



2017

ANNUAL REPORT

AS CREATION

A.S. CRÉATION: KEY FIGURES

		2013	2014	2015	2016	2017
Sales	€ '000	199,818	189,128	166,515	152,608	143,329
Earnings before interest and taxes (EBIT)	€ '000	10,238	3,306	7,880	5,917	-15,808
Earnings before income taxes	€ '000	5,233	-5,052	5,622	10,202	-17,776
Earnings after income taxes	€ '000	1,323	-9,338	3,287	7,435	-17,771
Cash-flow from operating activities	€ '000	12,585	14,165	17,444	17,095	3,231
Capital expenditures	€ '000	8,667	5,115	5,342	5,014	10,218
Depreciation	€ '000	9,469	9,340	8,645	7,612	6,538
Non-current assets	€ '000	63,961	54,265	50,210	50,270	52,785
Shareholders' equity	€ '000	93,473	86,891	93,188	96,502	75,715
Non-current liabilities	€ '000	37,184	32,730	23,947	22,951	18,060
Total assets	€ '000	159,067	146,162	140,405	140,273	130,714
Earnings per share	€/share	0.48	-3.39	1.19	2.70	-6.45
Dividend	€/share	0.25	0.00	0.60	1.25	0.00
Number of employees (average)		837	822	801	768	761

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This English translation of the annual report 2017 is merely a convenience translation.
The German version is the prevailing one.

Dear readers, dear shareholders,

As you have certainly noticed, the design of the Annual Report you are holding in your hands differs from the reports of the previous years. While the cover once again features one of the many wallpaper patterns from A.S. Création's product range, something else has changed – our Annual Report bears a new logo.

The former logo had clearly become dated. The Managing Board was of the opinion that it no longer reflected the image of a modern and innovative company whose creative and dedicated employees produce a fashionable lifestyle product, a company which is a reliable partner to its customers and business partners. In other words, the logo was no longer fit for purpose.



We therefore decided to evolve our old logo in such a way that it clearly reflects the values and qualities A.S. Création stands for. On the other hand, however, we did not want to lose touch with our roots, i.e. to give up our former logo entirely. The Managing Board believes

that this tightrope act has been mastered to perfection.

AS CREATION

This new logo will successively replace the old one in the course of 2018, with the Annual Report for 2017 marking the start.

Needless to say, one could argue whether the year 2018 is the right time to redesign the logo – against the background of a loss after taxes of € -17.8 million posted by A.S. Création for the fiscal year 2017 – instead of addressing more urgent issues. There are, of course, more important challenges, but these have been and will be addressed by the Managing Board as well. This includes, in particular, the question which strategy and which strategic measures will put the company back on track to regain a satisfactory and sustainable level of profitability. We consider our new logo a symbol and an element of this modernisation strategy.

The international wallpaper markets have changed fundamentally. These changes are reflected, among other things, in a declining market volume and in the growing importance of Eastern European and Asian wallpaper manufacturers at the expense of western producers. In this environment, A.S. Création

recorded a drop in sales revenues for the fourth consecutive year. While consolidated sales revenues stood at roughly € 200 million in 2013, they amounted to only € 143.3 million in 2017. We have adjusted A.S. Création to these changed conditions. The reduction in production capacity and the streamlining of the organisation at A.S. Création Tapeten AG in Germany, the investment in the Russian joint venture, A.S. & Palitra, and the current start-up of wallpaper production in Belarus are visible signs of this adjustment process. This process will be continued in 2018, when efficiency-enhancing investments will be made in the logistic structure and the production plants in Germany.

As a result of this adjustment process the headcount of the A.S. Création Group has been reduced by over 100 people compared to the end of 2013. The Managing Board is convinced that the current structure is a good basis for renewed growth for A.S. Création and its over 700 employees. Our projections provide for revenue growth and a return to profit in 2018, which would mark a turnaround for the company. This requires a spirit of optimism characterised by a forward-looking approach as well as by confidence in the strengths of A.S. Création in its new form. And this is the reason why we are convinced that 2018 is just

the right time to introduce the new, refined logo. It is an internal and external sign that A.S. Création has completed a phase of transformation and will now focus on the future.

To be able to concentrate all our power and energy on the future of A.S. Création, we need to understand the fiscal year 2017. This is the only way to see where A.S. Création stands at the beginning of the new fiscal year 2018 and what the prospects for the future are.

The Group's sales revenues of € 143.3 million were down by 6.1% on the previous year's € 152.6 million. Even though the market data regularly established by the Global Wallcoverings Association (IGI) are not yet available for the year 2017, the Managing Board of A.S. Création assumes that the international wallpaper markets that are relevant for A.S. Création contracted even more strongly than the company's revenues and that A.S. Création gained some market share in the course of 2017. This assumption is supported by the figures published by the Verband der Deutschen Tapetenindustrie e.V. (VDT - Association of German Wallpaper Manufacturers) for 2017. As far as the Furnishing Fabrics Division is concerned, the Managing Board assumes that the latter also improved its competitive position in a shrinking market.

These market share gains were insufficient, however, to grow our revenues in the fiscal year 2017.

Besides the declining sales volumes, A.S. Création was faced with fierce price competition in the past fiscal year. Unlike the previous years, these adverse effects on the gross profit margin were no longer offset by declining commodity and energy prices. Right on the contrary, the procurement side was adversely affected by strong price increases in 2017, which sent the gross profit margin falling to 48.8%, the lowest level in four years. At the same time, personnel expenses as a percentage of total output reached their highest level ever, at 28.1%, driven by the pay rise in Germany in conjunction with a reduced total output and severance payments that had to be made to adjust the headcount to the lower revenues.

But the most important factor weighing on the bottom line in the fiscal year 2017 was the verdict announced by the Düsseldorf Supreme Court in the anti-trust proceedings on October 12, 2017. The Managing Board was convinced that an appeal against the penalties in the total amount of € 10.5 million imposed by the German Federal Cartel Office in 2014 would result in a significant reduction of the penalties. This conviction was based on the Managing Board's belief that the

allegations of price fixing at the conferences of the Association of German Wallpaper Manufacturers would not be tenable and that the events could, at worst, be interpreted as an exchange of information. Consequently, A.S. Création Tapeten AG had established a provision of only € 2.0 million for this matter. Instead of reducing the penalties, the court increased them to a total of € 13.9 million. As the written verdict is still not available five months after the verdict was announced, the Managing Board is still not able to appreciate the logic behind the verdict. It is a fact, however, that the financing requirements resulting from this verdict correspond to the average investments of about three fiscal years and that the amount would be sufficient to modernise A.S. Création German production facility from scratch. Against this background, the Managing Board considers the penalties imposed to be entirely out of proportion; should this amount become final, the penalties will certainly restrict A.S. Création's future financial scope. If the written verdict offers promising starting points for an appeal, the Managing Board will be ready to take further legal action to defend itself against the penalty imposed and the resulting massive distortion of competition to the detriment of A.S. Création. This applies all the more as the disputed events date back more than ten years and are no longer relevant for the current market and competitive situation.

While the verdict in the appeal proceedings played a part in the loss posted for the fiscal year 2017, it is not the reason for it. This insight is also important to understand the fiscal year 2017. Adjusted for the material extraordinary effects in the fiscal year, namely the fines and the legal fees incurred in conjunction with the antitrust proceedings, the severance payments made in order to adjust the organisation to the reduced sales revenues as well as exchange losses, A.S. Création posted an operating loss of € -1.2 million for the fiscal year 2017, compared to an adjusted operating profit of € 6.4 million in the previous year. This means that A.S. Création was in the red in 2017, i.e. the relation between income and expenses was unhealthy. The Managing Board's strategy is therefore aimed at generating profitable revenue growth and reducing fixed costs.

The Managing Board sees three material starting points for A.S. Création that will lead to growing revenues. First, an expansion of the company's market position in non-EU Eastern European countries. In this region, A.S. Création generated gross revenues of € 40.1 million in 2013, which dropped to € 16.3 million in 2016 as a result of the political and financial crises, especially in Russia, and the depreciation of the local currencies against the euro and the increasingly strong positions of local wallpaper manufacturers. The Group intends to increase its revenues in this region by building

up a wallpaper production facility in Belarus and by integrating the Russian distribution company more closely into the distribution of its German-made wallpapers, which was already completed in the second half of 2017. The fact that the Group's gross revenues in this region already rose moderately from € 16.3 million in 2016 to € 17.8 million in 2017 shows that A.S. Création is on the right track. As the production facility in Belarus takes up operation in spring 2018, this growth will become more dynamic.

The second starting point for growing the Group's revenues are notable market share gains in the European Union, the home market of A.S. Création, which accounts for over 80% of the Group's gross revenues. Efforts in this direction include A.S. Création's consumer campaign "Bude 2.0" ("Home 2.0") to be launched in Germany in spring 2018. Under the motto "Which wallpaper type are you?", four different persons/characters (Tibo, Klara, Carlos and Marie) will be introduced, each of whom stands for a certain lifestyle. Consumers will thus be encouraged to ask themselves whether their home still fits their needs or whether the time has come for a make-over, i.e. a "Home 2.0". Each person can find the wallpapers that match their type in the corresponding A.S. Création collection. To give you a better idea of the campaign and invite you to think about your "Home 2.0", this year's

Annual Report features pictures of the four types and of matching wallpapers for each of them.

Against the background of the market developments described above, the expected further consolidation in the international wallpaper industry is the third material aspect that may lead to revenue growth. As in the past, the Managing Board of A.S. Création is ready to play an active role in this consolidation process by acting on external growth opportunities to the extent that they make economic sense.

With regard to the disproportion between current revenues and costs, measures were implemented in 2017 which will take full effect in 2018. The plans and budgets for 2018 therefore provide for a significant reduction in absolute personnel expenses, although collective wages in Germany will rise by 2.1% and the Group's headcount will be increased moderately in 2018 due to the start-up and expansion of production in Belarus. Besides personnel expenses, other operating expenses will improve as well.

From today's point of view, the Managing Board assumes that A.S. Création will return to profit already in 2018 and will generate earnings before interest and taxes (excl. extraordinary effects) of € 4 million to € 5 million on revenues of between € 150 million and

€ 155 million. In the fiscal year 2019, A.S. Création is expected to move towards revenues of approx. € 160 million and EBIT (excl. extraordinary effects) of approx. € 7 million.

The successful implementation of these plans should have a positive effect on the price of the A.S. Création share, which lost in value in 2017 in a very good stock market environment. The predominantly negative corporate news of the past fiscal year sent the price of the A.S. Création share falling by 31.9% from € 29.86 at the beginning of the year to € 20.32 at the end of 2017. The Managing Board is aware that this drop in the share price will be just as hard to bear for you, our shareholders, as the Managing Board's dividend proposal, according to which no dividend would be paid out for the fiscal year 2017 against the background of poor earnings position. The latter is, however, in the medium to long-term interest of the company, as A.S. Création's ability to seize the opportunities that will arise in a consolidating industry require a solid financial structure underpinned by a good equity ratio.

In spite of the poor performance in the fiscal year 2017, A.S. Création remains the market leader in the Western European wallpaper industry. Wallpaper is a design-oriented product. The Managing Board is therefore con-

vinced that A.S. Création's success depends on offering our customers up-to-date and trendy products supported by first-class services. Our success consequently hinges on the people who work for A.S. Création and their exceptional commitment to achieving these goals.

As people's attitudes, expectations and priorities change over time, companies evolve as well. They do so, on the one hand, because they must respond to the changes of their customers and, on the other hand, because they are shaped by the ideas and visions as well as the commitment of the people who work for them. This means that A.S. Création is also subject to constant change. We regularly ask ourselves whether A.S. Création is on the right track and what strategic decisions we must take to successfully position our company in the market. The results of the retailer survey regularly conducted by BTH-Heimtex magazine are a good indicator. In the "Fachhandelsbarometer Tapete 2017" survey, A.S. Création is the overall winner across 14 different categories. We are particularly pleased that our customers have ranked us better than all

other wallpaper manufacturers in the "future prospects" category. So apparently we are on the right track.

A.S. Création will continue to evolve on this track. Anticipating the necessary changes and putting them into practice is our responsibility, i.e. the responsibility of the Managing Board. But to lead A.S. Création in the direction that we consider to be the right one, we need your support, dear shareholders. We have so far received this support and your trust also in difficult times. I would like to thank you for this on behalf of the entire Managing Board. We hope that you will continue to support A.S. Création as shareholders as we move forward into the future.

Gummersbach, February 28, 2018



Maik Holger Krämer
Chairman of the Managing Board

Managing Board

Maik Holger Krämer
Chairman
Finance and Controlling

Roland Werner Bantel
Sales and Marketing

Antonios Suskas
Production and Logistics

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Supervisory Board

Franz Jürgen Schneider ^{1),2),3)}
Chairman

Jella Susanne Benner-Heinacher ³⁾
Vice Chairwoman

Dr. Volker Hues ^{1),2)}

Peter Mourschinetz
Employee representative

Jochen Müller ^{1),3)}

Rolf Schmuck ²⁾
Employee representative

¹⁾ Member of Committee for Managing Board Matters

²⁾ Member of Audit Committee

³⁾ Member of Nomination Committee

- January** The A.S. Création share starts the new year at € 29.86.
- At the "Heimtextil" exhibition in Frankfurt am Main, A.S. Création presents the new collections for 2017. They once again include designs by high-profile designers such as the "High Rise" wallpaper collection by Michael Michalsky or "Kind of White" by Wolfgang Joop as well as "Designschungel", the first wallpaper collection designed by blogger Laura N.
- March** The A.S. Création share hits its high for the year at € 35.13 on March 1.
- April** On April 12, A.S. Création takes over OOO Profistil, Minsk, Belarus, and starts building a local wallpaper production facility to be taken into operation in spring 2018.
- May** A very modern and user-friendly online shop for photo wallpapers is launched at awallo.de, giving users an optimised overview of the broad range of modern digital prints.
- June** The "Architects Paper" brand wins the German Brands Award 2017 in the category "Excellence in Brand Strategy, Management and Creation". The prize is awarded in recognition of the digitally printed large-scale reproductions of an old factory hall and of an American diner; both were used to design exhibition booths.
- October** In the German antitrust proceedings, the Düsseldorf Supreme Court announces the verdict in the appeal proceedings and imposes penalties in the total amount of € 13.9 million. A.S. Création has lodged an appeal against the verdict.
- November** In the French antitrust proceedings, the Supreme Court in Paris revoked the verdict of the court of appeal, which had reduced the originally imposed penalties from € 5.0 million to a total of € 2.1 million. The case is thus returned to the court of appeal.
- December** The A.S. Création share ends the year 2017 at € 20.32 on December 29, marking its lowest price of the year.

REPORT OF THE SUPERVISORY BOARD

In the fiscal year 2017, the Supervisory Board met four times, namely on March 8, 2017, on May 4, 2017, on September 12, 2017 and on December 12, 2017. Each of these meetings was attended by all members of the Supervisory Board. There were no changes on the Supervisory Board in the fiscal year 2017.

The company continues to comply with the recommendation of the German Corporate Governance Code according to which the Supervisory Board shall include an adequate number of independent members.

The Supervisory Board has set up the following committees to ensure that its tasks are performed efficiently:

- the Committee for Managing Board Matters, composed of Franz Jürgen Schneider (Chairman), Dr. Volker Hues and Jochen Müller,
- the Audit Committee, composed of Dr. Volker Hues (Chairman), Rolf Schmuck and Franz Jürgen Schneider and
- the Nomination Committee, composed of Jella Benner-Heinacher, Jochen Müller and Franz Jürgen Schneider.

The committees prepare the resolutions to be passed by the Supervisory Board as well as the topics that need to be addressed by the Supervisory Board. In addition, the Supervisory Board has transferred decision-making powers to the committees within the limits of what is legally permissible. It has been ensured that the Supervisory Board is kept informed of the findings and decisions of the committees.

The **Committee for Managing Board Matters**, which is responsible for the preparation of the Managing Board contracts as well as for other personnel matters, held one meeting on March 8, 2017. Taking into account a horizontal and a vertical compensation comparison, the Committee examined and discussed in

particular the performance-linked and the non-performance-linked remuneration of the Managing Board for the fiscal year 2016. The Committee also discussed the reappointment of Mr Roland Werner Bantel, Director of Sales and Marketing, and recommended that the Supervisory Board renew Mr Bantel's appointment to the Managing Board with effect from April 1, 2018.

The **Audit Committee**, which is primarily responsible for reviewing and auditing the financial statements and the consolidated financial statements, the interim report and the quarterly reports as well as for monitoring the effectiveness of the internal risk management system, met twice in the fiscal year, on March 6, 2017 and on September 12, 2017. Both meetings were attended by representatives of the auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, and Maik Holger Krämer as representative of the Managing Board. The Chairman of the Audit Committee, Dr. Volker Hues, is an independent financial expert and has special knowledge and experience in accounting and auditing. At its meeting on March 6, 2017, the Committee primarily dealt with the audit of the financial statements and the consolidated financial statements for the year 2016 and discussed the report of the Supervisory Board and the corporate governance statement as well as the corporate governance report, the recom-

mendation of the Supervisory Board regarding the proposal for the auditors of the financial statements and the consolidated financial statements for the year 2017 as well as the monitoring of the effectiveness of the internal control systems. The Supervisory Board decided already in the fiscal year 2007 to successively subject the internal control systems of all Group companies to an external audit. This is not an event-driven audit but an internal audit in the context of Group-wide risk management. 000 A.S. Création (RUS) was subjected to such an audit in the context of the consolidated financial statements for the fiscal year 2016. As in the previous years, a KPMG member company specialising in such matters was commissioned to conduct the audit. The results of the audit including the corresponding audit report were submitted to the Audit Committee of A.S. Création Tapeten AG and discussed by the latter. KPMG issued a positive overall opinion on the internal control system of 000 A.S. Création (RUS).

At its meeting on September 12, 2017, the Audit Committee dealt with the latest risk report of the Managing Board as well as with the state of the compliance management measures at A.S. Création Tapeten AG, on which the Head of Legal and Compliance reported to the Audit Committee. Another item on the agenda was the obligation to prepare and publish a sustainability report in accordance

with the CSR Directive Implementation Act. Finally, the Audit Committee defined the following key audit areas for the audit of the financial statements for the period ended December 31, 2017: impairment test of financial assets, the presentation of the expected balance sheet effects of the first-time adoption of IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments) in the notes to the consolidated financial statements as well as the completeness and valuation of other provisions.

The **Nomination Committee**, whose tasks include proposing suitable candidates for the election of new shareholder representatives to the Supervisory Board, did not meet in the fiscal year.

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

Board was regularly informed by the Managing Board in personal meetings.

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

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

- analysis, discussion and resolution regarding the adoption of the financial statements and the consolidated financial statements for the year ended December 31, 2016;
- reappointment of Mr Bantel as member of the Managing Board for the period from April 1, 2018 to March 31, 2021;
- discussion of the cost-cutting measures planned by the Managing Board for the year 2017;
- discussion of and resolution on the strategic repositioning and financing of A.S. Création (RUS);
- discussion of the progress made in building up a wallpaper production facility in Belarus;

- discussion of, and resolution on, the comprehensive modernisation of a printing press for the production of wallpapers at the Wiehl-Bomig branch;
- discussion of the latest developments in the antitrust proceedings in Germany and France, especially of the effects of the penalties imposed by the Düsseldorf Supreme Court on the company's future financial position;
- discussion of the strategic orientation of the company and approval of the Group's plans for the fiscal years 2018/2019 and the Group's investment plan for 2018;
- discussion of the reporting and audit duties under the CSR Directive Implementation Act and issuance of the audit engagement regarding the non-financial report for the fiscal year 2017 and
- resolution on conducting an efficiency review of the Supervisory Board.

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

The financial statements of A.S. Création Tapeten AG and the consolidated financial statements for 2017, the management report of A.S. Création Tapeten AG and the Group management report as well as the non-financial report pursuant to the CSR Directive Implementation Act were made available to the Supervisory Board. The auditable documents were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Cologne, and received their unqualified audit opinion. The Supervisory Board also commissioned Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to audit the non-financial report. In the context of this voluntary audit, no facts became known which would suggest that the non-financial report does not comply with the statutory provisions in all material respects.

In response to a proposal submitted by the Supervisory Board, the Annual General Meeting of Shareholders on May 4, 2017 elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft auditors of the financial statements and the consolidated financial statements for the fiscal year 2017. Before submitting the election proposal to the Annual General Meeting of Shareholders, the Supervisory Board, in accordance with the recommendations made by the German Corporate Governance Code, obtained a statement from the auditor stating which professional,

financial and other relations exist between the auditors and the company that might raise doubts about their independence. The statement also covers other services provided to the company in the past fiscal year. The statement issued by the auditors to the Supervisory Board raised no doubts about their independence.

