

AS CREATION

INTERIM REPORT FOR THE PERIOD
ENDED SEPTEMBER 30, 2018

A.S. CRÉATION TAPETEN AG

		2014	2015	2016	2017	2018
Sales	€ '000	145,240	126,839	116,290	109,350	102,659
EBIT	€ '000	8,606	6,751	4,908	-14,131	-2,031
Earnings before income taxes	€ '000	6,107	5,566	7,600	-16,025	-4,032
Earnings after income taxes	€ '000	3,176	3,445	5,503	-15,851	-4,223
Earnings per share	€/share	1.15	1.25	2.00	-5.75	-1.53
Cash-flow from operating activities	€ '000	11,431	14,960	12,250	1,913	2,762
Capital expenditures	€ '000	4,297	3,489	3,809	7,589	6,023
Depreciation	€ '000	7,096	6,362	5,827	5,445	4,714
Number of employees		823	805	767	765	753

A.S. Création Tapeten AG, Gummersbach

Interim Management Report

on the business performance for the nine-month period ended September 30, 2018

Sales performance

With the eurozone economy having grown by 2.4% in the full year 2017, a growth rate of 2.5% was projected for 2018 in view of rising commodity and energy prices. The available data for the first nine months of 2018 show that growth is below the projected range. Consequently, the forecast for the full year 2018 has been downgraded in the meantime, with economic growth of 2.0% now projected for the eurozone.

In 2017, the economic situation in Russia had improved slightly, with the gross domestic product growing by 1.9%. This positive trend was mainly attributable to the fact that the oil price picked up in the course of 2017, given that commodity and energy-oriented companies play a particularly important role for the local economy. A growth rate of 2.9% and a further decline in the rate of inflation are projected for 2018. In view of the political tensions between Russia and the USA as well as the EU, it is doubtful whether this full-year forecast will be achieved, however. It is not least due to these tensions that Russia's economy has grown by only 1.8% in the year 2018 to date in spite of the constantly rising oil price. The rouble exchange rate has failed to stabilise as expected in the year to date. Right on the contrary, the Russian currency has depreciated against the euro since the beginning of the year 2018 and is characterised by great volatility. The exchange rate climbed from RUB/€ 68.87 at the beginning of the year to a high of close to RUB/€ 82 on September 11, 2018. At the end of September 2018, it stood at approx. RUB/€ 76. This means that the Russian rouble has lost almost 11% in value since the beginning of the year.

In this macroeconomic environment, A.S. Création's consolidated revenues amounted to € 102.7 million in the first nine months of 2018, down € 6.7 million or 6.1% on the previous year's € 109.4 million. Of this decline, € 0.9 million related to exchange rate changes, while € 0.5 million related to the new IFRS 15 ("Revenues from Contracts with Customers"), which is applicable as of the fiscal year 2018. Adjusted for these effects, revenues were down by 4.8%. The Managing Board is not satisfied with the sales performance in the current fiscal year, as not only the second quarter was disappointing, with sales revenues down by 4.9%, but especially the third quarter did not fit in at all with the company's expansionary plans and saw sales revenues fall by € 3.7 million or 11.1% from € 33.6 million in the previous year to € 29.9 million. This means that the third quarter alone accounted for 55.2% of the total € 6.7 million drop in revenues in the first nine months of 2018. This shows that the poor business trend had an extremely adverse effect on A.S. Création in the past three months.

The breakdown of revenues by regions shows that A.S. Création's revenues declined sharply by between 12% and 18% in all regions – except for non-EU Eastern European countries –

in the third quarter of 2018. Eastern Europe was the only region where the company was able to grow its Q3 revenues – by 1.6% – compared to the same period of the previous year. This was due to the additional revenues generated by the new wallpaper factory opened near Minsk, Belarus. Adjusted for these additional revenues, A.S. Création's third-quarter revenues declined by 14.9%.

Due to the factors described above, gross sales revenues in Germany, at € 49.1 million, were only just on a par with the previous year's € 49.4 million at the nine-month stage 2018. The growth successes achieved in Germany in the first six months of 2018, primarily because of the "Bude 2.0" advertising campaign, were no longer felt in the third quarter. In spite of the many advertising measures for wallpapers and A.S. Création's "Bude 2.0" Collection, consumers reduced their spending on wallpapers in the third quarter. Retailers reported that other home furnishing products were also affected by a sharp drop in revenues. The long period of warm and sunny weather certainly led to a decline in retail footfall and to reduced consumer interest in home furnishing products.

