



Group Annual Report 2014

Create your world!

...ars. Eco-friendly – at least 90% of the cap and barrel are made from renewable resources. For marking and highlighting, the highlighters use water-based inks. Sustainable – at least 96% of the total plastic used is made from recycled material. For writing on, marking and labelling, the markers are permanent, waterproof, and lightfast. At least 90% of the total plastic used in the production of edding markers is made from recycled material. Eco-friendly – at least 90% of the total plastic used in the production of edding highlighters is made from renewable resources. EcoLine highlighters – at least 90% of the total plastic used in the production of edding highlighters is made from renewable resources. Smudge- and water-resistant – at least 90% of the total plastic used in the production of edding highlighters is made from renewable resources. Whiteboard markers – at least 90% of the total plastic used in the production of edding highlighters is made from renewable resources.

Group Annual Report 2014

edding Aktiengesellschaft

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Key figures for the Group

(Figures are in € '000, unless stated otherwise)

edding Group	2014	2013	2012	2011	2010
Results of operations					
Profit after tax	8,312	8,585	3,641	2,171	5,010
as % of equity (return on equity)	18.8 %	21.8 %	10.1 %	6.1 %	14.3 %
Profit before tax	12,185	11,618	6,991	6,550	8,151
EBIT	11,855	9,380	7,271	7,717	8,680
as % of sales	9.2 %	7.6 %	6.2 %	6.9 %	7.9 %
Sales revenue	128,853	123,211	117,036	111,467	109,296
Change	4.6 %	5.3 %	5.0 %	2.0 %	9.9 %
Share of foreign business	58.4 %	59.4 %	59.3 %	58.5 %	59.4 %
Gross profit ¹	80,399	75,208	72,141	66,442	65,517
as % of total output	62.3 %	60.8 %	61.3 %	59.5 %	59.6 %
Employee benefits expense	34,206	32,532	31,317	27,485	28,930
as % of sales	26.5 %	26.4 %	26.8 %	24.7 %	26.5 %
Employees (annual average)	638	632	634	573	563
Net assets and financial position					
Total assets	90,863	81,630	79,470	81,893	74,982
Change	11.3 %	2.7 %	- 3.0 %	9.2 %	6.3 %
Equity	44,274	39,303	35,886	35,362	35,024
as % of total assets	48.7 %	48.1 %	45.2 %	43.2 %	46.7 %
Non-current liabilities	20,275	20,383	21,722	22,894	19,130
Current liabilities	26,314	21,944	21,862	23,637	20,828
Non-current assets	27,582	24,156	23,948	26,004	24,947
as % of equity	62.3 %	61.5 %	66.7 %	73.5 %	71.2 %
Current assets	63,281	57,474	55,522	55,889	50,035
of which inventories (31 December)	28,617	27,862	25,994	23,566	18,122
Annual average of inventories	29,041	27,284	24,949	21,170	15,722
as % of sales revenue	22.5 %	22.1 %	21.3 %	19.0 %	14.4 %

edding AG	2014	2013	2012	2011	2010
Profit after tax	4,658	2,602	1,899	2,240	2,709
Profit before tax	7,374	5,289	4,422	6,713	5,282
Number of shares					
Ordinary shares	600,000	600,000	600,000	600,000	600,000
Preference shares	473,219	473,219	473,219	473,219	473,219
Earnings per share	4.34 €	2.42 €	1.77 €	2.09 €	2.52 €
Dividends					
Ordinary shares	1.91 €	1.71 €	1.71 €	1.71 €	1.71 €
Preference shares	1.95 €	1.75 €	1.75 €	1.75 €	1.75 €
Share price on 31 December	64.00 €	47.12 €	47.00 €	42.21 €	44.50 €

¹excl. other operating income

Executive Bodies

Supervisory Board

Member	Position
Rüdiger Kallenberg, Rellingen Banker	Chairman
Chehab Wahby, Bruchsal Businessman	Deputy Chairman
Anja Keihani, Hannover Businesswoman	Employees' Representative
Dr. Sabine Renken, Hamburg Lawyer	Substitute member
Karl Sieveking, Hamburg Auditor, lawyer specialising in tax law	Substitute member

The Members of the Supervisory Board hold no seat in any other statutory supervisory boards or comparable supervisory bodies of commercial enterprises.

Management Board

Member	Position
Per Ledermann, Ahrensburg Businessman	Chairman / Chief Executive Officer
Sönke Gooss, Rosengarten Businessman	Chief Financial Officer
Thorsten Streppelhoff, Hamburg Engineer	Chief Operating Officer

The Members of the Management Board hold no other seat in any statutory supervisory boards or comparable supervisory bodies of commercial enterprises.

Letter to Shareholders

Dear Shareholders,

We are pleased to present you with the annual report for 2014. For the second time in a row we have achieved a record result in terms of sales and EBIT, with both business segments making their contribution to this performance.

In the Writing and Marking segment we posted broadly based sales growth both in relation to regional distribution and also with respect to sales channels and product categories. Whereas our growth was mainly generated in foreign markets in the past, we managed to achieve sizeable increases in sales in Germany in 2014, while retaining growth momentum in some of our European markets, such as the Benelux region, the UK and Turkey. This more than compensated for the drop in sales in markets such as Russia. Amongst the product categories, the growth achieved in “Creating and Decorating” particularly stands out, but we also made significant gains in our most important category “Professional Marking”.

In the Visual Communication segment we attained exceptional growth rates, with only slight overall growth in the area of electronic media. Once again, there was an improvement in the segment result.

In addition to operating successes, 2014 brought us a big step further in our strategic development. We focused our main attention on the Writing and Marking strategy for Europe. In doing so, we examined important future trends such as digitisation and commoditisation; the latter indicates the lessening importance of brands when making purchasing decisions. We came to the conclusion that we had already made the right choices years ago by extending brands and expanding product categories for private end consumers, and that it was now a case of speeding up their implementation. Therefore, in the new financial year, our plan as regards international sales and marketing management is to split the organisation of our marketing activities into business-to-business and business-to-consumer, enabling us to concentrate more fully on developing the opportunities in both target group segments. Combined with the supplier consolidation that we are also expecting to see in terms of office supply retailers, we hope that this will lead to more growth opportunities despite the negative future trends for the industry.

At the beginning of December we took control of just under 21.0% of the share capital of a Brazilian writing utensils manufacturer. This represents a milestone in our second most important region after Europe. Since we are already one of the leading suppliers in large parts of South America, this transaction, which was announced on 8 December, has given us a notable presence in the largest market in Latin America to add to our investment portfolio.

Shortly afterwards, we disclosed in a further ad hoc statement that our Group EBIT was expected to be more than 25.0% up on the previous year. Although we only just exceeded this 25.0% in the end, our share price rose considerably as a result. After € 47.12 at the last balance sheet date, and a level of around € 52.00 in the second half of the year, the share price increased in December to a record level of € 65.00. Combined with a € 0.20 increase in dividend, our shareholders can therefore also benefit from the solid performance of the edding Group in 2014.

Although we continue to face uncertain times economically and politically, given the situation in Ukraine, Argentina and Greece, the Management Board is looking to the future with cautious optimism and devoting its efforts to repeating the good results in 2015 and the following years. To achieve this, we depend on the commitment of our excellent staff, who have made the great successes of the last two record financial years possible through their dedication. Therefore, as in every year, the Management Board extends its special thanks to them.

Kind regards

Per Ledermann

Thorsten Streppelhoff

Sönke Gooss



Supervisory Board's Report

Dear Shareholders,

Today, we present to you the report on the financial year 2014.

The trends in the individual business segments and markets are explained in detail in the Management Board's Report.

In the year under review, the Supervisory Board was regularly and comprehensively informed about the situation of the edding Group and its current operations at four Supervisory Board meetings. All of the members of the Supervisory Board attended the meetings.

In addition to the meetings, the Supervisory Board, and in particular its chairman, was also in close contact with the Management Board of edding AG between the meeting dates.

Through monthly written reports by the Management Board on the results of operations, assets and financial position, personnel planning and other subjects of general importance, the Supervisory Board was informed at all times on the current state of the business. In addition, the Supervisory Board received detailed quarterly reports on the trends in the individual Group companies as well as the continued implementation of strategies.

Apart from the reports on the operating business, the Supervisory Board also received information from the internal control system, on ad hoc basis where necessary and otherwise on a monthly basis, concerning changes in the risk situation with regard to the key risks and their treatment.

On the basis of these reports, the Supervisory Board was able to satisfy itself that the internal control system is effectively integrated in the day-to-day work processes and that the occurrence of material risks can be detected at an early stage.

The Supervisory Board is not aware of any actions through which individuals from the Management Board, the members of the Supervisory Board, employees or third parties have gained unjustified or unlawful benefits.

Besides the activities as Supervisory Board, no business relations existed between the members of the Supervisory Board and the company in the year under review.

At each Supervisory Board meeting in 2014 there was an agenda item that was devoted to the report on risk management.

For the rest, the various meetings focused on the following issues:

In April, the Supervisory Board discussed the annual financial statements for 2013 and adopted them in accordance with the German Stock Corporation Act (AktG) and approved the Consolidated Financial Statements. It approved the dividend recommendation by the Management Board and adopted the objectives regarding the composition of the Supervisory Board.

At the meeting in June, following the Annual General Meeting, the Supervisory Board decided to conduct a self-evaluation again. The basis for this was the questionnaire devised by a consulting company, which all members of the Supervisory Board had to reply to individually and which was evaluated at the December meeting.

At its meeting in September, the Management Board presented its strategy for 2020 and reported on the results from the activities within the framework of the previously applicable 2012+ strategy. It was concluded that the targets for both business segments had essentially been achieved.

The Supervisory Board discussed the 2020 strategy in detail and took note of and approved it. At its meeting in December 2014 the Management Board made a proposal to adopt the revised budget from the current mid-term plan for 2015. The Supervisory Board approved this.

Furthermore, following the resolution passed by the Annual General Meeting, the Supervisory Board appointed auditing company Ebner Stolz GmbH & Co. KG, Hamburg to audit the financial statements for financial year 2014, agreed the auditors' fee and defined the focal audit areas.

The self-evaluation questionnaires revealed that there was almost complete consensus on the assessment of information management by the Management Board, the cooperation within the Supervisory Board and the effectiveness.

The auditors issued unqualified audit opinions on the annual financial statements and the management report of edding AG on 10 March 2015 as well as on the annual financial statements and the management report of the edding Group on 21 April 2015. Upon receipt of the audit reports for edding AG and the edding Group, the Management Board immediately sent them to all the members of the Supervisory Board for inspection together with the proposal for the appropriation of the net retained profits.

At the Supervisory Board meeting on 28 April 2015, the annual financial statements and management report of edding AG as well as the annual financial statements and management report of the edding Group were discussed in detail in the presence of the Group auditors. The Supervisory Board accepted the result of the audit of the financial statements for edding AG and the Management Board's proposal for the appropriation of profits without raising any objections and approved the annual financial statements of edding AG for the financial year 2014. They are therefore adopted in accordance with section 172 of the German Stock Corporation Act (AktG). The Supervisory Board noted with approval the Consolidated Financial Statements and the Group Management Report.

The Supervisory Board of edding has received an auditor's declaration of independence within the meaning of subsection 7.2.1 of the German Corporate Governance Code. This declaration confirms that no professional, financial or other relationships exist between the auditor, its executive bodies and head auditors, on the one hand, and the enterprise and the members of its executive bodies, on the other hand, that could call the auditor's independence into question.

The Supervisory Board would like to thank all members of staff and the Management Board for their dedicated efforts, which made the success of the past financial year possible.

Ahrensburg, 28 April 2015

The Supervisory Board

Rüdiger Kallenberg
Chairman

Chehab Wahby
Deputy Chairman

Anja Keihani
Employees' Representative

Corporate Governance Report

pursuant to subsection 3.10 of the German Corporate Governance Code (DCGK)

1. Declaration pursuant to section 161 (1) sentence 1 of the German Stock Corporation Act (AktG) regarding the German Corporate Governance Code

The Management Board and Supervisory Board of edding Aktiengesellschaft state the following:

edding Aktiengesellschaft is committed to the responsible management and supervision of the company with the aim of creating value. Both the transparency of the company's principles and the traceability of its continuous development are designed to ensure that the confidence of customers, business partners and shareholders is created, maintained and strengthened.

Therefore, edding Aktiengesellschaft welcomes the German Corporate Governance Code and the values which are expressed in it. The vast majority of the standards and recommendations formulated in this code have been and are met.

edding Aktiengesellschaft has complied with the recommendations of the government commission "German Corporate Governance Code" (DCGK) as amended on 24 June 2014 since this version has been in force with the following exceptions and will continue to do so in the next reporting year:

Subsection 2.3.2 DCGK

The appointment of a representative to exercise shareholder voting rights in accordance with instructions is not necessary, as the shares with voting rights are almost exclusively in family possession and are not widely dispersed. Should the preference shareholders be assigned an express voting right at the Annual General Meeting, the company shall ensure that a representative is appointed to exercise the voting right in accordance with instructions, who can also be reached at the Annual General Meeting.

Subsection 3.10 DCGK

The Corporate Governance Report is printed in the annual report of edding Aktiengesellschaft, whereas the declaration of conformity with the Corporate Governance Code and the Declaration on Corporate Governance pursuant to section 289a of the German Commercial Code (HGB) are published on the website of edding Aktiengesellschaft.

Subsections 4.1.5 and 5.1.2 DCGK

In terms of the composition of the Management Board and when filling managerial positions in the enterprise, given the specific nature of the company, a certain amount of flexibility is needed when filling the said positions, which is preferable to a fixed ratio or a schematised procedure. The main criterion when making the personnel decisions in question is therefore the professional aptitude and qualifications of the candidate and not their gender. In addition, the aspect of diversity is taken into consideration when filling the positions.

Subsection 4.2.4 DCGK

The total remuneration of the members of the Management Board is disclosed in the Consolidated Financial Statements and compared with the previous year's figures. At the company's Annual General Meeting in 2011, it was decided to dispense with the disclosure of any other information required pursuant to the Law on the Disclosure of Management Board Remuneration for a period of five years.

Subsection 4.2.5 DCGK

The disclosure of individualised Management Board remuneration is dispensed with in so far as the company is exempt from such disclosure of Management Board remuneration by resolution of the Annual General Meeting (cf. subsection 4.2.4. DCGK). The company publishes a remuneration report pursuant to section 315 (2) No. 4 of the German Commercial Code (HGB) in the Group Management Report of the annual report.

Subsections 5.1.2 and 5.4.1 DCGK

The company declines to set a general age limit for members of the Supervisory and Management Boards, as it wishes to avoid valuable experience being lost.

Subsection 5.3 DCGK

As the Supervisory Board only consists of three members, no committees are formed.

Subsections 5.4.1 and 5.4.2 DCGK

In 2012 the Supervisory Board specified general objectives regarding its composition which are based on the company-specific situation, the company's international orientation and the avoidance of possible conflicts of interest, and which also take into account aspects of diversity. At the same time, however, a certain amount of flexibility is to be ensured in future as regards the appointment of suitably qualified Supervisory Board members, this is preferable to schematised inclusion of the diversity criterion; for this reason the application of genderspecific ratios is avoided. Furthermore, the appointment of a minimum number of independent Supervisory Board members as defined by subsection 5.4.2 DCGK shall also be waived; instead, as a rule, all Supervisory Board members are to be regarded as independent.

Subsection 5.4.6 DCGK

The Supervisory Board considered the payment of performance-based remuneration to members of the Supervisory Board in the past and rejected it at that time, also with effect for the future. The total remuneration of members of the Supervisory Board is disclosed in the Consolidated Financial Statements and is regularly decided by resolution of the Annual General Meeting. The breakdown of the total remuneration of the Supervisory Board between its individual members is laid down in the company's articles of association.

Subsection 6.3 DCGK

Supervisory and Management Board members and persons closely related to them fulfil the disclosure requirements incumbent upon them with respect to transactions with company shares within the legal scope of section 15a of the German Securities Trading Act (“Directors’ Dealings”). The company also publishes such disclosures within the legal scope of section 15a of the German Securities Trading Act (WpHG). In addition, information on share ownership of members of the Supervisory and Management Boards is published in the annual report to the extent stipulated by IAS 24.9 with regard to related party disclosures (Consolidated Financial Statements) and as required for disclosures pursuant to section 160 (1) No. 8 of the German Stock Corporation Act (AktG) in conjunction with section 21 et seq. of the German Securities Trading Act (annual report for individual financial statements); the latter information relates to voting rights held directly or indirectly by the persons concerned.

Subsection 7.1.2 DCGK

Primarily for reasons of cost, the Consolidated Financial Statements cannot be made publicly accessible within 90 days of the end of the financial year, nor can any interim reports be made publicly accessible within 45 days of the end of the reporting period. The annual financial statements are, however, submitted to the German Electronic Federal Gazette (Elektronischer Bundesanzeiger) within four months of the end of the financial year pursuant to section 325 (4) of the German Commercial Code and additionally publicised on the website; furthermore, the customary, perhaps provisional key figures are published within 90 days by press release.

Ahrensburg, 6 February 2015

Management Board and
Supervisory Board of edding AG

2. Report on the objectives regarding the composition of the Supervisory Board of edding AG pursuant to subsection 5.4.1 of the German Corporate Governance Code (DCGK)

The composition of the Supervisory Board of edding AG takes into account the size of the company, the company-specific situation, the company's international activities and the ordinary shareholders with voting rights.

The Supervisory Board normally comprises a minimum of three members, as prescribed by section 95 of the German Stock Corporation Act (AktG).

In accordance with the regulations of the German One-Third Employee Participation Act, one member of the Supervisory Board is selected from the company's workforce.

The other two members of the Supervisory Board, who are determined by the shareholders' representatives, should demonstrate the necessary qualities and skills and be able to handle the duties as demanded by the regulations of the articles of association, the purpose of the company and the rules of the German Stock Corporation Act.

The members of the Supervisory Board should not hold positions on the executive boards of the company's customers, suppliers, finance providers or other business partners and should not maintain a personal or business relationship with the Management Board of edding AG which could constitute a conflict of interest. The Supervisory Board must be notified if a member performs an advisory function vis-à-vis the above group in order to allow the possibility of conflicts of interest to be examined.

As a rule, first-degree relatives, spouses and siblings should not be appointed to the Supervisory Board if a corresponding family member simultaneously belongs to the Management Board.

In terms of know-how and experience, one member of the Supervisory Board should specialise in accounting and finance whilst another member should specialise in marketing and sales.

As regards selection, the regulations of the General Act on Equal Treatment (AGG) as last amended also apply. A general age limit for members of the Supervisory Board and a gender ratio are not prescribed.

The composition of the Supervisory Board and its number of members are to be reviewed regularly if the scope of the company's business activities, the object of the company or the shareholder structure are subject to fundamental changes.

Proposals from the Supervisory Board as to its composition should be issued to the Annual General Meeting as the responsible election body on the basis of these objectives.

The Supervisory Board shall regularly review these objectives and, where necessary, shall adapt and update the stipulations therein.

These objectives are published each year in the Corporate Governance Report in the annual report.

Ahrensburg, 10 May 2012

Supervisory Board of edding AG

The aforementioned objectives still apply and are implemented in this form. The Supervisory Board reviews any adjustments to the objectives on a regular basis.

Ahrensburg, 28 April 2015

Supervisory Board of edding AG

3. Declaration on Corporate Governance pursuant to section 289a of the German Commercial Code (HGB)

The Declaration on Corporate Governance pursuant to section 289a of the German Commercial Code (HGB) was published on the edding Aktiengesellschaft website in the Investor Relations area at <http://www.edding.com/de/unternehmen/investor-relations/berichte-und-kennzahlen/erklaerung-zur-unternehmensfuehrung/>.

Group Management Report

Basis of the Group

Business activities

The Group's headquarters are in Ahrensburg.

The Group's business activities are broken down into the Writing and Marking and Visual Communication business segments, under which the respective Group brands edding and Legamaster are marketed and distributed. In addition, partner brands are distributed, which essentially serves to round off the product portfolio at the level of the individual Group companies.

Sales revenue is generated worldwide in around 100 countries, which are generally served by independent distribution partners unless edding is represented by its own sales subsidiary. Distribution to private and commercial end users is carried out exclusively via all classes of trading partners, which in addition to the traditional wholesale and retail trade also include large-scale outlets (supermarkets, DIY stores, etc.), mail-order companies and online distribution channels.

The Writing and Marking business segment essentially comprises the edding brand and includes markers, writing utensils, printer cartridges and toners as well as spray paints. This product range is aimed at both the business-to-business sector and private end consumers. The various products are subdivided into the following categories, depending on the application and target group:

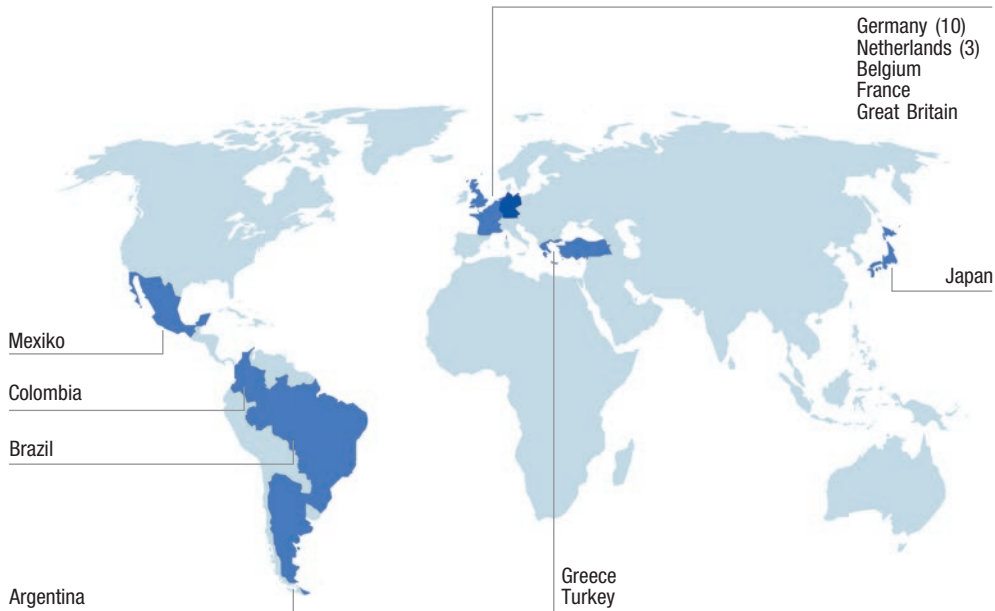
- Professional Marking
- Educating and Presenting
- Writing, Highlighting and Correcting
- Repairing and Maintaining at home
- Organising and Marking at home
- Creating and Decorating
- Colour and Play
- Printing
- EcoLine

The Visual Communication business segment includes the main brand Legamaster. Here a distinction is made between two product groups. The traditional Visual Communication group comprises primarily flip charts, whiteboards, presentation boards and the corresponding accessories. The interactive range covers electronic whiteboards and e-screens (LED screens with touch technology for schools and conference rooms). Sales are almost exclusively generated in the business-to-business sector.



Organisational structure

edding Group companies and holdings worldwide



A list of the subsidiaries and holdings can be found in the section “Corporate Structure” in the 2014 annual report. Essentially a distinction can be made between the following types of Group companies in the organisational structure of the edding Group, although there can also be hybrids.

- Parent company/holding function
- International distribution and business segment management companies
- Local distribution companies
- Production companies
- Purchasing companies
- Property companies

The **parent company** of the edding Group is edding AG. edding Benelux group B.V. (Netherlands) as a non-operating holding company, acts as a tax entity for the Dutch companies.

The **international distribution and business segment management companies** are responsible for the operational management of procurement, production and international sales and marketing activities for the respective business segment. The companies generate their sales revenue both with the Group’s other local distribution companies and with independent distribution partners. This function is performed by edding International GmbH for the Writing and Marking business segment and by Legamaster International B.V. (Netherlands) for the Visual Communication business segment. In addition, edding International GmbH carries out all of the main management functions for the Group’s operating companies, both nationally and internationally.

Local distribution companies exist in Germany, the Netherlands, Belgium, France, Great Britain, Greece and Turkey. The composition of the revenues by business segment differs from country to country. The distribution companies in Argentina and Colombia also run their own marker production operation to meet local demand. The Mexican distribution company also had its own production facility in the financial year, but production ceased mid-year. Since the end of the financial year this company's distribution network has been operated with the aid of a distribution partner and no longer via its own sales representatives.

The **production company** V. D. Ledermann & Co. GmbH produces feltmarkers and fibre-pens exclusively for the edding Group at its plant in Bautzen. These products are marketed worldwide. Hence, there have been three production facilities in the Group for the Writing and Marking segment since the middle of the financial year.

The main function of edding Japan Inc. is to procure merchandise and raw materials for production sites of the Writing and Marking business segment. Besides this function as a **purchasing company**, it is involved in small-scale distribution activities in the region.

DEGEDESTRA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG and edding AG & Co. Grundstücksverwaltung OHG act as **property companies** for the lease financing of the business properties of edding Vertrieb GmbH (Wunstorf site) and V. D. Ledermann & Co. GmbH (Bautzen plant).