The Audit Committee issued the audit engagement for the fiscal year 2017 on the basis of a resolution adopted on September 12, 2017.

The auditors' reports were submitted to the Supervisory Board members in good time. They also included the report on the audit of the non-financial report. They were discussed in detail at the meeting of the Audit Committee on March 8, 2018 and at the Supervisory Board's annual accounts meeting on March 9, 2018. At the latter meeting, the Chairman of the Audit Committee provided the Supervisory Board with an overview of the treatment of the financial statements and the consolidated financial statements by the Audit Committee. Both the Audit Committee meeting and the Supervisory Board's annual accounts meeting were attended by representatives of the auditors, who reported on the key results of their audit. In the context of their audit, the auditors noted, among other things, that

potential developments that may jeopardise the continued existence of the company and the Group can be identified and are recorded by the risk management system implemented in accordance with Article 91 (2) of the German Stock Corporation Act (Aktiengesetz AktG) and are properly presented in the management report of A.S. Création Tapeten AG and the Group management report. The results of the audit were approved by the Audit Committee and the Supervisory Board.

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

The Supervisory Board therefore approves the financial statements of A.S. Création Tapeten AG and the consolidated financial statements prepared by the Managing Board for the year ended December 31, 2017 as well as the management reports for A.S. Création Tapeten AG and the Group. The financial statements are therefore adopted. The Supervisory Board also supports the Managing Board's profit appropriation proposal.

In accordance with the corresponding recommendation of the German Corporate Govern-

ance Code, the Supervisory Board members of A.S. Création Tapeten AG immediately disclose any conflicts of interest to the Supervisory Board. There were no potential conflicts of interest in the fiscal year which would have had to be disclosed by the individual Supervisory Board members to the Supervisory Board and be reported to the Annual General Meeting of Shareholders.

The Supervisory Board would like to thank the members of the Managing Board of A.S. Création Tapeten AG and all employees for their commitment to the company, its customers

and its shareholders in a challenging fiscal year 2017.

Gummersbach, March 9, 2018

A.S. Création Tapeten AG

On behalf of the Supervisory Board



Franz Jürgen Schneider
Chairman of the Supervisory Board

CORPORATE GOVERNANCE STATEMENT AND REPORT ON CORPORATE GOVERNANCE

Introduction

In the present statement, the Managing Board and the Supervisory Board of A.S. Création Tapeten AG report on corporate governance in accordance with section 289f, section 315d of the German Commercial Code (Handelsgesetzbuch HGB) and number 3.10 of the German Corporate Governance Code.

Good and responsible corporate governance is today defined by nationally and internationally recognised standards. Efficient cooperation between the Managing Board and the Supervisory Board, respect of shareholders' interests as well as open and transparent corporate communication are key aspects of good corporate governance. The Managing Board and the Supervisory Board of A.S. Création Tapeten AG have traditionally been committed to these standards.

German Corporate Governance Code

The German Corporate Governance Code (hereinafter referred to as the "Code") was published by the Government Commission of the same name in 2002. The Code is normally reviewed once a year against the background of national and international developments and amended if required. The latest amend-

ments were decided by the Government Commission on February 7, 2017 and published in the Federal Gazette on April 24, 2017. The current version of the Code can be viewed at www.dcgk.de/en/.

While the cross-industry and cross-company recommendations and suggestions of the Code are not binding, Article 161 of the German Stock Corporation Act (Aktiengesetz AktG) and Article 285 (16) of the German Commercial Code (Handelsgesetzbuch HGB) require an annual declaration by the Managing Board and the Supervisory Board in connection with the publication of the financial statements as to which recommendations of the Code have been and are being complied with and which recommendations have not been and are not being applied ("declaration of conformity"). The latest declaration of conformity issued by the Managing Board and the Supervisory Board of A.S. Création Tapeten AG can be found below.

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

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

The latest declaration of conformity was issued on March 9, 2018 with the following wording:

The Managing Board and the Supervisory Board of A.S. Création Tapeten AG declare that the company has complied with the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry for Justice in the official section of the Federal Gazette (as amended on February 7, 2017 and published on April 24, 2017) since last year's declaration of conformity dated March 8, 2017, save for the following exception and will continue to do so:

- Pursuant to number 4.2.3 of the Code, the variable component of the Managing Board compensation shall have a multiple-year assessment basis that shall have essentially forward-looking characteristics. Moreover, early disbursements of multi-year variable compensation components shall not be permitted. At A.S. Création Tapeten AG, the variable component of the Managing Board compensation is based on the weighted average earnings after taxes of the past three fiscal years, which means that, if a loss is posted for

a fiscal year, this negative amount is taken into account in determining the assessment basis. Each Managing Board member receives a percentage of this assessment basis. This variable, performance-based compensation component is disbursed in the following year, namely at the end of the month in which the consolidated financial statements are submitted to the shareholders. The Annual General Meeting of Shareholders of A.S. Création Tapeten AG approved this compensation system for the Managing Board on April 28, 2016, i.e. prior to the latest amendment of the Code. The variable Managing Board compensation implemented by the company does not comply with the wording of the Code's recommendation, as the defined multi-year assessment basis does not have essentially forward-looking characteristics.

- Pursuant to number 5.4.1 of the Code the Supervisory Board shall specify concrete objectives regarding its composition which take into account, among other things, an age limit for the members of the Supervisory Board and a regular limit of length of membership as well as diversity. The Supervisory Board of A.S. Création Tapeten AG is convinced that the proposals for the election of Supervisory Board

members should be based exclusively on the functional and personal suitability of the candidates. As this suitability does not depend on formal criteria such as age and the length of membership, the Supervisory Board does not comply with this recommendation of the Code.

Work of the Managing Board and the Supervisory Board

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

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

responsibilities are regulated by the rules of internal procedure:

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

The tenure of the current Board members will end on March 31, 2021 for Mr Krämer, on March 31, 2020 for Mr Suskas and on March 31, 2018 for Mr Bantel. The Supervisory Board has reappointed Mr Bantel for another term of office until March 31, 2021.

The Managing Board is responsible for managing the company with due regard to the duties of care and diligence incumbent on the management team of a commercial organisation.

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

The Managing Board informs the Supervisory

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

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

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

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

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

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

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

Supervisory Board is informed of the findings and decisions of the committees.

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

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

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

Diversity policy pursuant to section 289f para. 2 No. 6 HGB

Under section 289f para. 2 No. 6 of the German Commercial Code (HGB), which was introduced with the CSR Directive Implementation Act in 2017, certain undertakings are obliged, for the first time, to make disclosures on their diversity policy. This is a description of the policy applied by the Managing Board and the Supervisory Board with regard to aspects such as age, gender, educational or professional backgrounds, the objectives of that diversity policy, the manner in which it has been implemented, and the results achieved in the reporting period. This new law partially overlaps with the recommendations in number 5.4.1 of the German Corporate Governance Code with regard to the preparation of a profile of skills for the Supervisory Board and the determination of concrete objectives regarding its composition, as well as with the regulations in section 76 para. 4 and section 111 para. 5 of the German Stock Corporation Act (AktG), which oblige certain undertakings to establish and report on target figures for the share of women on the Managing Board and the Supervisory Board as well as at the two management levels below the Managing Board.

Diversity policy for the composition of the Managing Board

With regard to diversity in the composition of the Managing Board, the Supervisory Board of A.S. Création Tapeten AG aims to consider different professional and international experiences as well as to achieve an appropriate representation of both genders. When selecting Managing Board members, however, the Supervisory Board will not focus primarily on the diversity policy but rather on aspects such as knowledge, professional qualifications and the personality of the potential candidates. Priority shall always be given to the interests of the company, while taking into account all circumstances of the individual case. The diversity policy for the Managing Board of A.S. Création Tapeten AG thus serves as a complementary guideline in the selection of suitable candidates and primarily considers the following aspects:

- The Managing Board members shall be able to draw on different professional experiences and areas expertise. This applies to both their education and their professional experience at different companies and the stages of their career. At least one member of the Managing Board should ideally have a technical background.

- The composition of the Managing Board shall reflect an international dimension in terms of cultural origin, extended periods of employment abroad or a number of years at international enterprises. At least one member of the Managing Board should ideally have such an international background.
- When selecting candidates, attention should be paid to having different levels of experience in terms of age while at the same time avoiding an overly mature age structure on the Managing Board. An age limit of up to 65 years shall be stipulated in the contracts of the Managing Board members.
- With regard to diversity regarding the representation of the genders, please refer to the information on the targets for the share of women in the following chapter.

The aim of this diversity policy is to ensure that A.S. Création is led by an effective and efficient Managing Board whose members cooperate in a spirit of trust in the interest of the company and collectively have the required knowledge, skills and experience to successfully take A.S. Création forward. The Supervisory Board is of the opinion that the current composition of the Managing Board

already meets all key objectives of the diversity policy. As outlined above, the tenure of the present Managing Board members will end on March 31, 2020 and March 31, 2021. Consequently, no changes occurred in the fiscal year with regard to the diversity of the Managing Board.

Diversity policy for the composition of the Supervisory Board

With regard to diversity in its composition, the Supervisory Board of A.S. Création Tapeten AG aims to reflect a range of different professional and international experiences as well as to achieve an appropriate representation of both genders. With regard to its objective and when proposing candidates to the Annual General Meeting of Shareholders, however, the Supervisory Board will not focus primarily on the diversity policy but rather on aspects such as knowledge, professional qualifications and the personality of the potential candidates. Priority shall always be given to the interests of the company, while taking into account all circumstances of the individual case. The diversity policy for the composition of the Supervisory Board of A.S. Création Tapeten AG is primarily geared to the following aspects:

- The composition of the Supervisory Board shall ensure its ability to draw on industry expertise as well as professional experience in other areas. It is therefore expressly desired that the Supervisory Board members have different professional backgrounds. They shall cover the following skills profiles:
 - At least one Supervisory Board member should ideally have profound experience from senior positions in the consumer goods industry (including consumer goods trade) or in related sectors.
 - At least one Supervisory Board should have profound experience in M&A transactions and in the integration of acquisitions.
 - At least one Supervisory Board member should ideally have profound capital markets and corporate governance experience.
 - At least one member must have expertise in accounting or auditing within the meaning of section 100 para. 5 of the German Stock Corporation Act (AktG).
- Different levels of experience due to age as well as a reasonable age mix should also be considered in the composition of the Supervisory Board. The Supervisory Board remains convinced, however, that the professional and personal qualification does not depend on formal criteria such as age and the length of membership of the Supervisory Board. Consequently, the diversity policy for the Supervisory Board of A.S. Création Tapeten AG does not stipulate any limits for such criteria.
- The composition of the Supervisory Board shall reflect an international dimension in terms of cultural origin, extended period of employment abroad or several years at international enterprises. At least one quarter of the shareholder representatives should ideally have such an international background.
- With regard to diversity regarding the representation of the genders, please refer to the information on the targets for the share of women in the following chapter.
- More than half of the Supervisory Board members should be independent within the meaning of number 5.4.2 of the German Corporate Governance Code, whereby it is assumed that the fact that a member represents the workforce or has an employment contract with the

A.S. Création Group is no reason to doubt their independence. Where shareholder representatives and employee representatives on the Supervisory Board are regarded separately, more than half of each group should be independent within the meaning of number 5.4.2 of the German Corporate Governance Code.

- At least half of the shareholder representatives on the Supervisory Board should be free from potential conflicts of interest, especially free from those conflicts which could arise from an advisory role or a role on a governing body of a customer, supplier, lender or other third party.
- Not more than two members of the Supervisory Board should be former members of the Managing Board.

The aim of this diversity policy is for A.S. Création Tapeten AG to have a well-balanced Supervisory Board which represents diverse skills, understands the business model of the company and is therefore especially qualified to successfully perform its supervisory and advisory tasks. As outlined above, the current terms of office of all Supervisory Board members will expire at the end of the Annual General Meeting of Shareholders that will ratify their acts for fiscal 2020, i.e. presumably in spring

2021. Consequently, no changes occurred in the fiscal year 2017 with regard to the diversity of the Supervisory Board.

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

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

The Supervisory Board has specified a share of women of 16.7% for the Supervisory Board, which is to be reached by December 31, 2020. This percentage corresponds to the current

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

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

The Managing Board of A.S. Création Tapeten AG has specified a share of women of 14.3% for the first management level below the Managing Board, which is to be reached by December 31, 2021. The target for the share of women corresponds to the actual current level, as the change of generation was initiated prior to the coming into force of the FührungsGleichberG and has been implemented in the meantime. Consequently no further changes are planned or expected until December 31, 2021. This does not mean that an increased share of women at this management level is impossible. The Managing Board will give special consideration to this aspect when appointing replacements in the future, although in this case, too, the qualification of the candidate will be the most important decision-making criterion.

The share of women at the second management level of A.S. Création Tapeten AG is to be increased from 8.7% as of December 31, 2016 to 13.0% by December 31, 2021. The activities for the long-term development of young talent for functional and management positions were expanded already in 2016. For instance, new cooperations with schools and universities were agreed and existing contacts intensified. This approach addresses and supports both young women and young men. Due to changes to the management

structure implemented in the course of 2017, the share of women already stood at 13.0% on December 31, 2017.

Accounting and audit

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

The General Meeting of Shareholders of the year 2017 elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Cologne, (Ernst & Young) as auditor. Prior to the election, Ernst & Young issued a statement of independence as recommended by the German Corporate Governance Code. This statement has not given rise to any doubt about the

independence of Ernst & Young as an auditor. It was contractually agreed with the auditor that the Supervisory Board would be informed immediately of

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

Transparent corporate communication

Open and transparent corporate communication is an important aspect of good corporate governance. Apart from clear and comprehensible contents, this aspect also calls for all stakeholders to have equal access to company information. A.S. Création attaches great importance to the Internet as an information medium that is freely accessible irrespective of time and place. The website of A.S. Création (www.as-creation.de) therefore provides a wealth of well-structured company informa-

tion for interested users, e.g. in the "Investor Relations" section, which contains comprehensive financial information on A.S. Création such as annual and interim reports as well as ad-hoc and press releases. All information is simultaneously available in German and English.

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

Gummersbach, March 9, 2018

A.S. Création Tapeten AG

For the Supervisory Board



Franz Jürgen Schneider
Chairman of the Supervisory Board

For the Managing Board



Maik Holger Krämer
Chairman of the Managing Board

GROUP MANAGEMENT REPORT

1. General corporate information

The A.S. Création Group comprises two Divisions (segments), the Wallpaper Division and the Furnishing Fabrics Division. The Wallpaper Division produces and markets wallpapers and borders on a global scale; accounting for more than 90% of 2017 Group sales, it is the larger of the two Divisions. The wallpapers are primarily produced in Germany at A.S. Création Tapeten AG. In addition, wallpapers are produced by the Russian joint venture, A.S. & Palitra. Another wallpaper production facility is being built up by the Group's Belarus subsidiary, OOO Profistil in Minsk. This facility is sched-

uled to be taken into operation in spring 2018. The other operating entities that form part of the Wallpaper Division are pure sales and trading companies without their own production facilities. They are based in the UK, the Netherlands, France and Russia. Headquartered in Germany, the Furnishing Fabrics Division markets curtains and furnishing fabrics and has no manufacturing resources of its own.

The operating result (earnings before interest and taxes (EBIT)) as well as the EBIT margin play an important role for controlling the Group. The cost of materials and personnel

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

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

The most important output markets of A.S. Création are in Europe. In the fiscal year 2017, the countries of the European Union (EU) accounted for 80.7% of the Group's gross sales revenues (previous year: 83.2%), while non-EU Eastern European countries accounted for 11.3% (previous year: 9.6%). Representing

41.6% (previous year: 42.6%), Germany is the company's single most important market.

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

Given that wallpapers and furnishing fabrics are not technical products but fashion-driven products, the research and development activities of A.S. Création primarily focus on the development of new designs. In the fiscal year 2017, the company spent € 2.6 million (previous year: € 2.6 million) in these creative activities. These expenses are not capitalised as the criteria of IAS 38 are not met.

2. Economic report

2.1. Macroeconomic environment

In view of the expected drop in demand from China and other emerging countries, the fore-

casts for the eurozone predicted moderate GDP growth of 1.8% for 2017. This conservative estimate was clearly exceeded; at 2.4%, the eurozone recorded a strong increase in the gross domestic product in 2017. Following growth rates of 1.5% in 2015 and 1.8% in 2016, the 2.4% increase in 2017 was very gratifying and reflects the economic recovery in the eurozone. Nine years after the financial crisis of 2008, the gross domestic product thus stands above the pre-crisis level. The unemployment rate declined to 9.1% in 2017 (previous year: 10.0%). This was one reason for the continued strong consumer sentiment, as was reflected in a 1.7% increase in consumer spending in the eurozone in 2017. It was supported by the continued low interest rates, which also benefited the corporate sector. The still notable effects of the Ukraine crisis had an adverse impact, however. The weakness of important Eastern European currencies against the euro and the economic sanctions put a damper on exports.

Over the past ten years, growth in the German economy clearly exceeded average growth in the other eurozone countries. Since 2016, however, Germany has no longer benefited from such a special trend of economic activity. At 2.2%, the growth rate in 2017 was even slightly below the eurozone average of 2.4%. Growth was primarily driven by higher consumer

spending, which benefited not only from lower interest rates but also from higher real wages, advanced by 2.1% in 2017. Dropping from 6.1% in the previous year to 5.7% in 2017, the unemployment rate also contributed to this upward trend in consumer spending.

The economic situation in Russia has improved somewhat. Having contracted by 0.5% in 2016, the Russian economy expanded by 1.9% in the reporting year. This positive trend is primarily attributable to the fact that the oil price picked up sharply in the course of 2017, as commodity and energy-oriented companies are of great importance for the local economy. Russia's inflation rate improved from 7.1% in 2016 to 3.6% in the year under review. It is therefore not surprising that consumer spending, which always supported the Russian economy in the past, also showed a positive trend in 2017 and rose by 3.5%. By contrast, the sanctions imposed in conjunction with the Ukraine crisis and the weakness of the rouble against the euro still had an adverse impact on the economy. While the average rouble exchange rate improved slightly in the fiscal year, the 2017 average of RUB/€ 66.03 still exceeded the 2013 average of RUB/€ 42.39 by as much as 56%. As a result, the prices of imported goods are significantly higher than in the past.

Prices in the international commodity and energy markets picked up notably in 2017. According to the Hamburg Institute of International Economics (HWWI), global commodity and energy prices rose by 18% on a euro basis in 2017. The rise in the oil price was an important reason for this increase. While the average oil price of the year 2016 stood at approx. USD 45 per barrel, it rose by 12.7% in 2017 to an average of approx. USD 51. This increase is due to the agreement of the OPEC countries in 2016 to limit their output in order to reduce the strong oversupply in the international oil market. As a consequence of this decision, the oil price climbed to USD 56 per barrel already at the end of 2016. In the course of 2017, the price dropped below USD 50 only to reach USD 60 per barrel from autumn 2017 to the end of the year. Unlike the previous year, when A.S. Création was able to benefit from falling commodity and energy prices, their increase in 2017 weighed heavily on A.S. Création's net profit.

2.2. Industry-specific environment

Even though the Global Wallcoverings Association (IGI) has not yet released the 2017 figures for the international wallpaper markets, the Managing Board of A.S. Création assumes

that the wallpaper markets that are relevant for A.S. Création contracted more strongly than A.S. Création's revenues. This assumption is supported by the 2017 figures of the German wallpaper manufacturers reported by the Association of German Wallpaper Manufacturers (VDT). The German wallpaper industry recorded partly strong declines in both domestic sales and export revenues. As production capacities in the wallpaper industry are not being fully utilised, price competition has increased and resulted in mounting consolidation pressure. The 5.9% decline in the sales revenues of A.S. Création's Wallpaper Division from € 139.8 million in the previous year to € 131.5 million in the past financial year should also be seen against this background. A.S. Création was able to win some market share in a consolidating market in 2017.

The German furnishing fabrics industry also remains in a consolidation process. While sales revenues in the home textiles sector notably declined in 2016, no figures for 2017 have yet been published by the Association of German Home Textiles Manufacturers. The Managing Board assumes, however, that the market volume of furnishing fabrics and curtains contracted more strongly in 2017 than the Furnishing Fabric Division's revenues, which declined by 7.9% from € 12.8 million in 2016 to € 11.8 million in the reporting

year. Accordingly, A.S. Création has probably also won market share in this segment.