A.S. Création's revenues in the remaining EU countries declined by 12.6% in the first nine months of 2018, with a particularly sharp drop recorded in France, Great Britain, the Baltic states and Poland.

At € 12.9 million, A.S. Création's gross revenues in non-EU Eastern European countries were down by € 0.6 million or 4.2% on the previous year in the first nine months of 2018, with € 0.9 million of this decline attributable to the changes in exchange rates described above. These figures include revenues of € 2.0 million generated by the new wallpaper production facility in Minsk. Given that the Belarus subsidiary, OOO Profistil, started production only at the end of March 2018 and sold the first wallpaper rolls in April, the Managing Board expects the revenue trend in non-EU Eastern European markets to improve further in the fourth quarter of 2018.

Earnings performance

The sharp drop in revenues, especially in the third quarter, is weighing on A.S. Création's bottom line in the current fiscal year 2018. While A.S. Création's operating loss of € 2.0 million for the first nine months of 2018 is clearly below the previous year's loss of € 14.1 million, it should be noted that the previous year's loss included extraordinary effects worth € 13.5 million. The extraordinary effects in the first nine months of 2017 resulted from the anti-trust proceedings, from severance payments and from exchange rate effects. In the reporting period, comparable extraordinary effects relating to exchange rate effects and start-up losses in Belarus totalled € 1.4 million. Adjusted for these extraordinary effects, A.S. Création posted an operating loss of € 0.6 million for the first nine months of 2018, which is on a par with the previous year's loss. Due to the poor business trend in Q3 2018, there were no more signs of the improvement in earnings recorded in the first half of the year.

The € 6.7 million drop in revenues, in combination with a moderate decline in the gross profit margin from 49.6% in the previous year to 48.9% in the reporting period, sent gross profits

falling by € 4.6 million from € 54.4 million in the previous year to € 49.8 million in the first nine months of 2018. Of this total, € 3.8 million is attributable to the shortfall in revenues, while € 0.8 million relates to the reduced gross profit margin. The latter reflects commodity price increases that could not be offset by an increase in the company's own selling prices.

The measures initiated in the previous year to reduce personnel expenses took full effect in the reporting period and played a key role in offsetting the shortfall in gross profits; A.S. Création Group's headcount declined from 765 in the first nine months of 2017 to 753 in the reporting period and personnel expenses were reduced by € 2.8 million or 9.3% from € 30.6 million in the previous year to € 27.8 million in the first nine months of 2018. At 27.3%, the personnel expense ratio (personnel expenses as a percentage of total output) was below the previous year's 28.0%. When analysing these figures, it should be noted that Profistil, the Belarus company, employed 78 (previous year: 22) people on average in the first nine months of the year, who generated revenues only from the second quarter. As previously reported, the company took the first production line into operation at the end of March 2018 and generated the first revenues in April. As the revenue contributions from the Belarus company increase, the personnel expense ratio will improve. The declining revenues from continued operations will make it impossible to achieve a noticeable improvement in the Group's personnel expense ratio as originally planned by the Managing Board for the year 2018.

Besides the reduction in personnel expenses, savings were achieved also with regard to other operating expenses such as maintenance costs, trade fair expenses and freight costs. These savings were partly offset by increased write-downs of trade receivables. Adjusted for the above-mentioned factors (anti-trust proceedings and exchange losses), other operating expenses declined by € 1.4 million from € 20.3 million in the first nine months of 2017 to € 18.9 million in the reporting period. At 18.5%, other operating expenses as a percentage of total output thus remained unchanged from the previous year. Against the background of the drop in revenues, the Managing Board is satisfied with this situation, as part of the other operating expenses are of a fixed-cost nature.

The € 0.7 million decline in depreciation from € 5.4 million in the previous year to € 4.7 million in the reporting period led to a corresponding improvement in the operating result. 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.

