b>Dec 31, 2016</b>                            | <b>14,173</b>                                       | <b>7,144</b>                     | <b>4,912</b>   | <b>11</b>  | <b>26,240</b>   |

Tangible fixed assets include assets on the basis of finance leases in an amount of € 1.586 million (previous year: € 5.111 million). The finance leases refer to warehouse buildings.

Net book values of temporary unused tangible fixed assets are included in an amount of € 0.0 million (previous year: € 0.0 million).

Explanations regarding land charges and assignments of machines are provided in Note No. 12.

**(2) Intangible fixed assets**

The table below shows a breakdown of, as well as the changes in, intangible fixed assets:

|  | Licences<br>and<br>similar rights<br>€ '000 | Goodwill<br>€ '000 | Total<br>€ '000 |
|--|---|--------------------|-----------------|
| <b>Gross cost of acquisition or production</b> |   |                    |                 |
| <b>Dec 31, 2014</b>                            | <b>5,294</b>                                | <b>9,276</b>       | <b>14,570</b>   |
| Addition                                       | 66  | 0                  | 66              |
| Disposals                                      | 15  | 0                  | 15              |
| <b>Dec 31, 2015</b>                            | <b>5,345</b>                                | <b>9,276</b>       | <b>14,621</b>   |
| Addition                                       | 204   | 0                  | 204             |
| Disposals                                      | 26  | 0                  | 26              |
| <b>Dec 31, 2016</b>                            | <b>5,523</b>                                | <b>9,276</b>       | <b>14,799</b>   |
| <b>Depreciation</b>                            |   |                    |                 |
| <b>Dec 31, 2014</b>                            | <b>4,878</b>                                | <b>1,543</b>       | <b>6,421</b>    |
| Addition                                       | 151   | 0                  | 151             |
| Disposals                                      | 8   | 0                  | 8               |
| <b>Dec 31, 2015</b>                            | <b>5,021</b>                                | <b>1,543</b>       | <b>6,564</b>    |
| Addition                                       | 149   | 0                  | 149             |
| Disposals                                      | 20  | 0                  | 20              |
| <b>Dec 31, 2016</b>                            | <b>5,150</b>                                | <b>1,543</b>       | <b>6,693</b>    |
| <b>Net book value</b>                          |   |                    |                 |
| <b>Dec 31, 2015</b>                            | <b>324</b>                                  | <b>7,733</b>       | <b>8,057</b>    |
| <b>Dec 31, 2016</b>                            | <b>373</b>                                  | <b>7,733</b>       | <b>8,106</b>    |

The Wallpaper Division and the Furnishing Fabrics Division, respectively, accounted for € 7.581 million and € 0.152 million of goodwill, which remained unchanged at € 7.733 million. The goodwill was subjected to an impairment test. In this context, the value in use was determined as the present value of the future cash flows from the operation. The value in use was determined on the basis of the approved detailed budgets for the fiscal years 2017 and 2018. The cash flow used is the cash flow before interest and taxes less total capital expenditures of the respective year as well as the changed capital tied up in net current assets. For the years from 2019, the budgeted cash flow before interest and taxes of the year 2018 less maintenance and replacement investments was carried as a perpetual annuity. No growth rate was assumed in the calculation of the perpetual annuity. For the purpose of discounting, weighted average costs of capital (before taxes) of 5.2% and 4.8% were applied for the Wallpaper Division and the Furnishing Fabrics Division, respectively. The value in use thus determined exceeded the carrying amounts in both divisions, which means that the impairment tests did not provide any indication of an impairment loss. A discount factor of over 8.1% for the Wallpaper Division and of over 9.0% for the Furnishing Fabrics Division would indicate the need to recognise an impairment loss.

**(3) Investments accounted for at equity**

This item comprises the investment in OOO A.S. & Palitra. The table below shows the changes in investments accounted for at equity:

|                            | <b>2016</b><br><b>€ '000</b> | <b>2015</b><br><b>€ '000</b> |
|----------------------------|------------------------------|------------------------------|
| January 1                  | 0                            | 0                            |
| Additions                  | 0                            | 0                            |
| Pro-rata changes in equity |                              |                              |
| Changes affecting income   | 0                            | 0                            |
| Changes                    | 0                            | 0                            |
| <b>December 31</b>         | <b>0</b>                     | <b>0</b>                     |

The table below shows the financial information of this investment:

|  | <b>31.12.16</b><br><b>€ '000</b> | <b>31.12.15</b><br><b>€ '000</b> |
|--|----------------------------------|----------------------------------|
| Non-current assets   | 21,534                           | 16,939                           |
| Current assets   | 11,882                           | 9,787                            |
| thereof cash and cash equivalents                          | (623)                            | (1,313)                          |
| Non-current liabilities                                    | 42,283                           | 40,505                           |
| thereof financial liabilities and deferred tax liabilities | (33,837)                         | (34,344)                         |
| Current liabilities  | 3,392                            | 3,196                            |
| thereof financial liabilities and tax liabilities          | (5)                              | (5)                              |
| Net assets (100%)  | -12,259                          | -16,975                          |
| Group share in net assets (50%)                            | -6,130                           | -8,488                           |
| Capitalised other costs                                    | 11                               | 11                               |
| Elimination of unrealised intercompany profits             | -251                             | -184                             |
| <b>Carrying amount</b>                                     | <b>-6,370</b>                    | <b>-8,661</b>                    |

|  | 2016<br>€ '000 | 2015<br>€ '000 |
|--|----------------|----------------|
| Sales revenues                                 | 23,376         | 20,488         |
| Depreciation                                   | 2,851          | 2,347          |
| Interest expenses                              | 2,374          | 1,769          |
| Income taxes                                   | 2,276          | -630           |
| Earnings after taxes                           | 7,738          | -5,004         |
| Other earning after taxes                      | 0              | 0              |
| Total comprehensive income (100%)              | 7,738          | -5,004         |
| Total comprehensive income (50 %)              | 3,869          | -2,502         |
| Elimination of unrealised intercompany profits | -19            | 18             |
| Share in total comprehensive income            | 3,850          | -2,484         |

The share in total comprehensive income that is attributable to A.S. Création in the amount of € 3.850 million (previous year: € -2.484 million) has been offset against shareholder loans, as they belong to the net investment of A.S. Création in respect of economic content.

At fiscal year-end the company had financial obligations from order commitments for investments in an amount of € 0.043 million (previous year: € 2.590 million).

#### (4) Financial assets

This item comprises the shareholder loans that A.S. Création Tapeten AG granted to the joint venture 000 A.S. & Palitra.

The table below shows the changes in financial assets:

|  | 2016<br>€ '000 | 2015<br>€ '000 |
|--|----------------|----------------|
| January 1                                    | 8,510          | 8,901          |
| Additions                                    | 0              | 797            |
| Disposals                                    | 455            | 0              |
| Currency adjustment                          | 202            | -158           |
| Pro-rata changes in equity                   |                |                |
| Changes affecting income                     | 3,850          | -2,484         |
| Changes affecting other comprehensive income | -1,559         | 1,454          |
| <b>December 31</b>                           | <b>10,548</b>  | <b>8,510</b>   |

**(5) Other assets**

A breakdown of other assets by type and maturity is shown below:

|                               | Total              |                    | Remaining term<br>of up to 1 year |                    | Remaining term<br>of over 1 year |                    |
|-------------------------------|--------------------|--------------------|-----------------------------------|--------------------|----------------------------------|--------------------|
|                               | 31.12.16<br>€ '000 | 31.12.15<br>€ '000 | 31.12.16<br>€ '000                | 31.12.15<br>€ '000 | 31.12.16<br>€ '000               | 31.12.15<br>€ '000 |
| Miscellaneous other assets    | 9,617              | 7,784              | 4,722                             | 4,093              | 4,895                            | 3,691              |
| Current financial investments | 400                | 9,550              | 400                               | 9,550              | 0                                | 0                  |
| Deferred charges              | 697                | 580                | 697                               | 580                | 0                                | 0                  |
|                               | <b>10,714</b>      | <b>17,914</b>      | <b>5,819</b>                      | <b>14,223</b>      | <b>4,895</b>                     | <b>3,691</b>       |

Miscellaneous other assets include, among others, supplier credits as well as VAT refund claims.