In addition, the edding Group has **shareholdings** in the following companies to promote specific joint objectives:

- PBS Network GmbH acts as an IT service company for the paper, office supplies and stationery sector in Germany and to a lesser extent in some other European countries.
- Office Gold Club GmbH carries out marketing activities for the German paper, office supplies and stationery sector. Events are particularly geared towards commercial end users.
- The non-profit company Beruf und Familie Stormarn GmbH creates and secures regional day care services for children and senior citizens in order to promote a better balance between family and working life.
- At the end of 2014, the Group acquired a stake in the Brazilian writing utensils manufacturer Companhia de Canetas Compactor S.A. (Rio de Janeiro). We are hoping that this will strengthen our competitive position in Latin America.



Employees

The Group had an average workforce of 638 during the year (2013: 632 employees), meaning a slight year-on-year increase in total staff numbers. The German workforce has increased slightly (327 employees on average, compared to 324 in 2013). In the past financial year, staffing levels in the foreign companies were also marginally up on the previous year. With an average of 311 employees, after 308 in 2013, the percentage of employees in other countries in 2014 was 49%, the same as in the previous year.

Our internal edding Academy is the central institution for further training. The main emphasis is on corporate strategy. In 2014 the focus was therefore on training in Germany and abroad to strengthen knowledge of the product categories at edding and Legamaster and on improving skills for promoting international communication. These include English and Spanish courses and system training. In addition, the subject of project management was another key element of organisational development and was at the core of staff training.

This year's employee survey in Germany recorded a clear improvement on the already positive results from previous years, achieving the second highest ranking on the scale. Satisfaction with the conditions offered by the company both in regard to the assessment of employees' personal situation and the company's situation has developed very positively. The first survey to be conducted at the Lochem site also yielded very positive results. The target for 2015 is to roll out the employee survey globally.

Furthermore, measures to improve the balance between work and family life as part of our responsibility vis-à-vis employees – and also as a means of improving staff loyalty – were continuously developed in 2014. The same applies to measures in the field of corporate health management.

Looking ahead to the implementation of Strategy 2020, recruiting activities were also launched with a view to improving resources and expertise in the area of business-to-consumer sales. The newly hired staff will join the company at the beginning of 2015.

Corporate Social Responsibility

In 2014 the emphasis was on introducing two new management systems. CSR auditing in accordance with ISO 26000¹ was completed at the Ahrensburg, Wunstorf and Bautzen sites. After identifying the stakeholders a total of 99 departmental targets were defined, which are now to be successfully developed and implemented. The Dutch subsidiary Legamaster International B.V. will start work on CSR auditing in spring 2015.

The CSR concept for community involvement is implemented through various activities. edding's executives regularly read to children from primary schools in Hamburg and support the integration of high-potential youngsters from a migrant background at the non-profit organisation Schotstek, Hamburg. Services for creating a better family/work balance now include childcare provision for our Ahrensburger employees in emergencies, at special times and during holidays via our stake in Beruf und Familie Stormarn GmbH as well as the "Family Assistance" and "Nursing and the Senior Citizens" network services.

The second management system relates to ISO 50001 – energy management. The focus is on development or expansion of energy control by generating key figures. Under the slogan "Using energy more efficiently", numerous measures are now in the process of being implemented. Practical examples of this are comprehensive tests with LED lighting, energy-saving indoor and outdoor building refurbishment and the replacement of old air-conditioning systems with energy-efficient hyper-inverter systems that produce more cooling capacity with considerably less energy consumption.

Two electric and four hybrid cars are now on the road for edding (Germany) and Legamaster (The Netherlands). We have a total of three e-filling stations where they can refuel: in Ahrensburg in Germany, and at Lochem in the Netherlands.

Current studies repeatedly show that sustainability is as important as ever, and companies today are expected to be environment-conscious in everything they do. In our research and development, we are permanently working on new materials for products such as the EcoLine range. The focus is not just on renewable raw materials, but also on the use of recycled materials in order to conserve natural resources.

In summary, the edding Group posted the following selected environmental key performance indicators in 2014 compared with the previous year:

	2014	2013
Gas consumption in Germany [MWh]	2,466	3,458
Electricity consumption in Germany [MWh]	2,638	2,568
Electricity production from photovoltaic systems in Germany [MWh]	166	157
Electricity production at Ahrensburg combined heat and power (CHP) station [MWh]	268	333
Self-produced electricity as a proportion of total consumption in Germany [%]	14	15
Proportion of electricity consumption from renewable sources in Germany [%]	100	100
Increase in EcoLine sales revenue worldwide [%]	15	25
Increase in Ecoline sales revenue in Germany [%]	21	36

¹ Guidelines for corporate social responsibility



In the edding production facilities, injection-mould machines have been switched from hydraulics to electricity.

Advantages:

- Energy savings of around 45%
- Waste heat reduction (hydraulic cooling no longer necessary)

2015

edding 21 permanent marker

Other functions

Production

The edding Group has one production site in Germany and, since the middle of the reporting year, only two abroad.

The German production site **V. D. Ledermann & Co. GmbH** in Bautzen recorded declining sales, particularly in the second half of 2014. Weak sales of products made in Bautzen in specific markets such as Russia, Spain and Turkey are the reasons for the shortfall.

In 2014, output of 74 million markers was well down on the figure for the previous year of 83 million units. The flexible working time accounts of the core workforce were scaled back in the second half of the year and minus hours were built up.

In 2014, capacity utilisation was kept at the previous year's level at the production site **edding Argentina S.A.** in San Juan despite the increasingly unstable political and economic situation. The import of further new production technologies from Germany that had been planned for 2014 was delayed again and postponed until 2015 due to the tighter import restrictions imposed by the Argentine authorities.

edding Colombia S.A.S. was founded in November 2010. In the first few years a continuous increase in capacity utilisation was observed and a positive trading result was achieved. In 2014 production was extended to include a new production line. The aim is still to stabilise and adapt production to the growing market demands.

The production site **edding Mexico S. de R.L. de C.V.** was closed down on 20 June 2014. The facility in Saltillo had produced several product lines for the local market in Mexico and for the other Central American markets since its formation at the end of 2008. However, the production volume fell significantly short of expectations in the years 2011 to 2014 due to distribution difficulties in Mexico.

Logistics

edding successfully implemented the project for outsourcing its German warehousing activities in 2014. Since August 2014 all Writing and Marking products have been stored at the combined Isernhagen and Wunstorf facility of our logistics partner HUETTEMANN, from where all German and foreign subsidiaries and distribution partners are supplied with edding products and partner brands. The previous warehouse in Wunstorf, with its efficient order-picking system, has been integrated into HUETTEMANN's tailored logistics concept for picking large numbers of small quantities. Permanent data exchange and reconciliation is guaranteed via standardised interfaces between our ERP system and HUETTEMANN's inventory management.

The realisation of this major project has enabled edding to further improve its competitiveness by eliminating a large number of superfluous goods flows, optimising logistics costs and, above all, making logistics services more flexible. Our logistics system is therefore ideally equipped for future volume fluctuations and market requirements. We also ensured that all two-stage outsourcing was as socially acceptable as possible through the use of business and staff transfers.

edding still operates a central warehouse in Lochem (Netherlands) for its Visual Communication business segment, which receipts and stores all Legamaster products and ships them around the world.

Warehouses operated by distribution companies are also found at the subsidiaries in Turkey, Greece and Great Britain. Additionally, the central warehouses act as distribution warehouses for Germany, the Benelux countries, Italy and France, shipping goods direct to customers. Since August 2014 our warehouse in Ahrensburg has been leased to our logistics partner HUETTEMANN, which provides services for other customers at this facility.

Information technology

The main challenges for the IT department in 2014 involved security, recovery and back-up due to the continued rapid increase in data resulting from the digitisation of corporate processes and the mobilisation of jobs within the Group.

For this, the edding Group essentially relies on technical industrial standards and on stable, long-standing consulting and development partnerships.

Thanks to extensive upgrades and investments in the latest software versions of the terminal server environment, further improvements have been made to the security concept, and the capabilities for automated recovery and back-up solutions have been expanded.

More flexibility has been achieved in respect of IT costs through leasing models for software products in our offices.

The mobile software solutions as the basis for the use of smartphones and tablets have been further optimised and rolled out right across the company. Security and user-friendliness are also ensured by using products from reputable manufacturers.

On the applications side, edding is stepping up the use of the existing SAP solutions. The level of utilisation has been further increased by adopting new modules from the SAP portfolio and consistently focusing on the introduction of R/3 process standards.

Another important focus of development was the comprehensive provision and distribution of product data for customers of the edding Group. Detailed article data, inspiring digital images and videos as well as examples of products in actual use have been created for online retailers. The information and images can be transferred directly into the online shops, which means that edding is also an innovative and reliable partner for e-commerce.

To distribute the digital information, edding in Germany utilises the distribution platforms of our subsidiary, PBS Network GmbH. In addition, the edding Group pursues its own projects so as to build up its own online services for international trading partners, via which it is possible to conveniently download product data, images and videos.

Research and development

The edding Group operates research and development departments at the German sites in Ahrensburg and Bautzen. Eleven persons in all were employed in this field in financial year 2014 (previous year: eight employees).

Total expenditure on research and development amounted to € 0.9 million in financial year 2014 (previous year: € 0.7 million). This includes costs for R&D services of partner companies and depreciation of laboratory equipment, in addition to personnel expenses.

Organisational changes were initiated in this field in financial year 2013 to create closer integration of research and development. This led to the R&D departments being incorporated into the International Marketing department as of 1 January 2014. edding believes this will enable it to involve the R&D department in the market-induced innovation process at an earlier stage so that development projects can be matched more closely to consumer needs.

Management system

Strategic control

We continued to develop our strategy for the Writing and Marking segment in financial year 2014. As part of this Strategy 2020 a balanced scorecard system was developed, in which coordinated scorecards are defined for all marketing and sales areas. These scorecards define targets for the respective regions and marketing categories; the targets include financial and non-financial parameters and have the traditional dimensions of a balanced scorecard (finance, customers, processes and development) plus the area of corporate social responsibility (CSR).

The individual scorecards were then condensed into business segment and Group scorecards to create a hierarchy of control instruments. In 2015 we shall take a target measurement for the first time based on these scorecards. The current balanced scorecards are valid until 2016 and are largely still based on our previous Strategy 2012+. In the second half of 2015 we shall start developing a target system for the period up to 2020 that will be geared even more to targets of the current strategy. Since mid-2014 we have also been working on updating the strategy for the Visual Communication business segment, for which management via target systems is likewise envisaged.

Financial control parameters

The edding Group uses various finance-related key performance indicators to control growth and profitability.

In particular, sales and earnings targets are defined for the Group within the scope of the rolling three-year plan. The most important key figures for profitability management are EBIT and EBIT margin. In our current Group strategy, a long-term EBIT target has been set that is supposed to be reached by 2020. EBIT development is also the most important control parameter for managing the Group companies, the achievement of which is an essential part of the variable remuneration for the local management. The monthly internal reporting especially deals with target attainment and variance analyses for EBIT.

A growth indicator and essential influencing factor for the EBIT results is the development of sales. In addition to total sales, the monthly sales trend and gross profit margins per business segment are decisive. In addition to the Writing and Marking and Visual Communication business segments, there is also the distribution of partner brands. This area essentially serves to round off the product portfolio at the level of the individual Group companies to ensure an absolute importance in the respective market and/or individual channels, which is a prerequisite for expanding the Group's brand business. Therefore, there are no strategic growth and margin targets for this. Partner brand sales are combined with other revenues for the purpose of the annual report. This item comprises revenue from point-of-sale displays, charging on of freight costs and small volume surcharges as well as licence revenues from the printer cartridge business.

Unit sales, sales revenue and margins of the corresponding product groups are analysed on a quarterly basis for the purpose of managing brand-expanding projects in the Writing and Marking business segment as well as the Legamaster electronics strategy.

The Group's cash flow is reported to the Management Board as weekly status of the Group liquidity situation. While the Group plan also contains a three-year projection for cash flow, the operational liquidity management is carried out individually for each Group company.

At the level of edding AG, the distributable net profit, which determines the short-term performance-based Management Board remuneration, is calculated within the scope of the plan.

Non-financial control parameters

The key non-financial control parameters for the edding Group include the results of the employee survey carried out each year at all German sites, which are rated using a grade system. A minimum grade has been defined for the overall score of this mood barometer. An extension of the employee survey to international locations is currently in the pipeline.

Data on edding's market share in what we consider the most important product categories of our European core markets are obtained at irregular intervals by the market research institute GfK. Target values are also defined for this, the attainment of which is, for example, relevant for the long-term performance-based Management Board remuneration.

Economic report

Overall economic and industry-specific conditions

The global economy continued to grow at a similar level as in 2013. Especially towards the end of 2014, the low oil price supported the world markets, although there was an uneven picture. The eurozone had a weaker second half of the year, characterised by declining investment, lower inflation and deflationary worries, which spurred the European Central Bank to implement a very expansionary monetary policy. Growth in the eurozone was therefore only 0.8% in 2014, despite Spain's recovery (+1.4%) and the moderate growth of the German economy (+1.5%). As a key trading partner, Russia also slid into considerable crisis, although growth was still at 0.6% at the year-end.

All in all, growth in the global economy was 3.3%, based on 2.4% in the USA and 4.4% in the emerging countries. The Latin American economic area, a key market for us, grew only modestly by 1.2%.

Japan – still an important procurement market for edding - was unable to continue its growth and stagnated, although the Japanese yen remained at an export-friendly, weak level compared to the US dollar and the euro, albeit to a decreasing degree against the latter, given the weak euro at the year-end.²

The market for office supplies in Europe changed little. Nevertheless, the brand name companies amalgamated in the German Industrial Association of Paper, Office Supplies and Stationery Brands were satisfied with sales development in the period January to September 2014. Although the unweighted average results of total sales were in minus figures for a quarter of the companies, the association can report an increase in sales of 2.0% compared to the same period in the prior year. The domestic business was even somewhat higher, with a gain of 2.2%, while export sales were slightly lower at 1.7%. However, sales in the Paper and Office segments, which were merely 0.4% and 0.5% up on the previous year respectively, failed to meet expectations. The brand companies only managed to post some sizeable sales increases in the area of Writing, with an average gain of 6.4% (domestic 6.5%, exports 5.5%).³

The overall German market for paper, office supplies and stationery, on the other hand, closed 2014 down on the previous year at around € 14.7 billion at end-user prices. On the distribution side, one of the losers was the specialised retail trade. The wholesale trade retained the number one spot with a market share of over 38% and the specialised trade commanded second place. Nevertheless, its market share has shrunk from 32.1% in 2010 to 30.7% in 2014. The market share of mail-order houses and online sellers has grown from 12.5% (2010) to 15.7%.⁴

The market for interactive visual communication solutions grew robustly, albeit at a lower level than expected. Q3 2014 marked the highest sales ever measured in this sector, over 10% more than in the same period the previous year. In Europe, the Benelux region, one of our key markets, again exhibited stronger momentum, although it was marked by intensive competition and price pressure. The German market, on the other hand, is still having difficulty and is only growing slowly, partly because the federal system does not enable any central decision for technologies, such as was taken in Turkey, for example, with the "Fatih" project.⁵

²World Economic Outlook Update, IMF, January 2015

³Press releases by the German Industrial Association for Paper, Office Supplies and Stationery (PBS), October 2014

⁴http://www.boss-magazin.de/boss/suche/default.asp?alle_item=34761&i_item=34761&alle_step=15&alle_start=1 on 30/01/2015 with reference to the market research institute marketmedia24.

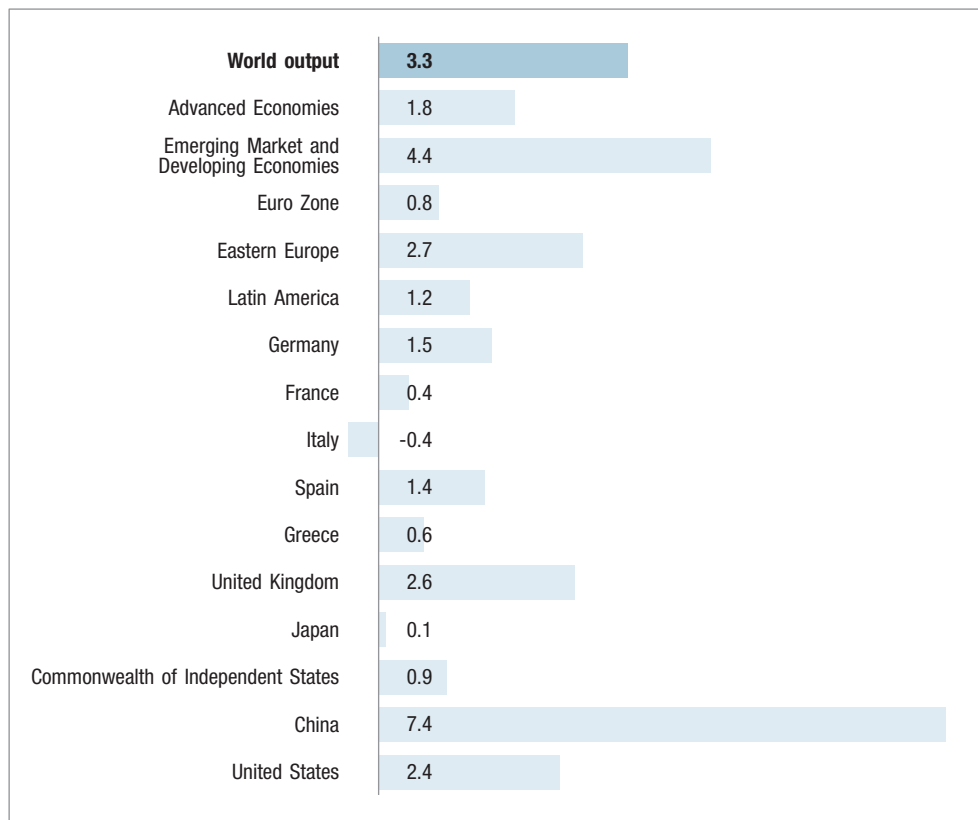
⁵Futuresource Consulting, Quarterly Market Track World, Q3 2014

Nevertheless, we view this market positively, even if the throughput of the new technologies is advancing at a difference pace from country to country.

For years now, the edding Group has taken account of the slightly stabilised, but still volatile climate by adopting a policy of risk-oriented management and progressive organisational flexibility. We utilise the possibilities of the financial markets, for example with regard to currency hedging, to an extent that makes good economic sense. In addition, at times of heterogeneous market development, the risk-reducing development of our internationalisation strategy becomes apparent, thanks to which we now have the benefit of a diversified country portfolio. It is also clear that the breakdown of marketing into end consumer-based product categories, which has been significantly advanced since the Strategy 2008+, is bearing fruit and, here too, the difficult market conditions for traditional office supplies can be compensated for through activities aimed at private end consumers.

GDP development of selected countries / regions in 2014 ⁶

in percent



⁶World Economic Outlook, IMF, October 2014 und World Economic Outlook Update, IMF, January 2015

Development of the business segments

Overall, in the 2014 financial year, an increase in sales revenue of 4.6% was achieved. This growth reflects a significant increase in sales in the Writing and Marking segment, while the other areas recorded only slight growth.

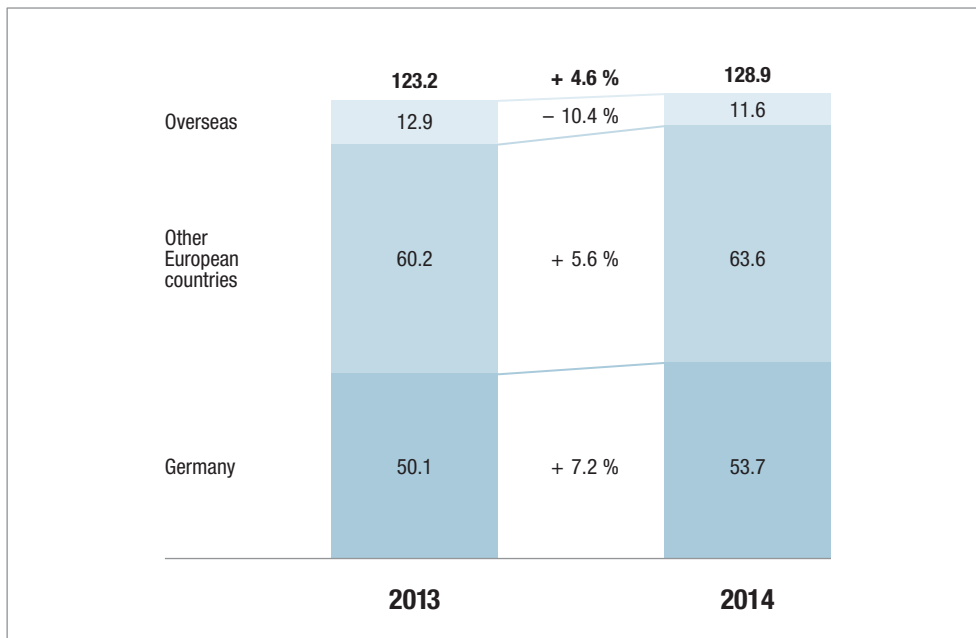
	2014 € '000	2013 € '000	Change € '000	Change %
Writing and Marking				
Germany	39,512	36,308	3,204	8.8
Other European countries	43,744	40,807	2,937	7.2
Overseas	10,067	10,810	– 743	– 6.9
	93,323	87,925	5,398	6.1
Visual Communication				
Germany	12,098	11,482	616	5.4
Other European countries	15,344	15,453	– 109	– 0.7
Overseas	779	1,063	– 284	– 26.7
	28,221	27,998	223	0.8
Other Office Products	7,309	7,288	21	0.3
Total for the Group	128,853	123,211	5,642	4.6

Total sales in Germany and the rest of Europe developed positively in 2014. Overseas sales fell, reflecting the continuing difficult situation in Argentina. Domestic sales as a percentage of total sales rose slightly to 41.6% (previous year: 40.6%) due to the disproportionately positive trend in Germany.

When divided into geographical regions, the following sales trend can be seen compared to the previous year:

Sales revenue by region in comparison to the previous year

in € million



Writing and Marking business segment – main brand edding –

In 2014 we were able to post record sales in the Writing and Marking segment once again with a total of € 93.3 million. Growth of 6.1% year on year was attributable to Germany and the rest of Europe. Overseas sales were down – partly as a result of exchange rate effects.

With sales totalling € 39.5 million, Germany was once again by far the strongest market in 2014 and grew by 8.8%. In our home market we were able to achieve substantial growth in all the relevant sales channels.

Sales in the rest of Europe of € 43.7 million were still well above those in Germany. In comparison with the somewhat weaker performance last year, we were able to increase revenues by an impressive 7.2%. Declining sales in Russia were more than offset in particular by strong sales increases in the UK, Turkey, the Netherlands, Spain, Switzerland and France.

Overseas we had to contend with a fall in sales in 2014 of 6.9% to € 10.1 million after the strong growth in the previous year. This trend was essentially shaped by the restructuring of our activities in Mexico and by our subsidiary in Argentina, whose double-digit sales increases in local currency could not compensate for the effects of inflation.

Marketing and products

In terms of the product range, we benefited in Europe from both increased sales of established products and from a considerably higher distribution of new concepts. As in the prior year, our new edding permanent spray is especially noteworthy in this context. After the successful launch in 2013, distribution in Germany as well as in Switzerland, the Netherlands, France and Denmark was significantly expanded, and sales in 2014 were more than doubled. The positive feedback from dealers and customers on quality was enhanced by various awards (Office Products Award 2014 in the Netherlands, German Design Award in Gold 2015 as well as finalist in the “Best Brand Extension” category at the German Brand Awards 2015).

As a further highlight, our new point of sale displays (POS shop) created vital impetus on the marketing front. This newly developed system has led to marked increases in sales of edding products for the majority of the dealers who have been furnished with this solution since October 2013. Fortunately, this does not only apply to established edding bestsellers from the permanent marker and paint marker portfolio. In fact, the displays also increasingly enable potential buyers to find our special products and recognise their added value. The further national and international roll-out of this POS solution is a key part of our growth strategy.



German
Design Award

GOLD 2015

Visual Communication business segment – main brand Legamaster –

Sales in Germany and abroad are almost exclusively generated in the business-to-business sector with the main brand Legamaster. Our most important markets are the DACH (Germany, Austria and Switzerland) and the Benelux regions.

After the very successful 2013, we were able to consolidate the increased sales level in 2014. Once again the Germany business developed very positively (+5.4%), while in the rest of Europe we lost ground slightly (-0.7%) – mainly due to a currency-related drop in sales in Russia. Overseas we lost more than a quarter of our sales (-26.7%). This can be attributed to the adverse exchange rate developments, but also to storage-related shifts between the years.

In the Visual Communication business segment, growth is fuelled by Interactive Technology products, which include both electronic whiteboards and so-called e-screens (LED screens with touch technology for schools and conference rooms).