At € -2.0 million, the Group's financial result in the first nine months of 2018 was more or less on a par with the previous year's € -1.9 million. The result posted by the Russian production company, 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 consolidated financial result. Operationally, the joint venture showed a good performance in the nine months of 2018. Revenues (in euros) increased by approx. 12%. As personnel expenses were reduced at the same time, this resulted in an operating profit (adjusted for exchange losses) of € 1.5 million in the reporting period (previous year: € 0.2 million). Due to the above-described depreciation of the Russian

rouble against the euro in the current fiscal year, however, translation-related exchange losses occurred both in the reporting period and in the prior year period. As a result of these exchange effects and the company's financing costs, A.S. & Palitra posted a loss after taxes of € -4.5 million in spite of the improved operating result, compared to a loss after taxes of € -4.6 million in the first nine months of 2017. Half of this result after taxes, i.e. € -2.3 million in both the reporting period and the prior year period, is reflected in A.S. Création's financial result for the first nine months of 2018. These figures include pro-rated exchange losses of € -1.8 million (previous year: € -1.3 million).

Earnings before interest and taxes and the financial result led to earnings before taxes of € -4.0 million in the first nine months of 2018, up by € 12.0 million on the previous year's € -16.0 million. Adjusted for the extraordinary effects included in this figure (anti-trust proceedings, severance payments, exchange losses and start-up losses in Belarus), earnings before taxes amounted to € -0.8 million in the first nine months of 2018 (previous year: € -1.2 million).

Earnings after taxes stood at € -4.2 million at the nine-month stage 2018 (previous year: € -15.9 million).

Financial and net worth position

At € 2.8 million, operating cash flow in the first nine months of 2018 was up by € 0.9 million on the prior year period's € 1.9 million. This improvement is mainly due to the fact that less capital was tied up in inventories and trade receivables because of lower revenues. Trade receivables increased by only € 0.9 million, i.e. at a much lower rate than in the previous year (€ 4.6 million). Days of sales outstanding, at 68, remained almost unchanged in the first nine months of 2018 from the previous year's 67 days. In addition, inventories were reduced by € 1.3 million in the reporting period, which also released capital; in the previous year, inventories increased by € 0.4 million. At 3.8x per year, inventory turnover remained almost unchanged compared to the previous year's 3.9x per year.

Financing requirements from investments amounted to € 6.0 million in the reporting period, down € 1.6 million on the previous year's € 7.6 million. This year's investments include € 1.4 million (previous year: € 0.7 million) for the modernisation of the logistic resources at Wiehl-Bomig as well as € 1.7 million (previous year: € 4.2 million) for the start-up of the Belarus production company.

In the current fiscal year, net financial liabilities increased by € 2.9 million to € 2.5 million on September 30, 2018. Net financial liabilities on the balance sheet date were composed of cash and cash equivalents in the amount of € 14.3 million and interest-bearing financial liabilities of € 16.8 million. In the second quarter of 2018, A.S. Création was able to conclude the negotiations with the banks about the funding of the capital expenditures for the next two fiscal years as well as the remaining financing requirements resulting from the financial projections. Long-term loan agreements were signed for this purpose, which led to the high amount of cash and cash equivalents and interest-bearing financial liabilities on the reporting date. No cash requirements resulted from the anti-trust proceedings in Germany and France

in the reporting period, as the two verdicts are not final yet. In Germany, A.S. Création filed an appeal against the court of appeal's verdict and gave reasons for this appeal within the statutory deadline. In France, the Supreme Court has referred the case back to the court of appeal.

The high equity ratio of 54.8% as at September 30, 2018 (December 31, 2017: 57.9%) underlines the solid financial structure A.S. Création.

In the opinion of the Managing Board, A.S. Création also has a solid net worth position. As at September 30, 2018, the A.S. Création Group's total assets amounted to € 133.5 million (previous year: € 134.7 million), of which 80.4% (previous year: 78.4%), i.e. by far the biggest portion, was composed of property, plant and equipment, inventories, trade receivables, current financial assets as well as cash and cash equivalents. By contrast, intangible assets (including goodwill) carried in the consolidated balance sheet as of the reporting date played a minor role and represented only 6.2% (previous year: 6.1%) of the Group's total assets and 11.3% (previous year: 10.6%) of its equity capital.

