Annual Report 2017

cewe

CEWE AT A GLANCE

24
EUROPEAN COUNTRIES

3,600
EMPLOYEES

9
DISTRIBUTION OFFICES

17,000
CEWE INSTANT PHOTO stations

12
PLANTS

6 MILLION
CEWE PHOTOBOOKS

2.2
BILLION PHOTOS PRODUCED

RETAILERS SUPPLIED
20,000

599.4
MILLIONS OF EUROS OF TURNOVER

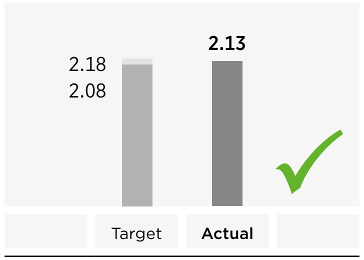
"Together with all of the company's employees, we have ensured that the established market leader for industrial photofinishing of analogue photos and films is now also the market leader in the market for digital photo products. As the no. 1 product on the market, CEWE PHOTOBOOK is the outstanding symbol of this successful transformation. With CEWE CALENDARS, CEWE CARDS and CEWE WALL ART, we have now brought further brand products onto the market. We intend to build on this position. We have also added online offset printing to our expertise in the field of digital printing and developed our Commercial Online Printing business."

Dr Christian Friege, Chairman of the Board of Management of Neumüller CEWE COLOR Stiftung

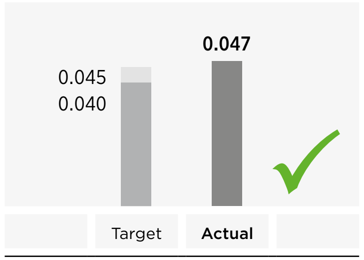
HIGHLIGHTS 2017

Targets for 2017 achieved

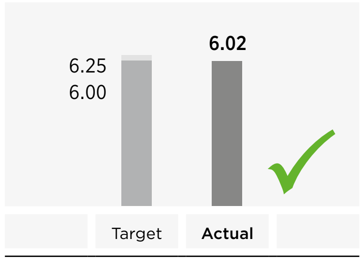
Digital prints *in billion units*



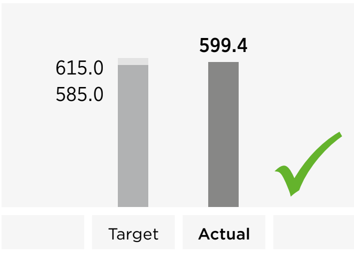
Prints from film *in billion units*



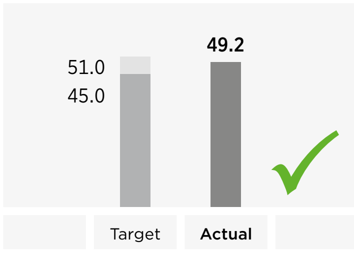
CEWE PHOTOBOOKS *in million units*



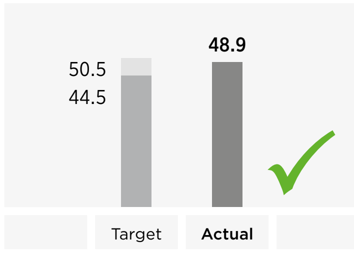
Turnover *in million euros*



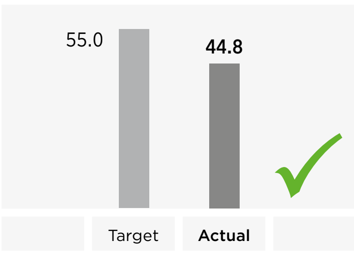
EBIT *in million euros*



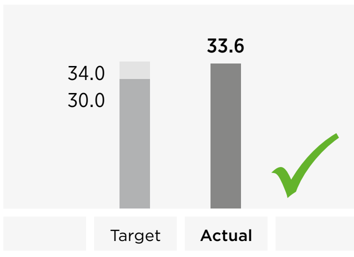
EBT *in million euros*



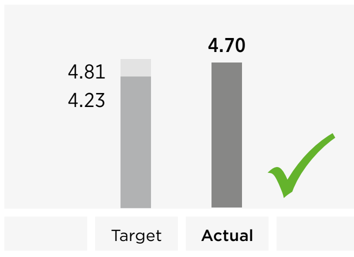
Investments *in million euros*



Earnings after taxes *in million euros*



Earnings per share *in euros / share*



Photofinishing sales

- At 2.18 billion photos, total volume of photos is within the expected range
- 6.0 million CEWE PHOTOBOOKS sold despite value added tax increase
- Increased volume of CEWE CALENDARS, CEWE WALL ART, CEWE CARDS and other photo gifts, reinforcing the trend of higher-quality products
- 97.8 % of photos are digital
- 64.5 % of all photos are collected from retail stores

Photofinishing turnover

- CEWE brand products achieve further growth and strengthen Photofinishing turnover
- Turnover per photo continues to increase: + 4.3 % to 21.12 euro cents per photo
- Photofinishing turnover of 459.3 million euros in 2017: + 1.6 % on previous year
- Fourth-quarter turnover increases by 2.8 % to 195.4 million euros

Photofinishing earnings

- Photofinishing EBIT increases to 53.9 million euros in 2017 (2016: 52.0 million euros, + 3.7 %)
- Photofinishing's operating margin once again increases in 2017 as a whole and now amounts to 11.9 % (2016: 11.7 %).
- Fourth quarter delivers 89 % of Photofinishing's EBIT for the year as a whole

Results in the Commercial Online Printing business unit

- Business trend in 2017 shaped by Brexit in the UK as well as price pressure in Germany
- Turnover unchanged in 2017 at 84.0 million euros (2016: 84.0 million euros).
- EBIT likewise unchanged on the previous year at 1.6 million euros

Retail results

- Focus on margins and difficult market situation for high-end reflex cameras reduces turnover by 3.5 % in 2017: 53.0 million euros (2016: 54.9 million euros)
- EBIT once again positive following repositioning of business: 0.3 million euros (2016: 0.6 million euros)

Consolidated profit and loss account

- Group turnover increases to 599.4 million euros (2016: 593.1 million euros)
- All of the company's goals for 2017 achieved or surpassed: Group EBIT of 49.2 million euros
- Good fourth quarter with a result (EBIT) of 46.1 million euros (Q4 2016: 42.9 million euros, + 7.2 %)
- EBIT margin improves within the Group from 7.9 % (2016) to 8.2 % (2017)
- Group tax rate of 31.3 %
- Earnings per share increase to 4.70 euros (2016: 4.25 euros / share)

Balance sheet and financing

- Solid balance sheet: equity ratio rises to 56.0 %
- Operating net working capital stable at 39.0 million euros
- Solid financing structure: net cash position of 37.2 million euros – as always, with an annual high on December 31

Cash flow

- Working capital and tax payments cause cash flow from operating activities to decrease to 72.4 million euros
- Purchase of Saxopark results in increase in net cash used in investing activities
- Christmas business results in 10.4 million euros growth in free cash flow for the fourth quarter

Return on capital employed

- Average capital employed increased to 244.3 million euros due to the purchase of Saxopark
- ROCE of 20.1 % due to increase in capital employed

CEWE – Europe’s online printing and photo service

CEWE supplies consumers with photos and digital print products via over-the-counter trade as well as Internet sales. CEWE is the service partner for the leading brands on the European photography market. In 2017, the company developed and produced 2.2 billion photos – including over 6 million CEWE PHOTOBOOKS as well as photo gifts. CEWE PHOTOBOOK (Europe’s leading photo book brand) and the company’s other product brands CEWE CALENDARS, CEWE CARDS and CEWE WALL ART, easy-to-use ordering applications (PC, Mac and mobile iOS, Android and Windows), our high level of expertise in digital printing, the benefits of scale offered by our efficient industrial production and logistics system, broad distribution via the Internet, over 20,000 retailers supplied and over 17,000 CEWE PHOTOSTATIONS are the key competitive advantages of CEWE’s Photofinishing business.

As well as these photo products, CEWE’s Retail business also distributes photographic hardware (e. g. cameras) in several countries.

Through its brands CEWE-PRINT.de, Saxoprint and viaprinto, in its Commercial Online Printing business unit CEWE is increasingly serving customers as an online printing service provider through printed advertising media which can be ordered online, such as flyers, posters, brochures, business cards, etc.

Plants

Oldenburg, Mönchengladbach, Eschbach, Germering, Dresden, Bad Kreuznach (all DE), Warwick (GB), Montpellier (FR), Rennes (FR), Koźle (PL), Prague (CZ), Budapest (HU)

Distribution offices

Paris (FR), Mechelen (BE), Nunspeet (NL), Aarhus (DK), Oslo (NO), Gothenburg (SE), Zurich (CH), Vienna (AT), Bratislava (SK)

Delivery area

Germany, Ireland, United Kingdom, Norway, Sweden, Finland, Denmark, Lithuania, Belgium, Luxembourg, Netherlands, Spain, Portugal, France, Switzerland, Italy, Austria, Slovenia, Hungary, Croatia, Poland, Czech Republic, Slovakia, Romania

Page reference
Reference to table or graphic
Internet reference
Supplementary information


CEWE FOTOBUCH Pure
Instagram Highlights
Instagram Highlights

Board of Management of Neumüller CEWE COLOR Stiftung as the general partner of CEWE Stiftung & Co. KGaA

Dear Shareholders,

All three of the company's business units have once again provided positive earnings contributions

A very important trend seen in 2016 continued in 2017. In previous years, we occasionally reported negative earnings for some business units – that's just the way life goes. In Commercial Online Printing, we incurred outlays to develop our business, for instance, while we restructured our hardware retail activities. In 2016 and now once again in 2017, all of the members of our family have reported positive earnings figures. This is a very solid result!

CEWE has increased its turnover and earnings figures

On this basis, in 2017 we once again improved on CEWE's top results: the dials came to a halt at a turnover volume of 599.4 million euros (+1.1%) and an EBIT figure of 49.2 million euros (+4.7%). Those of you who can recall our series of long-term figures (you will also find them on p. 232 of this annual report) will hopefully be able to savour these results with us for a moment. In 2017, the entire CEWE team once again provided a highly respectable performance!

Photofinishing business unit significantly impeded due to value added tax increase

As we had already informed you: since the German lawmaker ultimately did not take any countermeasures in response to a change at European level, from January 1, 2017 all photo book providers were required to raise the level of value added tax on this product from the normal 7% for books to 19%. We had already factored this into our prices. At the start of the year, we immediately noticed that this – alongside effects such as the termination of deliveries to non-profitable business partners at the same time – had reduced demand for the highly successful CEWE PHOTOBOOK which plays an important role for your company.

Effect of tax increase mitigated in the second half of the year

Overall, in the first half of 2017 the level of consumer demand for CEWE PHOTOBOOK declined by approx. 7.9 %. We attribute around half of this decline in demand to the tax increase. In the second half of the year, consumers appear to have got used to the increased gross price level. CEWE PHOTOBOOK sales achieved further growth of + 0.3 %. In the financial year 2017, the volume decreased by 2.9 %, from 6.2 to 6.0 million copies. In this small, tax-related scuffle, your company has thus “once again got off lightly”.

Photofinishing once again contributes the biggest success

Nor did the headwind for CEWE PHOTOBOOK have any impact on the overall result for Photofinishing. In overall terms, other value-added products in particular – above all, CEWE CALENDAR, CEWE WALL ART and other photo gifts – generated a turnover increase of + 1.6 % and an EBIT increase of + 3.7 %. Christmas business in the fourth quarter was a great success and contributed the lion’s share of our profit.

Hardware retail once again delivers a positive result in 2017

CEWE also sells photo hardware (cameras, lenses, bags etc.) in order to gain customers for its Photofinishing business through these websites and retail stores. We are encouraging this trend by increasingly emphasising Photofinishing products from the point of view of our presentation of products and our sales efforts. We once again succeeded in this goal in 2017: turnover in the Photofinishing business unit which was generated through this channel increased by + 8.0 %, while turnover for our hardware retail business declined by – 3.5 %. Nonetheless, hardware retail provided a small positive EBIT figure. A highly focused trend in this business unit.

Commercial Online Printing in a difficult Brexit year…

Even though by the summer of 2017 a year had passed since the Brexit decision, in the second half of the year and thus throughout 2017 a further decline in demand for our Saxoprint brand was apparent in the UK, which was actually amplified in accounting terms through the pound's exchange rate losses. Since a competitor in Germany engaged in fierce price competition at the same time, the Group's other countries were only able to make up for these adverse trends to the point of zero turnover growth (+ 0.0 %).

… with stable, positive earnings and one bright spot in the final quarter

The EBIT figure also stagnated at 1.6 million euros. At any rate, this is clearly positive. The phase of major marketing investments for Commercial Online Printing is over. Nonetheless, this result has not matched our expectations and we will do all that we can in order to end 2018 with a better result. We have worked out how to achieve this, and in the fourth quarter an increase in earnings of almost 30 % on the previous year was already apparent. Of the profit for the year of 1.6 million euros, 1.4 million euros were generated in the fourth quarter. Things are thus moving in the right direction.

Acquisition of the online printing firm Laserline in early 2018 is intended to strengthen business

The acquisition of the Berlin online printing firm Laserline became effective at the start of the year. This move is intended to provide further growth momentum in this business unit which we believe is still capable of great things.

Dr Rolf Hollander is still chairman: but of the Board of Trustees rather than the Board of Management

As noted above, our turnover and earnings reached new record levels in 2017. To a very considerable extent, this is down to Dr Rolf Hollander, who was the Chairman of the Board of Management of CEWE Stiftung & Co. KGaA until June 30, 2017 and then took up the position of Chairman of the Board of Trustees of Neumüller CEWE COLOR Stiftung on July 1, 2017. He took over here from Mr Wilfried Mocken, who retired from the Board of Trustees on grounds of old age, following 26 years of distinguished service. Apart from the company's new chairman, who had already worked for the company for two years and already held a seat on the Board of Management, there were no further changes on the Board of Management. With this structure, the ongoing development of CEWE will be pursued with the same values as in the past few years.

Dividend to increase for the ninth consecutive time

Our continuous dividend growth reflects the company's successful development over the past few years. In 2018, we expect to be able to continue this trend and look forward to providing you with a proposal for another dividend increase at our general meeting.

More than 80 % of CEWE's team are also shareholders

In 2018, CEWE's employees will once again substantially benefit from this dividend. In 2017, CEWE launched an expanded employee shares programme: more than 80 % of all of our employees took up this opportunity. CEWE would like to enable many of its employees to acquire their own stake in CEWE, just as many of them are also customers who purchase their own CEWE products. It is good when the people who work in a company are also its customers and shareholders and thus have a direct understanding of their interests. We would be delighted to further strengthen this trend.

We are busy preparing for Christmas while you enjoy the spring

The first quarter is now almost over. Your CEWE team is hard at work on delivering a successful 2018. In Commercial Online Printing, entire action plans are being rolled out in order to boost earnings. Photofinishing is working on new products for 2018 and (strange though it may sound to you) is already limbering up for the 2018 Christmas season since, as a German football manager once remarked, “after the match is before the match”.

Let us take care of this work while you enjoy the spring. Take a few photos and treat yourself to some matching CEWE product products. Or use our Online Printing brands Saxoprint, CEWE-PRINT, viaprinto and Laserline. All of our CEWE teams are at your service.

Oldenburg, March 15, 2018

Best wishes, Christian Friege

Otto Korte, Chairman of the Supervisory Board of CEWE Stiftung & Co. KGaA and Member of the Board of Trustees of Neumüller CEWE COLOR Stiftung

REPORT OF THE SUPERVISORY BOARD

Dear shareholders, dear friends of our company,

In the year under review, the Supervisory Board duly performed the tasks required of it by law, the company's articles of association and the Supervisory Board's rules of procedure as well as the German Corporate Governance Code. In particular, we carefully and regularly monitored the work of the Board of Management and advised it on its management and its strategic development of the company and in case of key decisions.

Meetings of the Supervisory Board

The Supervisory Board met five times in the year under review, on February 9, March 15 (balance sheet meeting), May 31, September 14 and November 8.

In case of need, following its joint meetings with the Board of Management the Supervisory Board held further, internal meetings.

Core issues dealt with by the Supervisory Board

The Board of Management notified us of the Group's turnover and earnings trends at every meeting of the Supervisory Board held in the year under review; it also commented on the Group's performance in the individual business units and reported on each segment's net assets and results of operations as well as the Group's liquidity position and compliance with credit covenants.

The Supervisory Board continuously reviewed the general partner's maintenance of an effective risk management system. In this respect, at one meeting the Board of Management outlined the company's tax compliance system.

The Supervisory Board also considered specific issues such as data protection and data security, the company's Commercial Online Printing strategy, central purchasing and the changing nature of customer behaviour due to the use of mobile devices.

The Supervisory Board's meetings were once again very well attended. Three employees were each absent on one occasion.

Committee meetings

Mr Dell´ Antonio was elected to the Nomination Committee as the successor of the deceased Professor Dr Appelrath.

The Nomination Committee met twice in the year under review and prepared for the election of the shareholders' members which is due to be held at the 2018 general meeting by talking to various candidates.

The Audit Committee met on March 14, 2017 and November 8, 2017, under the chairmanship of Ms Corinna Linner. One member was unable to attend one meeting. These meetings were strongly influenced by the increasing scope of regulation from Brussels and its transposition in German law.

At its meeting of March 14, 2017, the Audit Committee approved its guidelines on prior consent in relation to non-audit services of the auditor, for their referral to the Supervisory Board. In the presence of the Chairman of the Board of Management and the Chief Financial Officer, the Audit Committee considered the financial statements and management reports of CEWE Stiftung & Co. KGaA and the Group, as well as the report on related parties. The Audit Committee also requested explanations of the audit activities for the Group's German and foreign subsidiaries as well as the audit findings in relation to key matters such as the impairment test, finalisation of the PPA for DeinDesign and futalis and implementation of the accounting rules for lease agreements.

The audit findings have not given rise to any objections in relation to the internal control system, risk management and compliance with corporate governance regulations.

The auditor's representatives commented on the new audit opinion.

At the meeting held on November 8, 2017, the auditor outlined the key findings of its preliminary audit. The Audit Committee discussed the new legal requirements regarding the audit opinion as well as the company-specific key audit matters.

Finally, the transposition of the CSR directive was also a subject of discussion. The Audit Committee resolved to issue the Supervisory Board with a recommendation for the auditor to review the non-financial declaration.

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Corporate governance

In the year under review, the members of the Supervisory Board once again pursued discussions regarding the German Corporate Governance Code, and the changes made to it.

In the year under review, the Supervisory Board included five female members and thus fulfils the quota which is required by law.

For the financial year 2017, the Board of Management and the Supervisory Board have submitted an updated declaration of conformity in accordance with § 161 of the German Stock Corporation Act (Aktiengesetz – AktG), which has been permanently available on the company's website since February 1, 2018. In addition, in the Board of Management's corporate governance report – which the Supervisory Board adopts as its own – the Board of Management reports on corporate governance at CEWE.

Quarterly reports

The Supervisory Board has discussed the figures and the statements made in the quarterly reports with the Board of Management prior to publication, in some cases in face-to-face meetings or telephone conferences.

Conflicts of interest

There were no conflicts of interest on the part of members of the Board of Management or the Supervisory Board which must be immediately disclosed to the Supervisory Board and notified to the general meeting.

Efficiency review

In early 2017, the Supervisory Board implemented an evaluation process through which employees responded in questionnaires to various aspects of the Supervisory Board's activities. The results were discussed at its meeting of March 15, 2017. In the opinion of the members of the Supervisory Board, this evaluation did not pinpoint any significant developments or facts which would require a change in the work of the Supervisory Board.

Changes to the Supervisory Board and the Board of Management

Mr Paolo Dell'Antonio attended a meeting of the Supervisory Board for the first time on February 9, 2017. Mr Sommer has been the Deputy Chairman of the Supervisory Board since January 1, 2017, while Ms Ackermann will remain a regular member of the Supervisory Board up to the end of the general meeting on June 6, 2018. Dr Christian Friege succeeded Dr Rolf Hollander as the Chairman of the Board of Management on July 1, 2017. The Supervisory Board would like to thank Dr Hollander for his long and highly distinguished service. In future, Dr Hollander will continue to contribute his knowledge and experience as the Chairman of the Board of Trustees of Neumüller CEWE COLOR Stiftung.

Annual financial statements and consolidated financial statements, audit

The annual financial statements of CEWE Stiftung & Co. KGaA and its combined management report have been prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB), while the consolidated financial statements and the combined management report have been prepared in compliance with the International Financial Reporting Standards (IFRS), as applied in the European Union (EU), as well as the provisions of German law which apply in addition under § 315a (1) HGB.

BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, (BDO), which was appointed as the auditor for the financial year 2017 by the general meeting, audited the annual financial statements 2017 of CEWE Stiftung & Co. KGaA and also the consolidated financial statements and the management reports and issued an unqualified auditor's opinion for each of them. BDO conducted its audit in accordance with § 317 HGB and the German generally accepted standards for auditing of financial statements promulgated by the German Institute of Chartered Accountants (Institut der Wirtschaftsprüfer e. V. – IDW) while also complying with the International Standards on Auditing (ISA).

At its meeting held on March 14, 2018, the Audit Committee initially verified on the basis of the audit reports and the Board of Management's report that these two sets of financial statements and the combined management report provide a true and fair view of the net assets, financial position and results of operations in compliance with applicable accounting regulations. The auditor was available in order to participate in the discussions regarding the annual financial statements and the combined management report and to report on the key findings of his audit, in particular the nature of the company's internal control and risk management system in relation to the accounting process. The chair of the Audit Committee reported to the Supervisory Board on these discussions.

For its part, the Supervisory Board also audited the annual financial statements, the combined management report and the proposal for appropriation of unappropriated profits and the consolidated financial statements as well as the combined management report for the financial year 2017. All of these documents were provided in good time. Representatives of the auditor were also present at the balance sheet meeting of the Supervisory Board held on March 15, 2018 and were available to provide further information. Additional questions from the members of the Supervisory Board prompted an in-depth discussion of the results.

The Supervisory Board was able to verify the appropriateness of the general partner's proposal for appropriation of unappropriated profits in relation to the company's net assets, financial position and results of operations and agreed to this proposal, following a discussion in the presence of the auditor.

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Page 111 | Risk management system

Following a preliminary audit by the Audit Committee, the Supervisory Board audited and endorsed the annual financial statements and the consolidated financial statements of CEWE Stiftung & Co. KGaA as well as the combined management report, and found that there were no grounds for objections. Following a discussion at its balance sheet meeting held on March 15, 2018, the Supervisory Board agreed to the general partner's proposal to the general meeting for approval of the annual financial statements of CEWE Stiftung & Co. KGaA and issued its consent for the general partner's proposal for the appropriation of profits, with the distribution of a dividend of 1.85 euros.

Separate non-financial report (§ 289 b HGB)

Within the scope of first-time application of the German Act Transposing the CSR Directive (CSR-Richtlinie-Umsetzungsgesetz) of April 11, 2017 (Federal Law Gazette I p. 802), the Board of Management has elected to prepare a separate non-financial report pursuant to § 289 b (3) HGB and to make this available on the company's website by April 30, 2018, within the period required by law. The Supervisory Board has commissioned the auditor to audit the separate non-financial report and to provide a written report on its audit findings.

Report on related parties

The Supervisory Board's independent audit also covered the report prepared by the general partner pursuant to § 312 AktG on relationships with affiliates (report on related parties) for the year under review. The report on related parties has also been audited by the auditor, which has issued the following audit opinion for this report:

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"Upon due completion of our audit and assessment, we hereby confirm that

1. the factual statements provided in the report are accurate,

2. the company has not made any disproportionately large payment for any of the legal transactions listed in the report."

The auditor's audit report on the report on related parties has also been presented to all of the members of the Supervisory Board. These documents were available to the Audit Committee at its meeting held on March 14, 2018 and to the Supervisory Board at its balance sheet meeting held on March 15, 2018. Even after consultation with the auditor and the Board of Management following the final outcome of its audit, the Supervisory Board has not raised any objections in relation to the general partner's declaration at the end of its report on related parties. The Supervisory Board has approvingly noted the outcome of the auditor's audit of the report on related parties.

Thanks

CEWE once again achieved an outstanding result in 2017. Its share price developed in line with this trend. The Supervisory Board would like to thank the members of the Board of Management and all of the company's employees for the commitment which they have displayed.

Oldenburg, March 15, 2018

The Supervisory Board of CEWE Stiftung & Co. KGaA

Otto Korte, Chairman

INTERVIEW WITH DR CHRISTIAN FRIEGE

Chairman of the Board of Management of Neumüller CEWE COLOR Stiftung

Dr Friege, what's it like to be sitting in the boss's chair?

(Laughs) It's nice. Particularly at CEWE. After all, we have more than 3,500 people here at CEWE who are doing their level best to make the experience of sitting in this chair as easy as possible.

But in all seriousness: it is a pleasure to announce the figures for 2017. CEWE performed very strongly in 2017. I would like to thank Dr Hollander in particular for that. He guided CEWE extraordinarily well through the analogue / digital transformation and, above all, he helped initiate the company's transition from a white label manufacturer to a brand manufacturer. He pushed through this process of internal cultural change very well. That achievement underpinned our strong performance in the past year.

And we can face our shareholders with a clear conscience, having once again boosted our turnover (599.4 million euros) and profit (EBIT of 49.2 million euros). Those figures of nearly 600 million euros in turnover volume and 50 million euros in EBIT make quite an impact.

Yes, that's quite right. But before we gaze into the future, let's have one more look at the figures for 2017. A free cash flow in 2017 of 2.2 million euros, compared to 46.4 in the previous year? Can you really face the company's shareholders with a clear conscience with that figure?

That's a good question. Let's have a look at each of the two components of the free cash flow. Free cash flow comprises…

… cash flow from operating activities less cash flow from investing activities.

That's right. In the cash flow from operating activities item we need to look, above all, at the elements which represent the difference between these two years:

In 2016, business partners brought forward their payments from December 2016, thus resulting in a positive effect in the amount of 9.3 million euros.

2.2 billion photos produced

over 35,000 tonnes of printed paper

over 6 million CEWE PHOTOBOOKS

Moreover, tax payments have increased by 13.4 million euros on the previous year, even though we have noted a declining tax rate for the Group. This is due to the fact that taxes are not always paid in the years in which they arise.

As you can see, if we leave off the postponements from one year to the next due to business partners' payment behaviour and the tax office's payment requests and consider the other payment flows separately, then the cash flow from operating activities in 2017 was actually slightly higher than in 2016. So things are as they should be.

So why has your cash flow from investing activities increased by a solid 23.6 million euros to an impressive 70.2 million euros, so that your free cash flow is just about positive?

You have to take opportunities as they present themselves. Of these 70.2 million euros, we invested 27.6 million euros – which is more than the additional investment volume that you were asking about – in Saxopark in Dresden. This is the property we had been leasing from Saxoprint's founder since we purchased Saxoprint in 2012. He had planned on selling this property, and a real estate fund made an attempt to buy it. We exercised our right of first refusal which we secured when we purchased Saxoprint. With this clever move, we not only (a) avoided a potential rent increase following the expiry of the current agreement or (b) – worse still – the need for a very costly relocation, we now also have (c) rental income in currently unused areas which (d) provide us with the opportunity for growth at our Dresden site. From a strategic point of view, we had to step in here. And if you calculate the current yield on this investment from rent savings and rental income, the result is a good 6.6 %. To be sure, that's not yet at the same level as our ROCE of more than 20 %, and we realise that. But the yield is really good for such a safe investment – particularly in the current market situation – and from a strategic point of view this is a valuable step for us, as I have just outlined.

If you now have enough space in Dresden to install even more machinery, why the need to acquire the printing firm Laserline in Berlin, which will now adversely affect your cash flow in 2018?

We didn't buy Laserline because of printing capacities. On the contrary. Laserline's management itself had already initiated entirely appropriate consolidation measures, so as to reduce its 2 sites in Berlin to a single site. We acquired Laserline because the company is particularly strong in the Berlin online printing market. The company's founder, Mr Bucec, consistently developed this great market position over a period of many years, which meant that other online printing companies always struggled there, us included. When Mr Bucec approached us to talk about a sale, we were happy to enter into a discussion. The price was right and we quickly reached an agreement.

In 2018, we envisage turnover of 15 million euros which will strengthen growth in our Commercial Online Printing business unit.

You'll need that. For 2017, the books show "growth" of 0.0 %.

You are quite right. What more can I say? We're not satisfied with our performance in our Commercial Online Printing business unit in 2017. We provided a detailed context for this in our Annual Report 2017 and our previous quarterly reports. It's all to do with Brexit and price behaviour on the market, the latter spurred on by one competitor in particular. That's all I have to say about that.

But does this mean that our colleagues have handled things badly? Not at all. On the contrary, they're doing a great job at SAXOPRINT, CEWE-PRINT.de and viaprinto – and, in future, I will also have to include Laserline in that list. In 2017, things simply didn't go any better than that. I already mentioned the reasons.

But one bright spot is that growth once again picked up in the second half of the year, and this phase also generated a significant portion of the year's profit. I am optimistic when it comes to Commercial Online Printing in 2018.

What about your optimism regarding Photofinishing? At the start of 2017, the rate of value added tax was raised in CEWE's key German market and your company saw dark clouds on the horizon for photo book sales.

I like the imagery you use, but we didn't see any dark clouds on the horizon for CEWE PHOTOBOOK sales. In fact, we've always emphasised that as a high-end provider we would perhaps not be affected quite so much as our competitors who mainly serve the cheaper end of the market.

In that respect, CEWE has coped reasonably well with that "tax gift". I will also say a bit more about this important issue in my letter to the shareholders. Nevertheless, the industry as a whole has suffered. Our industry's association spent a long time trying to influence the parties, the ministries and the other entities involved, in Berlin and Germany's federal states. But in the end, it was all to no avail. Does that mean that politicians and the finance ministry won't let go of tax revenues if an opportunity presents itself? I don't think anyone there is quite that dogmatic.

Let's put it this way: the efforts of our industry association came during the phase of the final legislative processes in the last parliament. It was a hectic time when people were already gearing up for the election. And quite understandably so. Far be it for me to get in the way of our industry's association if, in calmer times, it once again seeks to explain in Berlin and elsewhere: "A photo book is still a book, like any other illustrated book, and should be subject to a 7 % tax rate."

But back to your question: I have a good feeling about Photofinishing. We "just" need to continue the trend of the past few years. And we have many measures available to us which should help with that. We "just" need to implement them all. Everyone at CEWE is hard at work on that, but with a great deal of enthusiasm, as always.

But if everything is going so well in Photofinishing, what is the reason for your acquisition of Cheerz which you just announced? That merely ups the full load you just mentioned even further. And allow me to add one more thing: CEWE is known for its thriftiness, so how does 36 million euros for 80 % of a start-up fit in with that?

(Sighs) … Let's take one thing at a time

First of all, the expenses: the aim is for the expenses which Cheerz will create for the "old" CEWE team – the "new" team includes the Cheerz team – to be as low as possible. Cheerz will continue to develop along the same path as in previous years, largely separately from CEWE. The Cheerz founders, Aurélien de Meaux and Antoine Le Conte, will continue to handle this work together with all of their team. We will of course provide some support in order to leverage synergies, but this company will not be integrated within CEWE. Cheerz will continue on its own path.

Secondly – why this acquisition? Cheerz's strength is precisely what CEWE needed to add. This acquisition thus forms part of the Photofinishing measures which I just mentioned. Cheerz was singled out by CEWE because of two different elements: (a) it's a fantastic solution for appealing to typical smartphone customers. Cheerz has a great start-up-type DNA. This has helped them to strike a chord with the "smartphone generation" in France; (b) it's very successful on the French market and elsewhere in southern Europe. We would like to make more progress in France, and be a lot stronger in Spain and Italy. Cheerz offers a solid starting point for both of these goals.

Thirdly, the price: you mentioned the 36 million euros that we had to pay the venture capitalists in particular for our 80 % interest. Maybe that sounds like a lot for a company founded in 2012. But if you look at how a turnover volume of perhaps 25 or 30 million euros is expected for 2018 and how the growth trend is then projected to continue, suddenly this figure isn't quite so high after all. For the company as a whole, on the basis of the turnover assumed for 2018 we will have paid a factor of slightly more than 1.5 on the turnover. That is in line with normal practice. Other start-ups are acquired for far higher turnover factors – on the capital market, these factors are known as "multiples".

So Cheerz is a big investment which will reduce the company's cash flow in 2018. Following on from 2017, 2018 will once again see a high volume of investment and reduced free cash flows. What will CEWE's shareholders say to that?

First of all, our owners naturally want the company to continue to develop. It's not an option to stand still. You will only make progress if you keep moving. It's like hiking in the mountains: if you run, you risk stumbling and maybe suffering some nasty consequences. If you move too slowly, you won't progress quickly enough and won't get to where you're headed. It's in that sense that investments are important. Sometimes there are more opportunities for them, and sometimes there are fewer opportunities. Some good opportunities have just presented themselves.

On the other hand, we are also mindful of the payments which our company makes to its shareholders, and we have continuously increased these over the past few years. In all likelihood – at any rate, this is what the Board of Management will propose – we will once again pay a higher dividend in 2018. That would represent our ninth consecutive dividend increase. The newspaper "Handelsblatt" calls companies which raise their dividend ten years in a row "dividend aristocrats" …

In one of its recent editions, that newspaper talked about a 25-year period for that.

… Whatever the definition … it's not about the precise period of time or winning that "title" as such … the path is the goal: we would like to offer a rising dividend, on the basis of profit growth, for as many consecutive years as possible. To be sure, the overall context of the payout ratio, balance sheet strength and the company's outlook has to be right for that. If we then also achieve continuous dividend growth, that means that the positive long-term trend is in place which everyone in our CEWE team wants to see.

Do the company's employees also benefit from that?

They certainly do. We have once again just presented each of our employees with up to eight free shares. Of course, we can only continue to do things like that if the company develops positively.

And if we then pay a dividend, this will naturally also benefit all of our employees who are shareholders. That is currently more than 80 % of our entire workforce. Every morning, 80 % of our employees come through the door with the sense of being joint owners of the company where they work. That's a great feeling. That really motivates me.

Dr Friege, thank you for this interview.

CEWE SHARE

Stock market buoyed by strong economy in 2017

For Germany's DAX leading index – which comprises the 30 strongest stocks in Germany on the basis of market capitalisation and stock exchange turnover – 2017 was characterised by new record highs. Solid economic data, positive business results and outlooks and a continuing loose monetary policy in Europe encouraged this upward trend.

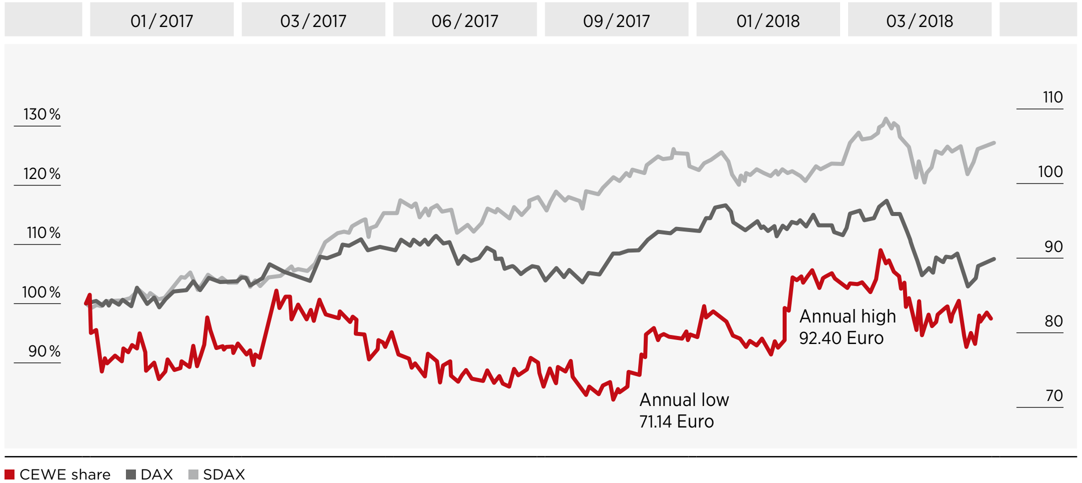
While the DAX was at 11,426 points at the start of the year, on April 24 it had already reached its previous all-time high of 12,390 points. It exceeded the level of 12,800 points for the first time on May 15 and 12,900 points on June 19, then fell to slightly under 12,000 points by the end of August, before reaching the 13,000 mark on October 12 following a steep rise. On November 7, the DAX finally reached a new all-time record with an annual high of 13,525.56. On December 29, the DAX was up approx. 13 % on the start of the year and ended the year at 12,917.64 points.

This price trend was shaped, above all, by the political developments in Europe, global geopolitical tensions as well as the euro's exchange-rate trend against the US dollar.

Key share information

Type of security	No-par value share
Market segment	Regulated market, PRIME STANDARD
Index	SDAX (from March 23, 2009)
ISIN	DE 0005403901
Symbol	CWC
Reuters	CWCG.DE
Bloomberg	CWC GR
Date of initial quotation	March 24, 1993
Number of shares	7,400,020 units
Daily volume (2017 average)	16,248 units
Annual high in 2017	89.41 euros
Annual low in 2017	71.14 euros
Year-end price 2017	88.05 euros

CEWE share price in the period from Jan. 1, 2017 to Mar. 10, 2018 *in euros*



https://company.cewe.de/en/home.html > Investor Relations > CEWE share > Analysts

The index only recovered in September and headed for a new record high, buoyed by the strong economic and business figures. The strong euro in particular then prompted a correction from early November onwards.

CEWE share gains + 4.1 % in 2017

On the basis of its 2016 year-end closing price (84.57 euros), in the period up to late December 2017 the CEWE share achieved growth of 3.48 euros to 88.05 euros (+ 4.1 %).

Dividend increased for eighth consecutive occasion

For CEWE, dividend continuity also means at least constant dividends and ideally absolute dividend growth, year on year, provided that its balance sheet is sufficiently solid to allow for this. In 2017, CEWE was able to offer its shareholders a dividend of 1.80 euros per share, an increase for the eighth consecutive occasion. With this dividend, on the basis of the year-end price for 2016 shareholders also received a dividend yield of 2.1 %.

CEWE shares traded with a daily volume of 1.3 million euros in 2017

On average, 16,292 CEWE shares were traded every day on German stock markets in 2017. This was slightly lower than the level in the previous year (2016: 18,712 shares per day). The daily euro trading volume was unchanged at approx. 1.3 million euros (2016: 1.3 million euros per day). The daily volume of CEWE shares traded continues to clearly and constantly exceed this level of 1 million euros per day which influences the investment decisions of many institutional investors. As well as the positive operating trend, this has also made the CEWE share attractive for other, larger institutional investors on a long-term basis.

Analysts continue to have a consistently positive view of CEWE

All of the analysts who follow CEWE continue to concur in their positive analysis. Five analysts are signalling “Buy” for the CEWE share and two “Hold”. For an overview of these analysts and their recommendations, please go to the Investor Relations section of CEWE’s website (company.cewe.de).

CEWE share very solidly positioned in the SDAX

According to the “Trading volume” criterion, in December 2017 CEWE was in 91st position (previous year: 72nd position), and in terms of “Market capitalisation” it was in 95th position (previous year: 85th position). The CEWE share thus remains a very solid fixture on the SDAX index, which normally features shares with a ranking of 110 or higher.

Stable shareholder structure strengthens management's strategy

CEWE enjoys a high level of ownership stability thanks to its anchor investor, the heirs of Senator h. c. Heinz Neumüller (ACN Vermögensverwaltungsgesellschaft mbH & Co. KG), who hold 27.3 % of its shares.

CEWE is there for its shareholders

The clear objective of investor relations activities at CEWE is to notify all market participants promptly, comprehensively and equally in line with the principles of "Fair Disclosure", while achieving a high level of overall transparency.

CEWE thus naturally also publishes all of its annual and interim reports and capital market information online at company.cewe.de. All analyst telephone conferences are immediately made available as webcasts and audiocasts on the CEWE website. All of the company's key presentations at conferences and other events are published online at the same time.

http://ir.cewe.de

Moreover, in 2017 the Board of Management and the Investor Relations team once again presented the company at a total of seven capital market conferences and attended fourteen roadshow days in European financial centres. For details of the dates currently planned for 2018, please refer to the financial diary on the penultimate page of this report.

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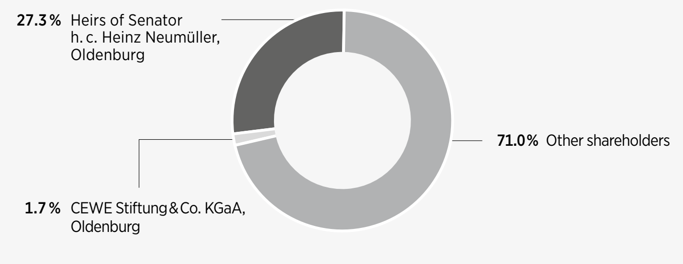
Overview of current analysts' assessments

	Analyst's assessment	Date
Deutsche Bank	Hold	Nov. 15, 2017
Bankhaus Lampe	Buy	Nov. 30, 2017
Oddo Seydler	Buy	Nov. 13, 2017
Baader Bank	Buy	Nov. 10, 2017
Berenberg Bank	Hold	Nov. 10, 2017
Warburg Research	Buy	Oct. 18, 2017
GSC Research	Buy	Aug. 21, 2017

Shareholder structure *as % (100 % = 7.4 million shares)*



02

COMBINED MANAGEMENT REPORT

Page reference Reference to table or graphic Internet reference Supplementary information


We could stay there
and never come back

BASIC INFORMATION ON THE GROUP

Business model

CEWE operates in three strategic business units: Photofinishing, Retail and Commercial Online Printing. Its segment reporting by business unit also reflects these strategic business units (together with a further business unit, Other Activities).

Photofinishing – CEWE's traditional core business unit achieves growth

Photofinishing is the name we give to our photo products business. CEWE is the European market leader in photofinishing, previously based on analogue film and now replaced by digital data. CEWE PHOTOBOOK has established itself as the key product in this field. As such, it has superseded individual photos. CEWE has also rigorously expanded its product range, with other significant turnover and growth generators now including CEWE CALENDARS, CEWE CARDS, CEWE WALL ART and CEWE INSTANT PHOTOS.

Through its product management strategy, CEWE is not only developing new products but also strengthening demand and sales through its product and brand communication activities. Consumers can purchase CEWE's Photofinishing products from business partners and in some cases also from CEWE directly. For almost all of the Photofinishing products ordered from CEWE, CEWE handles acceptance of orders and customer communication.

Europe accounts for almost 100 % of CEWE's Photofinishing business.

CEWE RETAIL: proprietary hardware retail business unit handles important functions

CEWE has multichannel retailing operations for photo hardware and photofinishing products in Poland, the Czech Republic, Slovakia, Norway and Sweden. In addition to selling photo hardware, over-the-counter outlets and online shops are a key channel for distributing CEWE photo products directly to end-consumers. Turnover and income from photofinishing products are shown in the Photofinishing business unit.

In addition, CEWE is able to test and develop new marketing strategies for CEWE brand products directly over the Internet and at retail outlets. It is then able to pass on this know-how to its business partners. CEWE RETAIL provides important insights and guidance for this process.

Commercial Online Printing – a further key business area

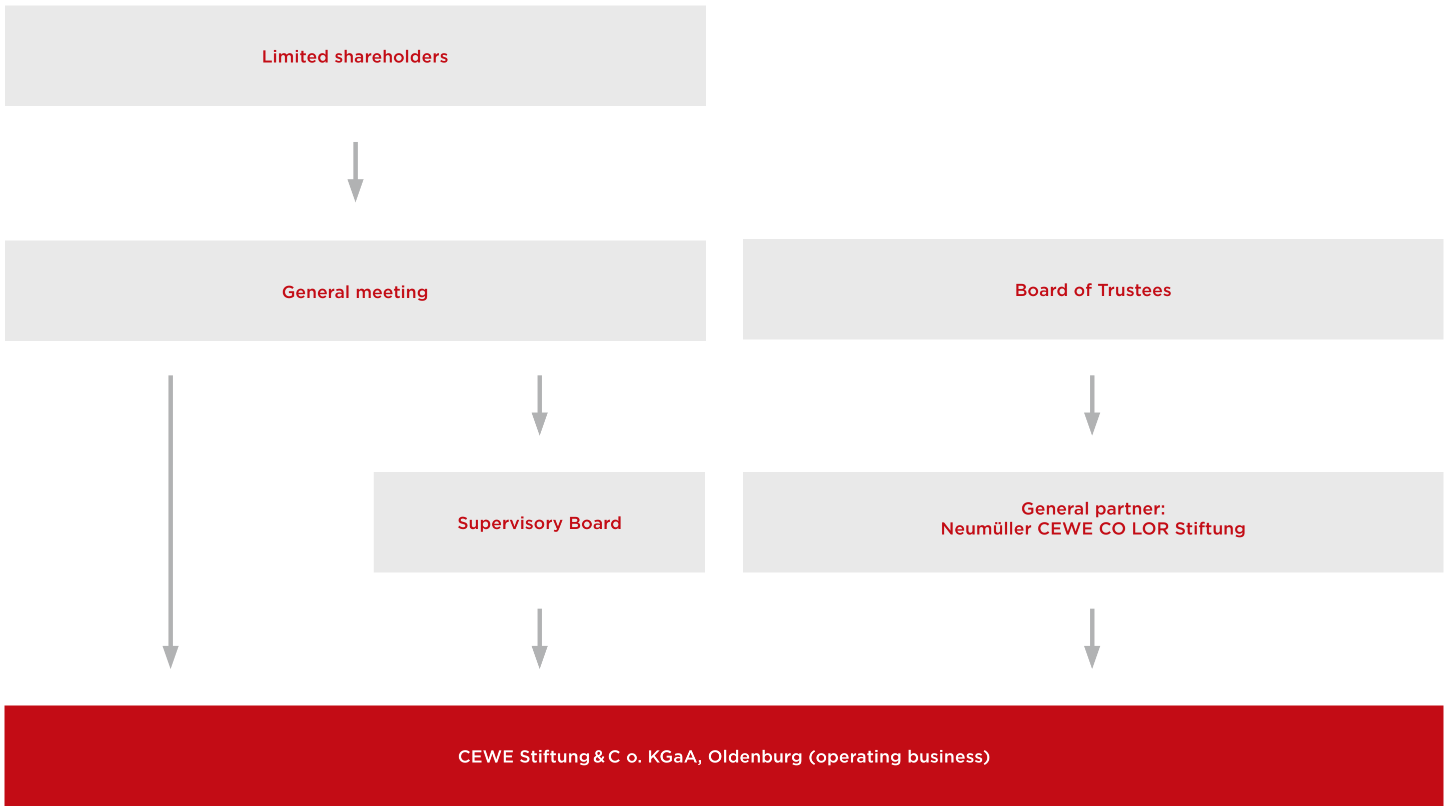
CEWE is active in its Commercial Online Printing business unit through the production and marketing of printed advertising media via the distribution platforms CEWE-PRINT.de, Saxoprint and viaprinto.de. In 2012, in this business unit CEWE acquired the Saxoprint Group, a specialist in online offset printing. CEWE launched Commercial Online Printing for printed advertising media in Germany and is now rolling out this business model in many other European countries, where local websites are already present and are increasingly generating business. In 2017, the online printing firm Laserline was acquired in addition. This has a strong market position in the online printing market in Berlin and the surrounding region.The depth of added value in Commercial Online Printing is very similar to Photofinishing. However, CEWE provides less software here for the creation of printed products (unlike in the case of CEWE PHOTOBOOK, for instance).

Organisation and management system

Organisational structure

The CEWE business group has the following structure:

Page 144 | Board of Management



In 2017, Neumüller CEWE COLOR Stiftung was represented by seven members of the Board of Management. The Group's remaining 3,582 staff were employed by CEWE Stiftung & Co. KGaA and the subordinate Group companies.

Page 29 | Shareholder structure

Legal structure combines the advantages of the capital market and a family approach

Page 144 | Board of Management

The legal form of a partnership limited by shares enables the CEWE Group to combine the typical strengths of capital market-oriented companies with those of family firms.

Page 57 | Results

The company's founder, Senator h. c. Heinz Neumüller, intended to ensure that his entrepreneurial principles would remain permanently established within the company. He also aimed to ensure the company's long-term future. This is safeguarded by Neumüller CEWE COLOR Stiftung and the major interest held by ACN Vermögensverwaltungsgesellschaft mbH & Co. KG (the heirs of Senator h. c. Heinz Neumüller, the largest shareholder with 27.4 %). The first of these entities ensures that the business group continues to be managed true to the legacy of Senator h. c. Heinz Neumüller and thus upholds the character of the family firm. It stands for a long-term orientation in terms of the company's business policy. For this reason, it is also responsible for its management.

The company's founder always demanded that the CEWE business group should operate innovatively, while optimising income. The capital market effectively promotes these entrepreneurial objectives. The decision-making of the company's executive bodies – i. e. its management and its Supervisory Board – reflects its shareholders' interest in an attractive investment. Here too, the focus is on the company's solid long-term development and sustainable capital growth – and thus on each shareholder's investment.

The combination of these two advantages enables an innovative company which is managed on the basis of an income-oriented and sustainable economic model which also lives up to its social responsibility as an employer and as an economic engine.

CEWE operates through a total of 32 subsidiaries

CEWE Stiftung & Co. KGaA is the parent company which manages all of the CEWE Group's activities. Retail is directly combined with Photofinishing in countries where a production plant is present. Otherwise, it operates independently. From an operational point of view, photo products are also sold through the Group's retail companies. However, in terms of strategic management they form part of the strategic business unit of Photofinishing, since they follow an entirely different growth path and their strategic significance differs from that of photo hardware, which is reported in the Retail business unit.

Management of the CEWE Group

The Board of Management of Neumüller CEWE COLOR Stiftung is responsible for overall planning and fulfilment of the goals of the CEWE Group. Allocation of responsibilities is set out in the chapter “Board of Management of Neumüller CEWE COLOR Stiftung”.

Regular strategic planning: economic forecast reflects identifiable trends

The Board of Management of Neumüller CEWE COLOR Stiftung determines the long-term strategy of the CEWE Group. This reflects trends in CEWE’s competitive, market and technological environment. Since the analogue / digital transformation, this environment has been characterised by considerable momentum. The Board of Management thus reviews the company’s strategic orientation several times a year and discusses the resulting tactical and operational measures. External experts also take part in these meetings, where necessary.

Inclusion of profit centre managers in planning

On the basis of the strategic outlook and expected market trends, once a year CEWE determines the planning parameters which are submitted to the managers of the production plants and distribution companies. On this basis, these managers produce their own planning, focusing on the following year but also encompassing a broader perspective which may include multiple iterations. The cornerstones of the finalised business plan for the following year will then be presented to the general public. On the basis of this planning and the actual figures, over the course of the year target / previous-year / actual comparisons and extrapolations are produced for the company’s key indicators. Due to the seasonal migration outlined in the “Turnover” and “Costs and earnings” sections of the “Results” chapter, the fourth quarter – and the final two months of each year in particular – has become ever more significant. This represents a particular challenge for extrapolations.

Investments on the basis of profitability calculations

Investments which consistently assume profitability calculations and which entail continuous as well as follow-up monitoring also form part of this planning.

Close monitoring through monthly target / actual comparisons

Every month, a target / actual comparison is implemented for the strategic business units and for each of the profit centres and for the CEWE Group as a whole. These target / previous-year / actual comparisons enable close monitoring of goal achievement and an early response by the Board of Management and the management. At the same time, these and other operating indicators of the production plants and the distribution companies are passed on to all of the managers of these profit centres, for internal benchmarking and discussion. The key financial figures used at CEWE are outlined in the "Goals and strategies" section.

Diverse and detailed management information systems

As well as this core element of accounting-oriented comparison, profit centre managers, the Board of Management and all relevant executives are able to draw upon comprehensive systems of operating indicators, some of which are even updated daily. For instance, this includes market data supplied by various market research institutes, sales information including quantities, prices and turnover, comprehensive production figures comprising production and delivery times, costs and quality, further controlling information for each corporate function (e. g. personnel, logistics, customer service, investor relations, finance, etc.) and product and business partner margin costings, etc. The key non-financial indicators used at CEWE are also described in the "Goals and strategies" section.

Clear meeting structure

Management activities at Group level are coordinated through regular meetings as well as ad hoc meetings. These discussions are based on the following framework: the Board of Management meets once a week. The core measures implemented for management of innovations are also discussed once a week. As well as the responsible Board of Management members, the managers and employees dealing with these various issues – particularly from the fields of marketing, product management, research & development and production – also attend these meetings. Several times a year, the Board of Management members and the managing directors meet with the profit centre managers to discuss the company's current situation and the latest competitive, market and technological developments and to agree new steps for the company's development, where necessary.

Goals and strategies

Findings derived from market research and strategic activities are factored into CEWE's long-term forecast model and provide CEWE's management with a perspective on possible future profit and loss accounts, balance sheets, cash flows and the company's enterprise value.

Continuous business transformation: CEWE defines initiatives and consistently follows through on them

On the basis of this forecast, CEWE defines initiatives so as to shape its future development in the interest of the company and its various stakeholders. The effect of these initiatives is also factored into CEWE's forecast model. Within the scope of the structures outlined above, the company's management thus continuously monitors the implementation of these initiatives. In this way, CEWE is permanently working towards its transformation.

A focus on long-term profit and enterprise value

Through these measures, CEWE clearly focuses on optimising its long-term business performance. Earnings for a single quarter or even for an entire year are viewed within the perspective of the company's long-term development. CEWE thinks in terms of decades.

The goal: profitable and capital-efficient growth, which will boost its enterprise value

The supreme long-term goal of the CEWE Group is continuously profitable and capital-efficient growth. For this purpose, CEWE uses both financial and non-financial indicators, for which annual target figures are published. No target figures are published for the additional, balance sheet-related indicators. The capital market is notified of these figures at the close of every quarter.

Non-financial indicators: in particular, the number of photos

CEWE uses the total number of photos as a non-financial indicator in the Photofinishing business unit. Digital photos include all of the photos which are incorporated in value-added products (e. g. CEWE PHOTOBOOK, CEWE CARDS, CEWE CALENDARS and CEWE WALL ART). Due to its key significance, the number of CEWE PHOTOBOOKS produced is shown as a separate indicator. CEWE's management analyses all of these indicators at least weekly, and in some cases daily. CEWE also provides information on its development in its annual report, by means of a target / actual comparison (“Highlights”) and discusses this in the “Results” chapter. A target figure for the following year is indicated in the forecast. To date, non-financial indicators do not play such a significant role in Commercial Online Printing and thus are not discussed in external communications.

		Internal reporting	External reporting	Forecast for the year
Non-financial indicators	Photos from film	Week	Quarter	yes
	Digital photos			yes
	CEWE PHOTOBOOKS			yes
Financial indicators	Turnover	Day	Quarter	yes
	EBIT	Month		yes
	EBT			yes
	Investments	Month / Quarter	Quarter	yes
	Earnings after tax	Quarter	Quarter	yes
	Earnings per share			yes
Additional indicators	ROCE	Quarter	Quarter	–
	Free cash flow			–
	Operating WC			–
	Equity ratio			–
	Dividend	Year	Year	–

Turnover and EBIT / EBT are very closely monitored for operational purposes

CEWE analyses its turnover trend every day in all of its units (but not for the consolidated Group) and conducts a monthly review of its earnings (including EBT) as key variables. The financial statements prepared by all of the Group companies are likewise consolidated and analysed in a target / actual / previous-year comparison. Deviations from target figures and previous-year figures are assessed in terms of their effect on financial goals. The responsible individuals already account for any such discrepancies through comments during preparation of the company's reports. The Board of Management discusses every month both the detailed figures for the individual profit centres and earnings in the strategic business units and for the Group as a whole. Turnover, EBIT and EBT are presented in the "Highlights" section of the annual report in terms of a target / actual comparison and are discussed in the results; a forecast figure is notified for the following year.

Other important indicators: investments and earnings after tax

Investments are an important indicator, since they have a significant impact on the volume of capital employed (which is practically irreversible over the useful life of the capital item) and (besides the earnings figure) have the largest impact on free cash flow. The situation differs for the additional indicator "Operating working capital", as outlined below. CEWE therefore monitors investments very closely. Beyond the volume already authorised, subsequent increases in these areas are not possible without further authorisation from the responsible investment managers. Consolidated investment reporting is provided at least quarterly in the first half of the year. During the phase of larger investments – i.e. in preparation for year-end business – the management reviews this indicator every month.

Earnings after tax (and earnings per share) may fluctuate strongly, particularly due to special tax factors which are analysed in the annual financial statements especially. Partly in view of its commitment to a sustainable role within the regional and national structures in which its plants are located, CEWE does not seek to increase its earnings after tax through extreme tax optimisation measures. Instead, it aims to achieve the normal tax rate and above all to stringently comply with applicable legal requirements.

Investments and earnings after tax are also presented in the "Highlights" section of the annual report in terms of a target / actual comparison and are discussed in the results; a forecast figure is notified for the following year. However, in case of investments this forecast is not a fixed target figure and instead serves as rough guidance in relation to the approximate value of the investment.

Additional indicators: ROCE, free cash flow and operating working capital

In every annual report, CEWE analyses its ROCE figure to determine the rate of return on its capital employed. For many years now, CEWE has achieved figures above the 10 % mark. Since CEWE's pre-tax capital cost rate has been clearly below 10 % for some years now, according to analysts' calculations in their research reports, CEWE is certainly delivering increasing value. The long-term goal is an ROCE figure which clearly exceeds the capital costs. In 2017, its ROCE was 20.1 % and thus remained at a very solid level (2016: 21.3 %).

Free cash flow is a key variable determining the company's enterprise value and is therefore transparently analysed in the annual report.

As well as investments – which are closely monitored, as already mentioned – and EBIT, the development of operating working capital is a key factor affecting capital employed and the free cash flow. This figure is therefore outlined together with the ROCE and the free cash flow. As already outlined above, more frequent assessment of this figure is not necessary, since undesirable effects on working capital as of the reporting date can generally be compensated for on a short-term basis. For instance, a business partner's year-end payment which is delayed by just a few days can easily reduce the company's free cash flow by several million euros. While any such development will naturally be closely monitored, in operational terms it is virtually meaningless, particularly since other operational monitoring systems highlight such delays much more directly than the cash flow statement does. Moreover, from the point of view of its outflow of liquidity, CEWE's liquidity is so strong that the company is able to exploit an earnings opportunity, even on a short-term basis, to the detriment of its liquidity. A typical example of this are "trade-fair special offers", where machine manufacturers offer special discounts which are generally worthwhile even taking interest-rate factors into consideration.

