Group Annual Report 2016

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edding Aktiengesellschaft

Bookkoppel 7
22926 Ahrensburg, Germany
Tel. +49 (0) 4102 / 808-0
Fax +49 (0) 4102 / 808-204

Internet www.edding.de
E-Mail investor@edding.de


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edding 8700
jumbo paint marker

Contents

Key figures for the Group

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

edding Group	2016	2015	2014	2013	2012
Results of operations					
EBIT	11,848	12,220	11,855	9,380	7,271
as % of sales	8.3 %	8.8 %	9.2 %	7.6 %	6.2 %
Results of operations	7,141	8,549	8,312	8,585	3,641
as % of equity (return on equity)	13.0 %	17.0 %	18.8 %	21.8 %	10.1 %
Profit before tax	11,578	12,133	12,185	11,618	6,991
Sales revenue	143,014	138,371	128,853	123,211	117,036
Change	3.4 %	7.4 %	4.6 %	5.3 %	5.0 %
Foreign business	57.6 %	59.2 %	58.4 %	59.4 %	59.3 %
Gross profit [1]	90,908	87,874	80,399	75,208	72,141
as % of total output	63.5 %	63.2 %	62.3 %	60.8 %	61.3 %
Employee benefits expense	36,692	35,394	34,206	32,532	31,317
as % of sales	25.7 %	25.6 %	26.5 %	26.4 %	26.8 %
Employees (annual average)	637	624	638	632	634
Net assets and financial position					
Total assets	98,720	98,504	90,863	81,630	79,470
Change	0.2 %	8.4 %	11.3 %	2.7 %	– 3.0 %
Equity	54,991	50,199	44,274	39,303	35,886
as % of total assets	55.7 %	51.0 %	48.7 %	48.1 %	45.2 %
2nd degree liquidity Quick ratio in %	169.4 %	150.4 %	127.4 %	130.0 %	130.5 %
Results of employee survey [2]					
Employee commitment (in %)	89 %	n/a	n/a	n/a	n/a
Quality of performance environment (in %)	81 %	n/a	n/a	n/a	n/a

edding AG	2016	2015	2014	2013	2012
Profit after tax	7,140	5,370	4,658	2,602	1,899
Profit before tax	10,186	8,094	7,374	5,289	4,422
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	6.65 €	5.00 €	4.34 €	2.42 €	1.77 €
Dividends					
Ordinary shares	2.10 €	1.91 €	1.91 €	1.71 €	1.71 €
Preference shares	2.15 €	1.95 €	1.95 €	1.75 €	1.75 €
Share price on 31 December	91.08 €	85.00 €	64.00 €	47.12 €	47.00 €

[1] excl. other operating income
[2] In financial year 2016, measurement of the results was changed from the existing grade system to a two-dimensional strategic fitness model.

Letter to Shareholders

Dear Shareholders,

You have before you the 2016 annual report of the edding Group, which once again shows pleasing results. After three successive years of record sales and EBIT results, we have taken a slight breather and this time are “only” posting record group sales. Nevertheless, the group EBIT 2016 was almost € 12 million and therefore one of the best results in the company's history. Bearing in mind our continuing high level of investment in our corporate strategy, this is a very good result.

As expected, the percentage of sales growth in the second half of the year slackened off considerably due to front-loading in the first six months. As in the previous year, the **Visual Communication** segment achieved higher growth rates than **Writing and Marking**. Following double-digit growth rates in 2015, growth was still at 7%; the markets in the German-speaking region particularly contributed to this. Growth in the area of **Writing and Marking** was modest by comparison, as overseas sales fell far short of our expectations, as already reported at half-year. By contrast, the other markets performed well. Especially the Benelux and Turkey regions made great strides in the area of private end consumers, and in Russia we were also able to record an increase once again after several years of decline.

There were again a number of changes in the area of **strategic and organisational development** in the year under review. For the period 2017 to 2020 we formulated medium-term corporate goals in the form of a balanced scorecard system for all the main markets and key functional areas. In addition, we introduced two new systems, which are forward-looking and will support our strategic goals, namely a central product information management system (PIM) and an in-house social network as a new communication platform.