2.3. Overview of the business trend

A.S. Création was unable to benefit from the improved macroeconomic environment in 2017. The original revenue forecast, according to which sales revenues were expected to amount to between € 155 million and € 160 million, had to be downgraded to between € 138 million and € 143 million in the course of the year 2017. At € 143.3 million, A.S. Création's consolidated sales revenues came in at the upper end of the revised forecast and were thus in line with expectations. Compared to the previous year's € 152.6 million, A.S. Création's revenues dropped by 6.1% in the fiscal year 2017. Unlike the years 2015 and 2016, when sales revenues declined in all regions, the decline in the fiscal year 2017 is exclusively attributable to the European Union (EU), whereas revenues in the other regions increased.

A.S. Création's earnings deteriorated notably in the reporting year. While a profit before taxes of € 10.2 million was posted in the previous year, A.S. Création closed the fiscal year 2017 with a loss before taxes of € -17.8

million. This loss and the poorer earnings position are mostly attributable to the following extraordinary factors:

- In October 2017, the Düsseldorf Supreme Court announced the verdict in the appeal proceedings that A.S. Création had initiated in 2014 against the penalty notices issued by the German Federal Cartel Office. Contrary to what A.S. Création has expected, the court did not reduce the penalties imposed on A.S. Création Tapeten AG as well as its officers but raised them to a total of € 13.9 million. Although the Supreme Court's verdict is not final yet, the Managing Board increased the risk provisions in 2017; they now reflect the maximum amount by which A.S. Création's result may be reduced. Together with the additional legal fees incurred in 2017 for the appeal proceedings, the German antitrust proceedings reduced the company's earnings before taxes by € 13.1 million (previous year: € 0.0 million) in the fiscal year.
- The depreciation of the rouble against the euro in the course of the year 2017 led to translation-related exchange losses of € 2.0 million, weighing on the Group's result before taxes in the reporting year. In the previous year, A.S. Création had

benefited from translation-related exchange gains of € 4.5 million.

- The declining revenues prompted a reorganisation of the A.S. Création Group's structures in the past two years. In the course of 2016, for instance, the German production facilities were concentrated in Wiehl-Bomig, and in 2017, the administrative and sales departments were reorganised. This led to relocation expenses and severance payments, which reduced earnings before taxes by € 0.9 million in the fiscal year (previous year: € 1.3 million).

Adjusted for the extraordinary effects described above, earnings before taxes fell from € 7.0 million in the previous year to a loss of € -1.8 million in the reporting year. This decline by € 8.8 million essentially reflects the earnings shortfall resulting from the lower revenues and the reduced gross profit margin in the fiscal year, which were not offset by cost saving measures.

This means that the company did not meet its original forecast providing for earnings after taxes of between € 4 million and € 5 million in the financial year 2017. Against the background of the poor revenue trend, the stronger than expected contraction in the gross profit margin and the unfavourable verdict of the

Düsseldorf Supreme Court, the Managing Board revised its original forecast for the fiscal year in the fourth quarter of 2017 and projected a loss of between € -16 million and € -19 million. At € -17.8 million, the loss now posted for the fiscal year is within the projected range.

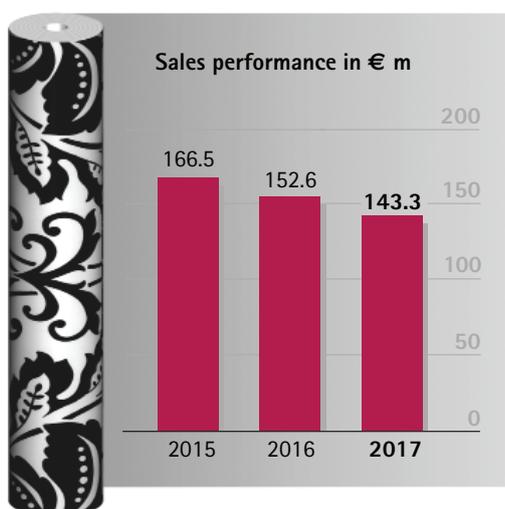
3. Net asset, financial and earnings position

3.1. Earnings position

3.1.1. Sales revenues

A.S. Création's sales revenues declined by € 9.3 million or 6.1% from € 152.6 million in the previous year to € 143.3 million in the past fiscal year. Sales revenues were only marginally influenced by changes in the exchange rates of the Russian and Belarus rouble against the euro and the pound sterling against the euro. At the bottom line, these exchange rate changes increased revenues by € 0.4 million.

Both divisions of A.S. Création were affected by the drop in revenues in 2017. The Wallpaper Division's revenues declined by 5.9%, while the Furnishing Fabrics Division recorded a 7.9% reduction in revenues. The breakdown of Group sales revenues by divisions has not changed materially. The Wallpaper Division



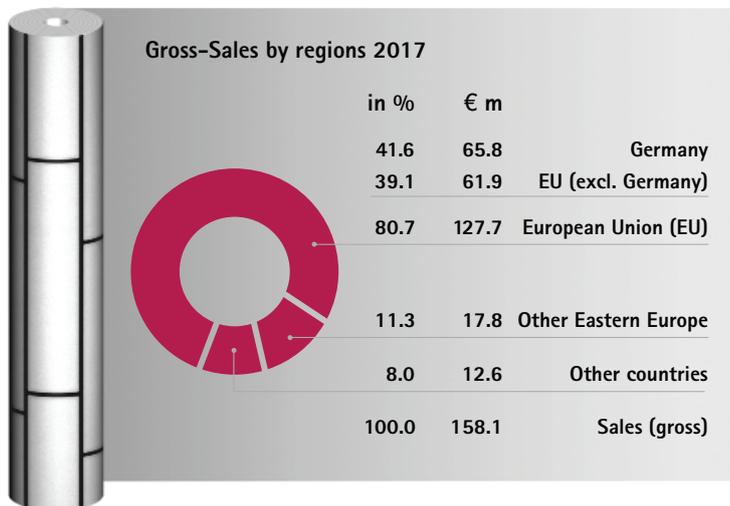
accounted for € 131.5 million or 91.8% (previous year: € 139.8 million or 91.6%) of the Group's total 2017 revenues in the amount of € 143.3 million (previous year: € 152.6 million), while the Furnishing Fabrics Division contributed € 11.8 million or 8.2% (previous year: € 12.8 million or 8.4%).

A breakdown of sales revenues by region shows that A.S. Création's sales revenues in the European Union (EU) declined by a strong 9.6% in the past fiscal year, whereas revenues in the other regions increased. The downturn in gross revenues in the EU is essentially attributable to the reduction in revenues in the larger wallpaper markets, Germany, France and Great Britain.

According to specialist retailers in Germany, where overall demand for wallpaper and

furnishing fabrics was weaker in 2017, sales revenues declined also in other product segments of the interior design sector such as wall paint. These product groups were apparently unable to benefit from increased consumer spending in the past year. Besides this generally weaker demand, A.S. Création was also adversely affected by the fact that several large customers invited tenders for wallpaper products. During such tender phases, retailers reduce their orders to ensure their inventories will be as low as possible if and when they change suppliers. In the fiscal year 2017, A.S. Création also felt the effects of the changed procurement strategies adopted by some DIY stores in the course of 2016. Some DIY stores had given up their former single-supplier strategies in the wallpaper segment to the detriment of A.S. Création. The above effects sent gross revenues in Germany falling by € 6.6 million or 9.1% from € 72.4 million in 2016 to € 65.8 million in 2017. The German Wallpaper Association recorded a decline of approx. 10% in domestic revenues, which means that A.S. Création was able to increase its market share slightly in 2017 in spite of the changed environment. The Managing Board of A.S. Création regards this as a success.

A.S. Création's gross revenues in the rest of the European Union (EU) fell by 10.1% from € 68.8 million in the previous year to € 61.9



million in the reporting year. This was mainly due to the fact that the French (wallpaper) market remained in a poor state. Moreover, A.S. Création's sales revenues in the Baltic states reduced notably. The Russia crisis had an adverse impact on the Baltic states, given that the latter have traditionally maintained close economic relations with Russia. In fact, several of A.S. Création's Baltic customers filed for insolvency in the past two years. The revenues previously generated with these customers did not recur in the fiscal year 2017. Finally, A.S. Création's sales revenues in the UK DIY store segment showed a negative trend in 2017, as customers closed stores and reduced their inventories and initiated an international invitation to tender for wallpaper products, which led to reduced top-up orders. Although A.S. Création recorded growing sales revenues in other European countries such as

Poland and the Netherlands, these were insufficient to offset the reduction in revenues in the larger EU wallpaper markets.

As a result of the above developments, gross revenues in the EU including Germany were down by € 13.5 million or 9.6% on the previous year's € 141.2 million in the past fiscal year and amounted to € 127.7 million. On the upside, the decline in revenues in the EU slowed down to 3.0% in Q4 2017 and domestic revenues even increased by 1.6% during this period.

Gross revenues generated by A.S. Création in Eastern European countries outside the EU showed a positive trend in the reporting year. At € 17.8 million, they were up by € 1.5 million or 9.6% on the previous year's € 16.3 million in the fiscal year 2017. This was the first increase in revenues recorded by A.S. Création in this region since the fiscal year 2013. These figures do not include any contribution from the new wallpaper production facility in Belarus, as the latter will not be taken into operation before spring 2018. The Managing Board therefore regards this increase in revenues as a success which vindicates the decision to reorganise the sales structure in this region. Even though € 0.6 million of this revenue growth is attributable to the fact that the average value of the Russian rouble against the euro in 2017 exceeded

the prior year level, a turnaround in revenues in Eastern Europe is clearly on the cards for A.S. Création. There is no denying, however, that in the fiscal year 2008, i.e. prior to the financial crisis and the Ukraine crisis, A.S. Création generated gross revenues of € 58.9 million in non-EU Eastern European countries – compared to only € 17.8 million in 2017. This means that A.S. Création's sales revenues in non-EU Eastern European countries have declined by close to 70% or approx. € 41 million since 2008. Consequently, the region's share in total Group revenues fell from 30.7% in 2008 to 11.3% in 2017. This slump in revenues was (and still is) due to the poor economic situation in combination with the depreciation of the local currencies against the euro, which led to reduced demand for wallpapers produced in Western Europe and to increased demand for locally made products.

As a result of the regional developments described above, the breakdown of sales revenues by regions shifted somewhat the fiscal year 2017. The share of gross revenues generated in Germany decreased moderately from 42.6% in the previous year to 41.6% in the fiscal year 2017. As a consequence, the EU's share in gross revenues also declined from 83.2% in 2016 to 80.7% in 2017. The share of the Eastern European countries increased to 11.3% (previous year: 9.6%).

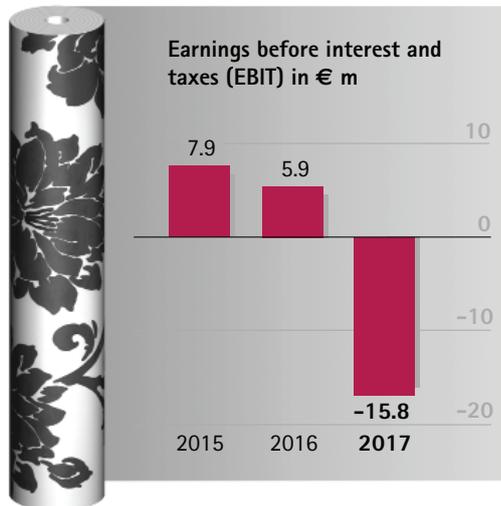
The remaining 8.0% (previous year: 7.2%) is accounted for by close to 70 other countries in which A.S. Création generates revenues. The Group's revenues thus continue to focus on the EU.

The Managing Board is not satisfied with the revenues of € 143.3 million generated in the fiscal year.

3.1.2. Earnings

The earnings position of A.S. Création deteriorated notably in the fiscal year 2017. An operating loss of € -15.8 million was posted for the fiscal year, compared to a profit of € 5.9 million in the previous year. Of the € 21.7 million decline in the operating result, an amount of € 14.1 million, i.e. the biggest portion, is attributable to the following extraordinary effects, which should be taken into account in analysing the Group's operating performance:

- Antitrust proceedings
On October 12, 2017, the Düsseldorf Supreme Court announced the verdict in the appeal proceedings which A.S. Création had lodged against the penalties imposed by the German Federal Cartel Office in 2014. Contrary to what A.S. Création had expected, the court did not reduce



the penalties imposed on A.S. Création Tapeten AG and its officers but increased them to a total of € 13.9 million. Although the Supreme Court's verdict is not final yet, the Managing Board increased the risk provision in the fiscal year, so that they now reflect the maximum amount by which A.S. Création's result may be reduced. Together with the additional legal fees incurred for the appeal proceedings in 2017, the antitrust proceedings in Germany reduced the operating result by € 13.1 million in the fiscal year (previous year: € 0.0 million). This amount is included in other operating expenses.

- **Reorganisation expenses**
Against the background of the declining revenues, the structures within the

A.S. Création Group were adjusted over the past three years. In 2016, for instance, the German production activities were concentrated in Wiehl-Bomig, and in 2017, the administrative and sales departments were reorganised. This led to relocation expenses and severance payments, which reduced EBIT by € 0.9 million in the fiscal year (previous year: € 1.3 million). This amount breaks down into € 0.9 million (previous year: € 0.1 million) for severance payments and in the previous year, € 1.2 million for other operating expenses.

- **Exchange gains and losses**
The rouble exchange rate rose from RUB/€ 63.81 to RUB/€ 68.87 in the course of 2017, as the euro appreciated against the rouble (and the rouble depreciated against the euro) by approx. 8%. As A.S. Création (RUS) is financed in euros, this exchange rate trend led to translation-related exchange losses. On balance, exchange losses totalling € -0.6 million (previous year: exchange gains of € 0.8 million) influenced A.S. Création's EBIT in the fiscal year 2017.

Adjusted for these factors, A.S. Création's operating performance deteriorated by € 7.6 million from an operating profit of € 6.4 million in 2016 to an operating loss of € -1.2 million in 2017.

The analysis of the operating performance shows that A.S. Création generated gross profits of € 70.0 million in the fiscal year (previous year: € 79.5 million), which means that the sales process yielded € 9.5 million less in gross profits to cover other expense items than in the previous year. Of this decline, € 4.2 million related to the revenue shortfall against the previous year and € 5.3 million resulted from the sharp drop in the gross profit margin by 3.7 percentage points from 52.5% in the previous year to 48.8% in 2017. As outlined in paragraph 2.1. ("Macroeconomic environment"), one of the main reasons for the reduced gross profit margin was the general increase in global commodity and energy prices in 2017, which also affected the commodities used by A.S. Création as well as the company's electricity consumption. The fierce competition among wallpaper manufacturers also weighed on the gross profit margins.

The gross profit shortfall of € 9.5 million was only partly offset by cost savings in the fiscal year.

At € 40.3 million, personnel expenses in the fiscal year 2017 were down by € 0.4 million on the previous year's € 40.7 million. Adjusted for the above-mentioned severance payments, personnel expenses declined by € 1.2 million or 3.0% from € 40.6 million in the previous year to € 39.4 million in 2017.

The reduction in personnel expenses thus failed to keep pace with the drop in revenues, which, as outlined above, amounted to 6.1%. Consequently, the personnel expense ratio (personnel expenses as a percentage of total output) exceeded the previous year's high 26.8% and reached 28.1% in the reporting period. Even adjusted for the severance payments, the personnel expense ratio, at 27.5%, was too high and the improvement planned for 2017 was not achieved. Apart from the unplanned decline in revenues, the following factors had an adverse impact on the personnel expense ratio.

- The average headcount declined by 7 from 768 in the previous year to 761 in the fiscal year. This change is the result of two opposite effects. On the one hand, the Belarus production company hired new people in the course of 2017, resulting in an average headcount of 25 people at this company in the reporting year. As the production facility will not be taken into operation before spring 2018, this additional personnel did not generate any revenues in the past fiscal year, which had an adverse impact on the personnel expense ratio. The existing entities of the A.S. Création group reduced their average headcount in 2017 by 32 people or 4.2%. As this reduction occurred only in the course of the year 2017, the decline in

the average headcount does not yet reflect the full extent of the reduction. This will only be the case in 2018 and lead to a notable drop in the existing entities' personnel expenses.

- The savings achieved as a result of the job cuts compared to 2016 were partly offset by the 2.1% collective pay rise agreed in January 2017 for most of the Group's domestic workforce.

The sharp rise in other operating expenses by € 13.1 million or 47.9% from € 27.2 million in the previous year to € 40.3 million in 2017 and the resulting deterioration in the relation between other operating expenses and total output to 28.0% (previous year: 18.0%) are primarily attributable to the extraordinary effects described above. Adjusted for these burdens, other operating expenses stood at € 26.4 million in the fiscal year (previous year: € 25.7 million), representing 18.4% (previous year: 17.0%) of total output. This reflects, among other things, higher sales-related expenses, e.g. for advertising and trade fairs.

At € 6.5 million, depreciation was down by € 1.1 million on the previous year's € 7.6 million, helping to improve the result in the fiscal year. The decline is due, on the one hand, to the fact that older plants

and machinery are no longer written off and, on the other hand, to reduced investments in printing and embossing rollers as well as rotary screens; these are written off over short periods of only three years. The high investments of the fiscal year 2017 have not yet resulted in increased depreciation, as they primarily related to the new wallpaper production facility in Belarus, which is still being built up.

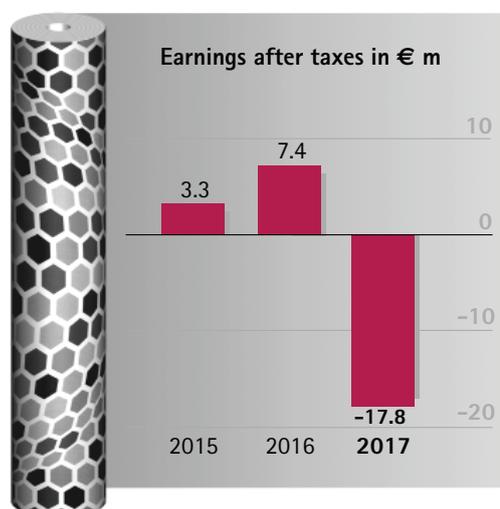
Between them, the effects described above resulted in an operating loss of € -15.8 million in FY 2017 – down from an operating profit of € 5.9 million in the previous year. Even adjusted for the above-mentioned significant extraordinary effects, A.S. Création still posts a loss of € -1.2 million for the reporting year (previous year: operating profit of € 6.4 million), which means that the operating performance in the past fiscal year is not satisfactory.

Just like the operating result, the financial result also deteriorated notably in the fiscal year 2017 and fell by € 6.3 million from € 4.3 million in the previous year to € -2.0 million in the fiscal year 2017.

The earnings situation of the Russian joint venture, A.S. & Palitra, has the biggest influence on the consolidated financial result of A.S. Création. Given that A.S. Création

Tapeten AG and the second shareholder, Kof Palitra, each own 50% of this company, the Russian wallpaper company is accounted for using the equity method; consequently the share in net result after taxes that is attributable to A.S. Création is recognised in the Group's financial result. While a pro-rated profit of € 3.9 million was achieved in the fiscal year 2016, a pro-rated net loss of € -2.5 million was posted for the past fiscal year. As the joint venture is largely financed with euro loans, its earnings are influenced by changes in the RUB/EUR exchange rate. Given that the Russian rouble lost value against the euro in 2017, A.S. & Palitra recorded translation-related exchange losses of € -1.4 million in the reporting year, compared to exchange gains of € 3.7 million in the previous year. Adjusted for these exchange rate effects, the pro-rated result of A.S. & Palitra deteriorated from € 0.2 million in the previous year to € -1.1 million in the fiscal year 2017. This primarily reflects the fact that the joint venture was unable to utilise its production capacity in the reporting period due to a decline in wallpaper consumption in Russia. Increased commodity prices also weighed on the company's gross profit margin in the reporting year.

By contrast, with interest rates close to zero, the decline in the net credit position from € 11.7 million on December 31, 2016 to



€ 0.4 million on the balance sheet date had hardly any effect on A.S. Création's financial result. The interest portion in pension provisions also remained virtually unchanged from the previous year. At € 0.5 million, net interest income was therefore almost on a par with the previous year's € 0.4 million.