Stable balance sheet: equity ratio as a further indicator

CEWE aims to ensure the company's continuous and sustainable development. Particularly during the phase of the analogue / digital transformation, the company once again learned to appreciate the benefit of a strong balance sheet. For instance, the indicators of a strong balance sheet include sufficient cash reserves, available lines of credit and a solid equity ratio. At the present time, CEWE considers its level of capitalisation to be stable, with an equity ratio in excess of 50 %. In CEWE's opinion, sufficient liquidity or sufficient lines of credit and an extremely solid equity capital position (also by comparison with the competition) not only boost the company's stability and resilience in the event of a crisis, they also enable it to purposefully exploit any strategic options which become available, such as attractive acquisition opportunities.

The company's ROCE, free cash flow, working capital and equity ratio are analysed in further detail in the quarterly financial statements. Due to possible short-term setbacks which may arise for the company's cash flow or working capital, as outlined above, no precise planning variables are indicated for these additional indicators. However, due to their significance these indicators are discussed in the "Results" chapter.

Target: as far as possible, stable dividend or even dividend growth

CEWE has the declared goal of offering its shareholders a dividend which is at least constant or even slight dividend growth, if the company's economic situation permits this. The distribution ratio is explicitly not a control variable, and is rather the outcome of this dividend policy.

Corporate functions

Research & development

Increasing use of smartphones has naturally prompted even greater focus on these devices in CEWE's research and development activities. These activities cover the camera which always comes built-in as well as the device itself and how smartphone owners use it to visit websites, in order to find out more about photo products and ordering channels. A first app for placing orders using a mobile-only product was already presented at photokina in 2010, and since then many additional apps have been developed and continuously improved from the point of view of usability and product diversity. As well as the possibility of ordering CEWE's portfolio by means of apps as well as editors optimised for mobile devices, special apps have been developed for mobile users: CEWE POSTCARD, CEWE PHOTOS and CEWE CALENDAR are examples of such applications. With CEWE PHOTOBOOK Pure, in the year under review CEWE developed a new mobile-only app with a mobile-only product for this customer group.

Smartphones continue to generate more images per device and user than traditional digital cameras, which is why CEWE has made further improvements to the assistant function in the current version of CEWE PHOTOWORLD. Smartphones are also being used to film increased numbers of videos (short sequences). For some time now, it has been possible to integrate videos in a CEWE PHOTOBOOK by means of a QR code. Through a proactive notice, we have made it even easier for consumers to integrate their homemade videos and to use this product to tell even better stories.

To be sure, smartphone photography is continuing to have an impact on our traditional ordering systems. Through our online applications or our computer-based ordering systems, images created by smartphones which are saved in the cloud can be easily integrated in CEWE products, without the need to exit CEWE's ordering applications. As well as our own solution CEWE MYPHOTOS – which stores images and videos in Germany – we also offer the option to integrate in our printed products images from the key platforms which our consumers use for photo storage. During the peak season, 40 % of all of the images which the company's plants printed were generated by smartphones. CEWE CALENDARS and CEWE PHOTOBOOKS feature a particularly large number of images. Snapshots from smartphones are simply a part of attractive and complete storytelling.

Back in the film age, a large number of patents for production machinery and equipment helped CEWE to transform its technological and innovation leadership into competitive advantages. And even now, CEWE develops its own equipment in order to increase its level of productivity and quality for print finishing, for automated packaging and also for shipping. Saxoprint is now likewise using equipment which it has produced through its own research and development activities. Key achievements and processes have once again been patented in the past year.

Since 2017, CEWE has increasingly looked into the use of applications based on artificial intelligence (AI), in order to make image selection and the design of CEWE products even simpler, more intuitive and better. We are closely cooperating with universities as well as industry partners here. We are also closely looking at the possibilities for use in other areas of our company such as customer service as well as production management or optimisation.

My CEWE PHOTOWORLD mobile and other apps

Since the launch of CEWE PHOTOWORLD mobile at photokina 2012, this software has undergone continuous development. The improvements implemented include the availability of products within this app and also, above all, its user-friendliness. For this purpose, CEWE continuously analyses feedback from consumers and the results of several usability tests and reacts to these findings by releasing new versions in app stores several times a year. The number of downloads and installations and the generally high positive customer feedback in the relevant app stores provided us with very strong rankings and thus visibility during the Christmas period above all.

My CEWE PHOTOWORLD

In 2017, CEWE PHOTOWORLD underwent a makeover in terms of its home screens and its product selection. Many new products were included, the range of finishes for CEWE PHOTOBOOK and CEWE CARDS was further expanded and new level of paper quality were offered. This meant that it was necessary to revise the presentational format for our products, which was then supported through new optimised and simplified options. This software was launched in Germany in time for Christmas. It is not just on smartphones that there are very many different screen formats and resolutions. These also vary for the current range of computers and monitors. The new software has thus been optimised for these new resolutions and therefore has an even more attractive overall look.

Our consumers generally use our software “My CEWE PHOTOWORLD” to produce CEWE PHOTOBOOKS. This software is available for Windows, iOS and Linux. This software is used by new customers as well as existing customers, who frequently order dozens of products every year. With this software, users can receive a highly attractive draft version using the CEWE PHOTOBOOK assistant and then individually design each page using the edit option or the large number of design functionalities. Customers can also use an online software package to produce a CEWE PHOTOBOOK.

The many fans of this ordering software talk to each other on CEWE’s platforms. The CEWE PHOTOBOOK FORUM, Facebook, exhibitions and trade fairs and our customer service department provide valuable tips for the company’s ongoing development. Crowdsourcing – i.e. obtaining feedback, requests and suggestions from users – continues to play an important role in the development process.

COPS, the CEWE ONLINE PRINTING SYSTEM

The changeover to a design which is optimised for mobile devices and responsive – i. e. optimised for various screen sizes – has further boosted the company's online platform. Many customers uses their portable devices to find out about the company's product range via the websites of our business partners which are operated by CEWE, but subsequently use our CEWE PHOTOWORLD software to place orders either immediately or at a later date. CEWE's websites also offer a large number of new products and services for ordering. Moreover, content which does not directly lead to an order being placed has also been mobilised for mobile devices. Customers who use mobile devices to find out more about CEWE products must be provided with the same content as other customers who use a larger computer screen to learn more.

Almost every second visit to our websites is made through a mobile device. For this reason, too, our product sites have once again been upgraded, to provide further space for the emotionality of these products and for the new brand elements developed by our marketing department for CEWE WALL ART, CEWE CARDS and CEWE CALENDARS as well as our redesigned theme worlds.

CEWE MYPHOTOS

CEWE MYPHOTOS is very popular with our existing customers. Above all, however, this service makes it possible to store digital images and videos securely in the cloud and to share, organise, edit and order them – anytime, anywhere and on any device. CEWE thus supplies an open ECO system allowing the exchange of images across all computer- and mobile-based operating systems. As an independent service provider, CEWE thus offers its customers a benefit which is not available from any closed-system hardware or software manufacturer. For our existing customers, a positive new feature is the option of saving projects (CEWE PHOTOBOOK, CEWE CALENDAR, etc.) in CEWE MYPHOTOS. This keeps important memories safe, simplifies reordering of images via the cloud and enables users to easily transfer projects from one computer to another. We ensure safe storage in Germany, in line with German data protection legislation. The key services are still the same:

- CEWE MYPHOTOS is a service for storing and organising photos. This service makes it possible to upload images easily and securely from any device to one of CEWE's data centres in Germany (e.g. in order to create space on a full-up mobile phone).

- CEWE MYPHOTOS is the specialist tool for arranging, editing and ordering photos and photo products.

- The photos stored on CEWE MYPHOTOS are available at any time and anywhere, on any device (PCs and laptops, smartphones, tablets, smart TVs, CEWE photo stations).

- CEWE MYPHOTOS supports multiple-platform devices, for all common operating systems (Windows, Mac OS, Linux / Android, iOS, Windows Phone). CEWE MYPHOTOS can also be used by means of desktop software, a browser and an app.

- CEWE MYPHOTOS provides access to all of CEWE's ordering channels. In the new group mode, images from various sources and from multiple users can be copied into a single album, where the product can be (jointly) created with all of these pictures.

- CEWE MYPHOTOS enables owners of images to share them safely with invited persons. Invitations can be time-limited and password-protected, if desired. If the EXIF header of the image file contains data which the user would prefer not to share, these can be previously removed. This further increases users' desire for control over their data.

This new service has been rolled out in Germany, Austria and the UK with a large number of business partners In Norway, images have been successfully imported into CEWE MYPHOTOS from an external platform.

Further optimisation and flexibilisation of high-performance back-end system

As in every year, the volume of orders over the course of our peak week during the Christmas season was once again higher than in the previous year. All of the above-mentioned applications and orders placed in the plants through CEWE PHOTOSTATIONS deliver finalised jobs to CEWE's back-end system. This back-end system continues to be distributed across two independent and redundant data centres. The setup enabling the distribution of orders and the products included in these orders between the various plants – during the Christmas season in particular – has been further flexibilised through the back-end system. To ensure rapid transmission of these volumes of data from the central data centres to the company's plants, the necessary additional servers were further optimised (virtualised) or reinstalled in good time ahead of the season. The company also made further progress in optimising its approach to the issue of sustainability, particularly at its plants. CEWE has once again reduced its power use by means of further virtualisation as well as new servers and storage devices. At our data centre at our Oldenburg site, we are using new cooling systems to reduce our energy requirements.

Marketing and distribution

The marketing and distribution divisions plan and manage all customer-centred marketing activities. CEWE uses holistic multichannel concepts for the distribution of its products.

Marketing has become increasingly important at CEWE over the past few years. The national and international introduction of the CEWE PHOTOBOOK brand in 2005 and further Photofinishing brands in 2013 have enabled CEWE to clearly distinguish itself from the competition. Strong business partners in Germany and many other countries stock CEWE's brands, thus benefiting from them while also contributing to their success. CEWE has impressively risen to the challenge of evolving from being a white-label supplier to a branded supplier. At the same time, this development underpins and guarantees CEWE's long-term success. CEWE has impressively risen to the challenge of evolving from being a white-label supplier to a branded supplier. At the same time, this development underpins and guarantees CEWE's long-term success. Moreover, as is normal for many brand manufacturers in some situations end-customers also place orders directly with CEWE, online and through CEWE Retail's stores.

www.cewe-fotobuch.de
www.cewe.de

Holistic marketing approach

For CEWE, marketing represents a holistic approach which prioritises the end-customer and his needs. On the one hand, product marketing defines the breadth and depth of the company's product range, in coordination with each of its divisions. On the other hand, through a 360° communications strategy our marketing team is planning integrated marketing concepts which can be modulated to ensure an appropriately broad reach or else on a target group-specific basis. Consistent communication gives optimal consideration to the customer journey.

www.cewe-fotobuch.de/kundenbeispiele/

CEWE uses holistic multichannel concepts to sell its products. CEWE utilises various distribution channels and cooperates with business partners in the over-the-counter segment (food retail trade, chemist's, electronics and specialist photography stores) and with online retailers. CEWE customers can have their orders delivered to them or collect them from the nearest branch of their chosen CEWE business partner. In cooperation with marketing, distribution comprehensively manages relationships with CEWE's business partners, equips and maintains sales points for brand promotion purposes and coordinates campaigns.

CEWE focuses on the following key strategic marketing and distribution areas:

- High level of product and service quality: CEWE PHOTOBOOK has established itself as Europe's most popular photo book since its launch on the market. Millions of customers trust in the quality of this bestselling product, which has gained multiple awards. The same is true of CEWE's other brand products. In 2017, products in all of its brands once again won a large number of victories in tests organised by independent organisations. CEWE also strongly emphasises customer service – its 100 % satisfaction guarantee and the availability of its customer service seven days a week (in the UK, now even 24 / 7) have long been standard at CEWE.

- Innovations at product and marketing levels: leading the way in terms of innovations is part of CEWE's DNA. This is true of marketing as much as it is of production and research & development. Identifying product innovations every year, preparing them for the market and subsequently marketing them is an important goal of CEWE's marketing. Marketing must also reflect consumers' changing habits and user behaviour. In particular, the Internet and mobile channels continued to gain in importance in 2017, while also undergoing a continuous process of substantial change. Here too, through innovative marketing approaches CEWE consistently pursues a strategy of reflecting the wishes and habits of consumers particularly closely.

- Customer focus: the customer is the key priority at CEWE – both new and existing customers. The success of this focus is confirmed through the high level of customer satisfaction among purchasers of CEWE products. Both product innovations and marketing campaigns are always closely aligned with the needs of CEWE's customers. This focus thus became the key marketing theme: customers provide authentic and convincing reports of their experience of using CEWE PHOTOBOOK. At Christmas time, CEWE was even present when our customer Vanessa Teich and her family handed over their presents to one another. Cooperation with the company's business partners also emphasises this point. Overall, CEWE maintains an intensive customer dialogue through a wide range of points of contact, so as to be able to adequately respond to consumers' wishes at any time.

- Ongoing development of the company's premium brand strategy: CEWE's success over the last few years is strongly based on its creation of strong and valuable brands. The profile of CEWE brands is on the rise, and CEWE customers have a very positive view of them. Marketing and distribution at CEWE are committed to the development of these two aspects. CEWE's photography culture marketing also performs an important task, by enabling an experience of the medium of photography encompassing all of its different aspects. This includes the company's sponsorship of well-known photography festivals such as "Fotogipfel Oberstdorf" and its partnerships with leading cultural institutions in the field of photography such as the German Photography Museum in Leipzig, where the prizes were awarded in 2017 for CEWE's photography competition "Our world is beautiful", the world's largest open competition.

- Consistent international execution of its brand and marketing strategy which has proved successful in Germany: CEWE has been the clear market leader in the field of photofinishing for many years, not only in Germany but also in many other European markets. It aims to consolidate and to extend this position. The same strategic objectives are pursued as in the company's key German market, but with fine-tuning for the market in question.

Production

With twelve industrial photofinishing plants and an online offset printing firm, CEWE supplies its customers with photo and printing products every day in 24 European countries.

Improved production efficiency in the Photofinishing business unit

In 2017, efficient use of installed equipment, avoidance of waste and a further reduction of turnaround times were the core priorities. Overall, the company continuously modernised the machinery at all of its plants and further optimised processes. In particular, modern dispatch facilities have now been installed at all of the company's German plants, which make missorting almost impossible. Delivery quality has thus once again been further enhanced. Besides quality improvement measures, the company's plants established the foundations for further reductions in turnaround times for core products such as CEWE PHOTOBOOK.

CEWE also further expanded its production capacities for its CEWE PHOTOBOOK product on photographic paper, in order to meet the increasing level of demand in Germany and other countries. CEWE PHOTOBOOK Pure was another product innovation. The expansion of production of finished covers with the latest digital production technology was a further highlight. The CEWE CALENDAR product range has also been supplemented with many new product options. CEWE also produced its own chocolate Advent calendars in various formats in 2017 for the first time.

All of CEWE's production plants for photo-based products are fully equipped with a uniform digital production structure and use the same IT infrastructure, whose capacity was once again expanded in 2017. This enables CEWE to supply consumers and trade customers with digital photo services with a consistently high level of quality, with the shortest possible delivery times. Together with efficient processes at the company's plants, nearly 70 high-quality digital printing machines of the leading manufacturers ensure that CEWE PHOTOBOOKS, CEWE CALENDARS, CEWE WALL ART and CEWE CARDS can be produced in top quality, with a high standard of delivery reliability. With this high volume of machinery – which is unique in Europe – CEWE has sufficient capacities to cope flexibly with the distinct seasonal peak during the Christmas season. Combined with even more effective training for seasonal staff at all of our plants and the successful application of new production methods such as lean management and 5S, in 2017 CEWE's plants have achieved an outstanding level of delivery service quality for the company's customers and business partners.

Despite the further significant increase in production volumes on the previous year and the opportunity for customers to place orders over a long period of time, Christmas business in 2017 thus went entirely according to schedule.

Expansion in Commercial Online Printing

In 2017, CEWE continued to focus on shorter turnaround times and increased production efficiency at its Dresden plant. No additional capacities were created. CEWE continued to supply its customers punctually and with a high level of quality. The company's activities at its Dresden offset plant focused on optimising the value chain in relation to brochure printing and cut products. Brochures are generally cut to size using sheeters and printed on the production line. LED drying permits rapid finishing, thus enabling a further overall improvement in the quality of the printing products and reducing the turnaround time. The company has five large-format printing machines at its Dresden plant. Further progress was made in the ongoing automation of the company's finishing and shipping processes. Plate production was entirely changed over to thermal plates.

CEWE also expanded its range of services in the Commercial Online Printing business unit. The company has further expanded its product range in its existing product categories. As well as the introduction of 14,000 new promotional items, packaging products were introduced with production runs even down to one item only. The breadth of the company's existing portfolio has also increased e. g. through further calendar formats and advertising products. Specialties such as special colours and products with gold and silver foil round off the product range of the company's online printing portals Saxoprint, CEWE-PRINT.de and viaprinto.de. CEWE-PRINT.de now also offers self-designed business cards, while SAXOPRINT offers folding boxes whose dimensions can be individually designed, with a broad range of basic models. Through its use of FSC®-certified paper and the option of climate-neutral printing, CEWE also provides another important contribution to ecological sustainability in its offset printing segment.

Personnel

The personnel management division contributes to the company's growth and value-added activities by recruiting and training highly-qualified, motivated and performance-oriented employees and executives for CEWE who will remain loyal to the company. The primary task of the personnel division is to ensure long-term employability and to develop a workforce and organisation so as to achieve and safeguard the goals of an innovative company like CEWE. Personnel management acts as a service provider within the company. Intensive cooperation and a regular dialogue with employees and executives help identify current and future requirements, so as to enable life cycle-oriented employment. A trusting working relationship with the employees' representative bodies is a matter of course.

Workforce

On average, in 2017 the CEWE Group had 3,589 employees, of which 122 apprentices (previous year: 3,496).

Of this number, 2,445 employees or approx. 68 % (previous year: 2,392 or 68 %) worked at the Group's domestic plants and 1,144 employees or around 32 % (previous year: 1,104 or 32 %) at the CEWE Group's foreign plants.

Changes to collective wage agreement

The currently valid collective wage agreement expired on May 31, 2017. New negotiations took place in 2017 and a new collective agreement was signed. The new collective agreement has a term of two years. For the first time ever, a nominal increase in the first year was negotiated instead of a percentage increase. Apprenticeship allowances and holiday pay were also increased. The signing of this collective agreement represents a deal which clearly acknowledges the performance of all of CEWE's employees while taking into consideration the economic situation of companies in the photofinishing industry and the overall trend for collective wage agreements.

Occupational health and safety

Occupational health and safety is an important and integral aspect of employees' everyday work in the CEWE Group. As in previous years, CEWE registered a low level of sickness. At its German plants, this amounted to 4.5 % in 2017 (2016: 4.1 %), while the figure was 4.3 % (2016: 2.4 %) at its foreign plants. In 2017, 40 notifiable accidents and 15 commuting accidents were registered.

Various screening examinations and training measures and the company's annual health day took place with the goal of increasing employees' level of awareness and sensitivity.

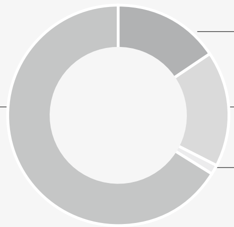
Volume of apprenticeships remains high

In 2017, CEWE trained 125 young people (2016: 122) in Germany for 19 different professions: industrial managers, warehouse logistics experts, photographers, electronics engineers for systems and equipment, mechatronics engineers, industrial mechanics, photographic media experts, IT experts for system integration, office administrators, dialogue marketing specialists, marketing communication specialists, print finishing media technologists and printing media technologists as well as digital & print media designers. In addition, three dual study programmes were introduced: information systems, business management and media design. In the area of apprenticeship trades, since 2016 a new profession has been offered in the area of production: machinery and plant operator. Overall, the number of apprenticeships remains high.

Positive cooperation

In the financial year 2017, the relationship with the works councils and the trade union represented at the company's plants, IG BCE, was once again trusting and constructive. CEWE would particularly like to thank all of the company's employees for their commitment and loyalty.

Average workforce of the CEWE Group in 2017 *number of employees*



Average workforce of the CEWE Group in 2017 *as of reporting date*

	2017	2016
Dual course of studies: business management	2	1
Dual course of studies: IT expert	15	13
Dual course of studies: media design	1	0
Dual course of studies: media information technology	0	1
Electronics engineer for systems and equipment	4	6
IT expert for system integration	12	10
Warehouse logistics expert	2	4
Photographer	3	3
Photographic media expert	4	6
Industrial manager	16	18
Industrial mechanic	1	0
Office administrator	5	2
Dialogue marketing specialist	7	7
Marketing communication specialist	1	2
Machinery and plant operator	2	1
Mechatronics engineer	7	7
Digital & print media designer	13	11
Printing media technologist	10	11
Print finishing media technologist	20	19
Total number of apprentices in Germany	**125**	**122**

Purchasing and materials management

Central purchasing is the key contact for all CEWE business units in relation to cost, process, quality and innovation issues. Its tasks are not limited to traditional issues such as planning, scheduling, sourcing and warehousing / production supplies of production material. They also include “non-production materials / other costs” for all of the company’s departments which receive organisational and material support. Our warehousing system contributes to the continuous improvement of our production plants’ performance capacity.

Central purchasing secures extension of cost / quality leadership position

The continuous expansion of our product portfolio and challenges at every level of the company’s supply chains necessitate continuous optimisation of our supplier base. CEWE pursues the goal of achieving an improvement in its cost situation and ensuring long-term product and service quality together with strong innovative partners. CEWE develops strong supplier partnerships for this purpose. CEWE is a reliable but demanding partner for its suppliers.

Central purchasing at CEWE continues to stand not only for price-oriented procurement with the goal of expanding the company’s cost leadership, but also for integrated quality management.

Systematic management of purchasing potential and risks

Thanks to an even more uniform IT infrastructure in all of its business divisions, CEWE has comprehensive capabilities for identifying potential within each individual category as well as any risks within the scope of its portfolio. Thanks to specific planning, purchasing potential was once again realised and purchasing risks were once again minimised in 2017.

In the past year, additional suppliers were once again integrated within the delivery chain, so as to reduce the risk of production and service outages. For delivery-critical production material especially, the company’s dual-source strategy was expanded for risk minimisation purposes.

Central purchasing strengthens CEWE’s capacity for innovation

CEWE’s central purchasing division forms an integral part of its innovation process.

In 2017, successful new developments were initiated and implemented through joint projects with innovative partners, thus actively shaping innovation at CEWE as well as the company’s future. As well as the use of new materials and products, production and process optimisations were implemented with new and existing suppliers. In the area of product finishes, new digital printing paper options and production technologies were implemented to expand the product range and to deliver quality improvements.

https://company.cewe.de/en/about-us/cewe-group.html > Code of Conduct (BME)

In future, in the company's central purchasing division suppliers will be assessed and selected according to a comprehensive range of criteria (such as their capacity for innovation) rather than just cost issues.

Process optimisation and transparency

The company's centralised electronic contract database has been significantly expanded. Contracts are now available online and are thus monitored centrally instead of locally. In many areas, we have established firmer foundations for our strong working relationships with our suppliers through new or extended contracts.

Purchasing sustainability

In 2017, the company once again implemented its own supplier audits focusing on the issues of quality, product safety and social compliance (ban on child labour, high level of occupational safety / active health protection) for Far Eastern suppliers, for imported material groups. In these audits, CEWE was able to once again verify compliance with sustainability requirements throughout the value chain.

Improved supply of materials through modern logistics processes

We have now changed over our internal logistics system to new logistics concepts (pull principle, kanban supply) in all of the relevant sub-segments. The volume of production work in progress is reduced by means of these procedures. At the same time, the reliability of the production supply system is improved through an increased delivery frequency. At three plants in Germany, through the introduction of a warehouse management system CEWE has established additional opportunities for electronic documentation and management of these logistics processes.

ECONOMIC REPORT

Markets

Overall economic environment

World economy grows more strongly than expected – Germany reports robust growth

In the view of the International Monetary Fund (IMF), in 2017 with growth of 3.7 % the global economy achieved a stronger rate of growth than had been expected in the autumn. The pace of growth has thus once again picked up on the previous year (+ 3.2 %) [1], above all due to a rise in trade and industrial production and an increase in investments which benefited from a financial market environment that remained favourable. [2] Growth in Europe and Asia was surprisingly strong. [3] In 2017, the emerging economies and the developing countries posted an overall growth rate of 4.7 % (2016: + 4.4 %), but the picture varied for the countries of Latin America and Africa in particular. [4]

The developed countries achieved an improvement in growth of 0.5 percentage points to + 2.3 % (2016: + 1.7 %). In the Eurozone, which grew by 2.4 % in overall terms, growth was underpinned by Spain and Germany in particular. While growth in Spain weakened slightly in 2017 to + 3.1 % (2016: + 3.3 %), in Germany at 2.5 % in 2017 the economy achieved significantly more buoyant growth than in the previous year (2016: + 1.9 %). [5] Real gross domestic product (GDP) increased by 2.4 % in the Eurozone. [6]

In line with economic growth in Germany, the unemployment rate declined in 2017 for the fourth consecutive year (– 0.4 percentage points) and amounted to 5.7 %. [7] With a workforce of 44.27 million, the number of persons in employment reached its highest level since reunification. Gross wages and salaries increased by 4.4 % (2016: 4.0 %). [8]

Inflation still below target level

Despite a significant increase in crude oil prices due to weather events in the USA, OPEC’s output cutbacks and geopolitical tensions in the Middle East [9], in most of the developed countries inflation continued to fall short of its target level. [10] For Europe, in its economic bulletin released at the end of 2017 the European Central Bank therefore assumes that extensive monetary stimulus measures will remain necessary in order for inflation to approach the desired target level of 2 %. [11] In 2017, the annual rate of inflation in the Eurozone according to the Harmonised Index of Consumer Prices (HICP) was 1.5 %. This increase is mainly attributable to strong price rises for energy as well as slightly higher food prices [12], while in the view of the ECB other benchmarks are still not providing any convincing signs of a sustained upward trend for inflation. [13] The ECB’s council therefore left its key interest rate unchanged and continued its purchasing programme for government bonds and other assets – from January 2018 initially until September 2018, with a monthly volume of up to 30 billion euros.

In Germany, according to the Federal Statistical Office at an average annual rate of 1.8 % inflation was not only higher than in the Eurozone as a whole but also more than three times higher than in the previous year (+ 0.5 %). In particular, energy (+ 3.1 %) and food (+ 3 %) prices rose. On average in 2017, the consumer price index picked up by 1.9 percentage points to an index level of 109.3 (2016: 107.4). [14]

Euro registers significant increase

The euro's nominal effective exchange rate against the currencies of the Eurozone's 19 key business partners rose by 4.8 percentage points in 2017 and reached an index value of 98.6 in the third quarter, or 98.5 in November (first quarter of 1999: 100 %). [15]

In terms of the most important currencies for CEWE outside of the Eurozone, the euro lost 3.7 % against the Polish zloty in the course of the year up to late December 2017, while on average in 2017 the loss on the previous year amounted to 2.4 %. On the other hand, the euro realised in some cases significant gains against the other national currencies of significance for CEWE: 4.5 % against the Swedish crown up to the end of the year (annual average: + 1.7 %) and 2.5 % against the British pound (annual average: + 6.9 %). The euro registered its strongest gains against the Norwegian krone at 9.4 % (but only + 0.4 % in annual average terms) and 9.1 % against the Swiss franc (but here too, the annual average rate of increase was considerably lower at + 1.8 %). [16] Since CEWE realises turnover in these countries in their national currencies, the stronger euro exchange rate had a negative impact on its results of operations. However, overall these exchange-rate fluctuations are within the normal expected limits.

In overall terms, CEWE's development is stable and positive, and largely independent of the overall economic trend. No relevant cyclical sensitivity is apparent. This assessment has also been borne out during the years of the financial crisis. Due to its strong emotional significance, preserving memories is evidently a basic requirement – particularly since the price points of most photo products are low. In Commercial Online Printing, the price advantage by comparison with traditional printing firms is a key USP. This would presumably be particularly sought after in a difficult economic situation, so that here too a downturn is unlikely to have a negative impact.

1 International Monetary Fund: World Economic Outlook Update, January 22, 2018, p. 1 and p. 8 table
2 International Monetary Fund: World Economic Outlook, October 2017, p. 19
3 International Monetary Fund: World Economic Outlook Update, January 22, 2018, p. 1
4 Ibid., p. 8, table
5 Ibid., p. 8, table
6 European Central Bank: Economic Bulletin 8 / 2017 (December 28, 2017), p. 5
7 German Federal Employment Agency: End-of-Year Review 2017, press release of January 3, 2018
8 German Federal Statistical Office: special series 18, series 1.1 national accounts, first results for the year, p. 21
9 International Monetary Fund: World Economic Outlook Update, January 22, 2018, p. 2
10 International Monetary Fund: World Economic Outlook, October 2017, p. 15
11 European Central Bank: Economic Bulletin 8 / 2017 (December 28, 2017), page 2
12 Ibid., p. 26
13 Ibid., p. 27
14 Federal Statistical Office, press release of January 16, 2018
15 European Central Bank: Economic Bulletin 8 / 2017 (December 28, 2017), page 117
16 Deutsche Bundesbank Exchange Rate Statistics, as of December 29, 2017

Photofinishing market

Popularity of fast smartphone photography continues to grow

Two trends have been apparent on the photography market for several years now, which have both shaped and reinforced one another. On the one hand, the volume of mobile devices sold and used is on the increase. In 2017, 81 % of the population over the age of 14 in Germany were smartphone users – and the trend points to further growth. In 2013, the figure was just 41 % (source: Bitkom Research August 2017). Smartphone-based photography is also increasingly important. In 2017, 90 % of smartphone users use the photo / video camera function (source: Bitkom Research).

This contrasts with a decline in sales of digital cameras in Europe since 2013. CIPA companies' volume of digital camera sales amounted to approx. 7.9 million units in Europe in 2017. (Source: CIPA, 2018).

While these two trends appear contradictory at first glance, they reflect the same underlying development: the proliferation of mobile devices is promoting changes in users' photography behaviour. The number of images taken using mobile devices is on the increase, as is the level of interest and enthusiasm for photos. Nowadays, every smartphone user also has a camera in his pocket (and its quality is getting better all the time). Users with a strong interest in photography generally purchase higher-end digital cameras, which continue to offer a genuine difference in quality by comparison with smartphones.

Versatility and a top level of quality – opportunities for presenting images

More photos have been created than ever before over the past few years. The number of images taken is significantly increasing, due to mobile devices. The level of interest in and enthusiasm for photos are also on the rise. While 660 billion photos were taken worldwide in 2013, this number had increased to 1,200 billion in 2017. (Source: Bitkom Research).

This pleasure in taking photographs partly reflects the wide range of possibilities for their presentation. On the one hand, they are available for digital sharing. 60 % of smartphone users use social networks to make their photos available to others (source: European Commission June 2016). Traditional photo products are the second pillar of the options for presentation. Photo books, calendars and greetings cards are buoying the market as much as canvas prints, phone cases and traditional photo prints.

The photofinishing market is responding to this trend, e. g. through product variations and improved mobile ordering applications.

Connectivity and online storage technology – hot topics in the field of mobile imaging

Being online everywhere and at any time, so as to be able to share content and pictures – this trend also poses challenges for the imaging industry. Moreover, many new apps offer comfortable and exciting functionalities for mobile photo editing and ordering. Online storage technology is another continuously growing area. For instance, this already enables the integration of videos in photo books. Over the next few years, this area will undergo further expansion, permitting users to access all of their content such as films and photos across a range of different systems.

Online printing market

Business climate supports changeover to online printing

The year 2017 ended with positive business sentiment in overall terms in the printing and media industries. The seasonally adjusted index improved slightly to a year-end level of 106.4 points. At the end of the year, most of the printing and media companies surveyed had benefited from a positive demand situation (source: German Federal Printing and Media Association (Bundesverband Druck und Medien – BVDM) economic telegram, December 2017).

Many providers are continuing to diversify into the field of print-related products. This reflects the goal of intensifying and expanding their customer relationships and realising further growth potential.

No discernible bottlenecks resulted in the relevant raw materials markets in the course of the financial year 2017. In particular, the availability of printing paper and printing plates was not jeopardised at any time. The price trend for purchased merchandise and services may be characterised as stable.

Online printing market: high barriers to market entry

No new market participants with their own production facilities emerged as a relevant competitor as an “online printing firm” in 2017. CEWE was able to expand its market share in the relevant online printing market through its CEWE-PRINT.de, Saxoprint and viaprinto brands.

Market entry barriers in the online printing segment, such as the necessary volume of investment, advertising expenses and the competitive price level which has now established itself and thus the pressure to exploit economies of scale continue to represent effective obstacles for new market participants.

In the past financial year, relevant market participants implemented price reductions. The market is likely to remain characterised by price movements. Foreign markets especially still offer a degree of potential, due to price levels which are higher in some cases.

Retail market

Retail turnover in Europe is benefiting from declining unemployment and rising net incomes. The average retail volume for 2017 increased by 2.6 % on 2016 in the Eurozone and also in the EU28 (source: Eurostat). Europe's largest and most-developed economies offer favourable conditions for trade but are extremely competitive and in some cases almost saturated. Medium-size economies offer stronger growth prospects for over-the-counter retail turnover (source: GfK).

The integration of over-the-counter business and online business continues, through the development of physical retail outlets by merchants which previously only had online presences as well as traditional merchants' expansion of omnichannel business models. The younger generation in particular like to use their smartphones to purchase things online. Merchants need to adapt to this through web content which is optimised for mobile devices. Despite declining customer frequency in several over-the-counter trade segments, the ability to pick up products there and to try them out, or try them on, is greatly appreciated. In an age of digitalisation, ever more frequently retail outlets serve as an experience venue and showroom to provide information and inspiration, while their significance as an actual point-of-sale is declining. Over-the-counter retail feeds off local frequency and needs to exploit and stimulate this by means of an active product range policy through which it meets customers' needs while suggesting shopping ideas.

The camera market is characterised by rising average prices, since higher-end models are in particularly strong demand. In terms of the number of units delivered, cameras with a built-in lens (compact / bridge cameras etc.) are still ahead, followed by digital reflex cameras (DSLR) and mirrorless system cameras, with the latter reporting the strongest growth. The specialised photo trade is the main beneficiary of this trend, since it is able to provide advice on these models.

Results

Photofinishing business unit

Developments in the Photofinishing business unit

In 2017, CEWE's value-added products once again provided solid turnover growth. CEWE CALENDARS, CEWE WALL ART, CEWE CARDS and phone cases achieved significant turnover growth, partly thanks to the strong Christmas business. CEWE PHOTOBOOK likewise realised turnover growth on the basis of its gross sales price. Moreover, according to Nielsen in January 2017 the level of unaided brand awareness in Germany for CEWE's bestseller increased by 7 % to 51 % (aided brand awareness: 70 %).

Innovation and service

CEWE is the market leader, with many years of strong expertise in the field of photography. This photo service provider aims to offer a high-quality and comprehensive product range, with continuously new design elements (clip art, backgrounds, mounts, etc.). Innovations in general and product innovations in particular played a very considerable role in 2017. The highlight in 2017 was the strong growth in the range of CEWE PHOTOBOOK finishes, with gold, silver and special-effect print varnish. The cover with raised (and therefore touchable) text, clip art, frames and designs provides a finish with a particularly high-quality look. In addition, various sizes, materials and models have been added to Advent calendars and phone cases, which are developing positively.

For many years now, CEWE has pursued a long-term climate protection strategy which includes climate-neutral shipping. CEWE has now significantly expanded this strategy. CEWE PHOTOBOOK and CEWE's other brand products are produced climate-neutrally – demonstrably so, and at no extra cost for the company's customers. CEWE is thus assuming full responsibility for the climate and protecting our environment. CO_2 emissions are offset through protection of existing forests in Kenya through the Kasigau Wildlife Corridor project.

CEWE's quality commitment includes a strong service and customer focus. This encompasses a comprehensive customer service, a satisfaction guarantee for all CEWE brands and a range of ordering and collection options for its photo products.

CEWE's customer service is an important part of its brand promise. A team of experts is available every day between 8 a. m. and 10 p. m. (during the Christmas season, even up to midnight) to answer any questions on products or CEWE's ordering software and to help customers to create CEWE's photo products. The customer service department is directly present at the company's production plants and receives regular training. It is thus able to act competently and rapidly in response to customers' inquiries.

Any recurrent issues identified are directly forwarded to the research & development and marketing divisions. Problems and suggestions are thus directly taken into consideration for the further development of products and processes. This feedback process unfolds continuously. Facebook is also increasingly used as a service channel and is accepted as having the same validity as other channels of communication for customer dialogue purposes. Moreover, in case of direct contact customers are regularly asked by email whether they are satisfied with the handling of their orders or whether there are any unresolved issues. This feedback is also directly used for continuous optimisation of CEWE's products and software and its customer service.

CEWE intensively uses its continuous customer dialogue, its quantitative and qualitative market research and comprehensive assessments of the competition for the ongoing development of its products and processes.

In 2017, these activities were once again honoured through top results in tests organised by prestigious specialist magazines. Overall, CEWE's products picked up more than 25 awards from German and international testers in 2017.

An established name: CEWE PHOTOBOOK

CEWE PHOTOBOOK is Europe's most popular photo book. To satisfy customers' high expectations, this brand product undergoes continuous development, to ensure its long-term market leadership. With over 50 options available, CEWE PHOTOBOOK offers the broadest product range, can include up to 178 pages and can be assembled in many different ways. Various levels of paper quality and different covers and formats offer a suitable starting point for every project and for every taste. CEWE PHOTOBOOK is notable for its user-friendly ordering software, which is available for the operating systems Windows, Mac and Linux. More than 6,000 designs and items of clip art and a variety of mounts, backgrounds and layouts are available during the editing process and provide lasting enhancements of products' value.

In 2017, CEWE once again lived up to its role as an innovation leader in the photofinishing industry. CEWE PHOTOBOOK True Matte photographic paper offers top picture and product quality for particularly demanding requirements. The option of putting a finish on a CEWE PHOTOBOOK cover is unique. The covers provide a unique look and feel, with text and designs featuring gold, silver and raised special-effect print varnish finishes.

In 2017, a charming new small version of CEWE PHOTOBOOK was introduced: CEWE PHOTOBOOK Pure. 22 matt pages in a compact square format, a high-class hardcover and an elegant slipcase: CEWE PHOTOBOOK Pure lends your favourite motifs a particularly modern and purist charm – while ensuring unique memories of your nicest moments. CEWE PHOTOBOOK Pure can be ordered using a smartphone or tablet app or at CEWE PHOTOSTATIONS.

Positive trend: CEWE's other brands

The CEWE CARDS, CEWE WALL ART and CEWE CALENDARS brands are already well established on the market and realising strong levels of turnover growth, year after year. Clear positioning and communication of the benefit for the consumer is an important issue here.

CEWE WALL ART provides a perfect frame for special moments and lends rooms a personal atmosphere. This category is highly popular with our customers thanks to a choice of sizes, with pinpoint accuracy, and its excellent level of quality. This positive trend has also been reinforced through various innovations. Among other changes, the company has greatly expanded its range of canvas print and poster collages.

CEWE CARDS express joy and appreciation for special occasions. As well as product quality and a broad portfolio, high-quality designs are key to the success of this category. CEWE offers over 1,900 designs for a wide variety of occasions, such as Christmas, weddings, babies, birthdays, etc., to suit the needs of consumers. In 2017, hundreds of new designs based on current trends were introduced. In particular, the company expanded its range of designs featuring gold / silver finishes as well as special-effect print varnish. These lend our beautiful CEWE CARDS a visible and tangible 3D effect. Our XL card was introduced to round off our portfolio. This modern option is particularly suitable for invitations.

CEWE CALENDAR offers a suitable frame to record very special personal moments and to remember them every month or to offer them as a gift for your nearest and dearest. The company's very broad product portfolio, the high level of quality and its very high standard of delivery reliability – even during the peak season in the run-up to Christmas – resulted in a very strong performance in 2017. With its precious matt design, the True Matte wall calendar in the sizes A4 and A3 is a particularly high-quality Christmas present. Our wall calendar in an extremely large A2 size format offers enough space for the year's really important moments. The A5 wall calendar is a compact companion for the entire year. It rounds off CEWE's wall calendar portfolio, with an attractive entry-level price of less than ten euros.

High-quality and stylish: new photo gifts and photos

With their individual photos, customers can create a unique character for their photo gifts. A comprehensive range caters to every possible wish (from magic mugs to puzzles, and from smartphone cases to Advent calendars and, above all, the large number of phone cases). High-quality and trendy products were once again added to CEWE's photo gift range in a targeted fashion in 2017.

A leather case, a wood hard case and a wood Kevlar case were added to the existing materials (Hard Case, Silicon Case, Tough Case, Sideflip, Downflip and Sleeve Bag) in the individual phone cases product group. The range of more than 200 different models is being permanently updated and expanded. CEWE thus offers the largest phone case portfolio currently available on the market.

Advent calendars are all the rage. In 2017, the company's product portfolio was expanded to include self-fillable Advent calendars. This new product was very popular with end-customers.

You can provide a creative setting for your favourite motifs with our contemporary art prints. These specially designed photos are delivered in high-quality decorative packaging and are particularly popular with our younger customers. Retro prints with special-effect print varnish have been added to this trendy category.

CEWE in the mobile world

CEWE offers a broad range of apps for the operating systems Android and iOS. These are continuously optimised and are marketed through every channel of communication: websites, online / mobile marketing, social media, newsletters, print, POS, cooperative ventures and PR.

The CEWE PHOTOWORLD app is at the heart of the company's mobile applications. Once installed on your smartphone or tablet, you can design and order photo products either on the move or at home on your sofa. In 2017, a comprehensive software update was released for this app. Flat cards can now be produced and ordered using CEWE PHOTOWORLD. The CEWE PHOTOWORLD app was selected as the best photo book app in a comparative test in DigitalPHOTO magazine (08 / 2017 issue).

Further CEWE applications include its CEWE POSTCARD and CEWE OPTIMIZE apps. The CEWE POSTCARD app is a small, self-standing app for sending postcards. Using the CEWE OPTIMIZE app, photos can be edited and optimised with just a few clicks.

CEWE's marketing activities in Germany and other countries

In 2017, the company used all available channels for marketing activities with the goal of consistent communication for its brand family clustered around its crowd-puller, CEWE PHOTOBOOK. These activities were adjusted and supplemented for the international markets, in view of local factors in individual countries.

Since 2015, CEWE has visited genuine customers in their homes and interviewed them about the personal experiences and emotions which they have captured in their CEWE PHOTOBOOKS. Further occasions and target groups were added to this campaign in 2017, which was also expanded internationally. This campaign is now being run consistently in 14 countries, covering a wide variety of occasions, and its range is extended online through CEWE's brand websites as well as the sites of CEWE's business partners. This campaign is also being used at all of the company's touchpoints (including social media, print, newsletters, POS), thus increasing the recognisability of the brand. Naturally, CEWE is present in all of the usual search engines, through optimisation of its own websites (SEO) and also through advertising (SEA / Google Shopping). In addition, these media are modulated in line with customer requirements, so that the CRM system and content marketing, for instance, focus particularly closely on tips and tricks for the design of personal photo products. In addition, in 2017 out-of-home placements offering a broad reach were once again used at airports and on urban public transport in markets such as Germany, the Czech Republic and Hungary.

In 2017, the company's Christmas campaign in Germany included a unique feature: at Christmas time in 2016, CEWE in Germany followed its customer Vanessa Reich as she presented her great-uncle Jacob with a CEWE PHOTOBOOK. CEWE thus captured these emotions live and presented them in an exciting campaign during the Christmas season in 2017. This campaign was realised step by step in two stages, through TV and all of the other channels, and impressively demonstrated the emotionality of CEWE PHOTOBOOK.

For instance, at many of our plants customers and journalists were invited to participate in a live tour of the laboratories and to experience on site the production process for their personal gifts.

In 2017, CEWE was also once again present at many thematically related trade fairs in all of its markets. From trade fairs in the field of photography via travel, wedding and book fairs to consumer fairs, CEWE demonstrated its products' versatility and pursued a dialogue with consumers. The pegs used were the variety and the high level of customisability of CEWE products. At shows such as the "Salon de la Photo" in Paris, customers were offered many sources of inspiration relating to the use of CEWE's products – on the one hand, through selected examples and, on the other, through personal advice from CEWE employees as well as a large number of photography-related tips and tricks in localised CEWE magazines.

CEWE photography competitions as an additional communication channel

Each CEWE PHOTOBOOK is a contemporary document and reflects people's enthusiasm for the medium of photography. In all of its European markets, CEWE offers a platform for this enthusiasm through a large number of competitions in the field of photography and in relation to CEWE PHOTOBOOK. In 2017, CEWE presented the world's largest open photo competition, "Our world is beautiful": more than 22,000 participants from all over the world submitted more than 183,000 photos. Out of this large number of unique motifs, the Finn Janne Kahila emerged as the winner with his photo of the Faroe Islands and picked up the CEWE Photo Award.

CEWE supports photography as a form of cultural expression

CEWE is very firmly committed to supporting and preserving photography as a form of cultural expression. This photography service provider maintains partnerships with a large number of institutions in the field of photography, which enable an experience of the medium of photography encompassing all of its different aspects. These include the German Photography Museum in Leipzig, the NRW Forum in Düsseldorf, CEWE's position as the main sponsor of the "Fürstenfelder Naturfototage", its premium partnership with "Erlebniswelt Fotografie Zingst" and its partnership with the "Oberstdorfer Fotogipfel" photography festival, where CEWE organised the highest photography exhibition in Europe, on the Nebelhorn mountain.

CEWE also supported photography festivals such as "Mundologia" in Freiburg, "Wunderwelten" in Friedrichshafen, and the "Stapelfelder Fototage" through various partnerships.

CEWE also demonstrates its commitment in the field of nature photography and protection of nature through its cooperation with Germany's NABU environmental association, in the form of joint photo competitions and photo exhibitions.

In Austria, for some time now CEWE's partnership with the "Trierenberg Super Circuit" has been one of its key projects supporting photography as a form of cultural expression.

Photofinishing results

In principle, sales of CEWE photo products continue to be shaped by two enduring consumer trends: higher-quality products and the shift in demand to the fourth quarter especially.

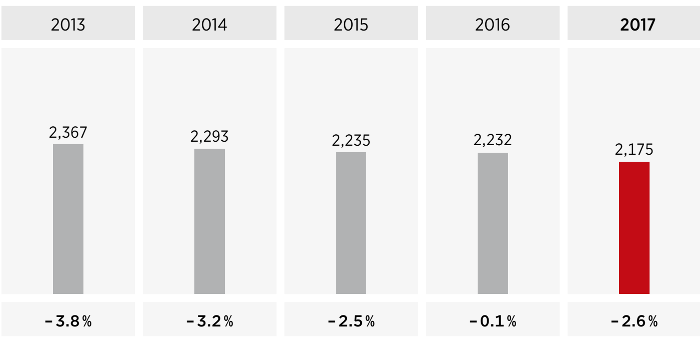
Seasonal migration remains just about apparent

Digital products generate peak sales and particularly strong turnover and, above all, income in the fourth quarter. Many consumers appreciate CEWE PHOTOBOOKS, CEWE CALENDARS, CEWE CARDS and CEWE WALL ART as well as further photo gifts as Christmas presents. The seasonal profile of CEWE's business has thus shifted very significantly towards the end of the year. As the graphic on p. 68 shows, this shift remains intact. This goes to show that the order-friendly weather equally strengthens the 1st quarter. The seasonal migration from the 2nd and 3rd quarters thus has a positive impact on the 4th and 1st quarters.

Growing share of value-added products

Consumers are becoming more selective and demanding higher-quality photo products. Individual, "simple" photo prints produced in the laboratory are declining, both analogue photos (of course) and also digital photos. More popular high-quality value-added products are compensating for some of this decrease. CEWE's product mix is thus increasingly shifting towards these value-added products: the share accounted for by the brand products CEWE PHOTOBOOK, CEWE CALENDARS, CEWE CARDS and CEWE WALL ART is continuously growing. The volume of photos which customers print out and purchase directly at CEWE PHOTOSTATIONS in the retail outlets of CEWE's business partners has likewise been on the rise for some years. Since CEWE tends to realise a higher volume of turnover and stronger earnings per photo through value-added products, the seasonal migration is even more pronounced for turnover and, in particular, for income than in terms of volume, and this trend may just about continue in future: the move away from "mass" (a large number of lower quality, individual laboratory photos) to "class" (fewer high-quality photo products in absolute terms, but with a higher level of quality for each individual photo) is supporting the earnings trend in the Photofinishing business unit.

Total volume of photos *millions of units*



Change on previous year

Photofinishing sales

- At 2.18 billion photos, total volume of photos is within the expected range
- 6.0 million CEWE PHOTOBOOKS sold despite value added tax increase
- Increased volume of CEWE CALENDARS, CEWE WALL ART, CEWE CARDS and other photo gifts, reinforcing the trend of higher-quality products
- 97.8 % of photos are digital
- 64.5 % of all photos are collected from retail stores

Volume of photos clearly within the expected range

As a result of its move away from “mass” to “class”, for 2017 CEWE had expected a decline in its volume of photos to between 2.12 and 2.23 billion photos (between – 5 % and +/– 0 % on the previous year, 2016); as well as individual photo prints, this volume of photos also includes images forming part of other photo products, such as CEWE PHOTOBOOK, CEWE CALENDARS, CEWE WALL ART, CEWE CARDS and other photo gifts. With 2.18 billion photos produced (– 2.6 % on the previous year, 2016), CEWE has clearly reached this envisaged range.

Total number of CEWE PHOTOBOOKS *thousands of units*

Change on previous year

The fourth quarter once again slightly increased its share of the volume for the year as a whole. While the volume of photos declined in the first three quarters by – 4.1 % (1.39 billion photos) in line with the seasonal migration, in the fourth quarter the volume actually increased slightly, by + 0.3 % to 782 million photos (Q4 2016: 780 million photos). This marks the continuation of a long-term trend of a seasonal migration, with a rising volume share in the fourth quarter which now amounts to 35.9 % (2013: 33.0 %, 2014: 33.3 %, 2015: 34.7 %, 2016: 34.9 %). As indicated by the graphic on p. 68, the volume has stabilised in the 1st quarter.

CEWE PHOTOBOOK sales increase again slightly in the third and fourth quarters

The trend for the volume of CEWE PHOTOBOOKS in the third and fourth quarters of 2017 was positive: while CEWE PHOTOBOOKS recorded a decline in the volume of sales for the first two quarters of 2017 driven by base effects (termination of deliveries to a business partner, sale of CEWE’s Internet presence in the USA) and the increase in value added tax, sales figures for CEWE PHOTOBOOKS once again rose slightly to 1.361 million copies in the third quarter (Q3 2016: 1.357 million copies) and

2.384 million copies in the fourth quarter of 2017 (Q4 2016: 2.375 million copies).

Accordingly, despite the value added tax increase in Germany in particular the company sold a total of 6.0 million CEWE PHOTOBOOKS in 2017.

CEWE PHOTOBOOK increasingly popular with customers despite the value added tax increase

The 12 percentage-point increase in the rate of value added tax on photo books which came into effect in Germany from January 1, 2017 has not done anything to diminish CEWE PHOTOBOOK's appeal among customers. Over the year 2017 as a whole, while the number of CEWE PHOTOBOOKS sold by CEWE declined slightly overall, on the basis of the sales prices paid by customers in Germany turnover growth outpaced this tax rise: CEWE PHOTOBOOK's appeal to customers has increased.

The higher-end CEWE PHOTOBOOK trend also remains intact: books with a larger number of pages and bigger formats, enhancements such as gloss and matt surface finishing, raised fonts in gold or silver print and the possibility of including videos in CEWE PHOTOBOOKS by means of a QR code are increasingly popular.

All of CEWE's brands continue to gain ground

Sales of the company's other value-added products also continue to enjoy dynamic growth. During the year 2017 as a whole, the product groups CEWE CALENDAR, CEWE WALL ART, CEWE CARDS and other photo gifts realised growth which in some cases reached double-digit rates.

97.8 % of photos are digital

With the success of CEWE PHOTOBOOK and the other CEWE brands, digitalisation is increasingly approaching the 100 % mark. Following 97.5 % in 2016, in the year under review as many as 97.8 % of all photos were digital in origin. In the fourth quarter, the digital proportion of photos even amounted to 98.7 % (Q4 2016: 98.5 %).

"Internet ordering and collection from retail stores" remains a winning combination

The proportion of digital photos ordered via the Internet changed from 71.8 % in the previous year, 2016, to 71.0 % (1,510 million photos) in the year under review. The slight decline in the share of digital photos ordered over the Internet reflects the growth in the volume of CEWE INSTANT PHOTOS printed out directly at the retail outlets of CEWE's business partners, at CEWE PHOTOSTATIONS. Of the photos ordered over the Internet, 48.8 % are collected as finished products from the retail outlets supplied by CEWE. 51.2 % chose home delivery by post. Customers thus collected a total of approx. 64.5 % of all photos (both analogue and digital, ordered via the Internet and over-the-counter, including the photos printed out at CEWE PHOTOSTATIONS in retail stores) at retail outlets of CEWE's trading partners. This confirms the strength of CEWE's "clicks and bricks" positioning, a strategic combination of physical outlets and the Internet: CEWE products can be purchased in retail stores, while in case of online purchasing photos can be sent to customers by post or else collected from stores.

Photofinishing turnover

- **CEWE brand products achieve further growth and strengthen Photofinishing turnover**
- **Turnover per photo continues to increase: + 4.3 % to 21.12 euro cents per photo**
- **Photofinishing turnover of 459.3 million euros in 2017: + 1.6 % on previous year**
- **Fourth-quarter turnover increases by 2.8 % to 195.4 million euros**

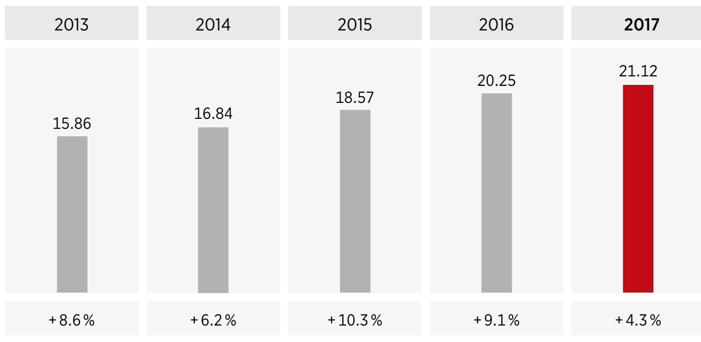
Value-added products continue to strengthen Photofinishing turnover

In 2017, CEWE brand products and value-added products once again accounted for an increased share of overall turnover. The trend of higher-quality photo products thus continues to strengthen the turnover trend. Turnover per photo once again rose in 2017: by 4.3 % from 20.25 euro cents per photo in 2016 to 21.12 euro cents per photo in the year under review. The fourth quarter of 2017 especially reinforced this positive trend: turnover per photo also climbed in the key Christmas quarter, by 2.5 % from 24.38 euro cents in the same quarter in the previous year to 25.00 euro cents.

Photofinishing turnover (Q1 – 4) *millions of euros*

Change on previous year

Photofinishing turnover per photo *in euro cents*



Change on previous year

Photofinishing turnover clearly within expected range

The positive turnover per photo trend on account of higher-quality products caused Photofinishing turnover in 2017 to increase to 459.3 million euros (2016: 452.0 million euros, + 1.6 %). As a goal for 2017, CEWE had set a turnover target of between 443 million euros and 473 million euros. The realised Photofinishing turnover figure of 459.3 million euros is thus clearly within this range.

In 2017, Christmas business continued to gain in significance on the basis of the fourth quarter's increased volume share in general. In the key fourth quarter, turnover increased by 2.8 % from 190.0 million euros in the same quarter in the previous year to the current 195.4 million euros.

Sales targets

billions of units	Target	**Actual**	Deviation*
Digital photos	2.08 – 2.18	2.13	– 0.1 %
Photos from film	0.040 – 0.045	0.047	+ 10.6 %
Total volume of photos	**2.12 – 2.23**	**2.18**	**+ 0.0 %**
CEWE PHOTOBOOKS *millions of units*	6.00 – 6.25	6.0	– 1.6 %

* Calculated on the basis of the mean value for the planned target range

Q4 earnings

millions of units	2016	**2017**	Change
Total volume of photos	779.5	781.6	+ 0.3 %
of which digital photos	768.0	771.7	+ 0.5 %
of which photos from film	11.5	9.9	– 13.9 %
CEWE PHOTOBOOK	2.4	2.4	+ 0.4 %

Photofinishing earnings

- Photofinishing EBIT increases to 53.9 million euros in 2017 (2016: 52.0 million euros, + 3.7 %)
- Photofinishing's operating margin once again increases in 2017 as a whole and now amounts to 11.9 % (2016: 11.7 %).
- Fourth quarter delivers 89 % of Photofinishing's EBIT for the year as a whole

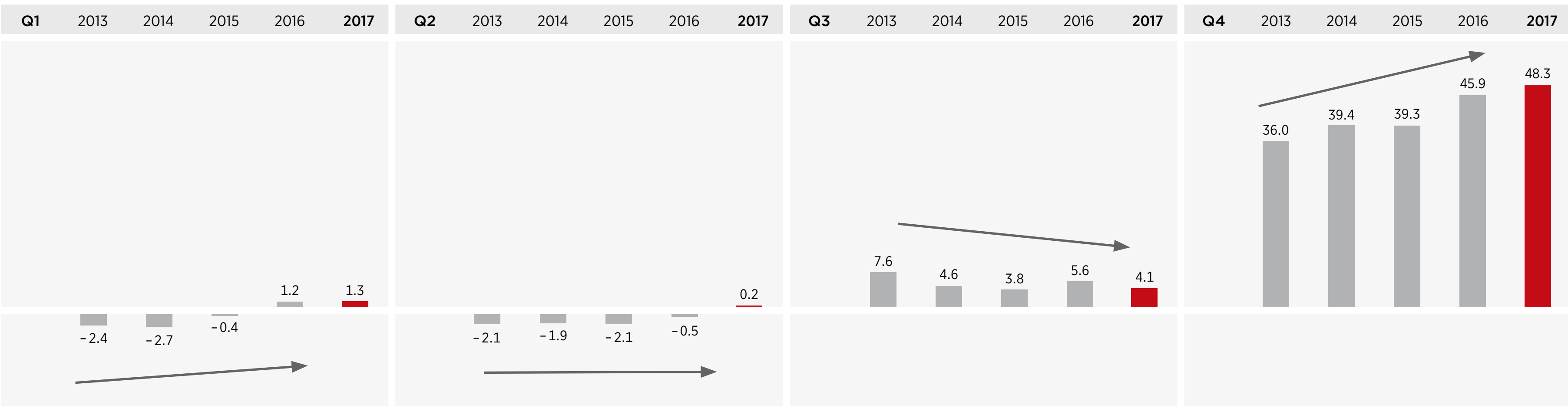
CEWE realised the largest share of its annual profit above all in the Christmas quarter (fourth calendar quarter): while the third quarter used to be the clear main quarter, with summer holiday photos, for many years now the peak level of demand has increasingly shifted to the fourth quarter, when CEWE PHOTOBOOK, CEWE CALENDARS, CEWE WALL ART, CEWE CARDS and other photo gifts are ordered as Christmas gifts in particular.