The employee survey, which was conducted worldwide for the second time, gave us some positive surprises and yielded even better results after a very good response in the previous year. We would particularly like to highlight the high degree of identification with the company and its culture. We are very pleased about this and see it as a testament to our continuing success as a company.

Parallel to this, our **market price** performed very pleasingly once again. After € 85.00 at the start of the year, the price had risen by around 7% to € 91.08 by the end of the year and has now established itself at a historically high level of over € 90.00. Combined with a € 0.20 increase in dividend (based on the preference share), our shareholders can therefore also benefit once again from the solid performance of the edding Group in 2016.

The **economic and political situation** again provided a few surprises in 2016. In contrast to the presidential election in the US, the “Brexit” vote in the UK and the political developments in Turkey directly affect us as the edding Group. Our structure with sales revenues in around 100 countries worldwide has proved to be a key stability factor, meaning that so far we have largely managed to compensate for such events. We hope to continue doing so in the future and, as the Management Board, we are looking forward with optimism. From 2017 we are working even harder to achieve our ambitious medium-term goals for 2020 and, along the way, achieve positive results in 2017 and in subsequent years.

The many changes, both internally and externally, have required a tremendous commitment from our employees. At this point, we would like to express our thanks and hope that this dedication will make us as successful in 2017 and beyond as we have been in recent years.

Kind regards

Per Ledermann | Thorsten Streppelhoff | Sönke Gooß

T. Streppelhoff *P. Ledermann* *S. Gooß*

Supervisory Board's Report

Dear Shareholders,

Today, we present to you the report on the financial year 2016. The trends in the individual business segments and markets are explained in detail in the Management Board's Report.

As always, we duly fulfilled the obligations incumbent upon us under the German Stock Corporation Act and our Articles of Association in 2016. We are 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.

Each of the meetings in 2016 was attended by all the members of the Supervisory Board.

Communication with the Management Board
In the year under review, the Supervisory Board was regularly and comprehensively informed about the situation of the edding Group and its current operations. This included monthly written reports by the Management Board on the net assets, financial position and results of operation, personnel planning and other subjects of general importance. In addition, we received detailed quarterly reports on developments in the individual Group companies as well as the progress of strategy implementation.

In addition to the Supervisory Board meetings and consultations by phone concerning special business transactions, a meeting was routinely held at least once a month between the chairman of the Supervisory Board and the Management Board.

Risk management
Apart from the reports on the operating business, the Supervisory Board also received information from the internal control system, on an 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.

Main focus of the Supervisory Board meetings in 2016
At each Supervisory Board meeting in 2016 there was an agenda item devoted to the report on risk management. For the rest, the various meetings focused on the following issues:

In April we dealt with the annual financial statements for 2015 in the presence of the Group auditors. In preparation we received the audit reports for the annual financial statements of edding AG, the edding Group and the individual companies in good time so that we could carry out our own inspection. We approved the agenda for the Annual General Meeting and agreed to the dividend recommended by the Management Board.

We confirmed the objectives regarding the composition of the Supervisory Board of edding AG pursuant to the German Corporate Governance Code (DCGK), which have applied since 2012, for publication in the annual report.

In December 2014 Mr Kallenberg gave notice that he would not be standing for re-election at the 2017 Annual General Meeting once his period of office had ended. In light of this, we were informed about the status of the search for candidates to replace him. We authorised the Management Board to conclude a one-year consultancy agreement with the chosen candidate for the purposes of induction and to bind him/her to compliance with the rules on insider trading.

In June, following the Annual General Meeting, we instructed the auditors, Ebner Stolz GmbH & Co. KG, Hamburg, to perform the audit of the annual financial statements of edding AG and the consolidated financial statements for the current financial year 2016.

We extended the current contracts for board members Gooß and Streppelhoff beyond 31 December 2016 for a further four years until 31 December 2020. In this connection, we would like to thank these gentlemen for their very successful work to date in our company.

We took note of the Management Board's report on the successful market launch of the new nail polish range edding L.A.Q.U.E. On the strength of the results achieved to date, we approved the Management Board's recommendation to form a new Cosmetics business unit.

In September our annual strategy meeting was held. The Management Board reported on the progress of Strategy 2020. In the meantime the majority of the individual measures for achieving the goals have been finalised and represented in the balanced scorecards. Hence, this year for the first time they will form the basis for assessing which targets have been achieved and how this impacts on the overall process.