Earnings before interest and taxes and the financial result led to a loss before tax of € -17.8 million in the fiscal year 2017, compared to a profit of € 10.2 million in the previous year. The extraordinary factors outlined in the context of the analysis of the operating and financial result had a negative effect of € 16.0 million on earnings before taxes in the fiscal year 2017 and a positive effect of € 3.2 million in the previous year. Adjusted for these extraordinary effects, earnings before taxes dropped by € 8.8 million from € 7.0

million in the previous year to a loss of € -1.8 million in the fiscal year 2017.

The result before taxes includes high expense items which do not reduce the tax assessment base, namely the pro-rated losses of the Russian joint venture accounted for using the equity method and the provisions for risks arising from the antitrust proceedings in Germany. This is the main reason why the loss before taxes of € -17.8 million posted for the fiscal year 2017 does not result in any tax relief. Consequently, the result after taxes is the same as the result before taxes and amounted to € -17.8 million, compared to a profit of € 7.4 million in the previous year.

Based on the number of shares outstanding, which remained unchanged at 2,756,351 in 2017, earnings per share amounted to € -6.45 (previous year: € 2.70).

The Managing Board of A.S. Création is disappointed with the company's earnings position in the fiscal year 2017 in every respect.

3.1.3. Profit appropriation

The Managing Board of A.S. Création Tapeten AG has always pursued a dividend policy that provides for a high payout ratio as long as

this is permitted by the company's financial situation. In the past years, the payout ratio of A.S. Création settled at a level of between 45% and 50%. This means that the dividend policy of A.S. Création is characterised by continuity and reliability.

The fixed payout ratio means that the absolute amounts of the dividend payments are not smoothed over time but increase or decrease in line with earnings. As explained in paragraph 3.1.2 ("Earnings"), a loss was posted for the fiscal year 2017. In keeping with the historical dividend policy, this loss would result in no dividend being disbursed for the fiscal year 2017. It will therefore be proposed to the Annual General Meeting of Shareholders scheduled for May 3, 2018 to pay out no dividend for the fiscal year 2017. Although this is a difficult decision, the Managing Board is convinced that this is in the long-term interest of the company and, hence, of its shareholders.

3.2. Financial position

3.2.1. Capital expenditures

At € 10.2 million, capital expenditures were up by € 5.2 million on the previous year's € 5.0 million. Of the total investments in

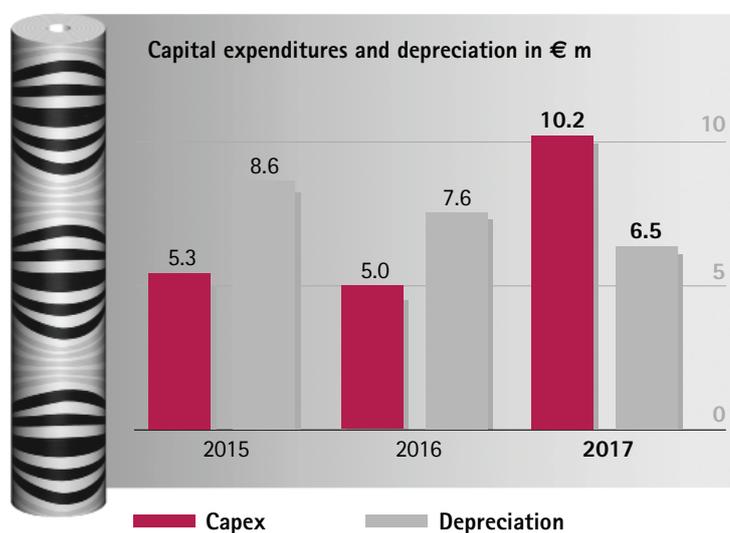
2017, € 6.9 million related to the build-up of Profistil, the Belarus production company.

Adjusted for the investments made in building up the Belarus production facility, capital expenditures in the fiscal year 2017 amounted to € 3.2 million, a level clearly below the previous year's € 5.0 million. This amount primarily comprised investments in printing tools for the new wallpaper collections. Moreover, the company made the first advance payments for the modernisation of the logistic centre in Wiehl-Bomig, which will be implemented in 2018.

As of the balance sheet date, the company had financial obligations from order commitments for investments in tangible fixed assets in the amount of € 2.8 million (previous year: € 1.1 million).

3.2.2. Cash flow statement and net financial liabilities

As outlined in paragraph 3.1.2. ("Earnings"), additional risk provisions were established in 2017 for the penalties imposed by the courts in the German antitrust proceedings. While these provisions weighed on earnings after taxes in the fiscal year 2017, they did not result in any payments, as the verdict is not final yet. The poorer earnings contribution



made by the Russian joint venture, A.S. & Palitra, which is accounted for using the equity method, has no cash effect either. This is why A.S. Création's operating cash flow in 2017 was positive in spite of the loss incurred. At € 3.2 million, operating cash flow was down by € 13.9 million on the previous year's € 17.1 million, though.

On the one hand, this reduction in operating cash flow reflects the fact that A.S. Création's earnings position deteriorated in the fiscal year, even if adjusted for extraordinary effects. On the other hand, the company was more successful in reducing its inventories and receivables in the previous year than in the fiscal year 2017, which means that a larger amount of tied-up capital was released in 2016



than in 2017. This had increased the cash flow from operating activities in the previous year. Accordingly, current asset figures reflect an – albeit marginal – deterioration:

- imputed inventory turnover came in at 3.8x per year in 2017 (previous year: 4.0x) and
- days of sales outstanding amounted to 64 in 2017 (previous year: 63).

The reduced cash flow from operating activities was insufficient to cover A.S. Création's increased financing requirements resulting from the capital expenditures and the dividend payout in the fiscal year 2017. At € 10.2 million, capital expenditures exceeded the previous year's € 5.0 million by € 5.2 million

in 2017, and due to the improved result posted in FY 2016, a dividend of € 3.4 million was disbursed in May 2017 (previous year: € 1.7 million).

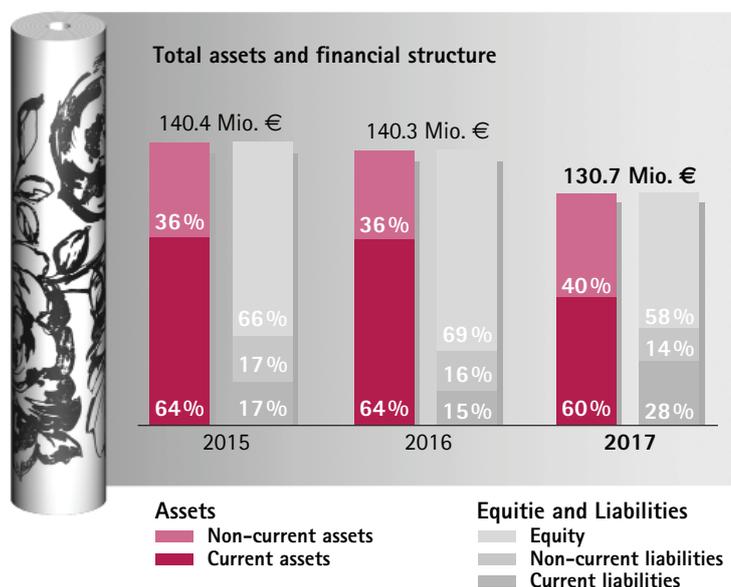
As a consequence, almost the complete net credit position (difference between cash and cash equivalents and interest-bearing financial liabilities) of € 11.7 million posted as at December 31, 2016 was used up in the course of 2017. As of the balance sheet date, the net credit position stood at € 0.4 million. The decline by € 11.3 million is the result of the repayment of interest-bearing liability of € 1.1 million and an outflow of cash and cash equivalents as well as current financial assets of € 12.4 million. As of the balance sheet date, A.S. Création thus had cash and cash equivalents as well as current financial assets in the amount of € 8.8 million (previous year: € 21.2 million), which contrasted with interest-bearing financial liabilities of € 8.4 million (previous year: € 9.5 million).

3.2.3. Balance sheet structure

A.S. Création's conservative financing policy is characterised by long-term debt at fixed interest rates as well as by repayments during the term of the loans and has proven its worth

especially during the past turbulent years. In the past years, A.S. Création did not face a reduction in credit lines or had to renegotiate the conditions of its existing loans. Only where unused credit lines appeared to be too high were they reduced in agreement with the lending banks. The Group has a robust financial structure, which is reflected in the following balance sheet figures:

- Equity capital declined to € 75.7 million as at December 31, 2017 (previous year: € 96.5 million) due to the loss incurred in the fiscal year 2017. As a result of the reduced equity capital, the equity ratio fell from 68.8% in the previous year to 57.9%. According to the Managing Board, however, this is still an above-average level.
- Equity and non-current liabilities are more than sufficient to finance non-current assets. As of December 31, 2017, the respective ratio stood at 177.7% (previous year: 237.6%), which means that the "golden rule of financing" was more than fulfilled.
- The net credit position dropped sharply in the fiscal year due to the lower cash flow, increased capital expenditures and the dividend payment and stood at € 0.4 million on December 31, 2017 (previous year: € 11.7 million).



As of December 31, 2017, the Group's total assets amounted to € 130.7 million (previous year: € 140.3 million) of which 78.1% (previous year: 78.4%) related to property, plant and equipment, inventories, trade receivables, current financial assets as well as cash and cash equivalents. By contrast, intangible assets (including goodwill) stated in the balance sheet as of the balance sheet date merely play a minor role and represented only 6.4% (previous year: 5.8%) of total assets and 11.0% of equity (previous year: 8.4%).

The Managing Board of A.S. Création believes that the net asset and financial position of A.S. Création is sound.

4. Material non-financial indicators

4.1. Employees

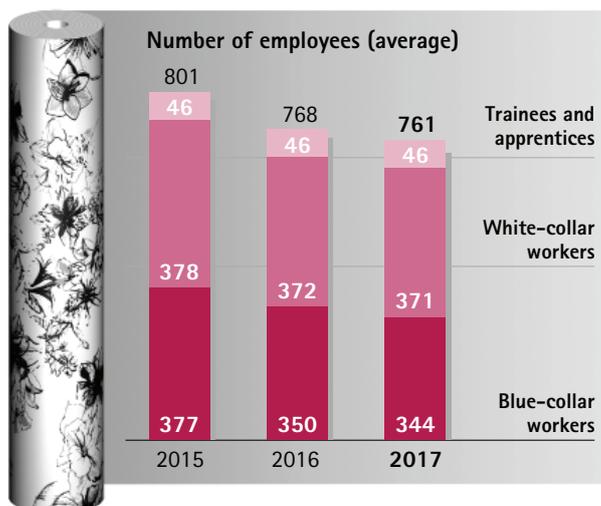
The A.S. Création Group employed an average of 761 people (previous year: 768 people) in the fiscal year 2017. 692 employees (previous year: 696) worked in the Wallpaper Division and 69 (previous year: 72) in the Furnishing Fabrics Division. A majority of 593 people or 77.9% (previous year: 618 people or 80.6%) are employed by the domestic Group companies.

The decline in the average headcount by 7 people from 768 in 2016 to 761 the fiscal year 2017 is the result of two opposite effects:

- Profistil is building up a wallpaper production facility in Belarus. In this context, the first employees were hired in the course

of 2017. On an annual average, the company employed 25 people in 2017. The company did not form part of the basis of consolidation in the previous year.

- The other companies of the A.S. Création Group continued to implement measures to adjust their headcounts and personnel expenses to the reduced revenues and the deteriorating earnings position in 2017. Redundancies became necessary in this context and the headcount of these companies was reduced by 32 full-time employees or 4.2% from an average of 768 in 2016 to an average of 736 in 2017. As this reduction was implemented only in the course of 2017 and periods of notice had to be observed, the decline in the average headcount of 2017 does not reflect the full extent of the reduction. This will not be the case before 2018. As a result of the measures taken so far, the average headcount of the Group companies (excluding Profistil) will be reduced to below 700 in 2018.



As the average headcount declined by 0.9% and sales revenues decreased by 6.1% in the past fiscal year, sales per employee continued to decline from € 0.199 million to € 0.188 million in 2017. Excluding the 25 employees of Belarus company Profistil, who did not generate any revenues in 2017, sales rev-

enues per employee amounted to € 0.195 in the reporting year. Paragraph 3.1.2. ("Earnings") addresses the increase in personnel expenses as a percentage of total output and further burdens resulting from the latest collective pay rises.

A.S. Création's traditionally strong commitment to training young people has not and will not be restricted. In 2017, A.S. Création trained an average of 46 (previous year: 46) young people in one of the eleven occupations for which A.S. Création offers vocational training. The Managing Board of A.S. Création is convinced that the training and further education of its workforce are important factors for the future of the company. Consequently, the training activities were not reduced in spite of the economically challenging conditions prevailing over the past years. Trainees/apprentices represented 7.7% of the domestic workforce (previous year: 7.3%).

4.2. Sustainability report

At its meeting on March 9, 2018, the Supervisory Board will discuss and take a resolution on the combined non-financial Group report pursuant to section 315b para. 2 of the German Commercial Code (Handelsgesetzbuch HGB) in conjunction with section 289b and section 289c HGB. The report will subsequently

be published on the company's website in the "Company" section under "Sustainability".

5. Important events in 2017

In 2017, we started to build up a wallpaper production facility in 2017 in Belarus. Belarus is a member of the Eurasian Economic Union (EAEU), i.e. the alliance of Armenia, Kazakhstan, Kyrgyzstan, Russia and Belarus to form a single market and customs union, and offers low production costs with regard to labour and energy. This makes Belarus an attractive location for the low-cost production of wallpapers satisfying the demand in the EAEU. Against this background, we acquired 100% of the shares in OOO Profistil, Minsk/Belarus, which owns a property that will serve as the future production facility. This property was refurbished in the course of 2017 and the first technical equipment and machines decommissioned in Germany were relocated to Minsk. These measures are included in capital expenditures of the fiscal year 2017 in the amount of € 6.9 million. The production facility is scheduled to be taken into operation in spring 2018.

On October 2017, the Düsseldorf Supreme Court announced the verdict in the appeal proceedings and increased the penalty to be

paid by A.S. Création Tapeten AG in the German antitrust proceedings to € 13.0 million and set the penalties for the persons affected at a total of € 0.9 million. To ensure the best possible trial strategy against the penalty notices, A.S. Création Tapeten AG had released the responsible persons from penalty payments as well as legal defence and other costs in these proceedings with the consent of the Annual General Meeting of Shareholders of May 3, 2013, which means that the full amount of € 13.9 million will have to be borne by the company. A.S. Création Tapeten AG and the persons affected have filed a complaint against the verdict within the deadline, so that the verdict is not final yet. Reasons for the complaint must be given within one month from receipt of the written verdict. The latter has not been received four months after the verdict was announced. A.S. Création had recognised a provision of only € 2.0 million in the financial statements for 2013 and paid this amount to the authorities in 2014 as a matter of commercial prudence to avoid the obligation to pay interest on a potential penalty.

The French Supreme Court announced the verdict in the French antitrust proceedings on November 8, 2017 and revoked the verdict of the court of appeal ("Cour d'appel"). In April 2016, the court of appeal had ruled on the appeal filed by SCE – Société de conception

et d'édition SAS („SCE“) and MCF Investissement SAS („MCF“), two member companies of the A.S. Création Group and reduced the penalty imposed by the French competition authorities and paid by SCE and MCF in 2015 by € 2.9 million from € 5.0 million to € 2.1 million. The French competition authorities subsequently refunded € 2.9 million. After the verdict of the Supreme Court, SCE and MCF rejected the originally imposed penalty, so that the case was referred back to the court of appeal and is now being retried before another chamber.

6. Important events after the end of the fiscal year

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

7. Opportunity and risk report

7.1. Opportunity management

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

furnishing fabrics also qualify as consumer goods. A.S. Création thus operates in consumer goods markets which are influenced, on the one hand, by the general trend in consumer spending and spending behaviour. On the other hand, demand for such fashionable products as wallpapers and furnishing fabrics depends on the latest colour and design trends.

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

been identified and may be relevant for the Group as a whole, are communicated to the Managing Board in a timely manner.

7.2. Risks

7.2.1. Risk management system

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

In the context of the risk management system, potential risks identified at A.S. Création are assessed by the company's managers with regard to two criteria, namely "likelihood" and "amount of loss/damage". The amount of the loss/damage is classified as "manageable", "high" and "very high" and the probability of occurrence is classified as "medium", "frequent" and "high". The Managing Board is constantly kept informed of the risks and pays special attention to risks with a "high" or "very high" damage potential and a "frequent"

or "high" probability of occurrence. The Managing Board is of the opinion that the risk management system, which is an integral element of A.S. Création's reporting system, is of a sufficient size. Based on statutory requirements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Cologne, examined the early risk identification system of A.S. Création in the context of last year's audits and confirmed that risks which may potentially jeopardise the continued existence of the company can be identified by the early risk identification system established in accordance with section 91 AktG and are adequately presented in the management report. The early risk identification system was again examined by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Cologne in the context of this year's annual audit.

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

7.2.2. Macroeconomic and industry-specific risks

The Managing Board is of the opinion that the future political and macroeconomic conditions in non-EU Eastern European countries pose risks with a high to very high potential damage

for A.S. Création. In this context, the permanent depreciation of the Russian rouble against the euro is a material risk. It would lead to the translation-related exchange losses materialising, which primarily result from the fact that the Russian production facility is financed with euro loans. This means that the currently non-cash currency-related exchange losses would become cash exchange losses when the loans are repaid. For further details, please refer to paragraph 3.1.2 "Earnings" of the management report. Also, the poor macroeconomic trend in Russia could result in major customers no longer meeting their payment obligations and A.S. Création facing bad debts. Finally, a negative scenario is possible in which an escalating political conflict in Russia would lead to expropriation and capital freezes and A.S. Création would have to write off the Russian investment entirely. The investments in the production facility that is being built up in Belarus increase the potential damage/loss that may arise for A.S. Création from these political risks.

By contrast, the Managing Board assumes that no risks with a high or very high potential damage/loss arise from the political uncertainty surrounding Great Britain's probable exit from the EU (Brexit), as the revenues generated by the A.S. Création in Great Britain in 2017 were only within the medium single-digit percentage range.

Industry-specific risks result from existing overcapacities in the wallpaper industry. Due to the declining demand in Western Europe and the sharp drop in exports to Eastern Europe, the Western European wallpaper manufacturers have considerable excess capacities. At the same time, new additional production resources have been – and continue to be – built up in Eastern Europe. It is possible that investment activity in Russia will lead to overcapacities in this market, too. The Managing Board believes there is a risk that this underutilisation on the manufacturing side, in conjunction with the growing market clout of major customers, may lead to ruinous price competition and, hence, to a new consolidation process in the global wallpaper industry. Rising commodity and energy prices could accelerate this process. Nevertheless, the Managing Board is of the opinion that, should a new consolidation process arise, A.S. Création will be able to actively shape this consolidation process thanks to its innovation and financial strength as well as to the adjustment of the production capacities in Germany. In this respect, the Managing Board sees a very high potential risk.

Another high potential risk for the wallpaper industry results from the more stringent legal provisions regarding the use of chemicals in the production of wallpapers. The REACH chemicals regulation, for instance, is applicable

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

Apart from the opportunities arising from the fact that wallpaper is a fashionable product, this fact also entails the risk of fashion trends leading to declining demand for the product.

This could happen, for instance, in case of a general and sustained trend towards smooth white walls or a trend towards wallpapering only a single wall as a special touch and painting the remaining walls. As such cyclical fashion trends have occurred before, it is safe to assume that they will reoccur in the future. However, the Managing Board does not consider this risk to be existence-threatening, as the same fashion trend would normally not occur in all regional output markets of A.S. Création at the same time and wallpaper cannot only be produced as a design wallpaper but also as a plain wallpaper.

7.2.3. Risks arising from the functional areas

In view of the special market conditions, a potential risk exists with regard to the company's procurement activities. For A.S. Création as a customer, there are only few suppliers in these markets, and the quantities purchased by the wallpaper industry in general and A.S. Création in particular are relatively small from the suppliers' viewpoint. In the event of rising raw materials prices, A.S. Création therefore has only limited negotiating clout and few alternatives to choose from. The strategy pursued by A.S. Création aims to prevent long-term pressure on margins with

the help of an innovation-driven product policy. However, this strategy entails the risk that price increases on the procurement side can be passed on to customers only with a certain delay. Fluctuations in the gross profit margin and, consequently, a strong adverse impact on net profits in individual fiscal years can therefore not be ruled out. The long-term analysis shows that these fluctuations stayed within a narrow bandwidth of ± 2.5 percentage points around the 50% mark in the period from 1997 to 2017. 2007, 2008 and 2011 were the only fiscal years in which the company was unable to maintain the gross profit margin within this bandwidth due to the "explosion" in commodity and energy prices. Against this background, the Managing Board considers the probability of occurrence of a scenario where a constantly low gross profit margin sustainably weighs on A.S. Création's net profit to be rather low.