Photofinishing EBIT increases to 53.9 million euros in 2017, trend stronger than expected

With an EBIT figure of 53.9 million euros, the Photofinishing business unit once again achieved earnings growth (+ 1.9 million euros), following a prior-year EBIT volume of 52.0 million euros. The Photofinishing business unit thus even exceeded its envisaged 2017 target range of between 45.2 million euros and 51.2 million euros, by 2.7 million euros.

One-off factors accounting for a total of approx. – 0.6 million euros resulted in the past financial year 2017: amortisation on the purchase price allocation for DeinDesign in the amount of – 0.4 million euros, additional expenditure due to the employee stock option plan in the amount of – 0.6 million euros, and the sales proceeds for a site in Denmark in the amount of 0.5 million euros which was recognised in the second quarter.

Development of EBIT – seasonal breakdown before restructuring *millions of euros*



In the previous year, 2016, extraordinary expenses in the amount of – 0.8 million euros were recognised in the Photofinishing business unit: goodwill amortisation for two of the Group’s Photofinishing companies with a total volume of – 3.0 million euros, effects associated with the purchase price allocation for DeinDesign in the amount of – 0.4 million euros and restructuring costs for a plant merger in the amount of – 0.2 million euros. As extraordinary income, deliveries of initial stocks of photofinishing products and equipment to new and existing business partners have generated non-recurrent earnings contributions in the amount of + 2.1 million euros. The sales of the US Internet presence “Smilebooks” (+ 0.4 million euros) and the former plant in Grudziądz (Poland) (+ 0.3 million euros) have also provided contributions.

Adjusted for these one-off factors, at 54.5 million euros the operating EBIT figure for the Photofinishing business unit in 2017 was approx. 1.7 million euros better than in the previous year (adjusted operating EBIT in 2016: 52.8 million euros).

Photofinishing EBIT (Q1 – 4) *millions of euros*

Change on previous year

Further growth in Photofinishing’s operating EBIT margin

In 2017, in particular the trend of a changing product mix for Photofinishing which has been intact for some years now – the replacement of individual photo prints with value-added photo products such as CEWE PHOTOBOOK, CEWE CALENDARS, CEWE WALL ART and CEWE CARDS plus other photo gift articles – once again resulted in a further rise in its operating EBIT margin (before the extraordinary expenses outlined above): 11.9 %, compared to 11.7 % in the previous year.

Fourth-quarter EBIT once again increased

In accordance with the increasing core volume of demand in the fourth quarter and influenced by the continuing change in the product mix, as outlined above, from “simple” photo prints to value-added products, income from the company’s main business unit, Photofinishing, once again rose in the Christmas quarter. EBIT increased by 2.4 million euros in the fourth quarter and amounted to 48.3 million euros (Q4 2016: 45.9 million euros). This shift in demand is most clearly apparent at the level of earnings, driven by increasing sales of higher-margin value-added products during the Christmas season, as illustrated by the graphic on this page showing the seasonal distribution of Photofinishing EBIT.

Commercial Online Printing business unit

Developments in the Commercial Online Printing business unit

CEWE is already active in ten countries in its Commercial Online Printing business unit

Through its brands CEWE-PRINT, Saxoprint and viaprinto, in Commercial Online Printing CEWE is now active in 9 countries: as well as online shops in Germany, the United Kingdom, France, Spain, Italy, Switzerland and Austria, CEWE currently also markets business stationery in the Netherlands and Belgium. It also has plans to expand into further European countries.

CEWE ideally positioned with its CEWE-PRINT, viaprinto and Saxoprint brands

With its Online Printing brands CEWE-PRINT, viaprinto and Saxoprint, CEWE is ideally positioned on the European market for printed advertising media and business stationery ordered online: for its market presence in Germany CEWE-PRINT exploits the strong brand profile of CEWE PHOTOBOOK, viaprinto is outstandingly positioned in the digital printing segment as a provider of high-quality printed products with small print runs, while Saxoprint serves customers in the online offset printing segment in Germany as well as all of the Group's other international markets.

Target group-oriented B2B marketing

In 2017, the advertising tied in with Germany's football Bundesliga was once again supplemented with target group-focused marketing in trade magazines and with partnerships focusing on the SME sector. In 2017, CEWE once again exploited the broad reach of this strategy in order to sharpen CEWE-PRINT's brand profile. Its marketing agenda also includes targeting new customers through online advertising and maintaining relationships with existing customers by means of newsletters and mailings.

CEWE achieves further growth in Commercial Online Printing and acquires the printing firm Laserline

CEWE has acquired the online printing firm Laserline with effect as of January 2, 2018. This company operates a printing centre in Berlin and has over 160 employees. This acquisition did not have any effect in relation to 2017 since the transaction was completed in January 2018. Laserline has an excellent customer base, an extensive range of products, technically sophisticated equipment and outstanding employees. Through this acquisition, CEWE and Laserline will be able to grow together and secure improved purchasing conditions as well as other economies of scale.

Results in the Commercial Online Printing business unit

- **Business trend in 2017 shaped by Brexit in the UK as well as price pressure in Germany**
- **Turnover unchanged in 2017 at 84.0 million euros (2016: 84.0 million euros).**
- **EBIT likewise unchanged on the previous year at 1.6 million euros**

Turnover stable at previous year's level in 2017: 84 million euros

In the financial year 2017, turnover in the Commercial Online Printing business unit was unchanged at the previous year's level of 84.0 million euros. In 2017, the development of business in the Commercial Online Printing business unit was shaped by two crucial trends: on the one hand, Commercial Online Printing growth was subdued, above all, by the performance of the British market. Even though in July 2017 one year had already passed since the Brexit result, UK business is still predominately characterised by exchange rate losses and declines in demand. If one were to assume the same volume of UK business as in the previous year, the entire Commercial Online Printing business unit would have reported a growth rate of a good 1.5 % in the year under review, 2017. If UK growth were at the same level as before Brexit, this growth figure would be even considerably higher. On the other hand, up to the end of 2017 there was not insignificant price pressure on the market in Germany, which also inhibited growth in the Commercial Online Printing business unit. For CEWE, profitable growth is always of paramount importance. There was therefore no question of a price response to this behaviour on the part of its competitors.

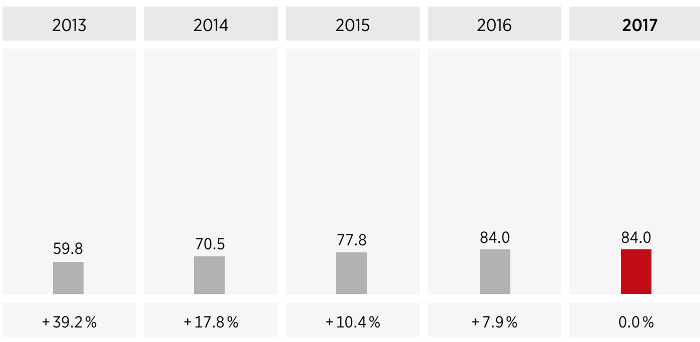
Fourth quarter slightly increases share of turnover to 23.3 million euros

With slight growth of 0.7 %, the fourth quarter of 2017 increased its turnover contribution to 23.3 million euros (Q4 2016: 23.1 million euros). In Commercial Online Printing, too, the strongest month in terms of turnover falls in the fourth quarter: in November, many business customers are preparing for their Christmas business and increase their orders of printed advertising media. Turnover growth was also influenced by the above-mentioned declining trend on the British market as well as German price pressure.

Commercial Online Printing once again provides positive contribution to consolidated income

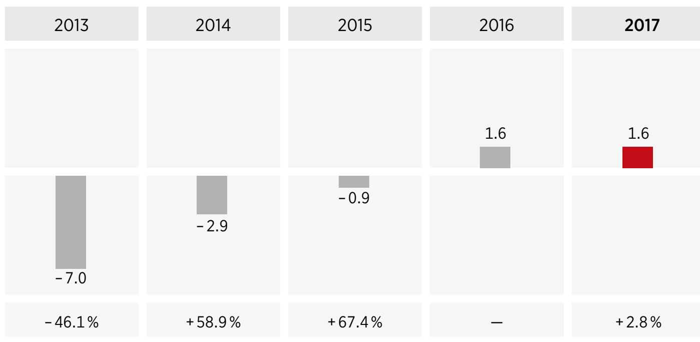
Particularly in the first few years, the growth investments required for brand-building have strongly influenced the profit and loss account of Commercial Online Printing. CEWE has exploited the profitability of its established core business unit Photofinishing in order to expand its new business unit Commercial Online Printing through intensive marketing. Up to 2015, this approach had resulted in a negative overall EBIT contribution from this business unit. Following on from 2016, in 2017 Commercial Online Printing once again provided a positive contribution to consolidated income for the second consecutive year.

Commercial Online Printing turnover (Q1–4) *millions of euros*



Change on previous year

Commercial Online Printing EBIT (Q1–4) *millions of euros*



Change on previous year

2017 EBIT for Commercial Online Printing once again at 1.6 million euros

With an EBIT figure of 1.6 million euros, Commercial Online Printing has repeated the previous year's result (2016: 1.6 million euros) and thus confirmed the goal for the year of this "business unit providing a positive earnings contribution (incl. the effects of the purchase price allocation for Saxoprint) to consolidated income".

In 2017, earnings once again included non-operating expenses resulting from the purchase price allocation for the Saxoprint Group. In particular, these comprise the regular amortisation on identified intangible assets. In 2017 as a whole, this amounted to – 0.6 million euros (2016: – 1.7 million euros). Adjusted for this non-operating effect associated with the purchase price allocation for Saxoprint's acquisition, Commercial Online Printing's EBIT in the year under review amounted to a rounded figure of 2.3 million euros (EBIT figure adjusted for this effect in the previous year, 2016: 3.3 million euros). Over the year as a whole, the turnover trend resulted in this earnings trend, with slight declines in gross margins, a slightly increased personnel costs ratio and slightly higher marketing costs. Countermeasures have been implemented. In the fourth quarter of the year under review, these already resulted in an improvement in earnings on the same quarter in the previous year.

Fourth quarter delivers earnings of 1.4 million euros

As outlined above, the seasonal peak for Commercial Online Printing – with highly efficient utilisation levels for production facilities – likewise falls in the fourth quarter. With an EBIT figure of 1.4 million euros (2016: 1.1 million euros), the Commercial Online Printing business unit achieved a better result than in the same quarter in the previous year. Before non-operating effects resulting from the purchase price allocation for Saxoprint in the amount of – 0.1 million euros (Q4 2016: – 0.4 million euros), in the fourth quarter this business unit achieved an operating EBIT figure of 1.6 million euros and thus an EBIT margin of 6.8 % (Q4 2016: 1.5 million euros, 6.6 %).

Retail business unit

Developments in the Retail business unit

CEWE RETAIL has both retail outlets and online shops

CEWE operates multichannel retailing in Poland, the Czech Republic, Slovakia, Norway and Sweden in the form of retail outlets and online shops. CEWE RETAIL offers its customers an attractive selection of cameras, lenses, accessories and services as well as CEWE's entire Photofinishing range, not only in attractive locations in city centres and shopping centres but also over the Internet. The related turnover and earnings contribution provided by CEWE's photofinishing product range is reported in the Photofinishing business unit.

CEWE RETAIL: well positioned in the relevant market, with a focus on photography enthusiasts

In 2017, CEWE RETAIL once again maintained or even expanded its strong market position in Norway, the Czech Republic and Slovakia, since it remains a preferred port of call for photography enthusiasts thanks to its outstanding product range. In the year under review, CEWE RETAIL once again exploited its advantages resulting from a combination of attractive retail stores and its Internet business which has been established for many years now and optimised existing branches instead of pursuing a strategy of expansion. As well as its existing customers, it is thus increasingly also appealing to new customer groups which are interested in photography.

Retail results

- **Focus on margins and difficult market situation for high-end reflex cameras reduces turnover by 3.5 % in 2017: 53.0 million euros (2016: 54.9 million euros)**
- **EBIT once again positive following repositioning of business: 0.3 million euros (2016: 0.6 million euros)**

CEWE RETAIL realises turnover of 53.0 million euros in 2017

CEWE RETAIL's large and attractive product range and its strong customer focus are a key competitive factor. Moreover, in the past year CEWE repositioned its Retail business in Poland especially, more strongly focused on sales of Photofinishing products (which are reported in the Photofinishing business unit) and introduced an optimised price strategy in order to improve margins for photo hardware.

Reflex camera business continues to be difficult. Moreover, it was decisively the deliberate abandonment of low-margin turnover which continually reduced turnover in the Retail business unit in the past quarters. While this trend with a slight increase in turnover volumes in the third and fourth quarters of 2017 appears to be gradually bottoming out, for the year 2017 as a whole CEWE Retail nonetheless registered a slight decline in turnover (– 3.5 %) to 53.0 million euros (2016: 54.9 million euros).

Q4 turnover increases by 2.0 % to 15.0 million euros

The third quarter of 2017 had already registered slight turnover growth, and in the fourth quarter CEWE Retail once again achieved a slight increase in its turnover volume, which rose by 2.0 % and amounted to 15.0 million euros (Q4 2016: 14.7 million euros). As in the other business units, in the Retail business unit Christmas business and thus the fourth quarter play a key role in the development of business for the year as a whole.

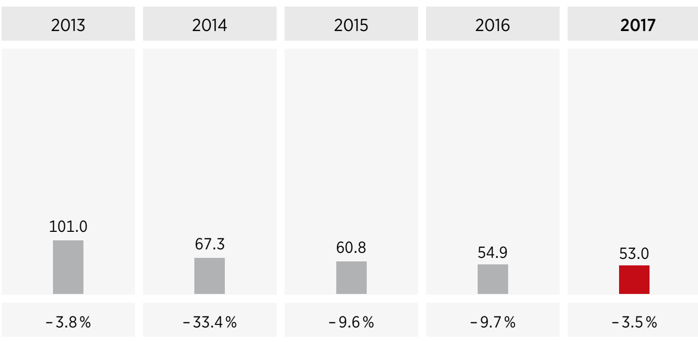
EBIT in the Retail business unit once again positive in 2017: 0.3 million euros

Despite the decline in turnover, in 2017 the Retail business unit remained at the same level as the improved (by comparison with past years) EBIT figure achieved in the previous year and realised an EBIT figure of 0.3 million euros (2016: 0.6 million euros). By comparison with the loss years 2014 and 2015, the cost savings measures achieved by last year's branch closures and the adjustment of the company's business model continue to have a lasting effect. Moreover, the focus on a higher-margin pricing policy has meanwhile provided a positive contribution to the earnings situation.

Fourth quarter delivers earnings of 0.7 million euros

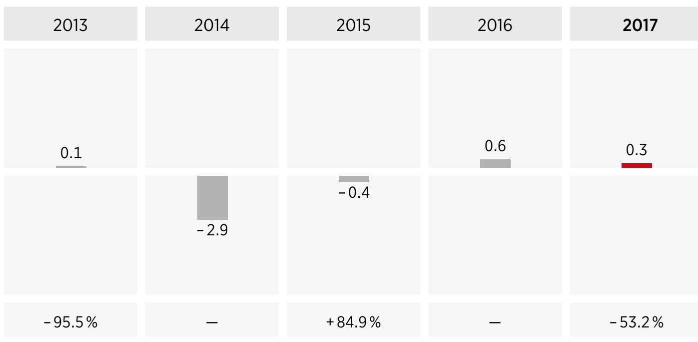
With an EBIT figure of 0.7 million euros, which was mainly generated through Christmas business, the fourth quarter of 2017 was only slightly weaker than the same quarter in the previous year (Q4 2016: 1.0 million euros). In the fourth quarter, among other factors CEWE Retail registered a slight increase in its personnel and marketing costs to turnover ratio by comparison with the previous year.

Retail turnover (Q1–4) *millions of euros*



Change on previous year

Retail EBIT (Q1–4) *millions of euros*



Change on previous year

Other Activities business unit

Structural and company expenses, real estate and equity investments summarised in the Other Activities business unit

CEWE reports its structural and company costs as well as the result of its real estate holdings and equity investments in its Other Activities business unit. Structural and company costs mainly comprise the costs associated with the company's committees as well as the costs of its general meetings and the costs of investor relations activities for all of the company's business units. The earnings generated by the Group company futalis are also reported in this business unit, since its business activities cannot be allocated to CEWE's other business units. As a premium brand, online at www.futalis.de futalis produces and markets highly personalised pet food which is tailored to each animal's specific veterinary requirements.

In 2017, CEWE realised turnover in the amount of 3.0 million euros (2016: 2.2 million euros) in its Other Activities business unit. This turnover is entirely attributable to futalis.

In the year under review, the operating EBIT contribution to consolidated income deriving from the expense items for structural and company costs and the result of real estate holdings and equity investments amounted to – 2.6 million euros (2016: – 2.8 million euros). In addition, in the current year under review the scheduled amortisation of intangible assets within the scope of the purchase price allocation for futalis resulted in an EBIT effect of – 0.5 million euros (2016: – 0.5 million euros). Moreover, on the basis of a current impairment test CEWE has brought forward the not yet amortised remainder of this purchase price allocation in the amount of – 3.5 million euros, whose scheduled amortisation had been envisaged over the next three years, and already fully recognised this as expense in the current year under review. In the previous year, 2016, within the scope of the annual impairment test goodwill amortisation was recognised on futalis in the amount of – 3.9 million euros.

Overall, the EBIT figure reported for the Other Activities business unit thus amounts to – 6.6 million euros (2016: – 7.2 million euros).

EBIT by business units

in millions of euros	Q1– 4 2013	Q1– 4 2014	Q1– 4 2015	Q1– 4 2016	**Q1– 4 2017**
Photofinishing	35.8	39.4	40.2	52.0	53.9
Retail	0.1	– 2.9	– 0.4	0.6	0.3
Commercial Online Printing	– 7.0	– 2.9	– 0.9	1.6	1.6
Other Activities	0.0	– 1.0	– 2.4	– 7.2	– 6.6
Group	**28.9**	**32.6**	**36.4**	**47.0**	**49.2**

Consolidated profit and loss account

- Group turnover increases to 599.4 million euros (2016: 593.1 million euros)
- All of the company's goals for 2017 achieved or surpassed: Group EBIT of 49.2 million euros
- Good fourth quarter with a result (EBIT) of 46.1 million euros (Q4 2016: 42.9 million euros, + 7.2 %)
- EBIT margin improves within the Group from 7.9 % (2016) to 8.2 % (2017)
- Group tax rate of 31.3 %
- Earnings per share increase to 4.70 euros (2016: 4.25 euros / share)

Group turnover reaches 599.4 million euros in 2017

In 2017, rising turnover in the Photofinishing business unit in particular delivered turnover growth for the Group as a whole 1 of 1.1 % by comparison with the previous year: Group turnover increased from 593.1 million euros in 2016 to 599.4 million euros in the year under review.

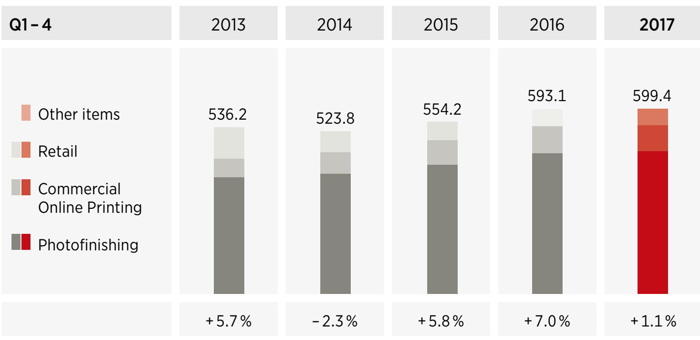
At 234.5 million euros, Group turnover for the fourth quarter of 2017 clearly exceeded the figure for the previous year, with a growth rate of 2.6 % (Q4 2016: 228.5 million euros), not least due to the above-mentioned seasonal migration.

Overall year 2016

millions of euros	Target	**Actual**	Deviation*
EBIT	45 – 51	49.2	+ 2.5 %
EBT	44.5 – 50.5	48.9	+ 2.9 %
Earnings after tax	30 – 34	33.6	+ 4.9 %
Earnings per share euro / share	4.23 – 4.81	4.70	+ 3.9 %

* Calculated on the basis of the mean value for the planned target range

Turnover *millions of euros*



Change on previous year

Operating result (EBIT) *millions of euros*

Change on previous year

EBIT target range for 2017 clearly realised

With a result of 599.4 million euros, CEWE has not only clearly fulfilled its target turnover volume of between 585 and 615 million euros. With its Group EBIT figure of 49.2 million euros, CEWE is also within the upper half of its target range of between 45 and 51 million euros (an increase of 2.2 million euros on the previous year).

Before the one-off factors already outlined in the sections for the business units (one-off factors 2017: proceeds of the sale of the site in Denmark 0.5 million euros, effects of purchase price allocations – 1.5 million euros, impairment writedown on PPA assets – 3.5 million euros, additional expenses for employee shares – 0.7 million euros), following 53.9 million euros in the previous year the consolidated operating EBIT figure amounted to 54.5 million euros in the year under review (one-off factors 2016: goodwill amortisation – 6.9 million euros, effects of purchase price allocations – 2.6 million euros, restructuring – 0.2 million, non-recurring business due to deliveries of initial stocks to business partners + 2.1 million euros, proceeds of the sale of the US Internet presence Smilebooks + 0.4 million euros, proceeds of the sale of the company's Grudziądz site + 0.3 million euros). Here too, an increase has been achieved.

Further increase in the earnings contribution provided by the fourth quarter

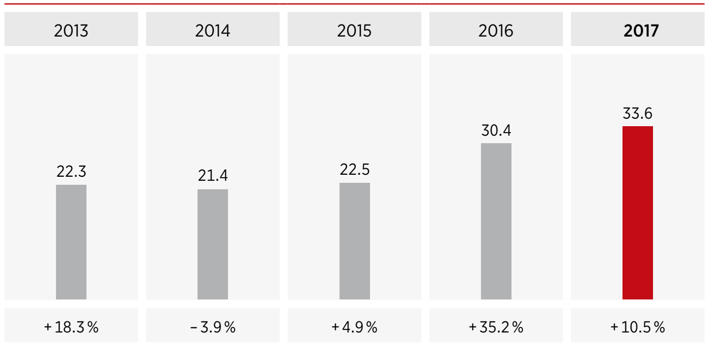
The fourth quarter is highly significant for the company's annual EBIT figure due to the clear seasonal peak in the Photofinishing business unit. In the quarter under review, the reported consolidated EBIT figure increased by 3.1 million euros and amounted to 46.1 million euros (Q4 2016: 42.9 million euros).

The operating EBIT figure before the one-off factors recognised in the fourth quarter (Q4 one-off factors 2017: effects resulting from purchase price allocations – 0.4 million euros, impairment writedown on PPA assets – 3.5 million euros, additional expenditure for staff shares – 0.7 million euros) now amounted to 50.7 million euros in the current quarter under review, compared to 49.6 million euros in the same quarter in the previous year (Q4 one-off factors 2016: goodwill amortisation – 6.0 million euros, effects resulting from purchase price allocations – 0.7 million euros). As for the year as a whole, an increase is apparent here.

Group EBIT margin improved from 7.9 % to 8.2 %

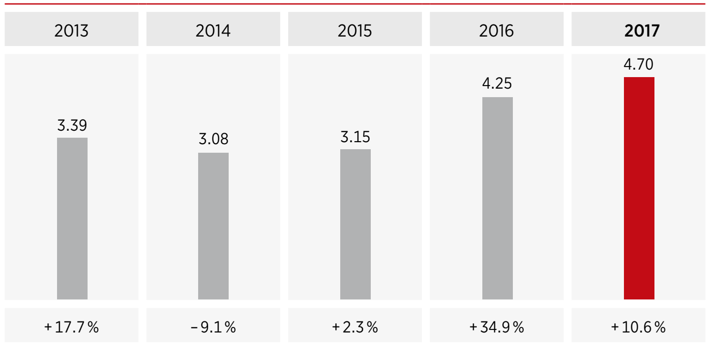
The improvement in earnings also resulted in an overall improvement in the Group's EBIT margin: 8.2 %, compared to 7.9 % in the previous year, 2016.

Earnings after taxes *millions of euros*



Change on previous year

Earnings per share *in euros*



Change on previous year

Uneven development of business units shapes P&L structure

The contributions which the various business units have provided to the profit and loss account has varied in structural terms: in the Photofinishing business unit, the trend towards value-added products generally means a lower volume of material expenditure but an increasing volume of personnel expenses and other operating expenses. On growth-related grounds, Commercial Online Printing is accounting for a rising share of the consolidated profit and loss account. Commercial Online Printing is generally characterised by a higher cost of materials and slightly lower personnel expenses and other operating expenses than in the Photofinishing business unit. On the other hand, Retail entails a significantly higher cost of materials but lower personnel expenses and other operating expenses than in the other two business units. Scheduled depreciation is at a stable level due to investment activities. In the following discussion of the structure of the Group's profit and loss account, these effects are explained in reference to the key items.

Changes in individual P&L items largely reflect business trend in 2017

Other operating income 2 has increased by almost 2.4 million euros by comparison with the previous year. In addition, in the year under review an increased volume of supplier bonuses resulted due to the merchandise deliveries recognised under the cost of materials. Moreover, in the fixed assets item a machine in the Photofinishing business unit was written up. The cost of materials 3 did not increase at quite the same rate as the turnover volume. The material expense ratio has declined by 0.3 percentage points to 28.1%. This is attributable to the declining volume of retail turnover, which tends to support a higher cost of sales ratio than the increase in the Photofinishing and Commercial Online Printing business units, which support a lower material expense ratio. The cost of sales ratio has thus declined for the Group as a whole. Moreover, in the Photofinishing business unit the cost of materials ratio has generally declined due to increased demand for printed photo products and the decrease in the volume of photos produced using the silver halide process. The absolute increase in personnel expenses 4 has resulted in personnel costs amounting to 26.7% of turnover (2016: 25.9%). This increase has resulted on the one hand from new hirings in the Photofinishing and (to a lesser extent) Commercial Online Printing business units as well from the development of the equity investment in DeinDesign. On the other hand, pay scale adjustments in all three business units increased personnel expenses by comparison with the previous year. Other operating expenses 5 have increased slightly to 34.3% of turnover (2016: 34.0%). In absolute terms, this item increased by approx. 3.6 million euros in the year under review. In particular, this was attributable to an increase in marketing expenses as well as a rise in IT and selling expenses. Above all, the decline in depreciation 6 has resulted from the goodwill amortisation recognised in the previous year, 2016, which was not repeated in the year under review, as well as the partial decrease in amortisation on purchase price allocations. At –0.3 million euros, the expenses associated with the financial result 7 remain at a (once again reduced) low level (2016: –0.8 million euros).

Consolidated profit and loss account

millions of euros	Q1–4 2016	% of turnover	**Q1–4 2017**	**% of turnover**	Change as %	Change millions of euros	
Revenues	**593.1**	**100%**	**599.4**	**100%**	**+1.1%**	**+6.3**	1
Change in inventories	–0.5	–0.1%	0.1	0.0%	—	+0.6	
Other own work capitalised	0.8	0.1%	0.9	0.1%	+11.4%	+0.1	
Other operating income	20.8	3.5%	23.2	3.9%	+11.5%	+2.4	2
Cost of materials	–168.6	–28.4%	–168.4	–28.1%	+0.1%	+0.1	3
Gross profit	**445.6**	**75.1%**	**455.1**	**75.9%**	**+2.1%**	**+9.5**	
Personnel expenses	–153.4	–25.9%	–160.3	–26.7%	–4.5%	–6.9	4
Other operating expenses	–201.9	–34.0%	–205.5	–34.3%	–1.8%	–3.6	5
EBITDA	**90.3**	**15.2%**	**89.3**	**14.9%**	**–1.1%**	**–1.0**	
Depreciation	–43.3	–7.3%	–40.1	–6.7%	+7.4%	+3.2	6
EBIT	**47.0**	**7.9%**	**49.2**	**8.2%**	**+4.7%**	**+2.2**	
Financial income	0.9	0.1%	0.5	0.1%	–48.4%	–0.4	7
Financial expenses	–1.7	–0.3%	–0.8	–0.1%	+53.6%	+0.9	7
EBT	**46.2**	**7.8%**	**48.9**	**8.2%**	**+5.8%**	**+2.7**	
Income taxes	–15.8	–2.7%	–15.3	–2.6%	+3.3%	+0.5	8
Earnings after taxes	**30.4**	**5.1%**	**33.6**	**5.6%**	**+10.5%**	**+3.2**	

Normalised Group tax rate reduced from 32.4% to 30.7%

When considering the Group's tax position 8, for the past financial year 2017 it should be noted that, in particular, the still negative earnings of a company in which CEWE holds an equity investment have resulted in an increased tax rate, since use of the related loss carry-forwards will only have a positive impact on the tax rate in subsequent years. Adjusted for these special balance-sheet items, a normalised tax rate of 30.7% (2016: 32.4%) applies.

The Group's tax rate for the reported EBT incl. all extraordinary items amounts to 31.3% for the financial year 2017 (previous year: 34.27%).

Earnings after tax of 33.6 million euros result in earnings per share of 4.70 euros

CEWE realised earnings after tax of 33.6 million euros (2016: 30.4 million euros) in the financial year 2017, i.e. at the upper end of its envisaged target range of 30 to 34 million euros. Undiluted earnings per share accordingly amounted to 4.70 euros (2016: 4.25 euros), within the envisaged target range of between 4.23 and 4.81 euros.

Q4 earnings

millions of euros	2016	**2017**	Change
Earnings from operating activities (EBIT)	42.9	46.1	+7.2%
Earnings before taxes (EBT)	41.7	45.5	+9.1%
Earnings after taxes	25.5	31.4	+23.1%

Balance sheet and financing

- **Solid balance sheet: equity ratio rises to 56.0 %**
- **Operating net working capital stable at 39.0 million euros**
- **Solid financing structure: net cash position of 37.2 million euros – as always, with an annual high on December 31**

The following comments on CEWE's balance sheet and financing structure mainly refer to the development of the management balance sheet during the past financial year. Where necessary for a fuller picture, these figures are also compared with the situation as of September 30, 2017. They are preceded by a section detailing general trends for the consolidated balance sheet by comparison with December 31, 2016.

Immobilienerwerbe lassen Bilanzsumme steigen

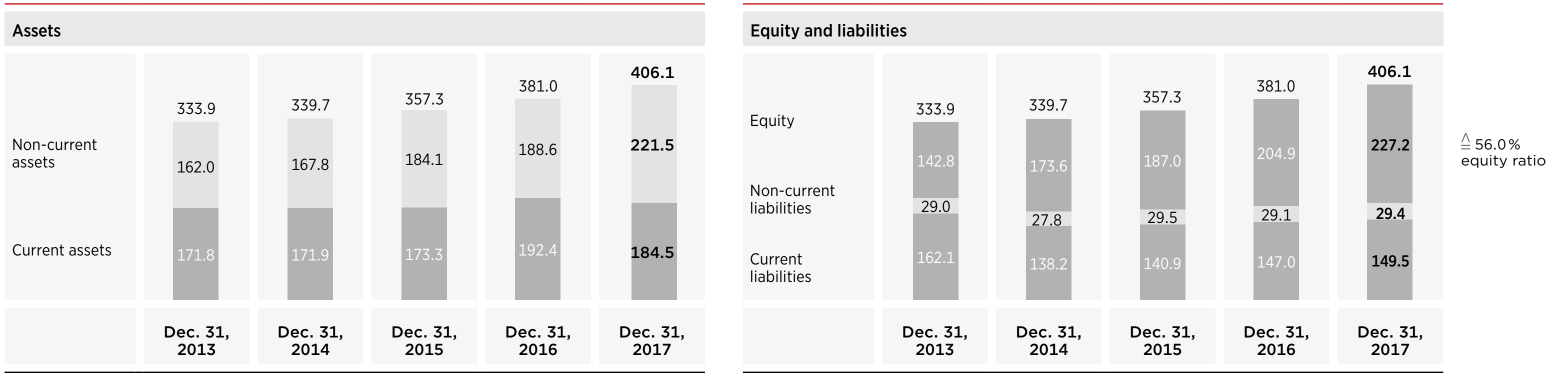
In the period from December 31, 2016, non-current assets – driven by real estate portfolio investments – increased by 33.0 million euros to 221.5 million euros. At the end of the third quarter, the Dresden production plant site – the headquarters of Saxoprint – was acquired for a price of 27.6 million euros. Since the previous owner had intended to sell the site to a real estate fund, CEWE exercised its right of first refusal to secure this site and thus avoid the risk of termination of its lease or a rent increase by a new landlord. At the same time, the cost situation is improved considerably since this should trigger a low single-digit positive earnings effect annually over the medium term. Current assets have decreased by 7.9 million euros to 184.5 million euros on grounds of liquidity.

Solid balance sheet: equity ratio rises to 56.0 %

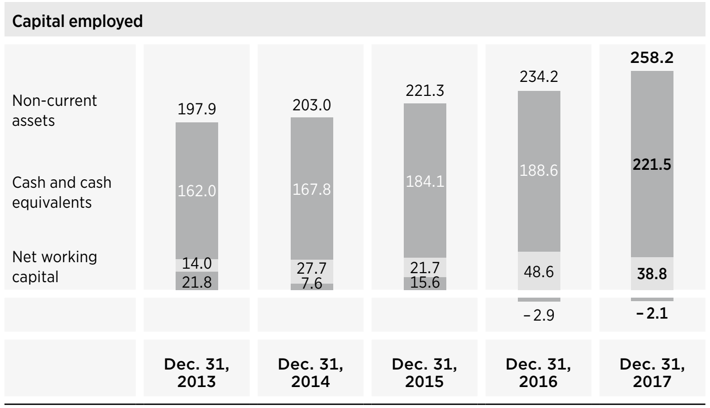
Equity has increased by a total of 22.3 million euros by comparison with December 31, 2016 and amounts to 227.2 million euros. In particular, this reflects positive comprehensive income in the past financial year, in the amount of 32.8 million euros. The company's equity ratio has risen by 2.2 percentage points to 56.0 %.

In the same period, the Group's debt increased by just 2.8 million euros to 178.9 million euros. Of this increase, 2.5 million euros related to the current segment.

Balance sheet figures *millions of euros*



Management balance-sheet figures *millions of euros*



Capital Employed steigt investitionsbedingt um 23,9 Mio. Euro

On December 31, 2017, the capital employed totalled 258.2 million euros and was thus 23.9 million euros higher than in the previous year. As outlined below, the non-current assets 1 included in this figure increased by 33.0 million euros to 221.5 million euros. This was mainly due to investments. Net working capital 2 was almost unchanged in the year under review at – 2.1 million euros. Cash and cash equivalents 3 decreased by 9.8 million euros to 38.8 million euros.

Capital employed

millions of euros	Dec. 31, 2016	% v. CE	**Dec. 31, 2017**	**% v. CE**	Change as %	Change millions of euros	
Non-current assets	188.6	80.5 %	221.5	85.8 %	+ 17.5 %	+ 33.0	1
+ Net working capital	– 2.9	– 1.2 %	– 2.1	– 0.8 %	– 26.0 %	+ 0.8	2
+ Cash and cash equivalents	48.6	20.7 %	38.8	15.0 %	– 20.2 %	– 9.8	3
Capital employed	**234.2**	**100 %**	**258.2**	**100 %**	**+ 10.2 %**	**+ 23.9**	

Non-current assets

millions of euros	Dec. 31, 2016	% of CE	**Dec. 31, 2017**	**% of CE**	Change as %	Change millions of euros	
Property, plant and equipment	124.5	53.2 %	148.1	57.4 %	+18.9 %	+23.6	5
Investment properties	4.9	2.1 %	17.9	6.9 %	+263 %	+12.9	6
Goodwill	25.8	11.0 %	25.8	10.0 %	+0.0 %	+0.0	
Intangible assets	19.2	8.2 %	14.1	5.5 %	−26.8 %	−5.2	7
Financial assets	6.2	2.6 %	6.8	2.6 %	+10.6 %	+0.7	
Non-current financial assets	0.5	0.2 %	0.4	0.2 %	−17.6 %	−0.1	
Non-current other receivables and assets	0.6	0.3 %	0.6	0.2 %	−7.6 %	−0.0	
Deferred tax assets	6.8	2.9 %	7.8	3.0 %	+15.8 %	+1.1	
Non-current assets	**188.6**	**80.5 %**	**221.5**	**85.8 %**	**+17.5 %**	**+33.0**	4

Increase in non-current assets due to real estate

In the past financial year, non-current assets 4 increased by 33.0 million euros, particularly due to the acquisition of Saxopark for a purchase price of 27.6 million euros and the remaining investments in property, plant and equipment. Of the newly acquired real estate, an amount of 14.1 million euros is attributable to investment properties 6 since this concerns rental space, while an amount of 13.5 million euros is attributable to property, plant and equipment. In addition, the company has invested 7.7 million euros in point-of-sale presences, 13.4 million euros in digital printing and finishing, 1.5 million euros in offset printing and finishing, 3.9 million euros in IT infrastructure and 12.6 million euros in various items of property, plant and equipment 5. At 5.5 million euros, investments in intangible assets 7 were mainly related to software. Overall, 72.9 million euros were invested in 2017, compared to 50.4 million euros in the previous year. Operational investments amounted to 44.8 million euros and were thus below the target for 2017. This does not include the building extensions in Oldenburg and the acquisition of Saxopark. Within the scope of the regular impairment tests required by the IFRS for fixed assets, intangible assets have undergone an unscheduled writedown of 3.5 million euros, as outlined in the "Results" section.

Investments *millions of euros*

Change on previous year

Scope of working capital in relation to the previous quarter's turnover

in days	Dec. 31, 2016	Sep. 31, 2017	**Dec. 31, 2017**
Inventories	19	32	19
Current trade receivables	33	29	32
Current trade payables	38	37	37
Operating net working capital	**15**	**24**	**15**

Net working capital

millions of euros	Dec. 31, 2016	% of CE	**Dec. 31, 2017**	**% of CE**	Change as %	Change millions of euros	
Operating net working capital	**37.5**	**16.0%**	**39.0**	**15.1%**	**+4.1%**	**+1.5**	
– Other net working capital	–40.4	–17.2%	–41.2	–15.9%	–1.9%	–0.8	
Net working capital	**–2.9**	**–1.2%**	**–2.1**	**–0.8%**	**26.0%**	**+0.8**	8

The increase in net working capital 8 has resulted from the increase in operating net working capital as well as the growth in other net working capital and is outlined in detail in the following sections.

Operatives Netto-Working Capital

millions of euros	Dec. 31, 2016	% of CE	**Dec. 31, 2017**	**% of CE**	Change as %	Change millions of euros	
Inventories	49.4	21.1%	50.3	19.5%	+1.9%	+0.9	10
+ Current trade receivables	84.2	35.9%	84.5	32.8%	+0.5%	+0.4	11
Operating gross working capital	**133.5**	**57.0%**	**134.9**	**52.2%**	**+1.0%**	**+1.3**	
– Current trade payables	96.1	41.0%	95.9	37.1%	–0.2%	–0.2	12
Operating net working capital	**37.5**	**16.0%**	**39.0**	**15.1%**	**+4.1%**	**+1.5**	9

Operating net working capital stable at 39.0 million euros

By comparison with December 31, 2016, operating net working capital 9 increased slightly by 4.1% to 39.0 million euros; this represents an increase of 4.3 million euros by comparison with September 30, 2017. Due to the further increase in the volume of business in the 4th quarter of 2017, the scope calculated on the basis of the turnover in the previous quarter has nonetheless hardly changed.

As of December 31, 2017, at 15 days the scope of operating net working capital precisely matched the previous year's figure. The volume of inventories 10 and the volume of receivables 11 have increased slightly. However, these increases are consistent with the volume of business, so that the relevant scope was almost unchanged and the trend in the 4th quarter was in line with the seasonal profile. On the other hand, trade payables 12 were reduced by 0.2 million euros to 95.9 million euros on business-related grounds. In the context of the stronger increase in turnover, the accounts payable collection period has decreased from 38 days in the previous year to 37 days.

Other net working capital

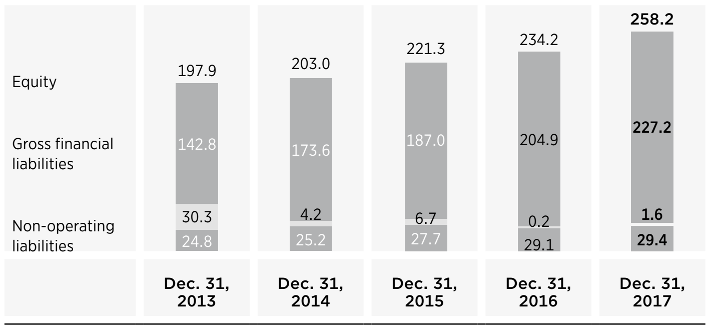
millions of euros	Dec. 31,2016	% of CE	**Dec. 31, 2017**	**% of CE**	Change as %	Change millions of euros	
Non-current assets held for sale	0.5	0.2%	1.4	0.5%	+168%	+0.9	
+ Current receivables from income tax refunds	1.3	0.6%	1.5	0.6%	+12.5%	+0.2	
+ Current financial assets	3.0	1.3%	2.4	0.9%	−20.6%	−0.6	
+ Other current receivables and assets	5.5	2.3%	5.6	2.2%	+3.1%	+0.2	
Other gross working capital	**10.3**	**4.4%**	**10.9**	**4.2%**	**+5.8%**	**+0.6**	14
− Current tax liabilities	11.3	4.8%	3.9	1.5%	−65.6%	−7.4	16
− Current other accruals	3.5	1.5%	3.5	1.4%	+1.3%	+0.0	
− Current financial liabilities	1.5	0.6%	1.3	0.5%	−7.6%	−0.1	
− Current other liabilities	34.5	14.7%	43.3	16.8%	+25.6%	+8.8	
Other current liabilities	**50.7**	**21.6%**	**52.1**	**20.2%**	**+2.7%**	**+1.4**	15
Other net working capital	**−40.4**	**−17.2%**	**−41.2**	**−15.9%**	**−1.9%**	**−0.8**	13

Other net working capital provides stronger contribution to financing

Since the start of the year, other net working capital 13 has decreased by 0.8 million euros and has provided a stronger contribution to the company's financing, in the amount of −41.2 million euros. While other gross working capital 14 increased slightly by 0.6 million euros to 10.9 million euros (mainly on account of an item of German real estate held for sale), other current liabilities 15 increased by 1.4 million euros. Here, an assessment-based decrease in tax liabilities contrasts with a business-related increase in value added tax liabilities 16.

Management balance-sheet figures *millions of euros*

Capital invested



Capital invested: increase in equity – further reduction in Group's debt

On December 31, 2017, the capital invested – which, by definition, is identical with the capital employed – totalled 258.2 million euros (17) and was thus 23.9 million euros higher than in the previous year. While the equity (18) included in this amount has increased by 22.3 million euros to 227.2 million euros, gross financial liabilities (19) have risen by 1.4 million euros to 1.6 million euros. Non-operating liabilities (20) have increased by just 0.2 million euros to 29.4 million euros, due to opposite effects. Overall, the Group's debt has increased slightly by 1.6 million euros to 30.9 million euros.

Capital invested

millions of euros	Dec. 31, 2016	% of CE	**Dec. 31, 2017**	**% of CE**	Change as %	Change millions of euros	
Equity	**204.9**	**87.5 %**	**227.2**	**88.0 %**	**+10.9 %**	**+22.3**	18
Non-current accruals for pensions	25.5	10.9 %	27.2	10.5 %	+6.7 %	+1.7	
+ Non-current deferred tax liabilities	2.9	1.2 %	1.5	0.6 %	−47.2 %	−1.4	
+ Non-current financial liabilities	0.2	0.1 %	0.1	0.1 %	−40.4 %	−0.1	
+ Non-current other liabilities	0.5	0.2 %	0.5	0.2 %	−0.8 %	−0.0	
Non-operating liabilities	**29.1**	**12.4 %**	**29.4**	**11.4 %**	**+0.8 %**	**+0.2**	20
+ Current interest-bearing financial liabilities	0.2	0.1 %	1.6	0.6 %	+653 %	+1.4	
Gross financial liabilities	**0.2**	**0.1 %**	**1.6**	**0.6 %**	**+653 %**	**+1.4**	19
Capital invested	**234.2**	**100 %**	**258.2**	**100 %**	**10.2 %**	**+23.9**	17

Net cash position

millions of euros	Dec. 31, 2016	% of CE	**Dec. 31, 2017**	**% of CE**	Change as %	Change millions of euros	
Gross financial liabilities	0.2	0.1 %	1.6	0.6 %	+ 653 %	+ 1.4	22
– Cash and cash equivalents	48.6	20.7 %	38.8	15.0 %	– 20.2 %	– 9.8	23
Net cash position	– 48.3	–	– 37.2	–	+ 23.1 %	+ 11.2	21

Solid financing structure: net cash position of 37.2 million euros – as always, with an annual high on December 31

As of December 31, 2017, CEWE's net cash position 21 amounts to 37.2 million euros and has thus decreased by 11.2 million euros, due to a 1.4 million euros increase in gross financial liabilities 22 as well as a 9.8 million euros decline in cash and cash equivalents 23, Please refer to the comments on the cash flow for further information on this decrease in cash and cash equivalents. Due to the seasonal profile of the company's business over the course of the year, as of the balance sheet date gross financial liabilities are always at their lowest level of the year and the net cash position at its highest level. The necessary investments and considerable fixed costs – including those involving a cash-out – significantly reduce the net cash position in the first few months of each year.

Financial flexibility ensures strategic leeway

CEWE's existing credit facilities provide it with additional financial leeway. At the end of the year, the total credit line of the CEWE Group amounted to 94.6 million euros (previous year: 106.3 million euros). After deducting the total loan volume drawn down (1.6 million euros, previous year: 0.2 million euros) and allowing for the company's existing liquidity (38.8 million euros, previous year: 48.6 million euros), its liquidity potential totalled 131.8 million euros (previous year: 154.7 million euros). The Group's financing structure offers major strategic leeway. As well as drawn-down fixed rate loans (1.6 million euros, previous year: 0.2 million euros), the company has long-term revolving credit lines which have been granted for up to three years as well as continuously renewed one-year lines whose overall purpose is financing of the company's liquidity requirements which fluctuate strongly in the course of a given year, due to seasonal factors; this ensures that CEWE is able to fulfil its payment obligations at all times.

All long-term credit commitments are subject to normal bank covenant agreements for an adjusted equity ratio of 22.5 % and net debt leverage of 3.0, in each case calculated as of the end of the financial year. No other significant collateral was provided. The agreement of these ratios also ensures adequate strategic leeway. The company regularly exceeded or undershot these conditions by large margins (equity covenant: 52.0 %, previous year: 49.5 %, and net debt leverage: – 0.42, previous year: – 0.54). Over the course of the year, these indicators followed the seasonal nature of the company's business and fluctuated accordingly. These loans have been granted subject to normal market terms. The CEWE Group's regular investment budget is fully financed out of its operating cash flow. As well as equalisation of liquidity in the course of the year, these credit facilities are also available for larger strategic measures.

Golden balance-sheet rule complied with

Overall, the stability of CEWE's balance sheet has once again been confirmed through the traditional golden balance-sheet rule: even in case of a continuing high ratio of fixed assets to total assets, non-current assets (54.6 % of the balance sheet total, previous year: 49.5 %) are fully covered by equity (56.0 %, previous year: 53.8 %) and by non-current liabilities (7.2 %, previous year: 7.6 %).

Cash flow

- Working capital and tax payments cause cash flow from operating activities to decrease to 72.4 million euros
- Purchase of Saxopark results in increase in net cash used in investing activities
- Christmas business results in 10.4 million euros growth in free cash flow for the fourth quarter

The following comments initially refer to the cash flow in the past financial year. At the end of this section, details are provided for the fourth quarter.

Cash flow from operating activities

millions of euros	Dec. 31, 2016	**Dec. 31, 2017**	Change as %	Change millions of euros	
EBITDA	90.3	89.3	–1.1%	–1.0	
+ Non-cash factors	1.2	2.5	+115%	+1.4	
+/– Decrease (+)/increase (–) in operating net working capital	11.8	–2.8	—	–14.6	2
+ Decrease in other net working capital	0.7	8.3	>1,000%	+7.7	4
– Taxes paid	–11.8	–25.2	–113%	–13.4	3
+ Interest received	0.8	0.2	–79.4%	–0.7	
= Cash flow from operating activities	**93.0**	**72.4**	**–22.2%**	**–20.6**	1

Working capital and tax payments cause cash flow from operating activities to decrease to 72.4 million euros

In the financial year 2017, at 72.4 million euros cash flow from operating activities 1 was 20.6 million euros lower than in the same period in the previous year (93.0 million euros). In particular, operating net working capital 2 increased in the year under review by 2.8 million euros and thus reduced the cash flow by 14.6 million euros by comparison with the previous year, when this item had provided a positive cash flow contribution of 11.8 million euros. As noted in the report as of December 31, 2016, in the previous year business partners made early payments which had a positive cash flow effect in the amount of 9.3 million euros. In addition, in the past financial year tax payments 3 increased by 13.4 million euros. While the tax rate has continued to improved on the previous year – as outlined on p. 79 – there is a discrepancy in terms of the dates of actual tax payments. While in the previous year tax refunds mainly arose, in the amount of 2.0 million euros, in the year under review in particular tax pre-payments for 2016 and 2017 were increased by 12.4 million euros. There are also payments due to internal audits. In the year under review, at 8.3 million euros other net working capital 4 released 7.7 million euros more in cash than in the previous year. As well as Christmas business, this also reflects the impact of the tax rate adjustment on cash flow: besides generating turnover, customers' payments include value added tax which CEWE must remit to the tax authorities in the following month.

Cash flow from investing activities

millions of euros	Dec. 31, 2016	**Dec. 31, 2017**	Change as %	Change millions of euros	
– Outflows from investments in fixed assets	– 49.0	– 71.0	– 44.9 %	– 22.0	6
– Outflows from investments in financial assets	– 0.6	– 0.7	– 14.1 %	– 0.1	
+ Inflows from investments in non-current financial instruments	0.0	0.1	>1,000 %	0.1	
+ Inflows from the sale of property, plant and equipment and intangible assets	2.9	1.3	– 56.1 %	– 1.6	
= Cash flow from investing activities	**– 46.6**	**– 70.2**	**– 50.7 %**	**– 23.6**	5

Purchase of Saxopark results in increase in net cash used in investing activities

In 2017, net cash used in investing activities 5 increased by 23.6 million euros on the previous year and amounted to 70.2 million euros. In particular, this was attributable to the 27.6 million investment in Saxopark 6. Accordingly, the other outflows for investments in fixed assets conversely declined by 5.6 million euros.

Free cash flow declines to 2.2 million euros due to working capital and investments

Due to the decline in cash flow from operating activities to 72.4 million euros and the 23.6 million euro increase in cash outflows from investments, free cash flow decreased by 44.3 million euros to 2.2 million euros.

Cash flow from operating activities *millions of euros*

Net cash used in investing activities *millions of euros*

Free cash flow *millions of euros*

Cash flow from operating activities

millions of euros	Dec. 31, 2016	**Dec. 31, 2017**	Change as %	Change millions of euros	
– Dividends paid	– 11.5	– 12.9	– 12.4 %	– 1.4	
– Purchase of treasury shares	– 1.3	0.0	–	1.3	
+ Amounts paid in for stock option plans	0.1	0.0	–	0.0	
+ Inflows (+) / outflows (-) from change in financial liabilities	– 6.5	1.4	–	7.8	8
– Interest paid	– 0.6	– 0.5	23.8 %	0.1	9
+ Other financial transactions	0.0	0.3	682 %	0.2	
Cash flow from financing activities	**– 19.8**	**– 11.7**	**+ 41.0 %**	**+ 8.1**	7

Cash flow from financing activities amounts to – 11.7 million euros

In 2017, cash flow from financing activities 7 amounted to – 11.7 million euros, a cash-out decrease of 8.1 million euros on the previous year. Allowing for the treasury shares purchased in the previous year, in the year under review payments to shareholders amounted to 12.9 million euros and increased by 0.1 million on the previous year. On the other hand, inflows due to financial liabilities entered into 8 arose in the amount of 1.4 million euros. In the previous year, outflows had resulted due to the repayment of financial liabilities, in the amount of 6.5 million euros. Interest payments 9 have continued to fall, to 0.5 million euros, due to the further decline in average interest rates. As outlined in the section "Balance sheet and financing" (page 95), on account of its financing structure CEWE was able at all times to fulfil its liquidity requirements which arose over the course of the year due to the seasonal nature of its business.

Christmas business results in 10.4 million euros growth in free cash flow for the fourth quarter

In the fourth quarter of 2017, the company's cash flow from operating activities increased by 8.0 million euros to 67.6 million euros. In particular, this has resulted from the 8.0 million euros increase in cash flow from net working capital to 19.3 million euros, which is due to the above-mentioned value added tax amounts included in customers' payments.

As in the previous year, in the fourth quarter of 2017 CEWE once again invested in the necessary expansion of its capacities (– 13.7 million euros; previous year: – 16.0 million euros). The cash flow from investing activities amounted to – 13.3 million euros (2016: – 15.7 million euros), including inflows from the sale of fixed assets in the amount of 0.5 million euros.

The free cash flow reported for the fourth quarter accordingly totalled 54.3 million euros (2016: 44.0 million euros).

Return on capital employed

Page 150 | Consolidated profit and loss account

- **Average capital employed increased to 244.3 million euros due to the purchase of Saxopark**
- **ROCE of 20.1 % due to increase in capital employed**

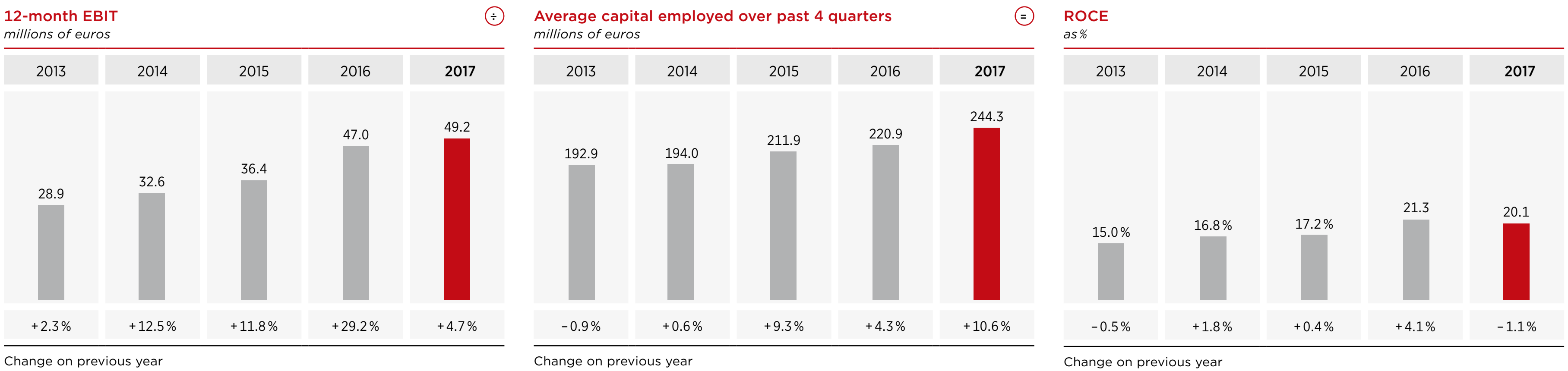
Average capital employed increased to 244.3 million euros due to the purchase of Saxopark

Page 80 | Balance sheet and financing

As of December 31, 2017, as outlined in the balance sheet chapter the capital employed figure was 258.2 million euros and thus 23.9 million euros higher than as of December 31, 2016. This has mainly resulted from the acquisition of Saxopark in Dresden. On December 31, 2017, at 244.3 million euros the average volume of capital employed – calculated on the basis of the four quarterly reporting dates within a given twelve-month period – was 23.3 million euros higher than in the previous year. This is likewise dominated by the acquisition of Saxopark.

ROCE of 20.1 % due to increase in capital employed

The return on capital employed (ROCE) – a ratio indicating the return on capital – has slightly decreased from 21.3 % to 20.1 % since December 31, 2016. The value of 20.1 % reflects the twelve-month EBIT figure of 49.2 million euros and the average volume of capital employed of 244.3 million euros. Although EBIT is on the rise, the yield is dropping due to an increase in the volume of capital employed.



Overall statement on the economic situation

On the basis of the Group's development in the financial year 2017, the Board of Management considers that its economic situation is positive.

The "Results" chapter includes a detailed discussion of developments in terms of turnover and earnings in the Group's various business units, its P&L structure, its balance sheet and financing structure and its cash flow and return on capital employed. Its volume, turnover and earnings targets were achieved or even slightly exceeded.

Page 57 | Results

In our Photofinishing core business unit, the changeover in our product mix from simple photo prints to the value-added products CEWE PHOTOBOOK, CEWE CALENDAR, CEWE WALL ART, CEWE CARDS and other photo gifts continued. CEWE achieves a stronger level of value creation with these value-added products, which consumers purchase directly from CEWE in some cases. The company's preparations for its Christmas business over the course of the first ten months of each year entail very high "outlays". CEWE thus has the opportunity and also the basis here to realise a slightly increased margin.

As outlined in the description of the related business model, Retail plays a key role in this trend, but not primarily in the photographic hardware business. This is increasingly a distribution channel for photofinishing products while also serving many CEWE business partners as an example and model of how to handle contemporary marketing of photo products. It successfully performs this role, as documented by its turnover volume in excess of 35 million euros for photofinishing products, which are sold through the websites or branches of CEWE's Retail business unit. This photofinishing business of CEWE Retail is reported in the segment report for the Photofinishing business unit. Accordingly, the earnings realised by the Retail business unit through photo hardware alone (cameras, lenses etc.) only reflect part of Retail's overall performance.