A special focus of strategic development this year was the Visual Communication segment, which is facing major changes in the market. The rapid developments in electronic communication systems are giving rise to completely new demands by customers. We aim to take account of these advances by providing individual customised solutions.

In December, we approved the presented annual budget for 2017. The year continues to be marked by increased marketing costs, which partly stem from projects not realised in 2016.

The Management Board also reported on the results of the annual employee survey, which were once again extremely positive.

Annual and consolidated financial statements, audit

The meeting of the Supervisory Board on the 2016 annual financial statements was held on 26 April 2017.

We were given the annual financial statements drawn up by the Management Board according to the relevant provisions for the financial reporting of German publicly listed companies and the management reports of edding AG and the edding Group as well as the certified audit reports of the auditing company Ebner Stolz GmbH & Co. KG, Hamburg.

The annual financial statements of edding AG and the edding Group, and also the combined Management and Group Management Report, were each furnished with unqualified audit opinions.

Upon receipt of the audit reports, the Management Board immediately sent them to all the members of the Supervisory Board for inspection together with the proposal for the appropriation of earnings.

The documents were discussed in detail in the presence of the auditors. We also received further explanation of the individual financial statements from the auditors.

In addition, the audit report addressed the effectiveness of the internal control system. It was confirmed that no material weaknesses in the accounting-related internal control system or the accounting-related IT systems of the domestic companies had been identified and that the Management Board had taken the measures required under section 91 (2) AktG in an appropriate manner.

On the basis of these documents and our own inspection, we approved the results of the audit of the financial statements for edding AG and the Management Board's proposal for the appropriation of earnings without raising any objections.

Thus, we approved the annual financial statements of edding AG for the 2016 financial year and adopted them in accordance with section 172 AktG. The Supervisory Board noted with approval the Consolidated Financial Statements and the Group Management Report.

Declaration of Compliance and Declaration on Corporate Governance
Together with the Management Board, we revised the Declaration of Compliance with the Corporate Governance Code as well as the Declaration on Corporate Governance and adapted them to the new regulations. The declarations have been published on the company's website.

Annual General Meeting on 13 June 2017
At our meeting on 26 April 2017 we also approved the agenda for the Annual General Meeting. We recommended, together with the Management Board, that the auditing company Ebner Stolz GmbH & Co. KG, Hamburg, should also be appointed as auditors for the 2017 annual financial statements.

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, that could call the auditor's independence into question.

Regular elections for the Supervisory Board
At the meeting on 26 April 2017 we also selected the candidates who will safeguard the interests of shareholders in the future and whom we will propose for election at the Annual General Meeting together with the Management Board. Mr Kallenberg will not stand again. Mr Chehab Wahby will seek a further term. Mr Michael Rauch is to be elected to the Supervisory Board as a further member as a representative of the shareholders. He satisfies the conditions and requirements that we have defined according to our guidelines for the selection of Supervisory Board members. Dr. Sabine Renken and Mr Karl Sieveking will again be standing as substitute members for shareholder representatives.

The employee representative will be chosen by the employees in a separate ballot and presented at the Annual General Meeting.

Thanks to the Management Board and employees
We would like to thank all members of staff and also the Management Board for their hard work and commitment to our company in the past financial year. In particular, the countless innovations and changes in the organisation and business processes in the course of aligning the company to achieve the 2020 strategic goals were implemented with considerable dedication and commitment.

The results of this work, which again reached new all-time highs in many areas this year, are reproduced in the annual and consolidated financial statements of edding AG.

Ahrensburg, 26 April 2017

The Supervisory Board

Rüdiger Kallenberg	Chehab Wahby	Anja Keihani
Chairman	Deputy Chairman	Employees' Representative

A. Keihani *R. Kallenberg* *C. Wahby*

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)

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 5 May 2015 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 2016, 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
The Supervisory Board specified general objectives regarding its composition, which are also based on the company-specific situation, the company's international orientation and the avoidance of possible conflicts of interest, and which 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, which is preferable to schematised inclusion of the diversity criterion; for this reason the application of gender-specific ratios is avoided. The company declines to set a general age limit for members of the Supervisory Board; in this respect the above-mentioned objections to a fixed age limit for Supervisory and Management Board members apply accordingly. 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 Article 19 of the Market Abuse Regulation. The company also publishes such disclosures within the legal scope of the stated Regulation. In addition, information on share ownership of members of the Supervisory and Management Boards is published in the annual report to the extent stipulated for relations with related parties pursuant to IAS 24.9 (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 seqq. of the German Securities Trading Act (WpHG) (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. For the half-year financial report publication also does not take place until two months after the end of the reporting period; this is still well within the statutory period of three months.