In the distribution area, there are risks that relate to the changing structures in the output markets. On the one hand, there is a notable concentration process leading to larger companies in the wholesale and retail sector as well as in the DIY store and discount store sector. On the other hand, a trend is emerging which may lead to increased demand in the high-priced premium segment and the price-conscious discount segment at the expense

of the medium market segment. Moreover, online distribution of wallpapers has meanwhile established itself as an additional distribution channel and is competing with the traditional distribution formats. As online dealers increasingly operate across borders, competition is becoming more and more international. Should A.S. Création be unable to adapt its product and pricing policy as well as its own company structure to these changing market structures, this could lead to strong and sustainable pressure on revenues and earnings. There is therefore a high potential risk, whose probability of occurrence the Managing Board classifies as frequent.

Apart from the above, there are currently no signs of high or very high risks in production and logistics with a relevant probability of occurrence. The company constantly makes the necessary investments in replacements and modernisation in the production and logistics departments, which can usually be financed from cash flow.

7.2.4. Financial risks

As outlined in the analysis of the financial situation in paragraph 3.2, A.S. Création's financial situation is sound. No financing or cash shortages are expected to result from the

operating activities. For the financing and liquidity risks arising from the antitrust proceedings, please refer to paragraph 7.2.5 ("Risks from anti-trust proceedings").

Due to the specific structure of the A.S. Création Group, interest rate or currency hedges and financial derivatives play only a minor role. Such hedges are generally taken out only for specific underlying transactions. For details, please refer to No. 30 in the Notes to the consolidated financial statements.

7.2.5. Risks from anti-trust proceedings

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

No risks affecting the bottom line exist with regard to the penalties, given that the provisions established in the consolidated financial statements for the period ended December 31, 2017 fully reflect the penalties set by the

Düsseldorf Supreme Court in its verdict of October 12, 2017 and by the French Supreme Court ("Cour de cassation") in the appeal proceedings in its verdict of November 8, 2017. Although neither verdict is final yet, the penalties imposed in Germany (€ 13.9 million) and in France (€ 5.0 million) have meanwhile been recognised as an expense in full. Of these penalties, an amount of € 4.1 million has been paid so far, which means that a payment obligation of € 14.8 million will arise if the verdicts become final.

As outlined in the analysis of the financial situation in paragraph 3.2.2 ("Cash flow statement and net financial liabilities"), operating cash flow in the fiscal year 2017 was insufficient to finance the capital expenditures. It would not have been possible to cover the above payment obligation arising from the penalties in the amount of € 14.8 million from cash flow. Nor would the cash and cash equivalents of € 8.8 million that were available as at December 31, 2017 have been sufficient. There is therefore a potential risk that the payment of the penalties will result in liquidity problems and/or will significantly restrict A.S. Création's future possibilities to make major investments, thereby potentially weakening the company's competitive position. This would be a very high potential damage/loss for A.S. Création. The Managing Board is currently in talks with the banks to secure the financing

of the investments planned in the next two years. As a listed company, A.S. Création additionally has the option to increase its share capital in case major future investments could be financed by raising additional debt capital. The Managing Board therefore considers the probability of occurrence of this liquidity risk to be low.

7.2.6. Accounting-related internal control and risk management system

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

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

with the accounting systems via interfaces. This way, potential errors in the accounting process are reduced to a minimum.

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

External control of the accounting process is performed, on the one hand, through the annual audit of the financial statements by the auditors. To avoid habituation effects in the audit, the A.S. Création Group has a policy of changing its auditor from time to time. In keeping with this policy, Ernst & Young was appointed the new auditor of the financial statements as of fiscal 2014 as successor to the former auditors KPMG. To ensure a consistent auditing standard within the A.S. Création Group, A.S. Création has a policy of using as few accounting firms as possible. Accordingly, the financial statements of eight of the eleven Group companies were audited by Ernst & Young or by Ernst & Young in cooperation with KPMG

in 2017. On the other hand, the internal control systems of the Group companies (and, hence, those that are used in the accounting process) are regularly reviewed by external specialists with a view to refining and updating the processes. The Supervisory Board of A.S. Création Tapeten AG – in particular its Audit Committee – is involved in the evaluation of the results of these reviews.

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

At Group level, the internal control systems used to ensure proper Group accounting primarily comprise plausibility and completeness checks of the reporting packages received. Whenever required, representatives of A.S. Création Tapeten AG attend the final meetings with the auditors of the Group companies. In addition, controls of the main consolidation processes – e.g. debt, income and expenses, capital – are integrated in the software used. Finally, the consolidated financial statements (and the financial statements of A.S. Création Tapeten AG) are audited by the Supervisory Board and its Audit Committee.

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

financial statements from the financial statements taking the consolidation processes into account.

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

7.2.7. Assessment of the overall risk

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

8. Forecast report

According to the World Bank, global economic growth, at 3.1%, will probably be slightly higher in 2018 than in 2017 (3.0%). This breaks down into 2.2% growth for the industrialised countries and 4.5% for the emerging and developing countries. One of the main reasons for the stronger trend that is projected for 2018 is the anticipated moderate

increase in commodity and energy prices. The World Bank sees major downside risks for the future in the protectionist tendencies that have become apparent.

Eurozone GDP is expected to grow by 2.5% in 2018, following a 2.4% increase in 2017. The situation is similar for consumer spending, which is expected to rise by 2.0% in 2017, compared to 1.7% in the previous year. Consumer spending in Germany, where A.S. Création generated as much as 42% of its Group revenues in 2017, are projected to increase by 1.9% in 2018.

The expectations for non-EU Eastern European countries are somewhat better than in the previous years. While the Russian economy expanded by 1.9% in 2017, some economic researchers now expect the gross domestic product of Russia – which, together with China, is one of the world's two biggest wallpaper markets – to grow by 2.9% in 2018 in view of rising oil prices and the stabilisation of the rouble. At 2.7%, Russia's inflation rate is also expected to be lower than in 2017. As the Russian economy recovers, consumer spending is likely to grow by 3.0% in 2018.

It remains to be seen whether the projected economic growth will actually translate into increased demand for wallpapers in the markets that are relevant for A.S. Création in 2018. In any case, the Managing Board considers the

anticipated increase in consumer spending to be a positive basis for the coming fiscal year.

The Managing Board of A.S. Création expects adverse effects to arise from the trend in commodity and energy prices, which are generally expected to pick up in 2018, as the projected global economic growth will lead to increased demand for commodities and energy. This means that the trend observed towards the end of 2016 would continue.

The Managing Board of A.S. Création expects to see further material structural changes in the international wallpaper industry in the coming years. In view of the existing overcapacity, the Managing Board projects a further consolidation of the international wallpaper industry. This process will be intensified by the growing market concentration in the output markets.

On balance, the Managing Board rates the environment projected for the year 2018 as unfavourable for A.S. Création. The Managing Board nevertheless assumes that A.S. Création will return to growth in 2018. As far as the planned revenue growth is concerned, there will not be a single growth region or a single growth project in 2018. Instead, growth is to come from several sources.

The Eastern European markets outside the

EU are expected to be a main growth driver for A.S. Création in 2018. In these markets, A.S. Création – just like the European wallpaper industry as a whole – has recorded a significant decline in revenues since 2008. As outlined in paragraph 5 (“Important events in 2017”), Profistil, the Belarus company, has begun to build up a wallpaper production facility to satisfy the demand for low-cost wallpapers in the Eurasian Economic Union. The plans provide for the company to contribute over € 10 million to sales revenues as of 2019 following a start-up phase in 2018. Besides these additional revenues from the sale of locally produced wallpapers, the company also intends to expand its exports to this region, where revenues already picked up by 9.6% in the past fiscal year. In the course of 2017, the Russian distribution company, A.S. Création (RUS), and the German export organisation were merged and the distribution strategy for Russia was revised. The Managing Board believes that the basis has thus been laid to win additional customer groups for German-made wallpapers and that the existing customers will benefit from much better service. As a result, revenues in this region should pick up notably in 2018.

In the EU, A.S. Création will continue to rely on its own strengths arising from the broad product range and its own sales organisations in the individual countries. These put

A.S. Création in an excellent position to offer customers a broader range of products and better services than its competitors. This applies both to serving local customers and to customers who want to operate internationally and are looking for a reliable partner to assist them in their internationalisation strategy. This strategy is being supported by the modernisation of the logistic resources with the aim of being able to handle the growing amount of smaller orders. As outlined in paragraph 3.1.1. (Sales revenues), this approach did not lead to growing revenues in the past fiscal year, as structural changes at larger customers weighed on revenues.

With regard to operating performance, the Managing Board expects adverse effects to arise from rising commodity and energy prices in 2018. To offset these effects on gross profit at least partly, A.S. Création will focus on achieving significant productivity gains and a further reduction in the reject rate. Finally, average sales prices are to be increased with the help of an effective product range and pricing policy.

The plans for 2018 provide for a notable reduction in the Group’s personnel cost ratio. The measures implemented in 2017 to reduce the headcount and, consequently, personnel expenses will take full effect in 2018. Moreover, the severance payments made in 2017

will not recur in 2018. Finally, the commissioning of the production facility in Belarus will improve the personnel cost ratio, as the people who were employed at Profistil in Belarus in 2017 did not generate any revenues in that year; they will start contributing only in 2018. On the other hand, the collective bargaining agreement that is relevant for A.S. Création in Germany will lead to a 2.1% pay rise for most of the company's employees in Germany as of April 1, 2018. The Managing Board aims to offset these additional charges with the help of sustainable productivity gains.

Moreover, start-up losses incurred by the new production facility in Belarus will weigh on the operating result in 2018.

With regard to the key performance indicators, the Managing Board expects the following for 2018:

- Group sales revenues should amount to between € 150 million and € 155 million in 2018, compared to € 143 million in the past fiscal year.
- The gross profit margin will probably decline moderately against the previous year's 48.8%.
- Personnel expenses as a percentage of total output, which stood at 28.1% in 2017, should decline notably already in

2018 provided that revenues grow as planned. The Group aims for a personnel cost ratio of 23% in the medium term.

- Earnings before interest and taxes should come in at between € 4 and 5 million in 2018. This figure does not include any extraordinary effects such as exchange gains or losses.
- On the additional condition that the Russian joint venture will post a clear profit for 2018, A.S. Création could achieve earnings after taxes of between € 3 and 4 million in the fiscal year 2018.

Following a successful start of production in Belarus and the implementation of the planned measures to improve the revenue and earnings performance in the course of 2018, the Managing Board projects strong revenue growth and a sustainable improvement in the earnings position of A.S. Création for 2019. The fiscal year 2019 should see A.S. Création move towards a level of revenues of roughly € 160 million and an EBIT level (excl. extraordinary effects) of approx. € 7 million.

This Group management report contains statements and projections which relate to the future development of the companies of the A.S. Création Group. These projections represent estimates that were made by the Managing Board on the basis of currently

available information. Should the assumptions on which the projections are based be incorrect or should risks such as those outlined in the risk report materialise, the actual results may differ from current expectations. Except for statutory disclosure duties, the Managing Board is under no obligation to update the information contained in this Group management report.

9. Statutory information

9.1. Corporate governance statement and report on corporate governance

The latest corporate governance statement of A.S. Création Tapeten AG pursuant to section 289f and section 315d of the German Commercial Code (Handelsgesetzbuch HGB) and the report on corporate governance pursuant to number 3.10 of the German Corporate Governance Code are published on the website of A.S. Création (www.as-creation.com) under "Investor Relations – Corporate Governance" and in the chapter "Corporate governance statement and report on corporate governance" of the 2017 Annual Report.

9.2. Compensation report

The annual salaries earned by the Managing Board members comprise performance-linked and non-performance-linked components.

The latter consist of a fixed monthly salary and the value of non-monetary compensation that needs to be stated under applicable tax legislation and merely consists of the use of a company car. Tax on such non-monetary compensation is to be paid by each individual Board member. While all Board members are basically entitled to the same non-monetary compensation, the corresponding value differs depending on the member's personal circumstances. The Group's weighted average earnings after taxes of the past three fiscal years serve as the basis of assessment for the calculation of the performance-linked component. Every Managing Board member receives a fixed percentage of this assessment basis. According to the current contracts, the performance-linked component may not exceed a total amount of € 1.700 million ("bonus cap"). This compensation system for the Managing Board was approved by the Annual General Meeting of Shareholders on April 28, 2016.

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

In accordance with the recommendation to provide incentives for responsible management, the performance-linked, variable component

has traditionally represented a major portion of the Managing Board compensation paid by A.S. Création Tapeten AG. Consequently, an improvement or a deterioration in the basis of assessment, i.e. the Group's earnings after taxes, have great influence on the Managing Board's total compensation. Because of the high loss posted in the fiscal year 2017, the weighted average earnings of the fiscal years 2015 to 2017 – and hence the assessment basis for the performance-linked component of the Managing Board compensation – are negative. Consequently, the Managing Board will receive no performance-linked compensation for the fiscal year 2017. In the previous year, the performance-linked component amounted to € 0.684 million. The non-performance-linked component declined to € 0.697 million in the reporting year (previous year: € 0.760 million), due to the resignation of Mr Kämper from the Managing Board of

A.S. Création Tapeten AG on March 31, 2016. The performance-linked component and the non-performance-linked component resulted in a total income of the Managing Board of € 0.697 million in the fiscal year 2017, down by 51.7% on the previous year's € 1.444 million.

In addition, a constant annual amount is paid to an external relief fund for all Managing Board members for the duration of their tenure. This relief fund will make the future pension payments. In fiscal 2017, the payments to the external relief fund led to expenses of € 0.048 million (previous year: € 0.054 million).

The table below shows the total compensation of the Managing Board for the fiscal year 2017 (accrual principle):

	2017	2016
	€ '000	€ '000
Fixed salary	620	680
Side benefits	77	80
Non-performance-related component	697	760
Performance-related component (bonus)	0	684
Annual compensation	697	1,444
Payment to an external relief fund	48	54
+/- Addition to / release of pension provisions	0	-13
Pension expenses	48	41
	745	1,485

The bonus for the fiscal year is paid in the following year at the end of the month in which the consolidated financial statements are submitted to the shareholders. The table

below shows the total compensation of the Managing Board for the fiscal year 2017 (payout principle):

	2017	2016
	€ '000	€ '000
Fixed salary	620	680
Side benefits	77	80
Non-performance-related component	697	760
Performance-related component (bonus)	684	663
Annual compensation	1,381	1,423
Payment to an external relief fund	48	54
+/- Addition to / release of pension provisions	0	-13
Pension expenses	48	41
	1,429	1,464

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

The compensation of the Supervisory Board is defined by the Annual General Meeting of Shareholders and is documented in the statutes of A.S. Création Tapeten AG. According to Article 14 of the statutes (as amended on May 7, 2015), the members of the Supervisory Board receive a fixed compensation in an amount of € 12,500 in addition to the re-

imbursement of their expenses. The Chairman receives three times that amount and the Vice Chairman 1.5 times that amount. A performance-linked component is not provided for. The members of a committee formed by the Supervisory Board receive an additional compensation of € 6,250 for this activity, with the total compensation for committee work limited to the double amount of the fixed compensation. In accordance with these regulations, the compensation of the Supervisory Board members for the past fiscal year totalled € 162,500 (previous year: € 162,500) and breaks down as follows:

	2017 € '000	2016 € '000
Mr Schneider	56	56
Ms Benner-Heinacher	25	25
Dr. Hues	25	25
Mr Mourschinetz	13	13
Mr Müller	25	25
Mr Schmuck	19	19
	163	163

9.3. Information to section 315a para. 1 of the German Commercial Code (Handelsgesetzbuch HGB) and explanatory report

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

According to the share register and the notifications received in the past in accordance with sections 21 and 41 of the German Securities

Trading Act (Wertpapierhandelsgesetz WpHG) more than 10% of the voting rights in A.S. Création Tapeten AG are held by Mr Franz Jürgen Schneider, who holds 35.27%, Lins Wallpaper Limited (and indirectly Mr Oleg Dzhagaev, to whom all shares in Lins Wallpaper Limited are imputable) which holds 15.01% and Mrs Karin Schneider, who holds 10.09%. The 5.67% voting interest held by A.S. Création Tapetenstiftung and the 0.08% voting interest held by Franz Jürgen Schneider Stiftung are also attributable to Mr Schneider in addition to his directly held voting interest of 29.52%.

According to section 76 and 84 of the German Stock Corporation Act (Aktiengesetz AktG) and Article 6 of the current statutes of A.S. Création Tapeten AG, the Managing Board must consist of a minimum of two people. The exact number

of Managing Board members is determined by the Supervisory Board of A.S. Création Tapeten AG. The Supervisory Board appoints the members of the Managing Board for a maximum term of five years. A re-appointment is permissible. The Supervisory Board may appoint one member as Chairman of the Managing Board. The Supervisory Board may revoke the appointment of a member or the Chairman for an important reason. Such important reasons are gross breach of duty, inability to manage the business properly or withdrawal of confidence by the Annual General Meeting of Shareholders.

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

According to a resolution of the Annual General Meeting of Shareholders dated May 7, 2015, the Managing Board is authorised to acquire own shares up to a par value of € 900,000 (which represents a maximum of 10% of the share capital) until May 6, 2020. The Managing

Board is also authorised to call in the shares acquired, to resell them, in which case shareholders' subscription rights may be excluded under certain circumstances, or to use the shares acquired for company acquisitions or equity investments. As of December 31, 2017 the company holds 243,649 own shares.

According to Article 4 paragraph 3 of the current statutes of A.S. Création Tapeten AG, the Managing Board is authorised, until May 6, 2020, to increase the share capital, subject to the approval of the Supervisory Board, by up to € 4,500,000 through the issue of new shares against contributions in cash or kind (authorised capital). Shareholders' subscription rights may be excluded in certain cases. As no use has been made of this authorisation so far, the authorised capital still amounted to € 4,500,000 as of December 31, 2017.

A.S. Création Tapeten AG and OOO Kof Palitra established a Russian joint venture under the name of OOO A.S. & Palitra, in which each of the partners holds 50% of the shares. In the event of a material change in the shareholder structure of one of the two founding partners, the partnership agreement grants the respective other party a purchase option for the other party's shares in the joint venture.

**10. Statement pursuant to section 315
para. 1 sentence 5 of the German
Commercial Code (Handelsgesetzbuch HGB)**

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the

assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Gummersbach, February 28, 2018

A.S. Création Tapeten AG

The Managing Board

Krämer Bantel Suskas

76 THE SHARE AND OUR SHAREHOLDERS

2017 – a very good trading year

2017 will go down in history as one of the best stock trading years ever. The basis for the market's good performance was laid by very robust and, most importantly, global economic growth, continued low inflation and the expectation that interest rates will remain low for some time to come. These factors led to great interest among investors, who again preferred shares and investment funds over alternative investments in fixed-income bonds. On balance, 2017 was a perfect trading year, which saw many of the world's stock indices reach historic highs.

Having gained as much as 6.9% in 2016, Germany's DAX® index gained another 12.5% in 2017, climbing from 11,481 points at the beginning of the year to 12,918 points on December 29, 2017. In early November 2017, the DAX® not only reached the highest level of the year at 13,479 points but also hit a historic all-time high.

Second-tier and third-tier shares even outperformed the large caps in 2017, with the SDAX® and the MDAX®, in which small and medium-sized companies are listed, gaining 24.9% and 18.1% respectively.

While 2016 was still marked by extreme ups and downs in share prices over the course of the year, share prices fluctuated only little in the year 2017 as a whole and basically

pointed steadily upwards. Companies' positive profit trends and the continuation of loose monetary policies boosted the markets. Political factors such as the uncertainty surrounding Brexit, the tensions with North Korea or the crisis surrounding Catalonia's push for independence did not halt the strong upward trend in share prices.

Losses for the A.S. Création share

The A.S. Création share failed to benefit from the positive overall stock market performance in 2017. Right on the contrary, the A.S. Création share dropped from € 29.86 at the beginning of 2017 to € 20.32 at the end of the year. It thus lost a strong 31.9%,



which was a disappointing performance. The chart on the previous page compares the performance of the A.S. Création share with that of the SDAX®.