Forecast

In the "Forecast" chapter of the 2017 consolidated financial statements, the Managing Board communicated the following expectations for the fiscal year 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.

In view of the disappointing revenues in the second quarter of 2018, the Managing Board published an ad-hoc release on July 25, 2018 to announce that the revenue and earnings forecast for the full year 2018 will probably not be reached. This expectation has been confirmed by the renewed decline in revenues in the third quarter of 2018. From today's point of view, the Managing Board projects consolidated revenues of between € 125 million and € 135 million for the full year 2018.

The gross profit margin was more or less in line with expectations in the first nine months of 2018. Due to the shortfall in revenues, however, absolute gross profits clearly fell short of expectations. Even the price increases implemented by A.S. Création for part of the product range in the third quarter will not fundamentally change this situation. The reduced sales revenues have led to a shortfall in earnings. As the business model of A.S. Création is essentially based on the immediate fulfilment of orders with wallpapers and furnishing fabrics that are in stock, there is no order backlog that would secure sales revenues in the coming months. It is impossible, for instance, to make a reliable assessment as to whether there will be catch-up effects by the end of the year because consumers have so far postponed planned renovations. The A.S. Création Group is therefore challenged to further optimise its cost structures and to adjust them to the reduced sales revenues.

A.S. Création's third-quarter revenues of € 29.9 million were not sufficient to generate a balanced operating result (excl. extraordinary effects). In the past fiscal years, third-quarter and fourth-quarter revenues were more or less on a par. As explained above, fourth-quarter revenues and gross profits are currently subject to great uncertainty. The internal cost structure should improve slightly in the fourth quarter of 2018, whereas commodity and energy prices will reach a higher level. Consequently, the Managing Board believes that both a scenario in which A.S. Création can offset the losses (excl. extraordinary effects) in an amount of € 0.6 million incurred to date by the end of the year and a scenario in which A.S. Création will post an operating loss (excl. extraordinary effects) for the full year 2018 are possible. In any case, 2018 will be a fiscal year in which the Managing Board is unable to reach the ambitious targets set for A.S. Création.

The risk and opportunity profile of A.S. Création Tapeten AG has not changed materially as compared to the presentation in the 2017 Annual Report.

Statement pursuant to Article 315 paragraph 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 interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim 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 for the remaining months of the financial year.

Gummersbach, October 23, 2018

A.S. Création Tapeten AG

The Managing Board

Krämer

Bantel

Suskas

A.S. Création Tapeten AG, Gummersbach

Consolidated balance sheet

as per September 30, 2018

Assets			
		30.09.2018	31.12.2017
		€ '000	€ '000
Tangible fixed assets		31,455	30,553
Intangible fixed assets		8,293	8,342
Investments accounted for at equity		0	0
Financial assets		6,253	7,959
Other assets		5,259	5,260
Deferred tax assets		987	671
Non-current assets		52,247	52,785
Inventories		35,359	36,853
Trade receivables		26,133	25,912
Other assets		5,169	5,672
Income tax receivables		230	665
Cash and cash equivalents		14,350	8,827
Current assets		81,241	77,929
Total assets		133,488	130,714
Equity and liabilities			
	Notes No.	30.09.2018 € '000	31.12.2017 € '000
Capital stock		9,000	9,000
Capital reserves		13,757	13,757
Revenue reserves		72,457	83,580
Profit carried forward		-20,698	-14,604
Earnings after taxes		-4,223	-17,771
Adjustment for own shares		-4,021	-4,021
Currency translation differences		6,895	5,774
Equity		73,167	75,715
Financial liabilities (interest-bearing)		13,474	4,691
Other liabilities		406	508
Provisions	(1)	12,354	12,662
Deferred tax liabilities		146	199
Non-current liabilities		26,380	18,060
Financial liabilities (interest-bearing)		3,349	3,719
Other liabilities		25,026	26,202
Trade payables		4,898	6,808
Provisions	(1)	99	130
Tax liabilities		569	80
Current liabilities		33,941	36,939
Total equity and liabilities		133,488	130,714