CEWE has developed Commercial Online Printing as its third business unit. This is a growing market segment in the printing market. CEWE brings to this a number of areas of expertise which it has already developed in Photofinishing: online marketing, online ordering systems and order acceptance, processing of digital orders, digital printing production, mail-order shipping and the full range of support systems such as online payments, customer service through various communication channels, etc. have formed part of CEWE's core competences in the area of Photofinishing for some years now. Through Saxoprint's online printing operations, CEWE has added online offset printing to its areas of expertise, to enable efficient production of large print runs. Commercial Online Printing has thus now become a genuinely new business unit with a positive outlook for CEWE.

At the start of 2018, CEWE's business development continued to match the Board of Management's expectations. The completion of the acquisition of Laserline and the acquisition of a majority stake in Cheerz – which specializes in smartphone photo products in France and southern Europe – represent further steps in the development strategy outlined above. All of this has encouraged the Board of Management in terms of the targets which it has indicated for the financial year 2018 in the "Report on expected developments" chapter.

Page 101 | Report on expected developments

Sustainability

Sustainability report

PDF download at:
https://company.cewe.de/en/sustainability/download.html

Request hardcopy:
nachhaltigkeit@cewe.de

CEWE strives to achieve sustainable success, which it continuously builds upon through a large number of measures which it pursues in relation to economics and ecology, human resources and social responsibility.

CEWE was one of the first SDAX companies to establish a sustainability report, in which it has now documented its activities every year for the past eight years. It does so in compliance with the current guidelines of the Global Reporting Initiative. The goal is thus to anchor issues of sustainability at every level of the company and to integrate them as a fixed element in all of its activities.

Honest and fair behaviour

Sustainability and responsibility are two closely intertwined concepts. They play a key role in all of CEWE's business units. The declared goal is to safeguard and develop the company's economic success in harmony with an ecologically sustainable approach. It achieves this goal thanks to its more than 3,500 employees who are highly respectful and appreciative in serving the company and its customers. Responsible conduct emphasising reliability, honesty, a long-term focus, decency, integrity, trust and hard work – those are the values which CEWE embodies.

The Board of Management and the Supervisory Board subscribe to the principles of modern corporate governance. We regularly monitor implementation of the Corporate Governance Code and adjust our related policies in line with current developments. An external ombudsman was already appointed in 2009. Employees and also business partners and third parties can contact this person if they wish to report suspected cases of corruption, fraud, embezzlement or other irregularities. Fortunately, in 2017 the ombudsman did not receive any reports and there were no violations of legislation or rules and regulations.

Safeguarding the company's fitness for the future

CEWE continuously generates fresh momentum in the photo industry through innovations relating to the pleasure which photos bring. The success of this focus is demonstrated by trends such as continuously growing brand power and a high level of customer satisfaction. CEWE PHOTOBOOK has long since established itself as Europe's most popular photo book: the 50 millionth copy was produced in late September 2017, and with its new CEWE PHOTOBOOK Pure the company has now designed a product for customers looking to use a smartphone app to create photo books rapidly and simply.

As well as CEWE's Photofinishing brand products, the Commercial Online Printing and Retail business units are continuously bolstering their growth and becoming more digital and international in focus. All three of these business units jointly contributed to a successful financial year.

Protection of the environment and conservation of resources

CEWE aims to significantly reduce its CO_2 footprint and thus to actively support the agreement signed by the UN climate conference in Paris and the adoption of the global development agenda. Since September 2016, all CEWE brand products have been manufactured on a climate-neutral basis. The CO_2 emissions which result during the manufacturing process are offset. Following a careful review, a forest conservation and reforestation project in Kenya was selected as an offset project. In the year under review, the company's own team of auditors verified its CO_2 offsetting calculation and examined the project's components on site.

The company's production and logistics processes have likewise been continuously improving their ecological footprint for some years now. Many projects in the field of renewable energy generation (incl. the company's own photovoltaic systems, changeover to green electricity) and energy efficiency (e. g. LED lighting) have been launched. Through the new structure whose construction the company began at its Oldenburg headquarters in 2017, CEWE has been able to create a building which independently produces the energy which it requires for its air conditioning through the synergy of a heat pump and the building's photovoltaic system.

Responsibility for employees

CEWE is a technology and market leader, with twelve high-tech production plants and approx. 3,600 employees in 25 European countries. Its employees play a key role in the company's success.Qualified personnel management and intensive support for young expert talent help CEWE to succeed as an attractive and modern employer. In the past year, the company worked very hard at expanding its partnership-based working environment through even more motivational parameters.

Employees' participation in the company was a core priority: the Employee Stock Option Plan was significantly expanded and, in particular, was made available to all of the company's employees throughout Europe. This involvement in the company's success and support for every individual employee in accumulating capital for old age are core objectives of this programme. With a participation ratio of over 80 %, our employees demonstrated the depth of their attachment to the company, their trust in its management and their desire to actively shape its success.

Social commitment

Socially responsible conduct and social commitment also form part of CEWE's corporate culture. This represents a commitment to its plants in Germany and Europe, which has its roots in the company's self-image as an active member of society and its region. CEWE supports the following three areas, as core priorities for its social commitment: people, the environment and photo culture. The social welfare projects supported focus on families and children in crisis situations. The company has a social partnership with SOS Children's Villages at an international level, which is now already in its fifth year.

CEWE demonstrates its commitment to nature through selected environment partners. It has intensively cooperated with local groups belonging to Germany's NABU environmental organisation since 2013, and expanded this relationship in 2016 to include projects with this organisation at a national level.

As Europe's leading photography service provider, CEWE has long been dedicated to photography as a form of cultural expression. The high level of emotionality which customers bring to their photography and to their design of photo products motivates our company to preserve and support photography as a form of cultural expression. CEWE is firmly committed to encouraging young and up-and-coming photographers through suitable projects and to providing talented individuals with the opportunity for their own exhibitions. In 2017, with its photography competition "Our world is beautiful" the company held the world's largest competition of this kind.

Transparent reporting

CEWE aims to continuously improve its sustainability performance and, with this goal in mind, to systematically develop and flesh out the management approach which this requires. Since 2010, CEWE has reported annually on progress throughout the company, in line with the international guidelines of the Global Reporting Initiative (GRI) which serve as a leading framework worldwide for sustainability reporting for business enterprises and organisations. For the financial year 2017, the summarised non-financial declaration which is required by law pursuant to § 289c and § 315c HGB was added to this report.

You may obtain a printed copy of the current German or English report by sending an e-mail to: nachhaltigkeit@cewe.de. You can also download CEWE's sustainability reports and films at http://company.cewe.de/en/company/sustainability.html.

EVENTS AFTER THE BALANCE SHEET DATE

Events of particular significance after the balance sheet date

In February 2018 the CEWE Group reached an agreement with the owners of the Cheerz Group (Paris) regarding an equity investment. CEWE will initially acquire approx. 80 % of the shares in the Cheerz Group for 36 million euros. This acquisition has already been completed.

No further events occurred in the period after the balance sheet date.

FORECAST, OPPORTUNITIES AND RISK REPORT

Risk report

In its business policy, the CEWE Group aims to secure the company's future as a going concern and to achieve lasting growth in its enterprise value. In support of this goal, CEWE's activities throughout Europe entail a permanent and conscientious process of weighing up risks and opportunities. Taking opportunities and the ability to identify and analyse risks and to reduce them through suitable strategies are key aspects of its corporate activities. The Board of Management is continuously responsible for systematic management of risks and opportunities, which is a management task in each of its areas of responsibility.

Management's overall assessment of risks and opportunities

The overall level of risk is assessed through the company's opportunities and risk management system, in combination with its planning, management and control systems. Individual risks and opportunities are assigned to three different categories on the basis of the gross method: low level (less than 0.5 million euros), medium level (0.5 million euros to 2.0 million euros) and significant risks and opportunities (more than 2.0 million euros).

At the present time, individual risks – or risks arising in conjunction with others – are unlikely to impair the net assets, financial position and results of operations of the CEWE Group in a manner which jeopardises its existence.

In organisational terms, CEWE has fulfilled all of the necessary requirements for early identification of possible risks and opportunities.

The CEWE Group's risks and opportunities management systems are closely integrated. The following section initially sets out the risk categories listed within the scope of its risk management system:

Strategic risks

The core business units Photofinishing and Retail, the newly added business unit Commercial Online Printing and company's business unit focusing on the development of options for future business units all entail strategic risks.

Within the scope of our core business, the key strategic risks comprised the technology and innovation risk (medium-level risk), the risks associated with the Commercial Online Printing business unit (medium-level risk), the risks possibly arising due to Brexit (medium-level risk), the risks associated with the CEWE brand (medium-level risk) and the risk associated with investing in core business-related start-ups (medium-level risk). In response to the changing nature of mobile devices and the growing importance of the Internet as an ordering channel, CEWE has reinforced its programming and development capacities in this area. By concentrating its development activities in-house, CEWE is seeking to extend its lead over the competition. Investments in core business-related start-ups such as DeinDesign are further measures to support core business over the medium and long term. The company's management monitors and reviews these investments very closely.

Online printing risk is a key strategic risk for CEWE's newly added business unit. Price opportunities are consistently exploited and turnover opportunities identified on the basis of permanent market price analyses, and appropriate measures are implemented to achieve the defined growth objectives.

The risk of investing in start-ups (such as futalis) is typical of this development phase and is a strategic risk associated with the development of options for future business units. The management likewise monitors and reviews these investments very closely.

Operating risks

The market for films and analogue photos now accounts for less than 2.0 % of total turnover and continues to decline. The large volume of digital cameras has not resulted in an increase in the printing volume for individual digital photos, since many digital photos are kept on hard drives and are not printed out on photographic paper. With its product CEWE PHOTOBOOK and other value-added products such as CEWE CALENDARS, CEWE CARDS and CEWE WALL ART, the CEWE Group expects to achieve a further increase in its printing volume for these products. CEWE's immediate printing volume at the POS has also increased. On the Internet, as of the end of the year the company had once again increased its volume of calendars and cards – nonetheless, in principle there is a risk here of declining turnover.

As well as the volume trend, the price trend is also key for the company's success. CEWE's brand product CEWE PHOTOBOOK and the outstanding quality which this offers, the company's leading ordering assistant software package and its continuously expanded product range are the keys to success here. CEWE continues to work on improving the turnover generated by each CEWE PHOTOBOOK with high-gloss finishing, larger formats and more pages per book.

In the Photofinishing business unit, a potential risk might arise due to price pressure associated with the increase in the number of white label providers as well as providers with mobile ordering applications only (high-level risk).

CEWE is also well placed in Commercial Online Printing, with CEWE-PRINT, Saxoprint and viaprinto. There are also other attractive providers of paper for digital printing. The risks on the supply side are therefore seen as slight.

The purchasing risk for investment goods and photography bags has been reduced through new suppliers and a risk-oriented selection of suppliers. In general, alternative suppliers for strategic articles have been established in view of risk considerations.

The purchasing risk for investment goods and consumer goods has been reduced through new suppliers and a risk-oriented selection of suppliers. In general, alternative suppliers for strategic articles have been established in view of risk considerations.

The significance of major customers continues to rise due to increasing concentration within the Retail segment. The fact that CEWE's five largest customers account for a turnover share of less than 28 % with their individual distribution channels should be positively emphasised by comparison with other companies. Nonetheless, a medium-level risk still applies in relation to the loss of major customers. This is offset by an increasing share of direct business with consumers in several of CEWE's markets.

In the area of environmental risk, which is regularly monitored by means of internal checks at all of the company's production plants, once again no violations of environmental standards were reported in 2017; this risk is classified as low.

The CEWE Group depends on a large number of IT systems. The ongoing integration of IT systems in the company's business processes enhances the status of IT. Dependency on the availability and quality of data poses a medium level of risk potential. The non-availability of commercial or technical IT systems and applications may directly affect production or the company's logistics department. To minimise these risks, the CEWE Group has stable and generally redundant IT systems for specific users, back-up procedures, virus and access protection systems, encryption systems and integrated IT infrastructures and applications which are standardised throughout the Group. In the past financial year, the Group's commercial and technical IT systems were once again audited by external audit firms, to achieve further improvements in IT security and for increased efficiency.

The skills and commitment of all of our employees are critical to the successful development of the CEWE Group. There is a risk of the company losing good personnel and failing to recruit a sufficient number of specialist staff. To reinforce and strengthen these factors, CEWE has implemented a large number of personnel measures, also in response to the process of demographic change. These include an interesting range of initial and advanced training courses, attractive benefits and a performance-oriented remuneration package, as well as our "Balancing family and career needs" project. Human resources activities also focus on support for female employees. For key positions especially, stand-in and succession planning arrangements are regularly analysed, so as to appoint new junior executives in good time.

Operational risks resulting from the failure of machinery are seen as medium-level risks, due to back-up facilities at other plants.

Financial risks

Reporting on the use of financial instruments is integrated within the general report on risks and opportunities, to ensure the uniform presentation of this information.

The management of liquidity, currency and interest rate risks and marketing of silver are handled by the CEWE Group's Central Services, in close coordination with the responsible departments of the respective Group companies. The Group's operating companies are responsible for the management and supervision of default risks; here too, the Group's Central Services maintain a close dialogue with the affected departments of the Group's companies, which is characterised by intensive information sharing.

Liquidity risks resulting from fluctuating cash flows are identified early on within the scope of CEWE's liquidity planning. The Group's use of liquid resources is optimised by means of cash pools as well as supplementary cash management measures. Due to its solid credit rating and the credit lines which its banks have granted with binding effect, CEWE has access to extensive liquid resources. The organisation of external and internal payment transactions and the structure of its credit facilities are tailored to the extremely seasonal nature of its business and the related cash flow. CEWE generally negotiates credit agreements with its partner banks and concludes new ones in good time prior to the expiry of its old agreements. It thus maintains its extensive credit facilities and secures long-term, staggered durations and lending conditions in keeping with its solid credit rating.

In terms of its currency risks, exchange rate fluctuations have only a very limited effect on CEWE's competitiveness and earnings. The overwhelming portion of the Group's operating business is handled in the euro. Functional currencies of the Group other than the euro account for a good third of its volume of business. Almost all of the Group's foreign currencies relate to local production plants with same-currency cash flows (natural hedge). Nonetheless, a medium-level risk applies for CEWE here.

Currency risks also apply due to translation at the year-end rate into the functional currency of the respective foreign company for trade receivables and payables and other monetary items within the meaning of IAS 21. Overall, these possible cash risks are of minor significance. More extensive currency risks apply within the scope of measurement for consolidation (translation risks) and are not relevant for cash purposes. In line with this risk structure, CEWE does not use derivative instruments for hedging purposes or only uses them very rarely.

For CEWE, interest rate risks may arise due to potential fluctuations in the market interest rate. In principle, these risks may be significant for all of its assets (impairment tests for customer relationships, technologies and brands as well as goodwill) and debt positions (such as pension commitments and variable interest-rate financial liabilities), with a material impact on valuations and earnings from the point of view of interest rates. For the Group's financial positions, the risks are of very minor significance due to the financing structure and the strong seasonal fluctuations in net financial liabilities. Interest rate fluctuations resulting from revised credit risk premiums have been reduced through fixed-rate loans entered into on a long-term basis, fixed margins as well as CEWE's solid long-term credit rating. The Group's solid equity ratio and its seasonal financing within the scope of its credit lines granted on a medium- to long-term basis strongly reduce the risk-related variable interest-rate risk segment. Here, the seasonal cash inflow also further minimises risk, since it strongly reduces or even eliminates the Group's variable financing requirement for roughly half of the year. During phases in which CEWE's growing cash position reduces or even eliminates financial liabilities through fully drawn-down loans, the interest rate risk thus only refers to the margin between the debit and credit interest rate. Moreover, in the area of interest rate risks on account of the prevailing risk structure derivative instruments are not used for hedging purposes or are only used very rarely.

In the area of film development (analogue photography) and the development of pictures on photographic paper (analogue and digital photography), silver residues are recovered by means of electrolytic procedures. The pure silver which results from this recycling process can be sold on the open market. CEWE does not pursue any other raw materials trading or resale transactions. The potential for silver recovery has also decreased significantly, due to the strong decrease in the volume of analogue photography as well as changes in photo products. This is significantly reducing the relevance of the income obtained from sales of silver. Pricing on the market for pure silver is determined by means of a precious metal's value preservation function as well as its use as an industrial metal and for jewellery. Due to the costs of possible cover transactions and the company's declared avoidance of speculative measures, derivative instruments are not used for hedging purposes or else only used very rarely.

In the area of products and services, receivables relate to commercial third-party customers as well as consumers; other receivables apply in relation to the public sector, employees, insurance firms, etc.; at CEWE, potential loss-related impairment is overwhelmingly attributable to commercial third-party customers. This risk is reduced by means of continuous monitoring of customers' credit ratings and payment behaviour in close coordination with the company's market-oriented departments and, if possible and significant, covered by means of insurance. Moreover, in case of irregularities in customer relationships the volume of business is managed on the basis of individual decisions. Impairment of consumer receivables is minimised by means of a professional debt collection management system as well as risk avoidance and information-gathering parameters. The risk for other receivables is managed through close monitoring of individual counterparties. Any individual risks resulting are taken into consideration by means of sufficient valuation adjustments, insofar as the realisation of this loss is sufficiently probable, and are thus not included in this assessment.

Legal risks

Material legal risks include potential violations of legal regulations or internal guidelines. Malicious acts such as theft, fraud, breach of trust, embezzlement and corruption may result in significant material damage as well as damage to the company's image. CEWE uses various instruments to deal with these risks. These include its corporate governance system, its internal control system, its internal audit system and its Group controlling function.

Medium-level or significant legal risks from ongoing proceedings or other disputes are not apparent at the present time. Sufficient provision has been made to cover litigation risks resulting from current business transactions by means of appropriate accruals; this will not be discussed in any further depth here.

In the event of the theft of customer data and thus non-compliance with applicable data protection legislation, there is a risk of liability claims under civil law, fines, loss of customers and damage to the company's reputation. No such cases have resulted to date.

Report on opportunities

The CEWE Group's risks and opportunities management systems are closely integrated. Possible future developments or events which may result in a positive deviation from planning are seen as opportunities.

With its business units Retail and, above all, Commercial Online Printing and Photofinishing, CEWE operates in dynamic market segments which are enjoying rapid growth.

Exploiting opportunities in these business units by means of innovation, consolidation or organic growth and identifying further opportunities in adjacent and related new business units while avoiding unnecessary risks serve as the foundations of the CEWE Group's long-term growth. Opportunities may entail both internal and external potential.

Opportunities whose realisation is probable have been factored into CEWE's corporate planning and outlook for 2018. The following report on opportunities therefore concentrates on events which may potentially result in a positive deviation from these planning figures.

Opportunities in the Photofinishing business unit

CEWE sees relatively minor opportunities in additional income from further turnover increases provided by new ordering applications for mobile devices, should these gain even stronger acceptance among end-consumers than currently envisaged.

Opportunities in the Retail business unit

CEWE operates around 143 stores through its own Retail operations in Norway, Sweden, Poland, the Czech Republic and Slovakia. In the past two years, CEWE has changed over its web shops in Norway, Sweden and Poland to IBM WebSphere Commerce. With further optimisation of these applications and increased distribution of this solution, CEWE sees potential opportunities for further increases in turnover and income in the online segment.

Opportunities in the Commercial Online Printing business unit

Through Saxoprint, CEWE is also expanding into neighbouring European countries in its Commercial Online Printing business unit. If these new portals realise a better launch than has been assumed in CEWE's planning, the volume of turnover may develop more favourably than planned.

Report on expected developments

Three different components of long-term business development: (1) Strengthening the company's brand in its Photofinishing core business unit

In its Photofinishing business unit, CEWE continues to focus on expanding its CEWE PHOTOBOOK brand – positioned in the premium segment – in all of the other European countries supplied by CEWE as well as its core markets of Germany, Switzerland and Austria. Since 2013, other product brands – CEWE CALENDARS, CEWE CARDS and CEWE WALL ART – have now been marketed with the same positioning alongside the well-established CEWE PHOTOBOOK.The goal is to exploit the positive consumer response to CEWE PHOTOBOOK and its strong brand profile for the benefit of these other product groups. The advantages relating to product differentiation that are associated with the performance and quality standards maintained by the CEWE brand will be progressively exploited with respect to a growing product portfolio. This will also raise advertising efficiency and allow CEWE products to be "pre-sold" to consumers – a system that also benefits CEWE's business partners.

(2) Development of Commercial Online Printing

In February 2012, CEWE acquired Saxoprint GmbH, Dresden, with the aim of establishing the foundations for growth in the Commercial Online Printing business unit. Besides digital printing, CEWE now also has offset-printing capacities which are available online for the efficient industrial production of large print runs. In addition, in 2017 the company signed a contract in order to acquire the Berlin online printing firm Laserline in early 2018.

(3) Development of business units

Above all, for potential investments CEWE is interested in online business models which – just like CEWE – produce customised, high-quality products with a substantial customer benefit and thus build a strong brand, while offering the potential of developing CEWE's business in future. CEWE also gains a good overview of start-ups and potential investments through its interest in the High-Tech Gründerfonds (HTGF II) seed investor launched by the German government.

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Continuing focus on Europe

Almost 100 % of CEWE's business is located in Europe. At the present time, the company is not planning any changes in its regional presence. The current goal is to ensure the ongoing development of the new business unit Commercial Online Printing and to strengthen Photofinishing. This requires virtually all of the management capacities of the CEWE Group.

Ongoing work on technological foundations

As in the past, CEWE will continue to work on improving the potential effectiveness and efficiency of its production and data transfer technology in particular over the next few years. This development is being encouraged both within the company – through best practice transfers between the individual plants – and externally, e. g. through regular benchmarking and targeted use of external consultants.

Constant innovation also includes products and services

CEWE's portfolio of products and services is undergoing continuous development. Innovations have already served as the key source of momentum in the analogue / digital transformation. The company endeavours to keep up its innovation momentum, in all of its business units, in order to preserve and consolidate its leading market position. For example, this includes extensive software updates, new apps and various product improvements.

World economy: strong growth momentum continues – increasing risks

The International Monetary Fund (IMF) expects the growth momentum to continue to pick up over the next two years. According to the IMF, worldwide growth will amount to 3.9 % in both 2018 and 2019 (2017: 3.7 %). The developed economies will initially grow by 2.3 % in 2018 (2017: 2.3 %), but this trend will weaken slightly, by one percentage point, to 2.2 % in 2019. In the emerging economies and the developing countries, the IMF's experts assume that the pace of economic growth will continue to accelerate. A growth level of 4.9 % is expected for 2018 and as much as 5 % for 2019. The analysts see risks in relation to continuing sustained robust economic development, above all, in the increasing geopolitical tensions, protectionist tendencies [17] and political uncertainties.

For the Eurozone, the IMF's forecasts are somewhat more subdued. Growth will amount to 2.2 % in 2018 but just 2.0 % in the following year (2017: 1.8 %). For Germany, too, at 2.3 % in 2017 and 2.0 % in 2018 the growth rate will remain highly stable, but will not be as dynamic as in the previous year (2017: 2.5 %). [18] In the developed economies, including Germany, economic development may be negatively affected by core inflation which picks up faster than expected and by rising interest rates.

Assessment of CEWE's management regarding the overall economic conditions

Europe's economy is expected to continue to register robust, moderate growth over the next few years. Low interest rates and core inflation which remains low are stimulating private consumer spending. Despite the economic upturn, to date real wages have increased only moderately. CEWE's management continues to consider the overall economic impact on the company's development to be somewhat limited. To be sure, the further increase in the rate of employment in Germany might make it difficult to recruit new employees as the company continues to grow and might result in increased personnel expenses. However, thus far as an attractive employer CEWE has not been affected by a shortage of specialist staff.

Following the decision of the European Central Bank's council, the ECB will leave its expansionary monetary policy intact for the time being, [19] so that companies are likely to continue to have access to attractive debt financing options. However, for CEWE the financing environment is only relevant in relation to financing of its acquisitions: thanks to its solid equity capital position and its highly reliable positive operating cash flows, the company is able to finance its envisaged organic growth and the associated investments through its own resources.

17 International Monetary Fund: World Economic Outlook, October 2017, p. 23, update January 2018, p. 1 and p. 6
18 International Monetary Fund: World Economic Outlook Update, January 22, 2018, p. 1 and p. 8 table
19 European Central Bank: Economic Bulletin 8 / 2017 (December 28, 2017), p. 2

CEWE's sales activities are largely independent of the economic environment

To date, CEWE's sales activities are largely independent of the economic environment and private consumer spending. The economic trend may theoretically have an increasing influence in the event that business customers account for a rising share of CEWE's turnover. However, the management currently tends to see opportunities in the Commercial Online Printing business unit, even during weak economic phases, since CEWE's Commercial Online Printing products offer favourable cost-benefit ratios to business customers compared to printing companies' over-the-counter printing services – a fact that should raise the importance of this competitive differentiator in such an environment.

Photofinishing will realise further slight growth in future

CEWE is encouraging value-added products' growing market share in order to offset or even overcompensate for the decline of simple photo prints. Thanks to CEWE PHOTOBOOK, the European market leader, as well as its other value-added products and its strong Internet expertise, CEWE is in an excellent position to actively promote this change and conceivably even to benefit from it. The upshot of this is that the trend of value-added products should continue to strengthen Photofinishing in 2018 and offers the prospect of stable and possibly slightly increasing margins. With the equity investment which it acquired in the Cheerz Group, France, in early February 2018, CEWE intends to strengthen its photo business by means of mobile applications in southern Europe especially. For the current financial year, CEWE's Board of Management expects this equity investment – including the related purchase price allocation and transaction costs – to initially have a negative EBIT effect of around 4 million euros.

Seasonal migration to the fourth quarter likely to remain intact

The second and third quarters – previously the core season – are continuing to decline in significance in relation to the trend for the year as a whole. This is compensated for by the growing significance of the fourth quarter for annual business – sales of higher-margin value-added products are increasingly focusing on the fourth quarter – and by the 1st quarter's rising significance for earnings.This trend in CEWE's core Photofinishing business unit has persisted for a number of years and is thus shaping global strategy for the Group as a whole. Commercial Online Printing will only moderately offset this trend: Commercial Online Printing business is also focused on the fourth quarter, albeit to a lesser degree. This is attributable to the advertising materials for CEWE's printing customers' Christmas business. These orders are mainly placed at the start of the fourth quarter.

Retail continues to focus on earnings growth

In 2017, the Retail business unit once again provided a turnover contribution now in excess of 35 million euros for the Photofinishing business unit through sales of CEWE photo products. Following two years of a negative earnings situation, the Retail business unit moved beyond this loss-making situation in 2016 and positively confirmed this trend in 2017.

CEWE's Retail business unit is responsible for making the necessary adjustments in line with a weak market trend (e.g. due to the decline in the reflex camera market). Accordingly, CEWE will continue to tackle the Retail business unit from two different angles: costs will be further adjusted in line with the turnover trend, while turnover will be supported through targeted measures. In principle, the management continues to expect that in 2018 it will be able to improve the profitability of the Retail business unit, so as to maintain this marketing channel for CEWE photo products. Turnover and earnings for these photofinishing products – which CEWE distributes through its own retail operations – are reported in the Photofinishing business unit.

The trend for Commercial Online Printing is probably independent of the economic situation

At CEWE, Commercial Online Printing offers the customer a series of advantages: increased quality from state-of-the-art large-scale printing plants, whose consistent quality is generally superior to stationary printing firms, and also time savings thanks to user-friendly Internet ordering, fast production and rapid delivery. As already outlined in relation to CEWE sales, particularly in a difficult economic period Commercial Online Printing is likely to offer advantages for customers. In 2018, the management therefore once again expects the Commercial Online Printing business unit to deliver a turnover trend which will be largely independent of the general economic situation.

Commercial Online Printing to achieve further profitable growth

In the first few years, the marketing expenses necessary for the development of Commercial Online Printing had a significant impact on this business unit's profit and loss account and gave rise to a negative result up to 2015. CEWE exploited the strong profitability of its established Photofinishing business unit for rapid and steadfast expansion of its high-potential Commercial Online Printing business unit. In 2016, the volume of turnover achieved supported this level of marketing expenses for the first time, and Commercial Online Printing ended the financial year with a clearly positive result. This positive trend continued in 2017. Profitability is now more important than growth.

In early January 2018, CEWE acquired the online printing provider Laserline, Berlin. In 2018, Laserline is expected to provide a turnover contribution of approx. 15 million euros in the Commercial Online Printing segment. While a positive earnings contribution is not yet expected for 2018, from 2019 Laserline will further strengthen CEWE's positive earnings in its Commercial Online Printing business unit.

The result for the Commercial Online Printing business unit currently includes non-operating expenses which must be recognised in accordance with IFRS rules on account of the purchase price allocation for the company's acquisition of Saxoprint. Most of this special charge ceased to apply at the end of 2017, following a depreciation period of five years. A total of approx. 0.5 million euros will be recognised for the financial year 2018.

EBIT earnings target range in 2018: + 3 million euros

Group turnover will increase in 2018, from 599.4 million euros in the previous year, 2017, to between 630 million euros and 665 million euros. The turnover trend in Photofinishing will be roughly stable or pick up slightly in organic terms, supplemented with turnover resulting from the company's equity investment in the Cheerz Group. Turnover in the Retail business unit will be more or less constant or else decrease slightly, while Commercial Online Printing will achieve further organic turnover growth in most markets, once again with the possible exception of the British market. Commercial Online Printing will achieve additional turnover growth through its acquisition of the online printing provider Laserline.

Despite the negative EBIT contribution which is still expected – above all, due to the Group's equity investment in Cheerz – Group EBIT in 2018 will fall within a range of between 48 million euros and 54 million euros, while the EBT figure will amount to between 47.5 million euros and 53.5 million euros and earnings after tax to between 33 million euros and 37 million euros. This corresponds to an increase of approx. 3 million euros in the scope of the operating EBIT results by comparison with the goals for 2017.

CEWE's Board of Management expects the ROCE figure to decline slightly in 2018. In particular, this reflects the fact that the average capital employed figure used for the ROCE calculation will increase on account of the company's acquisitions.

The operational investments planned for 2018 (i. e. excluding investments for acquisitions and other unplanned effects resulting from specific opportunities) will amount to approx. 55 million euros.

In this annual report, CEWE is publishing a combined management report for the CEWE Group and for the individual company CEWE Stiftung & Co. KGaA. This means that a forecast is necessary for the individual company CEWE Stiftung & Co. KGaA in line with the legal requirements: for the financial year 2018, CEWE expects that CEWE Stiftung & Co. KGaA will realise turnover of between 305 and 350 million euros. Earnings before interest and taxes of between 18 and 34 million euros are expected.

Minimum goal of dividend continuity

In general, CEWE pursues the goal of dividend continuity. Where this appears appropriate in view of the company's economic situation and the available investment opportunities, this entails at least constant dividends and ideally absolute dividend growth. This policy clearly focuses on the absolute dividend value, with the payout ratio as a secondary element.

Goal for 2018 CEWE Group

			Change on previous year
Photos	2.12 to 2.14	billion units	– 3 % to – 2 %
CEWE PHOTOBOOK	6.08 to 6.14	millions of euros	+ 1 % to + 2 %
Investments *	55	millions of euros	—
Turnover	630 to 665	millions of euros	+ 5 % to + 11 %
EBIT	48 to 54	millions of euros	– 2 % to + 10 %
Earnings before taxes (EBT)	47.5 to 53.5	millions of euros	– 3 % to + 9 %
Earnings after tax	33 to 37	millions of euros	– 2 % to + 10 %
Earnings per share	4.55 to 5.13	euro / share	– 3 % to + 9 %

* Operational investments excl. possible investments in expansion of the Group's volume of business, e. g. corporate acquisitions or purchasing of customer bases

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Corporate governance report

CEWE largely complies with the stringent German standards

For the year under review, Neumüller CEWE COLOR Stiftung (herein-after: the "management") and the Supervisory Board provide the following report on corporate governance at CEWE in line with item 3.10 of the German Corporate Governance Code:

The Board of Management and the Supervisory Board have long subscribed to the principles of modern corporate governance. The head of the Legal department, Mr Oliver Thomsen, has served as the Corporate Governance Officer since 2016. As a member of the Board of Management, he directly reports to the company's management and Supervisory Board.

The goal is to uphold and to reinforce the confidence which investors, financial markets, business partners, our employees and the general public place in us. For this reason, CEWE implemented the necessary organisational measures early on, in order to comply with applicable requirements:

- Publication of all capital market-related information on the Internet
- Active, open and transparent communication
- Close cooperation between the management and the Supervisory Board
- Responsible risk management

We regularly monitor implementation of the Corporate Governance Code and adjust our related policies in line with current developments. On its website http://ir.cewe.de/cgi-bin/show.ssp?companyName=cewe&language=English&id=6000 CEWE Stiftung & Co. KGaA transparently sets out its approach in relation to corporate governance principles.

In the year under review, CEWE Stiftung & Co. KGaA has once again complied with almost all of the provisions of the German Corporate Governance Code:

Declaration of conformity in accordance with § 161 of the German Stock Corporation Act (Aktiengesetz – AktG) for the financial year 2017

The Board of Management of the general partner of CEWE Stiftung & Co. KGaA, Neumüller CeWe Color Stiftung, and the Supervisory Board of CEWE Stiftung & Co. KGaA declare that since they presented their last declaration of conformity in February 2017 they have complied with the recommendations of the German Corporate Governance Code government commission, as notified by the German federal ministry of justice and consumer protection in the official section of the German Federal Gazette (Bundesanzeiger), as amended on May 5, 2015 and February 7, 2017, following their publication on April 24, 2017, and will continue to do so, with the following exceptions:

Standard limit for period of membership on the Supervisory Board (deviation from item 5.4.1 (2))

Fixing a standard period of membership and including this in proposals made to the general meeting would disproportionately restrict the statutory right of shareholders and employees to appoint their representatives to the Supervisory Board. Such a commitment would also make it more likely that the company would lose members who are able to make a particularly strong contribution thanks to their many years of industry and company expertise.

Elections to the Supervisory Board: attachment of curricula vitae and their contents (deviation from item 5.4.1 (5))

In case of impending elections to the Supervisory Board, including the curricula vitae of all of the candidates in the invitation to the general meeting would mean that many additional pages would be unnecessarily added what is already a very long document, which would then be unwieldy. For this reason, the company does not intend to follow the Code's recommendation that curricula vitae be "attached" to candidate proposals. The improvement in the quality of the information for shareholders which this recommendation envisages will be more efficiently achieved by providing the curricula vitae of all candidates on the company's website and by additionally pointing out this opportunity to obtain further information in the invitation.

Nor do we comply with the recommendation to list the "key activities" of candidates in their curricula vitae in this respect. §§ 124 (3) clause 4 and 125 (1) clause 5 AktG include definitive and sufficient stipulations regarding the information to be provided for proposed Supervisory Board candidates. The candidate's current profession and seats on other executive boards must be declared; these details will provide a more detailed impression of the nature and scope of this candidate's other activities and his technical qualifications. To require further details would go beyond the text of the law and ultimately result in increased legal uncertainty, also because the term "key activities" is too imprecise and can be variously interpreted given the wide range of available life choices.

Board of Management and Supervisory Board and their relationship

As an executive body, the Board of Management manages the company on its own responsibility. It acts in line with the company's interests and the goal of long-term value creation. The rules of procedure approved by the Board of Trustees of Neumüller CEWE COLOR Stiftung for the Board of Management set out the allocation of duties and cooperation on the Board of Management. The company's articles of association and the rules of procedure of the Supervisory Board stipulate the reporting obligations of the Board of Management. The Board of Management regularly, promptly and comprehensively notifies the Supervisory Board of all issues of relevance for the company, particularly planning, business development, the company's strategic orientation, its risk situation and its management of risks.

The Supervisory Board and the Board of Trustees supervise the Board of Management of Neumüller CEWE COLOR Stiftung in its management of the company and advise it accordingly. The Board of Management, the Board of Trustees and the Supervisory Board maintain a close and trusting working relationship, safeguarding the interests of the company. All key business transactions are discussed together with the competent committees. In particular, the details of the relationship between the Board of Management, the Board of Trustees and the Supervisory Board and issues for which the Board of Management requires approval are laid down in the rules of procedure of the Board of Management and the Supervisory Board. The rules of procedure of the CEWE Group apply in accordance with valid corporate governance and compliance regulations.

company.cewe.de > Investor Relations

The competences of the Supervisory Board are also laid down in its rules of procedure. A key task of the Supervisory Board is its review of the company's quarterly reports, its auditing of the annual financial statements and the consolidated financial statements of CEWE Stiftung & Co. KGaA and its preparation of the resolution to be passed by the general meeting for approval of the annual financial statements. The members of the Supervisory Board of CEWE Stiftung & Co. KGaA are appointed in accordance with the provisions of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG).

The members of the Board of Management and Supervisory Board disclose any conflicts of interest to the Supervisory Board.

Shareholders and general meeting

CEWE's shareholders are regularly notified of important dates by means of a financial calendar which is available on the company's website http://ir.cewe.de/cgi-bin/show.ssp?companyName=cewe&language=English&id=0 and are informed of the company's net assets, financial position and results of operations and its business development in quarterly and annual reports. Meetings are regularly held with analysts and shareholders within the scope of investor relations activities. As well as an annual analysts' conference, the company holds roadshows and telephone conferences for analysts as of the publication of its quarterly figures.

The shareholders exercise their rights before and during the general meeting, as stipulated in the company's articles of association and by law. For many years now, an annual general meeting has been organised and held with the goal of providing rapid, comprehensive and effective information for all of the company's shareholders before and during meetings and to facilitate the exercise of their rights. As part of this, CEWE offers its shareholders the usual power-of-attorney and voting instructions service for the company's general meetings. The general meeting votes on all of the matters referred to it.

The most recent general meeting of CEWE Stiftung & Co. KGaA took place on May 31, 2017.

Remuneration report

In regard to the remuneration received by the Board of Management and the Supervisory Board in the financial year 2017, please see the detailed remuneration report which is included as a component of the combined management report on pages 120 ff.

Disclosures regarding stock option plans

The Stock Option Plan 2014 (SOP 2014) was established on the basis of the resolution passed by the general meeting on June 4, 2014 (Board of Management's resolution of September 1, 2014, Supervisory Board's resolution of September 10, 2014, Board of Trustees' resolution of September 11, 2014); the Stock Option Plan 2015 (SOP 2015) was added in 2015 (Board of Management's resolution of August 17, 2015, Supervisory Board's resolution of September 9, 2015, Board of Trustees' resolution of September 8, 2015); the Stock Option Plan 2016 (SOP 2016) was added in 2016 (Board of Management's resolution of May 23, 2016, Supervisory Board's resolution of June 1, 2016, Board of Trustees' resolution of June 16, 2016). Finally, in the year under review the Stock Option Plan 2017 (SOP 2017) was approved (Board of Management's resolution of June 12, 2017, Supervisory Board's circular resolution of July 2017, Board of Trustees' resolution of June 14, 2017). All of these plans have the same structure. These options were offered at the highest level of the Group's management, in Germany and other countries, at a premium of 0.50 euros per option. Overall, in the Stock Option Plan 2017 8,400 options were awarded to the members of the Board of Management (SOP 2016: 9,600) and 83,600 options to the company's other executives (SOP 2016: 97,100). Upon expiry of the fouryear waiting period, the options may only be exercised if the closing auction prices of the CEWE share in Deutsche Börse AG's Xetra trading system have reached at least 120 % of the underlying price on ten consecutive stock exchange trading days. Each Stock Option Plan has a term of five years. The key details of the Stock Option Plans are as follows:

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Key details of the Stock Option Plans 2014, 2015, 2016 and 2017

	Start of term	End of waiting period	End of term	Underlying price *in euros*	Performance target *in euros*
SOP 2017	January 1, 2018	December 31, 2021	December 31, 2022	74.00	92.50
SOP 2016	January 1, 2017	December 31, 2020	December 31, 2021	74.00	92.50
SOP 2015	January 1, 2016	December 31, 2019	December 31, 2020	52.00	62.40
SOP 2014	January 1, 2015	December 31, 2018	December 31, 2019	53.00	63.60

Transparent communication

To ensure the highest possible level of transparency, the aim is for all of the target groups to be provided with the same information, at the same time. Both institutional investors and private investors are able to obtain timely information online on current developments within the Group. All press releases and ad hoc releases and the articles of association of the company are published on its website www.cewe.de. Interested persons may also subscribe to a newsletter which provides news coverage for the Group.

company.cewe.de/en > Investor Relations > News & Publikations

Shareholdings of the Board of Management and the Supervisory Board

On December 31, 2017, the shares held by all of the members of the Board of Management and the Supervisory Board in CEWE Stiftung & Co. KGaA amounted to 11,634 of the total shares issued by the company. 10,992 shares are held by members of the Board of Management and 642 shares are held by members of the Supervisory Board.

Disclosures regarding directors' dealings

Under § 15a of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), persons holding management positions (in particular, members of the Board of Management and the Supervisory Board and certain employees with management responsibilities) and their close associates are required to disclose their dealings for own account in shares or related financial instruments, insofar as the total securities transactions which a person with management responsibilities and his close associates enter into equal or exceed an amount of not less than 5,000.00 euros in a given calendar year. Details of notifiable securities transactions entered into in the year under review, 2017, and up to the present day are provided on the company's website www.cewe.de.

Accounting and auditing

BDO AG, Wirtschaftsprüfungsgesellschaft, Hamburg, has been appointed as the auditor for the annual accounts and for the semi-annual financial report 2017 of CEWE Stiftung & Co. KGaA for the past financial year, in line with the Audit Committee's recommendation. The auditor will notify the Chairman of the Supervisory Board immediately of any grounds for bias or disqualification arising in the course of the audit. Moreover, the auditor will immediately report on any key incidents and findings resulting during his audit which are of material significance for the tasks of the Supervisory Board. The auditor will also notify the Supervisory Board in the event of discovering in the course of his audit facts which are not compatible with the declaration of conformity submitted by the Board of Management and the Supervisory Board in accordance with § 161 AktG.

Compliance

The company strongly emphasises compliance in terms of measures to ensure conformity with applicable legislation and internal policies and their observance by the Group's companies. The Board of Management of the general partner has implemented various mechanisms in line with its responsibilities in this respect, which are intended to ensure optimal fulfilment of these compliance requirements.

The compliance officer appointed for this issue continuously addresses the maintenance and development of the compliance structure of the company and the Group, in line with applicable requirements and the needs of the company. In particular, his activities focus on training for employees and on legal risk management. He reports to the overall Board of Management of the general partner. In case of any specific issues, the compliance officer will consult the persons with responsibility in the company's respective divisions and obtain external legal advice, where necessary.

The company keeps a list of insiders in this overall context. Any persons who are employed by the company and who have designated access to insider information are included in this list, following instruction regarding applicable obligations under insider law.

The company has also appointed an external lawyer as an ombudsman. Employees and also third parties may contact this person to point out possible violations of the law or policy violations within Group companies. The ombudsman received one report in the period under review, but this proved to be unfounded. Nor has the company's in-house verification system uncovered any violations of applicable legislation or policies.

Risk management system

Goals and strategy of the risk management system

As an internationally operative business group, CEWE Stiftung & Co. KGaA and its subsidiaries are exposed to various risks which may adversely affect their business activities as well as their net assets, financial position and results of operations. Accordingly, in compliance with industry standards and statutory provisions CEWE has established an internal control and risk management system for identification of potential opportunities, assessment of risks and, where necessary, implementation of appropriate countermeasures. This control and risk management system is incorporated within the information and communication system of the CEWE Group as an integral part of its business, planning, accounting and control processes and is a key element of the CEWE Group's management system. Its control and risk management system is based on a systematic risk identification, assessment and management process for the overall Group.

Organisation and structure of the risk management system

The Board of Management, the managers of the company's regional profit centres in Germany and other countries and its central departments and project managers are responsible for its control and risk management system. The Board of Management has overall responsibility for the handling of control and risk management.

The risk management system covers the risks and opportunities associated with the individual risk areas, within the scope of an annual, Group-wide risk inventory. The annual report on risks and opportunities has been produced on the basis of the risk inventory. In the course of a year, the company's risk and opportunity assessments are reviewed at least quarterly. The Supervisory Board is notified of these assessments at least quarterly. Following notification of the risk officer, new risks and opportunities are incorporated in the risk management system and assigned to a risk manager. Insofar as individual risk assessments have resulted in the establishment of corresponding accruals, these will no longer be indicated in the risk report.

Key features of the internal control system

The internal control system (ICS) is an integral component of the business processes of the CEWE Group, encompasses a variety of different monitoring and control mechanisms and is essentially based on five principles which are set out in further detail below:

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

The “dual-control principle” is safeguarded by means of rules and regulations such as articles of association, policies, rules of procedure, instructions and powers of representation and authorisations to sign. The CEWE Group’s coordinated IT authorisation concept is a further management and control mechanism. This regulates the activities of individual persons and groups of persons and their access to the Group’s generally SAP-based applications and their functional competences.

To ensure the integrity of procedures and the quality of individual processes, the CEWE Group maintains a strict “separation of functions” for critical business processes. In addition, specific departments handle central tasks and thus have reciprocal responsibility for supervision of the Group’s activities.

The “integrated reporting system” comprises a detailed planning, management and reporting concept covering the Group’s current position and its outlook. The planning process is based on a combined bottom-up and top-down approach, in line with monthly planned figures. The existing Group information system relies on a monthly target / actual prior-year comparison as well as supplementary multiple-location business reviews at the level of the individual profit centres as well as the Board of Management. Developments, risks, opportunities and measures are discussed there and documented accordingly.

The CEWE Group also monitors the fair value of its interests in subsidiaries within the scope of its control and risk management system. Its shareholdings regularly undergo impairment tests.

Moreover, all of the Group’s companies and profit centres regularly undergo “external auditing” in the areas of finance and accounting, IT, technical security and insurance policies as well as further “internal auditing” for other functional competences.

Key aspects of the internal control system, in relation to the Group accounting process

The accounting-related internal control system is embedded within the company-wide risk management system, as a component of the overall internal control system (ICS) of the CEWE Group. Its purpose is to minimise the risk of a material misstatement in the company's accounting and external reporting, to identify undesirable developments early on and to implement countermeasures. This ensures that the Group's affairs are presented in compliance with applicable legislation and standards in separate financial statements and in the consolidated financial statements.

The "Group balance sheets" unit, central finance division, is responsible for preparing the consolidated financial statements including any consolidation measures. The preparation process for the financial statements of the CEWE Group is based on a uniform Group accounting policy which is regularly adjusted in line with applicable legal outline conditions. The Board of Management has sole responsibility in relation to this accounting policy.

The Group's accounting policy sets out its IFRS accounting standards for all of the Group's companies, in Germany and in other countries, to ensure the application of uniform recognition, measurement and reporting methods for its IFRS consolidated financial statements. Binding instructions have been laid down in relation to internal reconciliations and other tasks for preparation of the financial statements. All key dates have been specified throughout the Group in the Group's policy.

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

The necessary work steps within the scope of the accounting process undergo a large number of automatic and manual checks and plausibility reviews. In addition, the effectiveness of accounting-related internal checks is continuously monitored through internal auditing. This task is handled by internal auditors and also by external auditors appointed by the company. A rolling process ensures that all of the companies within the scope of consolidation undergo this supervisory process. The Board of Management and the Supervisory Board are regularly notified of the results of these effectiveness reviews.

The separate financial statements included within the consolidated financial statements are audited by various local auditors. Compliance with applicable accounting rules and regulations and the accuracy and completeness of all other locally produced documents which are relevant for the consolidated financial statements are thus safeguarded. The external auditor of the consolidated financial statements summarises audit findings at the level of the separate financial statements and the consolidated financial statements regarding the effectiveness of the accounting-related internal control system of the CEWE Group and notifies the Supervisory Board accordingly.

ACQUISITION-RELATED DISCLOSURES

Disclosures in accordance with § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB)

Composition of subscribed capital, restrictions relating to voting rights or the transfer of shares (§ 315a (1) nos. 1 and 2 HGB).

The subscribed capital of CEWE Stiftung & Co. KGaA, Oldenburg, comprises the following classes of shares:

Type of share	ISIN	Form of share	Volume of this class of shares	Share of subscribed capital *in euros*	Share of subscribed capital *as %*	Rights and obligations
Bearer shares	DE 0005403901	No-par value shares	7,400,020	19,240,052.00	100.0	· The shares confer full voting and dividend rights unless mandatory provisions of the German Stock Corporation Act stipulate otherwise (e.g. shares which the company holds as treasury shares)
			7,400,020	**19,240,052.00**	**100.0**	

Shares issued to employees within the scope of employee share programmes are subject to various holding periods. A total of 5,508 shares must be held up to the end of the year following their transfer. A total of 11,040 shares must be held until the employee shareholder has reached the age of 65 or begun to draw his statutory old-age pension. The company is not aware of any more extensive restrictions of voting rights or transfer restrictions within the meaning of § 315a (1) no. 1 HGB.

Direct or indirect equity investments (§ 315a (1) no. 3 HGB)

According to the company’s published notices and the available information, the following direct and indirect equity investments held in the company exceed 10 % of the voting rights:

Shareholder subject to reporting requirement

	Type of interest	Notified voting rights as a proportion of the subscribed capital
ACN Vermögensverwaltungsgesellschaft mbH & Co. KG, Oldenburg (heirs of Senator h. c. Neumüller, Oldenburg)	direct	27.4 %

Holders of shares conferring special rights (§ 315a (1) no. 4 HGB)

There are no shares conferring special rights.

Form of control of voting rights in case of employee participation (§ 315a (1) no. 5 HGB)

Insofar as employees of the CEWE Group are shareholders in CEWE Stiftung & Co. KGaA, Oldenburg, as far as the company is aware no specific requirements apply in relation to the possibility of their exercise of voting rights. Employees are not known to have any joint holdings of one or more shares (§ 69 (1) AktG), and nor are any voting trust agreements between employee shareholders known of.

Statutory regulations and provisions in the company's articles of association regarding the appointment and removal from office of members of the Board of Management and amendments of the articles of association (§ 315a (1) no. 6 HGB)

The company's general partner, Neumüller CEWE COLOR Stiftung, Oldenburg, is authorised to manage the affairs of CEWE Stiftung & Co. KGaA, Oldenburg, and to represent it (§ 8 of the articles of association of CEWE Stiftung & Co. KGaA). Unless imperatively stipulated in the articles of association or by law, the legal relationships between the company and its general partner will be regulated in a separate agreement; the company shall be represented by the Supervisory Board in this respect. Article 9 of the articles of association of CEWE Stiftung & Co. KGaA provides for the withdrawal of the company's general partner. Neumüller CEWE COLOR Stiftung thus assumes this role irrespective of any capital contribution, but the imperative statutory grounds for the withdrawal of the general partner remain unaffected (§ 9 (1) of the articles of association). It will not be entitled to any credit balance in case of partition in the event of its withdrawal (§ 9 (2) of the articles of association). In the event of Neumüller CEWE COLOR Stiftung's withdrawal from its position as the company's general partner or if its withdrawal is foreseeable, to prevent the liquidation of CEWE Stiftung & Co. KGaA, § 9 (3) includes the following provision: the Supervisory Board of CEWE Stiftung & Co. KGaA is entitled and obliged immediately / as of this withdrawal to appoint a company limited by shares – which are held in their entirety by CEWE Stiftung & Co. KGaA – as the new general partner of CEWE Stiftung & Co. KGaA with a sole authorisation for management of its business and a sole power of representation (clause 1). Should Neumüller CEWE COLOR Stiftung withdraw from its position as the company's general partner without the simultaneous appointment of a new general partner, CEWE Stiftung & Co. KGaA's limited shareholders will assume the continuing management of the company on a temporary basis (clause 2). In this case, the Supervisory Board shall immediately apply to the competent court for the appointment of a substitute representative to represent the company up to the appointment of a new general partner, particularly in the event that CEWE Stiftung & Co. KGaA need first acquire or establish a company limited by shares to serve as its general partner (clause 3). The Supervisory Board is authorised to adjust the wording of the articles of association in accordance with the replacement of the company's general partner (clause 4).

Neumüller CEWE COLOR Stiftung is represented by its Board of Management in and out of court. Its Board of Management is thus also responsible for the management of the business of CEWE Stiftung & Co. KGaA. The members of the Board of Management of Neumüller CEWE COLOR Stiftung are appointed by the Board of Trustees. A member of the Board of Management – i.e. the member who supervises the own-account business transactions of Neumüller CEWE COLOR Stiftung – will be appointed by the beneficiaries of Neumüller CEWE COLOR Stiftung designated in its articles of association. The members of the Board of Management will be appointed for a term of office of up to five years. The Board of Trustees shall rule on any issues pertaining to service regulations.

The relevant statutory provisions (§§ 179 ff., 285 (2) and 181 AktG) apply in relation to any changes to the articles of association of CEWE Stiftung & Co. KGaA.

Powers of the Board of Management to issue and to repurchase shares (§ 315a (1) no. 7 HGB)

In accordance with the resolution passed by the general meeting on June 4, 2014, in the period to June 3, 2017 the company is authorised to acquire up to 10 % of its share capital, in total, as of the time of this resolution. The general meeting held on May 31, 2017 once again authorised the buyback of treasury shares for up to 10 % of the share capital as of the date of this resolution, in the period up to May 30, 2022. This authorisation has been granted to enable:

- the resale of the shares over the stock exchange or by means of an offer submitted to all of the shareholders, with the consent of the Supervisory Board and while complying with the principle of equal treatment (§ 53a AktG);

- the retirement of the shares, in whole or in part, on one or more occasions, with the consent of the Supervisory Board. The fact or the procedure of these shares' retirement will not require a further resolution to be passed by the general meeting. These shares may therefore be called in through simplified procedures, without any capital reduction, by adjusting the pro rata notional value of the other no-par value shares in the company's share capital;

- to dispose of the shares, with the consent of the Supervisory Board, in return for a payment in kind; in particular, these shares may be offered or granted to third parties within the scope of company mergers or at the acquisition of companies;

- to offer the shares for purchase to employees of the company or its affiliates within the meaning of §§ 15 ff. AktG, with the consent of the Supervisory Board, or to promise these shares or transfer them with a lockup period of not less than one year; the treasury shares may also be promised and transferred to eligible persons in fulfilment of dividend claims arising from shares of the company.

- with the consent of the Supervisory Board, to offer the shares for purchase to employees including the members of the Board of Management and the management of Neumüller CEWE COLOR Stiftung within the scope of a stock option plan. In this case, the waiting period is four years. The Supervisory Board will specify the details of share-based remuneration for the members of the Board of Management.

- with the consent of the Supervisory Board, to dispose of the shares purchased in accordance with the above authorisation in a form other than via the stock exchange or by means of an offer submitted to all of the shareholders.

Material agreements which are subject to a change of control due to a takeover offer (§ 315a (1) no. 8 HGB)

The financing agreements concluded with the company's key bank partners include the usual change-of-control provisions; these may entail the need for revision of the existing credit agreements. Otherwise, CEWE Stiftung & Co. KGaA, Oldenburg, does not have any agreements with third parties which are subject to a change of control due to a takeover offer and which may have the following effects, either individually or in their totality.

Compensation agreements (§ 315a (1) no. 9 HGB)

CEWE Stiftung & Co. KGaA, Oldenburg, does not have any agreements which have been concluded with members of the Board of Management or the management of Neumüller CEWE COLOR Stiftung or employees, to cover the event of a takeover offer, and which may lead to an obligation for the company to provide compensation or other payments.

ANNUAL FINANCIAL STATEMENTS OF CEWE STIFTUNG & CO. KGaA

Results of operations, asset and financial position

Results of operations

The operating business of CEWE KGaA is only one part of the business activities of the overall CEWE Group. The following paragraphs refer to the separate financial statements of CEWE Stiftung & Co. KGaA.

Revenues increased by 4.7 million euros or 1.5 % to 331.4 million euros in the financial year 2017. This was mainly due to the growth achieved by the Photofinishing business unit.

Die sonstigen betrieblichen Erträge sind von 6,8 Mio. Euro im Vorjahr um 0,5 Mio. Euro auf 7,3 Mio. Euro gestiegen und liegen mit 2,2 % vom Umsatz in etwa auf Vorjahresniveau (2016: 2,1 % vom Umsatz).

The 4.5 million euros or 5.2 % rise in the **cost of materials** to 91.4 million euros is slightly in excess of the increased volume of business. The material expense ratio has thus increased slightly on the previous year, from 26.6 % to 27.6 %.

At 89.7 million euros, **personnel expenses** were 4.6 million euros higher than in the previous year. As well as the increased volume of business, this also reflects the increased personnel requirements for central functions as well as a collective agreement pay rise. The personnel expense ratio increased slightly, from 26.1 % to 27.1 %.

At 19.0 million euros, **depreciation** was slightly higher (0.6 million euros) than in the previous year. This is attributable to additions in the field of buildings and technical equipment and machinery.

At 100.3 million euros, **other operating expenses** were slightly lower (2.8 million euros) than in the previous year (2016: 103.1 million euros) and have decreased from 31.6 % of turnover to 30.3 % of turnover.

The financial result increased from – 1.1 million euros in the previous year to 5.8 million euros. This is mainly attributable to reduced valuation adjustments on financial assets in the amount of 1.6 million euros (2016: 9.4 million euros). Profit transfer income (2016: expenses for assumption of losses) has resulted from an existing profit and loss transfer agreement.

Earnings before income taxes have increased from 38.5 million euros to 44.2 million euros and amount to 13.4 % of turnover, compared to 11.8 % of turnover in the previous year.

Income taxes amounted to 14.9 million euros (2016: 11.8 million euros); the income tax rate has thus increased from 30.7 % to 33.7 %.

Net income for the year thus totals 29.3 million euros (2016: 26.5 million euros) and has therefore increased slightly and amounts to 8.9 % of turnover (2016: 8.1 % of turnover).

Asset position

CEWE KGaA's **total assets** have decreased by 0.7 million euros on the previous year.

At 233.4 million euros (December 31, 2016: 191.9 million euros), **fixed assets** were 41.5 million euros higher than in the previous year. This fixed assets increase is mainly attributable to the 29.5 million euros increase in financial assets. Property, plant and equipment have increased by 11.7 million euros to 84.3 million euros.

Current assets declined by 41.9 million euros, from 230.0 million euros to 188.2 million euros. The decrease in current assets has mainly resulted due to the 33.9 million euros decline in receivables from affiliates to 83.8 million euros. While cash and cash equivalents decreased by 9.5 million euros to 26.3 million euros, inventories were almost unchanged at 14.4 million euros.

Equity has mainly increased due to the unappropriated profits realised less the dividend paid in the financial year 2017 for 2016. Please see the notes for further information.

Accruals declined by 5.0 million euros, from 50.1 million euros to 45.1 million euros. Pension accruals were increased, mainly due to adjustments of the pension commitments to members of the Board of Management. Tax accruals as of December 31, 2017 have decreased on the previous year due to the internal audits completed. The decrease in other accruals is partly attributable to the reduced accruals for bonus payments to business partners as well as personnel-related accruals.