Our emphasis on premium quality also helps us in the traditional business, although this continues to be under pressure in terms of price and volume as a result of digitisation.

Marketing and products

2014 was shaped by the further development of the interactive range. The speed of innovations in digital technologies means that there is a need to continuously develop the product portfolio. Particularly e-screens are constantly increasing in size (up to 85 inches in our range), resolution (ultra HD), finish (reflection-reduced special glass) as well as integrated features (free-standing supports, easy-to-operate height adjustment), which is reflected accordingly in the Legamaster range.

Generally, the increasing trend towards choosing e-screens instead of interactive white boards for new installations is continuing. Larger screen diagonals, significantly improved resolution and image definition as well as a reduced disparity in terms of total costs over the product's lifetime are the reasons for this development.

We were also able to set trends in the traditional segment with a range of individually printed whiteboards. Customers have the option of ordering individual designs in different sizes when they order even a single board from two Legamaster product lines. This concept has already won the Benelux Office Products Award.

These innovations were very well received at the trade fairs at the beginning of the year and so we are expecting positive developments in 2015 as well.



Other Office Products

After switching our partner brand concept solely to cooperations that are likely to generate sales potential for our Group brands, we ended the cooperation with some partner brands in previous years. Despite this, we were still able to consolidate partner brand sales in 2014.

Sales from the licence business with printer cartridges, reported as other revenue since 2013, dropped for the first time in 2014 after the sharp increases in prior years. Given that there were a lot of new customers purchasing initial stocks in 2013, a comparison with the previous year is only of limited relevance. We see further growth opportunities in this area for the future.

Overall, sales in the area of Other Office Products remained virtually constant in comparison with the previous year (+0.3 %).

Results of operations of the edding Group

Development of the results of operations

	2014 € '000	2013 € '000	Change € '000	Change %
Sales revenue	128,853	123,211	5,642	4.6
Changes in inventories and own work capitalised	294	457	– 163	– 35.7
Total output	129,147	123,668	5,479	4.4
Raw materials and consumables used	– 48,748	– 48,460	– 288	0.6
Gross profit as % of total output	80,399 62.3 %	75,208 60.8 %	5,191	6.9
Employee benefits expense as % of sale	– 34,206 26.5 %	– 32,532 26.4 %	– 1,674	5.1
Depreciation expense	– 2,667	– 2,529	– 138	5.5
Other operating income	5,657	5,060	597	11.8
Other operating expenses	– 37,328	– 35,827	– 1,501	4.2
EBIT as % of sales	11,855 9.2 %	9,380 7.6 %	2,475	26.4
Financial result and result from investments	330	2,238	– 1,908	– 85.3
Profit before ta	12,185	11,618	567	4.9
Income taxes	– 3,873	– 3,033	– 840	27.7
Group annual resul	8,312	8,585	– 273	– 3.2
as % of sales	6.5 %	7.0 %		

Earnings showed a slight decrease in profit after tax compared to the prior year, while earnings before interest and taxes (EBIT) increased significantly as a result of higher sales revenue.

The results of operations of the edding Group were 4.6% up on the previous year at € 128.9 million. This growth reflected a significant rise in the Writing and Marking segment, while sales in the area of Visual Communication recorded only a slight increase.

At the same time, the gross margin percentage rose by 1.5 percentage points to 62.3%. In addition to positive exchange rate effects on the purchasing side, especially changes to both the product mix and the customer mix had a positive impact on the margin development in 2014. In terms of the product mix, the larger share of sales in the higher-margin Writing and Marking segment is worth mentioning. As regards the customer mix, it is noticeable that the increase in sales mainly results from countries with their own distribution subsidiaries, in which we achieve higher percentage margins through direct distribution to retailers than in markets that are serviced by independent distribution partners.

In addition to the general increase in pay rates and the slight rise in staffing numbers, there were other reasons for the increase in employee benefits expense of € 1.7 million. On the one hand, there were high one-off personnel expenses – largely due to the logistics outsourcing project in Germany in the financial year – and, on the other hand, higher result-related profit sharing and bonuses to staff had an effect.

The rise in other operating income is based primarily on a write-up of € 0.7 million for a part of a building that is now being used again, for which non-scheduled appreciation was applied in financial year 2006.

Other operating expenses were € 1.5 million higher than the previous year. The main reason for this is the increase in the maintenance expenses for the building of € 1.1 million due to the utilisation of the part of the building that was previously not in use and the external leasing of the warehouse building in Ahrensburg. In addition, freight costs and customer-related marketing expenses rose due to higher revenues. External logistics costs were higher as a result of changing to an external logistics provider in the second half of the year. These effects were partially offset by a € 0.9 million reduction in realised and unrealised exchange rate losses.

Earnings before interest and taxes (EBIT) were well up on the previous year's figure at € 11.9 million as a result of the increase in turnover and margins. This equates to an increase in the EBIT margin from 7.6% to 9.2%.

The financial result and result from investments fell by € 1.9 million. The prior year's figure includes a positive non-recurring item of € 2.6 million arising from a securities transaction with edding Argentina S.A. In the year under review this non-recurring item was considerably lower at € 0.2 million. In addition, interest expenditure fell in the year under review due to the reduction of long-term loans.

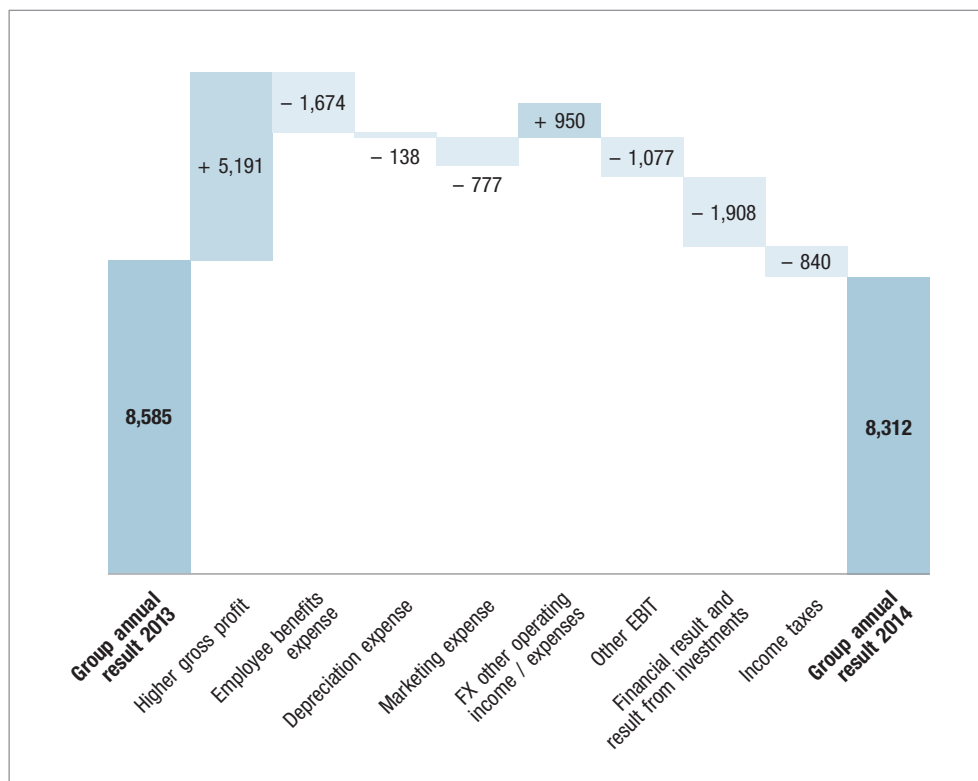
Income tax expenses rose year on year by € 0.8 million. It is important to bear in mind here that the explained non-recurring item from the securities transaction in the prior year was not subject to taxation.

The Group's profit after tax for the year of € 8.3 million is therefore close to the prior year's level despite the high positive non-recurring item from 2013.

Accordingly, the Management Board considers the business performance in 2014 overall to be very positive.

Development of Group result in 2014

€ '000



Business development compared with the outlook for 2014

In the outlook section of the 2013 annual report we anticipated a moderate increase in sales revenue overall in both business segments for financial year 2014. In terms of the segment result development, we forecasted that operating income (EBIT) for the Writing and Marking segment would stay the same, owing to the higher marketing expenses, and that for Visual Communication there would be a moderate increase. The result was an only slight increase in operating income along with a significant drop in the net income for the year because of the high positive non-recurring items in 2013.

This prediction was confirmed in the interim notification in mid-May 2014.

In the half-year financial report we improved on our earnings forecast slightly due to the positive performance in the first half of the year. In addition to the slightly better than expected sales revenue, this was primarily due to the lower than expected marketing expenses and balanced exchange rate effects. These effects were expected to lessen over the further course of the year, so we assumed at this point, given the moderate increase in sales revenue, that there would be an increase in EBIT in the Group and in the two business segments. As a result of the high non-recurring item in 2013, this was nevertheless expected to lead to a sharp fall in the net profit.

The earnings forecast was raised once again in the interim notification in mid-November 2014 due to the continuing lower marketing expenses and what was a positive exchange rate situation for us. We forecasted a significant improvement in the EBIT, so the pre-tax result was expected to be only slightly lower than the previous year's figure. The expected turnover for the Visual Communication segment was reduced slightly because of the somewhat flagging performance. This prediction was based in particular on the expectation that the development of sales would weaken in the last two months, while some cost items – especially in the area of marketing expenses – would rise disproportionately, as per the budget.

In the course of December it became apparent that these expectations would not be fulfilled. Especially in the Writing and Marking segment sales revenues significantly exceeded expectations and, in addition, the forecasted cost increases were lower. Correspondingly, with an ad hoc notification in mid-December, the EBIT forecast was increased substantially to growth year on year of more than 25%, which equates to an EBIT of over € 11.8 million. Hence, an increase in pre-tax earnings together with a still diminishing net profit appeared to be achievable.

Net sales revenue increased by 4.6% in the year under review. The development of the Writing and Marking business segment, with growth of 6.1%, contributed disproportionately to this, while sales revenue in the Visual Communication segment rose only slightly by 0.8%. Therefore, our original forecast for the Visual Communication segment was not achieved and it was adjusted accordingly within the framework of the interim notification in mid-November 2014. This is the result of lower than expected sales in Europe and overseas. In Europe, it was mainly due to the currency-related drop in sales in Russia. Overseas the situation was affected by adverse exchange rate developments.

The segment result (EBIT) for the Writing and Marketing segment rose significantly from € 14.3 million to € 18.2 million. Hence, our performance was much better than the first forecast, essentially because of lower marketing expenses and an improved exchange rate situation. The segment result for Visual Communication of € 1.4 million was only slightly up on the prior year's figure of € 1.2 million and therefore fell marginally short of the original forecast due to sales levels.

The profit after tax for the year is € 8.3 million and is at the previous year's level despite the high positive non-recurring item included in the prior year's result. Therefore, with hindsight, the forecasted result within the scope of the first outlook for 2014 was significantly too low because of the already explained cost factors. Consequently, the forecasts were adjusted over the course of the year. The EBIT amounts to € 11.9 million and so the substantially increased forecast within the scope of the ad hoc notification was almost confirmed.

Net assets and financial position of the edding Group

As of 31 December 2014, the edding Group's total assets rose sharply by 11.3% from € 81.6 million in the previous year to € 90.9 million. Moreover, in the 2014 financial year, equity increased considerably from € 39.3 million to € 44.3 million. This is mainly due to the consistently high Group result, which is set against the distribution of dividends and the developments, not impacting on income, of the difference arising from the currency conversion and the pension commitments. Especially due to the strong increase in current liabilities, the equity ratio rose year on year, but only slightly from 48.1% to 48.7%.

The non-current assets (€ 27.6 million) increased sharply by € 3.4 million compared with the previous year. This rise is mainly due to the newly added carrying amount for the stake in the Brazilian writing utensils manufacturer Companhia de Canetas Compactor S.A. and to the fair value measurement of shares in securities-based funds held to partly cover pension commitments. Moreover, the scheduled depreciation of property, plant and equipment was partially offset by the write-up carried out in the year under review for a part of the office building in Ahrensburg that was back in use.

Investment in financial year 2014 of € 2.1 million was slightly higher than the previous year's level. The main investments were in the areas of IT software and hardware, technical equipment and machinery and operational and business equipment. They mainly related to the Group headquarters in Ahrensburg and to our production plant in Bautzen and are therefore primarily attributable to the headquarters and the Writing and Marketing business segment.

Current assets increased sharply by 10.1% from € 57.5 million to € 63.3 million. This trend is supported by an increase in trade accounts receivable by € 2.7 million compared to the previous year. This substantial increase is particularly the result of the positive performance of the edding Group in 2014, a factor that was also the main cause of the sharp rise in cash and cash equivalents of € 2.4 million. The scope of inventories, on the other hand, increased only slightly in the year under review by € 0.8 million, which is in particular due to our Argentine subsidiary topping up its minimum inventory levels and to the higher stocks of interactive products from the Visual Communication segment which were influenced by the positive performance.

In the financial year 2014, non-current liabilities remained virtually constant at € 20.3 million compared with the previous year (€ 20.4 million). In this case, two opposing effects essentially cancelled each other out, namely the performance of the mutual fund shares described above as well as a continuing fall in interest rates were the reasons for the increase in pension commitments, which was largely compensated by the effects from the scheduled reduction in long-term bank loans and refinancing liabilities of property companies.

As of 31 December 2014, current liabilities totalling € 26.3 million were well above the level of on the balance sheet date in the previous year (€ 21.9 million). Several developments need to be explained in this connection. The sharp increase in current financial liabilities that was posted in the financial year is essentially based on the inclusion in the balance sheet of a purchase price liability for the investment in Companhia de Canetas Compactor S.A. in December 2014. There was also an increase in other current liabilities of € 1.6 million, which was mainly the result of an increase in provisions for marketing allowances induced by the business performance as well as the result-related creation of provisions for employee profit-sharing schemes. By contrast, the negative market values arising from currency hedging transactions that had been reported on the balance sheet to a large extent in the previous year decreased significantly as of 31 December 2014. Trade accounts payable were also down by € 1.0 million due to the reporting date.

As in the previous year, non-current assets are fully covered by equity. Current liabilities continue to be easily covered by liquid assets and current receivables.

The cash flow from current operating activities remained at a high level at € 7.2 million compared to the previous year (€ 7.0 million). Cash inflows due to the only slight fall in the Group result contrasted in particular with cash outflows for the further build-up of inventories. The non-cash increase in trade accounts payable was largely offset by the non-cash increase in other liabilities.

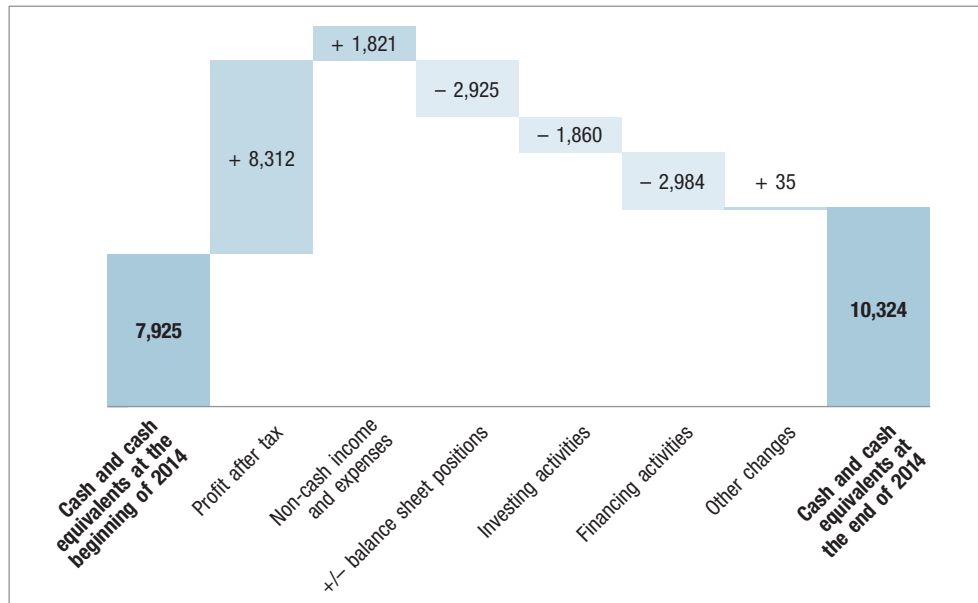
The negative cash flow of € -1.9 million from investing activities was essentially at the previous year's level due to the only marginal increase in investment volume in the area of fixed assets in financial year 2014.

Cash flow of € -3.0 million from financing activities rose by € 1.2 million compared with the prior year (€ -4.2 million). Here the existing financial liabilities were further reduced through scheduled repayments, with new loans only being taken out on a small scale.

The Group was solvent at all times in 2014. This continues to be the case in the current financial year 2015.

Change in cash and cash equivalents in 2014

in € '000



Performance of Group companies ⁷

For the individual functions of the companies in the Group, please refer to the Organisational Structure section in the Group Management Report.

Parent company

The task of **edding Aktiengesellschaft** is to manage all of its subsidiaries and affiliated companies. This is where the key management functions and the finance, HR and IT departments are based.

The results of operations of edding AG are essentially characterised by income and expenses within the scope of the income from investments, which result primarily from profit transfer agreements with edding International GmbH and V. D. Ledermann & Co. GmbH and also include valuation effects on Group receivables and shares in affiliated companies. This income from investments amounts to € 15.6 million (previous year: € 12.3 million). The year-on-year increase of € 3.3 million is mainly based on the higher profit transfer by edding International GmbH.

The higher income from investments contrasts in particular with higher expenses due to a rise in maintenance measures for the building. They result from the utilisation of a part of the building that was previously not in use and the external leasing of the warehouse building.

The pre-tax result is € 7.3 million and therefore exceeds the previous year's figure of € 5.2 million. A net profit of € 4.7 million remains after tax (previous year: € 2.6 million).

Subsidiaries

International distribution and business segment management companies

edding International GmbH is responsible for international management of the Writing and Marking business segment. In addition, it carries out all of the main management functions for the Group's operating companies, both nationally and internationally.

edding International GmbH has significant shareholdings within the Group, especially in edding Vertrieb GmbH, with which a profit transfer agreement exists. The profit transferred from edding Vertrieb GmbH amounted to € 4.4 million (previous year: € 4.3 million). The sales revenues of edding International GmbH increased by 8% compared to the previous year. Growth drivers in this case were in particular Germany, Turkey and the Netherlands. In Russia, on the other hand, the company had to cope with a significant drop in sales. Accordingly, the result increased by € 3.0 million to € 17.4 million. The profit was transferred to edding AG in accordance with the profit transfer agreement.

⁷The comments on the subsidiaries are based on local GAAP.

Legamaster International B.V. (Netherlands) manages the Visual Communication business segment. Sales revenues in the company fell by 2%, whereas in the Visual Communication business segment as a whole we achieved a slight increase. This is in part due to the fall in inventories of all the subsidiaries which have their own warehouse location. The development in the individual markets is very heterogeneous. Sales growth particularly in Germany, Belgium and Norway cannot completely compensate for the decline in Russia and Switzerland, for example, where above-average growth was generated in the previous year. Profit was somewhat lower than the record result of the previous year, which was positively influenced by significant gains from the retransfer of individual value adjustments.

Local distribution companies

In Germany, distribution for the Writing and Marking business segment, complemented by partner brands, is carried out by **edding Vertrieb GmbH**, and for the Visual Communication business segment by **Legamaster GmbH**.

In the year under review, **edding Vertrieb GmbH** achieved a considerable increase in sales of 7%, which is due to a positive trend in the Writing and Marking business segment. This reflects growth resulting from the favourable development of the economy, but is also attributable to our consumer-based category strategy as well as the focus on the distribution organisation. This applies to all sales areas. A positive stimulus came, for example, from the edding printer cartridges, the spray paints that were launched last year and the introduction of the new solution for the point of sale in the specialist trade (POS shop), with a corresponding effect on sales. At € 4.4 million, the profit transferred to edding International GmbH is slightly higher than the previous year's level of € 4.3 million. The sales-related rise in gross profit is partly offset by increased investment in the market, such as marketing activities, POS displays and additional sales staff.

Legamaster GmbH generated a 6% increase in sales. This was the result of significant sales growth in the area of e-screens (LED screens with touch technology). The net income for the current financial year is correspondingly considerably higher than the previous year's result.

edding Legamaster B.V. (Netherlands) achieved sales growth of 6% in financial year 2014. In the Writing and Marking segment, sales revenues were increased by 16%, in particular due to the targeted expansion of the business-to-consumer area. Sales in Visual Communication, however, were down slightly. Profit rose due to the effects of higher sales.

After a weak prior year, **edding Ofis ve Kirtasiye Ürünleri Tic. Ltd. Sti. (Turkey)** achieved significant sales growth of 25% in local currency as planned. This is all the more pleasing given that there is increasing uncertainty in the market due to the high volatility of the currency, high levels of foreign public debt and rising unemployment, amongst other factors. In the Writing and Marking segment, the pricing and conditions system for the traditional retail sector was continued unchanged to a large extent. Whereas it caused some uncertainty amongst customers when it was introduced the previous year, it has now created increased trust in our consistent pricing policy. Existing customer relations were intensified and new customers were acquired particularly in the private end-user segment. In the area of Visual Communication, the improved customer loyalty had a particularly positive effect on sales in traditional visual communication. Hence, the structural measures initiated in the previous year, which also entailed numerous personnel changes in the year under review, started to bear fruit. The pre-tax result was almost on an even keel again after a high loss in 2013 and therefore surpassed expectations. This can, however, be partially attributed to non-recurring items, such as releases of provisions from previous years and unrealised exchange rate gains from valuations of receivables.

The turnover of **EDDING (U.K.) LTD.** rose by 10% in local currency. As in previous years, this is in essence due to the targeted further expansion of the school business in the Writing and Marking segment. In addition, the British pound has appreciated by approximately 5% compared to the average value of 2013, which reduces the costs of purchasing goods for the company accordingly. Consequently, profits were well above those of 2013.

edding France SAS increased its turnover once again in 2014 by 10% despite a weak market climate. In this case, the improved market development by the field sales force, which was newly established in the previous year, had a positive effect. The extra costs for this are accrued for the first time for the financial year as a whole, and accordingly the pre-tax result is at the previous year's level and balanced as planned.

edding Lega International B.V.B.A. (Belgium), which belongs to the sub-group of the Dutch companies, achieved a substantial increase in turnover of 18%, which resulted from both business segments. Company profit is thus higher than the previous year's level.

The economic situation in Greece remains difficult. Sales revenues of **edding Hellas Ltd. (Greece)** were down 5% in the year under review. The conscious reduction of partner brand sales with only small margins had an effect. Sales in the Writing and Marketing and Visual Communication segments rose again, by 2%, for the first time in several years, which can be viewed as a success under the prevailing market conditions. The company's result remains negative, as expected, and is at the prior year's level. Owing to the high market share overall, we are still maintaining our commitment in Greece. To continue to improve the earnings situation in the coming years, further structural adjustments were made to the business model in the fourth quarter. Nevertheless, we are not expecting the business to break even locally in the current economic climate.

Local distribution companies with local production

The sales revenues of **edding Argentina S.A.** were up 17% in local currency compared to the previous year and therefore fell sharply after adjustment for price rises, while retaining our restrictive credit policy. The economic and political situation is still critical. The unofficial inflation rate stands at around 40%, and the resultant cost increases can no longer be passed onto customers in full. This led to a significant decline in earnings and therefore to a loss, although the pre-tax result is still positive.

edding Colombia S.A.S. has once again extended its market share and therefore achieved sales growth of 19% in the local currency. The Colombian peso depreciated considerably in the second half of 2014. This had a negative effect on the company's result, particularly in the form of high unrealised exchange rate losses from the valuation of largely intra-Group liabilities. This meant that the result was down year on year and it narrowly missed making a profit.

At **edding Mexico S. de R.L. de C.V.** the change in distribution to freelance sales representatives did not produce the desired effect. The company achieved low level sales growth, but it was well below expectations. Therefore, distribution has been carried out via a distribution partner since the end of 2014. In addition, the production plant was closed in mid-2014 to reduce additional fixed costs. The loss was at the prior year's level of around € 0.7 million and is partly affected by the restructuring measures. Our aim is to achieve profitability in the medium term by outsourcing our distribution activities to a distribution partner in combination with very low fixed costs.

Production company

The production company **V. D. Ledermann & Co. GmbH** had to contend with a fall in intra-Group sales revenue of 10%. The reason for this is non-recurring factors such as the reduction of high minimum inventory levels at edding International GmbH, which were built up in the course of transferring logistics activities to an external service provider, and the reduction of warehouse stocks at the English subsidiary. The sharp drop in sales in Russia also had an impact. This led to a loss of € 0.2 million, after a profit in the previous year, and this loss was transferred to edding AG in accordance with the profit transfer agreement.

Purchasing company with local distribution

As in previous years, **edding Japan Inc.** generated a positive result.