Current financial investments comprise fixed deposits with a remaining term of more than three months.

103

**(6) Income tax receivables**

The previous year's non-current income tax receivables in an amount of € 0.295 million related to that portion of the capitalised corporate income tax benefit that will not be refunded in the following year.

**(7) Deferred taxes**

Deferred taxes are calculated using country-specific tax rates pursuant to IAS 12. The total tax rate in Germany, which comprises trade tax, corporate income tax and solidarity surcharge, was 31.06% (previous year: 31.06%).

Deferred tax assets break down as follows:

|   | 31.12.16<br>€ '000 | 31.12.15<br>€ '000 |
|---|--------------------|--------------------|
| Realisable future reductions in tax payments<br>resulting from losses carried forward | 240                | 325                |
| Differences between the tax balance sheet and the commercial balance sheet            | 135                | 32                 |
| Adjustments of individual financial statements to IFRS                                | 14                 | 93                 |
| Consolidation processes   | 92                 | 62                 |
|   | <b>481</b>         | <b>512</b>         |

Losses carried forward for corporate income tax and solidarity surcharge in an amount of € 0.0 million (previous year: 0.028 million) exist in Germany. In addition, tax losses carried forward in an amount of € 8.605 million (previous year: € 6.737 million) exist abroad. No deferred tax assets were recognised for losses carried forward in the amount of € 7.715 million (previous year: € 5.097 million) as well as for temporary differences in the amount of € 0.509 million (previous year: € 0.0 million), as their realisation is not sufficiently certain from today's point of view.

Deferred tax liabilities break down as follows:

|  | 31.12.16<br>€ '000 | 31.12.15<br>€ '000 |
|--|--------------------|--------------------|
| Differences between the tax balance sheet and the commercial balance sheet | -1,318             | -1,481             |
| Adjustments of individual financial statements to IFRS                     | 1,491              | 2,600              |
| Consolidation processes  | 718                | 918                |
|  | <b>891</b>         | <b>2,037</b>       |

104

Deferred taxes refer to the following balance sheet items:

|                                    | 31.12.16                      |                                    | 31.12.15                      |                                    |
|------------------------------------|-------------------------------|------------------------------------|-------------------------------|------------------------------------|
|                                    | Deferred tax assets<br>€ '000 | Deferred tax liabilities<br>€ '000 | Deferred tax assets<br>€ '000 | Deferred tax liabilities<br>€ '000 |
| Tangible fixed assets              | 0                             | 3,441                              | 13                            | 4,871                              |
| Intangible fixed assets            | 27                            | 77                                 | 36                            | 92                                 |
| Inventories                        | 307                           | 125                                | 315                           | 151                                |
| Trade receivables and other assets | 318                           | 256                                | 443                           | 259                                |
| Provisions for pensions            | 2,334                         | 0                                  | 1,853                         | 0                                  |
| Other provisions                   | 13                            | 0                                  | 17                            | 0                                  |
| Other liabilities                  | 253                           | 3                                  | 857                           | 11                                 |
| Tax losses carried forward         | 240                           | 0                                  | 325                           | 0                                  |
|                                    | <b>3,492</b>                  | <b>3,902</b>                       | <b>3,859</b>                  | <b>5,384</b>                       |
| Set-off*                           | -3,011                        | -3,011                             | -3,347                        | -3,347                             |
|                                    | <b>481</b>                    | <b>891</b>                         | <b>512</b>                    | <b>2,037</b>                       |

\* According to IAS 12, deferred tax assets and deferred tax liabilities should, under certain conditions, be offset if they relate to income taxes levied by the same taxation authority.



**(8) Inventories**

Inventories comprise the following:

|                                | <b>31.12.16</b><br><b>€ '000</b> | <b>31.12.15</b><br><b>€ '000</b> |
|--------------------------------|----------------------------------|----------------------------------|
| Raw materials and supplies     | 3,333                            | 3,458                            |
| Unfinished products            | 91                               | 120                              |
| Finished goods and merchandise | 34,257                           | 35,281                           |
|                                | <b>37,681</b>                    | <b>38,859</b>                    |

Inventories with carrying amounts of € 10.260 million (previous year: € 9.405 million) are recognised at the fair value less cost to sell.

105

**(9) Trade receivables**

€ 0.015 million (previous year: € 0.033 million) of the trade receivables have a remaining term of more than one year.

The table below shows the allowances on trade receivables:

|                          | <b>2016</b><br><b>€ '000</b> | <b>2015</b><br><b>€ '000</b> |
|--------------------------|------------------------------|------------------------------|
| As of January 1          | 4,815                        | 2,728                        |
| Allocation               | 328                          | 2,361                        |
| Use                      | 995                          | 214                          |
| Release                  | 228                          | 7                            |
| Currency adjustment      | 106                          | -53                          |
| <b>As of December 31</b> | <b>4,026</b>                 | <b>4,815</b>                 |

Of the total allowances, an amount of € 1.974 million (previous year: € 2.154 million) refers to itemised allowances and an amount of € 2.052 million (previous year: € 2.661 million) refers to generalised itemised allowances.

The table below shows the maturity structure of the receivables for which no itemised allowances were established as of the balance sheet date:

|                    | Trade<br>receivables | thereof without itemised allowances and |                               |  |   |                                      |
|--------------------|----------------------|---|-------------------------------|--|---|--------------------------------------|
|                    |                      | not<br>past due                         | past due<br>within<br>90 days | past due bet-<br>ween 91 and<br>180 days | past due bet-<br>ween 181 and<br>360 days | past due<br>in more than<br>360 days |
|                    | € '000               | € '000                                  | € '000                        | € '000                                   | € '000                                    | € '000                               |
| As of Dec 31, 2015 | 28,240               | 23,514                                  | 3,484                         | 466                                      | 304                                       | 3                                    |
| As of Dec 31, 2016 | 24,830               | 22,149                                  | 2,211                         | 168                                      | 216                                       | 78                                   |

#### (10) Cash and cash equivalents

Cash and cash equivalents break down as follows:

|   | 31.12.16<br>€ '000 | 31.12.15<br>€ '000 |
|---|--------------------|--------------------|
| Cash in banks                               | 20,548             | 6,401              |
| Cash on hand, cheques and bills of exchange | 278                | 517                |
|   | <b>20,826</b>      | <b>6,918</b>       |

Cash in banks include short-term funds with a term of up to three months.

#### (11) Equity

For the composition of equity, please refer to the consolidated statement of changes in equity.

As of December 31, 2016, the share capital amounted to € 9,000,000.00 divided into 3,000,000 no par value registered shares.

According to Article 4 paragraph 3 of the current statutes of A.S. Création Tapeten AG (as amended on May 7, 2015), the Managing Board is authorised, subject to the approval of the Supervisory Board, to increase the capital stock by up to € 4.500 million (so called authorised capital) until May 6, 2020 through the issue of new shares against a contribution in kind or in cash. Shareholders' subscription rights may be excluded in certain cases. Given that no use has been made of this authorisation so far, the authorised capital amounted to € 4.500 million on December 31, 2016.

As in the previous year, capital reserves include € 13.752 million in premiums from the issue of shares of A.S. Création Tapeten AG and, in accordance with IAS 32, an equity share of € 0.005 million from the purchase and sale of own shares.