Liabilities, which have declined by 14.4 million euros to 119.9 million euros, are mainly due to the decrease in Group cash pool liabilities and, conversely, the increase in amounts owed to credit institutions as well as other liabilities.

Investments

Investments in fixed assets totalled 67.2 million euros. Of this amount, 31.2 million euros were invested in property, plant and equipment and 3.2 million euros in intangible assets. In the property, plant and equipment segment, expenses amounting to 7.1 million euros were incurred for the company's POS presence. 12.6 million euros were invested in digital printing and finishing. 2.1 million euros were committed for the expansion of the company's IT infrastructure. The remainder, in the amount of 9.4 million euros, comprises investments in buildings, the fleet of vehicles and other installations. Other investments in financial assets totalled 32.8 million euros and related to loans to affiliates as well as the acquisition of equity investments. As of December 31, 2017, commitments amounted to 7.3 million euros. Of this amount, 7.2 million euros consisted of property, plant and equipment and 0.1 million euros comprised intangible assets.

Financing

CEWE's existing credit facilities provide it with additional financial leeway. At the end of the year, the total credit line of the CEWE Group amounted to 94.6 million euros (previous year: 106.3 million euros). After deducting the total loan volume drawn down (1.6 million euros, previous year: 0.2 million euros) and allowing for the company's existing liquidity (38.8 million euros, previous year: 48.6 million euros), its liquidity potential totalled 131.8 million euros (previous year: 154.7 million euros). The Group's financing structure thus offers major strategic leeway. As well as drawn-down fixed rate loans (1.6 million euros, previous year: 0.2 million euros), the company has long-term revolving credit lines which have been granted for up to four years as well as continuously renewed one-year lines whose overall purpose is financing of the company's liquidity requirements, which fluctuate strongly in the course of a given year due to seasonal factors; this ensures that CEWE is able to fulfil its payment obligations at all times.

All long-term credit commitments are subject to normal bank covenant agreements for an adjusted equity ratio of 22.5 % and net debt leverage of 3.0, in each case calculated as of the end of the financial year. No other significant collateral was provided. The agreement of these ratios also ensures adequate strategic leeway. The company regularly exceeded or undershot these conditions by large margins (equity covenant: 52.0 %, previous year: 49.5 % and net debt leverage: – 0.42, previous year: – 0.54). Over the course of the year, these indicators followed the seasonal nature of the company's business and fluctuated accordingly. These loans have been granted subject to normal market terms. The CEWE Group's regular investment budget is fully financed out of its operating cash flow. As well as equalisation of liquidity in the course of the year, these credit facilities are also available for larger strategic measures.

In the financial year 2016 , the cash flow from operating activities calculated according to GAS 21 amounted to 62.9 million euros (2016: 91.2 million euros) and thus exceeded the cash flow from investing activities which totalled 58.5 million euros in 2017 (2016: – 48.6 million euros). Cash flow from financing activities amounted to – 13.8 million euros (2016: – 12.6 million euros). Cash and cash equivalents have thus decreased by 9.5 million euros, from 35.8 million euros to 26.3 million euros.

REMUNERATION REPORT

In accordance with applicable legal requirements (§§ 285 (1) no. 9, 289 (2) no. 5, 314 (1) no. 6 and 315 (2) no. 4 of the German Commercial Code), the rules laid down in the German Accounting Standards (GAS) 17.10 and 14 ff. and the recommendations of the German Corporate Governance Code (GCGC), as amended on February 7, 2017, the remuneration report sets out the basic features of the remuneration system for the Board of Management of Neumüller CEWE COLOR Stiftung as the general partner with unlimited liability of CEWE Stiftung & Co. KGaA and its Supervisory Board. The individual remuneration packages of the members of the Board of Management and Supervisory Board are also presented and commented on. In the financial year and the previous year, no external remuneration expert was consulted for an assessment of the appropriateness of the remuneration received by the Board of Management and the Supervisory Board.

The group of members of the Board of Management subject to reporting obligations comprises the Board of Management of Neumüller CEWE COLOR Stiftung as the general partner with unlimited liability and sole managing body of CEWE Stiftung & Co. KGaA.

On June 30, 2017, Dr Rolf Hollander retired from the Board of Management and took up a seat on the Board of Trustees of Neumüller CEWE COLOR Stiftung.

With effect as of July 1, 2017, Dr Christian Friege was appointed as the Chairman of the Board of Management of Neumüller CEWE COLOR Stiftung.

Remuneration of the Board of Management

Remuneration system

The remuneration paid to the members of the Board of Management is determined by the Board of Trustees of Neumüller CEWE COLOR Stiftung. This continues to comprise fixed and performance-related variable components. As well as the tasks handled by each member of the Board of Management and their personal performance, the criteria for determination of overall remuneration are the performance of the overall Board of Management and the economic success of the CEWE Group and its peer group. The company's remuneration structure is intended to promote its positive long-term development. No remuneration components are granted which may result in a dilution of the share capital. Nor has the company concluded any agreements on discretionary or guaranteed bonus payments. It thereby complies with the requirements of the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG). All of the members of the Board of Management receive their allowances exclusively from Neumüller CEWE COLOR Stiftung, respectively from CEWE Stiftung & Co. KGaA via a simplified settlement procedure; they did not receive any allowances from any other CEWE Group companies.

Elements of the Board of Management's remuneration system

The anual salary of the members of the Board of Management may amount, excluding side benefits, to no more than twice their fixed remuneration. Their fixed remuneration comprises a fixed salary and non-cash remuneration. Their variable remuneration consists of a yearly paid out bonus plus long-term incentive components. Fixed remuneration is paid out as a constant monthly salary. The members of the Board of Management also receive non-cash remuneration, which is reported on the basis of the taxable amounts. This mainly consists of the use of a company car and occupational insurance premiums; all members are entitled to receive the non-cash remuneration in the same way and pay tax on it. They are also entitled to the reimbursement of entertainment expenses and travel costs at the maximum rates permitted for tax purposes, insofar as such expenses and costs are exclusively incurred in the interests of Neumüller CEWE COLOR Stiftung.

The variable, performance-related remuneration elements are divided up into three different components and consist of a bonus share, payable annually (bonus I), a multi-year bonus share (bonus II) and a long-term, share-based remuneration component. In terms of their structure, the various remuneration elements are handled equally for all of the members of the Board of Management and have the following key features.

In terms of its annual and multi-year shares (bonus I and bonus II), the bonus is based on earnings before taxes (EBT) as well as depreciation on property, plant and equipment and amortisation on intangible assets of the CEWE Group for the year under review. Overall, it is limited to a maximum of 100 % of the fixed remuneration in the relevant year. Moreover, this only includes parts of the bonus, which related to depreciation and amortisation which have been earned through earnings before tax (earned depreciation). A multi-year assessment basis for the variable remuneration components is established in that only 80 % of the calculated bonus is paid out to the member of the Board of Management in the next year following the relevant financial year (bonus I). The 20 % remaining amount (bonus II) is credited to an account held by a personal bonus bank. This bonus bank balance is retained for the multi-year term of the contract of the respective member of the Board of Management. It attracts interest at a rate of 5.0 % p. a. and will be paid out at the end of the contract period, including this credited interest. Negative earnings before tax which exceed the level of annual depreciation will result in a negative bonus amount that will be deducted from the personal bonus bank account. Accordingly, the final balance of the bonus bank account will only be paid out in case of a positive balance. In the event of the premature retirement, pro rata payment rules apply. Extraordinary developments (such as the disposal of shares in the company and the realisation of hidden reserves) are not included in the calculation of bonus I and bonus II. In the event of a deterioration in the position of CEWE Stiftung & Co. KGaA, Neumüller CEWE COLOR Stiftung may reduce these amounts appropriately, if their continued grant would otherwise be unreasonable.

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Stock option plans were established for the years from 2014 to 2017 in which currently active members of the Board of Management were permitted to participate. The purpose of this was to establish a further long-term, performance-related remuneration component. All of these stock option plans (SOP 2014, SOP 2015, SOP 2016 and SOP 2017) had (and have) essentially the same terms. Participation in these plans and the volume of options purchased were subject to the discretion of the members of the Board of Management, up to a maximum total. All of the members of the Board of Management fully participated in the SOP 2014, SOP 2015, SOP 2016 and SOP 2017 plans, in line with their respective entitlements. The underlying prices, the performance targets and the fair value of the options within the scope of the currently applicable option programmes are as indicated below; for further details of the programmes, please see pages 189 ff.

A new Board of Management agreement was signed with Dr Holzkämper with effect from January 1, 2018. In particular, this contains slightly different bonus arrangements, but this is not expected to result in any significant financial difference.

Stock option plans fair values, underlying prices and performance targets

	Number of participants	Number of rights issued	Fair value *EUR / opt.*	Fair value *in euros*	Underlying price *EUR / opt.*	Performance premium	Performance target *EUR / opt.*
SOP 2017	7	8,400	20.20	169,680.00	74.00	125 %	92.50
SOP 2016	8	9,600	18.06	173,376.00	74.00	125 %	92.50
SOP 2015	9	10,800	9.16	98,928.00	52.00	120 %	62.40
SOP 2014	9	10,800	7.10	76,680.00	53.00	120 %	63.60

The company has taken out a Group financial loss liability insurance policy for all of the members of the Board of Management, the managing directors and the executives of the CEWE Group, both in Germany and in other countries. This policy is concluded or extended annually. This insurance covers the personal liability risk in the event of this group of persons being sued for financial losses resulting from their activities (D & O insurance). Cover for the members of the Board of Management and the Supervisory Board of CEWE Stiftung & Co. KGaA complies with the requirements of the German Act on the Appropriateness of Management Board Remuneration. The policyholder thus bears 10 % of a potential loss, up to one-and-a-half times their fixed annual remuneration. The individual member of the Board of Management is free to arrange additional cover privately, on their own account. Insurance cover also applies through a special criminal law insurance policy for all of the company's employees (total annual expenditure: 61 thousand euros, previous year: 52 thousand euros). The company's statutory representatives and the members of its supervisory body are also jointly insured against any violations which they commit, or are alleged to have committed, in the performance of their duties. The company has also taken out an accident insurance policy (total annual expenditure: 6 thousand euros, previous year: 6 thousand euros) for all of its executives. This includes all of the members of the Board of Management.

Individual remuneration of the Board of Management for 2017

In addition to applicable accounting principles, the following presentation of the remuneration of the financial year 2017 also reflects the recommendations of the German Corporate Governance Code (GCGC). The remuneration granted and received is presented in line with the model tables recommended in the Code. The maximum possible figures are also indicated; except for fixed remuneration, no minimum limits apply. The two tables recommended as models distinguish between potential and prospective payments (remuneration granted) and the payments actually made for the financial year (remuneration received). The indicated fair values of the share-based remuneration granted have been calculated according to applicable accounting principles.

The total remuneration granted for the members of the Board of Management of Neumüller CEWE COLOR Stiftung for the performance of its tasks within the parent company and the subsidiaries, as fixed and variable remuneration in the financial year 2017, amounts to a total of 4,111 thousand euros. In the previous year, the figure was 4,606 thousand euros. The discrepancy in relation to the figure of 3,705 thousand euros now shown for the previous year is attributable to Dr Rolf Hollander's retirement from the Board of Management. The breakdown of these payments is as follows for the individual members of the Board of Management:

Remuneration granted

Figures in euros	Dr Christian Friege Chairman of the Board of Management and Head of National and International Distribution, Neumüller CEWE COLOR Stiftung, since July 1, 2017				Patrick Berkhouwer Head of Foreign Markets and Expansion, Neumüller CEWE COLOR Stiftung				Dr Reiner Fageth Head of Technology and R & D, Neumüller CEWE COLOR Stiftung			
	2016	**2017**	**Min. 2017**	**Max. 2017**	2016	**2017**	**Min. 2017**	**Max. 2017**	2016	**2017**	**Min. 2017**	**Max. 2017**
Fixed gross remuneration												
Fixed remuneration	240,000	300,000	300,000	300,000	240,000	240,000	240,000	240,000	240,000	240,000	240,000	240,000
Side benefits	8,304	20,497	20,497	20,497	23,898	26,535	26,535	26,535	13,072	16,654	16,654	16,654
Total fixed gross remuneration	**248,304**	**320,497**	**320,497**	**320,497**	**263,898**	**266,535**	**266,535**	**266,535**	**253,072**	**256,654**	**256,654**	**256,654**
Variable remuneration												
One-year variable remuneration	92,263	118,994	0	240,000	92,263	93,733	0	192,000	92,263	93,733	0	192,000
Multi-year variable remuneration												
Bonus bank	23,066	31,241	0	60,000	23,066	25,233	0	48,000	23,066	27,355	0	48,000
Stock Option Plans 2014 – 2015	0	21,672	0	21,672	10,992	21,672	0	21,672	10,992	21,672	0	21,672
Total variable remuneration	**115,329**	**171,907**	**0**	**321,672**	**126,321**	**140,638**	**0**	**261,672**	**126,321**	**142,760**	**0**	**261,672**
Pension expenses	**216,054**	**284,082**	**284,082**	**284,082**	**224,753**	**232,484**	**232,484**	**232,484**	**229,323**	**248,243**	**248,243**	**248,243**
Total remuneration (GCGC)	**579,687**	776,486	604,579	926,251	**614,972**	639,657	499,019	760,691	**608,715**	647,657	504,897	766,569

Remuneration granted

Figures in euros	Carsten Heitkamp Head of German Plants, Neumüller CEWE COLOR Stiftung				Dr Olaf Holzkämper Head of Finance and Controlling, Neumüller CEWE COLOR Stiftung				Thomas Mehls Head of Marketing and Acquisitions, Neumüller CEWE COLOR Stiftung			
	2016	**2017**	**Min. 2017**	**Max. 2017**	2016	**2017**	**Min. 2017**	**Max. 2017**	2016	**2017**	**Min. 2017**	**Max. 2017**
Fixed gross remuneration												
Fixed remuneration	240,000	252,000	252,000	252,000	240,000	240,000	240,000	240,000	240,000	252,000	252,000	252,000
Side benefits	10,779	25,542	25,542	25,542	11,972	12,962	12,962	12,962	14,172	14,534	14,534	14,534
Total fixed gross remuneration	**250,779**	**277,542**	**277,542**	**277,542**	**251,972**	**252,962**	**252,962**	**252,962**	**254,172**	**266,534**	**266,534**	**266,534**
Variable remuneration												
One-year variable remuneration	92,263	93,733	0	201,600	92,263	93,733	0	192,000	92,263	93,733	0	201,600
Multi-year variable remuneration												
Bonus bank	23,066	24,216	0	50,400	23,066	26,329	0	48,000	23,066	24,216	0	50,400
Stock Option Plans 2014 – 2015	10,992	21,672	0	21,672	10,992	21,672	0	21,672	10,992	21,672	0	21,672
Total variable remuneration	**126,321**	**139,621**	**0**	**273,672**	**126,321**	**141,734**	**0**	**261,672**	**126,321**	**139,621**	**0**	**273,672**
Pension expenses	**206,817**	**225,210**	**225,210**	**225,210**	**235,240**	**239,630**	**239,630**	**239,630**	**224,135**	**235,519**	**235,519**	**235,519**
Total remuneration (GCGC)	**583,917**	642,373	502,752	776,424	**613,533**	634,326	492,592	754,264	**604,628**	641,674	502,053	775,725

Remuneration granted

Figures in euros	Frank Zweigle Head of Administration, Neumüller CEWE COLOR Stiftung 2016	2017	Min. 2017	Max. 2017	TOTAL Remuneration granted Board of Management of Neumüller CEWE COLOR Stiftung 2016	2017	Min. 2017	Max. 2017
Fixed gross remuneration								
Fixed remuneration	84,000	96,000	96,000	96,000	1,524,000	1,620,000	1,620,000	1,620,000
Side benefits	4,294	11,425	11,425	11,425	86,491	128,149	128,149	128,149
Total fixed gross remuneration	**88,294**	**107,425**	**107,425**	**107,425**	**1,610,491**	**1,748,149**	**1,748,149**	**1,748,149**
Variable remuneration								
One-year variable remuneration	0	0	0	0	553,578	587,659	0	1,219,200
Multi-year variable remuneration					0	0	0	0
Bonus bank	0	0	0	0	138,395	158,590	0	304,800
Stock Option Plans 2014 – 2015	10,992	21,672	0	21,672	65,952	151,704	0	151,704
Total variable remuneration	**10,992**	**21,672**	**0**	**21,672**	**757,925**	**897,953**	**0**	**1,675,704**
Pension expenses	**0**	**0**	**0**	**0**	**1,336,322**	**1,465,168**	**1,465,168**	**1,465,168**
Total remuneration (GCGC)	**99,286**	129,097	107,425	129,097	**3,704,737**	4,111,270	3,213,317	4,889,021

Fixed remuneration for the present members of the Board of Management as of December 31, 2017 will remain unchanged for the terms of their respective contracts. Mr Zweigle is exclusively granted fixed remuneration; he is not a beneficiary of a bonus bank scheme or of a pension commitment as is normally granted for Board of Management members. Dr Christian Friege and Mr Patrick Berkhouwer were appointed to the Board of Management of Neumüller CEWE COLOR Stiftung with effect as of January 1, 2016. Dr Friege was appointed as the Chairman of the Board of Management of Neumüller CEWE COLOR Stiftung with effect as of July 1, 2017. Side benefits include the costs assumed or the worth of non cash benefits, for example, company car, insurance policies or temporary housing and relocation costs.

In the financial year, the variable, performance-related remuneration granted for the active members of the Board of Management totalled 898 thousand euros and was thus higher than in the previous year (758 thousand euros). Here too, the discrepancy in relation to the figure shown for the previous year is due to Dr Rolf Hollander's retirement from the Board of Management. This includes the paid-out bonus shares (bonus I). For the one-off variable remuneration, the amounts granted relate to the financial year in which the preconditions were fulfilled for the actual remuneration entitlements (in this case, earnings before tax and depreciation amounts). The members of the Board of Management will only receive amounts calculated on this basis in the following year. As multi-year variable remuneration, they comprise the share of bonus bank contributions (bonus II) as well as the expenses related to the waiting period for the stock option plans pursuant to IFRS 2.10 ff., due to initial valuation of share-based remuneration i. e. the fair value as of the grant date. None of the members of the Board of Management has received third-party payments in relation to their service. The remuneration of the members of the Board of Management of Neumüller CEWE COLOR Stiftung for the financial year 2017, which is paid out in 2018 (bonus I), will amount to 588 thousand euros and thus be higher than the figure for 2017 (554 thousand euros).

A total of 159 thousand euros (previous year: 138 thousand euros) has been allocated over to the bonus bank accounts, i. e. the accounts holding the remuneration comprising bonus II. As of December 31, 2017, the bonus bank accounts of the members of the Board of Management had the following balances, including the pro rata contractually stipulated amount of interest plus discounting (in the event that an obligation applies for a period of more than twelve months):

Bonus bank

in euros	Opening balance Jan. 1, 2016	Amount added 2016	Reversals 2016	End balance Dec. 31, 2016	**Amount added 2017**	**Payment 2017**	**End balance Dec. 31, 2017**
Dr Christian Friege	0	23,066	0	23,066	31,241	–23,931	30,376
Patrick Berkhouwer	0	23,066	0	23,066	25,233	0	48,299
Dr Reiner Fageth	40,289	23,066	–1,687	61,668	27,355	0	89,023
Carsten Heitkamp	46,266	23,066	–2,371	66,961	24,216	–67,249	23,928
Dr Olaf Holzkämper	40,289	23,066	–1,687	61,668	26,329	0	87,997
Thomas Mehls	52,242	23,066	–2,185	73,123	24,216	–73,411	23,928
Frank Zweigle	0	0	0	0	0	0	0
Total active members of the Board of Management	**179,086**	**138,395**	**–7,930**	**309,551**	**158,590**	**–164,591**	**303,550**

The indicated payout amounts for bonus bank balances include the contractually stipulated amount of interest. Including interest, a total amount of 164,591 euros was paid in the financial year 2017.

The following table shows the payments in or for the financial year 2017 as a result of fixed remuneration, side benefits, one-year variable remuneration and multi-year variable remuneration as well as pension expenses. Deviating from the remuneration set out above which was granted for the past financial year, this table indicates the actual remuneration granted in previous years and received in the financial year 2017.

In the financial year 2017, the total remuneration which the active members of the Board of Management of Neumüller CEWE COLOR Stiftung received as fixed and variable components totalled 3,931 thousand euros (previous year: 3,323 thousand euros). Of the total fixed gross remuneration, the amounts received match the amounts granted (see above). The breakdown for the individual members of the Board of Management is as follows:

Remuneration received

Figures in euros	Dr Christian Friege Chairman of the Board of Management and Head of National and International Distribution, Neumüller CEWE COLOR Stiftung, since July 1, 2017		Patrick Berkhouwer Head of Foreign Markets and Expansion, Neumüller CEWE COLOR Stiftung		Dr Reiner Fageth Head of Technology and R & D, Neumüller CEWE COLOR Stiftung		Carsten Heitkamp Head of German Plants, Neumüller CEWE COLOR Stiftung		Dr Olaf Holzkämper Head of Finance and Controlling, Neumüller CEWE COLOR Stiftung		Thomas Mehls Head of Marketing and Acquisitions, Neumüller CEWE COLOR Stiftung		Frank Zweigle Head of Administration, Neumüller CEWE COLOR Stiftung		TOTAL Remuneration received Board of Management of Neumüller CEWE COLOR Stiftung	
	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**
Fixed gross remuneration																
Fixed remuneration	240,000	300,000	240,000	240,000	240,000	240,000	240,000	252,000	240,000	240,000	240,000	252,000	84,000	96,000	1,524,000	1,620,000
Side benefits	8,304	20,497	23,898	26,535	13,072	16,654	10,779	25,542	11,972	12,962	14,172	14,534	4,294	11,425	86,491	128,149
Total fixed gross remuneration	**248,304**	**320,497**	**263,898**	**266,535**	**253,072**	**256,654**	**250,779**	**277,542**	**251,972**	**252,962**	**254,172**	**266,534**	**88,294**	**107,425**	**1,610,491**	**1,748,149**
Variable remuneration																
One-year variable remuneration	32,000	92,263	50,000	92,263	73,426	92,263	73,426	92,263	73,426	92,263	73,426	92,263	0	0	375,704	553,578
Multi-year variable remuneration																
Bonus bank	0	23,931	0	0	0	0	0	67,249	0	0	0	73,411	0	0	0	164,591
Stock Option	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total variable remuneration	**32,000**	**116,194**	**50,000**	**92,263**	**73,426**	**92,263**	**73,426**	**159,512**	**73,426**	**92,263**	**73,426**	**165,674**	**0**	**0**	**375,704**	**718,169**
Pension expenses	**216,054**	**284,082**	**224,753**	**232,484**	**229,323**	**248,243**	**206,817**	**225,210**	**235,240**	**239,630**	**224,135**	**235,519**	**0**	**0**	**1,336,322**	**1,465,168**
Total remuneration (GCGC)	**496,358**	**720,773**	**538,651**	**591,282**	**555,821**	**597,160**	**531,022**	**662,264**	**560,638**	**584,855**	**551,733**	**667,727**	**88,294**	**107,425**	**3,322,517**	**3,931,486**

None of the members of the Board of Management has received third-party payments in relation to their service.

Commitments to the members of the Board of Management in the event of the termination of their office

The members of the Board of Management have pension rights. The value of their pension entitlements amounts to two forty-fifths of the last fixed remuneration paid, for each year of their service on the Board of Management of Neumüller CEWE COLOR Stiftung. Overall, their respective pension entitlements are limited to two-thirds of their most recent fixed remuneration. The structure of the pension scheme applies equally for all of the members of the Board of Management of Neumüller CEWE COLOR Stiftung and thus likewise for the members of the Board of Management who were newly appointed as of January 1, 2016, Dr Christian Friege and Patrick Berkhouwer.

In principle, the commitments entered into do not include provision for dependants. However, provision has been made for the dependants of Dr Rolf Hollander, Dr Reiner Fageth, Dr Olaf Holzkämper and Patrick Berkhouwer. This is done as cost-neutral from an actuarial point of view, by a reduction in old-age benefits. The service cost for pensions in 2017 is as follows, subject to an actuarial interest rate of 1.8 % (previous year: 1.7 %) and use of the projected unit credit method in accordance with the IFRS.

In addition to the company's commitments to the Board of Management, Mr Pirwitz and Mr Heydemann will receive old-age pensions as part of the general company's pension scheme, on the basis of a direct commitment upon their retirement from the company at the age of 65 or higher. This includes provision for dependants amounting to 50 % of their respective pensions. Dr Fageth will receive a financially equivalent old-age pension within the scope of the general company's pension scheme, covered by an employer-financed support fund. Reinsurance cover applies for this direct commitment / support fund commitment in the form of insurance contracts.

Pensions of the Board of Management of Neumüller CEWE COLOR Stiftung

	2016				**2017**			
in thousands of euros	Vested pension entitlements	Pension entitlements Dec. 31, 2016	Service cost for pensions	Provision for pension liabilities	**Vested pension entitlements**	**Pension entitlements Dec. 31, 2017**	**Service cost for pensions**	**Provision for pension liabilities**
Members of the Board of Management of Neumüller CEWE COLOR Stiftung								
Dr Christian Friege (Chairman since July 1, 2017)	11	0	188	217	18	29	220	570
Patrick Berkhouwer	9	0	201	227	9	18	229	467
Dr Reiner Fageth	10	34	212	941	9	53	233	1,260
Carsten Heitkamp	12	22	202	622	11	45	210	903
Dr Olaf Holzkämper	9	25	214	870	11	45	239	1,122
Thomas Mehls	13	21	214	673	11	45	228	943
Frank Zweigle	0	0	0	0	0	0	0	0
Total active members of the Board of Management	**64**	**102**	**1,231**	**3,550**	**69**	**235**	**1,359**	**5,265**
Dr Rolf Hollander (to June 30, 2017)	0	312	0	6,711	0	312	0	6,772
Andreas F. L. Heydemann (to December 31, 2015)	0	97	0	1,834	0	97	0	1,862
Harald H. Pirwitz (to December 31, 2015)	0	110	0	2,030	0	110	0	2,069
Total retired members of the Board of Management	**0**	**519**	**0**	**10,575**	**0**	**519**	**0**	**10,703**
Total for CEWE Stiftung & Co. KGaA	**64**	**621**	**1,231**	**14,125**	**69**	**754**	**1,359**	**15,968**

Finally, for Dr Reiner Fageth and Dr Olaf Holzkämper as part of the general company's pension scheme the company maintains life insurance policies with a capital payment in the event of premature death as provision for dependents or, in case of survival, as an old-age pension, with an insured sum of 38 thousand euros. The related annual expenses for each member of the Board of Management amount to 1 thousand euros (previous year: 1 thousand euros). No loans or advance payments have been granted. Moreover, nor has the company entered into any contingent liabilities for the benefit of the members of the Board of Management.

Company pension scheme

	2016			**2017**		
in thousands of euros	Vested pension entitlements	Pension entitlements Dec. 31, 2016	Service cost for pensions	**Vested pension entitlements**	**Pension entitlements Dec. 31, 2017**	**Service cost for pensions**
Members of the Board of Management of Neumüller CEWE COLOR Stiftung						
Dr Christian Friege (Chairman since July 1, 2017)	0.0	0.0	0.0	0.0	0.0	0.0
Patrick Berkhouwer	0.0	0.0	0.0	0.0	0.0	0.0
Dr Reiner Fageth	0.0	3.0	2.0	0.0	3.0	2.0
Carsten Heitkamp	0.0	0.0	0.0	0.0	0.0	0.0
Dr Olaf Holzkämper	0.0	3.0	3.5	0.0	0.0	0.0
Thomas Mehls	0.0	0.0	0.0	0.0	0.0	0.0
Frank Zweigle	0.0	0.0	0.0	0.0	0.0	0.0
Total active members of the Board of Management	**0.0**	**6.0**	**5.5**	**0.0**	**3.0**	**2.0**
Dr Rolf Hollander (to June 30, 2017)	0.0	0.0	0.0	0.0	0.0	0.0
Andreas F. L. Heydemann (to December 31, 2015)	0.0	3.0	2.0	0.0	3.0	2.0
Harald H. Pirwitz (to December 31, 2015)	0.0	3.0	5.0	0.0	3.0	5.0
Total retired members of the Board of Management	0.0	6.0	7.0	**0.0**	**6.0**	**7.0**
Total for CEWE Stiftung & Co. KGaA	**0.0**	**12.0**	**12.5**	**0.0**	**9.0**	**9.0**

The following arrangements apply in the event of the premature termination of the contracts of the members of the Board of Management: in case of dismissal for good cause, their contracts will have been terminated as of the date of dismissal. In case of a dismissal which is not made for good cause or which is made on grounds lying outside of the responsibility of the member of the Board of Management, their fixed remuneration will be paid up to the end of the term of their contract. In addition, in this case this member of the Board of Management will receive a settlement in the amount of half of one year's fixed salary in case of a period of at least twelve months before he begins to draw a pension, and otherwise a pro rata compensation amount. Pro rata payment rules apply for the payment of any positive bonus bank balance. The company has not concluded any compensation agreements with the members of the Board of Management to cover the event of a takeover offer (§ 315a (1) no. 9 HGB; cf. page 116).

Finally, a post-contractual non-compete clause has been agreed for all of the members of the Board of Management. Where applicable, for a maximum period of two years the members of the Board of Management will receive half of the contractual benefits which they have most recently received from Neumüller CEWE COLOR Stiftung, for each year for which this non-compete clause applies for them (non-competition compensation). This compensation will be paid out monthly in instalments.

Remuneration of the Supervisory Board

The Supervisory Board consists of twelve members. The remuneration of the members of the Supervisory Board is stipulated in the company's articles of association and comprises a fixed component and three variable components. The fixed gross remuneration amounts to 6,000.00 euros per annum. The Chairman of the Supervisory Board receives twice this amount and the Deputy Chairman receives one-and-a-half times this amount. Each Supervisory Board member also receives an attendance fee of 1,000.00 euros for each meeting attended. These amounts are payable upon expiry of the financial year.

Each Supervisory Board member additionally receives performance-related and dividend-linked annual remuneration. Performance-related remuneration is determined on the basis of the undiluted earnings per limited partner's share, calculated according to the IFRS rules, and amounts to 250.00 euros for each 0.05 euros portion of earnings exceeding earnings of 0.25 euros per limited partner's share. The dividend-linked remuneration is calculated as follows: if a dividend of more than 0.25 euros per limited partner's share is resolved, the remuneration will amount to 500.00 euros for each 0.05 euros portion of the dividend which exceeds the dividend of 0.25 euros per limited partner's share. Here too, the Chairman of the Supervisory Board receives twice the performance-related and dividend-linked remuneration and the Deputy Chairman one-and-a-half times this amount. For each member of the Supervisory Board, this remuneration is payable ten business days after the general meeting which ratifies the actions of the Supervisory Board for the relevant financial year. Supervisory Board members who have only served on the Supervisory Board for part of the financial year will receive remuneration pro rata temporis.

The following remuneration has been paid over to the members of the Supervisory Board:

Supervisory Board remuneration, shareholdings, options

	2016[2]							2017[1]						
	Fixed remunera-tion *thousands of euros*	Attend-ance fees *thousands of euros*	Perfor-mance-related remu-neration *thousands of euros*	Dividend-linked remunera-tion *thousands of euros*	Total remunera-tion *thousands of euros*	Share-holdings *Number*	Options *Number*	**Fixed remuner-ation** *thousands of euros*	**Attend-ance fees** *thousands of euros*	**Perfor-mance-related remu-neration** *thousands of euros*	**Dividend-linked remunera-tion** *thousands of euros*	**Total remuner-ation** *thousands of euros*	**Share-holdings** *Number*	**Options** *Number*
Supervisory Board of CEWE Stiftung & Co. KGaA														
Otto Korte (Chairman)	12.0	7.0	29.5	27.0	75.5	0	0	12.0	8.0	40.0	31.0	91.0	0	0
Paolo Dell'Antonio (since February 14, 2017)	–	–	–	–	–	–	–	6.0	6.0	0.0	0.0	12.0	0	0
Professor Dr Hans-Jürgen Appelrath (to August 5, 2016)	4.0	0.0	14.8	13.5	32.3	0	0	–	–	13.3	10.3	23.6	–	–
Professor Dr Christiane Hipp	6.0	5.0	14.8	13.5	39.3	0	0	6.0	4.0	20.0	15.5	45.5	0	0
Corinna Linner	6.0	7.0	14.8	13.5	41.3	0	0	6.0	7.0	20.0	15.5	48.5	0	0
Professor Dr Michael Paetsch	6.0	4.0	14.8	13.5	38.3	0	0	6.0	4.0	20.0	15.5	45.5	0	0
Dr Hans-Henning Wiegmann	6.0	4.0	14.8	13.5	38.3	0	0	6.0	6.0	20.0	15.5	47.5	0	0
Subtotal	**40.0**	**27.0**	**103.3**	**94.5**	**264.8**	**0.0**	**0.0**	**42.0**	**35.0**	**133.3**	**103.3**	**313.6**	**0.0**	**0.0**
Vera Ackermann	9.0	7.0	22.1	20.3	58.4	0	0	6.0	5.0	30.0	23.2	64.2	0	0
Michael Bühl (to October 6, 2015)	0.0	0.0	11.1	10.1	21.2	–	–	–	–	–	–	–	–	–
Dr Christine Debus (since October 7, 2015)	6.0	5.0	3.7	3.4	18.1	205	900	6.0	5.0	20.0	15.5	46.5	213	1,200
Angelika Eßer	6.0	4.0	14.8	13.5	38.3	503	0	6.0	5.0	20.0	15.5	46.5	391	0
Philipp Martens (since October 7, 2015)	6.0	5.0	3.7	3.4	18.1	0	0	6.0	7.0	20.0	15.5	48.5	0	0
Udo Preuss (to October 6, 2015)	0.0	0.0	11.1	10.1	21.2	–	–	–	–	–	–	–	–	–
Markus Schwarz (since October 7, 2015)	6.0	5.0	3.7	3.4	18.1	22	0	6.0	5.0	20.0	15.5	46.5	25	0
Stefan Soltmann (to October 6, 2015)	0.0	0.0	11.1	10.1	21.2	–	–	–	–	–	–	–	–	–
Thorsten Sommer (Deputy Chairman)	6.0	7.0	14.8	13.5	41.3	39	900	9.0	5.0	20.0	15.5	49.5	13	1,200
Subtotal	**39.0**	**33.0**	**95.9**	**87.8**	**255.6**	**769**	**1,800**	**39.0**	**32.0**	**130.0**	**100.7**	**301.7**	**642**	**2,400**
Supervisory Board of CEWE Stiftung & Co. KGaA	**79.0**	**60.0**	**199.1**	**182.3**	**520.4**	**769**	**1,800**	**81.0**	**67.0**	**263.3**	**204.0**	**615.3**	**642**	**2,400**

1 Fixed remuneration and attendance fees for 2017, payable after the end of the financial year in 2018
Performance-related and dividend-linked remuneration for the financial year 2016, payable 10 working days after the general meeting in 2017

2 Fixed remuneration and attendance fees for 2016, payable after the end of the financial year in 2017
Performance-related and dividend-linked remuneration for the financial year 2015, payable 10 working days after the general meeting in 2016

CEWE Stiftung & Co. KGaA reimburses the members of the Supervisory Board any value added tax payable on their remuneration. The above amounts are exclusive of value added tax. None of the members of the Supervisory Board has received or been granted third-party payments in relation to their service. Finally, none of the members of the Supervisory Board has been granted or paid remuneration or benefits for personal services, in particular advisory or mediation services.

The members of the Supervisory Board are also covered by the company's D & O insurance policy. A deductible of 10 % of the possible damage has been agreed for them, up to a total amount of one-and-a-half times their fixed Supervisory Board remuneration. No loans or advance payments have been granted to members of the Supervisory Board. Nor has the company entered into any contingent liabilities for their benefit.

Remuneration of previous members of the Board of Management and the Supervisory Board

Remuneration of retired members of the Board of Management

Andreas F. L. Heydemann and Harald Pirwitz retired from the Board of Management as of December 31, 2015. The company's contract with Mr Harald Pirwitz expired on December 31, 2015 as scheduled. For the years 2016 and 2017, he received monthly non-competition compensation under a post-contractual non-compete clause. In accordance with the terms of the stock option plans, Mr Pirwitz kept his options under the 2014 and 2015 plans. Mr Pirwitz will begin to draw pension benefits under the company's direct commitment to him as a member of the Board of Management in the year 2018. Mr Heydemann was released from his work duties for the financial year 2016 up to the end of his contractual term of office on December 31, 2016. The company satisfied his entitlements, in particular his salary, bonuses I and II and side benefits. For the years 2017 and 2018, Mr Heydemann is receiving monthly non-competition compensation under a post-contractual non-compete clause. Mr Heydemann will begin to draw pension benefits under the company's direct commitment to him as a member of the Board of Management in the year 2019. In detail, former members of the Board of Management received the following overall remuneration:

Remuneration granted former members of the Board of Management

	Dr Rolf Hollander Chairman of the Board of Management of Neumüller CEWE COLOR Stiftung to June 30, 2017				Andreas F. L. Heydemann Head of IT and Legal, Neumüller CEWE COLOR Stiftung, to December 31, 2015				Harald H. Pirwitz Head of Distribution, Neumüller CEWE COLOR Stiftung, to December 31, 2015				TOTAL Remuneration received Board of Management of Neumüller CEWE COLOR Stiftung			
Angaben in Euro	2016	**2017**	**Min. 2017**	**Max. 2017**	2016	**2017**	**Min. 2017**	**Max. 2017**	2016	**2017**	**Min. 2017**	**Max. 2017**	2016	**2017**	**Min. 2017**	**Max. 2017**
Fixed gross remuneration																
Fixed remuneration	480,000	240,000	240,000	240,000	220,000	159,726	0	ü	175,680	175,680	0	0	875,680	575,406	240,000	240,000
Side benefits	23,497	13,591	13,591	13,591	9,475		0	0	0	0	0	0	32,972	13,591	13,591	13,591
Total fixed gross remuneration	**503,497**	**253,591**	**253,591**	**253,591**	**229,475**	**159,726**	**0**	**0**	**175,680**	**175,680**	**0**	**0**	**908,652**	**588,997**	**253,591**	**253,591**
Variable remuneration																
One-year variable remuneration	309,353	157,140	0	192,000	92,263	0	0	ü	0	0	0	0	401,616	157,140	0	192,000
Multi-year variable remuneration																
Bonus bank	77,338	42,185	0	48,000	23,066	0	0	0	0	0	0	0	100,404	42,185	0	48,000
Stock Option Plans 2014 – 2015	10,992	0	0	10,922	10,992	0	0	0	0	0	0	0	21,984	0	0	10,922
Total variable remuneration	**397,683**	**199,325**	**0**	**250,922**	**126,321**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**524,004**	**199,325**	**0**	**250,922**
Pension expenses	**0**	**0**	**0**	**0**	**1,967**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,967**	**0**	**0**	**0**
Total remuneration (GCGC)	**901,180**	452,916	253,591	504,513	**357,763**	159,726	0	0	**175,680**	175,680	0	0	**1,434,623**	788,322	253,591	504,513

Remuneration received former members of the Management Board

Angaben in Euro	Dr Rolf Hollander Chairman of the Board of Management of Neumüller CEWE COLOR Stiftung to June 30, 2017		Andreas F. L. Heydemann Head of IT and Legal. Neumüller CEWE COLOR Stiftung, to December 31. 2015		Harald H. Pirwitz Head of Distribution, Neumüller CEWE COLOR Stiftung, to December 31, 2015		TOTAL Remuneration received Board of Management of Neumüller CEWE COLOR Stiftung	
	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**
Fixed gross remuneration								
Fixed remuneration	480,000	240,000	220,000	159,726	175,680	175,680	875,680	575,406
Side benefits	23,497	13,591	9,475	0	0	0	32,972	13,591
Total fixed gross remuneration	**503,497**	**253,591**	**229,475**	**159,726**	**175,680**	**175,680**	**908,652**	**588,997**
Variable remuneration								
One-year variable remuneration	246,194	309,353	73,426	0	73,426	0	393,046	309,353
Multi-year variable remuneration								
Bonus bank	0	147,172	0	67,948	53,687	0	53,687	215,120
Stock Option Plan	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	0	0
Total variable remuneration	**246,194**	**456,525**	**73,426**	**67,948**	**127,113**	**0**	**446,733**	**524,473**
Pension expenses	**0**	**284,082**	**1,967**	**0**	**0**	**0**	**1,967**	**284,082**
Total remuneration (GCGC)	**749,691**	994,198	**304,868**	227,674	**302,793**	175,680	**1,357,352**	1,397,552

The bonus bank accounts of former members of the Board of Management developed as follows:

Bonus bank former members of the Management Board

Figures in euros	Opening balance Jan. 1, 2016	Amount added 2016	Amount paid out 2016	Reversals 2016	End balance Dec. 31, 2016	**Amount added 2017**	**Amount paid out 2017**	**End balance Dec. 31, 2017**
Dr Rolf Hollander (to June 30, 2017)	71,989	77,338	– 5,055	0	144,272	42,185	– 147,172	39,285
Andreas F. L. Heydemann (to December 31, 2015)	40,289	27,659	0	0	67,948	0	– 67,948	0
Harald H. Pirwitz (to December 31, 2015)	58,218	0	– 53,687	– 4,531	0	0	0	0
Total retired members of the Board of Management	**170,496**	**104,997**	**– 58,742**	**– 4,531**	**212,220**	**42,185**	**– 215,120**	**39,285**

The indicated payout amounts for bonus bank balances include the contractually stipulated amount of interest.

The bonus bank (bonus II) due for Mr Pirwitz (including the contractually stipulated interest) was paid out in June 2016 in the amount of 54 thousand euros. The bonus bank balance of Mr Andreas F. L. Heydemann was paid out in June 2017, including the interest due, in the amount of 67,948 euros.

Pension commitments and pensions paid to former members of the Board of Management

For former members of the Board of Management of the old CEWE COLOR Holding AG and Neumüller CEWE COLOR Stiftung, as of December 31, 2017 the company had made pension accruals in the amount of 17,769 thousand euros (previous year: 11,180 thousand euros). Pension payments for the financial year 2017 amounted to 637 thousand euros (previous year: 496 thousand euros). With effect as of April 1, 2007, the pension commitments for the former members of the Board of Management who had already retired as of this date were transferred to CEWE COLOR Versorgungskasse e. V., Wiesbaden. They are included in the consolidated financial statements. The company's pension commitments for the other retired members of the Board of Management were maintained in the form of a direct commitment. The company has not granted any loans, advance payments and contingent liabilities for former members of the Supervisory Board and the Board of Management of Neumüller CEWE COLOR Stiftung, the old CEWE COLOR Holding AG or the current CEWE Stiftung & Co. KGaA.

The company has not paid any remuneration to retired members of the Supervisory Board.

Reimbursement of expenses and liability remuneration of the general partner

As its general partner, Neumüller CEWE COLOR Stiftung is entitled to receive reimbursement from CEWE Stiftung & Co. KGaA of any expenses resulting in connection with its management activities, including remuneration and pension payments for its executive bodies. For salary payments, this is handled by means of the abbreviated procedure; i. e. CEWE Stiftung & Co. KGaA pays the individual members of the Board of Management their salaries directly. In addition, for its management activities and to cover its personal liability Neumüller CEWE COLOR Stiftung receives annual remuneration – irrespective of any profit or loss – in the amount of 50,000 euros plus any value added tax applicable; for the previous year, 2016, the amount was also 50,000 euros.

MANAGEMENT DECLARATION

Management report

Page 106 ff. | Declaration of conformity

https://company.cewe.de/en/about-us/compliance.html > Principles of conduct

www.bme.de/Compliance

This management declaration under § 289f and § 315d of the German Commercial Code includes the declaration of conformity in accordance with § 161 of the German Stock Corporation Act, relevant details of corporate governance practices beyond the scope of applicable statutory requirements, a description of the procedures of the Board of Management and the Supervisory Board and the makeup and procedures of their committees. This also includes details of the stipulations under § 76 (4) AktG as well as male and female appointments to the Supervisory Board. Pursuant to item 3.10 of the German Corporate Governance Code (the Code), this management declaration of CEWE Stiftung & Co. KGaA includes the company's corporate governance (corporate governance report).

Declaration of conformity under § 161 of the German Stock Corporation Act

The German Corporate Governance Code has been drawn up for public limited companies. Since it thus does not cover the legal form of a partnership limited by shares (Kommanditgesellschaft auf Aktien – KGaA), CEWE Stiftung & Co. KGaA has decided to apply the Code so as to reflect the interests of the limited shareholders while remaining true to the spirit of the Code.

For the full text of the company's declaration of conformity under § 161 AktG, please see pages 106 ff. of this annual report or the company's website http://ir.cewe.de/cgi-bin/show.ssp?companyName=cewe&language=English&id=0 > Declaration of conformity.

Relevant disclosures on management practices

The CEWE Group has an established tradition of conducting its business affairs in compliance with national and international legislation as well as generally acknowledged ethical principles.

Commitment to social responsibility as a part of CEWE's corporate culture

CEWE Stiftung & Co. KGaA is aware of its social responsibility, which it considers to be an important factor in the company's long-term success. In this respect, the CEWE Group has developed a mission statement which sets out its corporate culture, which is characterised by integrity, trustworthiness and responsibility. The basic values and principles of this mission statement may be viewed online at http://company.cewe.de/en/company/compliance/mission-statement.html.

CEWE Stiftung & Co. KGaA has also summarised its key principles in a code of conduct which is based on ethical values and related business principles that reflect integrity and loyalty. This code of conduct applies for all of the Group's employees and requires compliance with the following operating principles:

The company's activities are defined by integrity and lawful behaviour

We pursue appropriate business relationships, which are free of any dishonest practices.

The company avoids any conflicts between the interests of the CEWE Group and private interests. The company will not tolerate any abuse of employees' positions for personal advantage, for the benefit of third parties or to the detriment of the CEWE Group.

Further information on our code of conduct is publicly available on the following website:

https://company.cewe.de/en/about-us/compliance.html > Principles of conduct

CEWE Stiftung & Co. KGaA also supports the principles of the compliance initiative of the German Association for Supply Chain Management, Procurement and Logistics. Further information on the principles of the German Association for Supply Chain Management, Procurement and Logistics is available at www.bme.de/Compliance.

Procedures of the management and the Supervisory Board and makeup and procedures of the Supervisory Board's committees

Due to the provisions of the German Stock Corporation Act, the articles of association of CEWE Stiftung & Co. KGaA and the rules of procedure of the company's various committees, rules are in place at CEWE Stiftung & Co. KGaA for its management and for supervision of its management which comply with the requirements of the Code. The company fulfils the Code's requirement of protection for investors bearing entrepreneurial risk.

Management

The general partner Neumüller CEWE COLOR Stiftung ("the management") holds 20,000 no-par value bearer shares in the share capital of CEWE Stiftung & Co. KGaA and thus approx. 0.27 %, while the limited shareholders hold the remainder of the shares. Neumüller CEWE COLOR Stiftung manages the company's business through its Board of Management as well as its managing directors appointed as special representatives pursuant to § 30 of the German Civil Code (Bürgerliches Gesetzbuch – BGB) in accordance with applicable legislation, the articles of association of CEWE Stiftung & Co. KGaA and its own articles of association and also the rules of procedure for its Board of Management. Due to its unlimited personal liability, Neumüller CEWE COLOR Stiftung has a considerable interest in the orderliness and efficiency of the business activities of CEWE Stiftung & Co. KGaA, which it accordingly encourages. The Board of Management of Neumüller CEWE COLOR Stiftung passes resolutions at its meetings, which are normally held once a week. Each member of the Board of Management of Neumüller CEWE COLOR Stiftung notifies the other members in good time of important events and transactions within his area of business. Specific tasks are assigned to individual members of the Board of Management by means of a schedule of responsibilities.

https://company.cewe.de/en/about-us/compliance.html > Our mission statement

The tasks handled by the management include preparation of the annual financial statements of CEWE Stiftung & Co. KGaA, the consolidated financial statements as well as the quarterly and semi-annual financial statements. The management also ensures compliance with statutory, official and internal regulations and ensures that all of the companies of the CEWE Group comply with these regulations. The management notifies the Supervisory Board of the course of business and the company's position at least once a quarter. The management also notifies the Supervisory Board at least once per year regarding the annual planning and the company's strategy. Moreover, the management notifies the Supervisory Board regularly, promptly and comprehensively regarding any strategy, planning, business development, risk position, risk management and compliance issues which are relevant for the company and thus comprehensively complies with its reporting obligation. In addition, the management reports regularly, promptly and comprehensively – in writing or orally – on any matters which are of material significance for the company. Further details are stipulated in the rules of procedure for the Board of Management and the Supervisory Board and in the articles of association of Neumüller CEWE COLOR Stiftung.

Supervisory Board

On the basis of the information provided by the company's management, the Supervisory Board considers the course of business and the company's position at least once a quarter. The members of the Board of Management of Neumüller CEWE COLOR Stiftung are invited to attend the meetings of the Supervisory Board, unless the

Page 14 | Report of the Supervisory Board

Supervisory Board resolves otherwise in an individual instance. Moreover, at each of its meetings the Supervisory Board systematically discusses the following issues:

Page 106 | Corporate governance

- Corporate governance
- Compliance
- The company's risk situation

The Supervisory Board and the Board of Trustees are involved in key decisions of the Board of Management early on. The management and the Supervisory Board also regularly discuss issues of strategy and planning as well as current business developments outside of these meetings. The Supervisory Board maintains regular contact with the management, so as to obtain early notification of the company's current business development as well as significant business transactions. The Supervisory Board regularly assesses whether conflicts of interest may apply for members of the Board of Management or the Board of Trustees of Neumüller CEWE COLOR Stiftung in relation to the work which they perform for CEWE Stiftung & Co. KGaA.

In the period under review, an Audit Committee performed the tasks assigned to it under the rules of procedure approved by the overall Supervisory Board. The Supervisory Board and its committees regularly undergo an efficiency review of their own and incorporate the findings in their future activities.

For further information, please refer to the report of the Supervisory Board (pages 14 ff. of this annual report and online at https://company.cewe.de/en/about-us/compliance.html) and the corporate governance report (pages 106 ff. of this annual report and online at https://ir.cewe.de/cgi-bin/show.ssp?companyName=cewe&language=English&id=6000).

Board of Trustees of Neumüller CEWE COLOR Stiftung

Some of the tasks which are performed by a public limited company's supervisory board are handled by Neumüller CEWE COLOR Stiftung at CEWE, specifically by the Board of Trustees of Neumüller CEWE COLOR Stiftung. Accordingly, the details of the Board of Trustees are outlined below.

The Board of Trustees has six members.

The Board of Trustees advises and supervises the Board of Management. It keeps up-to-date regarding the affairs of Neumüller CEWE COLOR Stiftung and CEWE Stiftung & Co. KGaA and may inspect and audit the commercial books and other documents of the company and also its assets for this purpose. According to § 7 (2) of the articles of association of CEWE Stiftung & Co. KGaA, the management requires the consent of the Supervisory Board for certain transactions beyond the scope of normal business. The articles of association of Neumüller CEWE COLOR Stiftung also stipulate the consent of the Board of Trustees for certain extraordinary measures enacted by the management. The Board of Trustees is convened as required, but meets at least four times a year.

The general meeting of CEWE Stiftung & Co. KGaA

The annual general meeting of CEWE Stiftung & Co. KGaA took place on May 31, 2017 in Oldenburg. 60.8 % of the share capital was present here, which represents a stable level of participation In particular, the annual general meeting passes resolutions regarding the approval of the annual financial statements, appropriation of unappropriated profits, ratification of the actions of the members of the management and the Supervisory Board, and the appointment of the auditor. The general meeting is also entitled to resolve amendments to the articles of association. The limited shareholders of CEWE Stiftung & Co. KGaA exercise their rights at the general meeting. They may exercise their voting rights in person or through a proxy appointed either by themselves or by the company. All documents and information for impending general meetings (including summaries of the shareholders' rights) will also be made available on CEWE's website.

Corporate governance report

In the financial year 2017, the management and the Supervisory Board of CEWE Stiftung & Co. KGaA pursued intensive discussions regarding the issue of corporate governance and the new version of the German Corporate Governance Code in particular. Corporate governance entails the management and supervision of companies on the basis of a sense of responsibility and with the goal of longterm value creation. For this reason, the company not only complies with almost all of the recommendations, but also with the proposals included in the Code. The rules and principles of the Code also determine the corporate policies of CEWE Stiftung & Co. KGaA.

On the quota targets

Since the company does not have any Board of Management pursuant to § 278 AktG, the provision laid down in § 111 (5) AktG concerning the makeup of the Board of Management does not apply for the company. In accordance with the statutory requirements, no target quota has been specified for the Board of Management.

For the first management level below the top management, the management had resolved a target ratio of 20 % for the period up to June 30, 2017. For the second management level, the management had resolved a target ratio of 35 % for the period up to June 30, 2017. In the period under review, these goals were not yet achieved on account of the existing employment law framework as well as the business group's organisational structure. The management has resolved a further implementation period of five years in order to achieve these goals. This period will thus end on June 30, 2022.

The Supervisory Board has twelve members, of whom half are appointed by the company's shareholders and half by its employees. The shareholders have appointed two female members and the employees have appointed three female members. The members appointed by the shareholders have resolved to fulfil the prescribed women's quota independently of the employees' representatives, who have made the same commitment themselves. The statutory targets have thus been fulfilled.

Diversity

Items 4.1.5, 5.1.2 and 5.4.1 of the German Corporate Governance Code, as amended on February 7, 2017, deal with the issue of diversity in terms of appointments to the Supervisory Board, the Board of Management and the company's executives. Within the scope of sound corporate governance, the management and the Supervisory Board of CEWE Stiftung & Co. KGaA have considered this issue in detail:

Makeup of the Supervisory Board

The Supervisory Board of CEWE Stiftung & Co. KGaA consists of twelve members. In its current makeup, it almost entirely fulfils the requirements stipulated in item 5.4.1 (2) of the German Corporate Governance Code:

- The Supervisory Board of CEWE Stiftung & Co. KGaA traditionally comprises members with international experience.

- None of the members of the current Supervisory Board of CEWE Stiftung & Co. KGaA has any conflicts of interest.

- An age limit is stipulated for the members of the Supervisory Board of CEWE Stiftung & Co. KGaA in § 2.1 of the rules of procedure for the Supervisory Board;

however, a standard period of membership is not specified.

The Supervisory Board includes two female representatives of the shareholders and three female representatives of the employees. The company has thus complied with the new statutory requirement of 30 % female representation on its Supervisory Board. While fulfilling applicable statutory requirements, in any future nominations the Supervisory Board will also appropriately consider whether candidates have the necessary skills, competences and technical experience which are required for service on the Supervisory Board.

Makeup of the Board of Management

The current Board of Management of Neumüller CEWE COLOR Stiftung consists of seven male members. All of the members of the Board of Management have international experience.

The company seeks to ensure the adequate representation of women and in general to reflect diversity in its appointments of members of the Board of Management.

Appointments to management positions

In compliance with item 4.1.5 of the German Corporate Governance Code, CEWE Stiftung & Co. KGaA has already implemented a large number of measures which are intended to promote diversity – in particular, a greater share of women – in management positions (see p. 141).

For instance, CEWE Stiftung & Co. KGaA has enacted the following specific measures to encourage a better balance between career and family needs:

- Flexible work time models
- Contract with “AWO Eltern- und Seniorenservice” in Oldenburg to provide free consultations for employees needing to arrange placements for their children or for their parents
- Nursery in the immediate vicinity of CEWE Stiftung & Co. KGaA, Oldenburg

The Board of Management of CEWE COLOR Holding AG also resolved the following at its meeting held on January 31, 2011:

The company seeks to ensure the adequate representation of women and in general to reflect diversity in its appointments to management positions. As well as the existing measures enacted in support of this criterion, the following measures are to be implemented in addition:

Drafting and implementation of a programme which considers the issues of “Women in management positions”, “Promotion of women as junior executives“ and “International approach at the management level”.

This resolution remains valid for appointments to management positions.

Final declaration by the Board of Management of the general partner on the report on relationships with affiliates

The status of Neumüller CEWE COLOR Stiftung as the general partner of CEWE Stiftung & Co. KGaA means that, in principle, CEWE Stiftung & Co. KGaA is dependent on Neumüller CEWE COLOR Stiftung within the meaning of § 17 AktG. Since no control agreement has been concluded with Neumüller CEWE COLOR Stiftung in accordance with § 291 AktG, as the management body of CEWE Stiftung & Co. KGaA pursuant to § 312 AktG the Board of Management of the general partner Neumüller CEWE COLOR Stiftung has prepared a report on relationships with affiliates. At the end of this report, the Board of Management has presented the following declaration:

“We hereby declare that our company has received an appropriate consideration for each of the legal transactions listed in this report on relationships with affiliates, in accordance with the circumstances known to us as of the execution of these transactions. No measures have been implemented or waived at the instigation or in the interest of the controlling company or an affiliate.”

Transactions with related parties

Neumüller CEWE COLOR Stiftung is the company's managing partner. It does not have any interest in the company's capital. Neumüller CEWE COLOR Stiftung has concluded a contract with CEWE Stiftung & Co. KGaA regulating its management duties as managing partner and the assumption of expenses. Under this contract, Neumüller CEWE COLOR Stiftung is to be reimbursed for any expenses arising in connection with its management activities, particularly those incurred by its Board of Management, its management and its Board of Trustees. Neumüller CEWE COLOR Stiftung is also entitled to receive appropriate annual remuneration, irrespective of any profit or loss, for its management and representational duties and for the assumption of its personal liability risk.

The Group has entered into several commercial tenancy agreements with the community of heirs whose executor is Mr Otto Korte, member of the Supervisory Board.