Leasing companies for commercial property

DEGEDESTRA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG and **edding AG & Co. Grundstücksverwaltung OHG** are included in the Consolidated Financial Statements on the basis of IFRS accounting standards. The property companies are managed in the legal form of partnerships (Personengesellschaften). The capital account of DEGEDESTRA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG is positive. edding AG & Co. Grundstücksverwaltung OHG currently still has a negative capital account, but this will be redressed within the property's useful life.

Opportunities and risk report

Opportunities report

Opportunities management

edding AG operates in a dynamic market environment with its two business segments. In addition to the general economic and political conditions, we are also subject to change processes in our respective industries, including the underlying consumer habits and preferences.

The pace of change has, if anything, increased over the past few years. Along with the increasing consolidation among producers and dealers/distributors, new challenges are continuously arising due to the advance of digitisation and increasing mobility of employees and end users. We look to constantly adapt our strategic orientation and our operating business processes in line with these challenges and, in so doing, to create sustained added value.

As a medium-sized, publicly quoted company, we see our main challenge as balancing continuous risk awareness and active risk management with entrepreneurial awareness of opportunities. We have sound management tools for maintaining the necessary balance with regard to both risk assessment and the assessment of opportunities.

In our target figures and budgets, and in our outlook for 2015, we have taken into consideration those opportunities – and risks – for which we regard the probability of them occurring as well over 50%. In the following sections we look at our Writing and Marking and Visual Communication business segments and describe the respective events and activities that could lead to a very positive improvement in revenues and earnings for the edding Group in the event of their occurrence.

Writing and Marking business segment

Opportunities arising from positive economic trend

We use the general economic and political conditions listed in the “Outlook” section of the annual report 2014 as the basis for our planning and budgets. We are budgeting for moderate growth in our core Western European markets in the Writing and Marking segment and expect above-average growth above all in South Eastern Europe and in the Andean region. This contrasts with below-average expectations in South America and Eastern Europe. Should demand recover significantly or rise more sharply again in the next few years in the latter markets particularly, this will have a positive impact on our sales revenue and results of operations.

In addition, we have continued our established practice of making relatively conservative assumptions regarding the development of exchange rates for 2015 and the following years. A positive trend is likely to emerge for edding, especially if the political and economic situation in Argentina continues to normalise. In the event of the continued devaluation of the Argentine peso, our competitiveness compared to importing rivals would improve considerably, as we are the only local brand producer in the marker segment. We also see additional potential in Russia, should the weakening of the rouble from 2014 be reversed and the spending power of Russian consumers and our local importers improve again.

Opportunities through new products and marketing concepts

As a brand product company that sees its core competencies as being mainly in the areas of marketing and distribution, we are continuously working on the optimisation of our product portfolio and further penetration of our sales markets. The focus is on products and solutions that prioritise added value for our customers and end users.

We increasingly see brand-extending projects as a key area with high potential. We aim to build on the great successes with printer cartridges and sprays, but these are also an incentive to invest further in this area. For the introduction of the new edding L.A.Q.U.E. nail polish range in 2015, we budgeted relatively conservatively on the revenue side. If we manage to attract additional trading partners for our latest brand extension project, especially by autumn, this should have a positive effect on sales and earnings. Other product and concept developments are undergoing a feasibility study or being prepared for implementation. Should we complete any of these concepts earlier beyond what has already been planned, this could have a positive impact on our sales revenue and results of operations.

Opportunities through customer relationships

The close proximity to our retail and distribution customers remains a key success factor in our marketing strategy. In 2014 the sustainability of this customer policy was borne out once again in Germany, our core market, when edding was voted best manufacturer of paper, office supplies and stationery by the German specialist trade (performance barometer of the “markt intern” trade journal) for the ninth time in succession. In Germany we have a successful combination of retail and end user advice, and we shall be establishing or expanding this in other markets in the future. Should we be able to establish the necessary networks and contacts quicker than planned, this is likely to have a positive effect on our sales revenue and results of operations.

Opportunities through our distribution and partner network

edding has had good experiences with partner brands in the past. These are brands of manufacturers who distribute edding products in entire countries or individual distribution channels via their distribution organisations, or whose products edding in return distributes in selected countries or channels.

The distribution of these partner brands not only generates additional margins, but also frequently enables a critical mass to be reached for certain trade formats, and allows us to support and supply these more efficiently. At the same time, we subject existing cooperations to a continuous performance check. This also leads to the termination of agreements with partner companies in individual cases. In 2014 two cooperations in Germany and Turkey were terminated in this way, and they have been taken into account in the plans for the next few years. Besides the planned growth in existing agreements, we also continuously check the feasibility of new cooperations. Should new attractive partnerships arise, this would also have a positive impact on our sales revenue and results of operations.

Visual Communication business segment

The Visual Communication business segment, with its main brand Legamaster, operates in two very different product segments. On the one hand, there are traditional media such as whiteboards, flip charts and presentation boards and, on the other, digital solutions with e-screens and interactive whiteboards.

Opportunities through product and process quality in the area of traditional media

The traditional segment has been characterised by falling prices and tough competition for years. Nevertheless, specific opportunities do arise. Over the last few years more and more low-cost providers have encountered financial difficulties, firstly because the realised margins were insufficient and, secondly, because more and more retail customers are getting tired of the quality problems on the product and service side. Especially the logistical performance (punctual delivery, damage-free packaging and transport) is once again a higher ranking factor. Therefore, thanks to our premium processes and our high product quality, we see more opportunities to win back customers who have been lost to low-cost suppliers.

Opportunities through successes in tenders for interactive media

In the market for interactive communication media there are also a large number of suppliers at the low-price and low-quality level who are hoping to cash in on this young, fast-growing and still non-transparent market. However, we have also noticed that customers are acquiring increasing expertise in this area, which is apparent in a growing orientation towards quality providers, and this will benefit us. But the expanding market per se represents a big opportunity. In most countries we are expecting the market as a whole to grow due to the increasing market penetration as regards classrooms and conference rooms with interactive technology. Should we win more tenders than planned, this should have a positive impact on the sales revenue and results of operations.

Opportunities through new interactive media products

Furthermore, over the last few years we have developed a product portfolio which, together with our efficient distribution processes, has enabled us to acquire market shares. Our product managers are working non-stop on the further development of our product range, and thanks to the extremely fast progress of digitisation, we can constantly add new technologies. At the Integrated Systems Europe trade fair in Amsterdam at the beginning of 2015, we were able to present the new software addition Tango Teach for the education sector as well as an 85 inch e-screen with ultra HD resolution and matt special glass for preventing reflection.

Opportunities through new distribution partners for interactive media

In 2014 we extended our international distribution capacities in order to further intensify our search for strategic distribution partners, particularly for our interactive range, in additional markets. For example, new partnerships were established in the UK, Northern and Eastern Europe, and we are hoping that they will create positive impetus for our sales revenue and results of operations.

MOTIVATION

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Legamaster

Risk report

Risk management system

edding AG's risk management system is an integral part of all planning and reporting systems at all Group divisions and subsidiaries. All of the edding AG business segments are exposed to a large number of risks, particularly due to their international orientation. For years, edding AG has been using a standardised risk management system to identify all material risks in good time. This includes the systematic identification, evaluation, control, documentation, communication and monitoring of risks. Within the scope of corporate governance, both risk management and monitoring and the internal control system (ICS) contribute to risk management. The evaluation of risks is carried out across the Group in a standardised form according to the potential damage and probability of occurrence. In addition, the risks are defined by dividing them into worst, base and best case scenarios and the arising risk expectation levels. Any provisions or valuation allowances that might result from this are outlined in the balance sheets of the respective divisions or companies.

Regular reporting on the Group's risk situation is currently carried out in the monthly or quarterly reports to the Management Board and the Supervisory Board. The risk reports are also discussed at Management and Supervisory Board meetings.

Direct responsibility for the early detection, control and communication of risks is defined and assigned to the so-called "risk owners", who belong to the management of the divisions and subsidiaries.

edding AG's risk policy principles, as described in the risk management handbook, and the risk indicators included in the risk documentation specify the notification requirements should changes in the risk situation occur.

The risk management system was reviewed again in 2014 by the Management Board itself with the support of the internal audit department. This represents a further risk minimisation component, in addition to the assessment of the efficacy of the accounting-related internal control system by external auditors as part of their audit of the annual financial statements.

Accounting-related internal control system

The Management Board has set up an internal control system for the various organisational, technical and commercial procedures within the company. A key part of this is the principle of segregation of duties, which is designed to ensure that execution (e.g. processing of purchases), recording (e.g. financial accounting) and administration (e.g. warehouse management) activities carried out within a corporate process are not in the hands of one person. This is guaranteed by the integrated SAP R/3 ERP software system, which has been used at edding for many years now, allowing for an appropriate authorisation concept. It ensures that staff only have access to processes and data that are necessary for their work. The software also includes, as standard, a large number of integrated automatic checks to help prevent errors in the reporting and entry of accounting-relevant business transactions.

The dual-control principle also ensures that no basic operation is left unmonitored.

Target concepts and instructions exist for the various processes within the company to enable managers and external individuals to assess whether staff are working in compliance with this target concept.

The majority of the staff in the accounting department of edding AG have been with the company for years and are therefore very confident and experienced at dealing with routine transactions that arise in the course of edding AG's day-to-day business. Employees also regularly attend courses and advanced training.

The active risk management system ensures that critical information and data is passed on to the Management Board directly. Ensuring that business circumstances are properly reported and evaluated in the balance sheet is regularly the subject of Management Board meetings.

During the year, the company also stays in close contact with the auditors to discuss new legislation and new or unusual business transactions. Problems are analysed in advance, discussed and then subjected to a joint critical evaluation with the auditors.

The accounting guidelines implemented across the Group create a uniform system of accounting standards within the Group based on IFRS. The accounting guidelines are updated once a year as required in order to take account of IFRS additions and amendments. Annual training of accounting staff at the edding subsidiaries ensures that new features of the accounting standards are implemented on time.

The Consolidated Financial Statements are prepared centrally, using certified consolidation software, by edding AG employees who have years of experience and specialist expertise in consolidation issues and IFRS accounting standards. For reporting by subsidiaries to the parent company, edding uses standardised reporting packages, which contain all the data required to produce full IFRS consolidated financial statements.

Main risks

Market risks

In order to strengthen the company's competitive position, a modified strategy process was launched in 2014, and was transferred to the operating functions at the end of the year. By implementing the defined projects, the aim is particularly to optimise the internal and external business processes for the business-to-consumer segment. This measure is designed to further consolidate and extend edding AG's outstanding market position.

Financial market risks and financial risks

The financial market risks within the edding Group essentially comprise exchange rate and interest rate risks.

The past financial year was again marked by a high level of volatility in terms of exchange rates. The euro depreciated in value significantly against the US dollar in the second half of the year, and with increasing momentum in December 2014 and in January 2015. The background to this is, on the one hand, the decision by the ECB for the purchase of government bonds by the central banks and, on the other hand, the parliamentary elections in Greece.

The companies within the edding Group are exposed to exchange rate risks within the context of goods procurement and the resultant trade accounts payable. From the Group's point of view, the principal risks arise from the goods purchased in Japanese yen and US dollars.

Our prime motives for hedging against financial market risks are security of planning and the reduction of risk exposure in the balance sheet of our foreign companies operating in foreign currencies.

Security of planning plays a role particularly in the area of goods procurement. In previous years, we have mainly hedged purchases in Japanese yen and, since the fourth quarter of 2014, to a smaller extent, purchases in US dollars. The yen hedging is shown in the consolidated financial statements as cash flow hedging accounting, and so for the most part the exchange gains and losses on account of the reporting date do not affect the income statement of the edding Group. Although the policy of the Japanese central bank is likely to lead to a further weakness in the yen in the medium term, we shall continue this exchange rate hedging policy in the next few years with a view to achieving the desired planning security.

As regards our companies operating in foreign currencies, we have implemented various measures, in some cases in prior years, to reduce their risk exposure arising from formerly high hard currency liabilities. In the case of the Argentine subsidiary, we made contributions in kind in the form of Argentine government bonds in 2013, and the existing Group liabilities were largely settled with the proceeds from the sale of these bonds. We carried out this transaction again in 2014 on a smaller scale. The Group liabilities of the Turkish subsidiary were restructured – partly because of the weakness of the Turkish lira in 2013 – and essentially replaced by a loan in Turkish lira. At the level of the credit-granting edding International GmbH, the resultant exchange rate risk was hedged by a forward transaction with matching maturity. In addition, the companies in Argentina and Colombia have local credit lines that are partially utilised to reduce hard currency liabilities.

Our ongoing very conservative receivables management combined with the largely good to very good creditworthiness of our customers meant that there were no noteworthy bad debts in 2014.

Interest rate swaps are still available to facilitate planning for interest expenses. These interest rate swaps can be used in the event of drawing on credit lines with variable interest rates.

The measures derived from our financial risk management for minimising risk in the area of price, currency, interest rate and other risks are described in Note 35 in the consolidated financial statements.

Performance risks

In 2014 the logistics outsourcing project was further advanced, and successfully completed at the beginning of August. During the implementation phase there were no significant unplanned delivery delays. By implementing this measure, edding AG has succeeded in taking a further step towards increasing the flexibility of its logistics processes. Major volume fluctuations can therefore be adapted according to market requirements from the point of view of costs and resources.

Staff risks

The rigorous continuation of the edding corporate strategy in 2014 led to edding AG also implementing organisational changes at personnel level, which will be further advanced in 2015. These organisational changes, together with focused personnel development via of the edding Academy, are designed to ensure that edding AG can continue to respond successfully to market changes and therefore meet growing market requirements.

A Project Management Office has, for example, been installed, whose purpose is to prepare our company for working in increasingly complex and international project structures. At the same time, the area of quality and compliance has continued to focus on ensuring excellent processes.

Our corporate success is based on the commitment and expertise of our staff working in Germany and internationally. edding AG operates in an international context with dynamic market requirements. In pursuing our strategic orientation, it is essential for our company to acquire suitable employees in the future, retain our talents in key positions and extend our personnel development activities to encompass our international structure.

An annual indicator of the mood within our company is the employee survey, which also reflected a very positive mood in 2014 once again.

Political risks

As a result of our international corporate structure, with subsidiaries in eleven countries and distribution via partners in more than 90 countries around the globe, we are exposed to not insubstantial individual political risks. However, from a corporate point of view, the increasing internationalisation is simultaneously leading to a broader distribution of risk.

As regards the worldwide trend, the growth markets in Latin America and Central and Eastern Europe are of special importance to us. These markets still have great potential, but at present the economic and political situation in Russia and Ukraine especially, as well as some countries in Latin America, are hampering the sustainable development of our business. Examples of this are high customs barriers and import restrictions. The continuing weak economic development in parts of the eurozone could have a negative impact on consumer confidence in some countries.

Examples such as the Russia/Ukraine conflict have shown us that geopolitical risks can always occur unexpectedly and are difficult to predict. Distribution in a large number of different countries, as is the policy at edding, can in itself be seen as a risk management measure. The original objective of internationalisation was growth and to reduce dependence on the German market and therefore German economic performance. This goal has largely been reached, and so in the meantime we have more than compensated for a significant decline in the Russian business through growth in other regions. We assume at present that this will also be the case in 2015.

The economic and political situation in Argentina is still tense. In the past, a very high level of hidden inflation was reported by some economic research institutes, and now the price increases officially disclosed by the government are also approaching an actual inflation rate of 27% to 28%. After a strong devaluation at the beginning of the year under review, to a level of ARS/USD 8.00, the peso depreciated even further to over ARS/USD 8.50 over the course of the year. As the currency is not freely convertible, the peso is seen as being considerably weaker still on the so-called grey market at around ARS/USD 13.80.

Overall, we still see ourselves as being well positioned as a result of the risk measures already undertaken in previous years. The balance sheet structure of edding Argentina S.A. is crisis-proof due to the reduction of hard currency liabilities, and at Group level the company's fixed assets have already been written down since 2013. As a result of the conservative receivables management, we occasionally lose sales revenue, but it means that we avoid higher payment defaults. The biggest risk from the Group's point of view is that we cannot achieve our growth plans for Argentina and the region if the economic and political situation remains permanently unstable. All in all the situation of the subsidiary is much more stable in terms of the balance sheet, but its further development is still heavily affected by the economic and political uncertainties, and therefore remains very volatile.

As expected, the political situation in Turkey has stabilised after the presidential elections. Accordingly, the currency recovered to a significant degree over the course of the year. Nevertheless, there may be recurring setbacks in this region. The threat to stability in the region from the terrorist group “Islamic State” still exists.

After the parliamentary elections in Greece and the victory of the Left/Right Alliance, the negotiations between Greece and the EU are on a confrontation course, so even the exit of Greece from the euro is again seen as a possible scenario. Such a step does not pose any notable risks for the edding Group at balance sheet level, as we already made the balance sheet of our Greek subsidiary crisis-proof in 2012. However, negative effects of such a measure on the economy, and therefore on our business performance in Greece, can be expected.

Unless exchange rates are subject to even greater turbulence as a result of new external influences, or the European economy takes a substantial turn for the worse, we continue to see no materially increased risk for the edding Group from the euro crisis.

Legal risks and risks under company law

There are no legal disputes or indemnity claims pending against the edding Group which could have a significant effect on the net assets, financial position and results of operations of edding AG and the edding Group. Risks which could arise from faulty products or inadequate contract safeguards are limited by our comprehensive quality management system as well as the routine scrutiny of our contracts by lawyers and our standard terms and conditions.

Overall risk / Going concern risk

Taken as a whole, the edding Group’s risk situation remains stable. At present there is no evidence of any risks that could threaten the company’s continued existence.

Other Reporting

Remuneration report

The total remuneration of the Management Board is made up of several components. There is a fixed component, a performance-based payment and payments into a direct insurance policy. The Supervisory Board sets the total remuneration of the Management Board at an appropriate level according to the guidelines of the Management Board Remuneration Act. Besides assessing the performance and responsibility of each individual Management Board member, the level of remuneration for management board members at comparable listed stock corporations is also taken into account.

The part of the remuneration that is not performance-based consists of a fixed salary and various fringe benefits, which include the continued payment of the monthly basic salary for a period of two months in the event of incapacity for work, a contribution to private health and long-term care insurance and private use of a company car. Accident insurance and D&O insurance is taken out for the member of the Management Board with an excess of 10% or one and a half times the annual fixed salary in the event of a claim. Furthermore, the member of the Management Board receives a pension pledge through the conclusion of a direct insurance policy for the purposes of an old-age, disability and survivor's pension.

The performance-based part of the remuneration is made up of a bonus that is calculated as a percentage of the reported profit after tax of edding AG and a long-term bonus based on the contractual term of the Management Board member's employment contract. This bonus is based on an agreement on objectives between the Management Board member and the Supervisory Board. Shares in profits and bonuses may account for more than half the total remuneration. The agreement on profit-sharing contains a penalty rule that is applied in the event of an annual loss by edding AG.

Besides the employment contract, no other service contracts exist between the company and its subsidiaries on the one hand and the Management Board members on the other.

Since 2006, the German Commercial Code (HGB) has stipulated the individualised publication of Management Board members' remuneration, split according to components that are performance-based and those which are not, as well as components with a long-term effect. The required information may be omitted if the Annual General Meeting has approved this by a two thirds majority of the share capital represented at the time the resolution is adopted. Accordingly, on 28 June 2011 the Annual General Meeting of edding AG approved the omission of this information for the annual financial statements and the consolidated financial statements for financial years 2011 to 2015 by 100% of the voting capital.

The total expenditure for the Management Board remuneration is stated in the notes to the Annual Financial Statements and to the Consolidated Financial Statements of edding AG as of 31 December 2014.

The remuneration of the Supervisory Board members is composed solely of remuneration that is not performance-based, and which the Annual General Meeting of edding AG approves for each preceding financial year. In addition, the members of the Supervisory Board receive their expenses connected with their work on the Supervisory Board.

For the chairman, the remuneration amounts to three times, and for the deputy chairman twice, the basic remuneration approved by the Annual General Meeting. The basic remuneration for a Supervisory Board member remained unchanged and amounted to € 18,000.00 for the financial year 2013. In addition, no remuneration or benefits for personally rendered services has been paid or granted to the members of the Supervisory Board. The expenditure is expected to be at a comparable level in financial year 2014.

Information relating to takeovers

Subscribed capital

The fully paid up share capital of edding AG amounted to € 5,366,095 as of 31 December 2014 and is divided into 600,000 no-par-value ordinary shares, each with a notional value of € 5.00 and 473,219 no-par-value preference shares, each with a notional value of € 5.00.

Voting right restrictions or restrictions relating to the transfer of shares

The preference shares have no voting rights.

Rights of preference shareholders

As regards the special rights of preference shareholders, we refer to the generally applicable legal provisions of section 140 (2) of the German Stock Corporation Act (AktG).

Direct or indirect holdings

Holdings (including indirect or attributed shareholdings pursuant to sections 21, 22 of the German Securities Trading Act (WpHG)) which exceed 10% of the voting rights of edding AG are held by:

Mr Volker Detlef Ledermann
Ms Susanne Ledermann
Ms Angelika Schumacher
Ms Dina Alexandra Schumacher
Mr David Alexander Schumacher
Ms Beatrix Ledermann
Ms Julia Marie Ledermann
Mr Jan Moritz Ledermann
Mr Per Ledermann
Mr Yannick Nicolas Ledermann (new addition in 2014)

Holders of shares with special rights

There are no shares with special rights except for preference shares

Type of voting right control in the event of employee holdings

In so far as employees have a share in edding AG, they exercise their rights of control directly.

Statutory regulations and provisions of the articles of association relating to the appointment and dismissal of Management Board members and to amendments to the articles of association

Members of the Management Board are appointed and dismissed in accordance with sections 84 and 85 of the German Stock Corporation Act (AktG). Amendments to the articles of association are made in accordance with section 133 and 179 AktG. Provisions of the company's articles of association relating to these points can be found in articles 6, 7 and 20 of the articles of association.

Powers of the Management Board to issue and buy back shares

At present, no AGM resolution exists that gives the Management Board the power to acquire the company's own shares.

Important agreements that will take effect in the event of a change of control

The employment contract of the Management Board chairman contains a special right of termination by the Management Board chairman in the event of a change of control. In the event of the justified exercise of the special right of termination, the company shall pay the Management Board chairman one-off compensation amounting to 50% of the annual fixed salary that would have been payable up to the scheduled end of the contract, but limited to the amount of an annual fixed salary.

There are no other notifiable facts.

Report on post-balance sheet date events

No events or events with a significant impact on the results of operations, assets and financial position of the edding Group occurred from the balance sheet date until the time when the Group Management Report was prepared.



Outlook

The outlook is uncertain in a climate where decisions are taken at short notice. The markets observe the economic situation from week to week. In particular, political developments such as the weak euro after the Greek parliamentary election or the escalating Ukraine crisis represent important influencing factors, even though consumption in Germany is undiminished. The sharp fall in the oil price is a support for the global economy.

In this respect the half-life of economic forecasts is mostly short. From today's perspective, Europe in particular is faced with a fundamental question. Germany continues to stand out as a model pupil with a balanced budget and record tax revenues; the question, especially under the new Greek government, is how much further the gap can widen between Germany and the rest of Europe, especially Southern Europe. France and Italy are still facing an economic dilemma, whereas there are glimmers of hope in Spain. The contraction of the Russian economy is definitely having a negative impact.

Nevertheless, the International Monetary Fund is even expecting slightly increased growth in the eurozone (+1.2%) in 2015, with Germany at a similar level (+1.3%). Above-average growth of 2.0% is even forecast for Spain, a particularly important market for edding. The trend in the USA (+3.6%) is considered to be very positive, whereas growth in the emerging countries has slowed slightly (+4.3%). As a result of the sanctions imposed due to the Ukraine conflict, Russia is likely to remain in recession (-3.0%).⁸

The ifo Business Climate Index for manufacturing industry rose slightly at the end of 2014. The business climate in the area of stationery, school and office products improved perceptibly. Test participants were less dissatisfied with the current business trend and are looking ahead to the coming months with optimism.

The climate indicator of the consumer goods wholesale trade also moved back into positive territory. When assessing business prospects, there were some noticeable signs of optimism.⁹

The members of the German Industrial Association of Paper, Office Supplies and Stationery Brands are also optimistic about 2015 and have almost universally the same or higher expectations of business developments in Germany and abroad compared with the same period in the previous year. Mid to long term, the industry will, however, have to face up to a structural market decline as a result of digitisation in schools and offices. The German paper, office supplies and stationery market already shrank slightly in 2014.¹¹

We are meeting the challenge of the structural change with our Strategy 2020. In the area of the edding brand we are focusing on two essential tasks: on the one hand, increasing our market shares in the highly competitive business-to-business sector and, on the other hand, establishing our brand in the business-to-consumer sector. We have created a dedicated team for each of these areas; both are based on the twin pillars of growth: focused internationalisation and focused expansion of our end user-based product categories, within which the transfer of our brand to other fields is also being analysed. In 2015 we will be launching our nail polish range.