The A.S. Création share had a very positive start to the year 2017 and reached the highest level of the year at € 35.13 on March 1, 2017. This 17.6% gain in the first two months of the year was much stronger than that of the SDAX®. The situation changed after this date. While the SDAX® climbed almost continuously until the end of the year, the price of the A.S. Création share declined almost steadily during the same period of time. Consequently, the respective performances of the SDAX® and the A.S. Création share resembled an opening pair of scissors – while the SDAX® gained 24.9% in the course of 2017, the A.S. Création share lost 31.9%.

The disappointing performance of the A.S. Création share was attributable to the mostly negative news that came from A.S. Création in the course of 2017. While the company was able to report improved profitability in fiscal 2016 and a dividend proposal of € 1.25 per share at the beginning of March, the next publications were of a more disappointing nature. The figures for the first quarter of 2017 published on May 4, 2017 reflected the very slow start of the fiscal year

2017. In view of the unsatisfactory earnings performance in the second quarter of 2017, the Managing Board was forced to revise the original revenue and earnings projections for FY 2017 on July 21, 2017, which led to a sharp drop in the share price. Q3 2017 saw the publication of the verdicts in the German and French antitrust proceedings, which were both less favourable than expected by the Managing Board of A.S. Création and therefore weighed additionally on the share price. The price of the A.S. Création share then declined to € 20.32 on December 29, 2017, the last trading day of the year, which marked the lowest level in 2017. Compared to the price of € 29.86 at the beginning of the year, the A.S. Création share thus lost € 9.54 in value. Even when taking into account the dividend of € 1.25 per share paid out at the beginning of May, the share price performance in 2017 was profoundly disappointing.

Unsatisfactory market valuation

As a result of the decline in the share price in 2017, the valuation of A.S. Création has deteriorated. Based on the year-end closing price of € 20.32 and the 2,756,351 shares outstanding as of December 31, 2017, the market values A.S. Création at € 56.0 million.

This market capitalisation is down by € 26.3 million on the market value of € 82.3 million recorded on December 31, 2016. Due to this unsatisfactory performance, it remains below the target set by the Managing Board, which had aimed for the market capitalisation to exceed the company's equity capital again following the decline in 2014. The current market capitalisation remains at a 26.0% discount on the equity capital of € 75.7 million carried in the company's balance sheet on December 31, 2017. A valuation below the equity capital and the net asset value is not satisfactory in view of A.S. Création's strong competitive position and the positive medium to long-term growth prospects.

provides for a high payout ratio as long as this is permitted by the company's financial situation. In the past years, the payout ratio of A.S. Création settled at a level of approximately 45%. This shows that the dividend policy of A.S. Création is characterised by continuity and reliability.

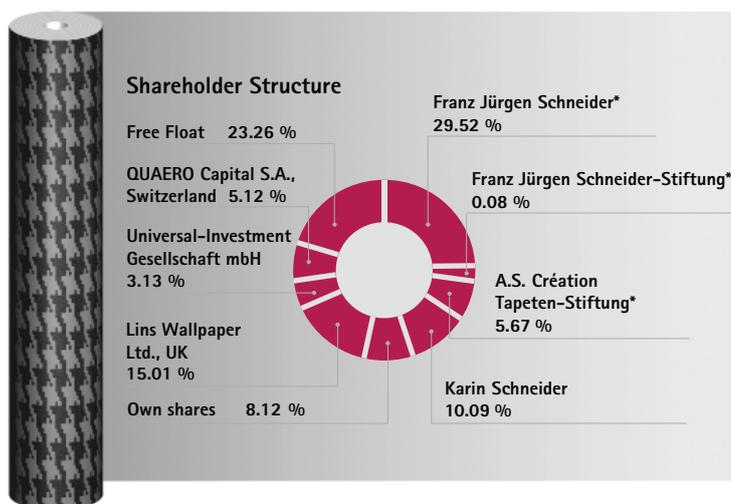
The fixed payout ratio means that the absolute amounts of the dividend payments are not smoothed over time but increase or decrease in line with earnings. As the earnings position of A.S. Création deteriorated in the fiscal year 2017, the company posted a loss. Earnings per share declined from € 2.70 in the previous year to € -6.45 in the fiscal year 2017.

Stable shareholder structure

A.S. Création has a stable shareholder structure. No change occurred in 2017 compared to the previous year. The table beside shows the current shareholder structure.

No dividend for 2017

The Managing Board of A.S. Création Tapeten AG has always pursued a dividend policy that



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

In keeping with the dividend policy pursued to date, no dividend would be paid out for 2017 because of the loss posted by the company. It will therefore be proposed to the Annual General Meeting of Shareholders scheduled for May 3, 2018 not to pay out a dividend. Although this is a difficult decision, the Managing Board and the Supervisory Board are convinced that this approach is in the sustainable long-term interest of the company and, hence, of its shareholders.



Key figures of the A.S. Création share		2013	2014	2015	2016	2017
Earnings per share	€/share	0.48	-3.39	1.19	2.70	-6.45
Dividend	€/share	0.25	0.00	0.60	1.25	0.00
Payout ratio	%	52.1	n.a.	50.4	46.3	n.a.
Year-closing-price	€/share	36.00	26.20	31.47	29.86	20.32
High	€/share	44.55	40.40	33.60	32.10	35.13
Low	€/share	32.43	25.37	24.42	24.00	20.32
Shares outstanding (year end)	million	2.756	2.756	2.756	2.756	2.756
Average trading volume *	pieces	1,611	1,213	628	667	1,031
Market value (year-end)	€ '000	99,229	72,216	86,742	82,305	56,009
Equity	€ '000	93,473	86,891	93,188	96,502	75,715
Market value/Equity	%	106.2	83.1	93.1	85.3	74.0
Price-earnings-ratio		75.0	n.a.	26.4	11.1	n.a.
Dividend yield	%	0.7	0.0	1.9	4.2	0.0

* Average daily trading volume of A.S. Création shares.

CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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This English translation of the annual report 2017 is merely a convenience translation.
The German version is the prevailing one.

A.S. Création Tapeten AG, Gummersbach

Consolidated balance sheet

as per December 31, 2017

Assets			
	Notes No.	31.12.2017 €	31.12.2016 €
Tangible fixed assets	(1)	30,552,590.41	26,239,932.87
Intangible fixed assets	(2)	8,341,768.84	8,105,914.00
Investments accounted for at equity	(3)	0.00	0.00
Financial assets	(4)	7,959,721.39	10,548,531.76
Other assets	(5)	5,260,395.45	4,894,719.38
Deferred tax assets	(7)	670,624.67	481,161.79
Non-current assets		52,785,100.76	50,270,259.80
<hr/>			
Inventories	(8)	36,853,248.25	37,680,642.73
Trade receivables	(9)	25,912,231.45	24,829,847.27
Other assets	(5)	5,671,506.34	5,818,682.27
Income tax receivables	(6)	664,927.30	847,418.03
Cash and cash equivalents	(10)	8,826,649.59	20,826,054.86
Current assets		77,928,562.93	90,002,645.16
<hr/>			
Total assets		130,713,663.69	140,272,904.96

Equity and Liabilities			
	Notes No.	31.12.2017 €	31.12.2016 €
Capital stock		9,000,000.00	9,000,000.00
Capital reserves		13,756,740.32	13,756,740.32
Revenue reserves		83,579,547.15	83,176,899.27
Profit / loss carried forward		-14,603,559.08	-18,489,915.64
Earnings after taxes		-17,770,766.91	7,434,839.48
Adjustment for own shares		-4,020,836.57	-4,020,836.57
Currency translation differences		5,774,091.17	5,643,882.03
Equity	(11)	75,715,216.08	96,501,608.89
Financial liabilities (interest-bearing)	(12)	4,691,195.98	5,777,124.33
Other liabilities	(13)	507,744.15	637,940.08
Provisions	(14)	12,661,740.00	15,644,888.00
Deferred tax liabilities	(7)	199,077.81	891,252.21
Non-current liabilities		18,059,757.94	22,951,204.62
Financial liabilities (interest-bearing)	(12)	3,719,156.51	3,797,809.29
Other liabilities	(13)	26,201,798.72	9,663,307.23
Trade payables		6,807,551.84	7,118,777.81
Provisions	(15)	130,515.60	117,220.00
Tax liabilities	(6)	79,667.00	122,977.12
Current liabilities		36,938,689.67	20,820,091.45
Total equity and liabilities		130,713,663.69	140,272,904.96

A.S. Création Tapeten AG, Gummersbach

Consolidated income statement

for the period from January 1, 2017 to December 31, 2017

	Notes No.	2017 €	2016 €
Sales	(17)	143,329,136.18	152,607,665.59
Increase or decrease in unfinished and finished goods		216,182.33	-1,148,854.90
Other own work capitalized		26,721.31	0.00
Total output		143,572,039.82	151,458,810.69
Cost of materials	(18)	73,535,435.90	71,988,503.89
Gross profit		70,036,603.92	79,470,306.80
Other income	(19)	1,281,232.77	1,935,256.74
		71,317,836.69	81,405,563.54
Personnel expenses	(20)	40,336,484.89	40,656,752.15
Depreciation	(21)	6,537,700.50	7,612,408.27
Other operating expenses	(22)	40,251,459.26	27,219,610.78
Operating expenses		87,125,644.65	75,488,771.20
Earnings before interest and taxes (EBIT)		-15,807,807.96	5,916,792.34
Interest and similar income		1,141,590.74	1,175,768.82
Results from investments accounted for at equity		-2,527,640.91	3,850,131.12
Interest and similar expenses		581,686.54	741,113.62
Financial result	(23)	-1,967,736.71	4,284,786.32
Earnings before income taxes		-17,775,544.67	10,201,578.66
Income taxes	(24)	-4,777.76	2,766,739.18
Earnings after taxes		-17,770,766.91	7,434,839.48
Earnings per share	(25)	-6.45	2.70

A.S. Création Tapeten AG, Gummersbach
Consolidated statement of comprehensive income
for the period from January 1, 2017 to December 31, 2017

	Notes No.	2017 € '000	2016 € '000
Earnings after taxes		-17,771	7,435
Items, that will never be reclassified to profit or loss:			
Actuarial gains/losses from pension provisions	(14)	288	-1,425
Deferred taxes on other comprehensive income		-92	445
		196	-980
Items, that are or may be reclassified to profit or loss:			
Foreign currency translation differences for fully consolidated companies		-442	-45
Foreign currency translation differences for investments accounted for at equity		572	-1,559
Change in fair value of interest rate hedges	(30)	150	169
Deferred taxes on other comprehensive income		-47	-52
		233	-1,487
Other comprehensive income (outside profit or loss)	(11)	429	-2,467
Total comprehensive income		-17,342	4,968

A.S. Création Tapeten AG, Gummersbach
Consolidated statement of changes in equity
for the period from January 1, 2017 to December 31, 2017

	Capital stock	Capital reserves	Revenue reserves	Profit/loss carried forward	Earnings after taxes	Adjustment for own shares	Currency translation differences	Total
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
January 1, 2016	9,000	13,757	81,133	-17,216	3,287	-4,021	7,248	93,188
Earnings after taxes 2015	0	0	0	3,287	-3,287	0	0	0
Dividend payments	0	0	0	-1,654	0	0	0	-1,654
Allocation to revenue reserves	0	0	2,907	-2,907	0	0	0	0
Total comprehensive income 2016	0	0	-863	0	7,435	0	-1,604	4,968
December 31, 2016	9,000	13,757	83,177	-18,490	7,435	-4,021	5,644	96,502
Earnings after taxes 2016	0	0	0	7,435	-7,435	0	0	0
Dividend payments	0	0	0	-3,445	0	0	0	-3,445
Allocation to revenue reserves	0	0	104	-104	0	0	0	0
Total comprehensive income 2017	0	0	299	0	-17,771	0	130	-17,342
December 31, 2017	9,000	13,757	83,580	-14,604	-17,771	-4,021	5,774	75,715

A.S. Création Tapeten AG, Gummersbach
Consolidated cash flow statement
for the period from January 1, 2017 to December 31, 2017

	2017 € '000	2016 € '000
Operating activities		
Earnings after taxes	-17,771	7,435
+ Depreciation on tangible and intangible fixed assets	6,538	7,612
+/- Increase/decrease in long-term provisions	194	3,096
-/+ Income/expenses from investments accounted for at equity	2,528	-3,850
-/+ Increase/decrease in present value of corporate income tax credit	296	286
-/+ Income/expenses from changes in deferred taxes	-929	-686
-/+ Profit/losses from disposal of tangible and intangible fixed assets	63	-6
-/+ Increase/decrease in inventories	634	1,708
-/+ Increase/decrease in trade receivables	-1,169	3,545
+/- Increase/decrease in trade payables	-236	783
-/+ Increase/decrease in other net working capital	13,083	-2,828
Cash-flow from operating activities	3,231	17,095
Investing activities		
- Cash outflows for capital expenditures on tangible and intangible fixed assets	-10,269	-5,014
- Cash outflows f. acquisitions of cons. comp. (less acquired cash and cash equivalents)	51	0
Capital expenditures	-10,218	-5,014
-/+ Cash outflows / proceeds from current financial investments	400	9,150
+ Proceeds from credits and bonds granted	565	455
+ Proceeds from the disposal of tangible and intangible fixed assets	174	271
Cash-flow from investing activities	-9,079	4,862
Financing activities		
- Dividends paid to shareholders of A.S. Création Tapeten AG	-3,445	-1,654
+/- Raising/repayment of financial liabilities (interest-bearing)	-2,519	-6,602
Cash-flow from financing activities	-5,964	-8,256
Net change in cash and cash equivalents	-11,812	13,701
+/- Change in cash and cash equivalents due to exchange rate fluctuations	-187	207
+ Cash and cash equivalents at January 1	20,826	6,918
Cash and cash equivalents at December 31	8,827	20,826

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

A.S. Création Tapeten AG, Gummersbach

Notes to the consolidated financial statement

for fiscal year 2017

General

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

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

A.S. Création Tapeten AG has a policy of applying new IFRS as soon as they become effective. In the fiscal year 2017, no new or revised standards and interpretations had to be observed.

The following standards and interpretations have been published but not yet become effective in or endorsed by the EU in fiscal 2017:

- IFRS 2 "Share-based Payment"; first-time adoption for fiscal years beginning on or after January 1, 2018.
- IFRS 9 "Financial Instruments"; first-time adoption for fiscal years beginning on or after January 1, 2018.
- IFRS 15 "Revenue from Contracts with Customers"; first-time adoption for fiscal years beginning on or after January 1, 2018.
- Annual improvements to IFRS (2014-2016); first-time adoption for fiscal years beginning on or after January 1, 2018.
- IFRS 16 "Leases"; first-time adoption for fiscal years beginning on or after January 1, 2019.
- Annual improvements to IFRS (2015-2017); first-time adoption for fiscal years beginning on or after January 1, 2019.

IFRS 9 "Financial Instruments" includes new regulations regarding the classification and measurement of financial instruments and the impairment of financial instruments. The recognition of impairments of financial assets is now based on the expected losses. The general approach provides for a three-step model to determine the risk provision. Depending on the credit loss risk, the model requires different scopes of impairment. A simplified procedure for loss impairments applies to certain financial instruments. Expected losses for trade receivables will now essentially be recognised on the basis of internal and external customer ratings as well as associated probabilities of default and will be determined with the help of a risk matrix. The new impairment model shall also be applied to other financial instruments measured at amortised cost such as other receivables and bank balances. The new hedge accounting regulations will not result in any changes to hedge accounting at A.S. Création. The impact resulting from first-time adoption on the consolidated financial statements of A.S. Création are low and will reduce total assets by less than 0.5%. A.S. Création will apply the modified retrospective method when first adopting IFRS 9 as of January 1, 2018.

IFRS 15 "Revenue from Contracts with Customers" primarily contains regulations as to how and when revenue is recognised. The standard introduces a five-step model for the accounting for revenue from contracts with customers. Most of A.S. Création's contracts with customers are contracts on the sale of wallpapers, borders and furnishing fabrics. Revenue is recognised at a certain point in time when the performance obligation is met, usually when control passes to the customer. A detailed analysis conducted by A.S. Création on the basis of existing contracts with customers has identified certain accounting aspects which should be qualified as a separate performance obligation influencing the recognition of revenue over time. Where these performance obligations are not met simultaneously, the adoption of the new standard will postpone the recognition of revenue. According to the analysis carried out, these circumstances are negligible for A.S. Création. Most of the contracts with customers provides for a single performance obligation or for a number of identical performance obligations. These purchase contracts usually do not result in a changed recognition of revenues. If the new standard had been applied as of the beginning of the reporting year, revenues would have been reduced by less than 0.5% and earnings after taxes by less than 2%. The recognition of contract assets and contract liabilities would have increased total assets by less than 1.5% as of the balance sheet date. A.S. Création intends to adopt IFRS 15 as of January 1, 2018 and to use the option of the modified retrospective first-time adoption.

According to IFRS 16 "Leases", lessees should recognise all leases and the associated contractual rights and obligations in the balance sheet. The resulting rise in fixed assets and financial liabilities will increase A.S. Création's total assets only by less than 1%, however, as operating leases play only a minor role at the Group. In addition, the disclosures in the notes will become more extensive. A.S. Création intends to adopt IFRS 16 as of January 1, 2019 and to use the option of the modified retrospective first-time adoption.

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

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

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

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

Consolidation principles

Subsidiaries, in which A.S. Création Tapeten AG has the majority of voting rights and, hence, control over the financial and business policy, are fully consolidated. In accordance with IFRS 11 and IAS 28, joint ventures are accounted for using the equity method. The financial statements

of domestic and foreign companies included in the consolidated financial statements were prepared using consistent Group-wide accounting and valuation principles in accordance with IFRS regulations.

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

Receivables and liabilities, intragroup sales as well as expenses and income are set off against each other. Intercompany profits and losses in tangible fixed assets, in intangible fixed assets and in inventories are eliminated with the effect shown in the income statement. Intragroup value adjustments and provisions are written back.

Where transactions are carried out with a joint venture, the resulting unrealised gains or losses are eliminated in accordance with the share held in the joint venture.

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

Notes on the basis of consolidation

The consolidated financial statements comprise A.S. Création Tapeten AG as well as ten other entities. The number of consolidated entities has not changed compared to the previous year as a result of the acquisition of OOO Profistil and the merger of SCE Investissements SC with SCE - Société de conception et d'édition SAS.

The table below shows the fully consolidated companies:

No.	Company, location	held by	Share in %	Nominal capital Dec. 31, 2017
Wallpaper Division				
1.	A.S. Création Tapeten AG, Gummersbach/Germany			9,000,000 €
2.	AS Creation (UK) Limited, Merseyside/UK	No. 1	100.0	100,000 £
3.	A.S. Création (NL) B.V., Werkendam/Netherlands	No. 1	100.0	20,000 €
4.	A.S. Création (France) SAS, Lyon/France	No. 1	100.0	4,000,000 €
5.	MCF Investissement SAS, Ballancourt/France	No. 4	100.0	460,350 €
6.	SCE-Société de conception et d'édition SAS, Boves/France	No. 4	100.0	2,000,000 €
7.	OOO A.S. Création (RUS), Moscow/Russia	No. 1	100.0	25,000,000 RUB
8.	OOO A.S. Création Belrus, Minsk/Belarus	No. 1	100.0	12,000,000 BYN
9.	OOO Profistil, Minsk/Belarus	No. 1 and No. 8	100.0	11,000,000 BYN
Furnishing Fabrics Division				
10.	Indes Fuggerhaus Textil GmbH, Marienheide/Germany	No. 1	100.0	550,000 €

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

All financial statements included in the consolidated financial statements were established as of December 31, 2017 and were audited by independent chartered accountants or reviewed by the Group's auditors.

Currency translation

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

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

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

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

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

	Year-end-rate		Average annual rate	
	Dec. 31, 2017	Dec. 31, 2016	2017	2016
Pound Sterling (GBP/€)	0.88740	0.85860	0.87675	0.81954
Russian rouble (RUB/€)	63.86680	63.81110	66.03046	73.74545
Belarus rouble (BYN/€)	2.35530	2.06860	2.18969	2.12694

Accounting and valuation principles

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

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

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

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

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

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

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

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

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

In accordance with IFRS 11 and IAS 28, joint ventures are recognised using the equity method. The investment is recognised at cost at the time of acquisition and the respective carrying amount of the investment is subsequently increased or decreased to reflect changes in equity of the jointly controlled entity through changes affecting income and through changes affecting other comprehensive income, provided that these changes relate to the shares of A.S. Création Tapeten AG. The same also applies to long term shareholder's loan in case they belong to net investment of A.S. Création for economic content.