Oldenburg, March 15, 2018

CEWE Stiftung & Co. KGaA
For the general partner Neumüller CEWE COLOR Stiftung
– The Board of Management –

Dr Christian Friege
(Chairman of the Board of Management)

Patrick Berkhouwer | Dr Reiner Fageth | Carsten Heitkamp

Dr Olaf Holzkämper | Thomas Mehls | Frank Zweigle

BOARD OF MANAGEMENT

of Neumüller CEWE COLOR Stiftung as the general partner of CEWE Stiftung & Co. KGaA

Page 224 | structure and executive bodies

https://company.cewe.de/en/about-us/cewe-group.html > Board of Management

Dr Christian Friege
Chairman of the Board of Management of Neumüller CEWE COLOR Stiftung

Dr Reiner Fageth
Member of the Board of Management Neumüller CEWE COLOR Stiftung
Responsible for Technology and Research & Development

Patrick Berkhouwer
Member of the Board of Management of Neumüller CEWE COLOR Stiftung
Responsible for Foreign Markets and Expansion

Carsten Heitkamp
Member of the Board of Management of Neumüller CEWE COLOR Stiftung
Responsible for the German Plants, Personnel, Logistics and Materials Management

Dr Olaf Holzkämper
Member of the Board of Management of Neumüller CEWE COLOR Stiftung
Responsible for Finance & Controlling, Business Development, Investor Relations, IT, Legal and On-Site Finishing

Thomas Mehls
Member of the Board of Management of Neumüller CEWE COLOR Stiftung
Responsible for National and International Marketing, Online Photo Service, CEWE-PRINT, Viaprinto, New Business Acquisition and Sustainability

Frank Zweigle
Member of the Board of Management of Neumüller CEWE COLOR Stiftung
Responsible for the Administrative Activities of Neumüller CEWE COLOR Stiftung

GLOSSARY

Please note:

Where digital photos are referred to in this interim report, figures include CEWE PHOTOBOOK prints and the images included in photo gifts.

As a rule, all figures are calculated as precisely as possible and are rounded off in the tables in line with applicable commercial procedures. This rounding-off may give rise to discrepancies, e.g. particularly for totals.

Borrowed capital
The total value reported as non-current and current liabilities under equity and liabilities

Capital employed (CE)
Net working capital plus non-current assets and cash and cash equivalents

Capital invested (CI)
Equity plus non-operating liabilities and gross financial liabilities

Days working capital
Term of net working capital in days, measured in relation to turnover in the past quarter

EBIT
Earnings before interest and taxes

EBITDA
Earnings before interest, taxes, depreciation and amortisation

EBT
Earnings before taxes

Equity
The residual claim to the net assets remaining after deduction of liabilities according to IAS 32

Equity ratio
Equity as a share of total capital; the ratio of equity to the balance sheet total

Fixed assets
Property, plant and equipment plus real estate held as financial investments, goodwill, intangible assets and financial assets

Free cash flow
Cash flow from operating activities less cash flow from investing activities (both according to the cash flow statement)

Free float
The proportion of the company's freely tradable shares on the market

Gross cash flow
Earnings after taxes plus amortisation on intangible assets and depreciation on property, plant and equipment

Gross financial liabilities
Total of non-current interest-bearing financial liabilities and current interest-bearing financial liabilities; cf. interest-bearing financial liabilities

Gross working capital
Current assets without cash and cash equivalents

Interest-bearing financial liabilities
Non-current and current interest-bearing financial liabilities shown as such, without rights to repayment subject to interest shown in the balance sheet under other credit lines

Liquidity ratio
Ratio of cash and cash equivalents versus the balance sheet total

Net cash flow
Gross cash flow less investments

Net cash position / net financial liabilities
Non-current interest-bearing financial liabilities plus current interest-bearing financial liabilities less cash and cash equivalents; this represents a net cash position in case of a negative difference, and otherwise net financial liabilities

Net working capital
Current assets excl. cash and cash equivalents less current liabilities excl. current special items for investment grants and excl. current interest-bearing financial liabilities

Non-operating liabilities
Current and non-current special items for investment grants, non-current provisions for pensions, non-current deferred tax liabilities, other non-current provisions, non-current financial liabilities and other non-current liabilities

NOPAT
EBIT less income taxes and other taxes

Operating net working capital
Inventories plus current trade receivables less current trade payables

Other current liabilities
Current provisions for taxes, other current provisions, other current financial liabilities and other current liabilities

Other gross working capital
Assets held for sale, current receivables from income tax refunds, other current financial assets and other current receivables and assets

Other net working capital
Other gross working capital less other current liabilities

Other operating cash flows
Changes resulting from taxes paid as well as proceeds from interest received

P&L
Profit and loss account

POS
The points of sale are the retail outlets of the company's business partners and also its own retail branches

Return on capital employed (ROCE)
The ratio of earnings before interest and taxes (EBIT) versus the capital employed; in general, the twelve-month perspective is chosen for the calculation of a rolling annual return on investment

Return on capital employed (ROCE) before restructuring
The ratio of earnings before interest and taxes (EBIT) – adjusted for restructuring expenses – versus the capital employed

Working capital-induced cash flow
Changes resulting from net working capital

03

CONSOLIDATED FINANCIAL STATEMENTS

Page reference Reference to table or graphic Internet reference Supplementary information

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the financial year 2017 of CEWE Stiftung & Co. KGaA

Figures in thousands of euros	2016	**2017**	Change	*Notes*
Revenues	593,096	599,394	1.1 %	*C26*
Increase / decrease in finished and unfinished goods	– 491	117	–	
Other own work capitalised	783	872	11.4 %	
Other operating income	20,769	23,160	11.5 %	*C27*
Cost of materials	– 168,580	– 168,445	0.1 %	*C28*
Gross profit	**445,577**	**455,098**	**2.1 %**	
Personnel expenses	– 153,367	– 160,279	– 4.5 %	*C29*
Other operating expenses	– 201,908	– 205,526	– 1.8 %	*C30*
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**90,302**	**89,293**	**– 1.1 %**	
Amortisation of intangible assets, depreciation of property, plant and equipment	– 43,287	– 40,078	7.4 %	*C31*
Earnings before interest and taxes (EBIT)	**47,015**	**49,215**	**4.7 %**	
Financial income	885	457	– 48.4 %	*C33*
Financial expenses	– 1,703	– 790	53.6 %	*C33*
Financial result	**– 818**	**– 333**	**59.3 %**	
Earnings before taxes (EBT)	**46,197**	**48,882**	**5.8 %**	
Income taxes	– 15,834	– 15,317	3.3 %	*C34*
Earnings after taxes	**30,363**	**33,565**	**10.5 %**	
Earnings per share (in euros)				
undiluted	4.25	4.70	10.6 %	*C35*
diluted	4.23	4.64	9.8 %	*C35*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the financial year 2017 of CEWE Stiftung & Co. KGaA

Figures in thousands of euros	2016		2017		Change	*Notes*
Earnings after taxes		**30,363**		**33,565**	**10.5 %**	
Difference resulting from currency translation	– 434		– 411		5.3 %	*A5*
Amounts which may be reclassified to the profit and loss account in future periods		**– 434**		**– 411**	**5.3 %**	
Actuarial losses	– 640		– 510		20.3 %	*D55. D56*
Income taxes on income and expenses not affecting net income	175		143		– 18.3 %	
Amounts not reclassified to the profit and loss account		**– 465**		**– 367**	21.1 %	
Other comprehensive income		**– 899**		**– 778**	13.5 %	
Comprehensive income		**29,464**		**32,787**	11.3 %	

CONSOLIDATED BALANCE SHEET

as of December 31, 2017 of CEWE Stiftung & Co. KGaA

ASSETS

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**	Change	*Notes*
Property, plant and equipment	124,548	148,113	18.9 %	*D 36*
Investment properties	4,916	17,860	263 %	*D 37*
Goodwill	25,839	25,839	—	*D 38*
Intangible assets	19,240	14,087	– 26.8 %	*D 39*
Financial assets	6,175	6,829	10.6 %	*D 40*
Non-current financial assets	478	394	– 17.6 %	*D 41*
Non-current other receivables and assets	606	560	– 7.6 %	*D 41*
Deferred tax assets	6,772	7,842	15.8 %	*D 42*
Non-current assets	**188,574**	**221,524**	**17.5 %**	
Inventories	49,383	50,314	1.9 %	*D 44*
Current trade receivables	84,156	84,547	0.5 %	*D 45*
Current receivables from income tax refunds	1,319	1,484	12.5 %	*D 46*
Current financial assets	3,014	2,392	– 20.6 %	*D 47*
Other current receivables and assets	5,461	5,631	3.1 %	*D 48*
Cash and cash equivalents	48,557	38,772	– 20.2 %	*D 49*
	191,890	**183,140**	– 4.6 %	
Non-current assets held for sale	525	1,408	168 %	*D 43*
Current assets	**192,415**	**184,548**	**– 4.1 %**	
Assets	**380,989**	**406,072**	**6.6 %**	

EQUITY AND LIABILITIES

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**	Change	*Notes*
Subscribed capital	19,240	19,240	—	*D50. D51*
Capital reserve	71,188	73,071	2.6%	*D52. D53*
Treasury shares at acquisition cost	-8,482	-7,940	6.4%	*D54*
Retained earnings and unappropriated profits	122,945	142,842	16.2%	*D55*
Equity	**204,891**	**227,213**	**10.9%**	
Non-current accruals for pensions	25,464	27,163	6.7%	*D56*
Non-current deferred tax liabilities	2,918	1,540	-47.2%	*D57*
Non-current financial liabilities	230	137	-40.4%	*D60*
Non-current other liabilities	521	517	-0.8%	*D61*
Non-current liabilities	**29,133**	**29,357**	**0.8%**	
Current tax liabilities	11,254	3,867	-65.6%	*D62*
Current other accruals	3,484	3,530	1.3%	*D63*
Current interest-bearing financial liabilities	210	1,581	653%	*D64*
Current trade payables	96,064	95,850	-0.2%	*D65*
Current financial liabilities	1,457	1,346	-7.6%	*D66*
Current other liabilities	34,496	43,328	25.6%	*D67*
Current liabilities	**146,965**	**149,502**	**1.7%**	
Equity and liabilities	**380,989**	**406,072**	**6.6%**	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of CEWE Stiftung & Co. KGaA

Figures in thousands of euros	**Subscribed capital**	**Capital reserve**	Generated Group equity	Special item for stock option plans
As of Jan. 1, 2016	**19,240**	**70,223**	**114,607**	**– 9,182**
Comprehensive income	**–**	**–**	**30,363**	**– 640**
Dividend paid out	–	–	– 11,468	–
Purchase of treasury shares	–	–	–	–
Sale of treasury shares	–	475	–	–
Stock option plans	–	490	–	–
Owner-related equity changes	**–**	**965**	**– 11,468**	**–**
As of Dec. 31, 2016	**19,240**	**71,188**	**133,502**	**– 9,822**
Comprehensive income	–	–	33,565	– 510
Dividend paid out	–	–	– 12,890	–
Sale of treasury shares	–	919	–	–
Stock option plans	–	964	–	–
Owner-related equity changes	–	1,883	– 12,890	–
As of Dec. 31, 2017	19,240	73,071	154,177	– 10,332

	Compen-sating item from currency translation	Income taxes not affecting net income	**Retained earnings and unappropriated profits**	**Total**	**Treasury shares at acquisition cost**	**Group equity**
	– 3,730	**3,254**	**104,949**	**194,412**	**– 7,454**	**186,958**
	– 434	**175**	**29,464**	**29,464**	**—**	**29,464**
	—	—	– 11,468	– 11,468	—	– 11,468
	—	—	—	—	– 1,320	– 1,320
	—	—	—	475	292	767
	—	—	—	490	—	490
	—	**—**	**– 11,468**	**– 10,503**	**– 1,028**	**– 11,531**
	– 4,164	**3,429**	**122,945**	**213,373**	**– 8,482**	**204,891**
	– 411	**143**	**32,787**	**32,787**	**—**	**32,787**
	—	—	– 12,890	– 12,890	—	– 12,890
	—	—	—	919	542	1,461
	—	—	—	964	—	964
	—	**—**	**– 12,890**	**– 11,007**	**542**	**– 10,465**
	– 4,575	**3,572**	**142,842**	**235,153**	**– 7,940**	**227,213**

CONSOLIDATED CASH FLOW STATEMENT

for the financial year 2017 of CEWE Stiftung & Co. KGaA

Notes E 71

Figures in thousands of euros	2016		2017		Change Absolute		Change as %
EBITDA		**90,302**		**89,293**		**– 1,009**	**– 1.1 %**
+ Non-cash factors		**1,180**		**2,538**		**1,358**	**115 %**
+ / – Decrease (+)/increase (-) in operating net working capital		11,847		– 2,774		– 14,621	—
+ Decrease in other net working capital (excl. income tax items)		667		8,336		7,669	> 1,000 %
– Taxes paid		– 11,792		– 25,174		– 13,382	– 113 %
+ Interest received		819		169		– 650	– 79.4 %
= Cash flow from operating activities		**93,023**		**72,388**		**– 20,635**	**– 22.2 %**
– Outflows from investments in fixed assets		– 48,973		– 70,975		– 22,002	– 44.9 %
– Outflows from investments in financial assets		– 573		– 654		– 81	– 14.1 %
+ Inflows from investments in non-current financial instruments		9		109		100	> 1,000 %
+ Inflows from the sale of property, plant and equipment and intangible assets		2,929		1,285		– 1,644	– 56.1 %
= Cash flow from investing activities		**– 46,608**		**– 70,235**		**– 23,627**	**– 50.7 %**
= Free cash flow		**46,415**		**2,153**		**– 44,262**	**– 95.4 %**
– Dividends paid	– 11,468		– 12,890		– 1,422		– 12.4 %
– Purchase of treasury shares	– 1,320		0		1,320		—
+ Amounts paid in (+) for stock option plans	53		46		– 7		– 13.2 %
= Outflows to shareholders		**– 12,735**		**– 12,844**		**– 109**	**– 0.9 %**
+ / – Inflows (+) / outflows (-) from change in financial liabilities		– 6,464		1,371		7,835	—
– Interest paid		– 592		– 451		141	23.8 %
+ Other financial transactions		33		258		225	682 %
= Cash flow from financing activities		**– 19,758**		**– 11,666**		**8,092**	**41.0 %**
Cash and cash equivalents at the start of the reporting period		**21,679**		**48,557**		**26,878**	**124 %**
+ / – Exchange rate-related changes in cash and cash equivalents		221		– 272		– 493	—
+ Cash flow from operating activities		93,023		72,388		– 20,635	– 22.2 %
– Cash flow from investing activities		– 46,608		– 70,235		– 23,627	– 50.7 %
– Cash flow from financing activities		– 19,758		– 11,666		8,092	41.0 %
= Cash and cash equivalents at the end of the reporting period		**48,557**		**38,772**		**– 9,785**	**– 20.2 %**

SEGMENT REPORTING BY BUSINESS UNIT *

for the financial year 2017 of CEWE Stiftung & Co. KGaA

		Photofinishing	Retail	Commercial Online Printing	Other Activities	**CEWE Group**
External revenues	2017	**459,349**	**53,003**	**84,011**	**3,031**	**599,394**
	2016	**452,023**	**54,911**	**83,991**	**2,171**	**593,096**
External revenues, adjusted for currency effects	2017	459,685	52,555	84,479	3,031	599,750
	2016	452,023	54,911	83,991	2,171	593,096
EBIT prior to restructuring	2017	**53,937**	**272**	**1,645**	**– 6,639**	**49,215**
	2016	**52,211**	**581**	**1,600**	**– 7,191**	**47,201**
Restructuring	2017	—	—	—	—	—
	2016	– 186	—	—	—	– 186
EBIT after restructuring	2017	**53,937**	**272**	**1,645**	**– 6,639**	**49,215**
	2016	**52,025**	**581**	**1,600**	**– 7,191**	**47,015**
Scheduled depreciation	2017	27,402	1,624	6,565	957	36,548
	2016	21,306	1,577	7,460	4,857	35,200
Non-scheduled depreciation	2017	—	—	—	3,530	3,530
	2016	8,071	16	—	—	8,087

* Segment reporting by business unit is an integral part of the notes.

Comments on the business units
- Photofinishing incl. turnover and earnings from CEWE photo products from own retail activities
- Retail only consists of merchandise business, excl. CEWE's photography products.
- Other Activities comprises holding / structural costs (mainly Supervisory Board and IR costs), real estate, futalis.

NOTES

A. General disclosures

1 | Corporate information

CEWE Stiftung & Co. KGaA (hereinafter: CEWE KGaA), is a stock market-listed partnership limited by shares (Kommanditgesellschaft auf Aktien – KGaA) under German law and is seated in Germany.

CEWE KGaA is the parent company of the CEWE Group (hereinafter: CEWE). CEWE is an internationally active group which focuses on photofinishing, commercial online printing and photo retail business as a technology and market leader.

These consolidated financial statements and the combined management report for the financial year 2017 have been prepared by the Board of Management of CEWE KGaA and submitted to and duly published in the German Federal Gazette (Bundesanzeiger).

2 | Principles for the preparation of the consolidated financial statements

The consolidated financial statements of CEWE KGaA for the year under review from January 1, 2017 to December 31, 2017 have been prepared in compliance with the International Financial Reporting Standards (IFRS) effective as of the reporting date and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as applied in the EU, as well as the supplementary rules prescribed by § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB).

The following standards, revisions and interpretations were applicable for the first time in the year under review:

Amendment / standard

	Date of publication	Date of endorsement within the scope of EU law	Date of adoption (EU)
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	January 19, 2016	November 9, 2017	January 1, 2017
Amendments to IAS 7: Disclosure Initiative	January 19, 2016	November 9, 2017	January 1, 2017

The first-time adoption of these standards has not had any significant effect on the Group's net assets, financial position and results of operations.

The following IFRS endorsed in EU law had been issued up to the balance sheet date but are only mandatorily applicable in subsequent reporting periods:

Amendment / standard

	Date of publication	Date of endorsement within the scope of EU law	Date of adoption (EU)
IFRS 15 Revenue from Contracts with Customers (including amendments to IFRS 15: date on which IFRS 15 enters into force)	September 11, 2015	September 22, 2016	January 1, 2018
Clarification of IFRS 15 Revenue from Contracts with Customers	April 12, 2016	October 31, 2017	January 1, 2018
IFRS 16 Leases	January 13, 2016	October 31, 2017	January 1, 2019
IFRS 9 Financial Instruments	July 24, 2014	November 22, 2016	January 1, 2018
Amendments to IFRS 4: Adoption of IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts	September 12, 2016	September 3, 2017	January 1, 2018

Through the publication of the new standard IFRS 16 "Leasing", the previous classification for lessees of lease agreements as operating and finance lease arrangements has been abandoned. Under IFRS 16, for lease agreements with a term of more than twelve months lessees are obliged to report assets for the respective right of use and also leasing liabilities. This means that leases which were not previously reported in the balance sheet will be recognised in the balance sheet in future. The effects of accounting for rights of use and leasing liabilities are expected to fall within the high eight-digit range and to extend the balance sheet.

Nor will the other new standards and amendments of existing standards have any significant impact on the Group's net assets, financial position and results of operations.

The following standards and interpretations and amendments of existing standards which have also been issued by the IASB are not yet mandatorily applicable in the consolidated financial statements as of December 31, 2017. They will become applicable following their adoption within the scope of the EU's endorsement of the IFRS.

Amendment / standard

	Date of publication	Expected endorsement within the scope of EU law	Date of adoption
IFRS 14 Regulatory Deferral Accounts	January 30, 2014	The European Commission has decided not to launch the endorsement process for this interim standard and to wait for the final standard.	
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	September 11, 2014	Postponed	Postponed indefinitely
IFRS 17 Insurance Contracts	May 18, 2017	n / a	January 1, 2021
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	December 8, 2016	Q1 2018	January 1, 2018
IFRIC Interpretation 23 Uncertainty over Income Tax Treatments	June 7, 2017	2018	January 1, 2019
Amendments to IFRS 2: Classification and Measurement of Share Based Payment Transactions	June 20, 2016	Q1 2018	January 1, 2018
Annual improvements to the IFRS (AIP) 2014–2016 Cycle	December 8, 2016	Q1 2018	January 1, 2018 / January 1, 2017
Amendments to IAS 40: Transfers of Investment Property	December 8, 2016	Q1 2018	January 1, 2018
Amendments to IFRS 9: Prepayment Features with Negative Compensation	October 12, 2017	2018	January 1, 2019
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	October 12, 2017	2018	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	October 12, 2017	2018	January 1, 2019

Insofar as any further new standards which are not yet valid for 2017 may be adopted voluntarily, the Group has not made use of this option. The future effects on the Group's net assets, financial position and results of operations resulting from implementation of the standards issued as of the reporting date but not yet mandatorily applicable are still being reviewed. Several standards may necessitate additional notes. The new standards will be adopted in the EU upon completion of the endorsement procedure.

Determination of fair values

As far as possible, CEWE uses data observable on the market in order to determine the fair value of an asset or a liability. On the basis of the input factors used within the scope of the valuation techniques, the fair values have been assigned to the different levels of the fair value hierarchy:

- Level 1: quoted prices (unadjusted) on active markets for identical assets or liabilities.
- Level 2: valuation parameters which do not involve the quoted prices included in Level 1 but which are observable for the asset or the liability either directly (i. e. as a price) or indirectly (i. e. derived from prices).
- Level 3: valuation parameters for assets or liabilities which are not based on observable market data.

With the exception of the derivatives carried in the balance sheet at fair value, in these annual financial statements all assets and liabilities are measured at amortised cost. For assets and liabilities carried at amortised cost, the book values of the financial assets and liabilities in the balance sheet represent a reasonable approximation of the fair value.

Derivatives reported in the balance sheet are carried at fair value. The market values determined by credit institutions are arrived at by discounting the expected future cash flows throughout the remaining term of the contracts on the basis of individual, non-observable input parameters (Level 3 according to IFRS 7).

The profit and loss account has been prepared in accordance with the nature of expense method. Unless otherwise indicated, all figures refer to thousands of euros.

3 | Scope of consolidation

Apart from CEWE Stiftung & Co. KGaA, the consolidated financial statements as of December 31, 2017 include domestic and foreign companies over which CEWE Stiftung & Co. KGaA has a direct or indirect controlling interest. The Group has control over a company if it is exposed to risk in relation to fluctuating yields, or is entitled to receive these yields, from its holdings in the company in question, and if the Group also has the ability to use its power of control over the investee so as to affect the value of the yield granted by this investee. The financial statements of subsidiaries are incorporated into the consolidated financial statements as of the point in time at which the relationship of control begins, and remain so until the relationship of control ends.

As of December 31, 2017, apart from CEWE Stiftung & Co. KGaA, Oldenburg, as the parent company, the scope of consolidation includes eleven German and 20 foreign companies (cf. E69). Since the start of the year, one company has been removed from the CEWE Group due to liquidation. The pension commitments transferred to the pension fund CEWE COLOR Versorgungskasse e. V., Wiesbaden, according to IAS 19 are also included in the scope of consolidation. No contractual trust arrangement (CTA) is applicable, since the pension commitments remain attributable to CEWE KGaA from a legal point of view. Insofar as this pension fund is unable to meet its obligations on the basis of its own resources, resources are provided by CEWE KGaA.

Bilderplanet.de GmbH, Cologne, has not been included in the scope of consolidation due to its economic insignificance since its balance sheet total represents only 0.00 % of the consolidated balance sheet total and its revenue 0.00 % of total Group revenue.

In February 2018, 79.9 % of the shares in Stardust Media S. A. S., Paris, France, the French market leader for photofinishing apps, were purchased. They have been fully consolidated since this time. Preliminary acquisition costs amounted to 36.0 million euros. Options have been agreed for the remaining shares and may be exercised in the period up to 2022. CEWE expects this equity investment to strengthen its business in France and southern Europe through additional growth in its mobile business segment.

4 | Consolidation principles

The consolidated financial statements have been prepared on the basis of the incorporated German and foreign financial statements of the subsidiaries, on the basis of uniform accounting and measurement methods. For all of the companies included in the consolidated financial statements, the reporting date for the separate financial statements is the same as the reporting date for the consolidated financial statements, i. e. December 31, 2017.

Acquired subsidiaries are accounted for using the acquisition method. The acquisition costs correspond to the fair value of the assets provided, the equity instruments issued and the liabilities arising or assumed as of the transaction date. They also include the fair values of any recognised assets or liabilities resulting from a contingent consideration agreement. Assets, liabilities and contingent liabilities which are identifiable within the scope of a company merger are measured at their fair values as of the date of their acquisition when first included in the scope of consolidation.

Any costs associated with their acquisition are recognised as expenses as of their date of their accrual.

Any contingent considerations are measured at fair value as of the date of their acquisition. Subsequent adjustments to the fair value of an asset or a contingent consideration classified as a liability are measured within the scope of IAS 39 and any resulting profit or loss is recognised either in profit or loss or in other comprehensive income.

Goodwill is the value resulting from the surplus of the acquisition costs plus the value of the non-controlling interests in the acquired company and the fair value of any equity interests previously held as of the date of acquisition divided by the Group’s interest in the net assets measured at fair value.

In case of the additional purchase of interests in companies already fully included in the scope of consolidation, this does not affect net income. This does not lead to any changes in the recognition of assets, liabilities and goodwill of the company already included in the scope of consolidation. The annual goodwill impairment tests are performed using the discounted cash flow method. This is calculated on the basis of future expected cash flows from the latest management planning, updated with long-term turnover growth rates as well as assumptions regarding margin and earnings trends and discounted in the value of the capital costs for the corporate unit. Testing is carried out at the level of the cash-generating unit. In the course of the year, an impairment test is also performed in case of events suggesting a permanent fall in value.

Intragroup turnover, expenses and income and also loans, receivables and liabilities between the consolidated companies are eliminated. Interim profits from intragroup deliveries are consolidated insofar as they are significant for presentation of the actual net assets, financial position and results of operations. Intragroup deliveries and services are calculated on the basis of market prices and also on the basis of transfer prices determined according to the arm’s length principle. Where necessary, deferred taxes are calculated for consolidation entries affecting earnings.

Stock option plans have been measured at fair value as issued equity instruments for future work, in accordance with IFRS 2. The resulting effects have been apportioned as expense throughout the period, recognised in personnel expenses and entered against equity. Insofar as the terms of options are not fulfilled, this item is reversed directly within equity.

Companies which are no longer classifiable as companies to be included in the scope of consolidation have been excluded accordingly. The relevant date is determined on the basis of the date of this company's withdrawal, i. e. the date of loss of control over its financial and business policy. Expenses and income resulting for the consolidated company up to its disposal are included in the consolidated profit and loss account. All of the assets and liabilities representing the consolidated company immediately prior to its withdrawal from the scope of consolidation will be considered as the disposal value. The effect on income of removal from the scope of consolidation is calculated by comparing the disposal or liquidation proceeds and the disposal value. The same consolidation methods have been used as in the previous year.

5 | Currency translation

The annual financial statements of the foreign Group companies have been translated into euros according to the functional currency concept. Since the subsidiaries conduct their business independently in financial, economic and organisational terms, in principle the respective functional currency is identical with the national currency of the company in question. The reporting currency and functional currency of the Group is the euro.

Assets and liabilities of foreign companies included in the scope of consolidation are translated at the mean rates of exchange on the balance sheet date (balance sheet exchange rate), while income and expenses are translated at the average annual mean rates of exchange (profit and loss account exchange rate).

Goodwill resulting for foreign subsidiaries as a result of capital consolidation is carried at historical cost.

Equity is also translated at historical exchange rates. Any resulting translation differences are not shown in the profit and loss account and are instead presented in a separate equity item. Currency differences resulting from the translation of non-current loans to Group companies are likewise recognised directly in equity.

The following key exchange rates apply for currency translation:

Currency translation

		2016		**2017**	
		Balance sheet exchange rate	Profit and loss account exchange rate	**Balance sheet exchange rate**	**Profit and loss account exchange rate**
CHF	Swiss franc	1.07390	1.09016	1.17020	1.11156
CZK	Czech crown	27.02000	27.03395	25.54000	26.32884
DKK	Danish krone	7.43440	7.44519	7.44490	7.43864
GBP	British pound sterling	0.85618	0.81948	0.88723	0.87651
HRK	Croatian kuna	7.55689	7.51473	7.53729	7.45997
HUF	Hungarian forint	311.02000	311.45426	310.14000	309.22979
NOK	Norwegian krone	9.08630	9.29060	9.84030	9.32718
PLN	Polish zloty	4.42400	4.36342	4.17090	4.25966
SEK	Swedish krona	9.55250	9.46890	9.84380	9.63573
USD	US dollar	1.05410	1.10690	1.19930	1.12944

B. Accounting and measurement principles

6 | General disclosures

In principle, the annual financial statements of the companies included in the scope of consolidation are prepared on the basis of uniform accounting and measurement methods. Accounting and measurement options are exercised in the consolidated financial statements in the same way as in the separate financial statements. The accounting and measurement methods are the same as in the previous year.

For preparation of the consolidated financial statements, the Board of Management requires a series of assessments and estimates and makes assumptions affecting the application of accounting principles within the Group and also recognition of assets and liabilities as well as income and expenses. The actual amounts may deviate from these estimates. Estimates and underlying assumptions are continuously reviewed. The following estimates and associated assumptions may affect the consolidated financial statements.

If items of property, plant and equipment and intangible assets are acquired within the scope of company mergers, the fair value of these assets as of the date of acquisition and the expected useful life are estimated. Fair values and useful lives are calculated on the basis of the management's assessments.

Impairments of property, plant and equipment, intangible assets and goodwill are determined on the basis of estimates regarding the cause, the date and the value of these impairments and, where permissible, revaluations. Indications of impairments, estimates of future cash flows and fair values of assets are evaluated on the basis of assessments regarding expected cash flows, useful lives, discount rates and residual values. The development of future cash flows is mainly determined by the future demand trend for products. If the actual demand trend falls short of expectations, this would negatively affect turnover and cash flows. Further expenses for valuation adjustments might thus result which would negatively affect future results of operations.

To deal with the default risk for receivables, valuation adjustments are established for doubtful accounts. Valuation adjustments are determined on the basis of the maturity structure, the current market situation and past experience. In the event of a deterioration in customers' financial situation, the actual bad debts may exceed the expected bad debts.

The CEWE Group is obliged to pay income taxes in various countries (chiefly in Europe). Material assumptions are therefore necessary for calculation of Group-wide income tax liabilities. Income taxes are determined by calculating for each taxable entity the expected actual amount of income tax and the deferred taxes resulting from temporary differences between the balance sheet items in the consolidated financial statements and the accounts prepared for tax purposes. This requires assumptions for interpretation of applicable tax regulations in Germany and other countries. This also requires an assessment of the possibility of realising a sufficiently high level of taxable income for each type of tax and in each tax jurisdiction. For some transactions and calculations, the final level of taxation cannot be conclusively determined. The Group assesses the value of accruals for expected tax audits on the basis of estimates of whether additional income taxes may fall due and the respective amount. Insofar as the final level of taxation for these transactions deviates from the initially assumed level of taxation, this will affect the actual and deferred taxes in the period in which the level of taxation is conclusively determined. If the final values (in the areas affected by estimates) were to deviate from the management's estimates by 10 %, the Group would be required to increase its tax liabilities by 387 thousand euros and its deferred tax liability by 154 thousand euros, in case of a negative deviation, or reduce its tax liabilities by 387 thousand euros and its deferred tax liability by 154 thousand euros in case of a positive deviation. Pensions and similar obligations are measured on the basis of actuarial procedures. These measurements are mainly based on assumptions regarding discount factors, salary and pension trends and life expectancies. Pensions and similar obligations may be subject to significant changes if these assumptions significantly deviate from actual trends due to changes in the market and economic environment.

The recognition and measurement of other accruals and contingent liabilities are highly dependent on the complexity of the underlying transaction as well as estimates. This requires assumptions regarding the probability of realisation and the value of the claim. This in turn depends on past experience, assessments of cost trends and the assessment of other information. Changes in these estimates may have a significant effect on results of operations.

Individual items have been summarised in the profit and loss account and the balance sheet. They are reported separately in the notes. The Group classifies assets and liabilities as current if they are expected to be realised or settled within twelve months of the balance sheet date.

7 | Recognition of income and expenses

The ordinary activities of the CEWE Group comprise photofinishing and other printing services and trading of photographic hardware as well as photofinishing products and services. CEWE mainly realises revenues from the sale of goods and does so only marginally from the provision of services. Any income associated with the Group's ordinary activities is presented as revenue in the profit and loss account. CEWE does not realise any further significant revenue. All other income is presented as other operating income (cf. C27). Revenues are measured in profit and loss if the key risks and opportunities resulting from ownership of the goods are transferred to the customer, the company does not retain any residual right of disposal such as is normally associated with ownership or a valid power of disposal over the sold products and merchandise, the value of the income can be reliably determined and it is sufficiently probable that the company will receive the economic benefit resulting from the transaction. Operating expenses are recognised in profit or loss upon use of the service or as of the time at which they are incurred. In principle, turnover-related expenses or accruals are measured as of the date of realisation of the corresponding revenues; this includes estimated amounts for rebates and discounts and other sales deductions. Interest income and expenses are recognised on an accrual basis.

8 | Property, plant and equipment

Property, plant and equipment are recognised at cost and, in case of wear and tear, less scheduled straight-line depreciation. Production costs comprise all directly attributable costs as well as appropriate portions of the production-related overheads. Financing costs are capitalised. The profits or losses resulting from the write-off of the asset are calculated as the difference between the net disposal proceeds and the book value and are recognised in profit or loss as other operating income or expenses in the period in which this item is written off.

9 | Investment properties

Investment properties comprise land and buildings which are held in order to generate rental income or for capital appreciation and are not used for separate production, for delivery of goods or provision of services, for administrative purposes or for sale within the scope of ordinary activities.

As of their first-time measurement these assets are measured at amortised cost, including incidental costs. The book value includes the costs of replacement investments for existing investment properties as of the accrual of these costs, provided that the criteria for recognition are fulfilled. The book value does not include the costs of daily maintenance of this real estate. Within the scope of subsequent measurement, investment properties are recognised at amortised cost.

Investment properties are written off if they are sold or permanently no longer used and if no future economic benefit is expected as of their disposal. Profits or losses resulting from the shutdown or disposal of investment properties are recognised in the year of this shutdown or disposal.

Items of real estate are assigned to the portfolio of investment properties in case of a change of use involving the end of the Group's own use or the beginning of an operating lease with another party.

10 | Goodwill

Goodwill does not undergo scheduled amortisation and is tested for impairment once a year. It is also tested whenever events occur which indicate potential impairment.

11 | Intangible assets

Intangible assets comprise industrial property rights and similar rights, software acquired for consideration, proprietary software, customer bases and lists, trademark rights and advance payments made on such assets. Acquired and proprietary intangible assets are capitalised subject to the conditions laid down in IAS 38 "Intangible Assets".

Intangible assets acquired for consideration are capitalised at cost, as are proprietary intangible assets which are expected to provide a future benefit for the Group and which can be reliably determined and measured. Both types of intangible assets undergo scheduled straight-line depreciation over their expected useful life. Production costs comprise all directly attributable costs as well as appropriate portions of the production-related overheads. Financing costs are not capitalised, since the Group does not have any assets which involve a protracted production / manufacturing phase. Other development costs are likewise not capitalised, since the conditions for capitalisation are not generally fulfilled. Intangible assets undergo impairment if the recoverable amount – the higher of the fair value less disposal costs and the asset's value in use – is less than the book value. Proprietary intangible assets mainly comprise new developments in the field of distribution- and production-specific software systems which can be used throughout the Group.

12 | Impairment

Scheduled depreciation of fixed assets is mainly calculated on the basis of the following uniform expected useful life throughout the Group:

Average useful life

In years	Dec. 31, 2016	**Dec. 31, 2017**
Asset		
Customer base and customer lists	5	5
Software and other intangible assets	3 to 7	3 to 8
ERP software	5	5
Buildings	25 to 40	25 to 50
Machinery		
Adhesive binding equipment and machinery	8	8
Offset printing machines	8	8
Digital printing machines	4 to 6	4 to 6
Film developing machines	6 to 8	6 to 8
Sorting systems	5 to 8	5 to 8
IT equipment	3 to 7	3 to 7
Motor vehicles	5	5
Office furniture	13	13

Average useful lives are determined on the basis of past experience of use of this asset, current and envisaged possibilities for its use and related technical development.

The book values of property, plant and equipment and intangible assets are tested for impairment on each balance sheet date. In case of any such indications, the recoverable amount of the asset is estimated in order to determine the scope of any impairment loss. The recoverable amount is determined for each individual asset, unless an asset results in cash inflows which are not largely independent of those of other assets or other groups of assets (cash-generating units). In this case, the calculation will be performed at the level of the cash-generating unit to which the respective asset has been assigned. The respective value will be assigned to the individual cash-generating units or to the smallest group of cash-generating units on an appropriate and consistent basis.

In case of intangible assets with indefinite useful lives or intangible assets which cannot be used yet, an impairment test is performed at least annually and in case of any indication of impairment. The recoverable amount is the higher of the fair value less disposal costs and the value in use.

For calculation of the value in use, the future cash flows resulting from continued use of the cash-generating units are discounted by a risk-adjusted interest rate. The cash flows are determined on the basis of the planning which has been approved by the Board of Management and is valid at the time of the impairment test. This planning is based on expectations of future market shares, growth on the respective markets and products' profitability. Cash flow forecasts beyond the detailed planning period are calculated on the basis of suitable growth rates. This includes both the current market assessment regarding the fair value of the money and the risks to which the respective asset is exposed, if these factors have not already been reflected in the estimate of the cash flows. Before taxes, the risk-adjusted interest rates used for discounting of cash flows amount to between 7.2 % and 11.0 % in the Photofinishing business unit, to between 8.1 % and 9.6 % in the Retail business unit, to 11.4 % in the Commercial Online Printing business unit and to 9.8 % in the Other Activities business unit. The risk-adjusted interest rate for the cash-generating units is based on the weighted average cost of capital (WACC). This is determined on the basis of the capital asset pricing model (CAPM), with due consideration of current market expectations. Specific peer group information for beta factors, capital structure data and the cost of borrowing are used to calculate the risk-adjusted interest rate for the purpose of the impairment test. Periods not included in the planning are reflected by means of a terminal value. Various sensitivity analyses are also performed. If the recoverable amount of an asset or a cash-generating unit falls below its book value, impairment is recognised in the amount of the difference. If the value in use is less than the book value, for the calculation of the recoverable amount the fair value less the disposal costs will also be determined. The impairment loss is immediately recognised in profit or loss. In the event of a recovery of the impairment loss, the book value of the asset or the cash-generating unit will be increased to the newly determined recoverable amount. However, the increased book value may not exceed the book value which would have been determined (less scheduled depreciation) if no impairment loss had been recognised in previous years. A recovery in value is immediately recognised in profit or loss.

Goodwill does not undergo any scheduled amortisation and is tested for impairment on the basis of the recoverable amount for the cash-generating unit to which it has been assigned. For this purpose, the goodwill acquired through a merger will be assigned to each individual cash-generating unit which is expected to realise synergies as a result of the merger. The maximum size of the respective cash-generating unit corresponds to the operating business unit which is included in internal reporting submitted to the main decision-making entity and thus reflects the internal reporting structure. The impairment test is performed at least once a year and also in case of any indication of impairment of the cash-generating unit.

In the event that the book value of the cash-generating unit to which this goodwill has been assigned exceeds its recoverable amount, amortisation will be recognised on this assigned goodwill in the value of the difference determined. Goodwill amortisation already recognised may not be reversed. If the difference determined for the cash-generating unit exceeds the book value of the assigned goodwill, the book values of the assets assigned to the cash-generating unit will undergo pro rata impairment in the value of the remaining impairment loss.

13 | Financial assets

Due to a lack of observable market prices, financial assets have been measured at cost. CEWE reviews whether objective indications of impairment are applicable on each balance sheet date. Non-scheduled depreciation is recognised if permanent impairment is expected. Reinsurance policies included in financial assets are recognised at their actuarial present value. This does not involve plan assets.

14 | Non-current assets held for sale

Non-current assets held for sale comprise assets or groups of assets whose book values within the next twelve months are expected to be mainly realised through their disposal and not through their operational use. They are measured at the lower of their book value and their fair value less disposal costs. In the event of a subsequent increase in their fair value, a revaluation will be made in the value of the impairment recognised.

15 | Inventories

Inventories are recognised at cost. Manufacturing costs include individual material and production costs as well as pro rata material and production overheads. Administrative costs are included where attributable to production. Acquired inventory items are measured on the basis of the average value method, at the weighted average value. If the net disposal value is lower on the balance sheet date, this will be recognised. Inventories rarely used due to obsoleteness or technical progress are subject to marketability discounts. The Group does not have any long-term production orders.

16 | Primary financial instruments

Primary financial instruments comprise financial assets (receivables, other assets, loans extended and cash and cash equivalents) as well as financial liabilities (interest-bearing financial liabilities, trade payables and other liabilities). They are accounted for and measured in accordance with the provisions of IAS 39. A financial instrument is thus recognised if a consideration is provided in the form of cash and cash equivalents or financial assets. In principle, it will be recognised and written off at fair value, allowing for the transaction costs. Non-interest-bearing receivables and other assets are discounted if they are non-current. In accordance with IAS 39, subsequent measurement will depend on the subsequent categorisation of the financial instruments.

Financial assets

Financial interests recognised as financial assets are measured at cost.

In principle, loans and receivables not quoted on an active market are measured at amortised cost. This includes non-current financial receivables, trade receivables and other current financial receivables and assets. In case of any doubt regarding the collectability of receivables, they will be recognised at the lower realisable amount. Objective defaults will result in a write-off of the relevant receivable. As well as necessary individual valuation adjustments, discernible risks resulting from the general credit risk are accounted for by means of generalised individual valuation adjustments. Foreign-currency receivables are translated at the exchange rate as of the reporting date.

Financial assets available for sale are measured at amortised cost. This involves financial interests recognised as financial assets for which no quoted market price is available and whose fair value cannot be reliably determined.

Cash and cash equivalents are recognised at fair value. Cash in hand and balances in foreign currencies are translated at the exchange rate as of the reporting date.

Financial liabilities

Financial liabilities regularly establish an obligation for delivery in the form of cash and cash equivalents or another financial asset. This includes, in particular, trade payables, amounts owed to credit institutions, derivative financial liabilities and other financial liabilities.

Financial liabilities are measured at amortised cost.

17 | Derivative financial instruments

Derivative financial instruments such as interest rate and foreign currency options, interest rate swaps, combined interest rate and foreign currency swaps and commodities futures transactions for hedging of exchange rate, interest rate and commodity price risks are used within narrowly defined limits. In accordance with the Group's risk management principles, no derivative financial instruments are held for trading purposes. Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently at their market value. Profit and loss are recognised on the basis of the type of position to be hedged. At the time of entry into a hedging transaction, derivatives are classified as hedging either a planned transaction (cash flow hedge), the fair value of a reported asset or a liability (fair value hedge) or a net investment in an economically independent foreign subsidiary. Changes in the market value of derivatives which serve to hedge the cash flow, are suitable for this purpose and prove to be fully effective, are reported in equity. If they are not completely effective, ineffective changes in value are recognised in profit or loss. Upon completion of the hedged transaction, the amounts previously recognised in equity will be reversed through profit or loss. For derivative instruments used for hedging of a fair value, changes in the fair value of the derivative and the hedged position will be immediately recognised in profit or loss. In case of a completely effective hedge, expenses and income resulting from changes in the value of the derivative will fully compensate for those arising for the underlying transaction. Hedging of foreign net positions is reported in accordance with cash flow hedging. If the hedging instrument is a derivative, actual currency profits and losses resulting from the derivative or from translation of the loan will be recognised in equity. The relationships between the hedging instruments and the hedged positions and also the risk management goals of the hedging transactions will already be documented as of the conclusion of the transaction. All of the derivatives classified as hedging instruments will thus be linked with specifically planned transactions. The assessment of whether the derivatives used as hedging instruments are highly effective in compensating for the changes in the cash flow of the hedged positions will also be documented. The market value of cross-currency swaps will be determined on the basis of prevailing market conditions as of the balance sheet date. Recognised measurement models are used in order to determine the market value. Derivatives for which no hedge accounting is applied are recognised at fair value.

18 | Deferred taxes

In accordance with IAS 12, deferred tax assets and liabilities are established for any temporary discrepancies in terms of assets and liabilities in the tax and IFRS balance sheets, for tax credits and loss carry-forwards and for consolidation measures recognised in profit or loss. The national tax rates applicable as of the balance sheet date or applicable in future will be used for calculation purposes. The effect of changes in tax rates on deferred taxes is recognised as of the respective change in the law coming into effect. Deferred tax assets resulting from loss carry-forwards are only included insofar as their realisation is sufficiently concrete and probable. In principle, changes in deferred taxes recognised in the balance sheet will result in deferred tax expenses or income. Insofar as items resulting in changes to deferred taxes are directly entered against equity, the change in deferred taxes will also be directly recognised in equity.

Deferred tax liabilities are shown within the scope of accruals. They are calculated on the basis of the standard international balance sheet-based liability method and show the tax effects resulting from the valuation differences between the tax balance sheets of the individual companies and the consolidated financial statements. Neither deferred tax assets nor deferred tax liabilities are discounted.

The deferral amounts are calculated at the tax rates which may currently be expected in case of a reversal of the temporary differences.

Deferred tax receivables and liabilities will be netted if they apply in relation to the same tax authority.

Average tax rates for calculation of deferred taxes

Figures as %	2016	2017
Germany	30.88	30.88
Belgium	33.99	33.99
Denmark	22.00	22.00
France	28.00	28.00
United Kingdom	17.00	17.00
Croatia	20.00	–
Netherlands	25.00	25.00
Norway	24.00	24.00
Poland	19.00	19.00
Sweden	22.00	22.00
Switzerland	25.00	25.00
Slovak Republic	21.00	21.00
Czech Republic	19.00	19.00
Hungary	9.00	9.00
USA	34.03	21.28

19 | Equity

Subscribed capital is recognised within equity at its nominal value. The premium resulting from the first-time share issue is measured as a capital reserve on the basis of the difference between the nominal value of the ordinary bearer shares issued and the realised issue amount. For new shares issued within the scope of the exercise of conversion rights, the company receives considerations which are reported in its subscribed capital item in the amount of its nominal value share and in its capital reserve item in the value of the premium exceeding this amount.

The subscribed capital and the capital reserve relate to CEWE Stiftung & Co. KGaA, Oldenburg, and are recognised as if held by this company. Through the treasury shares deduction deducted from equity on the face of the balance sheet, treasury shares are reported as a deduction at the value of their full, original acquisition costs and incidental acquisition costs at the time of their buyback (see item D54). Retained earnings and unappropriated profits are determined by law and in accordance with the articles of association of CEWE Stiftung & Co. KGaA, Oldenburg, and are reported at nominal value. As well as earnings calculated according to provisions of commercial law, these items include the discrepancies in relation to IFRS accounting standards. Effects resulting from fair value measurement of hedging transactions and from measurement of stock option plans (see item D52) are also shown, as are the currency translation differences recognised directly in equity and actuarial profits and losses. The change in hidden reserves recognised within the scope of successive share purchases is apportioned to retained earnings.

20 | Pension commitments

Pension accruals are calculated in accordance with the actuarial projected unit credit method prescribed in IAS 19 rev. 2011 for defined-benefit pension obligations. The future obligation is discounted to its present value on the basis of the vested rights acquired up to the balance sheet date, while allowing for additional parameters. Discrepancies between estimates made and actual trends and changes in actuarial assumptions will result in actuarial profits and losses. These will be directly recognised in equity in the year of their occurrence. The current service cost and the interest expenses included in pension expenses are recognised in personnel expenses.

These figures only refer to the group of employees entitled to pensions for which a pension liability must be carried.

The biometric probabilities are calculated according to the current “Heubeck reference tables 2005 G” or similar foreign mortality tables. Reinsurance policies have been concluded to a minor extent for some of the reported pension commitments. Pension commitments in France are covered by plan assets which may be used to settle the Group’s pension obligations in that country.

21 | Special items for investment grants

Government grants for assets are shown in the special items for investment grants as deferred income. From the point of view of income, investment allowances and investment subsidies are recognised pro rata temporis through their release in accordance with the depreciation period for the subsidised investment assets.

22 | Accruals

Accruals are established insofar as a legal or constructive obligation has resulted from a past event. This is subject to the requirement that this obligation is expected to lead to a future outflow of assets which can be reliably estimated. In case of a level of probability which is greater than 50 %, the respective item will be recognised on the basis of the settlement amount with the highest possible probability of realisation. Accruals for obligations which are not expected to already result in an outflow in the following year are recognised in the amount of the present value of the expected outflow, if such accruals are significant. The discount rates correspond to the normal capital market rates. The value of the accruals is reviewed on each balance sheet date.

23 | Share-based payment

IFRS 2 is complied with in respect of the balance-sheet treatment of stock option plans. The fair value of the options as of the grant date is determined upon the basis of market prices (prices of Deutsche Börse AG, Frankfurt) with consideration of the terms of issue as well as generally recognised valuation techniques for financial instruments. The exercise price, the respective term, the current market value of the option instrument (the CEWE share), the expected level of volatility for the market price, the expected dividends on the shares and the risk-free interest rate for the terms of the options are included for the purpose of this valuation. Moreover, as specific requirements for the exercise of the option the beneficiaries comply with the necessary waiting period (lockup period) and, where applicable, exercise the option as early as possible. In the following financial reporting, the determined value of the stock options is apportioned to the term as expense, with consideration of the assumed service period and the level of fluctuation in the beneficiaries. Option premiums received within the scope of the options issued are recognised in retained earnings.

24 | Research and non-capitalisable development costs

Research and non-capitalisable development costs are recognised in profit or loss at the time of their occurrence.

25 | Contingent liabilities and contingent assets

Contingent liabilities are liabilities resulting from a possible obligation on account of a past event and whose existence depends on the occurrence or non-occurrence of one or more uncertain future events over which the company lacks complete control. Contingent liabilities may also result from a present obligation which is attributable to past events but has not been recognised in the balance sheet because

- the outflow of resources providing an economic benefit upon fulfilment of this obligation is not probable or

- the value of this obligation cannot be estimated sufficiently reliably.

If the outflow of resources providing an economic benefit for the company is not probable, no contingent liability will be disclosed.

Contingent assets are not shown in the balance sheet and will only be indicated if the accrual of an economic benefit is probable. They include possible assets which result from past events and whose existence on account of the occurrence or non-occurrence of uncertain future events – over which the company lacks complete control – is yet to be confirmed.

C. Comments on the profit and loss account

26 | Revenues

Revenues by business unit

Figures in thousands of euros	2016	Share	**2017**	**Share**
Revenues Photofinishing	452,023	76.2 %	459,349	76.6 %
Change on previous year (as %)	8.9		1.6	
Revenues Retail	54,911	9.3 %	53,003	8.8 %
Change on previous year (as %)	–9.7		–3.5	
Revenues Commercial Online Printing	83,991	14.2 %	84,011	14.0 %
Change on previous year (as %)	7.9		0.0	
Other Activities	2,171	0.4 %	3,031	**0.5 %**
Change on previous year (as %)	251		39.6	
Total revenues	**593,096**	**100.0 %**	**599,394**	**100.0 %**

Turnover largely results from sales of goods and is therefore shown by business unit in the above table.

Turnover is shown net of any sales deductions. Other revenues which have not resulted from the delivery or provision of typical goods, merchandise and services (the ordinary activities of the CEWE Group) are shown as other operating income.

27 | Other operating income

Other operating income

Figures in thousands of euros	2016	**2017**
Income from pass-through expenses	3,428	4,763
Income from the reversal of accruals	2,677	4,204
Other revenues from sales to third parties	5,398	4,157
Rental income	2,009	2,309
Reimbursement of costs own personnel	1,009	1,093
Income from currency translation	1,327	933
Income from default charges	396	506
Income from the receipt of impaired receivables	654	385
Income from insurance indemnification	241	162
Additional other operating income	3,630	4,648
Total other operating income	**20,769**	**23,160**

In particular, income from pass-through expenses includes passed-on charges for sales aids, advertising services and logistics and other transport services.

Other revenues from sales to third parties comprise revenues from sales of aluminium from the resale of the printing plates used in offset printing and revenue from the sale of property, plant and equipment.

Income from currency translation mainly comprises profits resulting from exchange rate changes between the time of accrual and the time of payment or from measurement of monetary items at the exchange rate as of the reporting date. Exchange rate losses resulting from such transactions are shown under other operating expenses (see item C 30).

Income from the release of accruals comprises various individual items within the scope of ordinary activities. Accruals are reversed if, in view of the circumstances prevailing as of the balance sheet date, they are no longer expected to be used or are only expected to be used to a marginal degree.

The additional other operating income includes non-period income as well as additional positions not allocable to other items referred to in the notes.

28 | Cost of materials

Cost of materials

Figures in thousands of euros	2016	**2017**
Expenses for raw materials and supplies and	– 147,674	– 148,185
for purchased merchandise	– 20,906	– 20,260
Expenses for purchased services	**– 168,580**	**– 168,445**

Expenses for raw materials and supplies and for purchased merchandise comprise, in particular, supplies of photographic paper, photo bags, chemicals and other packaging in the Photofinishing business unit, while in the Commercial Online Printing business unit expenses are mainly reported for printing plates, paper and freight costs. For the Retail business unit, this item comprises supplies of merchandise.

Expenses for purchased services include third-party work in the Photofinishing and Commercial Online Printing business units.

29 | Personnel expenses

Personnel expenses

Figures in thousands of euros	2016	**2017**
Wages and salaries	– 126,620	– 132,504
Social security contributions	– 23,619	– 25,301
Expenses for pensions and support	– 3,128	– 2,474
Total personnel expenses	**– 153,367**	**– 160,279**

Wages paid to manual workers amount to 37,565 thousand euros (previous year: 37,368 thousand euros), while salaries of non-manual employees amount to 79,231 thousand euros (previous year: 75,769 thousand euros). In the personnel expenses item, no expenses have arisen for redundancy plans in 2017 (previous year: 130 thousand euros).

Expenses for pensions and support mainly comprise allocations to pension accruals; pension accruals for members of the executive bodies of the general and managing partner Neumüller CEWE COLOR Stiftung, Oldenburg, have decreased by 4,995 thousand euros (previous year: increase of 1,370 thousand euros). Please also see the comments regarding non-current accruals for pensions (see item D56).

Number of employees

	2016	2017
Non-manual employees	2,088	2,170
Manual employees	1,283	1,297
Total employees	**3,371**	**3,467**

Number of employees by business unit

	2016	2017
Photofinishing	2,229	2,282
Retail	533	552
Commercial Online Printing	566	580
Other Activities	43	53
Total employees	**3,371**	**3,467**

The above figures are annual averages. As of December 31, 2017, the Group had a total of 3,967 employees (December 31, 2016: 3,831 employees).

Initial measurement of the stock option plans is on the basis of the parameters outlined in the following table:

Parameters for stock option plans

	2014	2015	2016
Fair value in thousands of euros	799	948	1,924
Other personnel expenses p. a. in thousands of euros	200	237	481
End of lockup period	December 31, 2018	December 31, 2019	December 31, 2020
Performance target as % of underlying price	120 %	120 %	125 %
Exit rate	3.00 %	3.00 %	3.00 %
Risk-free interest rate	0.002 %	– 0.04 %	– 0.52 %
Historical volatility	27.56 %	28.42 %	27.99 %

The fair values resulting from the initial measurement of the stock option plans (IFRS 2.10 ff.) are accrued pro rata temporis up to the end of the relevant lockup period and recognised as "other personnel expenses". Reserves are entered for them in equity. On the structure of the stock option plans, we refer to the comments regarding the Group's equity (see item D52). A Monte Carlo simulation has been used for these measurements. A log-normal distribution-based process has been simulated for the price of the CEWE share so as to map the performance target in the form of an increase in the average closing price on the underlying price on ten consecutive trading days.

The simulations also included the possibility of early exercise – with due consideration of the respective exercise windows – and also the beneficiaries' early exercise behaviour, in line with a modified version of the approach proposed by Hull and White. The simulation assumed that, upon expiry of the lockup period, every year through a percentage exit rate stock options are exercised immediately upon this becoming possible due to the beneficiary leaving the company. A risk-free interest rate was assumed for the period up to the key date of December 30 of the relevant year. The calculation used discrete dividends; publicly available estimates were used as the basis for calculation. Finally, the historical level of volatility was considered and recognised for December 30 of the current year. The Group did not make any direct support payments.

30 | Other operating expenses

Other operating expenses

Figures in thousands of euros	2016	2017
Selling expenses	– 122,309	– 123,811
Administrative expenses	– 24,466	– 27,040
Costs of premises	– 20,706	– 20,746
Operating costs	– 11,816	– 10,023
Motor vehicle costs	– 3,227	– 3,421
Depreciation and valuation adjustments for current assets	– 1,740	– 3,315
Currency translation expenses	– 1,393	– 1,603
Additional operating expenses	– 16,251	– 15,567
Total other operating expenses	**– 201,908**	**– 205,526**

The key selling expense items comprise transport service expenses, shipping costs for brand and mail-order business in the Photofinishing business unit and marketing expenses. Valuation adjustments on current assets mainly comprise individual valuation adjustments on receivables (2017: 1,716 thousand euros, 2016: 772 thousand euros), which have resulted from an assessment of the loss of future returns.

The indicated exchange rate losses mainly comprise currency losses resulting from exchange rate changes between the time of accrual and the time of payment and from measurement at the exchange rate as of the reporting date. Exchange rate gains resulting from these transactions are shown under other operating income (see item C27).

In the year under review, as well as the costs of external services and personnel in the amount of 1,896 thousand euros (previous year: 1,795 thousand euros), other operating expenses also include losses from the disposal of fixed assets in the amount of 418 thousand euros (previous year: 1,161 thousand euros).

Auditor's fees

Figures in thousands of euros	2016	**2017**
Audit services for financial statements	238	253
Other confirmation services	64	73
Other services	80	34
Total	**382**	**360**

The fees for auditing of financial statements mainly comprise payments for the audit of the consolidated financial statements and the separate financial statements of CEWE Stiftung & Co. KGaA, Oldenburg, and its German subsidiaries. The fees for other confirmation services relate to the auditor's review of the quarterly financial statements and of the summarised non-financial declaration.

31 | Amortisation of intangible assets, depreciation of property, plant and equipment

The breakdown of depreciation and amortisation and non-scheduled depreciation and amortisation is shown in the analysis of fixed assets. In the financial year 2017, non-scheduled goodwill amortisation was recognised in the amount of 0 thousand euros (previous year: 6,836 thousand euros).

32 | Restructuring expenses

In the previous year, the Photofinishing business unit incurred restructuring expenses in the amount of 186 thousand euros for the consolidation of plants.

Possible expenses resulting from the closure of individual unprofitable retail branches are not restructuring expenses within the meaning of IAS 37. They are operating expenses arising within the course of the normal financial year.

33 | Financial income and financial expenses

Financial income / financial expenses

Figures in thousands of euros	2016	**2017**
Income from equity investments	33	258
Other interest and similar income	852	199
Financial income	**885**	**457**
Interest and similar expenses	–1,703	–790
Financial expenses	**–1,703**	**–790**

Other interest and income include income recognisable in profit or loss from the fair value measurement of derivatives in the amount of 30 thousand euros (previous year: 33 thousand euros). Interest and similar expenses include expenses recognisable in profit or loss from the fair value measurement of put options in the amount of 339 thousand euros (previous year: 1,111 thousand euros).