⁸ IMF, World Economic Outlook Update, January 2015

⁹ ifo economic barometer 12/2014

¹⁰ Association survey, 30.01.2015

¹¹ http://www.boss-magazin.de/boss/suche/default.asp?alle_item=34761&i_item=34761&alle_step=15&alle_start=1, 30.01.2015

The Visual Communication segment under the Legamaster brand also operates in a constantly changing market. Digitisation is already well advanced here, and the replacement of chalkboards with interactive solutions and e-screens is continuing. Hence, the area of interactive products is already an essential and fast-growing element of the Legamaster range.

Many of our core projects in 2015 will create the foundations for mastering the quite complex Strategy 2020. For example, the provision of excellent data for our trading partners and also our communication with end customers are essential for successful development. We are achieving this with a large-scale data project aimed at a functional Product Information Management System (PIM).

In the area of non-financial control parameters, we are expecting that the mood barometer measured by the 2015 employee survey at the German sites will produce a similarly positive result to 2014.

Given the fragile economic climate, this year we have again developed alternative scenarios in the planning process, and will be able to quickly implement them, should the economy take a downturn.

At the time of preparing the Group Management Report, Group sales in 2015 were moderately up on the previous year. This trend applies equally to both business segments. Sales of partner brands are down, as per the budget. After weighing up the existing opportunities and risks of the further course of business, we are expecting a modest rise in sales revenue in both business segments in the coming year 2015.

As the operating result in 2014 was characterised by lower marketing expenditure, we are expecting the operating result to be at the previous year's level in financial year 2015, combined with a moderate increase in sales revenue. The Group's profit after tax will develop in the same vein, according to our forecast.

In terms of the segment result development, we expect an unchanged result for Writing and Marking and a moderate rise in the result for Visual Communication in financial year 2015.

Ahrensburg, 20 April 2015

The Management Board

Per Ledermann

Thorsten Streppelhoff

Sönke Gooss

Consolidated Financial Statements

Consolidated statement of financial position as at 31 December 2014

ASSETS	Note	31/12/2014 € '000	31/12/2013 € '000
Goodwill	8	2,754	2,754
Other intangible assets	8	639	610
Property, plant and equipment	9	13,993	15,169
Investment property	10	602	–
Investments accounted for using the equity method	11	3,440	–
Other holdings	12	147	147
Deferred tax assets	32	1,647	1,708
Income tax receivables	32	553	659
Trade receivables	14	6	14
Other receivables and assets	14	3,801	3,095
NON-CURRENT ASSETS		27,582	24,156
Inventories	13	28,617	27,862
Trade receivables	14	20,822	18,131
Income tax receivables	32	544	526
Other receivables and assets	14	1,777	1,956
Cash and cash equivalents	15	10,324	7,925
Prepaid expenses and deferred charges	16	1,197	1,074
CURRENT ASSETS		63,281	57,474
TOTAL ASSETS		90,863	81,630

EQUITY AND LIABILITIES	Note	31/12/2014 € '000	31/12/2013 € '000
Share capital	17	5,366	5,366
Capital reserve	17	4,246	4,246
Retained earnings and net earnings	17	38,087	32,987
Other changes in equity	17	– 3,763	– 3,633
Equity attrib. to shareholders of edding AG		43,936	38,966
Non-controlling interests	17	338	337
EQUITY		44,274	39,303
Provisions for pensions and other obligations	18	15,271	14,004
Deferred tax liabilities	32	70	–
Other non-current provisions	19	605	639
Non-current financial liabilities	20	3,836	5,463
Other non-current liabilities	21	493	277
NON-CURRENT LIABILITIES		20,275	20,383
Other current provisions	19	22	–
Current financial liabilities	20	5,879	2,054
Trade payables	21	4,870	5,907
Other current liabilities	21	15,112	13,549
Income tax liabilities	32	431	434
CURRENT LIABILITIES		26,314	21,944
TOTAL EQUITY AND LIABILITIES		90,863	81,630

**Consolidated income statement
for the period from 1 January to 31 December 2014**

	Note	2014 € '000	2013 € '000
Sales revenue	24	128,853	123,211
Changes in inventories and own work capitalised	25	294	457
TOTAL OUTPUT		129,147	123,668
Raw materials and consumables used	26	– 48,748	– 48,460
Employee benefits expense	27	– 34,206	– 32,532
Depreciation expens	28	– 2,667	– 2,529
Other operating income	29	5,657	5,060
Other operating expenses	30	– 37,328	– 35,827
Total operating expenses		– 117,292	– 114,288
OPERATING RESULT (EBIT)		11,855	9,380
Result from other holding	12	5	5
Net financial result	31	325	2,233
Financial result and result from investments		330	2,238
PROFIT BEFORE TAX		12,185	11,618
Income taxes	32	– 3,873	– 3,033
PROFIT AFTER TAX		8,312	8,585
of which attributable to:			
Shareholders of edding AG		8,300	8,546
Non-controlling interest		12	39
Earnings per share	33	12.30 €	12.86 €

**Consolidated statement of comprehensive income
for the period from 1 January to 31 December 2014**

	2014 € '000	2013 € '000
Profit after tax	8,312	8,585
Items of other comprehensive income that will not subsequently be reclassified to profit or loss		
Provisions for pensions and similar obligations		
Actuarial losses	– 1,927	– 478
Deferred taxes	581	142
Items of other comprehensive income that will subsequently be reclassified to profit or loss		
Difference from currency translation	– 553	– 2,119
Cash flow hedges:		
Fair value changes recognised in other comprehensive income	150	– 1,016
Reclassified to profit and loss	422	– 190
Deferred taxes	– 160	347
Other comprehensive income net of tax	– 1,487	– 3,314
Total comprehensive income	6,825	5,271
of which attributable to:		
Shareholders of edding AG	6,824	5,312
Non-controlling interests	1	– 41

For more details, see Note 17 to the Consolidated Financial Statements.

Consolidated statement of cash flows

Indirect method ¹

	2014 € '000	2013 € '000
Profit after tax	8,312	8,585
+ depreciation of fixed assets	2,667	2,529
– decrease in provisions for pensions	– 79	– 102
+ / – other non-cash expenses / income	– 767	361
Group result adjusted for non-cash effects	10,133	11,373
+ loss / – gain from the disposal of fixed assets	176	71
– increase in inventories	– 1,178	– 2,789
– increase / + decrease in trade receivables	– 2,683	317
– increase in other assets	– 367	– 156
– decrease in trade payables	– 840	– 1,226
+ increase / – decrease in other liabilities	1,967	– 605
Cash flow from operating activities	7,208	6,985
+ cash receipts from the sale of intangible assets and property, plant and equipment	247	279
– cash payments for investments in property, plant and equipment	– 1,729	– 1,721
intangible assets	– 371	– 176
financial assets	– 7	–
Cash flow from investing activities	– 1,860	– 1,618
– dividend payment	– 1,854	– 1,854
+ cash receipts from borrowings	558	10
– cash payments for the redemption of loans	– 1,245	– 1,288
– cash payments from current financial liabilities	– 443	– 1,095
Cash flow from financing activities	– 2,984	– 4,227
Net change in cash and cash equivalents	2,364	1,140
+ / – effect of exchange rate fluctuations	35	– 451
+ cash and cash equivalents at the beginning of the period	7,925	7,236
Cash and cash equivalents at the end of the period	10,324	7,925

¹For explanations see Note 39 to the Consolidated Financial Statements

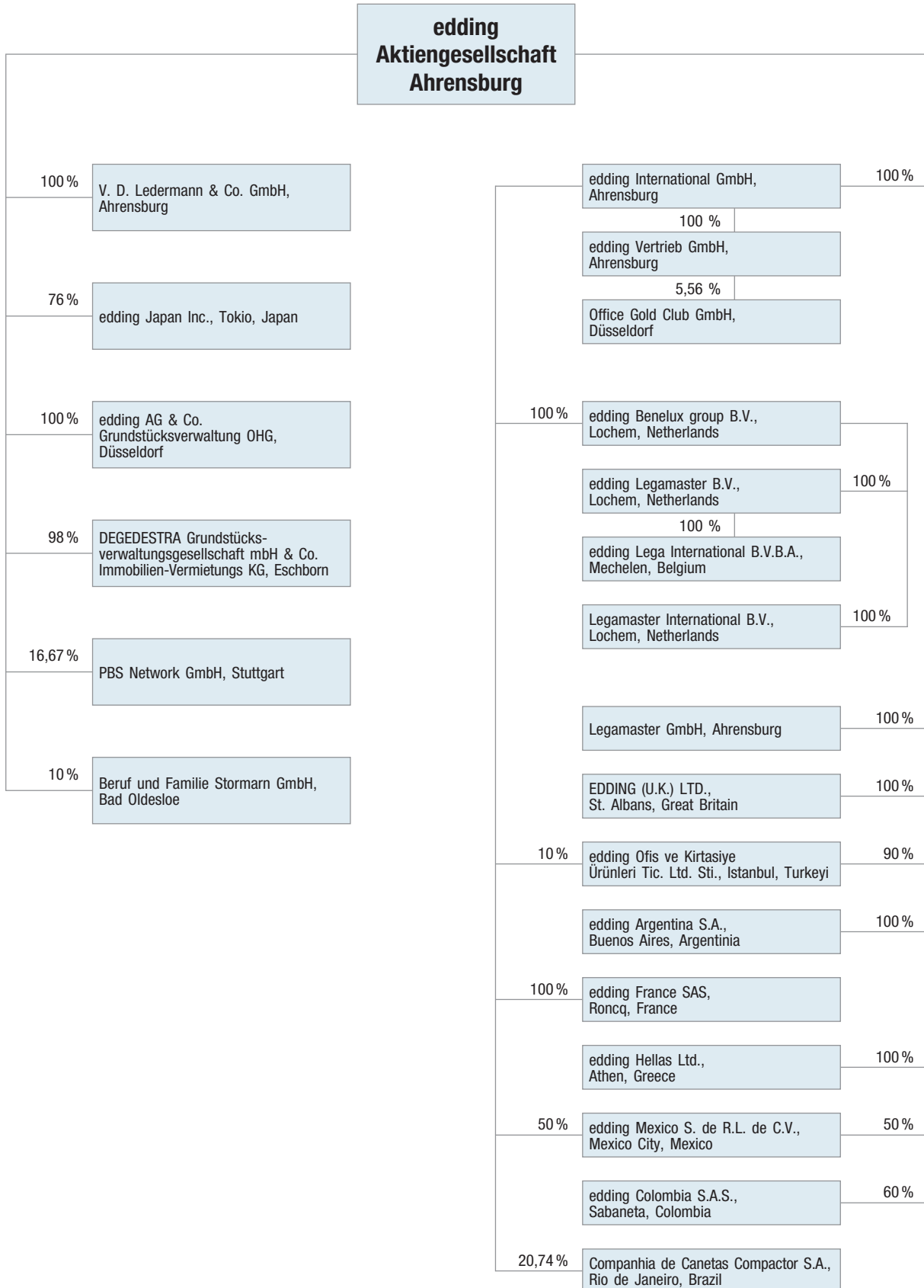
Statement of changes in equity for the period from 1 January to 31 December 2014

The equity of the edding Group developed as follows in the reporting year:

	Sub- scribed capital	Capital reserves	Retained earnings and net earnings	Cash flow hedge reserve	Currency trans- lation reserve	Equity attrib. to share- holders of edding AG	Non- con- trolling interests	Total
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
Balance as at 01/01/2013	5,366	4,246	26,631	164	- 899	35,508	378	35,886
Profit after tax	-	-	8,546	-	-	8,546	39	8,585
Other comprehensive income	-	-	- 336	- 859	- 2,039	- 3,234	- 80	- 3,314
Total comprehensive income	-	-	8,210	- 859	- 2,039	5,312	- 41	5,271
Dividend payments	-	-	- 1,854	-	-	- 1,854	-	- 1,854
Balance as at 31/12/2013	5,366	4,246	32,987	- 695	- 2,938	38,966	337	39,303
Profit after tax	-	-	8,300	-	-	8,300	12	8,312
Other comprehensive income	-	-	- 1,346	412	- 542	- 1,476	- 11	- 1,487
Total comprehensive income	-	-	6,954	412	- 542	6,824	1	6,825
Dividend payments	-	-	- 1,854	-	-	- 1,854	-	- 1,854
Balance as at 31/12/2014	5,366	4,246	38,087	- 283	- 3,480	43,936	338	44,274

For more details, see Note 17 to the Consolidated Financial Statements.

Group structure as at 31 December 2014



Notes to the Consolidated Financial Statements

1 Segment reporting

	Writing and Marking € '000	Visual Communication € '000	Total segments € '000	Reconciliation € '000	edding Group € '000
2014					
External sales revenue	99,851	28,221	128,072	781	128,853
Depreciation expense	1,489	110	1,599	1,068	2,667
Segment result (EBIT)	18,206	1,385	19,591	– 7,736	11,855
2013					
External sales revenue	94,607	27,998	122,605	606	123,211
Depreciation expense	1,518	118	1,636	893	2,529
Segment result (EBIT)	14,345	1,205	15,550	– 6,170	9,380

For more details on segment reporting, see Note 38.

2 Development of fixed assets (in € '000)

2014	Acquisition costs 01/01/2014	Currency translation	Additions	Transfers	Disposals	Acquisition costs 31/12/2014
Intangible assets						
Goodwil	4,329	– 19	–	–	–	4,310
Customer bases, trademarks	8,181	–	–	–	2,776	5,405
Other intangible assets	6,159	– 72	149	3	1,235	5,004
Advance payments on intangible assets	58	–	222	– 3	–	277
	18,727	– 91	371	–	4,011	14,996
Property, plant and equipment						
Land, land rights and buildings including buildings on land owned by others	30,931	– 52	19	– 4,119	8	26,771
Technical equipment and machinery	24,191	– 116	664	218	366	24,591
Office and other equipment	12,791	– 38	1,024	2	1,063	12,716
Advance payments and assets under construction	499	– 7	22	– 220	197	97
	68,412	– 213	1,729	– 4,119	1,634	64,175
Investment property	–	–	–	4,119	–	4,119
Financial assets						
Investments accounted for using the equity method	–	–	3,440	–	–	3,440
Other holdings	147	–	–	–	–	147
	147	–	3,440	–	–	3,587
Group fixed assets	87,286	– 304	5,540	–	5,645	86,877

Accumulated depreciation 01/01/2014	Currency translation	Additions	Transfers	Write- ups	Disposals	Accumulated depreciation 31/12/2014	Net carrying amounts	
							31/12/2014	31/12/2013
1,575	– 19	–	–	–	–	1,556	2,754	2,754
8,181	–	–	–	–	2,776	5,405	–	–
5,607	– 72	297	–	–	1,204	4,628	376	552
–	–	14	–	–	–	14	263	58
15,363	– 91	311	–	–	3,980	11,603	3,393	3,364
24,317	– 54	637	–3,488	681	6	20,725	6,046	6,614
17,600	– 85	968	–	–	144	18,339	6,252	6,591
11,273	– 30	722	–	–	894	11,071	1,645	1,518
53	– 6	–	–	–	–	47	50	446
53,243	– 175	2,327	–3,488	681	1,044	50,182	13,993	15,169
–	–	29	3,488	–	–	3,517	602	–
–	–	–	–	–	–	–	3,440	–
–	–	–	–	–	–	–	147	147
–	–	–	–	–	–	–	3,587	147
68,606	– 266	2,667	–	681	5,024	65,302	21,575	18,680

2013	Acquisition costs 01/01/2013	Currency translation	Additions	Transfers	Disposals	Acquisition costs 31/12/2013
Intangible assets						
Goodwill	4,382	– 53	–	–	–	4,329
Customer bases, trademarks	8,181	–	–	–	–	8,181
Other intangible assets	8,980	– 199	118	–	2,740	6,159
Advance payments on intangible assets	–	–	58	–	–	58
	21,543	– 252	176	–	2,740	18,727
Property, plant and equipment						
Land, land rights and buildings including buildings on land owned by others	31,066	– 162	40	– 1	12	30,931
Technical equipment and machinery	23,874	– 288	828	126	349	24,191
Office and other equipment	13,438	– 403	486	1	731	12,791
Advance payments and assets under construction	278	– 20	367	– 126	–	499
	68,656	– 873	1,721	–	1,092	68,412
Financial assets						
Other holdings	147	–	–	–	–	147
	147	–	–	–	–	147
Group fixed assets	90,346	–1,125	1,897	–	3,832	87,286

Accumulated depreciation 01/01/2013	Currency translation	Additions	Disposals	Accumulated depreciation 31/12/2013	Net carrying amounts	
					31/12/2013	31/12/2012
1,628	– 53	–	–	1,575	2,754	2,754
8,181	–	–	–	8,181	–	–
7,896	– 192	293	2,390	5,607	552	1,084
–	–	–	–	–	58	–
17,705	– 245	293	2,390	15,363	3,364	3,838
23,868	– 160	621	12	24,317	6,614	7,198
17,241	– 231	939	349	17,600	6,591	6,633
11,691	– 364	676	730	11,273	1,518	1,747
73	– 20	–	–	53	446	205
52,873	– 775	2,236	1,091	53,243	15,169	15,783
–	–	–	–	–	147	147
–	–	–	–	–	147	147
70,578	–1,020	2,529	3,481	68,606	18,680	19,768

3 Basis of presentation

As a listed company, edding AG has prepared its Consolidated Financial Statements in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) of the German Commercial Code (HGB). The standards of the International Accounting Standards Board (IASB) in London that must be applied on the balance sheet date and the interpretations of the Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) valid for the financial year have been taken into account.

The requirements of the applied standards have been met in full, leading to the presentation of a true and fair view of the results of operations, net assets and financial position of the edding Group.

The object of edding AG and its subsidiaries is the development, manufacture and worldwide distribution of products for writing and marking and visual communication.

The financial year of edding AG and its subsidiaries included in the Consolidated Financial Statements corresponds to the calendar year. edding AG, registered in the Commercial Register of Lübeck Local Court (Amtsgericht) under Number B 2675 AH, is based in Ahrensburg, Germany.

The Consolidated Financial Statements include the statement of financial position, income statement, statement of comprehensive income, statement of cash flows, statement of changes in equity and notes to the Consolidated Financial Statements. The income statement was drawn up using the total cost (nature of expense) method. In the income statement and the statement of financial position, individual items have been condensed to improve clarity; they are explained in the notes to the Consolidated Financial Statements.

The Consolidated Financial Statements are prepared in euros. All amounts are given in thousands of euros (€ '000) unless stated otherwise. In doing so, rounding differences may arise.

The Consolidated Financial Statements are released for publication by the Management Board on 20 April 2015, subject to approval by the Supervisory Board.

With reference to section 264 (3) HGB, the disclosure of the annual financial statements of the following German subsidiaries is dispensed with:

V. D. Ledermann & Co. GmbH, Ahrensburg
edding International GmbH, Ahrensburg
edding Vertrieb GmbH, Ahrensburg

4 Scope of consolidation

Besides edding AG, all of the German and foreign companies which are controlled by the edding Group in accordance with the requirements of IFRS 10 are included in the Consolidated Financial Statements as of 31 December 2014. The edding Group controls Group companies in this sense when it receives variable returns from the respective Group company through the connection with the Group company and the edding Group also has the possibility of using its decision-making power to influence the variable returns. The decision-making power over a Group company exists when the edding Group has the possibility of determining the relevant activities of the Group company on the basis of the existing rights. This condition is generally met when edding AG holds a direct or indirect majority of the voting rights in the company or has similar rights. When determining a controlling relationship, potential voting rights that can currently be exercised or converted are also taken into account. The financial statements of the subsidiaries are included in the Consolidated Financial Statements from the day of obtaining control to the day when the control ends.

In addition to edding AG as parent company, the scope of consolidation includes those German and foreign subsidiaries which are outlined in Note 45 to the Consolidated Financial Statements. The financial year of all the companies included in the group of consolidated companies corresponds to the calendar year.

The remaining companies in which edding AG directly or indirectly holds less than 20% of the shares are recognised in the balance sheet as other holdings at amortised cost, as a fair value could not be reliably determined for the holdings on the balance sheet date.

In the financial year, the following change to the scope of consolidation occurred:

The edding Group has acquired 20.74% of the share capital and 26.1% of the voting rights of the Brazilian writing utensils manufacturer Companhia de Canetas Compactor S.A. and therefore has a significant influence on the company. The company is therefore included in the consolidated financial statements as an associated company according to the equity method based on IAS 28.5 et seq. The company's financial year corresponds to the calendar year. For this, please refer to Notes 11 and 45.

5 Consolidation principles

The financial statements of edding AG and the German and foreign subsidiaries are prepared according to uniform accounting and valuation methods.

For capital consolidation purposes, the option provided for in IFRS 1 was utilised, namely that of assuming the first-time consolidation selected under HGB provisions at the transition date (1 January 2004), including the valuations determined within the framework of HGB purchase price allocation, and continuing this under IFRS – with the exception of goodwill. In accordance with the German Commercial Code (HGB), capital was consolidated using the book value method by offsetting the acquisition costs against the proportion of equity attributable to the parent company at the time of initial consolidation. The difference between the acquisition costs and proportionate equity is allocated to assets and liabilities in so far as the fair value differs from the book value. Any remaining differences on the assets side are either reported as goodwill or offset against reserves.

Business combinations after the transition date are reported in accordance with IFRS 3. According to this, when consolidating the capital of subsidiaries included for the first time, the acquisition costs of the holdings are offset against the fair values of the acquired assets, assumed liabilities and contingent liabilities. Any excess of the acquisition costs over the net fair values of the acquired assets, assumed liabilities and contingent liabilities is recognised as goodwill. Any remaining negative difference after examining the fair values recognized for the assets acquired and liabilities assumed as well as the counter-performance provided is recorded in the income statement with an effect on earnings. Profit and equity attributable to third parties outside of the Group are recorded under non-controlling interests.

Active companies where edding AG can have a significant influence and which are not subsidiaries or joint ventures are reported as associated companies using the equity method. Essentially a significant influence is assumed when the edding Group does not control the associate company, but has at least 20% of the voting rights, unless this assumption can be clearly disproved. Any differences contained in the valuations of the investments in associated companies are recorded using the same principles as for business combinations. In the case of the companies which are accounted for using the equity method, any material variations in valuations compared to the accounting policies of the edding Group are adjusted and taken into account when adjusting the equity component.

Joint ventures are also consolidated using the equity method.

Receivables, liabilities, income and expenses as well as profits and losses resulting from intra-Group transactions are eliminated within the scope of consolidation.

6 Currency conversion

The annual financial statements of the consolidated companies prepared in foreign currencies are converted into euros in accordance with IAS 21 using the functional currency concept. The functional currency of foreign companies is determined by the primary economic environment in which the companies mainly generate and expend cash. Within the edding Group, the functional currency is the subsidiaries' local currency. Correspondingly, the assets and liabilities in the Consolidated Financial Statements are converted at the closing rates and the income and expenses at the annual average rates.

When converting the financial statements of foreign companies accounted for using the equity method into euros the same principles are applied for adjustments to the carrying amount as for the consolidated companies.

The resultant exchange differences are recorded in equity without affecting profit or loss. Changes to these differences are shown in the statement of comprehensive income. The cumulative differences can be found in the statement of changes in equity.

If an acquisition took place before 1 January 2004, goodwill arising from this business combination is converted at the rates applicable at the time of acquisition, or otherwise at the closing rate.

The exchange rates used as a basis for currency conversion which have a major influence on the Consolidated Financial Statements developed as follows:

		Closing rate 31/12/2014	Closing rate 31/12/2013	Average rate 2014	Average rate 2013
Great Britain	GBP	0.79	0.83	0.81	0.85
Japan	JPY	147.06	144.72	140.53	127.74
Mexico	MXN	17.87	18.07	17.78	16.96
Turkey	TRY	2.83	2.96	2.91	2.52
Argentina	ARS	10.38	8.94	10.49	6.98
Colombia	COP	2,856.89	2,650.78	2,639.71	2,452.47
Brazil	BRL	3.26	–	3.11	–
Miscellaneous	USD	1.22	–	1.34	–

In the separate financial statements of the consolidated companies prepared in foreign currencies, receivables and payables are converted into local currency at the rate on the balance sheet date in accordance with IAS 21. The resultant exchange differences are recognised in profit or loss under other operating income and expenses.

The exchange differences attributable to long-term intra-Group loan receivables and liabilities in foreign currency contained in separate financial statements prepared in the local currency are recognised directly in equity in the Consolidated Financial Statements in accordance with IAS 21.

7 Accounting policies

Estimates and assumptions

To prepare the Consolidated Financial Statements, a limited number of assumptions and estimates are necessary which affect the recognition, measurement and presentation of assets, liabilities, income and expenses. In doing so, all currently available information is taken into account. Basic assumptions and estimates relate to the assessment of the recoverability of intangible assets, the determination of useful economic lives, the calculation of deferred tax claims, the collectability of receivables, the recognition and measurement of provisions and pension commitments as well as sensitivity analyses carried out in accordance with IFRS 7. The actual values can deviate from the estimates. New information is taken into consideration at the time it comes to light and is recognised in profit and loss.

Intangible assets

Goodwill and capitalised development costs, patents, software, licences and similar rights are reported under intangible assets.