Ahrensburg, 3 February 2017

Management Board and Supervisory Board
of edding Aktiengesellschaft

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 two other members of the Supervisory Board, who are nominated by the shareholder representatives, should have the qualities and abilities and be able to perform tasks which correspond to the requirements as specified by the provisions of the articles of association and the business purpose of the company as well as the provisions of the German Stock Corporation Act (AktG).

The members of the Supervisory Board should not fulfil any executive or supervisory role at customers, suppliers, lenders or other business partners of the company and not have personal or business relations with the Management Board of edding AG that could cause a conflict of interests. 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. There are no plans to set a fixed age limit for members of the Supervisory Board or a gender-specific quota.

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 Aktiengesellschaft

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

Ahrensburg, 26 April 2017

Supervisory Board
of edding Aktiengesellschaft

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/corporate-governance/erklaerung-zur-unternehmensfuehrung/.

Combined Company and Group Management Report

This report combines the management report of edding AG and the management report of the edding group pursuant to section 315 (3) of the German Commercial Code (HGB). The combined report shows the development of the net assets, financial position and results of operations of edding AG and the edding Group and deals with the material opportunities and risks as well as the expected future business performance.

Unless reference is explicitly made to edding AG, the statements and figures refer to the edding Group as a whole. The figures relating to the edding Group are based on the consolidated financial statements of edding AG prepared according to International Financial Reporting Standards (IFRS), as applicable in the EU, and the supplementary requirements according to German commercial law applicable under § 315a (1) of the German Commercial Code (HGB). The figures for the net assets, financial position and results of operations of edding AG are, on the other hand, based on the annual financial statements of edding AG prepared according to the requirements of German commercial law and the supplementary provisions of the German Stock Corporation Act (AktG).

Basis of the Group

Business activities

As the parent of the edding Group, edding AG is responsible for managing its subsidiaries and affiliated companies. Key management functions, finance and controlling, human resources and IT are based at edding AG. The central tasks of edding AG are strategic orientation and development of the Group as well as risk management. The company'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.

The Group's sales revenue is generated worldwide via the international distribution management companies 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 trading partners of all formats, including large-scale sales channels (hypermarkets, DIY superstores, etc.), mail-order companies and online sales channels in addition to the traditional wholesale and retail trade.

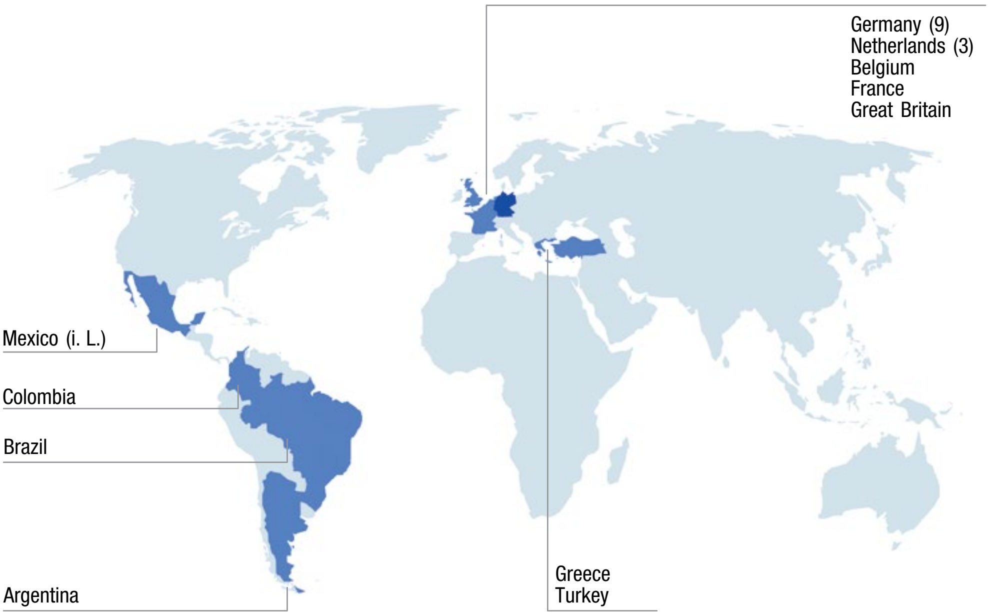
The Writing and Marking business segment essentially comprises the edding brand and includes markers, writing utensils, spray paints, printer cartridges and toners as well as nail polish (since 2015). This product range is aimed at both the business-to-business sector and private end consumers. The various 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
- Cosmetics