Revenue reserves include undistributed profits of the Group companies as well as changes in equity not affecting income.

According to a resolution passed by the General Meeting of Shareholders dated May 7, 2015, the Managing Board is authorised to acquire own shares up to a par value of € 0.900 million (which represents a maximum of 10% of the share capital) until May 6, 2020. The Managing Board is also authorised to cancel the shares acquired, to resell them, or to use the shares acquired for company acquisitions or equity investments. Based on previous authorisations granted between 1999 and 2008, A.S. Création Tapeten AG repurchased 243,649 own shares. Since then, no sales or purchases have occurred, which means that A.S. Création Tapeten AG held 243,649 own shares in a nominal amount of € 0.731 million or 8.12% of the share capital as of the balance sheet date. An offsetting item in the amount of the cost of acquisition of own shares was established, which remained unchanged from the previous year at € 4.021 million.

107

For the fiscal year a dividend of € 1.25 per share, respectively a total output of € 3.445 million will be suggested. A dividend of € 0.60 per share was paid for the previous year, representing a total payout of € 1.654 million.

Under IFRS, some items are not recognised as income and expenses in the income statement but are recognised directly in equity. This so-called "other comprehensive income", which is included in revenue reserves and the balancing item for currency translation differences, is shown in the table below:

|                                 | Financial<br>derivative | Deferred<br>taxes | Pension<br>provisions | Deferred<br>taxes | Foreign currency translation<br>differences from |   | Total        |
|---------------------------------|-------------------------|-------------------|-----------------------|-------------------|--|---|--------------|
|                                 |                         |                   |                       |                   | fully<br>consolidated<br>companies               | companies<br>accounted for<br>at equity |              |
|                                 | € '000                  | € '000            | € '000                | € '000            | € '000   | € '000                                  | € '000       |
| <b>As of Jan 1, 2015</b>        | <b>-639</b>             | <b>199</b>        | <b>-4,941</b>         | <b>1,532</b>      | <b>2,756</b>                                     | <b>2,824</b>                            | <b>1,731</b> |
| Other comprehensive income 2015 | 199                     | -62               | 1,751                 | -546              | 214  | 1,454                                   | 3,010        |
| <b>As of Dec 31, 2015</b>       | <b>-440</b>             | <b>137</b>        | <b>-3,190</b>         | <b>986</b>        | <b>2,970</b>                                     | <b>4,278</b>                            | <b>4,741</b> |
| Other comprehensive income 2016 | 169                     | -52               | -1,425                | 445               | -45  | -1,559                                  | -2,467       |
| <b>As of Dec 31, 2016</b>       | <b>-271</b>             | <b>85</b>         | <b>-4,615</b>         | <b>1,431</b>      | <b>2,925</b>                                     | <b>2,719</b>                            | <b>2,274</b> |

## (12) Financial liabilities (interest-bearing)

The breakdown and remaining terms of the interest-bearing financial liabilities are shown below:

|  | Total              |                    | Remaining term<br>of up to 1 year |                    | Remaining term<br>of over 1 up to 5 years |                    | Remaining term<br>of over 5 years |                    |
|--|--------------------|--------------------|-----------------------------------|--------------------|---|--------------------|-----------------------------------|--------------------|
|  | 31.12.16<br>€ '000 | 31.12.15<br>€ '000 | 31.12.16<br>€ '000                | 31.12.15<br>€ '000 | 31.12.16<br>€ '000                        | 31.12.15<br>€ '000 | 31.12.16<br>€ '000                | 31.12.15<br>€ '000 |
| Financial liabilities<br>(without finance lease) | 9,489              | 14,268             | 3,712                             | 4,349              | 5,777                                     | 9,669              | 0                                 | 250                |
| Liabilities from<br>finance lease                |                    |                    |                                   |                    |   |                    |                                   |                    |
| Gross value                                      | 88                 | 2,023              | 88                                | 1,935              | 0   | 88                 | 0                                 | 0                  |
| Discounting                                      | -2                 | -114               | -2                                | -112               | 0   | -2                 | 0                                 | 0                  |
| Present value                                    | 86                 | 1,909              | 86                                | 1,823              | 0   | 86                 | 0                                 | 0                  |
|  | <b>9,575</b>       | <b>16,177</b>      | <b>3,798</b>                      | <b>6,172</b>       | <b>5,777</b>                              | <b>9,755</b>       | <b>0</b>                          | <b>250</b>         |

108

The finance lease agreements include a purchase option at the end of the minimum term, whose value at the time the option is exercised is usually lower than the asset's current market value. The agreed purchase prices are therefore included in the finance lease obligations.

Interest-bearing financial liabilities are secured by land charges of € 33.418 million (previous year: € 33.418 million) as well as assignments of machines with gross acquisition costs of € 6.176 million (previous year: € 6.176 million).

Interest-bearing financial liabilities of € 9.575 million (previous year: € 16.177 million) include € 9.274 million (previous year: € 15.450 million) from credit agreements at fixed interest rates and € 0.301 million (previous year: € 0.727 million) from credit agreements at variable interest rates. An amount of € 6.676 million (previous year: € 8.890 million) of the interest-bearing financial liabilities is covered by an interest rate hedge. The breakdown of credit agreements at fixed interest rates by the remaining term and the weighted average interest rates based on the book value is shown below:

| Remaining term               | Average<br>interest rate 2016<br>% | Book value<br>31.12.16<br>€ '000 | Average<br>interest rate 2015<br>% | Book value<br>31.12.15<br>€ '000 |
|------------------------------|------------------------------------|----------------------------------|------------------------------------|----------------------------------|
| of up to 1 year              | 2.9                                | 3,497                            | 3.5                                | 5,445                            |
| of over 1 year up to 5 years | 2.8                                | 5,777                            | 2.7                                | 9,755                            |
| of over 5 years              | 0.0                                | 0                                | 2.8                                | 250                              |
|                              |                                    | <b>9,274</b>                     |                                    | <b>15,450</b>                    |

**(13) Other liabilities**

The breakdown and remaining terms of the other liabilities are shown below:

|  | Total              |                    | Remaining term<br>of up to 1 year |                    | Remaining term<br>of over 1 year |                    |
|--|--------------------|--------------------|-----------------------------------|--------------------|----------------------------------|--------------------|
|  | 31.12.16<br>€ '000 | 31.12.15<br>€ '000 | 31.12.16<br>€ '000                | 31.12.15<br>€ '000 | 31.12.16<br>€ '000               | 31.12.15<br>€ '000 |
| Liabilities to employees                   | 4,783              | 5,236              | 4,546                             | 5,005              | 237                              | 231                |
| Liabilities due to social security charges | 661                | 719                | 661                               | 719                | 0                                | 0                  |
| Liabilities due to other taxes             | 878                | 921                | 878                               | 921                | 0                                | 0                  |
| Liabilities due to bonuses/discounts       | 1,596              | 1,701              | 1,596                             | 1,701              | 0                                | 0                  |
| Miscellaneous other liabilities            | 2,383              | 2,789              | 1,982                             | 2,239              | 401                              | 550                |
|  | <b>10,301</b>      | <b>11,366</b>      | <b>9,663</b>                      | <b>10,585</b>      | <b>638</b>                       | <b>781</b>         |

**(14) Long-term provisions**

Long-term provisions divide as follows:

|                    | 31.12.16<br>€ '000 | 31.12.15<br>€ '000 |
|--------------------|--------------------|--------------------|
| Pension provisions | 12,756             | 11,124             |
| Other provisions   | 2,889              | 0                  |
|                    | <b>15,645</b>      | <b>11,124</b>      |

Pension provisions are recognised for current pension obligations as well as future old age, disability and survivors' pension commitments. Commitments vary from Group company to Group company depending on the legal and economic situation. The majority of Group employees are granted a service-life-linked defined benefit pension plan related to a fixed monetary amount.