Assets with a finite useful life are depreciated systematically using the straight-line method over their useful economic life. They are depreciated over a useful life of between three and five years. Industrial property rights and know-how for production processes of the Writing and Marking segment are systematically depreciated over a useful life of 14 years. Any decreases in value beyond this are taken into consideration through non-scheduled depreciation.

Up to 31 December 2003, goodwill was capitalised in accordance with German accounting rules at acquisition cost and systematically depreciated. The values for the goodwill reported as of 31 December 2003 were established within the scope of the transition from HGB to IFRS on 1 January 2004. The recoverability of the goodwill reported on the balance sheet is investigated at least once a year by means of an impairment test or more frequently if there are signs of a decrease in value.

Property, plant and equipment

Tangible assets used in the business for longer than one year are valued at acquisition or manufacturing cost less scheduled and non-scheduled depreciation. Property, plant and equipment are depreciated over their economically useful life using the straight-line method.

Financing costs are taken into consideration as part of the acquisition or construction costs in accordance with IAS 23, in so far as qualified assets exist. Maintenance and repair costs are recognised as an expense.

Gains and losses from the disposal of assets are reported under other operating income or expenses.

Scheduled depreciation is mainly based on the following useful lives:

	in years
Operating and commercial buildings including investment property	25
Technical equipment and machinery	6 to 13
Office and other equipment	3 to 16

If there is an indication of an impairment and the recoverable amount is lower than the amortised acquisition or construction costs, the property, plant and equipment are written down to the recoverable amount.

For factory and office buildings including investment property, depreciation is carried out over the useful life taking into account any calculated residual value, if material.

Impairment

In the case of all intangible assets (including capitalised development costs) and all items under property, plant and equipment, the recoverability of the carrying amount is systematically reviewed at the end of each financial year. If the recoverable amount of the asset is lower than the carrying amount, non-scheduled depreciation is carried out. The recoverable amount of the asset is the higher of the asset's fair value less costs to sell and its value in use, i.e. the present value of the estimated net cash flows from the asset.

If the asset is part of an independent cash-generating unit, the depreciation is determined based on the recoverable amount of this cash-generating unit. In cases where the recoverable amount of the cash-generating unit falls below the carrying amount, an impairment loss equal to the difference exists. For the purposes of the impairment test, the recoverable amount of the cash-generating unit is generally calculated with the aid of a discounted cash flow (DCF) method. In the financial year 2014, with the exception of Argentina, a discount interest rate (weighted average cost of capital [WACC]) of 8.76% (previous year: 9.52%) was used. For the cash-generating units in Argentina, a WACC of 8.89% (previous year: 11.43%) was used because of the deviating capital and risk structure. In addition, country-specific risk premiums and growth discounts are determined. In the process, cash flow projections are made over the estimated useful life of the asset or the cash-generating unit. The forecasts are based on the company's planning for the following three financial years, taking into account current trends, and are discounted to present value. The discount rate used takes account of the risks associated with the asset or the cash-generating unit. The determined cash flows reflect management assumptions and are backed up by external information sources. As a first step, the goodwill, assigned, where applicable, to a cash-generating unit, is written down by the determined impairment amount which is recognised in profit or loss. Any remaining residual amount is distributed over the other assets of the respective cash-generating unit in proportion to their carrying amounts.

When validating the values in use calculated for the cash-generating unit, the key parameters of each cash-generating unit are reviewed annually. In addition, the main assumptions applied for the CDF model are subjected to a sensitivity test in order to test the resilience of the values in use. The achievable amounts of all the cash-generating units tested in the edding Group were, with the exception of the cash-generating unit in Argentina, well above their respective carrying values. In the case of the exception in Argentina, fixed assets were already largely impaired in previous years and a write-up was not necessary, as the reasons for non-scheduled impairment still applied.

Therefore, the management is of the opinion that realistic changes to the material assumptions for calculating the achievable amount of the cash-generating unit of the edding Group would not lead to an impairment and the disclosure of a sensitivity analysis was waived.

The valuation allowances to be made are reported in the consolidated income statement under depreciation.

If the reasons for impairment cease to apply, the impairment loss is reversed up to the amount of the acquisition or construction costs amortised by scheduled depreciation (IAS 36). The reversal of an impairment loss recognised for goodwill is not allowed.

Investment property

Investment property includes land and buildings which are held to generate rental revenues and/or for the purposes of value appreciation and are not used within the framework of rendering performance or for administrative purposes. These are measured at amortized cost and depreciated over the underlying useful life. The useful lives and depreciation methods correspond to those of the internally used property.

Leasing

The classification and therefore reporting in the balance sheet is based on the assignment of economic ownership. In accordance with IAS 17, economic ownership of leased items is assigned to the lessee if the latter essentially bears all of the risks and rewards arising from the leased item which are connected with ownership (finance lease agreements). In the case of operating lease agreements, economic ownership lies with the lessor and the leasing payments are fully recognised in the lessee's income statement as an expense. By contrast, items arising from finance lease agreements are capitalised at the lower of their fair value or the present value of the minimum lease payments and depreciated over the term of the lease agreement. The lease liabilities are, on acquisition, initially recognised as liabilities at the same amount under the item financial liabilities. The finance charge (interest share) of the lease liabilities is reported over the term of the lease in the consolidated income statement.

Financial assets

If there are shares in joint ventures or associated companies, they are also recognised using the equity method. Shares are reported in the balance sheet at acquisition cost plus any changes to the Group's share in the net assets occurring after the acquisition. The Group's share in the companies' success is reported in the results for the period as part of the financial result under "Net income from equity-accounted investments". When applying the equity method, the edding Group ascertains whether an additional impairment loss has to be taken into account with respect to the Group's net investment.

The other holdings in non-consolidated companies reported under financial assets are classified as "available for sale" in accordance with IAS 39. In accordance with IAS 39, these financial instruments are recorded at fair value, and recognised in other comprehensive income. If a fair value cannot be reliably determined for the holdings on the balance sheet date, they are recognised at acquisition cost in the statement of financial position.

Financial derivatives

Financial derivatives within the meaning of IAS 39 are only of minor importance within the edding Group. They are mainly concluded in connection with corresponding underlying transactions and are used solely to reduce result volatility.

Part of the procurement of goods for the Writing and Marking business segment is carried out in the Far East. The associated exchange rate risks are partially hedged by concluding currency options and forward exchange transactions. In addition, in the edding Group, material interest rate risks are secured through interest rate swaps.

Financial derivatives are measured in accordance with IAS 39 at the time of acquisition and in subsequent periods at fair value (market value) in accordance with IFRS 13. The profit or loss resulting from the valuation is recognised immediately in profit and loss unless the derivative is designated and effective as a hedging instrument within the scope of hedge accounting. In the event of the existence of a hedging relationship in accordance with IAS 39 for the hedging of cash flows (cash flow hedge), the effective part of the change in market value of the derivative is recognised directly in equity, taking into account deferred taxes. The ineffective part is recognised in profit or loss. The effective part is also recognised in profit or loss with the realisation of the underlying transaction.

A derivative is reported as a non-current asset or non-current liability if the remaining term of the instrument is more than twelve months and it is not expected to be realised or transacted within twelve months. Otherwise derivatives are reported as current assets or current liabilities.

Inventories

Inventories of raw materials and supplies and merchandise are measured at their average acquisition cost, taking into account lower net realisable values. Unfinished and finished goods are measured at the lower of cost and net realisable values. Cost includes all costs directly attributable to the manufacturing process as well as reasonable parts of the production-related overheads. Financing costs are not taken into consideration as part of cost. The net realisable value represents the estimated selling price of the inventories less all estimated costs of completion and the estimated costs necessary to make the sale.

Trade receivables and other receivables

Trade receivables and other receivables are receivables which are not held for trading purposes. They are reported in the statement of financial position at amortised cost. Non-interest-bearing or low interest-bearing receivables with terms of more than one year are discounted. Individual bad debt provisions are only made if receivables are unrecoverable in full or in part or unrecoverability is likely, although it must be possible to determine the amount of the bad debt provision with sufficient accuracy. In addition, general bad debt provisions are created in accordance with IAS 39. Receivables in foreign currency are converted at the closing rate with exchange rate differences recognised in profit or loss.

Deferred taxes

Deferred tax assets and liabilities are recognised in accordance with IAS 12 for all temporary differences between the tax and the balance sheet amounts, on tax losses carried forward and on consolidation measures affecting income. Deferred tax assets are only recorded in the amount in which they are likely to be realisable in the future on the basis of them being offset against taxable profits. This probability must be underpinned by corresponding business plans or, if there is a history of losses, by further substantial proof. The tax rates at the time of realisation of the asset or fulfilment of the debt which apply or are notified on the basis of the current legal situation in the individual countries are taken as a basis for measurement of deferred taxes. Deferred taxes referring to items recognised directly in equity are likewise recognised directly in equity.

Provisions for pensions

Provisions for pensions and similar obligations are measured on the basis of actuarial calculations according to the projected unit credit method for defined benefit pension plans, taking into account the salary and pension trend as well as fluctuation. The interest rate is based on the conditions on the respective capital market for long-term securities.

In the case of unit-linked pension plans where the assets used to cover obligations do not meet all the necessary conditions to be recognised as plan assets pursuant to IAS 19, the unit-linked plans are valued at the fair value of the underlying assets as long as the fair value does not fall below the guaranteed minimum commitments.

edding AG has recognised the actuarial gains and losses arising from defined benefit pension plans in full without affecting profit or loss according to IAS 19R. The actuarial gains and losses are thus reported as a separate change in equity in the statement of comprehensive income outside the income statement. Deferred taxes are calculated on the recognised change in value of the pension provisions, which are also recorded in other comprehensive income.

Other provisions and tax provisions

Other provisions and provisions for taxes are created if a present obligation to a third party exists, it is likely that it will be claimed and the level of the expected outflow of resources can be reliably estimated. If the obligation contains an interest share, the provision is measured at present value.

If the reason for an obligation is beyond doubt, but the amount or term of the obligation has not been clearly specified, this will be shown as accruals under the other current liabilities.

Liabilities

At initial recognition, liabilities and loans are measured at fair value less the transaction costs directly connected with the borrowing.

In accordance with IAS 39, after initial recognition, liabilities and loans are measured at amortised acquisition cost, which essentially corresponds to their fair values. Liabilities arising from finance lease agreements are recognised at the present value of the minimum lease payments, if this is lower.

Revenue and expense recognition

Sales revenue is recognised at the time when the service is rendered and the risk passes to the customer less any reductions such as bonuses, discounts or sales deductions. Interest income and expenses are recognised on an accrual basis. Dividends are collected when the legal entitlement comes into effect. Operating expenses are recognised in profit or loss when the service is utilised or at the time when they are incurred.

Government grants

Government grants are only reported in accordance with IAS 20 if there is reasonable assurance that the conditions attaching to them will be met and that the grants will be received. They are deferred and recognised in profit or loss in the periods in which the expenses that are to be compensated by the grants are accrued.

Effects of new and amended IFRSs

All of the accounting standards which had to be applied in the EU by the balance sheet date 31 December 2014 were applied for financial year 2014. We refrained from the premature application of standards that were not yet mandatory as of 31 December 2014. Starting with the financial year 2014, the following standards and interpretations newly published or revised by the IASB and endorsed by the European Union had to be applied for the first time:

Standard / Interpretation	Content of reform / revision	Mandatory application
New standards and interpretations		
IFRS 10	Consolidated financial statements	01/01/2014
IFRS 11	Joint arrangements	01/01/2014
IFRS 12	Disclosure of interests in other entities	01/01/2014
IAS 27 (rev. 2011)	Separate financial statements	01/01/2014
IAS 28 (rev. 2011)	Investments in associates and joint ventures	01/01/2014
Amendments to standards		
IFRS 10/11/12	Transition guidance	01/01/2014
IFRS 10/12/IAS 27	Separate financial statements – Investment entities: applying the consolidation exception	01/01/2014
IAS 32	Financial instruments presentation – offsetting financial assets and liabilities	01/01/2014
IAS 36	Recoverable amount disclosures for non-financial assets	01/01/2014
IAS 39	Novation of derivatives and continuation of hedge accounting	01/01/2014

The new **IFRS 10 “Consolidated Financial Statements”** standard replaces the requirements and guidelines for consolidation previously contained in IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidation – Special Purpose Entities” and creates a uniform control concept that forms the basis for the definition of the group of consolidated companies. Control exists according to IFRS 10 when a company has power over the relevant activities of an associate company, is exposed to variable returns from this company and can use its power to affect the amount of the variable returns. The first-time application did not lead to any changes in the scope of consolidation of the consolidated financial statements of edding AG.

IFRS 11 “Joint Arrangements” replaces the existing provisions in IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”. The new standard regulates the classification and the recognition and measurement of joint operations and joint ventures. The first-time application did not have any effect on the consolidated financial statements of edding AG.

The standard **IFRS 12 “Disclosure of Interests in Other Entities”** extends the disclosure requirements in relation to an entity’s interests in other companies that were previously essentially contained in the standards IAS 27, 28 and 31. The first-time application led to additional disclosures in particular with regard to subsidiaries with non-controlling interests.

The revised standards **IAS 27 “Separate Financial Statements”** and **IAS 28 “Investments in Associates”** had no effect on the consolidated financial statements of edding AG, nor did the changes to the standards **IFRS 10, IFRS 11, IFRS 12, IAS 27, IAS 32, IAS 36** and **IAS 39** to be applied for the first time listed in the table above.

New and amended IFRSs not applied

The IASB and the IFRIC have approved other standards, revisions and interpretations with possible relevance for the edding Group which were not yet mandatorily applicable in the financial year 2014:

Standard / Interpretation	Content of reform / revision	Mandatory application	Adoption by EU	Expected effects
New standards and interpretations				
IFRS 9	Financial instruments	01/01/2018	no	Owing to the uncertainty regarding the final standard, no evaluation of the effects has been carried out so far
IFRS 14	Regulatory deferral accounts	01/01/2016	no	none
IFRS 15	Revenue from contracts with customers	01/01/2017	no	are currently being assessed; may have an effect on the disclosure of marketing allowances
IFRIC 21	Levies	01/01/2014 EU: 17/06/2014	yes	none

Standard / Interpretation	Content of reform / revision	Mandatory application	Adoption by EU	Expected effects
Amendments to standards				
IAS 19	Defined benefit plans: employee contribution	01/07/2014	yes	are currently being assessed, if necessary, utilisation of an option for facilitating the recording of employee contributions to reduce service costs
Miscellaneous	Annual improvements to IFRS (2010 – 2012 cycle)	01/07/2014	yes	No significant ones; reconciliation of non-current assets in information on segment reporting may be discontinued
Miscellaneous	Annual improvements to IFRS (2011 – 2013 cycle)	01/07/2014	yes	none
IFRS 11	Accounting for the acquisition of interests in a joint operation	01/01/2016	no	no effects are expected at present
IAS 16/38	Clarification of acceptable depreciation methods	01/01/2016	no	none
IAS 16/41	Agriculture: Bearer plants	01/01/2016	no	none
IAS 27	Application of the equity method in separate financial statements	01/01/2016	no	none
IFRS 10/IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	01/01/2016	no	none
Miscellaneous	Jährliche Verbesserungen an den IFRS (Zyklus 2012 - 2014)	01/01/2016	no	none

The edding Group will apply the above-mentioned standards and interpretations starting from the reporting period when they become mandatorily applicable.

Notes to the consolidated statement of financial position

8 Intangible assets

The breakdown of the asset items summarised in the balance sheet and their development in the years 2014 and 2013 are outlined in the notes under Note 2.

Other intangible assets reported in edding AG's consolidated fixed asset schedule mainly relate to industrial property rights and know-how for production processes of the Writing and Marking segment amounting to € 45,000 (previous year: € 117,000) and software amounting to € 331,000 (previous year: € 435,000).

The goodwill carrying amounts relate to the Dutch subsidiary to the sum of € 2,754,000 (previous year: € 2,754,000). The goodwill is subjected to a regular impairment test in accordance with IAS 36. The values in use of the subsidiaries represent the recoverable amounts. For a description of the procedure, the relevant parameters and the sensitivity analysis, please refer to Note 7 of the accounting policies.

Based on the impairment test in the current financial year, there was no need to decrease the value of the goodwill attributed to the Dutch subsidiary.

In the year under review no development expenses were capitalised, as the requirements pursuant to IAS 38 could not be met. The total research and development expenditure accrued in the 2014 financial year amounted to € 885,000 (previous year: € 734,000), which were fully recognised as an expense, as in the prior year.

9 Property, plant and equipment

edding AG has its headquarters on company land in the industrial area of Ahrensburg. The land is encumbered with a land charge in favour of commercial banks of € 8,181,000 (previous year: € 8,181,000). As at the balance sheet date, secured loans were valued at € 3,650,000 (previous year: € 4,450,000).

The property of DEGEDESTRA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG in Wunstorf is encumbered with land charges in favour of commercial banks of € 5,522,000 (previous year: € 5,522,000). As at the balance sheet date, the forfeited lease payments were valued at € 564,000 (previous year: € 1,007,000).

Land charges exist in favour of commercial banks totalling € 6,953,000 (previous year: € 6,953,000) for the property of edding AG & Co. Grundstücksverwaltung OHG in Bautzen.

As at the balance sheet date, the corresponding loans were valued at € 866,000 (previous year: € 1,347,000).

There were no restrictions on rights of disposal for property, plant and equipment. No assets that had to be classified as "held for sale" in accordance with IFRS 5 were identified in the 2014 financial year. No property, plant or equipment were permanently shut down. A part of the warehouse building at edding AG's registered office in Ahrensburg that is no longer used by the company itself was classified as investment property in the financial year and reclassified from property, plant and equipment (see also Note 10 below).

As of 31 December 2014 there were no material contractual obligations for the acquisition of property, plant and equipment.

In the reporting year € 185,000 (previous year: € 227,000) of the government grants (Investment Subsidy Act) received were reported as deferred income. Of the deferred income, € 45,000 (previous year: € 60,000) was released to profit or loss in the 2014 financial year.

10 Investment property

A warehouse building that is no longer used by the company itself and now held for rental at edding AG's administrative headquarters and the relevant plot of land are reported under the balance sheet item "investment property". In August 2014 reclassification from property, plant and equipment was carried out with the change of use. The reconciliation of the carrying amount of the investment property can be found in the fixed assets schedule under Note 2.

The plot of land belonging to the investment property serves as security for financial liabilities to banks (see Note 9).

In the financial year rental revenues totalling € 52,000 (previous year: € 0) were generated. The leasing agreement has to be classified as an operating lease in accordance with the provisions of IAS 17. The expenses for maintenance and repairs of investment property came to € 82,000 (previous year: € 0) in the financial year and include non-recurring expenses.

The fair value of the investment property amounts to € 2,889,000 (derived from a property valuation report) and is therefore 11.1 times an imputed annual rent, taking into account the actual rental revenues for the leased areas. The report was prepared in 2013 by an external expert using the gross rental method. For valuation purposes, assessors must assess factors such as the rental income that will be generated in the future and the applicable prevailing interest rates, which have a direct effect on the fair value.

The following rental payments, excluding contractually agreed payments of ancillary costs, are expected in the next few years from the existing tenancy agreement (not terminable with due notice) under the operating lease:

	31/12/2014 € '000	31/12/2013 € '000
up to 1 year	205	–
1 – 5 years	908	–
more than 5 years	230	–
	1,343	–

11 Investments accounted for using the equity method

Investments accounted for using the equity method are attributable solely to the company Companhia de Canetas Compactor S.A., Rio de Janeiro/Brazil. The edding Group gained control of 20.74% of the share capital and 26.1% of the voting rights of the Brazilian writing utensils manufacturer on 3 December 2014. With the share acquisition, the edding Group intends to strengthen its market position in Latin America. There were no liability or loss assumption declarations as of the balance sheet date, nor are any planned for the future either. From the point of view of the edding Group the economic risk is small. No contingent liabilities are known.

The development of the carrying amounts of the equity-accounted investment is shown in the fixed asset schedule under Note 2. The equity-accounted investment was consolidated on the balance sheet date 31 December 2014 and a share of earnings from equity-accounted investments has therefore not yet been recognised in the financial year.

The following list provides an overview of the aggregated income statement items as well as the aggregated balance sheet data after adjustment to uniform accounting policies and a revaluation within the scope of a purchase price allocation:

	31/12/2014 € '000	31/12/2013 € '000
Revenue	24,734	–
Annual result	283	–
Non-current assets	14,693	–
Current assets	13,683	–
Non-current liabilities and provisions	6,396	–
Current liabilities and provisions	5,390	–
Net assets	16,590	–
Proportion of ownership interest	20.74%	–
Pro rata net assets	3,440	–

The shares in the associated company are unmarketable and an estimate of the fair value of the holding based on quoted market prices is not available.

A negative difference of € 106,000 resulted from acquired holdings in equity-accounted companies in the financial year, which was recorded as other income in profit or loss in the period under review.

12 Other financial assets and investments

Holdings in non-consolidated companies are classified as “available for sale” in accordance with IAS 39 and contain non-listed equity instruments, the fair value of which could not be reliably determined in the absence of an active market or other information indicating a market value. The shares were therefore reported on the balance sheet date at acquisition cost of € 147,000 (previous year: € 147,000).

13 Inventories

Reported inventories were as follows:

	31/12/2014 € '000	31/12/2013 € '000
Raw materials and supplies	3,514	3,028
Work in progress	648	709
Finished goods and goods purchased for resale	24,455	24,125
	28,617	27,862

There are no restrictions on ownership or disposal. Likewise, no inventories were pledged as collateral for liabilities. As at the balance sheet date there were valuation allowances due to lower net realisable values of € 3,496,000 (previous year: € 3,073,000). The changes in valuation allowances are recorded in expenses for raw materials and consumables used.

Inventories are adjusted on the basis of coverage analyses and individual estimates. In the financial year 2014, inventories totalling € 546,000 (previous year: € 921,000) were recognised as expense in profit or loss. Value adjustments reported in previous periods amounting to € 123,000 (previous year: € 0,000) were eliminated through profit or loss.

14 Trade receivables / Other receivables and assets

	31/12/2014 € '000	31/12/2013 € '000
Trade receivables	20,828	18,145
Other receivables and assets	5,578	5,051
	26,406	23,196
Of which with a remaining term of:		
up to 1 year	22,599	20,087
more than 1 year	3,807	3,109

Other receivables and assets were composed as follows:

	31/12/2014 € '000			31/12/2013 € '000		
	Total	of which non- current	of which current	Total	of which non- current	of which current
Asset values of insurance policies/securities-based fund for financing the company pension scheme	2,973	2,935	38	2,331	2,294	37
Staff loans	496	424	72	520	435	85
Securities	496	–	496	463	–	463
VAT receivables	463	61	402	491	–	491
Receivables from the sale of Olivagro S.A.	238	197	41	241	205	36
Rent deposits	180	94	86	180	93	87
Supplier receivables	142	–	142	348	–	348
Derivatives	64	–	64	68	68	–
Advance payments	35	–	35	39	–	39
Other	491	90	401	370	–	370
	5,578	3,801	1,777	5,051	3,095	1,956

For existing default and transfer risks, the receivables and other assets are recognised at the lower realisable amount, taking into account specific allowances. As of 31 December 2014, bad debt provisions amounting to € 1,453,000 (previous year: € 1,350,000) existed.

In the case of supplier receivables, bad debt provisions on loan receivables amounting to € 206,000 were released through profit or loss in the prior year. As in the previous year, no additional bad debt provisions on other receivables and assets were set up in the financial year.

As in the previous year, no significant ownership and disposal restrictions exist.

There is no material concentration of default risks in the edding Group, as they are spread over a large number of contracting parties and customers.

The following overview shows the development of bad debt provisions on trade receivables:

	2014 € '000	2013 € '000
Balance as at 01/01	1,350	1,411
Additions recognised as an expense	353	257
Utilisation	– 222	– 227
Release	– 28	– 91
Balance as at 31/12	1,453	1,350

The ageing structure of trade receivables is as follows:

	31/12/2014 € '000	31/12/2013 € '000
Neither past due nor impaired	19,270	16,694
Past due, not individually impaired in the following time brackets:		
< 1 month	714	796
1 - 3 months	433	473
3 - 6 months	126	134
6 - 12 months	58	18
> 12 months	227	30
Total	1,558	1,451
Individually impaired receivables	–	–
Net book value	20,828	18,145

As regards the portfolio of trade receivables being neither past due nor impaired, there were no indications on the balance sheet date that the debtors would not be able to fulfil their payment obligations. As in the previous year, receivables whose recoverability is classified as unlikely from the point of view of the edding Group were fully impaired.

Apart from the written-down balances, no overdue claims existed for other receivables and assets as of the balance sheet date.

15 Cash and cash equivalents

Cash in hand, cheques and immediately disposable bank deposits are reported as liquid assets.

The amount shown in the consolidated statement of financial position of € 10,324,000 (previous year: € 7,925,000) mainly relates to bank deposits.

16 Prepaid expenses and deferred charges

Other prepaid expenses and deferred charges mainly contain insurance premiums, rents, marketing costs and maintenance costs paid in advance.

17 Equity

The development of equity in the 2014 financial year can be found in the statement of changes in equity.