34 | Income taxes

Current and deferred expenses for income taxes

Figures in thousands of euros	2016	**2017**
Figures in thousands of euros[1]	– 14,766	– 15,974
Current foreign taxes[2]	– 1,629	– 1,645
Current total taxes	**– 16,395**	**– 17,619**
Deferred German taxes	1,148	2,358
Deferred foreign taxes	– 587	– 56
Deferred total taxes	**561**	**2,302**
Total income taxes	**– 15,834**	**– 15,317**
[1] of which not relating to the period – Germany	– 1,987	—
[2] of which not relating to the period – other countries	– 133	215

In Germany, income taxes include corporate income tax plus the solidarity surcharge and trade tax. In other countries, this item comprises similar income taxes of the subsidiaries.

No significant effects have resulted from tax rate changes or from the introduction of new German or foreign taxes.

The volume of income tax expenses shown can be calculated on the basis of the expected income tax expenses as follows:

Reconciliation of income tax expenses

Figures in thousands of euros	2016	**2017**
Earnings before taxes	46,197	48,882
Theoretical tax rate (as %)	30.0	30.0
Theoretical tax rate	13,859	14,665
Expected income tax expenses		
Increase / reduction of income tax burden due to:	0	– 34
Deviation resulting from different assessment bases		
– Tax-free income (-)	– 344	– 402
– Other tax additions and deductions	249	207
– Non-deductible expenses (+)	603	918
– Depreciation of items not deductible for tax purposes	2,419	0
Recognition and measurement of deferred taxes		
– Non-recognition of deferred tax assets on loss carry-forwards	1,379	1,073
– Revaluation / subsequent recognition of deferred taxes		– 1,037
Non-period effects		
– Use of loss carry-forwards not reported in the balance sheet (-)	– 108	– 336
– Other non-period effects	– 2,232	196
Other effects	9	67
Income tax expenses shown	**15,834**	**15,317**

For the overall income tax burden, a theoretical tax rate of 30.0 % (previous year: 30.0 %) is assumed. This comprises a tax rate of 15.0 % for corporate income tax (previous year: 15.0 %), 5.5 % for the solidarity surcharge levied on the corporate income tax liability (previous year: 5.5 %) and a lump-sum average of approx. 14.0 % for trade tax (previous year: 14.0 %) plus marginal rounding-off.

Deferred tax assets and liabilities shown in the balance sheet resulted for discrepancies in value for the following balance sheet positions and for loss carry-forwards:

Classification of deferred tax items

Figures in thousands of euros	31.12.2016 Deferred tax assets	31.12.2016 Deferred tax liabilities	**31.12.2017 Deferred tax assets**	**31.12.2017 Deferredtax liabilities**
Loss carry-forwards and tax credits	677	–	1,393	–
Property, plant and equipment	195	– 823	494	– 464
Intangible assets	681	– 2,556	389	– 1,335
Inventories	168	–	173	– 2
Receivables and other assets	297	–	8	– 158
Special item for investment grants (investment subsidies)	124	–	103	–
Pension accruals	4,767	–	4,960	–
Other accruals	218	– 319	277	– 292
Other liabilities	425	–	756	–
Deferred taxes on temporary differences	**7,552**	**– 3,698**	**8,553**	**– 2,251**
Netting	**– 780**	**780**	**– 711**	**711**
Balance sheet item	**6,772**	**– 2,918**	**7,842**	**– 1,540**

In the past financial year and the previous year, with the exception of a portion of the deferred tax assets any changes in deferred tax assets and liabilities were measured in profit and loss in the pension accruals item. In the past financial year, the change in deferred tax assets not affecting net income amounted to – 143 thousand euros (previous year: – 175 thousand euros) for the pension accruals.

The total amount carried forward for tax losses not yet used is 46,984 thousand euros (previous year: 43,859 thousand euros) and mainly relates to CEWE's subsidiary in France. Deferred tax assets have been reported in the balance sheet for tax loss carry-forwards in the total amount of 4,866 thousand euros (previous year: 2,684 thousand euros). For the capitalisation of deferred taxes on loss carry-forwards, future realisability is key. This mainly depends on future taxable profits in periods in which tax loss carry-forwards can be claimed. For the purpose of capitalisation, profit expectations are assumed which are considered to be more probable than not. Of these loss carryforwards, 46,061 thousand euros (previous year: 43,076 thousand euros) may be carried forward without any limit. The remaining loss carry-forwards may be carried forward until 2021 at the latest.

Total income tax expense recognised in equity

Figures in thousands of euros	2016	**2017**
Income tax expense recognised in profit and loss account	– 15,834	– 15,317
Tax expense directly recognised in equity	175	143
Total income tax expense recognised in equity	**– 15,659**	**– 15,174**

35 | Earnings per share

Earnings per share

Figures in thousands of euros	2016	**2017**
Earnings after taxes	30,363	33,565
Weighted average number of shares, undiluted (in units)	7,145,871	7,143,976
Undiluted earnings per share (in euros)	**4.25**	**4.70**
Earnings after taxes	30,363	33,565
Weighted average number of shares, diluted (in units)	7,145,871	7,143,976
Diluting effect of stock options issued	35,503	83,729
Diluted earnings per share (in euros)	**4.23**	**4.64**

Undiluted earnings per share are calculated as the ratio of earnings after taxes and the weighted average number of shares outstanding during the financial year less treasury shares.

For purposes of comparison, diluted earnings per share as of December 31, 2017 have also been indicated. Treasury shares are not included in the calculation of diluted earnings per share.

D. Comments on the balance sheet

Total fixed assets of CEWE Stiftung & Co. KGaA

Development in 2017

Figures in thousands of euros	Property, plant and equipment	Investment properties	Goodwill	Intangible assets	Non-current financial assets	**Total**
Acquisition and production costs						
As of Jan. 1	**351,114**	**22,423**	**74,656**	**107,291**	**6,732**	**562,216**
Changes to the scope of consolidation	– 11	—	—	—	—	– 11
Currency translation adjustments	763	—	—	– 125	—	638
Additions	52,171	14,564	—	5,472	654	72,861
Disposals	– 13,348	—	– 6,429	– 426	—	– 20,203
Transfers	– 4	– 4,884	—	4	—	– 4,884
As of Dec. 31	**390,685**	**32,103**	**68,227**	**112,216**	**7,386**	**610,617**
Depreciation						
As of Jan. 1	**226,566**	**17,507**	**48,817**	**88,051**	**557**	**381,498**
Changes to the scope of consolidation	– 11	—	—	—	—	– 11
Currency translation adjustments	351	—	—	– 105	—	246
Scheduled additions	29,085	402	—	7,061	—	36,548
Non-scheduled additions	—	—	—	3,530	—	3,530
Disposals	– 12,709	—	– 6,429	– 408	—	– 19,546
Transfers	—	– 3,666	—	—	—	– 3,666
Revaluations	– 710	—	—	—	—	– 710
As of Dec. 31	**242,572**	**14,243**	**42,388**	**98,129**	**557**	**397,889**
Book value on Dec. 31	**148,113**	**17,860**	**25,839**	**14,087**	**6,829**	**212,728**

Development in 2016

Figures in thousands of euros	Property, plant and equipment	Investment properties	Goodwill	Intangible assets	Non-current financial assets	**Total**
Acquisition and production costs						
As of Jan. 1	**329,750**	**22,273**	**74,656**	**105,422**	**4,816**	**536,917**
Changes to the scope of consolidation	– 929	—	—	– 35	—	– 964
Currency translation adjustments	44,609	150	—	5,061	574	50,394
Additions	– 22,292	—	—	– 3,181	– 1	– 25,474
Disposals	– 24	—	—	24	1,343	1,343
Transfers	**351,114**	**22,423**	**74,656**	**107,291**	**6,732**	**562,216**
As of Dec. 31						
Depreciation	**221,194**	**17,141**	**41,981**	**81,853**	**557**	**362,726**
As of Jan. 1	– 601	—	—	62	—	– 539
Currency translation adjustments	26,224	366	—	8,610	—	35,200
Scheduled additions	702	—	6,836	549	—	8,087
Non-scheduled additions	– 20,953	—	—	– 3,023	—	– 23,976
Disposals	**226,566**	**17,507**	**48,817**	**88,051**	**557**	**381,498**
As of Dec. 31	**124,548**	**4,916**	**25,839**	**19,240**	**6,175**	**180,718**

36 | Property, plant and equipment

On the development of the fixed assets, please see the attached analysis of fixed assets. The scheduled depreciations indicated here and the non-scheduled depreciations of fixed assets are shown in the profit and loss account under amortisation of intangible assets and depreciation of property, plant and equipment.

The book value of property, plant and equipment used only temporarily is of lesser importance. The same applies for property, plant and equipment which is definitively no longer used. It is assumed that the fair value of property, plant and equipment does not significantly deviate from its book value. The Group does not have any pledged property, plant and equipment. Obligations for the purchase of property, plant and equipment (commitments) amount to 7,255 thousand euros (previous year: 2,719 thousand euros).

Borrowing costs capitalised in the period amount to 19 thousand euros. The financing cost rate applied for determination of the capitalisable borrowing costs is 0.9 %.

Intragroup deliveries and services (e. g. digital printing machines, DigiFoto Maker, etc.) are calculated on the basis of market prices and also on the basis of transfer prices determined according to the arm's length principle. Fixed assets resulting from intragroup deliveries are adjusted for interim results. For consolidation measures recognised in profit or loss, the income tax effects are considered and deferred taxes are recognised accordingly.

Development of property, plant and equipment in 2017

Figures in thousands of euros	Land, leasehold rights and buildings, incl. buildings on third-party land	Technical equipment and machinery	Other equipment, furniture and fixtures	Advance payments and assets under construction	Total
Acquisition and production costs					
As of Jan. 1	**52,726**	**212,141**	**75,591**	**10,656**	**351,114**
Changes to the scope of consolidation	—	—	– 11	—	– 11
Currency translation adjustments	658	394	– 295	6	763
Additions	19,232	18,673	8,454	5,812	52,171
Disposals	– 249	– 10,363	– 2,728	– 8	– 13,348
Transfers	4,450	5,099	311	– 9,864	– 4
As of Dec. 31	**76,817**	**225,944**	**81,322**	**6,602**	**390,685**
Depreciation					
As of Jan. 1	**24,620**	**145,465**	**56,481**	**—**	**226,566**
Changes to the scope of consolidation	—	—	– 11	—	– 11
Currency translation adjustments	239	373	– 261	—	351
Scheduled additions	1,816	18,642	8,627	—	29,085
Disposals	– 203	– 9,872	– 2,634	—	– 12,709
Revaluations	—	– 710	—	—	– 710
As of Dec. 31	**26,472**	**153,898**	**62,202**	**—**	**242,572**
Book value on Dec. 31	**50,345**	**72,046**	**19,120**	**6,602**	**148,113**

Development of property, plant and equipment in 2016

Figures in thousands of euros	Land, leasehold rights and buildings, incl. buildings on third-party land	Technical equipment and machinery	Other equipment, furniture and fixtures	Advance payments and assets under construction	Total
Acquisition and production costs					
As of Jan. 1	**49,433**	**203,058**	**74,928**	**2,331**	**329,750**
Changes to the scope of consolidation	—	—	—	—	—
Currency translation adjustments	– 171	– 785	29	– 2	– 929
Additions	3,311	23,515	8,607	9,176	44,609
Disposals	– 158	– 14,172	– 7,962	—	– 22,292
Transfers	311	525	– 11	– 849	– 24
As of Dec. 31	**52,726**	**212,141**	**75,591**	**10,656**	**351,114**
Depreciation					
As of Jan. 1	**23,210**	**142,285**	**55,699**	**—**	**221,194**
Currency translation adjustments	– 35	– 659	93	—	– 601
Scheduled additions	1,561	16,348	8,315	—	26,224
Non-scheduled additions	0	686	16	—	702
Disposals	– 125	– 13,197	– 7,631	—	– 20,953
Transfers	9	2	– 11	—	—
As of Dec. 31	**24,620**	**145,465**	**56,481**	**—**	**226,566**
Book value on Dec. 31	**28,106**	**66,676**	**19,110**	**10,656**	**124,548**

37 | Investment properties

Investment properties comprise commercial properties in Bad Schwartau, Berlin and the parts of the Dresden production plant site which are leased to third parties and are no longer used by the Group. In accordance with IAS 40, these buildings no longer used by the Group are measured at amortised cost. The underlying expected useful lives for scheduled straight-line depreciation are between 25 and 50 years. Additions in the financial year consist of subsequent acquisition costs in the amount of 424 thousand euros (previous year: 150 thousand euros) and the leased part of the Dresden production plant site in the amount of 14,140 thousand euros. In the financial year, rent income amounted to 1,458 thousand euros (previous year: 1,255 thousand euros). Including depreciation, maintenance and incidental costs, expenses for the leased properties amounted to 1,279 thousand euros (previous year: 1,214 thousand euros).

The fair value of these investment properties is 19,952 thousand euros (previous year: 11,183 thousand euros). In principle, the fair value is calculated at Level 3 (of the fair value hierarchy levels according to IFRS 13). The fair value as of the balance sheet date has been calculated on the basis of an opinion prepared by external, independent real estate experts in 2017. The expert who provided this assessment has relevant professional qualifications and current experience in relation to the location and type of the assessed real estate. For calculation of the fair value as of the balance sheet date, the calculation provided in this opinion has been internally restated in line with the current circumstances.

Development of investment properties

Figures in thousands of euros	2016	**2017**
Acquisition and production costs		
As of Jan. 1	**22,273**	**22,423**
Additions	150	14,564
Transfers	–	– 4,884
As of Dec. 31	**22,423**	**32,103**
Depreciation		
As of Jan. 1	**17,141**	**17,507**
Scheduled additions	366	402
Transfers	–	– 3,666
As of Dec. 31	**17,507**	**14,243**
Book value on Dec. 31	**4,916**	**17,860**

Reclassification from investment properties to “Assets held for sale”

Figures in thousands of euros	Acquisition and production costs reclassifications	Depreciation reclassifications	**Book value Dec. 31, 2017**
Property, plant and equipment			
Land, leasehold rights and buildings, incl. buildings on third-party land	– 4,078	– 2,859	– 1,219
Technical equipment and machinery	– 806	– 806	0
	– 4,884	**– 3,666**	**– 1,219**

38 | Goodwill

Goodwill results from the acquisition of businesses. The figures for each business unit have developed as follows:

Development of goodwill in 2017

Figures in thousands of euros	Photofinishing	Retail	Commercial Online Printing	Other Activities	Total
Acquisition and production costs					
As of Jan. 1	5,996	366	19,477	–	25,839
As of Dec. 31	**5,996**	**366**	**19,477**	**–**	**25,839**

Development of goodwill in 2016

Figures in thousands of euros	Photofinishing	Retail	Commercial Online Printing	Other Activities	Total
As of Jan. 1	8,993	366	19,477	3,839	32,675
Non-scheduled depreciation	– 2,997	–	–	– 3,839	– 6,836
As of Dec. 31	5,996	366	19,477	0	25,839

For the CEWE Group, key items of goodwill have been assigned to the following cash-generating units as of the balance sheet date:

Business unit and cash-generating unit

Figures in thousands of euros	Goodwill
Commercial Online Printing Saxoprint	17,809
Commercial Online Printing Viaprinto	1,668
Photofinishing Diginet	2,874
Photofinishing DeinDesign	2,515

Within the scope of the impairment test, the recoverable amount is determined by calculating the value in use. Cash flow forecasts are used for this purpose which are based on the approved business planning figures. Cash flows are extrapolated beyond a period of five years on the basis of the growth rates indicated below.

In the following, the long-term growth rate and discount rate is indicated for the value-in-use calculation for each cash-generating unit with significant goodwill. The recoverable amount in case of valuation adjustments is also indicated.

2017

Figures as %	SAXOPRINT	viaprinto	Diginet	DeinDesign	futalis
Long-term growth rate	1.0	1.0	0.75	0.75	–
Pre-tax interest rate	11.4	11.4	8.9	8.0	–

2016

Figures as %	SAXOPRINT	viaprinto	Diginet	DeinDesign	futalis
Long-term growth rate	1.0	1.0	0.75	0.75	2.0
Pre-tax interest rate	7.7	7.7	6.8	5.8	8.3

The range of discount rates before taxes in the respective business units is as follows:

Business units 2017

	Goodwill Figures *in thousands of euros*	**Range of discount rate** *Figures as %*
Photofinishing	5,996	7.2 – 11.0
Retail	366	8.1 – 9.6
Commercial Online Printing	19,477	11.4
Other Activities	0	9.8
Total	**25,839**	**7.2 – 11.4**

Business units 2016

	Goodwill Figures *in thousands of euros*	Range of discount rate *Figures as %*
Photofinishing	5,996	5.8 – 9.2
Retail	366	5.9 – 7.2
Commercial Online Printing	19,477	7.6 – 8.9
Other Activities	0	8.3
Total	**25,839**	**5.8 – 9.2**

The estimates made are considered appropriate in relation to the expected useful life of specific assets, assumptions regarding the macroeconomic environment and developments in the industries in which CEWE is active and the estimated present values of future cash flows. Nonetheless, revised assumptions or changed circumstances may necessitate corrections which may lead to additional valuation adjustments or, in case of a reversal in the envisaged trends, reversals in value if this does not involve goodwill.

Within the scope of a sensitivity analysis for cash-generating units or groups of cash-generating units to which goodwill has been assigned, a 10 % reduction in EBIT margins for the perpetual annuity and a one percentage point increase in the discount rate have been assumed. On this basis, no impairment requirement applies for the cash-generating units or for any group of cash-generating units.

39 | Intangible assets

Software and similar industrial property rights comprise purchased ERP software, various office products for workstations and newly and subsequently capitalised items for proprietary intangible assets, for internal use and to support the market in the areas of production, distribution and Commercial Online Printing. Within the scope of the Group's proprietary software, own work has been capitalised at a value of 577 thousand euros (previous year: 379 thousand euros).

On the basis of the impairment test, non-scheduled depreciation has been recognised in the amount of 3,530 thousand euros (previous year: 549 thousand euros).

For intangible assets, the Group had commitments in the amount of 107 thousand euros (previous year: 397 thousand euros).

CEWE currently has customer bases, customer lists and trademark rights in its three business units Photofinishing, Retail and Commercial Online Printing. The other customer bases, customer lists and trademark rights derive from previous purchases of smaller competitors. In CEWE's opinion, while these items are important for the development of the company's business they are not decisive in any single instance.

Non-capitalised research & development expenses for intangible and other assets amount to 14,025 thousand euros (previous year: 12,369 thousand euros). They mainly comprise personnel expenses and other operating expenses.

Development of intangible assets in 2017

Figures in thousands of euros	Purchased software	Proprietary intangible assets	Customer base, customer lists and trademark rights	Advance payments made	Total
Acquisition and production costs					
As of Jan. 1	54,661	21,878	29,930	822	107,291
Currency translation adjustments	– 142	–	17	–	– 125
Additions	3,646	577	77	1,172	5,472
Disposals	– 243	– 181	–	– 2	– 426
Transfers	608	404	–	– 1,008	4
As of Dec. 31	58,530	22,678	30,024	984	112,216
Depreciation					
As of Jan. 1	43,317	20,414	24,320	–	88,051
Currency translation adjustments	– 132	–	27	–	– 105
Scheduled additions	4,742	754	1,565	–	7,061
Non-scheduled additions	1,778	–	1,752	–	3,530
Disposals	– 242	– 166	–	–	– 408
As of Dec. 31	49,463	21,002	27,664	–	98,129
Book value on Dec. 31	9,067	1,676	2,360	984	14,087

Development of intangible assets in 2016

Figures in thousands of euros	Purchased software	Proprietary intangible assets	Customer base, customer lists and trademark rights	Advance payments made	Total
Acquisition and production costs					
As of Jan. 1	51,314	21,396	32,492	220	105,422
Currency translation adjustments	71	–	– 106	–	– 35
Additions	3,652	379	12	1,018	5,061
Disposals	– 705	– 1	– 2,468	– 7	– 3,181
Transfers	329	104	–	– 409	24
As of Dec. 31	54,661	21,878	29,930	822	107,291
Depreciation					
As of Jan. 1	37,925	19,613	24,315	–	81,853
Currency translation adjustments	76	–	– 14	–	62
Scheduled additions	5,757	685	2,168	–	8,610
Non-scheduled additions	114	116	319	–	549
Disposals	– 555	–	– 2,468	–	– 3,023
As of Dec. 31	43,317	20,414	24,320	–	88,051
Book value on Dec. 31	11,344	1,464	5,610	822	19,240

40 | Financial assets

The Group's financial assets include interests in other equity investments in the amount of 6,491 thousand euros (previous year: 5,852 thousand euros). Other loans in the amount of 338 thousand euros (previous year: 323 thousand euros) mainly comprise the repurchase value of the company's reinsurance policy.

Development of non-current financial assets in 2017

Angaben in TEuro	Non-current interests in affiliates	Non-current equity investments	Non-current other loans	Total
Acquisition and production costs				
As of Jan. 1	43	6,366	323	6,732
Additions	–	639	15	654
As of Dec. 31	43	7,005	338	7,386
Depreciation				
As of Jan. 1	18	539	–	557
As of Dec. 31	18	539	–	557
Book value on Dec. 31	25	6,466	338	6,829

Development of non-current financial assets in 2016

Angaben in TEuro	Non-current interests in affiliates	Non-current equity investments	Non-current other loans	Total
Acquisition and production costs				
As of Jan. 1	43	4,465	308	4,816
Additions	–	558	16	574
Disposals	–	–	-1	-1
Transfers	–	1,343	–	1,343
As of Dec. 31	43	6,366	323	6,732
Depreciation				
As of Jan. 1	18	539	–	557
As of Dec. 31	18	539	–	557
Book value on Dec. 31	25	5,827	323	6,175

41 | Non-current receivables and assets

Non-current financial assets comprise, in particular, deposits and collateral. Non-current other receivables and assets exclusively relate to prepaid expenses and accrued income.

42 | Deferred tax assets

Deferred tax assets in 2017 Composition and development

Figures in thousands of euros	From temporary differences	From tax loss carry-forwards	Total
As of Jan. 1	**6,095**	**677**	**6,772**
Amount added	955	716	1,671
Reversals	– 601	0	– 601
As of Dec. 31	**6,449**	**1,393**	**7,842**

Deferred tax assets in 2016 Composition and development

Figures in thousands of euros	From temporary differences	From tax loss carry-forwards	Total
As of Jan. 1	**6,195**	**1,096**	**7,291**
Amount added	182	38	220
Reversals	– 282	– 457	– 739
As of Dec. 31	**6,095**	**677**	**6,772**

Capitalised tax assets mainly comprise valuation differences for pensions and other accruals as well as effects on earnings resulting from consolidation. Deferred taxes resulting from existing tax loss carry-forwards are only capitalised where the earnings expectations of the respective Group company enable the use of a loss with a sufficient degree of probability and within a sufficiently close period of time. In the year under review, deferred taxes in the amount of 916 thousand euros were capitalised on loss carry-forwards at the level of DeinDesign GmbH, Germany. Please see the comments on income taxes for further details (see item C34).

43 | Non-current assets held for sale

In the past financial year, the property in Nuremberg previously reported under ”investment properties“ was reclassified as held for sale. Ownership of this property is to be transferred on August 1, 2018 and has already been recorded by a notary public. No impairment requirement applied as of the reporting date.

44 | Inventories

Inventories

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**
Raw materials and supplies	17,977	21,058
Unfinished goods, work in progress	787	924
Finished goods and merchandise	28,972	28,325
Advance payments made	1,647	7
Total	**49,383**	**50,314**

The valuation adjustment on inventories amounts to 40 thousand euros (previous year: 488 thousand euros).

Depreciation of finished and unfinished goods and merchandise is included in the cost of materials item of the profit and loss account. In the past financial year, inventories of Japan Photo Holding Norge AS, Oppegård, Norway, with a book value of 274 thousand euros (previous year: 297 thousand euros) were pledged as collateral for rent deposits.

45 | Current trade receivables

Current trade receivables

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**
Trade receivables not impaired	82,580	83,900
thereof amount covered by insurance	121,550	109,120
Gross amount of impaired receivables	3,841	4,107
Valuation adjustments	2,265	3,460
Total	**84,156**	**84,547**

Directly trade-related receivables are all current in nature and are due from external third parties. Trade receivables underwent the following valuation adjustments in the course of the year:

Valuation adjustment on trade receivables

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**
As of Jan. 1	**2,654**	**2,265**
Currency translation adjustments	3	13
Amount added	1,110	2,288
Reversals	– 529	– 237
Use	– 973	– 869
As of Dec. 31	**2,265**	**3,460**

Additions to valuation adjustments are shown in the profit and loss account under the other operating expenses item, while reversals are shown within the scope of other operating income. Direct losses on trade receivables are also shown in the other operating expenses item; in the past financial year, they amounted to 1,598 thousand euros (previous year: 969 thousand euros).

In regard to the Group’s trade receivables which are neither impaired nor in default, as of the reporting date there are no indications that the debtors will fail to comply with their payment obligations. The Group has non-impaired receivables from business partners and end-consumers. In the past financial year, customer receivables of Japan Photo Holding Norge AS, Oppegård, Norway, with a book value of 102 thousand euros (previous year: 110 thousand euros) were pledged. Valuation adjustments on receivables are separately recognised from an accounting point of view; the same applies for any addition, use or reversal. A receivable is only finally written off if it may be assumed either on legal grounds or at least on the basis of other facts that this receivable is no longer collectable.

46 | Current receivables from income tax refunds

This mainly comprises refund claims for tax prepayments made in the current year for the year under review.

47 | Current financial assets

Current financial assets include the following items:

Current financial assets

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**
Creditors with debit accounts	836	488
Loans to customers	3	1
Receivables from employees	123	90
Other current financial receivables and assets	2,052	1,813
Total	**3,014**	**2,392**

48 | Other current receivables and assets

Other current receivables and assets comprise the following items:

Other current receivables and assets

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**
Current prepaid expenses	3,485	3,015
Tax refund claims	1,974	2,614
Current receivables from insurance firms	2	2
Total	**5,461**	**5,631**

49 | Cash and cash equivalents

This item comprises bank balances – all of which are due in the short term – and cash on hand. Euro balances held by various credit institutes attracted interest at a rate of 0.0 % (previous year: 0.0 %). Foreign currency balances (2017: 12,106 thousand euros, previous year: 19,042 thousand euros) attracted interest at the specifically agreed rates; they have been measured at the exchange rate as of the balance sheet date.

50 | Subscribed capital

The CEWE Group's subscribed capital and capital reserve relate to CEWE Stiftung & Co. KGaA, Oldenburg, and are recognised as if held by this company.

The company's share capital continued to amount to 19,240,052.00 euros and has been divided up into 7,400,020 bearer shares.

Each bearer share of CEWE Stiftung & Co. KGaA confers one vote. The total number of voting rights is 7,400,020.

The company's shares outstanding developed as follows:

Outstanding shares

In units	Development in the financial year 2016	**Development in the financial year 2017**
As of Jan. 1	**7,156,022**	**7,143,432**
Purchases of treasury shares	– 21,500	–
Sales of treasury shares	8,910	16,548
As of Dec. 31	**7,143,432**	**7,159,980**

51 | Authorised capital

With the consent of the Supervisory Board, in the period to June 3, 2019 the general partner is authorised to increase the company's share capital one or more times by issuing new no-par value bearer shares in return for cash and / or non-cash contributions, by a total amount not exceeding 9,620 thousand euros (authorised capital 2014). In principle, the shareholders must be granted a subscription right. The new shares may be purchased by one or more credit institutions, subject to an obligation to offer them to their shareholders for purchase. With the consent of the Supervisory Board, the general partner prescribes the terms for issuance of shares. The Supervisory Board is entitled to adjust the wording of the company's articles of association in accordance with the volume of the capital increase through authorised capital or upon expiry of the authorisation period.

52 | Stock option plans

Stock option plans since 2014

Since 2014, the Board of Management has continued to launch a new stock option plan every year (SOP 2014, SOP 2015, SOP 2016, SOP 2017). These plans are based on the resolution passed by the general meeting on June 4, 2014 and have complied with the terms indicated in this resolution. The company's Supervisory Board has passed resolutions granting the necessary consent.

All of these plans have the same structure. Each of these stock option plans has a term of five years. Upon expiry of a four-term waiting period (lockup period), the options may be exercised in the fifth year of the term. Their exercise is contingent upon achievement of the performance target, i. e. if the closing auction prices of the CEWE share in Deutsche Börse AG's Xetra trading system have at least reached (if not exceeded) the underlying price plus the applicable performance premium on ten consecutive stock exchange trading days.

The options are only exercisable and shares resulting from the option deal are only subsequently saleable within six four-week exercise periods. These exercise periods will begin as of publication of the earnings for the past financial year, as of the balance sheet press conference, as of the annual general meeting and as of the date of publication of the quarterly figures. The CEWE Group's compliance officer monitors compliance with these time limits.

These options were offered to a defined group of top-level managers and experts within CEWE Stiftung & Co. KGaA as well as other Group companies in Germany and other countries, at a premium of 0.50 euros per option. The number of options offered is limited. A maximum of 1,200 options are available for a member of the Board of Management, while for other executives and experts a lower number of options are available, depending on their management level and their proximity to the company's success.

The terms of the current stock option plans are as follows:

Structure of stock option plans

		Number of participants	Number of rights issued	Start of waiting period	End of waiting period	End of exercise period	Underlying price EUR / option	Performance premium	Performance target EUR / option
SOP 2017	Board of Management*	7	8,400	January 1, 2018	December 31, 2021	December 31, 2022			
	Other executives	**178**	**83,600**						
	Total	**185**	**92,000**				**74.00**	**125 %**	**92.50**
SOP 2016	Board of Management*	8	9,600	January 1, 2017	December 31, 2020	December 31, 2021			
	Other executives	**208**	**97,100**						
	Total	**216**	**106,700**				**74.00**	**125 %**	**92.50**
SOP 2015	Board of Management*	9	10,800	January 1, 2016	December 31, 2019	December 31, 2020			
	Other executives	**188**	**92,920**						
	Total	**197**	**103,720**				**52.00**	**120 %**	**62.40**
SOP 2014	Board of Management*	9	10,800	January 1, 2015	December 31, 2018	December 31, 2019			
	Other executives	**220**	**102,150**						
	Total	**229**	**112,950**				**53.00**	**120 %**	**63.60**

* Board of Management of Neumüller CEWE COLOR Stiftung

The stock option plans must be assessed in accordance with IFRS 2.10 ff. The fair value must be accrued during the waiting period (lockup period) pro rata temporis as other personnel expenses and reserves must be entered for this in equity. The values for the current plans are as follows:

Stock option plans Fair value and accrued expenses

		Fair value EUR/option	Options awarded	Fair value EUR	Income premium (EUR 0.50/option)	Accrued personnel expenses 2015	Accrued personnel expenses 2016	Accrued personnel expenses 2017	Accrued personnel expenses 2018
SOP 2017	Board of Management	20.20	8,400	169,680	4,200				
	Other executives	**20.17**	**83,600**	**1,686,212**	**41,800**				
	Total		**92,000**	**1,855,892**	**46,000**	**0**	**0**	**0**	**463,968**
SOP 2016	Board of Management	18.06	9,600	173,376	4,800				
	Other executives	**18.03**	**97,100**	**1,750,713**	**48,550**				
	Total		**106,700**	**1,924,089**	**53,350**	**0**	**0**	**481,020**	**481,020**
SOP 2015	Board of Management	9.16	10,800	98,928	5,400				
	Other executives	**9.14**	**92,920**	**849,289**	**46,460**				
	Total		**103,720**	**948,217**	**51,860**	**0**	**237,060**	**237,060**	**237,060**
SOP 2014	Board of Management	7.10	10,800	76,680	5,400				
	Other executives	**7.09**	**102,150**	**724,244**	**51,075**				
	Total		**112,950**	**800,924**	**56,475**	**199,656**	**199,656**	**199,656**	**199,656**
Total					**207,685**	**199,656**	**436,716**	**917,736**	**1,381,704**

Supervisory Board members or members of other executive bodies of CEWE Stiftung & Co. KGaA tasked with the company's supervision were awarded stock options as of the issue dates as follows:

Stock option plans

	Number of stock options in units
2017	600
2016	600
2015	600
2014	1,350

The number of stock options issued within the scope of the current plans is as follows:

Stock option plans

Figures in thousands of euros	2014	2015	2016	**2017**
Outstanding as of January 1	200,000	132,750	214,570	319,020
Expired over the course of the year	7,500	2,100	2,250	2,700
Exercised over the course of the year	172,700	19,800	0	0
Confirmed over the course of the year	112,950	103,720	106,700	92,000
Outstanding as of December 31	**132,750**	**214,570**	**319,020**	**408,320**
Exercisable as of December 31	**19,800**	**0**	**0**	**0**

53 | Capital reserve

This shows the premium which resulted from the issuance of the 600,002 bearer shares (following the 1:10 share split implemented in 1999 for 6,000,020 bearer shares) in excess of the nominal value of the shares (29,175 thousand euros), the amount allocated from the capital reduction (1,560 thousand euros), the allocation within the scope of the conversion of the atypical silent partner shares (27,868 thousand euros) which were reduced by 2,375 thousand euros through the final statement for this conversion during the financial year 2007, the premium which resulted from the exercise of the share purchase right of CEWE Stiftung & Co. KGaA (415 thousand euros) and the profit from the sale of treasury shares (12,689 thousand euros). Please see the consolidated statement of changes in equity for further details.

The capital reserve includes the fair value of the stock options issued for the stock plans which have been added to the capital reserve pro rata between the issue date and the maturity of the stock option plans, plus the withheld premiums. It also includes the effects of the issuance of staff shares.

54 | Treasury shares at acquisition cost

Treasury shares

	Total	Sale	Total	Buyback	Sale	Total	Sale	**Total**
Buyback period	Effective date Dec. 31, 2014	Jan. 1, 2015 to Dec. 31, 2015	Effective date Dec. 31, 2015	May 18, 2016 to Jul. 8, 2016	Jan. 1, 2016 to Dec. 31, 2016	Effective date Dec. 31, 2016	Jan. 1, 2017 to Dec. 31, 2017	Effective date Dec. 31, 2017
Number of treasury shares held	281,700	–37,702	243,998	21,500	–8,910	256,588	–16,548	240,040
Interest in share capital on reporting date *(thousands of euros)*	732	–97	635	58	–19	673	–49	624
Interest in share capital on reporting date *(as %)*	3.81%	–0.50%	3.30%	0.30%	–0.10%	3.50%	–0.26%	3.20%
Average purchase price per share *(euros)*	30.21	28.04	30.55	61.40	32.77	33.06	32.75	33.08
Total value of shares bought back *(thousands of euros)*	8,511	–1,057	7,454	1,320	–292	8,482	–542	7,940

Treasury shares are shown in a separate line within equity as a “contra equity position”. They are measured at their original acquisition costs and incidental acquisition costs and thus reduce the company’s equity (cost method).

On the basis of the authorisation resolution passed by the general meeting on May 28, 2008, CEWE KGaA launched a share buyback programme on June 16, 2008.

The authorisation to purchase treasury shares was renewed by the resolution passed by the general meeting on May 31, 2017 and is now valid until May 30, 2022. The authorisation to purchase treasury shares which was resolved by the general meeting on June 4, 2014 expired once this new authorisation became effective.

In the financial year 2011, within the scope of the company’s employee shares programme a total of 10,890 no-par value shares were sold to employees and a further 248,787 no-par value shares were bought back in the period to October 28, 2011, pursuant to the general meeting’s authorisation resolution of June 2, 2010. This means that the company gained a total of 237,897 new treasury shares in 2011.

In the financial year 2012, a total of 15,489 no-par value shares were sold to employees as part of the company’s employee shares programme. The necessary shares were provided out of the portfolio of CEWE KGaA.

In the financial year 2013, a total of 16,796 no-par value shares were sold to employees as part of the company’s employee shares programme. The necessary shares were provided out of the portfolio of CEWE KGaA.

In the financial year 2014, a total of 10,654 no-par value shares were sold to employees as part of the company’s employee programme. The necessary shares were provided out of the portfolio of CEWE KGaA. A total of 26,065 treasury shares were required in 2014 to exercise the Stock Option Plan.

In the financial year 2015, a total of 11,087 no-par value shares were sold to employees as part of the company's employee programme. The necessary shares were provided out of the portfolio of CEWE KGaA. A total of 3,800 treasury shares were required in 2014 for the exercise of the Stock Option Plan.

Moreover, in 2016 the Board of Management resolved to offer the employees of the German subsidiaries of CEWE KGaA shares in the company at a reduced price, as staff shares. A total of 8,410 shares were required for this purpose. The necessary shares were provided out of the portfolio of CEWE KGaA. A total of 21,500 treasury shares were repurchased in 2016 within the scope of the share buyback programme.

In the financial year 2017, a total of 16,548 no-par value shares were sold to employees as part of the company's employee programme. The necessary shares were provided out of the portfolio of CEWE KGaA.

CEWE KGaA's key portfolio of treasury shares under German company law as of December 31, 2017 amounted to 127,288 shares (previous year: 143,836 shares). The 112,752 shares held by CEWE COLOR Versorgungskasse e. V., Wiesbaden, are not considered treasury shares under German company law. In accordance with IAS 19, they must be included in the consolidated financial statements. The deduction for treasury shares under IAS 32 thus comprises 240,040 no-par value shares – at a total value of 7,940 thousand euros (previous year: 8,482 thousand euros).

CEWE's treasury shares developed as follows:

Development of treasury shares

	CEWE Stiftung & Co. KGaA		CEWE COLOR Versorgungskasse e. V.		CEWE Group	
in units	2016	**2017**	2016	**2017**	2016	**2017**
As of Jan. 1	**131,246**	**143,836**	**112,752**	**112,752**	**243,998**	**256,588**
Purchases of treasury shares	21,500	–	–	–	21,500	–
Sales of treasury shares	–8,910	–16,548	–	–	–8,910	–16,548
As of Dec. 31	**143,836**	**127,288**	**112,752**	**112,752**	**256,588**	**240,040**

55 | Retained earnings and unappropriated profits

Unappropriated profits correspond to the item “Generated Group equity” and comprise the respective earnings after taxes net of the dividend paid for 2016. The unappropriated profits of CEWE KGaA under commercial law are key for distribution purposes. As of December 31, 2017, following the allocation to the retained earnings under § 58 (2) of the German Stock Corporation Act the unappropriated profits of CEWE KGaA amount to 29,494 thousand euros (previous year: 26,613 thousand euros). Payout freezes apply for the company's treasury shares (2017: 127,288 no-par value shares; previous year: 143,836 no-par value shares). In 2017, dividends were paid for a total amount of 12,890 thousand euros (previous year: 11,468 thousand euros). This corresponds to a distribution of 1.80 euros (previous year: 1.60 euros) per no-par value share conferring a dividend entitlement.

For the components of other retained earnings, please see the consolidated statement of changes in equity. The compensating item from currency translation relates to all of the foreign-currency differences resulting from translation of the financial statements of the Group's foreign enterprises. In the past financial year and in the previous year, income taxes not affecting net income exclusively related to the currency differences recognised without affecting net income that resulted from non-current loans between Group companies – which are included in the compensating item from currency translation – and also deferred taxes in relation to the actuarial result.

56 | Non-current accruals for pensions

Non-current pension accruals

Figures in thousands of euros	Development in the financial year 2016	**Development in the financial year 2017**
As of Jan. 1	**22,940**	**25,464**
Currency translation adjustments	–	1
Use	– 612	– 760
Amount added	3,142	2,468
Reversals	– 6	– 10
As of Dec. 31	**25,464**	**27,163**

CEWE has various types of company pension scheme commitments to its current and former employees and to their surviving dependents in Germany and France. The company's pension scheme is based on a defined-benefit system and also, to a marginal extent, on a defined-contribution system. Employees are also able to participate in schemes for the conversion of salary entitlements into pension entitlements. Accruals are measured on the basis of the projected unit credit method.

In the case of the defined-benefit scheme, the company or an external pension provider grants the beneficiaries a defined-benefit commitment; unlike in the case of defined contributions, the expenses incurred by the company are not determined in advance. In Germany, the company's commitments to the Board of Management are structured as final salary plans; in addition, several executives have been granted fixed-benefit commitments. In France, capital commitments in accordance with the employee's period of service are granted which are covered by reinsurance policies. Expenses for these commitments are apportioned across the service period of the employees, on the basis of actuarial calculations, and must be broken down into the current service cost and interest expense (the balance of interest on the obligation and income from the cover funds) in accordance with IAS 19 rev. 2011. On the respective balance sheet date (December 31 of each year), the interest rate is determined on the basis of current capital market data as well as assumptions regarding long-term trends, in accordance with the principle of the best possible estimate. CEWE has several defined-benefit plans. As a rule, it has provided aggregated details for these plans, since there are no significant deviations in terms of their respective risk exposure. Through its plans in Germany and France, the Group is generally exposed to the following actuarial risks: investment risk, interest rate risk, longevity risk and salary risk.

Investment risk: the present value of the defined-benefit obligation under the plan is calculated by means of a discount rate which is determined on the basis of the yields provided by high-quality, fixed-interest corporate bonds. If the income from the plan assets is less than this interest rate, this will result in shortage of cover for the plan.

Interest rate risk: a decrease in the discount rate will result in an increase in the Group's liability under the plan.

Longevity risk: the present value of the defined-benefit obligation under the plan is determined on the basis of the best possible estimate of the probability of death of the beneficiary employees, both during the employment relationship and thereafter. An increase in the life expectancy of beneficiary employees will result in an increase in the liability under the plan.

Salary risk: the present value of the defined-benefit obligation under the plan is determined on the basis of the future salaries of beneficiary employees. An increase in the salaries of beneficiary employees will thus result in an increase in the liability under the plan.

No other benefits for these employees are envisaged upon termination of their employment relationships.

In Germany, the company does not have any plan assets within the meaning of IAS 19 rev. 2011 to cover these benefits. In France, the realisable pension benefit is partly covered through reinsurance policies (the risks in terms of assets and liabilities are thus directly linked).

On the other hand, in case of defined contributions firmly defined contributions (e. g. in relation to the applicable level of income) are confirmed and paid. The employer does not have any other constructive obligation beyond payment of the contributions. In case of defined contributions, it is not necessary to establish accruals in the balance sheet. Only the contribution payable by the company is shown in the profit and loss account as expense.

The key parameters for defined-benefit pensions are presented below:

Development of obligations

Figures in thousands of euros	2016	**2017**
Present value of vested pension entitlements at start of financial year	23,198	25,686
Current service cost	1,323	1,530
Interest expense	457	423
Actuarial losses (+)	640	510
Payment of benefits	–660	–838
Past service cost	728	0
Present value of vested pension entitlements at end of financial year	**25,686**	**27,311**
of which directly confirmed (excl. plan assets)	24,159	25,703
of which funded with plan assets	1,527	1,608

In France, for its pension obligations the company has earmarked assets in the form of reinsurance policies.

In summary, these assets developed as follows:

Development of plan assets

Figures in thousands of euros	2016	**2017**
Fair value of plan assets at start of financial year	258	222
Expected income from plan assets	5	2
Actuarial profits (+)	3	3
Employer's contributions	6	0
Payment of benefits	–49	–79
Fair value of plan assets at end of financial year	**222**	**148**

Overall, the Group's financing status is as follows:

Financing status

Figures in thousands of euros	2016	**2017**
Present value of vested pension entitlements at end of financial year	25,686	27,311
Fair value of plan assets at end of financial year	–222	–148
Balance sheet value at end of financial year	**25,464**	**27,163**
Restatement of present value of vested pension entitlements (DBO) on basis of past experience	–458	908
Restatement of fair value of plan assets on basis of past experience	–3	**–3**

The total expenses recognised in the profit and loss account for defined-benefit pension plans (expenses less income) are as follows:

Net pension expense

Figures in thousands of euros	2016	**2017**
Current service cost	1,323	1,530
Interest expense	457	423
Expected income from plan assets	– 5	– 2
Past service cost	728	0
Total	**2,503**	**1,951**

In the financial year 2017, actuarial losses in the amount of 510 thousand euros resulted (previous year: actuarial losses in the amount of 640 thousand euros), which have been apportioned to other comprehensive income. The assumptions for actuarial measurement of the present value of the vested pension entitlements and the net pension expenses reflect circumstances in the country in which the pension plan has been established.

The calculations are based on current, actuarially determined biometric probabilities. Assumptions regarding future fluctuations on the basis of age and years of service are also included, as are probabilities within the Group of employees reaching retirement and salary and pension trends.

The following weighted measurement assumptions have resulted in relation to the present value of the vested pension entitlements:

Weighted assumptions for calculation of the present value of vested pension entitlements

Figures as %	Dec. 31, 2016	**Dec. 31, 2017**
Interest rate	1.70	1.80
Salary trend / development of vested rights	2.50	2.50
Pension trend	2.00	2.00
Fluctuation	1.50	1.50

The valid probabilities within the respective countries have been assumed as the level of biometric probability. The date of the earliest possible receipt of benefits has been assumed as the date of retirement.

The plan assets for the Group's French obligations consist of reinsurance contracts. The Group's investment strategy and the probable level of income thus reflect the stipulations in these contracts as well as statutory provisions. In 2018, contributions to the French plan are expected to amount to 0 thousand euros. The actual income from the plan assets totalled 5 thousand euros (previous year: 8 thousand euros).

Present value of obligations and fair value of plan assets

Figures in thousands of euros	2014	2015	2016	**2017**
Present value of obligations	22,183	23,198	25,686	27,311
Fair value of plan assets*	242	258	222	148
Shortfall	**21,941**	**22,940**	**25,464**	**27,163**

* Excl. the financial instruments of CEWE COLOR Versorgungskasse e. V., Wiesbaden

Restatements made on basis of past experience

Figures in thousands of euros	2014	2015	2016	**2017**
Plan liabilities	320	116	– 458	908
Plan assets	– 2	– 3	– 3	**– 3**

Sensitivity analysis

Assuming that the other assumptions remain constant, changes in one of the key actuarial assumptions of which there was a reasonable possibility as of the reporting date would have influenced the defined-benefit obligation in terms of the following amounts.

The following tables provide information on the levels of sensitivity regarding the key measurement parameters (effects on the scope of the commitment) and the expected pension benefits over the next ten financial years.

Sensitivity analysis

Figures as %	Changes	Increase	Decrease
Discount rate	1.0	– 13.7	17.5
Future salary increases	0.5	1.7	– 1.7
Future pension increases	0.5	5.5	– 5.2

Over the next ten financial years, the following payments of pension benefits are expected:

Payment of pension benefits

Figures in thousands of euros	**Amount**
2018	1,056
2019	1,107
2020	1,138
2021	1,121
2022	1,080
2023 – 2027	5,851

In the financial year 2017, the company incurred expenses for defined contributions in the amount of 3,265 thousand euros (previous year: 3,049 thousand euros). Contributions were paid to statutory or government defined-contribution plans in the amount of 10,107 thousand euros (previous year: 9,446 thousand euros). CEWE does not have any legal or constructive obligation for payment of these future benefits.

A similar volume of expenses is expected in 2018.

57 | Non-current deferred tax liabilities

Non-current deferred tax liabilities

Figures in thousands of euros	Development in the financial year 2016	**Development in the financial year 2017**
As of Jan. 1	**4,071**	**2,918**
Use	– 1,193	– 471
Amount added	40	178
Reversals	0	– 1,085
As of Dec. 31	**2,918**	**1,540**

The changes in deferred taxes mainly relate to the change in temporary differences. Deferred taxes have largely been deferred for periods of between one and five years.

58 | Non-current other accruals

Non-current other accruals in 2016

Figures in thousands of euros	Provisions for contingent losses
As of Jan. 1	**174**
Transfers	– 159
Reversals	– 15
As of Dec. 31	**0**

No provisions for contingent losses were made in 2017, since the tenancy agreement for the laboratory which was closed in Hamburg in 2002 expired on December 31, 2017.

59 | Non-current interest-bearing financial liabilities

The credit facilities negotiated in the financial year 2013 were agreed with a total of seven private banks and publicly owned banks. The loans taken up have a term of between one and four years (previous year: between one and four years). At the end of the year, the total credit line of the CEWE Group amounted to 94.6 million euros (previous year: 106.3 million euros). After deducting the total loan volume drawn down (1.6 million euros, previous year: 0.2 million euros) and allowing for the company's existing liquidity (38.8 million euros, previous year: 48.6 million euros), its liquidity potential totalled 131.8 million euros (previous year: 154.7 million euros). As well as drawn-down fixed rate loans (1.6 million euros, previous year: 0.2 million euros), the company has long-term revolving credit lines which have been granted for up to three years as well as continuously renewed one-year lines whose overall purpose is financing of the company's liquidity requirements, which fluctuate strongly over the course of a given year due to seasonal factors. In principle, no restrictions apply in relation to the use of credit lines. Insofar as they are used for financing of corporate acquisitions, the participating credit institutions must be notified if a total volume of 35 million euros is exceeded. This ensures that CEWE is likely to be able to fulfil its payment obligations.

All long-term credit commitments are subject to normal bank covenant agreements for an adjusted equity ratio of 22.5 % and net debt leverage of 3.0, in each case calculated as of the end of the financial year. No significant collateral was provided. The interest terms for current account loans are based on EONIA as the base interest rate plus a normal margin in Germany; the interest terms for almost all of the other financing arrangements are based on the one- to three-month EURIBOR as the base interest rate plus a normal margin in Germany. For further details, please see the comments on current interest-bearing financial liabilities (item D64) and the comments in the combined management report (page 119).

60 | Non-current financial liabilities

Non-current financial liabilities comprise liabilities to affiliates' residual old shareholders.

61 | Non-current other liabilities

Non-current other liabilities mainly comprise special items with a reserve element.

62 | Current tax liabilities

This position includes provision for income tax obligations. This item developed as follows:

Current tax liabilities in 2017

Figures in thousands of euros	Income taxes
As of Jan. 1	**11,254**
Currency translation adjustments	– 44
Use	– 9,276
Amount added	1,986
Reversals	– 53
As of Dec. 31	**3,867**

Current tax liabilities in 2016

Figures in thousands of euros	Income taxes
As of Jan. 1	**7,111**
Currency translation adjustments	– 6
Use	– 3,996
Amount added	8,145
As of Dec. 31	**11,254**

63 | Current other accruals

Provision for additional other liabilities relates to current legal disputes and other obligations.

Current other accruals in 2017

Figures in thousands of euros	Supervisory Board remuneration	Auditing of annual financial statements incl. internal expenses for annual financial statements	Guarantee and ex gratia payments	Archiving costs	Demography agreement	Expenses for members of the Board of Trustees	Provisions for contingent losses	Tax returns	Legal expenses	Additional other liabilities	**Total**
Balance as of Jan. 1, after restatements	**530**	**429**	**741**	**339**	**74**	**302**	**191**	**77**	**8**	**793**	**3,484**
Currency translation adjustments	—	-5	—	—	—	—	—	—	—	-1	-6
Use	-467	-397	—	—	-28	-266	—	-31	-1	-534	-1,724
Amount added	543	504	370	3	76	302	—	35	16	1,182	3,031
Reversals	-63	-20	-741	-28	-46	-36	-176	-1	-1	-143	-1,255
As of Dec. 31	**543**	**511**	**370**	**314**	**76**	**302**	**15**	**80**	**22**	**1,297**	**3,530**

Current other accruals in 2016

Figures in thousands of euros	Supervisory Board remuneration	Auditing of annual financial statements incl. internal expenses for annual financial statements	Guarantee and ex gratia payments	Archiving costs	Demography agreement	Expenses for members of the Board of Trustees	Provisions for contingent losses	Tax returns	Legal expenses	Additional other liabilities	**Total**
Balance as of Jan. 1, after restatements	**415**	**395**	**344**	**332**	**245**	**231**	**167**	**52**	**20**	**737**	**2,938**
Currency translation adjustments	—	-2	—	—	—	—	—	-1	—	-6	-9
Use	-381	-358	-1	—	-6	-212	—	-10	-1	-519	-1,488
Amount added	530	413	741	7	74	302	—	51	4	666	2,788
Transfers	—	—	—	—	—	—	159	—	—	—	159
Reversals	-34	-19	-343	—	-239	-19	-135	-15	-15	-85	-904
As of Dec. 31	**530**	**429**	**741**	**339**	**74**	**302**	**191**	**77**	**8**	**793**	**3,484**

64 | Current interest-bearing financial liabilities

Current interest-bearing financial liabilities

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**
Loans from banks	177	1,550
Bank current accounts	33	31
Total	**210**	**1,581**

Reconciliation acc. IAS 7

Figures in thousands of euros	2017			
			Non-cash	
	As of Jan. 1	Cash flow	Change to fair value	As of Dec. 31
Outstanding as of January 1	1,667	921	339	2,927
Exercisable as of December 31	1,667	921	339	2,927

65 | Current trade payables

Trade payables amount to 95,850 thousand euros (previous year: 96,064 thousand euros).

66 | Current financial liabilities

Current financial liabilities include, in particular, the key date valuation of put options.

Current financial liabilities

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**
Put option	1,111	**1,000**
Earn-out component	342	**342**
Liabilities from accrued interest expenses	4	4
Total	**1,457**	**1,346**

67 | Current other liabilities

Current other liabilities

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**
Liabilities for wages and salaries	17,239	16,474
Tax liabilities	13,166	22,197
Social security liabilities	2,097	2,328
Deferred liabilities	117	125
Other liabilities	1,877	2,204
Total	**34,496**	**43,328**

68 | Financial risk management

The Group is exposed to financial risks within the scope of its operating activities. In particular, these risks comprise liquidity, currency, interest rate and credit risks. The Group's management manages and limits these risks. They are monitored by means of the Group-wide risk management system.

Liquidity risk is the risk of the Group being unable to fulfil its financial obligations. This risk is dealt with by means of liquidity planning and cash management, through continuous monitoring and management of cash inflows and outflows. The main sources of liquidity are operating business and external financing. Cash outflows are mainly used for financing of working capital and investments.

As of December 31, 2017, the CEWE Group had the following lines of credit:

Lines of credit in 2017

Figures in millions of euros	Germany	Other countries	**Total as of Dec. 31**
Remaining term of up to 1 year	38.00	0.00	38.00
Remaining term of more than 1 year	56.60	0.00	56.60
Total	**94.60**	**0.00**	**94.60**

Lines of credit in 2016

Figures in millions of euros	Germany	Other countries	**Total as of Dec. 31**
Remaining term of up to 1 year	40.00	0.00	40.00
Remaining term of more than 1 year	66.30	0.00	66.30
Total	**106.30**	**0.00**	**106.30**

Of these credit lines, as of the reporting date 93.0 million euros (previous year: 106.1 million euros) have not been drawn down. As well as cash and cash equivalents in the amount of 38.8 million euros (previous year: 48.6 million euros), this amount is available for coverage of future liquidity requirements.

An overview of the maturities of the undiscounted cash flows for the Group's financial liabilities and its liabilities resulting from derivative financial instruments – including the related interest payments – shows the expected cash outflows as of the balance sheet date December 31, 2017:

Cash flows from financial liabilities in 2017

Figures in millions of euros	Dec. 31, 2015 Book value	Up to 1 year	More than 1 year, up to 5 years	**Total**
Amounts owed to credit institutions	1,581	1,597	0	1,597
Trade payables	95,850	95,850	0	95,850
Other financial instruments	40,978	40,999	– 26	40,973
Total	**138,409**	**138,446**	**– 26**	**138,420**

Cash flows from financial liabilities in 2016

Figures in millions of euros	Dec. 31, 2016 Book value	Up to 1 year	More than 1 year, up to 5 years	**Total**
Amounts owed to credit institutions	210	213	0	213
Trade payables	96,064	96,064	0	96,064
Other financial instruments	32,451	32,502	– 55	32,447
Total	**128,725**	**128,779**	**– 55**	**128,724**

Due to the international orientation of the CEWE Group, cash flows arise in various currencies. Currency risks result from turnover billed in a currency other than that of the related costs, the foreign-currency assets and liabilities shown in the balance sheet whose fair value may be negatively influenced by a change in exchange rates and from pending foreign-currency transactions whose future cash flows may have a negative effect due to exchange rate changes. The risk management system continuously monitors the risk positions resulting from currency risks. To limit these risks, outside the scope of deliveries and services where possible the Group reduces the volume of euro-denominated transactions for companies in non-Eurozone countries. Following a detailed review process, the company enters into hedging transactions with its house banks on a case-by-case basis for regular transactions outside the Eurozone.

The key market risk in the foreign currency segment relates to currency positions which were open as of the reporting date. The Group's Swiss, Czech and British companies have significant foreign-currency items. For the purpose of the sensitivity analysis, the corresponding foreign-currency items are measured at hypothetical exchange rates. If these three foreign currencies were to depreciate against the euro by 20 %, the following opportunities (positive values) or risks (negative values) would result:

Currency sensitivity

Figures in thousands of euros	2016	**2017**
Financial assets	– 3,436	– 3,097
Financial liabilities	2,811	2,726

If these three foreign currencies were to appreciate against the euro by 20 %, the following opportunities (positive values) or risks (negative values) would result:

Currency sensitivity

Figures in thousands of euros	2016	**2017**
Financial assets	5,153	4,646
Financial liabilities	– 4,217	– 4,090

The CEWE Group does not have any particularly significant exposure to interest rate risks in relation to third parties. Interest rate-sensitive assets comprise loans to customers and employees as well as current balances held by credit institutions. CEWE does not have any interest rate-sensitive financial liabilities as of the balance sheet date. No significant risk positions have resulted on account of the current interest rate trend. The goal of CEWE's interest rate hedging strategy is the regular conclusion of new medium- to long-term credit agreements with fixed interest rates. If the interest rates for variable interest-rate financial assets and financial liabilities were in each case to fall by 10 %, the following opportunities (positive values) or risks (negative values) would result:

Interest rate sensitivity

Figures in thousands of euros	2016	**2017**
Interest income	– 5.0	– 3.8
Interest expense	0	1.6

If the interest rates for variable interest-rate financial assets and financial liabilities were in each case to increase by 10 %, the following opportunities (positive values) or risks (negative values) would result:

Interest rate sensitivity

Figures in thousands of euros	2016	**2017**
Interest income	5.0	3.8
Interest expense	0	– 1.6

The Group entered into the following hedging transactions:

Derivatives transactions

	Nominal volume		Remaining term > 1 year		Fair value	
Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**	Dec. 31, 2016	**Dec. 31, 2017**	Dec. 31, 2016	**Dec. 31, 2017**
Interest rate swap	3,225	**3,225**	1,385	**925**	– 55	**– 26**

In the past year, the Group did not use any derivatives to hedge exchange rate risks. The nominal volume permits inferences regarding the level of use of derivatives but does not reflect the Group's risk exposure resulting from its use of derivatives. Interest rate risks for derivatives have been measured on the basis of the value-at-risk method, in line with the international bank standard. The maximum loss potential which may result from a change in market prices is calculated on the basis of historical fluctuations in value, with a confidence level of 99 % and a holding period of one day. Due to the lack of hedging relationships, derivatives have been measured at fair value in profit or loss, in accordance with the requirements of IFRS 13. The fair value of the interest rate swaps is shown in the table. According to the measurement model indicated in IFRS 13, the interest rate swaps are assignable to hierarchy Level 3, i. e. no quoted prices are used for measurement purposes, but rather measurement parameters which are either directly observable for the respective liabilities or can be indirectly derived from other prices. Financial instruments are initially measured at cost. The Group does not have any financial assets available for sale. Financial liabilities measured at fair value in profit and loss comprise derivative financial instruments. In the financial year 2017, financial assets measured at amortised cost resulted in net income / losses of 2,901 thousand euros (previous year: 1,053 thousand euros). Net income / losses resulting from the financial instruments held comprise, in particular, valuation adjustments, income from written-down receivables and the results of the fair value measurement. Dividend income and interest are not included. Net income / losses resulting from financial liabilities measured at amortised cost amount to 789 thousand euros in the financial year 2017 (previous year: 1,703 thousand euros).