A.S. Création Tapeten AG, Gummersbach

Consolidated income statement

for the nine-month period ended September 30, 2018

	Notes No.	2018 € '000	2017 € '000
Sales	(2)	102,659	109,350
Increase or decrease in unfinished and finished goods		-670	240
Other own work capitalized		42	0
Total output		102,031	109,590
Cost of materials		52,185	55,181
Gross profit		49,846	54,409
Other income		424	772
		50,270	55,181
Personnel expenses		27,808	30,644
Depreciation		4,714	5,445
Other operating expenses		19,779	33,223
Operating expenses		52,301	69,312
Earnings before interest and taxes (EBIT)		-2,031	-14,131
Interest and similar income		802	860
Results from investments accounted for at equity		-2,245	-2,298
Interest and similar expenses		558	456
Financial result		-2,001	-1,894
Earnings before income taxes		-4,032	-16,025
Income taxes	(3)	191	-174
Earnings after taxes		-4,223	-15,851
Earnings per share	(4)	-1.53 €	-5.75 €

A.S. Création Tapeten AG, Gummersbach

Consolidated statement of comprehensive income

for the nine-month period ended September 30, 2018

	2018 € '000	2017 € '000
Earnings after taxes	-4,223	-15,851
Items, that will never be reclassified to profit or loss:		
Actuarial gains/losses from pension provisions	413	424
Deferred taxes on other comprehensive income	-129	-133
	284	291
Items, that are or may be reclassified to profit or loss:		
Foreign currency translation differences for fully consolidated companies	235	-397
Foreign currency translation differences for investments accounted for at equity	886	545
Change in fair value of an interest rate hedge	213	119
Deferred taxes on other comprehensive income	-66	-37
	1,268	230
Other comprehensive income (outside profit or loss)	1,552	521
Total comprehensive income	-2,671	-15,330

A.S. Création Tapeten AG, Gummersbach

Consolidated income statement

for the three-month period ended September 30, 2018

	Notes No.	2018 € '000	2017 € '000
Sales	(2)	29,903	33,618
Increase or decrease in unfinished and finished goods		-2,219	-701
Other own work capitalized		1	0
Total output		27,685	32,917
Cost of materials		14,762	17,154
Gross profit		12,923	15,763
Other income		-78	243
		12,845	16,006
Personnel expenses		8,443	9,877
Depreciation		1,635	1,769
Other operating expenses		5,684	18,174
Operating expenses		15,762	29,820
Earnings before interest and taxes (EBIT)		-2,917	-13,814
Interest and similar income		267	291
Results from investments accounted for at equity		-726	-580
Interest and similar expenses		260	154
Financial result		-719	-443
Earnings before income taxes		-3,636	-14,257
Income taxes	(3)	-487	-644
Earnings after taxes		-3,149	-13,613
Earnings per share	(4)	-1.14 €	-4.94 €

A.S. Création Tapeten AG, Gummersbach

Consolidated statement of comprehensive income

for the three-month period ended September 30, 2018

	2018 € '000	2017 € '000
Earnings after taxes	-3,149	-13,613
Items, that will never be reclassified to profit or loss:		
Actuarial gains/losses from pension provisions	207	-427
Deferred taxes on other comprehensive income	-65	133
	142	-294
Items, that are or may be reclassified to profit or loss:		
Foreign currency translation differences for fully consolidated companies	-53	-241
Foreign currency translation differences for investments accounted for at equity	393	74
Change in fair value of an interest rate hedge	161	31
Deferred taxes on other comprehensive income	-50	-10
	451	-146
Other comprehensive income (outside profit or loss)	593	-440
Total comprehensive income	-2,556	-14,053

A.S. Création Tapeten AG, Gummersbach

Consolidated statement of changes in equity

for the nine-month period ended September 30, 2018

	Capital stock	Capital reserves	Revenue reserves	Profit/ losses carried forward	Earnings after taxes	Adjust- ment for own shares	Currency trans- lation diffe- rences	Total
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
January 1, 2017	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	-1,726	1,726	0	0	0	0
Total comprehensive income 2017	0	0	373	0	-15,851	0	148	-15,330
September 30, 2017	9,000	13,757	81,824	-12,774	-15,851	-4,021	5,792	77,727