The amount of the defined benefit obligations is determined using actuarial methods in accordance with IAS 19 (rev. 2011) and equals the present value of future pension payments.

For the majority of pension obligations it is determined based on the following parameters:

|   | 31.12.16<br>% | 31.12.15<br>% |
|---|---------------|---------------|
| Projected interest rate (discount rate) | 1.70          | 2.40          |
| Projected pension trend                 | 2.00          | 2.00          |
| Projected rate of fluctuation           | 5.00          | 5.00          |

For employees of German Group companies the assumptions for mortality and disability are based on the RICHTTAFELN 2005 G from Prof. Dr. Klaus Heubeck.

An isolated change in the actuarial assumptions would have main impact on the present value of the pension obligation:

|  | Increase in the<br>parameter<br>% | Change in<br>present value<br>€ '000 | Reduction in<br>the parameter<br>% | Change in<br>present value<br>€ '000 |
|--|-----------------------------------|--------------------------------------|------------------------------------|--------------------------------------|
| Projected interest rate<br>(discount rate) | 1.00                              | -2,128                               | 1.00                               | 2,841                                |
| Projected pension trend                    | 0.25                              | 390                                  | 0.25                               | -372                                 |

If the life of the persons entitled to pension were extended by one year, the pension obligation would increase by another € 0.528 million.

The duration of the pension obligation, i.e. the anticipated average capital tie-up period, is 19.8 years.

The table below shows the changes in the defined benefit obligations:

|   | 2016<br>€ '000 | 2015<br>€ '000 |
|---|----------------|----------------|
| As of January 1   | 11,334         | 12,832         |
| Pension payments  | -360           | -332           |
| Current service cost  | 291            | 354            |
| Interest cost   | 268            | 228            |
| Actuarial gains (-) or losses (+) from changes in the discount rate | 1,550          | -1,364         |
| Other actuarial gains (-) or losses (+)                             | -125           | -384           |
| <b>As of December 31</b>  | <b>12,958</b>  | <b>11,334</b>  |

Of the defined benefit obligations, an amount of € 0.329 million is expected to be paid out in the following fiscal year.

A small portion of the defined benefit obligations is financed under re-insurance policies, which qualify as plan assets. The table below shows the changes in the fair value of the plan assets:

|                                | 2016<br>€ '000 | 2015<br>€ '000 |
|--------------------------------|----------------|----------------|
| As of January 1                | 210            | 206            |
| Employer contributions         | 13             | 13             |
| Benefit payments               | -26            | -16            |
| Expected return on plan assets | 5              | 4              |
| Actuarial gains                | 0              | 3              |
| <b>As of December 31</b>       | <b>202</b>     | <b>210</b>     |

Re-insurance contributions are expected to amount of € 0.013 million in the following fiscal year.

The present value of the plan assets (re-insurance) is offset against the defined benefit obligations and the net obligations are stated as pension provision in the balance sheet.

The table below shows the changes in pension provisions:

|  | 2016<br>€ '000 | 2015<br>€ '000 |
|--|----------------|----------------|
| As of January 1  | 11,124         | 12,626         |
| Pension payments and employer contributions                    | -347           | -329           |
| Allocation through profit/loss (income statement)              | 554            | 578            |
| Allocation/release through equity (other comprehensive income) | 1,425          | -1,751         |
| <b>As of December 31</b>                                       | <b>12,756</b>  | <b>11,124</b>  |

The allocation to pension provisions through profit/loss, i.e. net pension expenses for the pension commitments, are comprised as follows and are included in the respective items of the income statement:

|   | Income statement   | 2016<br>€ '000 | 2015<br>€ '000 |
|---|--------------------|----------------|----------------|
| Current service cost and benefit payments | Personnel expenses | 291            | 354            |
| Interest cost                             | Financial result   | 263            | 224            |
|   |                    | <b>554</b>     | <b>578</b>     |

The following actuarial gains (+) / losses (-) were recognised in equity (other comprehensive income):

|                                     | 2016<br>€ '000 | 2015<br>€ '000 |
|-------------------------------------|----------------|----------------|
| Change in the discount factor       | -1,550         | 1,364          |
| Change in the biometric assumptions | 0              | 416            |
| Experience adjustment               | 125            | -29            |
|                                     | <b>-1,425</b>  | <b>1,751</b>   |

Besides these commitments from defined benefit plans, some Group companies make contributions to company pension schemes in some cases. In these cases, a defined annual amount is paid to an external relief fund or a comparable institution for the duration of the employment relationship. These defined contribution plans are not recognised in pension provisions. Instead, the contributions paid are included in the personnel expenses of the respective fiscal year (see Notes No. 20).

In December 2014 the French competition authorities ("Autorité de la concurrence") issued a penalty notice against members of the A.S. Création Group and imposed penalties in a total amount of € 5.0 million, which were recognised as expenses in the 2014 consolidated financial statements and paid in 2015. In the past fiscal year, the court of appeal reduced the penalties by € 2.9 million and the French competition authorities refunded this amount. As the French competition authorities have lodged an appeal with the French supreme court ("Cour de cassation"), the verdict of the court of appeal has not become final yet. A provision of € 2.899 million was therefore established in the fiscal year and recognised under other non-current provisions.

#### (15) Short-term provisions

Short-term provisions mainly refer to potential losses from pending transactions and warranties. The table below shows the changes in short-term provisions:

|                          | 2016<br>€ '000 | 2015<br>€ '000 |
|--------------------------|----------------|----------------|
| As of January 1          | 131            | 102            |
| Use                      | 121            | 102            |
| Release                  | 0              | 0              |
| Allocation               | 107            | 131            |
| <b>As of December 31</b> | <b>117</b>     | <b>131</b>     |



**(16) Other financial liabilities and contingent liabilities**

The table below shows the other disclosable financial liabilities and their remaining terms:

|   | Total              |                    | Remaining term<br>of up to 1 year |                    | Remaining term<br>of over 1 year<br>up to 5 years |                    | Remaining term<br>of over 5 years |                    |
|---|--------------------|--------------------|-----------------------------------|--------------------|---|--------------------|-----------------------------------|--------------------|
|   | 31.12.16<br>€ '000 | 31.12.15<br>€ '000 | 31.12.16<br>€ '000                | 31.12.15<br>€ '000 | 31.12.16<br>€ '000                                | 31.12.15<br>€ '000 | 31.12.16<br>€ '000                | 31.12.15<br>€ '000 |
| from building rents   | 915                | 963                | 408                               | 318                | 507   | 645                | 0                                 | 0                  |
| from operating leases   | 434                | 511                | 285                               | 286                | 149   | 225                | 0                                 | 0                  |
| from order commitments<br>for investments in<br>tangible fixed assets | 1,052              | 1,360              | 1,052                             | 1,360              | 0   | 0                  | 0                                 | 0                  |
|   | <b>2,401</b>       | <b>2,834</b>       | <b>1,745</b>                      | <b>1,964</b>       | <b>656</b>  | <b>870</b>         | <b>0</b>                          | <b>0</b>           |

In the previous year, A.S. Création Tapeten AG issued a performance guarantee for investments by the Russian joint venture, A.S. & Palitra. The resulting contingent liability amounted to € 0.432 million as of the balance sheet date (previous year: € 1.295 million). No claims are expected to be raised under this guarantee.