Share capital amounted to € 5,366,000 on the balance sheet date (previous year: € 5,366,000). It is divided into 600,000 ordinary shares and 473,219 preference shares, each with a notional value of € 5.00 per share. All shares are bearer shares. The preference shares have no voting rights. The characteristics of the shares are outlined in article 19 of the articles of association.

The capital reserve includes the amounts generated over and above the nominal amount when issuing preference and ordinary shares.

The currency translation reserve is the result of currency conversion for the financial statements of foreign subsidiaries.

The retained earnings contain the results generated in the past by the companies included in the Consolidated Financial Statements, unless they have been distributed. Furthermore, some of the positive differences arising from the capital consolidation which occurred prior to the switch to IFRS are set off in the retained earnings. In addition, actuarial gains and losses from pension provisions in accordance with IAS 19 are fully recognised in equity in the retained earnings. The corresponding deferred taxes are also recognised in equity.

A cash flow hedge reserve is set up and recognised directly in equity, taking into account the occurrence of deferred tax effects. The reserve contains unrealised gains from derivatives which meet the requirements of hedge accounting in accordance with IAS 39.

In the 2011 financial year, edding AG granted the Turkish subsidiary a loan valued in euros, which is seen as part of a net investment in the foreign operation. The resultant exchange differences have since been recognised in other comprehensive income in the Consolidated Financial Statements and therefore in equity in a reserve, in accordance with IAS 21. In line with the criteria contained in the standard, they are reclassified from equity to profit or loss in subsequent periods. The arising deferred taxes are accounted for accordingly. The underlying loan, and the associated designation as a net investment in a foreign operation, was terminated in October 2014.

Non-controlling interests

Non-controlling interests exist in the subsidiaries listed below. Further information regarding the companies can be found under Note 45.

Group company	Co-shareholders	31/12/2014		31/12/2013	
		Share of capital %	€ '000	Share of capital %	€ '000
edding Colombia S.A.S.	Local management	40	82	40	93
edding Japan Inc.	Local management	24	256	24	244
		338		337	

The capital share corresponds to the share of voting rights. The share of consolidated net income and other comprehensive income attributable to non-controlling interests as well as the share of dividends assigned to them are shown in the statement of changes in equity. The contribution to earnings from other comprehensive income attributable to non-controlling interests relates to the currency conversion. The summarised financial information on subsidiaries with material non-controlling interests is shown below.

	edding Colombia S.A.S		edding Japan Inc.	
	31/12/2014 € '000	31/12/2013 € '000	31/12/2014 € '000	31/12/2013 € '000
Sales and earnings	3,562	2,951	9,229	11,125
Expenses	3,573	2,899	9,165	11,050
Annual result – share of the edding Group	– 7	31	48	57
Annual result – share of non-controlling interests	– 4	21	16	18
Non-current assets	645	552	23	28
Current assets	3,319	2,440	1,723	1,914
Non-current liabilities and provisions	387	382	–	–
Current liabilities and provisions	3,370	2,378	682	922
Equity – edding Group	124	139	808	775
Equity – share of non-controlling interests	82	93	256	244
Dividend shares of non-controlling interests	–	–	–	–

The non-controlling interests do not hold any special industrial property rights. No guarantee payments have been agreed. Access to the assets of subsidiaries is not restricted. The edding Group is liable for the current account liabilities of the Colombian subsidiary up to a maximum of USD 2,000,000. The company had drawn down USD 421,000 from the credit facility as of 31 December 2014.

18 Provisions for pensions

edding AG and the German Group companies edding International GmbH, edding Vertrieb GmbH, Legamaster GmbH and V. D. Ledermann & Co. GmbH have various pension plans, the majority of which are regulated in individual and collective agreements regarding defined benefit pension schemes for members of the Management Board, managers and employees. In the case of collective pension obligations, the level of pension payment is determined by the length of service and by the future estimated salary and pension trends.

When assessing the promised benefits, they are subdivided into unit-linked and non-unit-linked commitments. The promised benefits which are not unit-linked are actuarially calculated each year using the projected unit credit method. The unit-linked pension provisions are measured at the fair value of the securities as long as the fair value does not fall below the guaranteed minimum amount. The underlying securities do not qualify as plan assets according to the criteria of IAS 19. The fair value of the securities amounted to € 2,936,000 (previous year: € 2,294,000) as at the balance sheet date. No plan assets are available either for the promised benefits which are not unit linked.

Company pensions are financed partly by reinsurance policies for the Management Board and managing directors, and by funds, currently made up exclusively of securities, for staff.

The risks are countered by reviewing the pension plans on a regular basis and adjusting them accordingly when necessary. The securities portfolio is managed by a professional asset manager. The value of the securities is continuously monitored and countermeasures are initiated before the securities fall below the value calculated on the basis of the minimum rate of return.

The actuarial gains and losses from the defined benefit pension commitments are completely offset against equity without any impact on profit or loss and recognised in the consolidated statement of comprehensive income outside the consolidated income statement. The deferred taxes arising from this context are also recognised in equity.

The Group's pension commitments are subdivided into unit-linked pension plans and those which are financed by provisions as follows:

	31/12/2014 € '000	31/12/2013 € '000
Present value of individual commitments	12,335	11,710
Present value of unit-linked pension commitments	2,936	2,294
Defined benefit obligation = Defined benefit liability	15,271	14,004

The present value of future pension payments overall is as follows:

	2014 € '000	2013 € '000
Defined benefit obligation (DBO) 01/01	14,004	13,770
Current service cost	169	154
Interest cost	409	413
Change in value of additional liability from securities	– 83	306
Transfer of accrued benefits	–	–
Actuarial losses	1,927	478
Benefits paid	– 1,180	– 1,142
Employee contributions	25	25
Defined benefit obligation (DBO) 31/12	15,271	14,004

The current service cost of € 30,000 (previous year: € 30,000) relates to members of the Management Board.

The defined benefit obligation includes cumulative actuarial losses amounting to € 4,487,000 (previous year: cumulative losses of € 2,561,000), which were recognised directly in equity. The corresponding deferred tax effects were also recognised directly in equity. The change in actuarial losses results in particular from the reduction of the discount rate, which is shown in the table below.

The pension commitment is calculated using actuarial methods by independent experts, taking into account the assumptions below. These calculation parameters are estimated annually:

	31/12/2014	31/12/2013
Discount rate	1.8 % - 2.1 %	3.1 % - 3.6 %
Salary increase trend	0.0 %	0.0 %
Pension increase trend	0.0 % - 1.8 %	0.0 % - 1.9 %

As in the previous year, Prof. Dr. Klaus Heubeck's guideline tables (2005 G mortality tables) will continue to be used as the basis for the calculation. In addition, the probability of fluctuation has been estimated specific to age and gender. The salary increase trend covers expected future salary increases, which are estimated on the basis of factors such as inflation, and is zero, as the non-unit-linked pension commitments solely relate to current pensions.

The net pension expenses (including interest cost) are presented in the Consolidated Income Statement as employee benefits expenses as well as in the net financial result (development of the securities acquired to cover pension commitments) and comprise the following:

	2014 € '000	2013 € '000
Current service cost	169	154
Interest cost	409	413
Net pension expenses	578	567

The current contributions for defined contribution pension schemes are reported as an expense in employee benefits expenses in the relevant financial year, and amounted to € 1,872,000 in the 2014 financial year (previous year: € 1,783,000). They mainly concern contributions to state pension insurance institutions based on statutory obligations.

A change in the above-mentioned calculation parameters by 50 basis points (discount rate; previous year: 100 basis points) or by 25 basis points (trend in pension increases) would increase or reduce the projected defined benefit obligation by the following amounts:

Change in DBO	Increase / decrease	31/12/2014 € '000
Discount rate	– 50 BP	669
	+ 50 BP	– 620
Pension increase trend	+ 25 BP	215
	– 25 BP	– 209

Change in DBO	Increase / decrease	31/12/2013 € '000
Discount rate	– 100 BP	1,186
	+ 100 BP	– 1,026
Pension increase trend	+ 25 BP	201
	– 25 BP	– 195

A change in life expectancy by 1 year would have the following effects:

Change in DBO	Increase / decrease	31/12/2014 € '000	31/12/2013 € '000
Life expectancy	+ 1 year	792	676
	- 1 year	- 769	- 664

The sensitivities are calculated using the same actuarial methods as for the calculation of the pension commitments recorded in the consolidated statement of financial position. Because of the compound interest effect, in particular, the increase and decrease in the interest rates do not have the same absolute effect. If several assumptions change simultaneously, the cumulative effect does not necessarily correspond to the sum of the individual effects. Furthermore, a change in the projected benefit obligation is not necessarily linear to a change in the assumptions.

Employer contributions to defined benefit pension plans are expected to be € 194,000 for financial year 2015.

The average weighted duration of the pension obligation is 14.0 years. The expected benefit payments are shown in the following table:

	31/12/2014 € '000
Expected benefit payments	
2015	1,218
2016	1,133
2017	1,095
2018	1,051
2019	1,004
2020-2024	4,168

19 Other current and non-current provisions

Other provisions developed as follows:

	Other non-current provisions € '000	Other short-term provisions € '000
01/01/2013	536	–
Utilisation	– 62	–
Release	– 3	–
Currency differences	– 25	–
Addition	193	–
31/12/2013	639	–
Utilisation	– 68	–
Release	– 89	–
Currency differences	2	–
Addition	143	–
Reclassification of maturity	– 22	22
31/12/2014	605	22

The non-current provisions mainly cover provisions for anniversary payments. Anniversary commitments were actuarially calculated as “other long-term employee benefits” using the projected unit credit method with a discount rate of 2.1% (previous year: 3.6%), taking into account a salary increase of 2.0% p.a. (previous year: 2.0% p.a.) and an estimated company-specific fluctuation. The employer’s social security contributions attributable to anniversary payments are included in the assessment. The short-term provisions relate to warranty provisions for claims within one year.

20 Current and non-current liabilities

The financial liabilities comprise the following:

	31/12/2014 € '000	31/12/2013 € '000
Liabilities to banks	5,823	6,510
Of which: remaining term up to 1 year	2,074	1,611
remaining term 1 - 5 years	2,749	3,399
remaining term 1 - 5 years	1,000	1,500
secured by a mortgage	4,516	5,797
Other financial liabilities	3,892	1,007
Of which: remaining term up to 1 year	3,805	443
remaining term 1 - 5 years	87	564
remaining term more than 5 years	–	–
secured by a mortgage	564	1,007

Liabilities to banks with a term of more than one year are used to finance both the operational and administrative buildings and the expansion of inventories.

As in the previous year, the other financial liabilities in the 2014 financial year include forfeited lease payments for financing a property as well as purchase price liabilities from a share acquisition.

21 Trade payables / Other current and non-current liabilities

	31/12/2014 € '000	31/12/2013 € '000
Trade payables	4,870	5,907
Of which: remaining term up to 1 year	4,870	5,907
Other liabilities	15,605	13,826
Of which: remaining term up to 1 year	15,112	13,549
remaining term 1 - 5 years	431	208
remaining term more than 5 years	62	69

Other current and non-current liabilities include accruals of € 13,526,000 (previous year: € 11,089,000). The exchange of performance has already taken place, but not been billed yet. Essentially, these are ex-gratia payments, marketing allowances, bonuses and employee benefits. Compared to provisions, there is a considerably higher degree of certainty with respect to the amount and time of fulfilment of the obligation. Accruals include the following main items:

	31/12/2014 € '000	31/12/2013 € '000
Customer discounts and marketing allowances	6,046	4,844
Performance-based and one-off employee remuneration	4,369	3,591
Holiday pay and time credits	856	868
Other	2,255	1,786
	13,526	11,089

22 Contingent liabilities and commitments

As at the balance sheet date, there were contingent liabilities arising from granted guarantees of € 244,000 (previous year: € 244,000). There were no other contingent liabilities or commitments.

23 Other financial obligations

Other financial obligations are expenses arising from operating lease obligations for the car fleet, warehouse technology and software as well as rental obligations. The obligations are due as follows:

	31/12/2014 € '000	31/12/2013 € '000
Lease obligations		
remaining term up to 1 year	1,088	1,149
remaining term 1 - 5 years	1,369	1,134
remaining term more than 5 years	–	–
	2,457	2,283
Rent obligations		
remaining term up to 1 year	1,135	1,049
remaining term 1 - 5 years	1,451	1,939
remaining term more than 5 years	82	8
	2,668	2,996

In the financial year 2014, expenses from operating lease contracts amounted to € 2,452,000 (previous year: € 2,418,000).

The edding Group expects the following minimum liabilities with the following maturities from material long-term service contracts for outsourced logistics services:

	31/12/2014 € '000	31/12/2013 € '000
Expected minimum liabilities from long-term service contracts		
up to 1 year	1,367	816
1 - 5 years	5,011	816
more than 5 years	–	–
	6,378	1,632

Future income from subletting as lessor due in the years 2015 to 2018 amounts to € 367,000 (previous year: € 593,000 due in the years 2014 to 2018). Future rental income which the edding Group expects as lessor from existing operating lease contracts in connection with investment property is listed under Note 10 and is not included here.

Notes to the consolidated income statement

24 Sales revenue

	2014 € '000	2013 € '000	Change € '000	Change %
Writing and Marking				
Germany	39,512	36,308	3,204	8.8
Other European countries	43,744	40,807	2,937	7.2
Overseas	10,067	10,810	– 743	– 6.9
	93,323	87,925	5,398	6.1
Visual Communication				
Germany	12,098	11,482	616	5.4
Other European countries	15,344	15,453	– 109	– 0.7
Overseas	779	1,063	– 284	– 26.7
	28,221	27,998	223	0.8
Other Office Products	7,309	7,288	21	0.3
Total for the Group	128,853	123,211	5,642	4.6

25 Changes in inventories and own work capitalised

As in the prior year, the item Changes in inventories and own work capitalised amounting to € 294,000 (previous year: € 457,000) does not include any development expenses, which are capitalised according to IAS 38.

26 Raw materials and consumables used

	2014 € '000	2013 € '000
Cost of raw materials, supplies and purchased goods	48,349	47,971
Costs of purchased services	399	489
	48,748	48,460

27 Employee benefits expense

	2014 € '000	2013 € '000
Germany	22,437	20,977
Abroad	11,769	11,555
	34,206	32,532

Staff costs rose year on year by around 5.1%. This increase is essentially due to higher result-related profit-sharing and bonuses to staff. In the 2014 financial year, the one-off employee benefits included in the employee benefits expense amounted to € 1.224,000 (previous year: € 680,000).

Number of employees (annual average):

	2014	2013
Wage-earning staff		
Germany	57	62
Abroad	62	63
Salaried staff		
Germany	270	262
Abroad	249	245
	638	632

28 Depreciation expense

In the 2014 financial year, non-scheduled depreciation amounted to a total of € 80,000 (previous year: € 78,000).

29 Other operating income

	2014 € '000	2013 € '000
Exchange rate gains (including value changes from currency options)	1,806	1,760
Income from the release of provisions and accruals	1,300	1,185
Income from the reversal of impairment losses of fixed assets	681	–
Marketing allowances	420	231
Income from payments in kind	381	431
Rental income	255	179
Income from power feed-in	118	83
Income from the initial consolidation (“bad will”) of equity-accounted companies	106	–
Earnings from cooperations	97	90
Income from investment grants	45	60
Income from the release of bad debt provisions on receivables	28	297
Income from the disposal of assets	12	279
Other income	408	465
	5,657	5,060

30 Other operating expenses

	2014 € '000	2013 € '000
Advertising and marketing costs	12,783	12,006
Freight and logistics costs	5,172	4,557
Expenses for premises	2,886	1,592
Exchange rate losses (including value changes from currency options)	2,060	2,964
Auditing, legal and consultancy fees	2,044	2,118
Car fleet costs	1,963	2,088
Rental and lease expenses (buildings)	1,452	1,462
Incidental personnel expenses	1,337	1,454
Travel expenses	1,153	1,227
IT costs	1,042	1,007
Delcredere commission	831	781
Communication costs	652	615
Insurance	570	557
Changes in bad debt provision and write-off of receivables	353	257
Other expenses	3,030	3,142
	37,328	35,827

31 Financial result

	2014 € '000	2013 € '000
Interest and similar income	465	2,937
Interest and similar expenses	– 601	– 1,074
Write-up (+) / write-down (-) of securities	461	370
Financial result	325	2,233

The sharp increase in interest income and similar income in the prior year compared to the financial year under review is essentially due to a positive non-recurring item in 2013 of € 2,626,000, which was resulted from the restructuring of the financing of the Argentine subsidiary in financial year 2013. Following a capital increase through contributions in kind, in the form of Argentine government bonds, by edding AG, existing Group liabilities as the previous source of financing were largely discharged using the proceeds of the sale of these securities. The difference arising from the valuation of the Argentine government bonds on the Buenos Aires stock exchange, on the one hand, and the New York stock exchange, on the other, led to differing valuations at the Group companies and consequently to a gain within the scope of the capital consolidation. Such a transaction was also carried out in financial year 2014, but on a smaller scale. This resulted in income of € 197,000 in the year under review.

32 Income taxes

	2014 € '000	2013 € '000
Actual tax expense	3,327	3,233
Deferred tax expense (+) / income (-)	546	– 200
	3,873	3,033

The income tax paid or owed by German and foreign Group companies is reported under the item Actual tax expense. In the 2014 financial year, expenses relating to prior periods, to the sum of € 11,000, were included in the actual tax expense (previous year: income to the sum of € 47,000).

The income tax liabilities as at the balance sheet date of € 431,000 (previous year: € 434,000) relate to German income tax liabilities for corporation and trade tax amounting to € 130,000 (previous year: € 0,000) and foreign income tax liabilities of € 301,000 (previous year: € 434,000). As at the balance sheet date, there were long-term income tax receivables amounting to € 553,000 (previous year: € 659,000) which included advance tax payments paid abroad in addition to German corporate tax refund claims.

The tax rate for calculating deferred taxes is determined separately for each country, based on the currently valid legal situation. The tax rate applicable for the Group is 29.71% (previous year: 29.71%).

The loss carryforwards for which no deferred tax asset was recognised amounted to € 2,788,000 as of 31 December 2014 (previous year: € 2,024,000). Loss carryforwards expire in Greece and Turkey after five years, and in Argentina the upfront payment from minimum taxation expires after ten years. Loss carryforwards do not expire in Belgium or the Netherlands and can be carried forward for an unlimited period. Owing to the small amount of capitalised deferred taxes on loss carryforwards, the company assumes that they will be utilised within the next three to five years.

No deferred tax asset was recognised in the balance sheet for deductible temporary differences amounting to € 250,000 (previous year: € 272,000).

In the financial year 2014, deferred taxes of € 421,000 were recognised in equity (previous year: € 280,000).

Deferred tax assets and liabilities as of 31 December 2014 were attributable to the balance sheet items as shown below:

	Deferred tax assets		Deferred tax liabilities	
	31/12/2014 € '000	31/12/2013 € '000	31/12/2014 € '000	31/12/2013 € '000
Intangible assets	–	–	5	10
Property, plant and equipment	–	–	1,155	1,099
Other assets	–	2	299	76
Non-current assets	–	2	1,459	1,185
Inventories	489	373	–	–
Trade receivables	40	30	42	42
Other assets	–	–	12	–
Current assets	529	403	54	42
Provisions for pensions and similar obligations	2,230	2,008	–	–
Other provisions	47	47	–	–
Financial liabilities	15	24	–	–
Non-current liabilities	2,292	2,079	–	–
Current liabilities	123	305	–	–
Loss carryforwards	146	146	–	–
Sub-total	3,090	2,935	1,513	1,227
Offset	– 1,443	– 1,227	– 1,443	– 1,227
Balance according to consolidated statement of financial position	1,647	1,708	70	–

Deferred tax assets and liabilities are offset in the statement of financial position, provided the requirements pursuant to IAS 12 are met.

The differences between the expected income tax expense based on edding AG's calculated tax rate of 29.71% and the actual income tax expense can be seen in the following reconciliation:

	2014 € '000	2013 € '000
Expected income tax expense	3,620	3,452
Differing tax rates	74	61
Permanent differences	62	– 835
Non-recognition or valuation adjustment of tax losses	227	693
Utilisation of non-recoverable loss carryforwards in the previous year	– 108	– 103
Value adjustment of deferred taxes from temporary differences / Utilisation of non-valued temporary differences	– 22	– 189
Taxes relating to other periods	11	– 47
Other differences	9	1
Reported tax income expense	3,873	3,033

33 Earnings per share

The basic (undiluted) earnings per share are calculated as a quotient from the Group result and the weighted average of the number of shares outstanding during the financial year.

Only the ordinary shares issued, which remained unchanged in both financial years (600,000 shares), are included in the number of shares. As there are no conversion or option rights, diluted earnings per share do not need to be calculated.

The Group result was determined as follows:

	2014 € '000	2013 € '000
Consolidated annual result excluding non-controlling interests	8,300	8,546
Minus preferred dividend	– 923	– 828
	7,377	7,718

Number of ordinary shares: 600,000

Earnings per share	12.30 €	12.86 €
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Other disclosures

34 Post balance sheet date events

No significant recognisable events or non-recognisable, but disclosable events occurred from the balance sheet date until the time when publication of the Consolidated Financial Statements was approved.

35 Objectives and methods of financial risk management

The main financial liabilities incurred by the Group, with the exception of financial derivatives, comprise bank loans and overdraft facilities and trade payables. The main purpose of the financial liabilities is to finance the Group's business activities. On the assets side, the Group has various financial assets. They include trade receivables, granted loans as well as cash and cash equivalents and short-term deposits which result directly from the Group's business activities.

Furthermore, the edding Group has financial derivatives in the form of interest rate swaps, foreign currency options and forward exchange transactions. The purpose of these financial derivatives is essentially to hedge against interest rate and currency risks resulting from the Group's business operations and its sources of finance.

The type and volume of hedging transactions are based on of the relevant underlying transactions. Hedging transactions are only concluded for existing underlying transactions or planned transactions.

No other derivatives trading was carried out in the financial years 2014 and 2013.

The material risks arising from financial instruments include interest-related cash flow as well as currency, default and liquidity risks resulting from the corresponding risk variables. Management has resolved and implemented strategies and procedures for controlling individual types of risks, which are outlined below. Sensitivity analyses are prepared to assess market risks. These analyses show the effects of hypothetical changes in the relevant risk variables on profit and equity. The period effects are determined by relating the hypothetical changes in risk variables *ceteris paribus* to the volume of financial instruments held on the balance sheet date. In doing so, it is assumed that the volume held on the balance sheet date is representative of the year as a whole.

Currency risk

In their operating business, the individual Group companies mainly transact their activities in their respective functional currency. Therefore, the Group's exchange rate risk arising from its day-to-day operations is considered to be small. Some Group companies are, however, exposed to foreign currency risks in connection with planned payments outside their functional currency. Foreign currency risks mainly exist on the procurement side in the case of the Japanese Yen (JPY) and, to a lesser extent, the US dollar (USD). As a hedging instrument, the Group uses currency derivatives. As a result of these hedging activities, the edding Group was not exposed to any material exchange rate risks in its operational business as at the balance sheet date.

In addition, there are still risks on the sales side through the subsidiaries in Argentina (Argentine Peso and US Dollar), United Kingdom (British Pound), Turkey (New Turkish Lira), Colombia (Colombian Peso) and Mexico (Mexican Peso).

Exchange rate risks also exist in the edding Group from intra-Group loans.

In the financial year a currency forward was concluded for Turkish lira for the first time to hedge foreign currency risks arising from intra-Group loans.

The following currency derivatives are used in the edding Group to hedge and minimise foreign currency risks:

Overview of currency derivatives	Secured currency risk	Term	Nominal volume		Market value in € '000	
			31.12.14	31.12.13	31.12.14	31.12.13
Currency options – designated as cash flow hedge	Procurement in JPY	monthly until end of 2015	480 m JPY	1,200 m JPY	29	– 712
Forward exchange transactions – designated as cash flow hedge	Procurement in JPY	monthly until end of 2015	480 m JPY	480 m JPY	– 113	– 88
Forward exchange transactions USD	Procurement / foreign currency liabilities in USD	quarterly until October 2015	1.4 m USD	–	35	–
Forward exchange transactions TRY	Intra-Group loan	March 2015	6.0 m TRY	–	– 345	–

The currency options and the currency forwards for Japanese yen were designated as hedging instruments within the scope of cash flow hedge accounting in accordance with IAS 39 in the current financial year. The expected occurrence of the hedged cash flows is spread over the 12 months following the balance sheet date. Material effects on results through occurrence of the cash flows are not expected due to the hedging relationships which have been set up.

For the effective part of the hedge, the changes in market value of currency derivatives designated as cash flow hedges are recognised in other comprehensive income outside profit or loss and recorded in the income statement through profit and loss at the time when the planned procurement transaction takes place. The ineffective part of the change in market value is immediately recognised in the income statement. The changes in market value from cash flow hedges recognised in other comprehensive income outside profit or loss in the financial year amounted to € 140,000 (previous year: € -857,000). In the financial year € 331,000 (previous year: € -208,000) were transferred from other comprehensive income to the consolidated income statement within the scope of cash flow hedging and included in raw materials and consumables used. The expenditure recorded in the financial year for the ineffective part of the hedge amounted to € 100,000 (previous year: income amounting to € 33,000).