	Capital stock	Capital reserves	Revenue reserves	Profit/ losses carried forward	Earnings after taxes	Adjust- ment for own shares	Currency trans- lation diffe- rences	Total
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
January 1, 2018	9,000	13,757	83,580	-14,604	-17,771	-4,021	5,774	75,715
First adoption of IFRS 9 and IFRS 15	0	0	123	0	0	0	0	123
Earnings after taxes 2017	0	0	0	-17,771	17,771	0	0	0
Dividend payments	0	0	0	0	0	0	0	0
Allocation to revenue reserves	0	0	-11,677	11,677	0	0	0	0
Total comprehensive income 2018	0	0	431	0	-4,223	0	1,121	-2,671
September 30, 2018	9,000	13,757	72,457	-20,698	-4,223	-4,021	6,895	73,167

A.S. Création Tapeten AG, Gummersbach

Consolidated cash flow statement

for the nine-month period ended September 30, 2018

	2018 € '000	2017 € '000
Operating activities		
Earnings after taxes	-4,223	-15,851
+ Depreciation on tangible and intangible fixed assets	4,714	5,445
+/- Increase/decrease in long-term provisions	104	12,216
-/+ Income/expenses from investments accounted for at equity	2,245	2,298
-/+ Increase/decrease in present value of corporate income tax credit	0	-5
-/+ Income/expenses from changes in deferred taxes	-633	-559
-/+ Profit/losses from disposal of tangible and intangible fixed assets	27	75
/+ Increase/decrease in inventories	1,274	-423
-/+ Increase/decrease in trade receivables	-916	-4,584
+/- Increase/decrease in trade payables	-1,848	-66
-/+ Increase/decrease in other net working capital	2,018	3,367
Cash-flow from operating activities	2,762	1,913
Investing activities		
- Cash outflows for capital expenditures on tangible and intangible fixed assets	-6,023	-7,589
Capital expenditures	-6,023	-7,589
-/+ Cash outflows / Proceeds from current financial investments	0	150
+ Proceeds from credits and bonds granted	310	100
+ Proceeds from the disposal of tangible and intangible fixed assets	72	151
Cash-flow from investing activities	-5,641	-7,188
Financing activities		
- Dividends paid to shareholders of A.S. Création Tapeten AG	0	-3,445
+/- Raising/repayment of financial liabilities (interest-bearing)	8,412	-2,618
Cash-flow from financing activities	8,412	-6,063
Net change in cash and cash equivalents	5,533	-11,338
+/- Change in cash and cash equivalents due to exchange rate fluctuations	-10	-375
+ Cash and cash equivalents at January 1	8,827	20,826
Cash and cash equivalents at June 30	14,350	9,113

Further information on the cash flow statement is presented in the notes to the consolidated financial statement (see No. 5).

A.S. Création Tapeten AG, Gummersbach

Notes to the consolidated financial statements

for the nine-month period ended September 30, 2018

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 present interim consolidated financial statements for the nine-month period ended September 30, 2018 were prepared by A.S. Création Tapeten AG in condensed form in accordance with IAS 34 “Interim Financial Reporting”. The accounting and valuation methods used are consistent with those used to prepare the consolidated financial statements for the year ended December 31, 2017. The latter were prepared on the basis of the International Financial Reporting Standards (IFRS) in force on the reporting date, such as they are applicable in the European Union, as well as the additional requirements pursuant to section 315e (1) of the German Commercial Code (Handelsgesetzbuch HGB). For a detailed description of the accounting and valuation methods, refer to the notes to the consolidated financial statements for the period ended December 31, 2017.

A.S. Création Tapeten AG has a policy of applying new IFRS as soon as they become effective. The IFRS adopted for the first time in the first nine months 2018 had the following effects on the assets, liabilities, financial position and earnings position of A.S. Création in the reporting period:

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. A.S. Création will apply the modified retrospective method when first adopting IFRS 9 as of January 1, 2018. Compared to the previous versions, the adoption of IFRS 9 with effect from January 1, 2018 has led to an increased recognition of write-downs of receivables, contract assets and other assets. In the first nine months 2018, the change in these write-downs improves earnings before taxes in the amount of € 0.345 million and in earnings after taxes in the amount of € 0.238 million.