113

**Notes to the income statement****(17) Sales**

A breakdown of Group sales by region is provided below:

|                       | Wallpaper Division |                | Fabrics Division |                | Consolidation  |                | Group          |                |
|-----------------------|--------------------|----------------|------------------|----------------|----------------|----------------|----------------|----------------|
|                       | 2016<br>€ '000     | 2015<br>€ '000 | 2016<br>€ '000   | 2015<br>€ '000 | 2016<br>€ '000 | 2015<br>€ '000 | 2016<br>€ '000 | 2015<br>€ '000 |
| Germany               | 62,024             | 66,714         | 10,491           | 10,576         | -99            | -142           | 72,416         | 77,148         |
| EU (excl. Germany)    | 66,491             | 72,869         | 2,375            | 2,460          | -51            | -54            | 68,815         | 75,275         |
| European Union (EU)   | 128,515            | 139,583        | 12,866           | 13,036         | -150           | -196           | 141,231        | 152,423        |
| Other Eastern Europe  | 15,869             | 19,046         | 414              | 438            | 0              | 0              | 16,283         | 19,484         |
| Other countries       | 11,748             | 13,573         | 532              | 578            | 0              | 0              | 12,280         | 14,151         |
| <b>Sales (gross)</b>  | <b>156,132</b>     | <b>172,202</b> | <b>13,812</b>    | <b>14,052</b>  | <b>-150</b>    | <b>-196</b>    | <b>169,794</b> | <b>186,058</b> |
| Reduction in revenues | -16,221            | -18,645        | -967             | -899           | 2              | 1              | -17,186        | -19,543        |
| <b>Sales (net)</b>    | <b>139,911</b>     | <b>153,557</b> | <b>12,845</b>    | <b>13,153</b>  | <b>-148</b>    | <b>-195</b>    | <b>152,608</b> | <b>166,515</b> |

**(18) Cost of materials**

The cost of materials includes:

|   | <b>2016</b><br><b>€ '000</b> | <b>2015</b><br><b>€ '000</b> |
|---|------------------------------|------------------------------|
| Cost of raw materials, consumables and supplies and purchased materials | 66,570                       | 71,624                       |
| Cost of purchased services  | 5,419                        | 4,249                        |
|   | <b>71,989</b>                | <b>75,873</b>                |

**(19) Other income**

Other income includes income from the release of allowances for doubtful receivables and income from the expiry of obligations, foreign exchange gains in the amount of € 1.109 million (previous year: € 0.121 million) as well as income from disposals of tangible and intangible fixed assets in an amount of € 0.125 million (previous year: € 0.081 million).

The previous year's other income additionally included an amount of € 2.100 million which resulted from the agreement obliging the former owners of the two French Group companies involved in the anti-trust proceedings to make a financial contribution to the penalty as well as to the legal and court fees.

**(20) Personnel expenses**

Personnel expenses are comprised as follows:

|  | <b>2016</b><br><b>€ '000</b> | <b>2015</b><br><b>€ '000</b> |
|--|------------------------------|------------------------------|
| Wages and salaries                                 | 32,875                       | 34,946                       |
| Social security contributions and pension expenses | 7,782                        | 8,069                        |
|  | <b>40,657</b>                | <b>43,015</b>                |

Social security contributions and pension expenses include contributions to state pension insurance institutions in an amount of € 2.736 million (previous year: € 2.764 million), allocations to pension provisions in an amount of € 0.291 million (previous year: € 0.354 million).

million) as well as payments to external relief funds and similar pension organisations due to defined contribution plans in an amount of € 0.145 million (previous year: € 0.159 million).

The table below shows the Group's average headcount in the fiscal year (full time equivalents) excluding the three (previous year four) members of the Managing Board:

|                          | 2016<br>Persons | 2015<br>Persons |
|--------------------------|-----------------|-----------------|
| Blue-collar workers      | 350             | 377             |
| White-collar workers     | 372             | 378             |
| Trainees and apprentices | 46              | 46              |
|                          | <b>768</b>      | <b>801</b>      |

#### (21) Depreciation

A breakdown of depreciation is provided in the notes to tangible and intangible fixed assets (see No. 1 and No. 2 above). Of the total depreciation, an amount of € 0.807 million (previous year: € 0.865 million) relates to assets capitalised on the basis of finance leases. As in the previous year, no write-downs for impairment occurred in the fiscal year.

115

#### (22) Other operating expenses

Other operating expenses mainly include expenses on freight out, advertising, rental and operating leases, maintenance and insurance policies. Moreover, they include losses from disposals of tangible and intangible fixed assets in an amount of € 0.119 million (previous year: € 0.029 million), as well as foreign exchange losses in an amount of € 0.366 million (previous year: € 0.969 million).

#### (23) Financial result

The financial result includes interest expenses of € 0.263 million (previous year: € 0.224 million), which result from the allocation to pension provisions. For details see No. 14 above.

**(24) Income taxes**

Income taxes include the taxes on income and earnings paid or due in the individual countries as well as deferred taxes. Income taxes are comprised as follows:

|                             | <b>2016</b><br><b>€ '000</b> | <b>2015</b><br><b>€ '000</b> |
|-----------------------------|------------------------------|------------------------------|
| Current income tax expenses | 3,453                        | 3,807                        |
| Deferred taxes              | -686                         | -1,472                       |
|                             | <b>2,767</b>                 | <b>2,335</b>                 |

At € 2.767 million (previous year: € 2.335 million), tax expenses exceeded the expected tax expenses of € 3.169 million (previous year: € 1.746 million) that would have arisen based on the overall German tax rate of 31.06% (previous year: 31.06%) by € -0.402 million (previous year: € 0.589 million). The difference between expected and effective income tax expenses in the Group is due to the following:

|  | <b>2016</b><br><b>€ '000</b> | <b>2015</b><br><b>€ '000</b> |
|--|------------------------------|------------------------------|
| <b>Expected income tax expenses</b>                        | <b>3,169</b>                 | <b>1,746</b>                 |
| Tax rate differentials to the overall German tax rate      | 152                          | 302                          |
| Income from reimbursement of corporate income tax credit   | -14                          | -34                          |
| Taxes unrelated to the accounting period                   | 189                          | -78                          |
| Non-tax-deductible expenses                                | 188                          | 205                          |
| Non-recognition and allowances from losses carried forward | 338                          | 242                          |
| Non-taxable income   | -107                         | -822                         |
| Results from investments accounted for at equity           | -1,196                       | 772                          |
| Other tax effects  | 48                           | 2                            |
| <b>Effective income tax expenses</b>                       | <b>2,767</b>                 | <b>2,335</b>                 |
| Effective income tax rate                                  | 27.12%                       | 41.53%                       |

The change in the effective tax rate is essentially attributable to the improved result of the Russian joint venture in the past fiscal year as well as the tax-free income relating to the French anti-trust proceedings recognised in the previous year.

**(25) Earnings per share**

Earnings per share are calculated as follows:

|   |                | <b>2016</b> | <b>2015</b> |
|---|----------------|-------------|-------------|
| Number of shares outstanding (weighted average) | shares         | 2,756,351   | 2,756,351   |
| Earnings after taxes                            | €              | 7,434,839   | 3,287,042   |
| <b>Earnings per share</b>                       | <b>€/share</b> | <b>2.70</b> | <b>1.19</b> |

Given that no stock options or similar equity instruments exist that may lead to a change in the number of shares (so-called "capital dilution"), earnings per share represent both basic and diluted earnings per share.

**Complementary information****(26) Cash flow statement**

Cash flow from operating activities includes the following payments:

|                   | <b>2016</b><br><b>€ '000</b> | <b>2015</b><br><b>€ '000</b> |
|-------------------|------------------------------|------------------------------|
| Interest received | 43                           | 28                           |
| Interest paid     | 440                          | 632                          |
| Income tax paid   | 2,247                        | 4,950                        |

Interest paid primarily relates to investment financing.