The following table shows the sensitivity of the Group equity and the Group annual result before tax with regard to a 10% appreciation or depreciation in the respective foreign currency of the currency derivatives versus the euro for the currency derivatives existing at the balance sheet date.

	Change in equity		Change in pre-tax result	
	31/12/2014 € '000	31/12/2013 € '000	31/12/2014 € '000	31/12/2013 € '000
Appreciation of the euro by 10% versus foreign currency of the derivative (JPY / USD / TRY)				
Currency options JPY – designated as cash flow hedge	– 15	– 435	– 22	– 165
Forward exchange transactions JPY – designated as cash flow hedge	– 211	– 212	– 1	– 1
Forward exchange transactions USD	– 74	–	– 105	–
Forward exchange transaction TRY	133	–	190	–
Total	– 167	– 647	62	– 166
Depreciation of the euro by 10% versus foreign currency of the derivative (JPY / USD / TRY)				
Currency options JPY – designated as cash flow hedge	98	532	17	68
Forward exchange transactions JPY – designated as cash flow hedge	258	259	– 2	– 2
Forward exchange transactions USD	90	–	128	–
Forward exchange transaction TRY	– 163	–	– 232	–
Total	283	791	– 89	66

As a result of the designation of the existing currency options and the currency forwards for Japanese yen as cash flow hedges, the effect on the pre-tax result would be less than on equity, just like in the previous year.

The following tables show the sensitivity of the Group result before tax, from the Group's perspective with regard to a 10% appreciation or depreciation in the respective foreign currency used in the Group versus the euro. The sensitivity analysis only includes outstanding monetary items denominated in foreign currency as of the balance sheet date and adjusts the conversion of these items as at the end of the period pursuant to a 10% change in exchange rates. Furthermore, the sensitivity of the currency derivatives not designated as cash flow hedges described above is included.

	2014 € '000	2013 € '000
Appreciation of currency used within the Group by 10%		
Turkish Lira	344	201
Forward exchange transaction in Turkish lira	– 232	–
Colombian Peso	203	161
Mexican Peso	179	141
British Pound	65	73
Argentinian Peso	136	54
US-Dollar	– 51	43
Forward exchange transactions USD	128	–
Japanese Yen	– 36	– 22
	736	651

	2014 € '000	2013 € '000
Depreciation of currency used within the Group by 10%		
Turkish Lira	– 344	– 201
Forward exchange transaction in Turkish lira	190	–
Colombian Peso	– 203	– 161
Mexican Peso	– 179	– 141
British Pound	– 65	– 73
Argentinian Peso	– 136	– 54
US-Dollar	51	– 43
Forward exchange transactions USD	– 105	–
Japanese Yen	36	22
	– 755	– 651

As a result of the situation in Argentina, the sensitivity of the Group result with regard to a 20% or 40% appreciation or depreciation in the Argentine peso against the euro was also calculated for financial year 2014.

	2014 € '000	2013 € '000
Argentinian Peso		
Appreciation by 20 %	272	107
Appreciation by 40 %	543	214
Depreciation by 20 %	– 272	– 107
Depreciation by 40 %	– 543	– 214

Interest rate risk

The risk of fluctuations in market interest rates to which the edding Group is exposed mainly result from non-current financial assets and liabilities with a variable interest rate. The edding Group manages this interest expense through a combination of borrowed funds subject to fixed and variable interest rates.

To hedge against the interest rate risks, at 31 December 2014 edding AG concluded two (previous year: five) interest rate swaps with a nominal volume totalling € 1,050,000 (previous year: € 8,650,000) and maturity dates on 30 June 2015 and on 29 December 2017 respectively. As of the balance sheet date the negative market value of the interest rate derivatives totalled € -59,000 (previous year: negative market value of € -155,000).

Interest rate risks are illustrated using sensitivity analyses in accordance with IFRS 7. They show the effects on results of hypothetical changes in market interest rates. Financial instruments with fixed interest are measured in the edding Group at amortised cost and are not subject to interest rate sensitivity within the meaning of IFRS 7. Financial liabilities with variable interest rates are hedged by the above-mentioned derivatives.

The following interest rate sensitivity applies to the interest rate derivatives:

If the market interest rate level had been 100 basis points higher as of 31 December 2014, the pre-tax result would have been € 15,000 higher. Equity would have increased by € 10,000. If the market interest rate level had been 100 basis points lower as of 31 December 2014, the pre-tax result would have been € 2,000 lower. Equity would have been reduced by € 2,000. If the market interest rate level had been 100 basis points higher as of 31 December 2013, the pre-tax result would have been € 68,000 higher. Equity would have increased by € 47,000. If the market interest rate level had been 100 basis points lower as of 31 December 2013, the pre-tax result would have been € 40,000 lower. Equity would have been reduced by € 28,000.

Other price risk

Within the framework of presenting market risks, IFRS 7 also requires information on how hypothetical changes in risk variables affect the prices of financial instruments. Risk variables are in particular quoted market prices or indexes. As at the balance sheet date, the edding Group was not exposed to any material risks due to changes in such risk variables.

Default risk

The default risk of financial assets is provided for through appropriate allowances and provisions, taking into account existing collateral.

To reduce the default risk on customer receivables, a comprehensive receivables management system has been set up at the larger Group companies, involving creditworthiness checks and credit insurance of accounts receivable in the case of major customers. In addition, the default risk for a large number of German customers (specialist dealers) is covered by central regulators.

Hedging transactions for financial risks are only carried out with banks holding an acceptable credit rating.

The default risk of the financial assets existing on the balance sheet date is considered small by management. In the case of default by a counterparty, there is a maximum default risk equivalent to the carrying amount of the corresponding financial assets.

Further information on the recoverability of financial assets is contained in Note 14.

Liquidity risk

Group Accounting regularly monitors the risk of a liquidity shortage. For example, the terms of the financial assets and financial liabilities as well as expected cash flows from business activities are analysed.

The aim of the edding Group is to maintain a balance between the continual coverage of the funding requirement and ensuring flexibility by using overdraft facilities, loans and finance leases.

The following table shows the contractually agreed interest and amortisation payments of the original financial liabilities as well as the financial derivatives of the edding Group.

It includes all instruments in the portfolio on the balance sheet date and for which payments have already been contractually agreed. Budgeted amounts for new liabilities that may arise in the future are not included. The variable interest payments arising from the financial instruments were calculated on the basis of the last reference interest rates applicable before the balance sheet date. Financial liabilities which are repayable at any time are always assigned to the earliest time bucket.

2014	Book value 31/12/14 € '000	Cashflows 2015		Cashflows 2016-2019		Cashflows 2020 et seq	
		Interest € '000	Redemption € '000	Interest € '000	Redemption € '000	Interest € '000	Redemption € '000
Original financial liabilities							
Liabilities to banks	5,823	258	2,074	296	2,749	33	1,000
Liabilities from forfeited lease payments	564	20	477	–	87	–	–
Other financial liabilities	3,327	–	3,327	–	–	–	–
Trade payables	4,870	–	4,870	–	–	–	–
Other liabilities	7,608	–	7,608	–	–	–	–
Derivative financial liabilities							
Interest derivatives with negative market value	59	33	–	26	–	–	–
Gross outflows from currency derivatives		–	5,539	–	–	–	–
Gross inflows from currency derivatives		–	– 5,054	–	–	–	–
Net outflows from currency derivatives	458	–	485	–	–	–	–

2013	Book value 31/12/13 € '000	Cashflows 2014		Cashflows 2015-2018		Cashflows 2019 et seq	
		Interest € '000	Redemption € '000	Interest € '000	Redemption € '000	Interest € '000	Redemption € '000
Original financial liabilities							
Liabilities to banks	6,510	259	1,611	379	3,399	72	1,500
Liabilities from forfeited lease payments	1,007	54	443	15	564	–	–
Trade payables	5,907	–	5,907	–	–	–	–
Other liabilities	6,363	–	6,363	–	–	–	–
Derivative financial liabilities							
Interest derivatives with negative market value	155	130	–	77	–	–	–
Gross outflows from currency derivatives		–	5,760	–	6,419	–	–
Gross inflows from currency derivatives		–	– 4,975	–	– 6,639	–	–
Net outflows from currency derivatives	867	–	785	–	– 220	–	–

36 Additional disclosures on financial instruments

Book values, measurement and fair values according to the relevant categories of financial instruments

The following table shows carrying amounts and fair values of the financial assets and liabilities reported in the Consolidated Financial Statements in accordance with the measurement categories pursuant to IAS 39. The fair value of a financial instrument corresponds to the amount for which an asset is exchanged or liability is settled between knowledgeable, willing and mutually independent parties.

	Fair Value hierarchy level ¹	31/12/2014		31/12/2013	
		Book value € '000	Fair value € '000	Book value € '000	Fair value € '000
Financial assets					
Loans and receivables		32,593	32,593	27,710	27,710
Trade receivables	–	20,827	20,827	18,145	18,145
Other receivables and assets (excl. derivatives)	–	1,442	1,442	1,640	1,640
Cash and cash equivalents	–	10,324	10,324	7,925	7,925
Assets measured at fair value		560	560	531	531
Financial assets held for trading purposes	1	496	496	463	463
Derivatives with positive market value with hedging relationship (cash flow hedges)	2	29	29	68	68
Derivatives with positive market value without hedging relationship held for trading purposes	2	35	35	–	–
Financial assets available for sale		147	n.a.	147	n.a.
Holdings	n.a.	147	n.a.	147	n.a.

¹ Level 1 based on quoted prices on active markets for identical assets and liabilities.

Level 2 based on input factors which are not Level 1 prices, but can be observed for the financial instrument either directly as a price or indirectly based on prices.

Level 3 based on valuations with the aid of factors not based on observable market data.

	Fair Value hierarchy level ¹	31/12/2014		31/12/2013	
		Book value	Fair value	Book value	Fair value
		€ '000	€ '000	€ '000	€ '000
Financial liabilities					
Other financial liabilities measured at cost					
		22,192	22,429	19,787	20,415
Liabilities to banks	–	5,823	6,047	6,510	6,957
Other financial liabilities	–	3,891	3,904	1,007	1,188
Trade payables	–	4,870	4,870	5,907	5,907
Other financial liabilities (excluding derivatives)	–	7,608	7,608	6,363	6,363
Liabilities measured at fair value through profit or loss					
		517	517	1,022	1,022
Derivatives with negative market value with hedging relationship (cash flow hedges)	2	113	113	88	88
Derivatives with negative market value with hedging relationship	2	404	404	934	934

¹ **Level 1** based on quoted prices on active markets for identical assets and liabilities.

Level 2 based on input factors which are not Level 1 prices, but can be observed for the financial instrument either directly as a price or indirectly based on prices.

Level 3 based on valuations with the aid of factors not based on observable market data.

The fair values of the financial assets and liabilities were calculated based on the market information available on the balance sheet date and according to the following methods and premises.

The fair value of the financial assets held for trading is based on quoted market prices (fair value hierarchy Level 1).

The market values of fair value hierarchy Level 2 derivatives were determined based on the mark-to-market method.

Cash and cash equivalents, trade receivables and other receivables predominantly have short remaining terms. Therefore, their book values on the balance sheet date approximate the fair value.

Holdings classified as “available for sale” relate to non-listed equity instruments, the fair value of which cannot be reliably determined in the absence of an active market or other information indicating a market value. These are therefore measured in compliance with IAS 39.46(c) at amortised cost.

If there are significant deviations from the reported book value, the fair values of the liabilities to banks and other financial liabilities are calculated as present values of the payments associated with the debts, taking into account the current interest rate parameters. In doing so, individual creditworthiness levels are taken into consideration in the form of the creditworthiness or liquidity spreads which are customary in the market. The calculation of the fair value for comparison purposes corresponds to the fair value hierarchy Level 3. For loans subject to variable interest, a market value comparison is dispensed with due to the regular adjustment of the interest rate to the market rate, assuming that the credit rating is unchanged.

The other financial liabilities include liabilities arising from forfeited lease payments and current purchase price liabilities from a purchase of shares.

Trade payables and other liabilities include liabilities with regularly short-term remaining terms, so it can be assumed that their fair values are approximately the same as the reported book values.

As in the previous year, there were no reclassifications between the fair value hierarchy levels in the financial year.

Net result from financial instruments

The net results and interest by measurement category are as follows:

2014	From interest € '000	At fair Value ¹ € '000	Value adjustment ¹ € '000	From disposal € '000	Net result 2014 € '000
Loans and receivables	50	–	– 325	–	– 325
Argentine government bonds measured at fair value through profit or loss	3	167	–	73	240
Other financial instruments measured at fair value through profit or loss	– 104	– 214	–	–	– 214
Hedging transactions	–	– 100	–	36	– 64
Financial liabilities measured at cost	– 450	–	–	–	–
Total gain/loss from financial instruments	– 501	– 147	– 325	109	– 363

2013	From interest € '000	At fair Value ¹ € '000	Value adjustment ¹ € '000	From disposal € '000	Net result 2013 € '000
Loans and receivables	73	–	40	–	40
Argentine government bonds measured at fair value through profit or loss	34	31	–	2,720	2,751
Other financial instruments measured at fair value through profit or loss	– 155	150	–	–	150
Hedging transactions	–	33	–	– 233	– 200
Financial liabilities measured at cost	– 467	–	–	–	–
Total gain/loss from financial instruments	– 515	214	40	2,487	2,741

¹ from subsequent measurement

For valuation adjustments on assets from the loans and receivables category, please refer to Note 14.

The foreign currency valuation of intra-Group receivables and payables as at the balance sheet date resulted in unrealised foreign currency income totalling € 135,000 in the 2014 financial year (previous year: foreign currency losses of € 1,046,000) in the Consolidated Income Statement even though the intercompany receivables and payables upon which the foreign currency valuation is based were eliminated in full within the consolidation process.

37 Additional disclosures on capital management

The edding Group has a sound capital management system that allows it to pursue growth. In particular, attention is paid to a balanced ratio between equity and borrowed capital in the long term.

The equity and the borrowed capital items reported in the course of capital management of the edding Group as of 31 December 2014 compared with the prior year are shown below:

	31/12/2014 € '000	31/12.2013 € '000	Änderung %
Equity as % of total capital	44,274 63.9 %	39,303 64.6 %	12.6
Non-current financial liabilities, provisions for pensions and similar obligations:	19,107	19,467	– 1.8
Current liabilities	5,879	2,054	186.2
Borrowed capital as % of total capital	24,986 36.1 %	21,521 35.4 %	16.1
Total capital within the meaning of capital management	69,260	60,824	13.9

In the case of short-term borrowed capital, there is the option of using existing bilateral short-term credit lines. At 31 December 2014, credit agreements existed with several banks. However, as on the previous year's reporting date, these were again unused. The borrowed funds at that time were subject to interest on the standard market terms. There are still no specific loan conditions that allow premature termination of the loan by the creditor in the event of the failure to adhere to certain threshold values (so-called financial covenants).

The edding Group is not subject to any capital requirements pursuant to its articles of association.

38 Disclosures on segment reporting

The Writing and Marking business segment, with edding as its main brand, and the Visual Communication business segment, with Legamaster as its main brand, are shown as operating segments in accordance with IFRS 8. Partner brands (Other Office Products) and the revenue from the licence business with printer cartridges are also assigned to the Writing and Marking segment. edding AG, as the financial holding company, does not constitute an operating segment in accordance with IFRS 8; the activities of this company are therefore reported in the reconciliation, where necessary.

No sales were generated between the segments in the financial year 2014 or the previous year.

The sales revenue and non-current assets (intangible assets and property, plant and equipment) are broken down by region as follows:

	Germany € '000	Other European countries € '000	Overseas € '000	edding Group € '000
2014				
External sales revenue	53,638	63,626	11,589	128,853
Non-current assets	13,249	3,514	652	17,415
2013				
External sales revenue	50,045	60,225	12,941	123,211
Non-current assets	14,143	3,628	762	18,533

In the financial year 2014 and in the previous year, no more than 10% of the sales revenue of the edding Group was generated with any one customer.

The transfer of the segment result to the pre-tax Group result is as follows:

	2014 € '000	2013 € '000
Segment result (EBIT)	19,591	15,550
EBIT edding AG	– 7,691	– 6,316
Consolidation	– 45	146
EBIT edding Group	11,855	9,380
Result from investments	5	5
Financial result	325	2,233
Group result before taxes	12,185	11,618

39 Disclosures on the Consolidated Statement of Cash Flows

The financial resources examined in the consolidated statement of cash flows solely comprises the statement of financial position item Cash and cash equivalents, which is composed of cash in hand, cheques and bank balances.

The consolidated statement of cash flows shows how the cash and cash equivalents of the edding Group changed as a result of cash inflows and outflows in the course of the reporting period. For this, the cash flows are subdivided into operating activities, investing activities and financing activities.

The cash inflows and outflows from operating activities are shown according to the indirect method. No significant non-cash transactions took place.

The following payment transactions are included in the cash flow from operating activities:

	2014 € '000	2013 € '000
Interest received	68	125
Interest paid	579	640
Income tax paid	3.330	2.863

40 Related party disclosures

Related parties within the meaning of IAS 24 are natural persons or companies who may be influenced by edding AG, may exert influence on edding AG or who are under the influence of another related party of edding AG. They also encompass associated companies included at equity (see Note 45), with which no business transactions were conducted in 2014.

No noteworthy business activities were effected with the majority shareholder Volker Detlef Ledermann or his relatives Susanne Ledermann, Angelika Schumacher, Dina Alexandra Schumacher, David Alexander Schumacher, Beatrix Ledermann, Julia Marie Ledermann, Jan Moritz Ledermann, Per Ledermann and Yannick Nicolas Ledermann in 2014.

Likewise, companies in the edding Group have not carried out any significant reportable transactions with members of the Supervisory Board or the Management Board as individuals in key positions or with companies on whose management or supervisory board they are represented. This also applies to close family members of this group of people.

41 Notifications in accordance with section 21 (1) of the German Securities Trading Act (WpHG)

On 28 January 2014, Mr Yannick Nicolas Ledermann notified edding AG that he had exceeded the thresholds of 3, 5, 10, 15, 20, 25, 30, 50 and 75% of voting rights in edding AG:

In previous years, the following individuals already notified edding AG that they had exceeded the thresholds of 3, 5, 10, 15, 20, 25, 30, 50 and 75% of voting rights in edding AG:

Mr Volker Detlef Ledermann
Ms Susanne Ledermann
Ms Angelika Schumacher
Ms Dina Alexandra Schumacher
Mr David Alexander Schumacher
Ms Beatrix Ledermann
Ms Julia Marie Ledermann
Mr Jan Moritz Ledermann
Mr Per Ledermann

In this connection, we refer to our notices according to section 21 et sqq. WpHG.

The voting rights of the Ledermann family are combined in a voting rights pool unless they may be assigned pursuant to section 22 (1) sentence 1 No. 6 WpHG.

42 Executive bodies of edding AG

The Supervisory Board is made up as follows:

Member	Position
Rüdiger Kallenberg, Rellingen Banker	Chairman
Chehab Wahby, Bruchsal Businessman	Deputy Chairman
Anja Keihani, Hannover Businesswoman	Employees' Representative
Dr. Sabine Renken, Hamburg Lawyer	Substitute member
Karl Sieveking, Hamburg Auditor, lawyer specialising in tax law	Substitute member

The remuneration of the Supervisory Board amounted to € 108,000 (previous year: € 108,000) in the year under review.

The Management Board consists of following members:

Member	Position
Per Ledermann, Ahrensburg Businessman	Chairman/Chief Executive Office
Sönke Gooss, Rosengarten Businessman	Chief Financial Officer
Thorsten Streppelhoff, Hamburg Engineer	Chief Operating Officer

The total remuneration of the Management Board in the financial year 2014 amounted to € 1,041,000 (previous year: € 768,000). The increase compared to the previous year is still connected with the extension of the Management Board from one to three members from 1 January 2013. Therefore, bonuses were paid for three members of the Management Board for the first time in financial year 2014. Prepayments for long-term bonuses totalling € 113,000 are also included for the first time. At the Annual General Meeting of edding AG on 28 June 2011, it was decided to dispense with individualised disclosure of the Management Board remuneration in accordance with the Law on the Disclosure of Management Board Remuneration (VorstOG).

The remuneration for former members of the Management Board amounted to € 1,166,000 (previous year: € 1,138,000). The pension provisions set up for former members of the Management Board totalled € 12,317,000 as of 31 December 2014 (previous year: € 11,693,000).

43 Proposal on the appropriation of the net retained profits

After the transfer of € 2,329,000 from the profit after tax for 2014 to the other retained earnings of edding AG, net retained profits of € 2,329,000 remained.

The Management Board will be proposing to the Annual General Meeting to distribute the following dividends to shareholders from the net retained profits:

EUR 1,95 Dividend per preference share
with a notional par value of € 5.00

EUR 1,91 Dividend per ordinary share
with a notional par value of € 5.00

The unappropriated surplus of € 260,000 that remains after distribution of the dividend is to be transferred to other retained earnings.

44 Total fees and services of the Group auditors

The total fees of the Group auditors in the financial year are broken down as follows:

	2014 € '000	2013 € '000
Audit services	127	120
Other assurance services	4	6
Tax advisory services	–	–
Other services	14	24
Total fees	145	150

Of the total fees in the financial year 2014, € 0,000 relates to services which are attributable to the previous financial year (previous year: € 8,000).

45 Shareholdings

Name	Registered office	Shareholding %
Mutterunternehmen		
edding AG	Ahrensburg	
Consolidated companies		
Germany		
edding International GmbH	Ahrensburg	100
edding Vertrieb GmbH	Ahrensburg	100 ¹
V. D. Ledermann & Co. GmbH	Ahrensburg	100
Legamaster GmbH	Ahrensburg	100
edding AG & Co. Grundstücksverwaltung OHG	Düsseldorf	100
DEGEDESTRA Grundstücks- verwaltungsges. mbH & Co. Immobilien-Vermietungs KG	Eschborn	98
Abroad		
edding Benelux group B.V.	Lochem, Netherlands	100 ¹
Legamaster International B.V.	Lochem, Netherlands	100 ¹
edding Legamaster B.V.	Lochem, Netherlands	100 ¹
edding Lega International B.V.B.A.	Mechelen, Belgium	100 ¹
edding Argentina S.A.	Buenos Aires, Argentina	100
EDDING (U.K.) LTD.	St. Albans, UK	100
edding France SAS	Roncq, France	100 ¹
edding Hellas Ltd.	Athens, Greece	100
edding Ofis ve Kirtasiye Ürünleri Tic. Ltd. Sti.	Istanbul, Turkey	100 ²
edding Japan Inc.	Tokio, Japan	76
edding Colombia S.A.S.	Sabaneta, Colombia	60
edding Mexico S. de R.L. de C.V.	Mexico City, Mexico	100 ³
Assoziierte Unternehmen		
Companhia de Canetas Compactor S.A.	Rio de Janeiro, Brazil	21 ^{1,4}

¹indirectly via edding International GmbH or its affiliates

²90% directly; 10% indirectly via edding international GmbH

³50% directly; 50% indirectly via edding international GmbH

⁴The indirectly held voting rights in the company amount to 26.1%, which thus differs from the percentage of shares held.

edding AG holds 16.67% of the shares in PBS Network GmbH, Stuttgart as well as 10% of the shares in Beruf und Familie Stormarn GmbH, Bad Oldesloe. edding Vertrieb GmbH holds 5.56% of the share capital of Office Gold Club GmbH, Düsseldorf.

46 Declaration of compliance

The declaration of compliance with the German Corporate Governance Code, as specified in accordance with section 161 of the German Stock Corporation Act (AktG), was issued and is published separately and as an integral part of the Declaration on Corporate Governance pursuant to section 289a of the German Commercial Code (HGB) in the internet at www.edding.de.

Ahrensburg, 20 April 2015

Der Vorstand

Per Ledermann

Thorsten Streppelhoff

Sönke Gooss



Highlight your WORLD

Auditor's Report

We have rendered the Auditor's Report in German, which was translated as follows:

We have audited the consolidated financial statements prepared by the edding AG, comprising the consolidated balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of edding AG, for the financial year from January 1, 2014 to December 31, 2014. The preparation of the consolidated financial statements and combined management report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a par. 1 HGB are the responsibility of the parent company's board of management. Our responsibility is to express an opinion on the consolidated financial statements and on the combined group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer - IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the combined group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a par. 1 HGB and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The combined group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Hamburg, 21 April 2015

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Dirk Schützenmeister	Florian Riedl
Wirtschaftsprüfer	Wirtschaftsprüfer

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group Management Report includes a true and fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Ahrensburg, 20 April 2015

The Management Board

Per Ledermann

Thorsten Streppelhoff

Sönke Gooss

edding L.A.Q.U.E.®



The English version of the Group Annual Report is a translation of the German original.
In the event of discrepancies, the German version shall prevail.