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. Accounting aspects which should be qualified as a separate performance obligation influence 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. Costs incurred to fulfil a contract are capitalised and written off over the term of the contract. Compared to the previous versions, the adoption of IFRS 15 with effect from January 1, 2018 has led to an increased recognition of contract assets and contract liabilities. In the first nine months 2018, the change in this item is included in earnings before taxes in the amount of € -0.493 million and in earnings after taxes in the amount of € -0.340 million.

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

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 approx. 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.

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 results achieved in the fiscal year 2018 to date do not necessarily provide an indication of the performance in the further course of the year.

The present interim report has neither been audited nor reviewed by a certified public accountant. This English translation of the interim report is merely a convenience translation. The German version is the prevailing one.

Notes on the basis of consolidation

Next to A.S. Création Tapeten AG, ten subsidiaries are consolidated, thereof nine companies are fully consolidated and one company is accounted for using the equity method. The basis of consolidation has not changed compared to the consolidated financial statements of 2017.

Currency translation

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

In accordance with IAS 21, foreign currencies of subsidiaries in non-EMU countries are translated according to the functional currency concept using the modified closing rate method. Besides, the following exchange rates come to the use:

	Closing rate of the period		Average rate of the period	
	30.09.2018	31.12.2017	2018	2017
Pound Sterling (GBP/€)	0.88785	0.88740	0.88411	0.87329
Russian Rouble (RUB/€)	76.22940	68.86680	73.49725	65.06752
Belarus Rouble (BYN/€)	2.45370	2.35530	2.39798	2.13471

Notes to the balance sheet

(1) Long-term provisions

Long-term provisions refer to pension provisions, while short-term provisions mainly refer to potential losses from current contracts and warranties.

Notes to the income statement

(2) Sales

A breakdown of Group sales by region is provided below:

	Wallpaper Division		Fabrics Division		Consolidation		Group	
	2018 € '000	2017 € '000	2018 € '000	2017 € '000	2018 € '000	2017 € '000	2018 € '000	2017 € '000
Germany	42,190	42,048	6,974	7,437	-61	-59	49,103	49,426
EU (excl. Germany)	40,487	46,652	1,594	1,509	-16	-28	42,065	48,133
European Union (EU)	82,677	88,700	8,568	8,946	-77	-87	91,168	97,559
Other Eastern Europe	12,730	13,184	181	287	0	0	12,911	13,471
Other countries	9,065	9,707	480	449	0	0	9,545	10,156
Sales (gross)	104,472	111,591	9,229	9,682	-77	-87	113,624	121,186
Reduction in revenues	-10,390	-11,153	-575	-685	0	2	-10,965	-11,836
Sales (net)	94,082	100,438	8,654	8,997	-77	-85	102,659	109,350

As a result of the first-time adoption of IFRS 15 “Revenue from Contracts with Customers”, revenues recognised for the first nine months of 2018 were down to € 0.493 million in the Wallpaper Division and the € 0.0 million in the Furnishing Fabrics Division.

(3) Income taxes

Income taxes recognised comprise the income taxes paid or due in the individual countries as well as deferred tax assets and liabilities. Income taxes break down as follows:

	2018 € '000	2017 € '000
Current income tax expenses	825	385
Deferred taxes	-634	-559
	191	-174

(4) Earnings per share

Earnings per share are calculated as follows:

		2018	2017
Number of shares outstanding (weighted average)	shares	2,756,351	2,756,351
Net profit	€	-4,222,638	-15,851,172
Earnings per share	€/share	-1.53	-5.75

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.

As a result of the first-time adoption of IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” in the nine months of 2018, earnings per share were reduced by € 0.04.

Complementary information

(5) Cash flow statement

Cash flow from operating activities includes the following payments:

	2018 € '000	2017 € '000
Interest received	432	9
Interest paid	235	267
Income tax received	287	0
Income tax paid	183	1,853

Interest paid primarily relates to investment financing.