The changes in financial liabilities shown under cash flow from financing activities are composed as follows:

|  | <b>2016</b><br><b>€ '000</b> | <b>2015</b><br><b>€ '000</b> |
|--|------------------------------|------------------------------|
| Raising of financial liabilities (excl. financial lease)   | 19                           | 1,698                        |
| Repayment of financial liabilities (excl. financial lease) | -4,799                       | -5,802                       |
| Repayment of liabilities under financial lease contracts   | -1,822                       | -473                         |
|  | <b>-6,602</b>                | <b>-4,577</b>                |

**(27) Segment reporting**

According to IFRS 8, segment reporting must reflect the Group's internal organisational and reporting structures. Based on A.S. Création's products and services, the corporate structure comprises two segments, i.e. the Wallpaper Division and the Furnishing Fabrics Division. Prices charged for intragroup deliveries and services are set in line with general market prices.

A breakdown of key figures by segments is provided below:

|  | Wallpaper Divison |                | Fabrics Divison |                | Consolidation  |                | Group          |                |
|--|-------------------|----------------|-----------------|----------------|----------------|----------------|----------------|----------------|
|  | 2016<br>€ '000    | 2015<br>€ '000 | 2016<br>€ '000  | 2015<br>€ '000 | 2016<br>€ '000 | 2015<br>€ '000 | 2016<br>€ '000 | 2015<br>€ '000 |
| External sales                                   | 139,828           | 153,434        | 12,780          | 13,081         | 0              | 0              | 152,608        | 166,515        |
| Intra-Group sales                                | 83                | 123            | 65              | 72             | -148           | -195           | 0              | 0              |
| Total sales                                      | 139,911           | 153,557        | 12,845          | 13,153         | -148           | -195           | 152,608        | 166,515        |
| EBITDA <sup>1</sup>                              | 13,162            | 16,012         | 367             | 494            | 0              | 19             | 13,529         | 16,525         |
| EBITDA-margin                                    | 9.4%              | 10.4%          | 2.9%            | 3.8%           |                |                | 8.9%           | 9.9%           |
| EBIT <sup>2</sup>                                | 5,715             | 7,530          | 179             | 308            | 23             | 42             | 5,917          | 7,880          |
| EBIT-margin                                      | 4.1%              | 4.9%           | 1.4%            | 2.3%           |                |                | 3.9%           | 4.7%           |
| Interest income                                  | 1,267             | 1,226          | 1               | 1              | -92            | -91            | 1,176          | 1,136          |
| Results from investments accounted for at equity | 3,850             | -2,484         | 0               | 0              | 0              | 0              | 3,850          | -2,484         |
| Interest expenses                                | 710               | 878            | 123             | 123            | -92            | -91            | 741            | 910            |
| Earnings before income taxes                     | 10,122            | 5,394          | 57              | 186            | 23             | 42             | 10,202         | 5,622          |
| Return on sales (before taxes)                   | 7.2%              | 3.5%           | 0.4%            | 1.4%           |                |                | 6.7%           | 3.4%           |
| Income taxes                                     | 2,738             | 2,256          | 23              | 66             | 6              | 13             | 2,767          | 2,335          |
| Capital expenditures <sup>3</sup>                | 4,815             | 5,064          | 199             | 278            | 0              | 0              | 5,014          | 5,342          |
| Depreciation                                     | 7,447             | 8,482          | 188             | 186            | -23            | -23            | 7,612          | 8,645          |
| Cash-flow <sup>3</sup>                           | 13,688            | 13,135         | 205             | 306            | 0              | 19             | 13,893         | 13,460         |
| Segment assets 31.12. <sup>4</sup>               | 111,014           | 113,575        | 6,762           | 7,689          | -58            | -88            | 117,718        | 121,176        |
| thereof non-current assets                       | (48,467)          | (48,076)       | (1,339)         | (1,368)        | (-17)          | (-40)          | (49,789)       | (49,404)       |
| Segment liabilities 31.12. <sup>5</sup>          | 16,080            | 15,964         | 1,498           | 1,651          | -41            | -48            | 17,537         | 17,567         |
| Employees (average)                              | 696               | 728            | 72              | 73             | 0              | 0              | 768            | 801            |

<sup>1</sup> EBITDA is the common international abbreviation of earnings before interest, taxes, depreciation and amortisation.

<sup>2</sup> EBIT is the common international abbreviation of earnings before interest and taxes. It is equivalent to the segment result.

<sup>3</sup> Capital expenditures and cash flow correspond with the item which is shown in the consolidated cash flow statement.

<sup>4</sup> Segment assets are the total assets of the segment less interest-bearing intercompany loans, cash and cash equivalents, deferred tax assets and other tax receivables.

<sup>5</sup> Segment liabilities are the business segment's total equity and liabilities less shareholders' equity, long-term provisions, tax liabilities, deferred tax liabilities and financial liabilities.

EBIT and EBIT-margin are the main key figures for corporate controlling.

The breakdown of Group sales by region is shown in paragraph 17 (Sales).

The table below shows a breakdown of the Group's assets by regions and maturities:

|                      | Total              |                    | Reamaining term<br>of up to 1 year |                    | Remaining term<br>of over 1 year |                    |
|----------------------|--------------------|--------------------|------------------------------------|--------------------|----------------------------------|--------------------|
|                      | 31.12.16<br>€ '000 | 31.12.15<br>€ '000 | 31.12.16<br>€ '000                 | 31.12.15<br>€ '000 | 31.12.16<br>€ '000               | 31.12.15<br>€ '000 |
| Germany              | 78,734             | 85,120             | 49,932                             | 55,476             | 28,802                           | 29,644             |
| EU (excl. Germany)   | 23,559             | 24,698             | 13,169                             | 13,533             | 10,390                           | 11,165             |
| Other Eastern Europe | 15,425             | 11,358             | 4,828                              | 2,764              | 10,597                           | 8,594              |
|                      | <b>117,718</b>     | <b>121,176</b>     | <b>67,929</b>                      | <b>71,773</b>      | <b>49,789</b>                    | <b>49,403</b>      |

#### (28) Research and development expenses

In the past fiscal year, € 2.621 million (previous year: € 2.538 million) were spent on the development of new designs.

#### (29) Audit expenses

In the past fiscal year, € 0.199 million (previous year: € 0.193 million) were spent on the audit of the financial statements of the fully consolidated companies as well as on the audit of the consolidated financial statements. The Group auditor received € 0.192 million (previous year: € 0.175 million) as well as an additional € 0.039 million (previous year: € 0.043 million) for tax consulting services and € 0.008 million (previous year: € 0.008 million) for other services.

#### (30) Risks from financial instruments

€ 0.301 million or 3.1% (previous year: € 0.727 million or 4.5%) of the total interest-bearing financial liabilities of € 9.575 million (previous year: € 16.177 million) represent variable-rate loans. Accordingly, a rise in interest rates by one percentage point would increase interest

expenses by € 0.003 million and reduce earnings after taxes by € 0.002 million. Most of the fixed-interest loans are medium-term or long-term loans and are repaid during their terms (see No. 12 above). Overall, A.S. Création is not subject to a material interest rate risk.

At the operating level, currency risks may occur whenever procurement and/or sales activities are not nominated in euros but in foreign currencies. Such foreign currency transactions are still negligible in the A.S. Création Group, so that operations are not exposed to a material currency risk. But this risk will increase as the activities in Russia are expended. By contrast very high currency risks result from the financing activities, i.e. from loans in foreign currencies. These exist at the Russian Group companies, which are mostly financed with euro-denominated shareholder loans. A depreciation of the rouble against the euro leads to translation-related non-cash exchange losses. A depreciation of the rouble by one percent would reduce earnings after taxes by approx. € 0.224 million.