Financial assets are accounted for as of the settlement amount.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the balance sheet

(1) Tangible fixed assets

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

	Land, buildings, and similar rights € '000	Plant and machinery € '000	Other fixtures and fittings, tools and equipment € '000	Advance payments and assets under construction € '000	Total € '000
Gross cost of acquisition or production					
Dec 31, 2015	35,296	78,455	22,448	450	136,649
Addition	981	402	3,416	11	4,810
Reclassifications	61	389	0	-450	0
Disposals	0	2,428	4,299	0	6,727
Currency translation differences	0	0	2	0	2
Dec 31, 2016	36,338	76,818	21,567	11	134,734
Addition consolid. companies	5	0	34	1,375	1,414
Addition	169	28	2,527	7,493	10,217
Reclassifications	-3	0	19	-16	0
Disposals	103	0	3,249	0	3,352
Currency translation differences	0	0	-24	-680	-704
Dec 31, 2017	36,406	76,846	20,874	8,183	142,309
Depreciation					
Dec 31, 2015	20,650	69,741	17,112	0	107,503
Addition	1,515	2,361	3,587	0	7,463
Disposals	0	2,428	4,040	0	6,468
Currency translation differences	0	0	-4	0	-4
Dec 31, 2016	22,165	69,674	16,655	0	108,494
Addition consolid. companies	5	0	5	0	10
Addition	1,525	1,919	2,946	0	6,390
Disposals	36	0	3,094	0	3,130
Currency translation differences	-1	0	-6	0	-7
Dec 31, 2017	23,658	71,593	16,506	0	111,757
Net book value					
Dec 31, 2016	14,173	7,144	4,912	11	26,240
Dec 31, 2017	12,748	5,253	4,368	8,183	30,552

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

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

(2) Intangible fixed assets

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

	Licences and similar rights € '000	Goodwill € '000	Total € '000
Gross cost of acquisition or production			
Dec 31, 2015	5,345	9,276	14,621
Addition	204	0	204
Disposals	26	0	26
Dec 31, 2016	5,523	9,276	14,799
Addition consolidated companies	4	404	408
Addition	52	0	52
Disposals	38	0	38
Currency translation differences	-2	-59	-61
Dec 31, 2017	5,539	9,621	15,160
Depreciation			
Dec 31, 2015	5,021	1,543	6,564
Addition	149	0	149
Disposals	20	0	20
Dec 31, 2016	5,150	1,543	6,693
Addition	148	0	148
Disposals	23	0	23
Dec 31, 2017	5,275	1,543	6,818
Net book value			
Dec 31, 2016	373	7,733	8,106
Dec 31, 2017	264	8,078	8,342

The Wallpaper Division and the Furnishing Fabrics Division, respectively, accounted for € 7.926 million (previous year: € 7.581 million) and € 0.152 million (previous year: € 0.152 million) of total goodwill in an amount of € 8.078 million (previous year: € 7.733 million). The goodwill was subjected to an impairment test. In this context, the value in use was determined as the present value of the future cash flows from the operation. The value in use was determined on the basis of the approved detailed budgets for the fiscal years 2018 and 2019. The cash flow used is the cash flow before interest and taxes less total capital expenditures of the respective year as well as the changed capital tied up in net current assets. For the years from 2020, the budgeted cash flow before interest and taxes of the year 2019 less maintenance and replacement investments was carried as a perpetual annuity. No growth rate was assumed in the calculation of the perpetual annuity. For the purpose of discounting, weighted average costs of capital (before taxes) of 4.9% and 4.5% were applied for the Wallpaper Division and the Furnishing Fabrics Division, respectively. The value in use thus determined exceeded the carrying amounts in both divisions, which means that the impairment tests did not provide any indication of an impairment loss. A discount factor of over 7.8% for the Wallpaper Division and of over 8.0% for the Furnishing Fabrics Division would indicate the need to recognise an impairment loss.

(3) Investments accounted for at equity

This item comprises the investment in 000 A.S. & Palitra. The table below shows the changes in investments accounted for at equity:

	2017 € '000	2016 € '000
January 1	0	0
Additions	0	0
Pro-rata changes in equity		
Changes affecting income	0	0
Changes affecting other comprehensive income	0	0
December 31	0	0

The table below shows the financial information of this investment:

	31.12.17 € '000	31.12.16 € '000
Non-current assets	19,785	21,534
Current assets	10,897	11,882
thereof cash and cash equivalents	(78)	(623)
Non-current liabilities	0	42,283
thereof financial liabilities and deferred tax liabilities	(0)	(33,837)
Current liabilities	46,930	3,392
thereof financial liabilities and tax liabilities	(32,995)	(5)
Net assets (100%)	-16,248	-12,259
Group share in net assets (50%)	-8,124	-6,130
Capitalised other costs	11	11
Elimination of unrealised intercompany profits	-213	-251
Carrying amount	-8,326	-6,370

	2017 € '000	2016 € '000
Sales revenues	22,362	23,376
Depreciation	3,102	2,851
Interest expenses	2,419	2,374
Income taxes	-511	2,276
Earnings after taxes	-5,099	7,738
Other earning after taxes	0	0
Total comprehensive income (100%)	-5,099	7,738
Total comprehensive income (50 %)	-2,549	3,869
Elimination of unrealised intercompany profits	21	-19
Share in total comprehensive income	-2,528	3,850

The share in total comprehensive income that is attributable to A.S. Création in the amount of € -2.528 million (previous year: € 3.850 million) has been offset against shareholder loans, as they belong to the net investment of A.S. Création in respect of economic content.

At fiscal year-end the company had financial obligations from order commitments for investments in an amount of € 0.006 million (previous year: € 0.043 million).

(4) Financial assets

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

The table below shows the changes in financial assets:

	2017 € '000	2016 € '000
January 1	10,548	8,510
Disposals	564	455
Currency adjustment	-68	202
Pro-rata changes in equity		
Changes affecting income	-2,528	3,850
Changes affecting other comprehensive income	572	-1,559
December 31	7,960	10,548

(5) Other assets

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

	Total		Remaining term of up to 1 year		Remaining term of over 1 year	
	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000
Miscellaneous other assets	10,354	9,617	5,109	4,722	5,248	4,895
Current financial investments	0	400	0	400	0	0
Deferred charges	578	697	566	697	12	0
	10,932	10,714	5,672	5,819	5,260	4,895

Miscellaneous other assets include receivables from 000 A.S. & Palitra, which is accounted for using the equity method, VAT refund claims and supplier credits.

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

(6) Income tax receivables and tax liabilities

Income tax receivables and tax liabilities primarily comprise income tax assessed for previous years as well as income tax for the current year which has not yet been assessed.

(7) Deferred taxes

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

Deferred tax assets break down on balance sheet item as follows:

	31.12.17		31.12.16	
	Deferred tax assets € '000	Deferred tax liabilities € '000	Deferred tax assets € '000	Deferred tax liabilities € '000
Tangible fixed assets	103	2,637	0	3,441
Intangible fixed assets	25	62	27	77
Inventories	377	94	307	125
Trade receivables and other assets	208	247	318	256
Provisions for pensions	2,266	0	2,334	0
Other provisions	10	0	13	0
Other liabilities	184	28	253	3
Tax losses carried forward	367	0	240	0
	3,540	3,068	3,492	3,902
Set-off*	-2,869	-2,869	-3,011	-3,011
	671	199	481	891

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

Losses carried forward for trade tax in the amount of € 0.123 million (previous year: € 0.0 million) as well as for corporate income tax and solidarity surcharge in an amount of € 0.084 million (previous year: € 0.0 million) exist in Germany. In addition, tax losses carried forward in an amount of € 10.260 million (previous year: € 8.605 million) exist abroad. No deferred tax assets were recognised for losses carried forward in the amount of € 8.991 million (previous year: € 7.715 million) as well as for temporary differences in the amount of € 1.072 million (previous year: € 0.509 million), as their realisation is not sufficiently certain from today's point of view.

(8) Inventories

Inventories comprise the following:

	31.12.17	31.12.16
	€ '000	€ '000
Raw materials and supplies	3,705	3,333
Unfinished products	93	91
Finished goods and merchandise	33,055	34,257
	36,853	37,681

Inventories with carrying amounts of € 10.944 million (previous year: € 10.260 million) are recognised at the fair value less cost to sell.

(9) Trade receivables

€ 0.043 million (previous year: € 0.015 million) of the trade receivables have a remaining term of more than one year.

The table below shows the allowances on trade receivables:

	2017	2016
	€ '000	€ '000
As of January 1	4,026	4,815
Allocation	520	328
Use	97	995
Release	663	228
Currency adjustment	-24	106
As of December 31	3,762	4,026

Of the total allowances, an amount of € 2.297 million (previous year: € 1.974 million) refers to itemised allowances and an amount of € 1.465 million (previous year: € 2.052 million) refers to generalised itemised allowances.

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

Trade receivables	thereof without itemised allowances and					
	not past due	past due within 90 days	past due between 91 and 180 days	past due between 181 and 360 days	past due in more than 360 days	
€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	
As of Dec 31, 2016	24,830	22,149	2,211	168	216	78
As of Dec 31, 2017	25,912	22,069	2,735	389	321	84

As of the balance sheet date, there were no indications that the debtors of unimpaired past due receivables will not meet their payment obligations.

(10) Cash and cash equivalents

Cash and cash equivalents break down as follows:

	31.12.17 € '000	31.12.16 € '000
Cash in banks	8,539	20,548
Cash on hand, cheques and bills of exchange	288	278
	8,827	20,826

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

(11) Equity

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

As of December 31, 2017, the share capital amounted to € 9,000,000.00 divided into 3,000,000 no par value registered shares.

According to Article 4 paragraph 3 of the current statutes of A.S. Création Tapeten AG (as amended on May 7, 2015), the Managing Board is authorised, subject to the approval of the Supervisory Board, to increase the capital stock by up to € 4.500 million (so called authorised capital) until May 6, 2020 through the issue of new shares against a contribution in kind or in cash. Shareholders' subscription rights may be excluded in certain cases. Given that no use has been made of this authorisation so far, the authorised capital amounted to € 4.500 million on December 31, 2017.

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

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

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

Due the consolidated net loss incurred in the reporting year, it will be proposed to pay out no dividend. A dividend of € 1.25 per share was paid for the previous year, representing a total payout of € 3.445 million.

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

	Financial derivative	Deferred taxes	Pension provisions	Deferred taxes	Foreign currency translation differences from		Total
					fully consolidated companies	companies accounted for at equity	
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
As of Jan 1, 2016	-440	137	-3,190	986	2,970	4,278	4,741
Other comprehensive income 2016	169	-52	-1,425	445	-45	-1,559	-2,467
As of Dec 31, 2016	-271	85	-4,615	1,431	2,925	2,719	2,274
Other comprehensive income 2017	150	-47	288	-92	-442	572	429
As of Dec 31, 2017	-121	38	-4,327	1,339	2,483	3,291	2,703

(12) Financial liabilities (interest-bearing)

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

	Total		Remaining term of up to 1 year		Remaining term of over 1 up to 5 years		Remaining term of over 5 years	
	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000
Financial liabilities (without finance lease)	8,410	9,489	3,719	3,712	3,338	5,777	1,353	0
Liabilities from finance lease								
Gross value	0	88	0	88	0	0	0	0
Discounting	0	-2	0	-2	0	0	0	0
Present value	0	86	0	86	0	0	0	0
	8,410	9,575	3,719	3,798	3,338	5,777	1,353	0

Interest-bearing financial liabilities are secured by land charges of € 21.550 million (previous year: € 33.418 million) as well as assignments of machines with gross acquisition costs of € 6.176 million (previous year: € 6.176 million).

Interest-bearing financial liabilities of € 8.410 million (previous year: € 9.575 million) include € 8.111 million (previous year: € 9.274 million) from credit agreements at fixed interest rates and € 0.299 million (previous year: € 0.301 million) from credit agreements at variable interest rates. An amount of € 4.456 million (previous year: € 6.676 million) of the interest-bearing financial liabilities is covered by an interest rate hedge.

The breakdown of credit agreements at fixed interest rates by the remaining term and the weighted average interest rates based on the book value is shown below:

Remaining term	Average	Book value	Average	Book value
	interest rate 2017 %	31.12.17 € '000	interest rate 2016 %	31.12.16 € '000
of up to 1 year	2.9	3,419	2.9	3,497
of over 1 year up to 5 years	2.4	3,338	2.8	5,777
of over 5 years	1.8	1,353	0.0	0
		8,111		9,274

(13) Other liabilities

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

	Total		Remaining term of up to 1 year		Remaining term of over 1 year	
	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000
Liabilities to employees	4,386	4,783	4,146	4,546	240	237
Liabilities due to social security charges	411	661	411	661	0	0
Liabilities due to other taxes	1,095	878	1,095	878	0	0
Liabilities due to bonuses/discounts	1,957	1,596	1,957	1,596	0	0
Miscellaneous other liabilities	18,861	2,383	18,593	1,982	268	401
	26,710	10,301	26,202	9,663	508	638

Current miscellaneous other liabilities include risks from the German and French antitrust proceedings in the amount of € 14.799 million (previous year: € 0.0 million).

(14) Long-term provisions

Long-term provisions divide as follows:

	31.12.17 € '000	31.12.16 € '000
Pension provisions	12,662	12,756
Other provisions	0	2,889
	12,662	15,645

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

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

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

	31.12.17 %	31.12.16 %
Projected interest rate (discount rate)	1.80	1.70
Projected pension trend	2.00	2.00
Projected rate of fluctuation	5.00	5.00

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

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

	Increase in the parameter %	Change in present value € '000	Reduction in the parameter %	Change in present value € '000
Projected interest rate (discount rate)	1.00	-2,059	1.00	2,734
Projected pension trend	0.25	383	0.25	-366

If the life of the persons entitled to pension were extended by one year, the pension obligation would increase by another € 0.535 million.

The duration of the pension obligation, i.e. the anticipated average capital tie-up period, is 19.3 years.

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

	2017 € '000	2016 € '000
As of January 1	12,958	11,334
Pension payments	-331	-360
Current service cost	322	291
Interest cost	218	268
Actuarial gains (-) or losses (+) from changes in the discount rate	-239	1,550
Other actuarial gains (-) or losses (+)	-46	-125
As of December 31	12,882	12,958

Of the defined benefit obligations, an amount of € 0.346 million is expected to be paid out in the following fiscal year.

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

	2017 € '000	2016 € '000
As of January 1	202	210
Employer contributions	12	13
Benefit payments	0	-26
Expected return on plan assets	3	5
Actuarial gains	3	0
As of December 31	220	202

Re-insurance contributions are expected to amount of € 0.012 million in the following fiscal year.

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

The table below shows the changes in pension provisions:

	2017 € '000	2016 € '000
As of January 1	12,756	11,124
Pension payments and employer contributions	-343	-347
Allocation through profit/loss (income statement)	537	554
Allocation/release through equity (other comprehensive income)	-288	1,425
As of December 31	12,662	12,756

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

	Income statement	2017 € '000	2016 € '000
Current service cost and benefit payments	Personnel expenses	322	291
Interest cost	Financial result	215	263
		537	554

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

	2017 € '000	2016 € '000
Change in the discount factor	242	-1,550
Change in the biometric assumptions	16	0
Experience adjustment	30	125
	288	-1,425

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

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The provision for potential liabilities from the French antitrust proceedings in the amount of € 2.889 million was reclassified to current miscellaneous other liabilities in the fiscal year.

(15) Short-term provisions

Short-term provisions mainly refer to potential losses from current contracts and warranties.

The table below shows the changes in short-term provisions:

	2017 € '000	2016 € '000
As of January 1	117	131
Change in scope of consolidation	3	0
Use	108	121
Release	1	0
Allocation	120	107
As of December 31	131	117

(16) Other financial liabilities and contingent liabilities

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

	Total		Remaining term of up to 1 year		Remaining term of over 1 year up to 5 years		Remaining term of over 5 years	
	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000
from building rents	537	915	403	408	134	507	0	0
from operating leases	301	434	237	285	64	149	0	0
from order commitments for investments in tangible fixed assets	2,785	1,052	2,785	1,052	0	0	0	0
	3,623	2,401	3,425	1,745	198	656	0	0

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Notes to the income statement

(17) Sales

A breakdown of Group sales by region is provided below:

	Wallpaper Division		Fabrics Division		Consolidation		Group	
	2017 € '000	2016 € '000	2017 € '000	2016 € '000	2017 € '000	2016 € '000	2017 € '000	2016 € '000
Germany	56,162	62,024	9,699	10,491	-71	-99	65,790	72,416
EU (excl. Germany)	59,837	66,491	2,081	2,375	-33	-51	61,885	68,815
European Union (EU)	115,999	128,515	11,780	12,866	-104	-150	127,675	141,231
Other Eastern Europe	17,488	15,869	354	414	0	0	17,842	16,283
Other countries	12,002	11,748	613	532	1	0	12,616	12,280
Sales (gross)	145,489	156,132	12,747	13,812	-103	-150	158,133	169,794
Reduction in revenues	-13,887	-16,221	-917	-967	0	2	-14,804	-17,186
Sales (net)	131,602	139,911	11,830	12,845	-103	-148	143,329	152,608

(18) Cost of materials

The cost of materials includes:

	2017	2016
	€ '000	€ '000
Cost of raw materials, consumables and supplies and purchased materials	67,645	66,570
Cost of purchased services	5,890	5,419
	73,535	71,989

(19) Other income

Other income includes income from the release of allowances for doubtful receivables and income from the expiry of obligations, foreign exchange gains in the amount of € 0.217 million (previous year: € 1.109 million) as well as income from disposals of tangible and intangible fixed assets in an amount of € 0.109 million (previous year: € 0.125 million).

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(20) Personnel expenses

Personnel expenses are comprised as follows:

	2017	2016
	€ '000	€ '000
Wages and salaries	32,591	32,875
Social security contributions and pension expenses	7,745	7,782
	40,336	40,657

Social security contributions and pension expenses include contributions to state pension insurance institutions in an amount of € 2.770 million (previous year: € 2.736 million), allocations to pension provisions in an amount of € 0.322 million (previous year: € 0.291 million) as well as payments to external relief funds and similar pension organisations due to defined contribution plans in an amount of € 0.150 million (previous year: € 0.145 million).

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

	2017	2016
	Persons	Persons
Blue-collar workers	344	350
White-collar workers	371	372
Trainees and apprentices	46	46
	761	768

(21) Depreciation

A breakdown of depreciation is provided in the notes to tangible and intangible fixed assets (see No. 1 and No. 2 above). As in the previous year, no write-downs for impairment occurred in the fiscal year.

(22) Other operating expenses

Other operating expenses mainly include expenses on freight out, advertising, rental and operating leases, maintenance and insurance policies. Moreover, they include losses from disposals of tangible and intangible fixed assets in an amount of € 0.172 million (previous year: € 0.119 million), foreign exchange losses in an amount of € 0.823 million (previous year: € 0.366 million) as well as the additional expenses resulting from the German antitrust proceedings in an amount of € 13.129 million (previous year: € 0.0 million).

(23) Financial result

The financial result includes interest expenses of € 0.215 million (previous year: € 0.263 million), which result from the allocation to pension provisions. For details see No. 14 above.

(24) Income taxes

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

	2017	2016
	€ '000	€ '000
Current income tax expenses	924	3,453
Deferred taxes	-929	-686
	-5	2,767

At € -0.005 million, tax income (previous year: tax expenses of € 2.767 million) differed by € 5.516 million (previous year: € -0.402 million) from the expected tax expenses of € -5.521 million (previous year: € 3.169 million) that would have arisen based on the overall German tax rate of 31.06% (previous year: 31.06%). The difference between expected and effective income tax expenses in the Group is due to the following:

	2017	2016
	€ '000	€ '000
Expected income tax expenses	-5,521	3,169
Tax rate differentials to the overall German tax rate	365	152
Income from reimbursement of corporate income tax credit	-5	-14
Taxes unrelated to the accounting period	393	189
Non-tax-deductible expenses	3,674	188
Non-recognition and allowances from deferred tax assets	495	338
Non-taxable income	-91	-107
Results from investments accounted for at equity	785	-1,196
Other tax effects	-100	48
Effective income tax expenses	-5	2,767
Effective income tax rate	0.03%	27.12%

The change in the effective tax rate is essentially attributable to non-deductible expenses incurred in conjunction with the German antitrust proceedings as well as to the lower income from the Russian joint venture.