The hedging transactions for the current period and for the prior period were not used for hedging of the acquisition costs or another book value for non-financial assets or non-financial liabilities. Derivative transactions will result in liquidity outflows in the amount of 16 thousand euros (previous year: 26 thousand euros) within a period of one year and outflows of 6 thousand euros (previous year: 23 thousand euros) within a period of two to three years. Interest income associated with financial instruments not measured in profit and loss at fair value amounts to 170 thousand euros (previous year: 819 thousand euros), while corresponding interest expenses amount to 451 thousand euros (previous year: 592 thousand euros). Impairment of financial instruments measured at amortised cost amounted to 1,598 thousand euros in the past financial year (previous year: 969 thousand euros); this was recognised due to depreciation of receivables.

The reconciliation of the balance sheet items with these types of financial instruments as of December 31, 2017 is as follows:

Breakdown of financial instruments Dec. 31, 2017

	Measured at amortised cost		Measured at fair value			Non-financial assets/liabilities	
			On basis of publicly quoted market prices (Level 1)	On basis of observable market data (Level 2)	On basis of individual non-observable input parameters (Level 3)		
Figures in thousands of euros	Book value	For information purposes: fair value	Book value	Book value	Book value	Book value	Book value in the balance sheet
Non-current assets							
Financial assets	6,829						6,829
Investments held to maturity	6,490						6,490
Reinsurance policy					338		338
Non-current financial assets	394						394
Loans and receivables	394	394					394
Current assets							
Trade receivables	84,547						84,547
Loans and receivables	84,547	84,547					84,547
Current financial assets	2,392						2,392
Loans and receivables	2,392	2,392					2,392
Cash and cash equivalents	38,772						38,772
Current liabilities							
Current interest-bearing financial liabilities	1,581						1,581
Measured at amortised cost	1,581	1,581					1,581
Current trade payables	95,850						95,850
Measured at amortised cost	95,850	95,850					95,850
Current financial liabilities	1,346						1,346
Measured at amortised cost	1,346	1,346					1,346
Measured at fair value							
Current other liabilities							43,328
Non-financial liabilities						43,302	43,302
Derivatives excl. hedge accounting					26		26

Breakdown of financial instruments Dec. 31, 2016

Figures in thousands of euros	Measured at amortised cost		Measured at fair value			Non-financial assets/liabilities	
			On basis of publicly quoted market prices (Level 1)	On basis of observable market data (Level 2)	On basis of individual non-observable input parameters (Level 3)		
	Book value	For information purposes: fair value	Book value	Book value	Book value	Book value	Book value in the balance sheet
Non-current assets							
Financial assets	6,175						6,175
Investments held to maturity	5,852						5,852
Reinsurance policy					323		323
Non-current financial assets	478						478
Loans and receivables	478	478					478
Current assets							
Trade receivables	84,156						84,156
Loans and receivables	84,156	84,156					84,156
Current financial assets	3,014						3,014
Loans and receivables	3,014	3,014					3,014
Cash and cash equivalents	48,557						48,557
Current liabilities							
Current interest-bearing financial liabilities	210						210
Measured at amortised cost	210	210					210
Current trade payables	96,064						96,064
Measured at amortised cost	96,064	96,064					96,064
Current financial liabilities	1,457						1,457
Measured at amortised cost	1,457	1,457					1,457
Measured at fair value							
Current other liabilities							34,496
Non-financial liabilities						34,441	34,441
Derivatives excl. hedge accounting					55		55

Financial assets not measured in accordance with IAS 39 comprise reinsurance policies. They are recognised at their actuarial present value. The book values of the other financial assets, trade receivables and cash and cash equivalents and the book values of current account liabilities, trade payables and other current financial liabilities each serve as a reasonable approximation of the respective fair values. This is mainly due to the short terms of these instruments. Risk-related valuation adjustments are considered for the calculation of book values. The Group does not have any financial receivables or liabilities held for trading purposes.

CEWE measures fixed-interest and variable-interest receivables with a remaining term of more than one year on the basis of various parameters, e. g. the interest rate and the borrower's credit rating. On the basis of this measurement, any necessary valuation adjustments are included in the calculation of the book value. A fixed-interest agreement applies for current and non-current interest-bearing financial liabilities (with the exception of current account liabilities), so that here too the book value corresponds to the fair value.

Book values are determined by means of normal bank methods.

Credit risk is the risk of a counterparty failing to fulfil its obligations, resulting in a bad debt loss. Within the scope of the Group's receivables management system, as a component of its risk management system, receivables at the level of the individual companies are subject to comprehensive monthly analysis and are notified to the Group's central management, at the level of its headquarters, as part of its del credere reporting. Loan security agreements are concluded for medium-size and major customers. If the Group does not have any insurance cover or if a deductible is applicable, individual valuation adjustments are recognised on receivables in case of objective indications that it is overwhelmingly probable that this receivable is uncollectable, either in whole or in part. The general default risk is dealt with by means of individual valuation adjustments on the basis of past experience. On December 31, 2017, the maximum credit risk resulting from debtors' potential insolvency in relation to loans and receivables amounted to 87,333 thousand euros (previous year: 87,648 thousand euros) and has the following makeup:

Credit risk

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**
Non-current receivables	478	394
Trade receivables and other current receivables	87,170	86,939
Total	**87,648**	**87,333**

Impaired loans and receivables developed as follows:

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**
Gross value	3,841	4,107
Valuation adjustment	– 2,265	– 3,460
Total	**1,576**	**647**

A further amount of 4,830 thousand euros (previous year: 6,213 thousand euros) was already overdue but had not undergone a valuation adjustment. The age structure for the Group's overdue receivables is as follows:

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**
Up to 30 days	5,326	3,194
Between 30 and 90 days	576	1,315
More than 90 days	311	321
Total	**6,213**	**4,830**

These items are very closely monitored within the scope of the Group's receivables management system. On the basis of an assessment of the individual risks, partial valuation adjustments in the amounts indicated above are sufficient. Non-impaired financial assets are considered to be recoverable. Default risks are reduced by means of continuous monitoring of customers' credit ratings and payment behaviour, in close coordination with the company's market-oriented departments, and are covered by means of insurance, where possible. Moreover, in case of irregularities in customer relationships the volume of business is managed on the basis of individual decisions. Impairment of consumer receivables is minimised by means of a professional debt collection management system as well as risk avoidance and information-gathering parameters. These automatic system settings and the additional qualitative information serves as information which is used for calculation of individual valuation allowances.

The key equity items are presented below. Net interest-bearing financial liabilities have resulted from netting of gross interest-bearing financial liabilities against the Group's cash and cash equivalents as of the balance sheet date.

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**
Total assets	380,989	406,072
Equity	204,891	227,213
Equity ratio *(as %)*	53.8 %	56.0 %
Current interest-bearing financial liabilities	210	1,581
Cash and cash equivalents	48,557	38,772
Net interest-bearing financial liabilities	–48,347	–37,191

The primary goal of the CEWE Group's capital management system is to ensure that the Group remains capable of repaying its debts and maintains its financial resources. As well as safe-guarding the long-term liquidity supply, the interest rate risk has been limited and a flexible credit structure has once again been maintained, to cover the seasonal nature of the Group's business performance over the course of the year. Apart from the conclusion of uniform covenant agreements with the Group's participating partner banks, no collateral has been provided. For further information, please see the comments in the risk report on pages 94 ff.

As the relevant key indicators, an equity ratio – slightly adjusted for all of the banks – and the ratio of net financial liabilities and the operating result before depreciation (EBITDA), net debt leverage, have been agreed. Both of these key indicators have been specified so as to leave sufficient leeway in case of future fluctuations in business performance which are normal for the industry. CEWE has not overshot or fallen below the specified threshold values either in the year under review or the reference period or during the long-term hypothetical review period. In case of a breach of covenant, the lending banks would be entitled to adjust their prices and may have a right of termination. Compliance with the agreed key indicators is continuously monitored as part of the Group's capital management system.

No capital requirements are prescribed in the articles of association of CEWE KGaA. In regard to authorised capital and the obligation to sell or issue shares in connection with stock option plans, please see the relevant passages in these notes (D 52, D 53, D 54).

E. Other disclosures

69 | Shareholdings

CEWE's proportionate interests in all of its subsidiaries included in the consolidated financial statements are shown in the following table:

Shareholdings

Shareholding as %	Dec. 31, 2016 Capital	**Dec. 31, 2017 Capital**
1. CEWE Beteiligungs GmbH, Oldenburg	100.00	100.00
2. CEWE S. A. S., Paris, France[1]	100.00	100.00
3. CEWE Belgium NV , Mechelen, Belgium[1]	100.00	100.00
4. CEWE Nederland B. V., Nunspeet, Netherlands[1]	100.00	100.00
5. CEWE Magyarország Kft., Budapest, Hungary[1]	100.00	100.00
6. CEWE COLOR a. s., Prague, Czech Republic[1]	100.00	100.00
7. CEWE a. s., Bratislava, Slovak Republic[1]	100.00	100.00
8. CEWE AG, Dübendorf, Switzerland[1]	100.00	100.00
9. CEWE Danmark Aps, Åbyhøj, Denmark[1]	100.00	100.00
10. Fotojoker Sp. z o. o., Kozle, Poland[1]	100.00	100.00
11. CEWE Sp. z o. o., Kozle, Poland[1]	100.00	100.00
12. CEWE NORGE AS, Oslo, Norway[1]	100.00	100.00
13. CEWE-PRINT NORDIC A / S, Åbyhøj, Denmark[2]	100.00	100.00
14. CEWE Sverige AB, Gothenburg, Sweden[3]	100.00	100.00
15. CEWE Zagreb d. o. o., Zagreb, Croatia[1, 8]	100.00	0.00
16. CEWE Limited, Warwick, United Kingdom[1]	100.00	100.00
17. Diginet GmbH & Co. KG, Cologne	100.00	100.00
18. Bilder-planet.de GmbH, Cologne[4, 7]	100.00	100.00
19. Diginet Management GmbH, Cologne	100.00	100.00
20. Wöltje GmbH & Co. KG, Oldenburg[5]	100.00	100.00
21. Wöltje Verwaltungs-GmbH, Oldenburg[5]	100.00	100.00
22. DIRON Wirtschaftsinformatik Beteiligungs-GmbH, Münster	100.00	100.00
23. CeWe Color Inc., Delaware, USA[1]	100.00	100.00
24. cewe-print GmbH, Oldenburg	100.00	100.00
25. Saxoprint GmbH, Dresden	100.00	100.00
26. Saxoprint Ltd., London, United Kingdom[6]	100.00	100.00
27. Saxoprint AG, Zurich, Switzerland[6]	100.00	100.00
28. Saxoprint EURL, Paris, France[6]	100.00	100.00
29. CEWE Print S. r. l., Milan, Italy[6]	100.00	100.00
30. Sell2You GmbH, Dresden[6]	100.00	100.00
31. CEWE Baski Servis ve Ticaret Limited Sirketi, Istanbul, Turkey[1]	100.00	100.00
32. DeinDesign GmbH, Bad Kreuznach	77.02	86.33
33. futalis GmbH, Leipzig	80.00	81.64

70 | Events of particular significance after the balance sheet date

In February 2018, the CEWE Group reached an agreement with the owners of the Cheerz Group (Paris) regarding an equity investment. CEWE will initially acquire approx. 80 % of the shares in the Cheerz Group for 36 million euros. This acquisition has already been completed.

No further events occurred in the period after the balance sheet date.

71 | Comments on the cash flow statement

The cash flow statement shows how the Group's cash and cash equivalents have developed during the financial years 2017 and 2016. In accordance with IAS 7, this statement distinguishes between cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. Cash and cash equivalents shown comprise the balance sheet items bank balances with a remaining term of up to three months and cash in hand including fixed deposit balances. This corresponds to the cash and cash equivalents item presented in the balance sheet.

1 Interest held through CEWE Beteiligungsgesellschaft mbH, Oldenburg
2 Interest held through CEWE Danmark Aps, Åbyhøj, Denmark
3 Interest held through CEWE Norge AS, Oslo, Norway
4 Interest held through Diginet GmbH & Co. KG, Cologne
5 Interest held through CEWE AG, Dübendorf, Switzerland
6 Interest held through Saxoprint GmbH, Dresden
7 Not included in the consolidated financial statements.
8 Liquidated in 2017

The inflows and outflows resulting from the change in financial liabilities are attributable to repayments, reclassifications due to maturity periods and loans taken up as follows:

Change in financial liabilities in 2017

Figures in thousands of euros	Current interest-bearing financial liabilities	Non-current interest-bearing financial liabilities	**Gross financial liabilities**
As of Jan. 1	**210**	**0**	**210**
Loans taken out	0	3,100	3,100
Repayments	– 179	– 1,550	– 1,729
Reclassifications	1,550	– 1,550	–
As of Dec. 31	**1,581**	**0**	**1,581**

Change in financial liabilities in 2016

Figures in thousands of euros	Current interest-bearing financial liabilities	Non-current interest-bearing financial liabilities	**Gross financial liabilities**
As of Jan. 1	**4,907**	**1,767**	**6,674**
Repayments	– 6,464	0	– 6,464
Reclassifications	1,767	– 1,767	0
As of Dec. 31	**210**	**0**	**210**

The Group did not take up any further non-current loans in 2017.

72 | Other financial obligations

The Group did not have any finance lease arrangements within the meaning of IAS 17. Nor does CEWE Stiftung & Co. KGaA, Oldenburg, act as a lessor within the scope of finance leases.

Instead, it has passive leases and tenancies which constitute operating lease arrangements in terms of their economic content, so that the leasing assets are attributable to the lessor rather than CEWE Stiftung & Co. KGaA, Oldenburg. This mainly comprises contracts for the use of production and office space, motor vehicles and also a few agreements for office equipment and IT hardware. The rents paid in the financial year amount to 15,415 thousand euros (previous year: 15,465 thousand euros). These contracts have terms of between one and 30 years. Total future minimum lease expenses incurred as the lessee under non-terminable operating lease agreements are as follows:

Lease payments

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**
Total future minimum lease payments	**91,593**	**89,987**
Due within a period of one year	16,109	12,725
Due within a period of between two and five years	55,823	48,277
Due after more than five years	19,661	28,985

Assets leased within the scope of operating leases have a total book value of 17,860 thousand euros (previous year: 4,916 thousand euros). The lease agreements do not include any clauses (e. g. extension, purchase or price adjustment options) which would give rise to an assumption of financial leasing for the lessee. Total future minimum lease income as the lessor under non-terminable operating lease agreements is as follows:

Lease income

Figures in thousands of euros	Dec. 31, 2016	**Dec. 31, 2017**
Total future minimum lease income	**8,306**	**20,459**
Due within a period of one year	1,874	2,047
Due within a period of between two and five years	5,148	6,688
Due after more than five years	1,284	11,724

This involves the leasing of commercial space as well as equipment leased to customers. The rent instalments collected in the financial year amount to 2,186 thousand euros (previous year: 1,961 thousand euros). They are shown under the item “Additional other operating income”. Any leasing components in existing contracts are registered and reported within the scope of a systematic contract management system.

73 | Segment reporting by business unit

As of these financial statements, the Group has four business units subject to mandatory reporting. Three of them are the Group’s strategic business units. They are the Photofinishing, Commercial Online Printing and Retail business units. The Group’s strategic business units offer various products and services and require different technology, investment and marketing strategies. For each strategic business unit, the Group’s Board of Management reviews internal management reports at least once every quarter. The accounting and measurement methods used for the business units subject to mandatory reporting are those outlined in section B. In principle, as between all of the companies of the CEWE Group sales and revenues generated between the business units are provided at the same prices which would also be agreed with third parties. Administrative services are calculated as cost allocations. The effects on earnings resulting from consolidation have been apportioned to the business units according to the respective cause; where necessary, they have been allocated on the basis of the best possible estimate.

There are various delivery and service relationships between the companies of the CEWE Group. Financing and funding are provided by means of cash and cash equivalents.

Turnover is divided up between the following geographical regions; turnover realised with external customers has been allocated on the basis of the geographical location of the customer’s business activities.

Figures in thousands of euros	2016	**2017**
Germany	349,736	322,901
Other countries	243,360	**276,493**

These turnover categories are Photofinishing revenue, Retail revenue and revenue from Commercial Online Printing. A breakdown of these categories is provided in the segment reporting by business unit.

In the past financial year and in the previous year, turnover with one key customer was in excess of 10 %. Revenues generated with this customer are largely attributable to the Photofinishing business unit.

The breakdown of intangible assets and property, plant and equipment is as follows for the following geographical regions:

Figures in thousands of euros	2016	**2017**
Germany	126,533	148,634
Other countries	17,255	13,566
Total	**143,788**	**162,200**

74 | Other comments

Contingent liabilities resulted from the grant of suretyships and guarantees for third parties, possible litigation risks and other issues and amounted to 1,431 thousand euros (previous year: 1,458 thousand euros). The risk of a claim under these contingent liabilities is seen as either slight or not very probable. The assessment of the respective amounts and the probability of realisation are continuously monitored. The Group does not have any contingent assets.

The following total remuneration has been paid to the active members of the Board of Management which handles management duties and to the Supervisory Board for the performance of their duties:

Remuneration received

Figures in thousands of euros	2016	2017
Fixed gross remuneration		
Fixed remuneration	2,004	1,620
Side benefits	110	128
Total fixed gross remuneration	**2,114**	**1,748**
Variable remuneration		
One-year variable remuneration	622	554
Multi-year variable remuneration		
Bonus bank	0	165
Stock Option Plans 2010 – 2015	0	0
Other items		
Total variable remuneration	**622**	**718**
Benefits upon termination of the employment relationship (pension expenses)	1,336	1,465
Total remuneration paid to Board of Management	**4,072**	**3,931**
Remuneration paid to Supervisory Board	520	605
Total remuneration paid to Board of Management and Supervisory Board	**4,592**	**4,537**

The table shows the inflow of cash in or for the past financial year and the previous year as a result of fixed remuneration, side benefits and one-year and multi-year variable remuneration as well as pension expenses. Remuneration resulting from the bonus bank relates to claims which have fallen due, plus the contractually stipulated amount of interest. The current service cost has been calculated in accordance with IAS 19; it does not represent an inflow in the narrow sense of the term but has been included to clarify the total remuneration provided.

The remuneration paid to the members of the Supervisory Board for their service on this body is stipulated in the articles of association and comprises fixed and variable components. This remuneration is exclusively granted on a short-term basis.

Other than the remuneration outlined above, no further remuneration or claims have been granted in the past financial year or the previous year but not yet reported in consolidated financial statements.

Disclosures regarding the remuneration of the individual members of the Board of Management and the Supervisory Board are provided in the remuneration report, as a component of the combined management report (pages 120ff.).

None of the active or retired members of the Board of Management has received third-party payments in relation to their service; the same applies for the members of the Supervisory Board. Loans or advance payments have not been granted in any case. Nor has the company entered into any contingent liabilities for the benefit of the members of the Board of Management or the Supervisory Board.

Members of the Supervisory Board have not provided advisory and mediation services or other personal services either in the year under review or in the previous year.

Remuneration was paid to retired members of the Board of Management in the amount of 1,398 thousand euros (previous year: 1,357 thousand euros). Pensions paid to former members of the Board of Management of Neumüller CEWE COLOR Stiftung, as the general partner of CEWE Stiftung & Co. KGaA, and the old CEWE COLOR Holding AG amount to 637 thousand euros (previous year: 496 thousand euros). Pension accruals established for these persons amount to 17,769 thousand euros (previous year: 11,180 thousand euros). CEWE does not have any obligations in relation to this group of persons for which it has failed to establish accruals.

The members of the Board of Management and the Board of Trustees of Neumüller CEWE COLOR Stiftung and the Supervisory Board, the heirs of Senator h. c. Heinz Neumüller, Oldenburg, and the affiliates of the heirs are defined as related parties of the CEWE Group. Close family members and related parties of this group of persons are also related parties of the CEWE Group.

The Group entered into transactions with other related parties in 2017. Key transactions relate to individual commercial tenancies concluded between the Group and affiliates of the heirs of Senator h. c. Heinz Neumüller, Oldenburg. The volume of services purchased amounted to 2,540 thousand euros (previous year: 2,570 thousand euros).

75 | Subsidiaries' use of exemptions

The following subsidiaries fully included in these consolidated financial statements make use of the exemption from the disclosure requirements under § 325 HGB and the exemption from the obligation to prepare a management report and notes in accordance with § 264b HGB:

- Diginet GmbH & Co. KG, Cologne
- Wöltje GmbH & Co. KG, Oldenburg

A profit and loss transfer agreement has been concluded between CEWE Stiftung & Co. KGaA and cewe print GmbH, Oldenburg. cewe print GmbH, Oldenburg, has been fully included in these consolidated financial statements and makes use of the exemption from the disclosure requirements under § 325 HGB as well as the simplified reporting options, in accordance with § 264 (3) HGB.

76 | Executive bodies of the company

Supervisory Board, including seats on supervisory boards and similar or foreign executive bodies of CEWE Stiftung & Co. KGaA

Otto Korte, Oldenburg

Lawyer / tax adviser / tax law specialist and partner of the law firm Hühne Klotz & Partner mbB, Oldenburg

- Chairman of the Supervisory Board of CEWE Stiftung & Co. KGaA, Oldenburg
- Member of the Board of Trustees of Neumüller CEWE COLOR Stiftung, Oldenburg
- Chairman of the board of the foundation Stiftung Wirtschaftsakademie Ost-Friesland, Leer

Paolo Dell'Antonio, Braunschweig

Business graduate

- Member of the Supervisory Board of CEWE Stiftung & Co. KGaA, Oldenburg *(since February 14, 2017)*
- Member of the shareholders' committee of Bitburger Holding GmbH and Bitburger Braugruppe GmbH, Bitburg
- Member of the board of management of Wilh. Werhahn KG, Neuss *(since June 1, 2017)*
- Member of the board of management of Werhahn Industrieholding SE, Neuss *(since June 20, 2017)*
- Member of the supervisory board of Bankhaus Werhahn GmbH, Neuss *(since July 1, 2017)*
- Member of the supervisory board of Bank11 für Privatkunden und Handel GmbH, Neuss *(since July 1, 2017)*
- Member of the board of directors of abcfinance GmbH, Cologne *(since July 1, 2017)*
- Member of the supervisory board of abcbank GmbH, Cologne *(since July 1, 2017)*
- Chairman of the supervisory board of Zwilling J. A. Henckels AG, Solingen *(since June 19, 2017)*
- Member of the supervisory board of Basalt-Actien-Gesellschaft, Linz *(since July 28, 2017)*
- Member of the advisory board of Rathscheck Schiefer und Dachsysteme, Mayen* *(since November 21, 2017)*
- Chairman of the advisory board of ZWILLING Beauty Group GmbH, Düsseldorf* *(since June 1, 2017)*
- Chairman of the advisory board of United Salon Technologies GmbH, Solingen* *(since June 1, 2017)*

1 voluntary bodies

Professor Dr Christiane Hipp, Berlin
Vice president for research and the next generation of scientific talent, professor (Brandenburg University of Technology Cottbus-Senftenberg)
- Member of the Supervisory Board of CEWE Stiftung & Co. KGaA, Oldenburg
- Member of the sustainability advisory board of Krombacher GmbH & Co. KG, Kreuztal

Corinna Linner, Baldham
Auditor and economist
- Member of the Supervisory Board of CEWE Stiftung & Co. KGaA, Oldenburg
- Member of the supervisory board of Donner & Reuschel AG, Hamburg
- Member of the supervisory board of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne *(to February 28, 2017)*
- Member of the supervisory board of Wüstenrot & Württembergische AG, Stuttgart
- Member of the supervisory board of Wüstenrot Holding AG, Stuttgart *(to July 31, 2017)*

Professor Dr Michael Paetsch, Willich
Professor of international marketing at Pforzheim University
- Member of the Supervisory Board of CEWE Stiftung & Co. KGaA, Oldenburg

Dr Hans-Henning Wiegmann, Schlangenbad
Business graduate
- Member of the Supervisory Board of CEWE Stiftung & Co. KGaA, Oldenburg
- Member of the advisory board of Dr. Oetker GmbH, Bielefeld *(to March 31, 2017)*
- Member of the advisory board of Radeberger Gruppe KG, Frankfurt *(to April 30, 2017)*

Vera Ackermann, Hude
Trade union secretary, IG BCE
- Member of the Supervisory Board of CEWE Stiftung & Co. KGaA, Oldenburg

Dr Christina Debus, Berne
Head of Quality Management, CEWE Stiftung & Co. KGaA, Oldenburg
- Member of the Supervisory Board of CEWE Stiftung & Co. KGaA, Oldenburg

Angelika Eßer, Mönchengladbach
Laboratory assistant, chairwoman of the works council *(released from duties)* of CEWE Stiftung & Co. KGaA, Mönchengladbach
- Member of the Supervisory Board of CEWE Stiftung & Co. KGaA, Oldenburg

Philipp Martens, Hanover
Trade union secretary, IG BCE
- Member of the Supervisory Board of CEWE Stiftung & Co. KGaA, Oldenburg

Markus Schwarz, Oldenburg
Member of the works council (released from duties) of CEWE Stiftung & Co. KGaA, Oldenburg
- Member of the Supervisory Board of CEWE Stiftung & Co. KGaA, Oldenburg

Thorsten Sommer, Wardenburg
Head of department / employee, chairman of the works council *(released from duties)* of CEWE Stiftung & Co. KGaA, Oldenburg
- Deputy Chairman of the Supervisory Board of CEWE Stiftung & Co. KGaA, Oldenburg *(since January 1, 2017)*

General partner of CEWE Stiftung & Co. KGaA:
- Neumüller CEWE COLOR Stiftung

Board of Management

Dr Christian Friege, Stuttgart
since
Responsible for National and International Distribution
- Member of the advisory board of enportal GmbH, Hamburg

Dr Rolf Hollander, Oldenburg
Chairman of the Board of Management of Neumüller CEWE COLOR Stiftung, Oldenburg
(to June 30, 2017)
- Chairman of the supervisory board of Vierol AG, Oldenburg
- Member of the supervisory board of Reservix Holding AG, Freiburg

Patrick Berkhouwer, Bremen
Member of the Board of Management of Neumüller CEWE COLOR Stiftung, Oldenburg
Responsible for Foreign Markets and Expansion

Dr Reiner Fageth, Oldenburg
Member of the Board of Management of Neumüller CEWE COLOR Stiftung, Oldenburg
Responsible for Technology and Research & Development
- Member of the supervisory board of CEWE COLOR Inc., Delaware, USA [1, 2]

Carsten Heitkamp, Oldenburg
Member of the Board of Management of Neumüller CEWE COLOR Stiftung, Oldenburg
Responsible for the German Plants, SAXOPRINT, Personnel, Logistics, Purchasing and Materials Management

Dr Olaf Holzkämper, Oldenburg
Member of the Board of Management of Neumüller CEWE COLOR Stiftung, Oldenburg
Responsible for Finance & Controlling, Business Development, Investor Relations, IT, Legal and On-Site Finishing
- Member of the advisory board of Oldenburgische Landesbank AG
- Member of the advisory board of Deutsche Bank AG, Bremen

Thomas Mehls, Oldenburg
Member of the Board of Management of Neumüller CEWE COLOR Stiftung, Oldenburg
Responsible for National and International Marketing, Online Photo Service, CEWE-Print, viaprinto, New Business Acquisition and Sustainability

Frank Zweigle, Oldenburg
Member of the Board of Management of Neumüller CEWE COLOR Stiftung, Oldenburg
Responsible for the Administrative Activities of Neumüller CEWE COLOR Stiftung

The Group does not have any loan receivables from members of the Board of Management or the Supervisory Board; nor has it entered into any contingent liabilities for this group of persons.

Please also see the comments in the remuneration report on pages 120 ff.

1 Group mandate
2 Member of similar German and foreign executive bodies of business enterprises

77 | Release and publication of the consolidated financial statements as of December 31, 2017

The consolidated financial statements as of December 31, 2017 prepared by the Board of Management of the general partner, Neumüller CEWE COLOR Stiftung, and the combined management report of the CEWE Group are released for publication upon their signing by the Board of Management.

78 | Declaration regarding the German Corporate Governance Code

The Board of Management and the Supervisory Board have submitted the declaration of conformity with the German Corporate Governance Code required under § 161 AktG and have made this declaration available to the shareholders on the company's website www.cewe.de.

Oldenburg, March 15, 2018

CEWE Stiftung & Co. KGaA

For the general partner Neumüller CEWE COLOR Stiftung, Oldenburg

– The Board of Management –

RESPONSIBILITY STATEMENT

Declaration in accordance with §§ 297 (2) clause 4 and 315 (1) clause 6 HGB (responsibility statement)

We hereby declare that, to the best of our knowledge, the consolidated financial statements provide a true and fair view of the Group's net assets, financial position and results of operations in accordance with the applied principles of orderly reporting in consolidated financial statements and that the notes to the consolidated financial statements provide the necessary disclosures and specific information accurately describing the Group's position.

We also confirm that, to the best of our knowledge, the combined management report includes a fair review of the development and performance of the business and the position of the Group and thus describes the key risks and opportunities associated with the Group's expected development in the new financial year.

Oldenburg, March 15, 2018

CEWE Stiftung & Co. KGaA
For the general partner Neumüller CEWE COLOR Stiftung
– The Board of Management –

Dr Christian Friege
(Chairman of the Board of Management)

Patrick Berkhouwer

Dr Reiner Fageth

Carsten Heitkamp

Dr Olaf Holzkämper

Thomas Mehls

Frank Zweigle

AUDIT OPINION OF THE INDEPENDENT AUDITOR

Report on the audit of the consolidated financial statements and the combined management report

Audit opinions

We have audited the consolidated financial statements of CEWE Stiftung & Co. KGaA, Oldenburg, and its subsidiaries (the Group), which comprise the consolidated profit and loss account and the consolidated statement of comprehensive income for the financial year from January 1, 2017 to December 31, 2017, the consolidated balance sheet as of December 31, 2017, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from January 1, 2017 to December 31, 2017 and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report (report on the position of the company and the Group) of CEWE Stiftung & Co. KGaA, Oldenburg, for the financial year from January 1, 2017 to December 31, 2017. In accordance with the German legal requirements, we have not audited the contents of those parts of the combined management report listed under *"Other information"*.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the net assets and financial position of the Group as of December 31, 2017 and of its results of operations for the financial year from January 1, 2017 to December 31, 2017 and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the contents of the parts of the combined management report listed under *"Other information"*.

Pursuant to § 322 (3) clause 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and the combined management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and the combined management report in accordance with § 317 HGB and the EU Audit Regulation (no. 537 / 2014, referred to subsequently as "EU Audit Regulation") and in compliance with the German generally accepted standards for auditing of financial statements promulgated by the German Institute of Chartered Accountants (Institut der Wirtschaftsprüfer e. V. – IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibility for the audit of the consolidated financial statements and the combined management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial law and the German professional code of conduct, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and the combined management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

We have identified the following specific issues as key audit matters:

1. Realisation of turnover in the Photofinishing segment

2. Fair value of goodwill and other intangible assets

1. Realisation of turnover in the Photofinishing segment

Specific issue

In its consolidated financial statements as of December 31, 2017, the company has reported revenues in its Photofinishing segment in the amount of 459.3 million euros (76.6 % of total revenues). Due to the highly automated procedure through which these revenues are realised, the very large volume of data processed and the variety of IT sys-tems due to the diverse product range, in our view particularly stringent requirements apply for the IT systems in terms of correct recognition of and accrual accounting for revenues. In view of this situation, the IT systems were particularly significant for us within the scope of our audit, in relation to the realisation of turnover in the Photofinishing segment.

The disclosures made by CEWE Stiftung & Co. KGaA concerning revenues in the Photofinishing segment may be found in the "C26" section of the notes to the consolidated financial statements.

Audit response

To address the risk associated with the realisation of turnover in the Photofinishing segment, we have performed uniform audit procedures for all of the segments. We have assessed implementation of the Group rules on the realisation of turnover in the IT systems in terms of whether the software in question is suitable to appropriately map the business transactions. As well as a basic audit, our audit approach includes function-based testing of relevant check mechanisms as well as ad hoc and analytical audit procedures. In particular, we have evaluated whether the IT control system has been appropriately designed for the IT systems used throughout the Group for invoicing and their interfaces in relation to the relevant general ledger. To review the effectiveness of this IT control system, we have implemented control tests for the control activities implemented within the scope of these processes. We have consulted internal specialists in relation to these audit activities. We have also established on a sample basis that the accrual accounting for revenues has been correctly implemented.

2. Fair value of goodwill and other intangible assets

Specific issue

As of December 31, 2017, in its consolidated financial statements the company has reported goodwill in the amount of 25.8 million euros and other intangible assets in the amount of 14.1 million euros. Goodwill and the other intangible assets are required to undergo impairment testing on an annual or ad hoc basis. This assessment of fair value requires a large number of discretionary judgments on the part of the company's legal representatives. In particular, they must estimate the future cash and cash equivalents surpluses, the growth rates for the forecast of cash flows beyond the detailed planning period and the capitalisation interest rate. Due to the uncertainty associated with discretionary judgements and estimates and the amount of this balance sheet item, the fair value of goodwill and the other intangible assets was a key issue for us within the scope of our audit.

The disclosures made by CEWE Stiftung & Co. KGaA concerning goodwill and the intangible assets, including sensitivity analyses, may be found in sections "D 38" and "D 39" of the notes to the consolidated financial statements.

Audit response

We have initially assessed the appropriateness of the measurement methods applied for the impairment testing and developed an understanding of the planning system and the planning process. We have reconciled the forecast for future cash and cash equivalents surpluses in the detailed planning period with the approved business planning figures and satisfied ourselves of the company's adherence to its planning by means of an analysis of target / actual discrepancies in the past as well as in the current financial year. On this basis, we have critically evaluated the definition of the cash-generating units as well as the appropriateness of the assumptions made by the company's legal representatives, in particular regarding the growth rates and the capitalisation interest rate, partly by comparing this with past developments and with the average capital costs for a peer group.

We have consulted internal specialists in connection with our assessment of the planning calculations and methods. We have also satisfied ourselves of the appropriateness and completeness of the notes which are relevant in this respect, including the sensitivity analysis.

Other information

The company's legal representatives are responsible for the other information. This other information comprises:

- the separately published summarised non-financial declaration which is referred to in the "Sustainability" section of the combined management report.
- the management declaration which is included in the combined management report.
- The remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report,
- The corporate governance report pursuant to no. 3.10 of the German Corporate Governance Code, and
- The confirmation pursuant to § 297 (2) (4) HGB regarding the consolidated financial statements and the confirmation pursuant to § 315 (1) clause 5 HGB regarding the combined management report.

Our audit opinions on the consolidated financial statements and the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in so doing, to consider whether this other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

In the event that we conclude on the basis of our activities that this other information includes a material misstatement, we are obliged to report this fact. We have nothing to report in this respect.

Responsiblity of the company's legal representatives and the supervisory board for the consolidated financial statements and the combined management report

The company's legal representatives are responsible for the preparation of the consolidated financial statements which comply with the IFRS as adopted by the EU as well as the German supplementary statutory regulations applicable under § 315e (1) HGB in all significant respects and for ensuring that the consolidated financial statements provide a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these regulations. In addition the company's legal representatives are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the company's legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, unless matters of a factual or legal nature mean that this is not appropriate.

Furthermore, the company's legal representatives are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the company's legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the combined management report.

Auditor's responsibility for the audit of the consolidated financial statements and the combined management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German generally accepted standards for auditing of financial statements promulgat-ed by the German Institute of Chartered Accountants will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements and the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the company's legal representatives and the reasonableness of estimates made by the company's legal representatives and related disclosures.

- Draw conclusions regarding the appropriateness of the company's legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and the consolidated management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group, to express audit opinions on the consolidated financial statements and the combined management report. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the company's legal representatives in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions applied by the company's legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the underlying assumptions. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with the persons charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the persons charged with governance with a statement that we have complied with the relevant independence requirements, and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

Of the matters discussed with the persons charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure of a specific matter.

Other legal and regulatory requirements

Further information pursuant to article 10 of the eu audit regulation

We were elected as the auditor by the general meeting held on May 31, 2017. We were engaged by the Supervisory Board on December 19, 2017. We have audited the consolidated financial statements of CEWE Stiftung & Co. KGaA without interruption since the financial year 2014.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Mr Tobias Härle.

Hamburg, March 15, 2018

BDO AG
Wirtschaftsprüfungsgesellschaft

Glaser
Auditor

Härle
Auditor

THE CEWE GROUP – STRUCTURE AND EXECUTIVE BODIES

Neumüller CEWE COLOR Stiftung

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CEWE Stiftung & Co. KGaA

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- Markus Schwarz, Oldenburg
  Member of the works council (released from duties) of CEWE Stiftung KGaA, Oldenburg
- Thorsten Sommer, Wardenburg (Deputy Chairman)
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General partner of CEWE Stiftung & Co. KGaA

- Neumüller CEWE COLOR Stiftung, Oldenburg

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FURTHER INFORMATION

Page reference Reference to table or graphic Internet reference Supplementary information

FINANCIAL STATEMENTS OF CEWE STIFTUNG & CO. KGaA

Profit and loss account of CEWE Stiftung & Co. KGaA

for the financial year 2017 (in accordance with the German Commercial Code)

Figures in thousands of euros	2016	**2017**
Revenues	326,633	331,370
Increase / decrease in finished and unfinished goods	– 535	2
Other own work capitalised	184	165
Other operating income	6,782	7,264
Cost of materials		
Expenses for raw materials and supplies and for purchased merchandise	– 68,062	– 70,554
Expenses for purchased services	– 18,795	– 20,808
	– 86,857	**– 91,362**
Personnel expenses		
Wages and salaries	– 72,131	– 74,232
Social security contributions and expenses for pensions and support	– 12,948	– 15,461
	– 85,079	**– 89,693**
Depreciation		
Amortisation of intangible assets, depreciation of property, plant and equipment	– 18,406	– 19,019
Other operating expenses	– 103,113	– 100,315
Income from equity investments	8,452	7,451
Income from loans of financial assets	226	464
Other interest and similar income	1,521	786
Amortisation of financial assets	– 9,412	– 1,564
Interest and similar expenses	– 1,690	– 1,746
Income from profit transfer	0	443
Expenses for assumption of losses	– 222	0
Earnings before income taxes	**38,484**	**44,246**
Income taxes	– 11,828	– 14,930
Earnings after taxes	**26,656**	**29,316**
Other taxes	– 166	26
Net income for the year	**26,490**	**29,342**
Profit carried forward from previous year	**123**	**152**
Unappropriated profits	**26,613**	**29,494**

Balance sheet of CEWE Stiftung & Co. KGaA
as of December 31, 2017 (in accordance with the German Commercial Code)

ASSETS

Figures in thousands of euros	2016	**2017**
Fixed assets		
Intangible assets		
Concessions, industrial property rights acquired for a consideration and	6,046	6,759
similar rights and assets and related licences	16	13
Goodwill	604	265
Property, plant and equipment	**6,666**	**7,037**
Land, leasehold rights and buildings, incl. buildings on third-party land		
Technical equipment and machinery	21,390	30,167
Equipment, furniture and fixtures	33,557	41,733
Advance payments and assets under construction	8,037	8,056
Geleistete Anzahlungen und Anlagen im Bau	9,651	4,371
	72,635	**84,327**
Financial assets		
Interests in affiliates	84,252	83,110
Loans to affiliates	22,272	52,236
Equity investments	5,809	6,444
Other loans	245	258
	112,578	**142,048**
Current assets		
Inventories		
Raw materials and supplies	11,988	14,024
Unfinished goods, work in progress	145	136
Finished goods and merchandise	515	251
Advance payments made	1,626	0
	14,274	**14,411**
Receivables and other assets		
Trade receivables	58,312	58,722
Receivables from affiliates	117,652	83,759
Other assets	4,013	4,952
	179,977	**147,433**
Cash on hand and cash in banks	35,780	26,312
Deferred expenses and accrued income	2,509	2,103
	424,419	**423,671**

EQUITY AND LIABILITIES

Figures in thousands of euros	2016	**2017**
Equity		
Subscribed capital	19,240	19,240
Nominal value of treasury shares	–374	–331
Issued capital	**18,866**	**18,909**
Capital reserve	72,532	74,415
Retained earnings		
Statutory reserve	1,534	1,534
Other retained earnings	119,996	133,895
	121,530	**135,429**
Unappropriated profits	26,613	29,494
	239,541	**258,247**
Special item for investment subsidies	**114**	**98**
Accruals		
Accruals for pensions and similar obligations	11,748	13,935
Tax accruals	7,674	1,269
Other accruals	30,698	29,898
	50,120	**45,102**
Liabilities		
Amounts owed to credit institutions	0	1,561
Payments received on account of orders	330	414
Trade payables	32,080	33,664
Amounts owed to affiliates	93,528	68,834
Other liabilities	8,357	15,468
	134,295	**119,941**
Deferred income and accrued expenses	349	283
	424,419	**423,671**

MULTI-YEAR OVERVIEW

Consolidated profit and loss account for the year

Figures in millions of euros	2010	2011	2012	2013	2014	2015	2016	**2017**
Revenues	446.8	469.0	507.2	536.2	523.8	554.2	593.1	599.4
Increase / decrease in finished and unfinished goods	0.0	0.0	0.1	0.3	0.2	0.4	– 0.5	0.1
Other own work capitalised	1.5	0.9	1.1	1.0	0.9	0.9	0.8	0.9
Other operating income	24.9	23.1	29.7	24.6	21.4	19.6	20.8	23.2
Cost of materials	– 168.7	– 173.6	– 185.6	– 190.0	– 162.7	– 162.2	– 168.6	– 168.4
Gross profit	**304.5**	**319.5**	**352.4**	**372.2**	**383.6**	**412.8**	**445.6**	**455.1**
Personnel expenses	– 100.6	– 108.5	– 122.4	– 129.9	– 135.9	– 143.7	– 153.4	– 160.3
Other operating expenses	– 139.0	– 148.1	– 164.7	– 175.4	– 181.7	– 194.0	– 201.9	– 205.5
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**64.9**	**62.9**	**65.3**	**66.8**	**66.0**	**75.1**	**90.3**	**89.3**
Amortisation of intangible assets, depreciation of property, plant and equipment	– 37.7	– 33.5	– 37.0	– 37.9	– 33.5	– 38.7	– 43.3	– 40.1
Earnings before interest and taxes (EBIT)*	**27.2**	**29.4**	**28.3**	**28.9**	**32.6**	**36.4**	**47.0**	**49.2**
Financial income	—	—	—	0.3	0.4	0.4	0.9	0.5
Financial expenses	—	—	—	– 2.2	– 1.4	– 0.9	– 1.7	– 0.8
Financial result	– 1.8	– 1.0	– 2.2	– 1.9	– 1.0	– 0.5	– 0.8	– 0.3
Earnings before taxes (EBT)	**25.4**	**28.4**	**26.1**	**27.1**	**31.5**	**35.9**	**46.2**	**48.9**
Income taxes	– 11.7	– 9.8	– 7.3	– 4.8	– 10.1	– 13.5	– 15.8	– 15.3
Earnings after taxes	**13.7**	**18.6**	**18.8**	**22.3**	**21.4**	**22.5**	**30.4**	**33.6**

Cash flow for the year

Figures in millions of euros	2010	2011	2012	2013	2014	2015	2016	**2017**
Cash flow from operating activities	53.0	61.4	51.4	48.3	71.2	59.6	93.0	72.4
Cash flow from investing activities	– 27.3	– 31.0	– 45.8	– 35.1	– 43.1	– 55.2	– 46.6	– 70.2
Free cash flow	25.6	30.4	5.5	13.1	28.1	4.4	46.4	2.2
Cash flow from financing activities	– 10.8	– 22.7	– 23.2	– 12.3	– 14.5	– 10.3	– 19.8	– 11.7
Change in cash and cash equivalents	14.8	7.7	– 17.7	0.8	13.6	– 5.9	26.7	– 9.5

Consolidated profit and loss account for the fourth quarter

Figures in millions of euros	Q4 2010	Q4 2011	Q4 2012	Q4 2013	Q4 2014	Q4 2015	Q4 2016	**Q4 2017**
Revenues	150.0	161.0	178.2	191.2	194.8	215.8	228.5	234.5
Increase / decrease in finished and unfinished goods	0.0	0.0	– 0.1	0.2	0.0	0.2	0.0	0.3
Other own work capitalised	0.3	– 0.1	0.4	0.4	0.3	0.2	0.3	0.2
Other operating income	8.7	9.3	10.3	7.8	9.0	6.1	7.0	9.2
Cost of materials	– 52.3	– 54.4	– 59.5	– 56.0	– 52.4	– 55.2	– 55.7	– 57.1
Gross profit	**106.6**	**115.8**	**129.3**	**143.6**	**151.7**	**167.1**	**180.2**	**187.2**
Personnel expenses	– 27.5	– 30.4	– 34.2	– 36.6	– 40.3	– 42.6	– 45.5	– 47.7
Other operating expenses	– 48.5	– 51.3	– 56.8	– 61.5	– 65.1	– 70.7	– 75.8	– 79.5
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**30.7**	**34.1**	**38.4**	**45.4**	**46.3**	**53.8**	**58.8**	**60.0**
Amortisation of intangible assets, depreciation of property, plant and equipment	– 9.1	– 8.5	– 9.4	– 11.8	– 9.0	– 13.0	– 15.9	– 13.9
Earnings before interest and taxes (EBIT)	**21.5**	**25.6**	**29.0**	**33.6**	**37.3**	**40.8**	**42.9**	**46.1**
Financial income	—	—	—	0.1	0.1	0.4	0.1	0.0
Financial expenses	—	—	—	– 0.9	– 0.3	– 0.3	– 1.3	– 0.6
Financial result	– 0.3	– 0.2	– 0.4	– 0.7	– 0.2	0.0	– 1.2	– 0.5
Earnings before taxes (EBT)	**21.2**	**25.4**	**28.5**	**32.9**	**37.2**	**40.8**	**41.7**	**45.5**
Income taxes	– 6.4	– 7.2	– 6.4	– 5.1	– 11.3	– 14.8	– 16.2	– 14.1
Earnings after taxes	**14.8**	**18.1**	**22.1**	**27.7**	**25.9**	**26.0**	**25.5**	**31.4**

Cash flow in the fourth quarter

Figures in millions of euros	Q4 2010	Q4 2011	Q4 2012	Q4 2013	Q4 2014	Q4 2015	Q4 2016	**Q4 2017**
Cash flow from operating activities	22.2	37.7	48.5	41.1	48.3	49.1	59.6	67.6
Cash flow from investing activities	– 8.1	– 22.0	– 10.8	– 10.7	– 16.2	– 11.2	– 15.7	– 13.3
Free cash flow	14.1	15.7	37.7	30.4	32.1	37.9	44.0	54.3
Cash flow from financing activities	– 8.9	– 3.9	– 31.2	– 24.1	– 16.3	– 26.4	– 10.8	– 29.2
Change in cash and cash equivalents	5.2	11.7	6.4	6.3	15.8	11.5	33.2	25.1

MULTI-YEAR OVERVIEW

Group balance sheet

ASSETS

Figures in millions of euros	2010	2011	2012	2013	2014	2015	2016	**2017**
Property, plant and equipment	80.5	79.2	101.2	98.6	102.5	108.6	124.5	148.1
Investment properties	4.8	4.8	4.5	4.3	5.0	5.1	4.9	17.9
Goodwill	9.1	9.1	28.5	25.4	25.4	32.7	25.8	25.8
Intangible assets	16.3	13.0	21.8	20.0	19.3	23.6	19.2	14.1
Financial assets	0.2	0.2	0.3	1.2	3.3	4.3	6.2	6.8
Non-current receivables from income tax refunds	2.9	2.6	2.1	1.6	1.1	0.5	0.0	0.0
Non-current receivables and assets	0.3	0.3	0.4	1.5	2.9	1.6	0.5	0.4
Non-current financial assets	0.1	0.3	0.2	0.2	0.2	0.4	0.6	0.6
Additional other non-current receivables and assets	5.4	5.4	8.4	9.4	8.1	7.3	6.8	7.8
Deferred tax assets	**119.5**	**114.9**	**167.5**	**162.0**	**167.8**	**184.1**	**188.6**	**221.5**
Non-current assets	50.3	48.0	62.7	59.1	48.9	50.7	49.4	50.3
Inventories	72.0	77.9	72.2	88.8	84.3	90.4	84.2	84.5
Current trade receivables	1.2	1.0	1.6	2.1	1.8	1.1	1.3	1.5
Current receivables from income tax refunds	17.3	13.5	3.2	3.0	3.0	2.5	3.0	2.4
Current financial assets	3.7	4.1	4.7	3.8	4.9	5.7	5.5	5.6
Additional other current receivables and assets	23.4	30.8	13.4	14.0	27.7	21.7	48.6	38.8
Cash and cash equivalents	**167.8**	**175.2**	**157.7**	**170.8**	**170.5**	**172.1**	**191.9**	**183.1**
Assets held for sale	0.2	0.2	0.2	1.0	1.3	1.2	0.5	1.4
Current assets	**168.0**	**175.4**	**157.9**	**171.8**	**171.9**	**173.3**	**192.4**	**184.5**
	287.5	**290.3**	**325.4**	**333.9**	**339.7**	**357.3**	**381.0**	**406.1**

EQUITY AND LIABILITIES

Figures in millions of euros	2010	2011	2012	2013	2014	2015	2016	**2017**
Subscribed capital	19.2	19.2	19.2	19.2	19.2	19.2	19.2	19.2
Capital reserve	56.2	56.2	56.2	56.6	69.3	70.2	71.2	73.1
Treasury shares at acquisition cost	–17.6	–24.4	–23.9	–23.4	–8.5	–7.5	–8.5	–7.9
Retained earnings and unappropriated profits	62.9	69.3	80.7	90.3	93.6	104.9	122.9	142.8
Equity	**120.7**	**120.2**	**132.2**	**142.8**	**173.6**	**187.0**	**204.9**	**227.2**
Non-current special items for investment grants	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Non-current accruals for pensions	10.0	12.6	17.4	17.9	21.9	22.9	25.5	27.2
Non-current deferred tax liabilities	1.8	0.6	4.1	3.3	2.8	4.1	2.9	1.5
Non-current other accruals	0.9	0.8	0.5	0.4	0.2	0.2	0.0	0.0
Non-current interest-bearing financial liabilities	24.1	16.7	23.5	4.2	2.7	1.8	0.0	0.0
Non-current financial liabilities	0.0	0.0	4.2	3.0	0.0	0.0	0.2	0.1
Non-current other liabilities	0.2	0.3	0.3	0.2	0.2	0.5	0.5	0.5
Non-current liabilities	**37.4**	**31.3**	**50.0**	**29.0**	**27.8**	**29.5**	**29.1**	**29.4**
Current special items for investment grants	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Current tax liabilities	4.7	5.6	3.0	4.2	4.5	7.1	11.3	3.9
Current other accruals	8.6	4.7	2.6	4.2	3.3	2.9	3.5	3.5
Current interest-bearing financial liabilities	6.6	7.4	8.0	26.1	1.6	4.9	0.2	1.6
Current trade payables	91.8	98.3	102.2	101.1	96.1	90.9	96.1	95.9
Current financial liabilities	1.3	1.1	4.5	3.9	3.6	0.3	1.5	1.3
Current other liabilities	16.3	21.6	22.9	22.7	29.2	34.7	34.5	43.3
Current liabilities	**129.4**	**138.7**	**143.2**	**162.1**	**138.2**	**140.9**	**147.0**	**149.5**
	287.5	**290.3**	**325.4**	**333.9**	**339.7**	**357.3**	**381.0**	**406.1**

MULTI-YEAR OVERVIEW

Key indicators

Volumes and employees

		2010	2011	2012	2013	2014	2015	2016	**2017**
Digital photos	*millions of units*	2,129.1	2,246.1	2,298.9	2,252.9	2,203.9	2,164.1	2,176.2	2,128.1
Photos from film	*millions of units*	367.7	251.3	162.3	114.4	88.6	70.7	56.0	47.0
Total volume of photos	*millions of units*	2,497	2,497	2,461	2,367	2,293	2,235	2,232	2,175
CEWE PHOTOBOOKS	*millions of units*	4.3	5.1	5.6	5.8	5.9	6.0	6.2	6.0
Employees (average)	*converted to full-time equivalent*	2,681	2,823	3,305	3,228	3,219	3,420	3,496	3,589
Employees (as of the reporting date)	*converted to full-time equivalent*	2,910	3,400	3,895	3,781	3,675	3,698	3,967	4,103

Income

		2010	2011	2012	2013	2014	2015	2016	**2017**
Turnover	*millions of euros*	446.8	469.0	507.2	536.2	523.8	554.2	593.1	599.4
EBITDA	*millions of euros*	65.9	63.6	66.1	66.8	66.0	75.1	90.3	89.3
EBITDA margin	*as % of turnover*	14.7 %	13.6 %	13.0 %	12.5 %	12.6 %	13.6 %	15.2 %	14.9 %
EBIT	*millions of euros*	28.2	30.1	29.1	29.7	32.6	36.4	47.0	49.2
EBIT margin	*as % of turnover*	6.3 %	6.4 %	5.7 %	5.5 %	6.2 %	6.6 %	7.9 %	8.2 %
Restructuring expenses	*millions of euros*	2.2	0.0	0.0	3.3	0.0	1.0	0.2	0.0
EBIT prior to restructuring	*millions of euros*	30.4	30.1	29.1	33.0	32.6	37.4	47.2	49.2
EBT	*millions of euros*	26.4	29.2	26.9	27.8	31.5	35.9	46.2	48.9
Earnings after taxes	*in million euros*	13.7	18.6	18.8	22.3	21.4	22.5	30.4	33.6

Capital

		2010	2011	2012	2013	2014	2015	2016	**2017**
Total assets	*millions of euros*	287.5	290.3	325.4	333.9	339.7	357.3	381.0	406.1
Capital employed (CE)	*millions of euros*	164.8	159.1	190.3	197.9	203.0	221.3	234.2	258.2
Equity	*millions of euros*	120.7	120.2	132.2	142.8	173.6	187.0	204.9	227.2
Equity ratio	*as % of the balance sheet total*	42.0 %	41.4 %	40.6 %	42.8 %	51.1 %	52.3 %	53.8 %	56.0 %
Net financial liabilities	*in million euros*	7.4	–6.7	18.1	16.3	–23.5	–15.0	–48.3	–37.2
ROCE (previous 12 months)	*as % of average capital employed*	17.7 %	19.3 %	14.5 %	15.0 %	16.8 %	17.2 %	21.3 %	20.1 %

Cash Flow

		2010	2011	2012	2013	2014	2015	2016	**2017**
Gross cash flow	*in million euros*	51.4	52.1	55.9	60.2	54.9	61.2	73.7	73.6
Net cash used in investing activities	*in million euros*	26.4	30.3	33.8	35.3	35.4	38.3	49.0	71.0
Net cash flow	*millions of euros*	25.1	21.8	22.1	24.9	19.5	22.9	24.7	2.7
Cash flow from operating activities	*millions of euros*	53.0	61.4	51.4	48.3	71.2	59.6	93.0	72.4
Cash flow from investing activities	*millions of euros*	– 27.3	– 31.0	– 45.8	– 35.1	– 43.1	– 55.2	– 46.6	– 70.2
Free cash flow	*in million euros*	25.6	30.4	5.5	13.1	28.1	4.4	46.4	2.2

Aktie

		2010	2011	2012	2013	2014	2015	2016	**2017**
Number of shares (nominal value: 2.60 euros)	*in units*	7,380,020	7,380,020	7,380,020	7,380,020	7,380,020	7,400,020	7,400,020	7,400,020
Earnings per share (diluted)	*in euros*	2.02	2.84	2.87	3.36	3.07	3.15	4.23	4.64
Year-end price	*in euros*	33.35	31.39	31.04	42.75	51.51	54.61	84.57	88.05
Dividend per share	*in euros*	1.25	1.40	1.45	1.50	1.55	1.60	1.80	1.85
Dividend yield on year-end price	*as %*	3.75 %	4.46 %	4.67 %	3.51 %	3.01 %	2.93 %	2.10 %	2.10 %

* Dividend proposal presented by the Board of Management and the Supervisory Board to the general meeting on June 6, 2018

PRODUCTION PLANTS AND DISTRIBUTION OFFICES

Page 5
General map with all locations

Sales contact person
https://company.cewe.de/en/about-us/cewe-group.html
> Sales and Production site

Germany

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(dates currently scheduled)

April 19, 2018	Bankhaus Lampe Deutschlandkonferenz 2018, Baden-Baden
May 14, 2018	Publication of the Interim Report Q1 2018
May 14, 2018	Press release on the Interim Report Q1 2018
June 6, 2018	2018 General Meeting, Weser-Ems-Halle, Oldenburg
August 9, 2018	Publication of the Interim Report Q2 2018
August 9, 2018	Press release on the Interim Report Q2 2018
September 24, 2018	Berenberg & Goldman Sachs German Corporate Conference 2018, Munich
September 25, 2018	Baader Investment Conference 2018, Munich
November 13, 2018	Publication of the Interim Report Q3 2018
November 13, 2018	Press release on the Interim Report Q3 2018
November 26, 2018	German Equity Forum 2018, Frankfurt

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