Due to the specific structure of A.S. Création, interest rate or currency hedges as well as financial derivatives play only a minor role. Such hedges are generally taken out only for specific underlying transactions. Two interest rate hedges (interest rate swaps) whose term ends on December 30, 2018 and March 31, 2021 respectively existed on the balance sheet date. This interest rate hedge was signed together with a long-term variable-rate loan. Both transactions form an economic unit and thus represent a long-term fixed-rate loan (synthetic fixed rate loan). In this case, however, IAS 39 does not provide for the cash flows from the two transactions to be offset against each other but requires a separate valuation of the interest rate swap at fair market value (hedge accounting). Accordingly, the negative market value of the two interest rate hedges (after deferred taxes) in the amount of € -0.186 million (previous year: € -0.303 million) was recognised in equity as at the balance sheet date. Of this total amount, € 0.117 million (previous year: € 0.137 million) is shown in other comprehensive income. Going forward, the interest rate swaps will have no impact on the earnings after taxes.

Credit and default risks from financial instruments arise from the possibility that a contractual partner may fail to meet their (payment) obligations towards A.S. Création. The creditworthiness of the contractual partner therefore plays an important role in assessing the default risks. At the



operational level, default risks primarily result from trade receivables. A.S. Création's risk policy aims to limit the inherent risk. The company therefore uses available means such as credit insurance and bank guarantees to transfer the risk to third parties. These instruments do not always make economic sense, as they entail costs, and are not always available. Great importance is therefore attached to the monitoring of the agreed payment deadlines and credit lines in the context of internal debtor management. Despite these measures, not all default risks can be eliminated. The residual default risk is mitigated by allowances on trade receivables. The potential effects which a default could have on the net worth, financial and earnings position of A.S. Création can be assessed on the basis of the concentration of debtors. In this context, A.S. Création has identified no very high potential risk that could jeopardise its continued existence. Of the total trade receivables in an amount of € 24.830 million (previous year: € 28.240 million), € 5.502 million or 22.2% (previous year: € 6.846 million or 24.3%) were accounted for by the five largest debtors. At the financial level, default risks mainly relate to cash with banks and to the financing of the joint venture, 000 A.S. & Palitra. To minimise the default risk, A.S. Création only cooperates with banks that have excellent credit ratings and/or are connected to a deposit guarantee fund. The shareholder loans of € 16.919 million (previous year: € 17.171 million) granted to A.S. & Palitra constitute that material assets are tied up in a country exposed to much higher economic and political risks than Germany. The Managing Board believes, however, that the company should take these additional risks in what is the world's largest wallpaper market as they are outweighed by the resulting opportunities and the size of the additional risk is not considered to jeopardise the company's continued existence.

The liquidity risk is the risk of the company being unable to meet existing or future payment obligations due to a lack of cash or cash equivalents. To ensure that A.S. Création is able to meet its payment obligations, sufficient credit lines and cash and cash equivalents are maintained on the basis of the financial planning and systematic liquidity monitoring. As of the balance sheet date, the company had cash and cash equivalents and short-term deposits in the amount of € 21.226 million (previous year: € 16.468 million) and unused credit lines of € 12.210 million (previous year: € 14.277 million). In view of the high cash flow and the sound financial structure, financing and/or liquidity bottlenecks are not expected.

**(31) Additional disclosures on financial instruments**

The table below shows the carrying amounts and the amounts recognised as well as the fair values of the financial instruments:

|   | Amount recognised according to IAS 39 |                    | Amount recognised according to IAS 17 |                    | Carrying amount    |                    | Fair value         |                    |
|---|---------------------------------------|--------------------|---------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|   | 31.12.16<br>€ '000                    | 31.12.15<br>€ '000 | 31.12.16<br>€ '000                    | 31.12.15<br>€ '000 | 31.12.16<br>€ '000 | 31.12.15<br>€ '000 | 31.12.16<br>€ '000 | 31.12.15<br>€ '000 |
| Financial assets  | 10,548                                | 8,510              | 0                                     | 0                  | 10,548             | 8,510              | 10,548             | 8,510              |
| Trade receivables                                       | 24,830                                | 28,240             | 0                                     | 0                  | 24,830             | 28,240             | 24,830             | 28,240             |
| Other receivables                                       | 6,775                                 | 15,405             | 0                                     | 0                  | 6,775              | 15,405             | 6,775              | 15,405             |
| Cash and cash equivalents                               | 20,826                                | 6,918              | 0                                     | 0                  | 20,826             | 6,918              | 20,826             | 6,918              |
| <b>Loans and receivables</b>                            | <b>62,979</b>                         | <b>59,073</b>      | <b>0</b>                              | <b>0</b>           | <b>62,979</b>      | <b>59,073</b>      | <b>62,979</b>      | <b>59,073</b>      |
| Financial liabilities (without finance lease)           | 9,489                                 | 14,268             | 0                                     | 0                  | 9,489              | 14,268             | 9,722              | 14,647             |
| Other liabilities                                       | 1,757                                 | 1,807              | 0                                     | 0                  | 1,757              | 1,807              | 1,757              | 1,807              |
| Trade payables  | 7,119                                 | 6,070              | 0                                     | 0                  | 7,119              | 6,070              | 7,119              | 6,070              |
| <b>Financial liabilities measured at amortised cost</b> | <b>18,365</b>                         | <b>22,145</b>      | <b>0</b>                              | <b>0</b>           | <b>18,365</b>      | <b>22,145</b>      | <b>18,598</b>      | <b>22,524</b>      |
| <b>Financial derivative</b>                             | <b>271</b>                            | <b>440</b>         | <b>0</b>                              | <b>0</b>           | <b>271</b>         | <b>440</b>         | <b>271</b>         | <b>440</b>         |
| <b>Liabilities from finance lease</b>                   | <b>0</b>                              | <b>0</b>           | <b>86</b>                             | <b>1,909</b>       | <b>86</b>          | <b>1,909</b>       | <b>88</b>          | <b>1,997</b>       |

The balance sheet items correspond to the classes of financial assets and liabilities, as the instruments combined in the balance sheet items have the same properties and characteristics.

The loan to OOO A.S. & Palitra is shown under financial assets. As part of this loan was granted at a market interest rate only at the end of the previous year, the carrying amount on the balance sheet date was largely equivalent to the fair value.

Trade receivables, other receivables and cash mostly have short remaining maturities. As a result, the carrying amounts on the closing date approximate the fair values.

The fair values of the financial liabilities and the liabilities from finance leases are equivalent to the present values of the payments under the underlying contracts. The current long-term capital market interest rate plus a company-specific surcharge is used as the discount factor.

Due to the short remaining maturities of most of the trade payables and the other liabilities, the carrying amounts on the closing date approximate the fair values.

The financial derivatives are interest rate swaps (see Note No. 30), which are measured according to level 2 as defined in IFRS 13.81, i.e. at a derived fair value. The fair values of the other financial instruments are determined using unobservable inputs according to level 3. No reclassifications between the IFRS 13 hierarchy levels were made in the fiscal year.

In the fiscal year, net losses of € 0.243 million (previous year: € 2.320 million) resulted from bad debts and the change in bad debt write-downs.

Interest income totalling € 1.171 million (previous year: € 1.136 million) and interest expenses totalling € 0.454 million (previous year: € 0.649 million) resulted from the financial instruments in fiscal year.

### (32) Disclosures on capital management

The financial policy of A.S. Création is aimed at securing the company's ability to meet its payment obligations at all times as well as at minimising financial risks. Accordingly, A.S. Création has a high equity ratio, which stood at 68.8% on December 31, 2016 (previous year: 66.4%). When it comes to raising debt capital, the financing policy of A.S. Création generally provides for long-term loans with fixed interest rates and repayments during the term of the loans. As a result, A.S. Création's equity capital and debt capital are more than sufficient to finance assets that are tied up in the long term. As of December 31, 2016, the debt-to-equity ratio was 237.6% (previous year: 233.3%). Under its financial policy, A.S. Création additionally maintains liquidity reserves and free credit lines to be able to cover short-term financing requirements arising from its operating activities.