(25) Earnings per share

Earnings per share are calculated as follows:

		2017	2016
Number of shares outstanding (weighted average)	shares	2,756,351	2,756,351
Earnings after taxes	€	-17,770,767	7,434,839
Earnings per share	€/share	-6.45	2.70

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

Complementary information

(26) Cash flow statement

Cash flow from operating activities includes the following payments:

	2017	2016
	€ '000	€ '000
Interest received	158	43
Interest paid	337	440
Income tax paid	788	2,247

Interest paid primarily relates to investment financing.

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

	2017	2016
	€ '000	€ '000
Raising of financial liabilities (excl. financial lease)	2,429	19
Repayment of financial liabilities (excl. financial lease)	-4,862	-4,799
Repayment of liabilities under financial lease contracts	-86	-1,822
	-2,519	-6,602

(27) Segment reporting

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

A breakdown of key figures by segments is provided below:

	Wallpaper Divison		Fabrics Divison		Consolidation		Group	
	2017 € '000	2016 € '000	2017 € '000	2016 € '000	2017 € '000	2016 € '000	2017 € '000	2016 € '000
External sales	131,542	139,828	11,787	12,780	0	0	143,329	152,608
Intra-Group sales	60	83	43	65	-103	-148	0	0
Total sales	131,602	139,911	11,830	12,845	-103	-148	143,329	152,608
EBITDA ¹	-9,482	13,162	212	367	0	0	-9,270	13,529
EBITDA-margin	-7.2%	9.4%	1.8%	2.9%			-6.5%	8.9%
EBIT ²	-15,840	5,715	19	179	13	23	-15,808	5,917
EBIT-margin	-12.0%	4.1%	0.2%	1.4%			-11.0%	3.9%
Interest income	1,233	1,267	1	1	-92	-92	1,142	1,176
Results from investments accounted for at equity	-2,528	3,850	0	0	0	0	-2,528	3,850
Interest expenses	558	710	116	123	-92	-92	582	741
Earnings before income taxes	-17,693	10,122	-96	57	13	23	-17,776	10,202
Return on sales (before taxes)	-13.4%	7.2%	-0.8%	0.4%			-12.4%	6.7%
Income taxes	24	2,738	-33	23	4	6	-5	2,767
Capital expenditures ³	10,078	4,815	140	199	0	0	10,218	5,014
Depreciation	6,358	7,447	193	188	-13	-23	6,538	7,612
Cash-flow ⁴	3,124	16,216	107	879	0	0	3,231	17,095
Segment assets 31.12. ⁵	114,249	111,014	6,356	6,762	-54	-58	120,551	117,718
thereof non-current assets	(50,856)	(48,467)	(1,262)	(1,339)	(-3)	(-17)	(52,115)	(49,789)
Segment liabilities 31.12. ⁶	32,375	16,080	1,323	1,498	-51	-41	33,647	17,537
Employees (average)	692	696	69	72	0	0	761	768

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

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

³ Capital expenditures correspond to the cash flow statement.

⁴ Cash flow corresponds to the operating cash flow stated in the cash flow statement.

⁵ Segment assets are the total assets of the segment less interest-bearing intercompany loans, cash and cash equivalents, deferred tax assets and other tax receivables.

⁶ Segment liabilities are the business segment's total equity and liabilities less shareholders' equity, long-term provisions, tax liabilities, deferred tax liabilities and financial liabilities.

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

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

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

	Total		Remaining term of up to 1 year		Remaining term of over 1 year	
	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000
Germany	78,569	78,734	51,776	49,932	26,793	28,802
EU (excl. Germany)	21,692	23,559	12,229	13,169	9,463	10,390
Other Eastern Europe	20,290	15,425	4,431	4,828	15,859	10,597
	120,551	117,718	68,436	67,929	52,115	49,789

(28) Research and development expenses

In the past fiscal year, € 2.637 million (previous year: € 2.621 million) were spent on the development of new designs.

(29) Audit expenses

In the past fiscal year, € 0.209 million (previous year: € 0.199 million) were spent on the audit of the financial statements of the fully consolidated companies as well as on the audit of the consolidated financial statements. The Group auditor received € 0.196 million (previous year: € 0.192 million) as well as an additional € 0.018 million (previous year: € 0.0 million) for other confirmations services, € 0.037 million (previous year: € 0.039 million) for tax consulting services and € 0.005 million (previous year: € 0.008 million) for other services.

(30) Risks from financial instruments

€ 0.299 million or 3.6% (previous year: € 0.301 million or 3.1%) of the total interest-bearing financial liabilities of € 8.410 million (previous year: € 9.575 million) represent variable-rate

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

At the operating level, currency risks may occur whenever procurement and/or sales activities are not nominated in euros but in foreign currencies. Such foreign currency transactions are still negligible in the A.S. Création Group, so that operations are not exposed to a material currency risk. But this risk will increase as the activities in Russia and in Belarus are expanded. By contrast very high currency risks result from the financing activities, i.e. from loans in foreign currencies. These exist at the Russian joint venture, which are mostly financed with euro-denominated shareholder loans. A depreciation of the rouble against the euro leads to translation-related non-cash exchange losses. A depreciation of the rouble by one percent would reduce earnings after taxes by approx. € 0.250 million.

Due to the specific structure of A.S. Création, interest rate or currency hedges as well as financial derivatives play only a minor role. Such hedges are generally taken out only for specific underlying transactions. Two interest rate hedges (interest rate swaps) whose term ends on December 30, 2018 and March 31, 2021 respectively existed on the balance sheet date. This interest rate hedge was signed together with a long-term variable-rate loan. Both transactions form an economic unit and thus represent a long-term fixed-rate loan (synthetic fixed rate loan). In this case, however, IAS 39 does not provide for the cash flows from the two transactions to be offset against each other but requires a separate valuation of the interest rate swap at fair market value (hedge accounting). Accordingly, the negative market value of the two interest rate hedges (after deferred taxes) in the amount of € -0.083 million (previous year: € -0.186 million) was recognised in equity as at the balance sheet date. The statement of comprehensive income of the reporting year includes an increase in the market values (after deferred taxes) in the amount of € 0.103 million (previous year: € 0.117 million). Going forward, the interest rate swaps will have no impact on the earnings after taxes.

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

the operational level, default risks primarily result from trade receivables. A.S. Création's risk policy aims to limit the inherent risk. The company therefore uses available means such as credit insurance and bank guarantees to transfer the risk to third parties. These instruments do not always make economic sense, as they entail costs, and are not always available. Great importance is therefore attached to the monitoring of the agreed payment deadlines and credit lines in the context of internal debtor management. Despite these measures, not all default risks can be eliminated. The residual default risk is mitigated by allowances on trade receivables. The potential effects which a default could have on the net worth, financial and earnings position of A.S. Création can be assessed on the basis of the concentration of debtors. In this context, A.S. Création has identified no very high potential risk that could jeopardise its continued existence. Of the total trade receivables in an amount of € 25.912 million (previous year: € 24.830 million), € 6.547 million or 25.3% (previous year: € 5.502 million or 22.2%) were accounted for by the five largest debtors. At the financial level, default risks mainly relate to cash with banks and to the financing of the joint venture, 000 A.S. & Palitra. To minimise the default risk, A.S. Création only cooperates with banks that have excellent credit ratings and/or are connected to a deposit guarantee fund. The shareholder loans of € 16.285 million (previous year: € 16.919 million) granted to A.S. & Palitra constitute that material assets are tied up in a country exposed to much higher economic and political risks than Germany. The Managing Board believes, however, that the company should take these additional risks in what is the world's largest wallpaper market as they are outweighed by the resulting opportunities and the size of the additional risk is not considered to jeopardise the company's continued existence.

The liquidity risk is the risk of the company being unable to meet existing or future payment obligations due to a lack of cash or cash equivalents. To ensure that A.S. Création is able to meet its payment obligations, sufficient credit lines and cash and cash equivalents are maintained on the basis of the financial planning and systematic liquidity monitoring. As of the balance sheet date, the company had cash and cash equivalents and short-term deposits in the amount of € 8.827 million (previous year: € 21.226 million) and unused credit lines of € 9.431 million (previous year: € 12.210 million). Liquidity bottlenecks are not expected.

(31) Additional disclosures on financial instruments

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

	Amount recognised according to IAS 39		Amount recognised according to IAS 17		Carrying amount		Fair value	
	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000	31.12.17 € '000	31.12.16 € '000
Financial assets	7,960	10,548	0	0	7,960	10,548	8,315	10,548
Trade receivables	25,912	24,830	0	0	25,912	24,830	25,912	24,830
Other receivables	7,409	6,775	0	0	7,409	6,775	7,409	6,775
Cash and cash equivalents	8,827	20,826	0	0	8,827	20,826	8,827	20,826
Loans and receivables	50,108	62,979	0	0	50,108	62,979	50,463	62,979
Financial liabilities (without finance lease)	8,410	9,489	0	0	8,410	9,489	8,562	9,722
Other liabilities	2,096	1,757	0	0	2,096	1,757	2,096	1,757
Trade payables	6,807	7,119	0	0	6,807	7,119	6,807	7,119
Financial liabilities measured at amortised cost	17,313	18,365	0	0	17,313	18,365	17,465	18,598
Financial derivative	-121	-271	0	0	-121	-271	-121	-271
Liabilities from finance lease	0	0	0	86	0	86	0	88

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

The loans to OOO A.S. & Palitra are shown under financial assets less the offsetting amount resulting from at-equity accounting (see notes No. 3 and No. 4). The fair values correspond to the present values of the payments resulting from the underlying contracts. Current refinancing rates with matching maturities were used as discount factors.

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

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

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

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

In the fiscal year, net losses of € 0.066 million (previous year: € 0.243 million) resulted from bad debts and the change in bad debt write-downs.

Interest income totalling € 1.139 million (previous year: € 1.171 million) and interest expenses totalling € 0.350 million (previous year: € 0.454 million) resulted from the financial instruments in fiscal year.

(32) Disclosures on capital management

The financial policy of A.S. Création is aimed at securing the company's ability to meet its payment obligations at all times as well as at minimising financial risks. Accordingly, A.S. Création has a high equity ratio, which stood at 57.9% on December 31, 2017 (previous year: 68.8%). When it comes to raising debt capital, the financing policy of A.S. Création generally provides for long-term loans with fixed interest rates and repayments during the term of the loans. As a result, A.S. Création's equity capital and debt capital are more than sufficient to finance assets that are tied up in the long term. As of December 31, 2017, the debt-to-equity ratio was 177.7% (previous year: 237.6%). Under its financial policy, A.S. Création additionally maintains liquidity reserves and free credit lines to be able to cover short-term financing requirements arising from its operating activities.

(33) Company acquisitions

On April 12, 2017, A.S. Création acquired OOO Profistil, a non-operating company in Minsk, Belarus. A.S. Création is building another wallpaper production facility on the site, which is scheduled to be taken into operation in spring 2018. The purchase price allocation was primarily made on property, plant and equipment as well as financial liabilities and other liabilities. The purchase price allocation resulted in goodwill of € 0.404 million, which is assigned to the Wallpaper Division:

	€ '000
Fair value of assets	1,703
Fair value of liabilities	2,107
Net assets	-404
Purchase price	0
Goodwill	404

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Besides goodwill, no other assets or liabilities not yet recognised were taken into account in the purchase price allocation. The fictitious recognition of the acquisition of the company in the previous year would not have a material impact on the consolidated result of the previous year.

(34) Managing Board

The Managing Board had the following members in FY 2017:

	Responsible for	Supervisory Board member
Maik Holger Krämer Chairman	Finance and Controlling	-
Roland Werner Bantel	Sales and Marketing	-
Antonios Suskas	Production and Logistics	-

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

(35) Supervisory Board

In FY 2017, the Supervisory Board was comprised as follows:

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

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

(36) Compensation of the Board / Loans to the Board

The annual salaries of the Managing Board members in fiscal 2017 totalled € 0.697 million (previous year: € 1.444 million). In addition, the payments to a relief fund resulted in net expenses in an amount of € 0.048 million (previous year: € 0.041 million).

The compensation of the Supervisory Board members in fiscal 2017 totalled € 0.163 million (previous year: € 0.163 million).

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

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

Provisions for pensions for former members of the Managing Board and their surviving dependents amounted to € 2.275 million (previous year: € 2.324 million) as of the balance sheet date. Pension payments to former members of the Managing Board and their surviving dependents amounted to € 0.126 million (previous year: € 0.123 million).

(37) Related party transactions

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

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

	2017 € '000	2016 € '000
Sales	119	370
Purchases	3,274	4,900
Interest income	1,130	1,153
	31.12.17 € '000	31.12.16 € '000
Shareholder loans	16,285	16,919
Receivables	5,580	4,641
Liabilities	464	1,361

In the context of the at-equity accounting of A.S. & Palitra, long-term shareholder loans are increased/reduced to reflect changes in equity of the joint venture through changes affecting income and through changes affecting other comprehensive income, provided that these changes relate to the shares of A.S. Création. As of the balance sheet date, shareholder loans were recognised in the consolidated financial statements in the amount of € 7.960 million (previous year: € 10.548 million) (see notes No. 4.).

Franz Jürgen Schneider is Chairman of the Managing Board of A.S. Création Tapeten-Stiftung, a charitable foundation established by him. In the past fiscal year, A.S. Création Tapeten-Stiftung received a donation of € 0.030 million (previous year: € 0.020 million) from A.S. Création Tapeten AG in support of its work.

A.S. Création Tapeten AG has signed an agreement with Franz Jürgen Schneider, under which he is released from potential penalties and claims for damages in conjunction with the anti-trust proceedings. Moreover, the company has undertaken to bear any defence counsel and/or court expenses. This release agreement was approved by the Annual General Meeting of Shareholders on May 3, 2013. Expenses in an amount of € 1.171 million (previous year: € 0.0 million) incurred in this context in the fiscal year.

(38) Declaration of conformity with the German Corporate Governance Code

On March 8, 2017, the Managing Board and the Supervisory Board issued the declaration of conformity for FY 2017 in accordance with section 161 of the German Stock Corporation Act (Aktiengesetz AktG), which has been made permanently available to the company's shareholders on its website. The declaration of conformity for FY 2018 will be discussed and adopted at the Supervisory Board meeting on March 9, 2018. This declaration will be published on the company's website and in the chapter "Corporate governance statement and report on corporate governance" of the 2017 Annual Report.

(39) Post balance sheet events

No events that require reporting have occurred.

The Managing Board of A.S. Création Tapeten AG has today released the consolidated financial statements and the group management report for being passed on to the Supervisory Board. The latter has the task to review the consolidated financial statements and the group management report and will declare whether it approves the consolidated financial statements and the group management report in its meeting on March 9, 2018.

Gummersbach, February 28, 2018

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A.S. Création Tapeten AG
The Managing Board

Krämer

Bantel

Suskas

Independent auditor's report

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of A.S. Création Tapeten AG, Gummersbach and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2017, the consolidated income statement, the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from January 1, 2017 to December 31, 2017, and notes to the financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of A.S. Création Tapeten AG for the fiscal year from January 1, 2017 to December 31, 2017. In accordance with the German legal requirements we have not audited the non-financial group report and the group corporate governance statement of the group management report in section 4.2. and 9.1 of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at December 31, 2017 and of its financial performance for the fiscal year from January 1, 2017 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. We have not audited the non-financial group report of the group management report, and the group corporate governance statement of the group management report in section 4.2. and 9.1.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the Group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 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 opinions on the consolidated financial statements and on the group 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 fiscal year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Antitrust proceedings

1.1 Reasons why the matter was determined to be a key audit matter

A.S. Création Tapeten AG is involved in a legal dispute with the German antitrust authorities. To avoid payment of interest, the Company made a payment of EUR 2.0 m in 2014. On 12 October 2017, the Düsseldorf Higher Regional Court announced its judgment and the fine in the appellate proceeding initiated by A.S. Création against the fine notices issued by the Federal Cartel Office in 2014. The court raised the fines imposed on A.S. Création Tapeten AG and the responsible persons in the Company to a total of EUR 13.9 m. Although the Higher Regional Court's judgment is not yet final, the management board raised the provision recognized to cover it in the fiscal year, thus reducing the earnings of A.S. Création Tapeten AG in the amount of the announced fine. In light of the magnitude of the claims asserted and the uncertainty and estimates made by the executive directors inherent in such proceedings, we consider the proceedings against A.S. Création Tapeten AG to be a key audit matter.

1.2 Auditor's response

On the basis of our insight that the use of estimates entails an elevated risk of misstatement in the financial reporting and that the use of judgment by the management board with regard to the recognition and measurement of the risks arising as a result of the antitrust proceedings has a direct effect on the net income/loss for the year, we assessed the appropriateness of the recognition of the provisions relating to the antitrust proceedings and their measurement by reference to the report presented to us on the judgment announced by Düsseldorf Higher Regional Court, the original fine notice issued by the Federal Cartel Office, the Company's statement of reasons for its appeal against the fine notice, the statement of claim by the Düsseldorf Attorney General and expert opinions. We discussed the documents presented to us in the course of the audit with the Company's management board. We also obtained confirmation from an external lawyer as of the reporting date to support the management board's assessment of risk. We assessed whether the management board's estimates and the assumptions

made in relation to the antitrust proceedings were consistent with the documents presented to us and our discussions with the management board.

1.3 Reference to related disclosures

A.S. Création Tapeten AG reports on the antitrust proceedings pending in Germany in sections "(22) Other operating expenses" and "(37) Related party transactions" of the notes to the consolidated financial statements and in section "7.2.5. Risks from anti-trust proceedings" of the group management report.

2. Impairment testing of goodwill

2.1 Reasons why the matter was determined to be a key audit matter

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The goodwill of A.S. Création Tapeten AG is tested for impairment at least once a year as of 31 December in order to determine any potential impairment. In so doing, the value in use is determined using a discounted cash flow model. The valuations of cash-generating units are based on the Group's integrated business plan for a two-year period adopted by the management board and supervisory board. The weighted average cost of capital was used to determine the discount to be applied to each cash-generating unit.

The result of these valuations is highly dependent on the executive directors' estimate of future cash flows for the two business segments and the respective discount rates used.

In light of the complexity of the valuation process and the judgment used during valuation, the impairment testing of goodwill was a key audit matter.

2.2 Auditor's response

As part of our audit we walked through the methodology applied to test impairment with a view to its suitability for determining potential impairment. In doing so, we analyzed the planning

process and tested the operating effectiveness of the controls implemented therein. We discussed the significant planning assumptions with the management board. When assessing the results of the impairment tests as of 31 December 2017, we examined the assumptions made to determine whether they were consistent with the general and industry-specific market expectations.

Based on our understanding that even relatively small changes in the discount rates used can at times have significant effects on the amount of the business value calculated, we analyzed the inputs used to determine the discount rates and reperformed the calculation with regard to the relevant requirements of IAS 36. We analyzed other significant inputs such as the forecast economic growth and the planned debt-to-equity ratio to determine whether they are consistent with the general market expectations. In addition, we consulted internal valuation specialists to assess the discount rates used.

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We also performed sensitivity analyses in order to estimate any potential impairment risk associated with a reasonably possible change in one of the significant assumptions used in the valuation.

Our procedures did not lead to any reservations relating to the valuation of goodwill.

2.3 Reference to related disclosures

The Company provides information on goodwill in section "(2) Intangible fixed assets" of the notes to the consolidated financial statements.

Other information

The executive directors are responsible for the other information. The other information comprises the non-financial group report in accordance with 315b HGB and the group corporate governance statement in accordance with 315d HGB in section 4.2. and 9.1 of the group management report, of which we have received a version, intended for publication, before the issuance of the audit opinion.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the group management report

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The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors 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 executive directors 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 there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group 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 executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group 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 group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

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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 group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs 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 group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial

statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group 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 executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of

the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 4, 2017. We were engaged by the supervisory board on November 21, 2017. We have been the group auditor of A.S. Création Tapeten AG without interruption since fiscal year 2014.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

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German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Peter Gockel.

Cologne, 2 March 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

(s) Gockel	(s) Galden
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

CORPORATE CALENDAR

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March 22, 2018	Analyst presentation
May 3, 2018	Interim report for the three-month period ended March 31, 2018
May 3, 2018	Annual General Meeting of Shareholders
August 2, 2018	Interim report for the six-month period ended June 30, 2018
October 25, 2018	Interim report for the nine-month period ended September 30, 2018

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

Cover photo: In combinations with colors, fantasies, patterns and sceneries these digital wall prints express an attitude towards life. The designers Kathrin and Mark Patel convey with their collection their own personal style mix and create a unique atmosphere. A non-verbal statement regarding interior design.

(Original sample item no. DD110911)