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

	2018 € '000	2017 € '000
Raising of financial liabilities (excl. financial lease)	11,029	407
Repayment of financial liabilities (excl. financial lease)	-2,617	-2,939
Repayment of liabilities under financial lease contracts	0	-86
	8,412	-2,618

(6) Costs to fulfil a contract

In the reporting period, costs incurred for the fulfilment of contracts pursuant to IFRS 15 amounted to € 1.263 million and are mainly included in personnel expenses and other operating expenses. These costs relate to services which are provided continuously over the term of the underlying contract. Given that the provision of services for the contract fulfilment costs recorded in the reporting period is recorded in full, no asset for contract fulfilment costs is recognised as of the balance sheet date.

(7) 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 Division		Fabrics Division		Consolidation		Group	
	2018 € '000	2017 € '000	2018 € '000	2017 € '000	2018 € '000	2017 € '000	2018 € '000	2017 € '000
External sales	94,026	100,392	8,633	8,958	0	0	102,659	109,350
Intra-Group sales	56	46	21	39	-77	-85	0	0
Total sales	94,082	100,438	8,654	8,997	-77	-85	102,659	109,350
EBITDA ¹	2,605	-8,779	78	93	0	0	2,683	-8,686
EBITDA-margin	2.8 %	-8.7 %	0.9 %	1.0 %			2.6 %	-7.9 %
EBIT ²	-1,979	-14,088	-55	-56	3	13	-2,031	-14,131
EBIT-margin	-2.1 %	-14.0 %	-0.6 %	-0.6 %			-2.0 %	-12.9 %
Interest income	816	928	0	1	-14	-69	802	860
Results from investments accounted for at equity	-2,245	-2,298	0	0	0	0	-2,245	-2,298
Interest expenses	510	438	62	87	-14	-69	558	456
Earnings before taxes	-3,918	-15,896	-117	-142	3	13	-4,032	-16,025
Return on sales (before taxes)	-4.2 %	-15.8 %	-1.4 %	-1.6 %			-3.9 %	-14.7 %
Income taxes	230	-130	-40	-48	1	4	191	-174
Capital expenditures ³	5,958	7,451	65	138	0	0	6,023	7,589
Depreciation	4,584	5,309	133	149	-3	-13	4,714	5,445
Cash-flow ⁴	2,484	1,960	278	-47	0	0	2,762	1,913
Segment assets (closing date) ⁵	111,736	115,959	6,225	6,663	-40	-69	117,921	122,553
thereof non-current assets	(50,075)	(50,024)	(1,185)	(1,305)	(0)	(-4)	(51,260)	(51,325)
Segment liabilities (closing date) ⁶	28,931	19,945	1,539	1,533	-40	-66	30,430	21,412
Employees (average)	687	695	66	70	0	0	753	765

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 income tax receivables.

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

A breakdown of Group sales by geographical regions is provided in the notes on sales (see No. 2).

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	
	30.09.2018 € '000	31.12.2017 € '000	30.09.2018 € '000	31.12.2017 € '000	30.09.2018 € '000	31.12.2017 € '000
Germany	76,470	78,569	49,315	51,776	27,155	26,793
EU (excl. Germany)	20,190	21,692	11,328	12,229	8,862	9,463
Other Eastern Europe	21,261	20,290	6,018	4,431	15,243	15,859
	117,921	120,551	66,661	68,436	51,260	52,115

(8) Managing Board

The Managing Board had the following members in the reporting period:

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

(9) 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 OOO A.S. & Palitra, which is accounted for using the equity method. Details of the business relationship are shown below:

	2018 € '000	2017 € '000
Sales	30	117
Purchases	1,350	2,610
Interest income	789	850

	30.09.2018 € '000	31.12.2017 € '000
Shareholder loans	15,937	16,285
Receivables	6,201	5,580
Liabilities	178	464

The relationship of the company with A.S. Création Tapeten Stiftung, a charitable foundation, mentioned in the consolidated financial statement 2017, as well as the agreements with Franz Jürgen Schneider relating the release from the anti-trust proceedings continued to exist in the period under review. In the reporting period, A.S. Création Tapeten Stiftung received a donation in an amount of € 0,015 million (previous year: € 0.030 million). No expenses incurred in the context of the release from the anti-trust proceedings in the reporting period.

(10) Post balance sheet events

No events that require reporting occurred.

Gummersbach, October 23, 2018

A.S. Création Tapeten AG

The Managing Board

Krämer

Bantel

Suskas

Investor Relations

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