### (33) Managing Board

The Managing Board had the following members in FY 2016:

|  | Responsible for          | Supervisory Board member |
|--|--------------------------|--------------------------|
| Maik Holger Krämer<br>Chairman                 | Finance and Controlling  | –                        |
| Roland Werner Bantel                           | Sales and Marketing      | –                        |
| Antonios Suskas                                | Production and Logistics | –                        |
| Jörn Kämper<br>Chairman (until March 31, 2016) | Sales and Marketing      | –                        |

As of the balance sheet date, members of the Managing Board held 2,633 shares (previous year: 5,133 shares) in the company.

### (34) Supervisory Board

In FY 2016, the Supervisory Board was comprised as follows:

|   | Profession practised   | Supervisory Board member      |
|---|--|-------------------------------|
| Franz Jürgen Schneider<br>Chairman                | Businessman  | –                             |
| Jella Susanne Benner-Heinacher<br>Vice Chairwoman | Lawyer and Vice Managing Director of the DSW e. V., Düsseldorf (a German Shareholders's Association) | K+S AG, Kassel                |
| Dr. Volker Hues                                   | Managing Board Member of the Jungheinrich AG, Hamburg  | –                             |
| Peter Mourschinetz<br>Employee representative     | Works council member released from productive working duties   | –                             |
| Jochen Müller                                     | Managing Board Member of the LSG Lufthansa Service Holding AG, Neu-Isenburg                          | Alpha LSG Ltd., Manchester/UK |
| Rolf Schmuck<br>Employee representative           | Works council member released from productive working duties   | –                             |

As of the balance sheet date, members of the Supervisory Board held 885,646 shares (previous year: 885,646 shares) in the company.

### (35) Compensation of the Board / Loans to the Board

The annual salaries of the Managing Board members in fiscal 2016 totalled € 1.444 million (previous year: € 1.565 million). In addition, the payments to a relief fund and the reversal of pension provisions resulted in net expenses in an amount of € 0.041 million (previous year: € 0.029 million).

The compensation of the Supervisory Board members in fiscal 2016 totalled € 0.163 million (previous year: € 0.163 million).

Details of the compensation of the Supervisory Board and the Managing Board are presented in the management report.

No credit agreements with members of the Supervisory Board or the Managing Board existed as of the balance sheet date.

Provisions for pensions for former members of the Managing Board and their surviving dependents amounted to € 2.324 million (previous year: € 2.247 million) as of the balance sheet date. Pension payments to former members of the Managing Board and their surviving dependents amounted to € 0.123 million (previous year: € 0.121 million).

### (36) Related party transactions

All business relations with related parties are contractually agreed and conducted on an arm's length basis.

In the fiscal year, A.S. Création maintained business relations with 000 A.S. & Palitra (also see note No. 3), which is accounted for using the equity method. In this context, shareholder loans were granted, services were provided to the company and goods were acquired by the company. In accordance with the loan agreements, interest payments that become due during the start-up phase until June 30, 2017 are deferred until the end of the agreement. The resulting receivable has been discounted accordingly. Details of the business relationship are shown below:

|                 | 2016   | 2015   |
|-----------------|--------|--------|
|                 | € '000 | € '000 |
| Sales           | 370    | 314    |
| Purchases       | 4,900  | 4,956  |
| Interest income | 1,153  | 1,108  |

|                   | 31.12.16 | 31.12.15 |
|-------------------|----------|----------|
|                   | € '000   | € '000   |
| Shareholder loans | 16,919   | 17,171   |
| Receivables       | 4,641    | 3,523    |
| Liabilities       | 1,361    | 638      |

Franz Jürgen Schneider is Chairman of the Managing Board of A.S. Création Tapeten-Stiftung, a charitable foundation established by him. In the past fiscal year, A.S. Création Tapeten-Stiftung received a donation of € 0.020 million (previous year: € 0.015 million) from A.S. Création Tapeten AG in support of its work.

A.S. Création Tapeten AG has signed agreements with Franz Jürgen Schneider and Jörn Kämper, under which they are released from potential penalties and claims for damages in conjunction with the anti-trust proceedings. Moreover, the company has undertaken to bear any defence counsel and/or court expenses. These release agreements were approved by the Annual General Meeting of Shareholders on May 3, 2013. As in the previous year, no expenses were incurred in this context in the fiscal year.

Mr Roland Werner Bantel acquired a used car at a market price of € 0.016 million from A.S. Création Tapeten AG.

### **(37) Declaration of conformity with the German Corporate Governance Code**

On March 1, 2016, the Managing Board and the Supervisory Board issued the declaration of conformity for FY 2016 in accordance with section 161 of the German Stock Corporation Act (Aktiengesetz AktG), which has been made permanently available to the company's shareholders on its website. The declaration of conformity for FY 2017 will be discussed and adopted at the Supervisory Board meeting on March 8, 2017. This declaration will be published on the company's website and in the chapter "Corporate governance statement and report on corporate governance" of the 2016 Annual Report.

### **(38) Post balance sheet events**

No events that require reporting have occurred.

The Managing Board of A.S. Création Tapeten AG has today released the consolidated financial statements and the group management report for being passed on to the Supervisory Board.

The latter has the task to review the consolidated financial statements and the group management report and will declare whether it approves the consolidated financial statements and the group management report in its meeting on March 8, 2017.

Gummersbach, February 20, 2017

A.S. Création Tapeten AG  
The Managing Board

Krämer

Bantel

Suskas

## Auditor's report

We issued the following opinion on the consolidated financial statements and the group management report:

"We have audited the consolidated financial statements prepared by A.S. Création Tapeten AG, Gummersbach, comprising the balance sheet, the income statement, the statement of comprehensive income, the notes to the consolidated financial statements, the cash flow statement and the statement of changes in equity, together with the group management report for the fiscal year from 1 January 2016 to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs [International Financial Reporting Standards] as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 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 group 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 group 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 the group 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 and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB 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 group management report is consistent with the consolidated financial statements, complies with legal regulations and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Cologne, March 3, 2017

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Gockel  
Wirtschaftsprüfer  
(German Public Auditor)

Galden  
Wirtschaftsprüfer  
(German Public Auditor)

## CORPORATE CALENDAR

131

|                  |   |
|------------------|---|
| March 23, 2017   | Analyst presentation  |
| May 4, 2017      | Interim report for the three-month period ended March 31, 2017    |
| May 4, 2017      | Annual General Meeting of Shareholders                            |
| July 27, 2017    | Interim report for the six-month period ended June 30, 2017       |
| October 26, 2017 | Interim report for the nine-month period ended September 30, 2017 |

## IMPRINT

Print

Druckhaus Gummersbach PP GmbH, Gummersbach

A.S. Création Tapeten AG

Südstraße 47

D-51645 Gummersbach-Derschlag

Germany

phone +49 (0) 22 61/5 42-0

fax +49 (0) 22 61/5 58 83

e-mail [contact@as-creation.de](mailto:contact@as-creation.de)

[www.as-creation.de](http://www.as-creation.de)



The paper, used for the annual report, is certified following the regulations of the Forest Stewardship Council® (FSC®)

**Cover photo:**    **DESIGNDSCHUNGEL BY LAURA N.**

The blogger Laura N. presents a collection which is characterized by a selection of floral and geometric motifs with trendy colours and matching plain colours. Stylish palm leaves bring variety to the wall, making them look vivacious and refreshing.

(Original sample item no. 34125-1)