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 and shareholding structure

edding Group companies and shareholdings worldwide



A list of the subsidiaries and shareholdings can be found later on this section. 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 company
- Purchasing companies
- Property companies

In addition, the companies can be differentiated according to their business segment focus. Particularly in the Writing and Marking segment, there are also companies which generate a small proportion of their sales revenue with the Legamaster brand.

edding AG is the **parent company** of the edding Group and holds direct and indirect shareholdings in the subsidiaries. As a non-operating **intermediate holding compan**y, edding Benelux group B.V. (Netherlands) 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.

Local distribution companies exist in Germany, the Netherlands, Belgium, France, Great Britain, Greece and Turkey. The composition of the sales revenue 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. Since the end of 2014 the distribution network of the Mexican company has been operated with the aid of an independent distribution partner and no longer via its own sales representatives. Consequently, the Mexican subsidiary will be closed down in 2017.

The **production company** V. D. Ledermann & Co. GmbH produces felt markers and fibre pens and the relevant refill bottles exclusively for the edding Group at its plant in Bautzen. These products are marketed worldwide. Hence, there are three production facilities in the Group for the Writing and Marking segment.

edding Japan Inc. (Japan) was responsible for the procurement of merchandise and raw materials for the production sites of the Writing and Marking business segment until the end of 2015. Besides this function as a **purchasing company**, it was involved in small-scale distribution activities in the region. These tasks were transferred to edding International GmbH at the beginning of the 2016 financial year. The company was closed down on 29 July 2016.

The **property companies** EDWU Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG (Formerly: DEGEDESTRA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG) and edding AG & Co. Grundstücksverwaltung OHG were previously used for the lease financing of the business properties of edding Vertrieb GmbH (Wunstorf site) and V. D. Ledermann & Co. GmbH (Bautzen plant). edding AG und Co. Grundstücksverwaltung OHG merged with edding AG on expiry of the lease as per 31 August 2016 with the corresponding acquisition of the property. In the case of EDWU Grundstücksverwaltungsgesellschaft mbH & Co Immobilien-Vermietungs KG, this took place in stages over the course of the financial year. The company finally merged with edding AG on 31 October 2016. As of 31 December 2016 the shell of the general partner EDWU Grundstücksverwaltungsgesellschaft mbH, which was formed in the course of the year for the partnership, still existed, now as a subsidiary of edding International GmbH. This will be merged with edding International GmbH with effect as of 1 January 2017.

In addition, the edding Group has shareholdings in the following companies:

- 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 organisation Beruf und Familie im Hansebelt gGmbH (Formerly: Beruf und Familie Stormarn GmbH) creates and secures regional initiatives for childcare and the care of senior citizens to help balance career and family.

- 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 a potential future cooperation will enable us to strengthen our competitive position in Latin America.

Group structure as at 31 December 2016

Parent company
edding Aktiengesellschaft Ahrensburg

Business segment Writing & Marking

edding International GmbH[1]

Ahrensburg
International distribution and
business segement management
100 % edding AG

V. D. Ledermann & Co. GmbH

Ahrensburg
Production

100 % edding AG

edding Vertrieb GmbH[1]

Ahrensburg
Distribution in Germany

100 % edding International GmbH

edding Benelux B.V.
(Formerly: edding Legamaster B.V.)
Lochem, Netherlands
Distribution in Belgium, Netherlands, Luxembourg
100 % edding Benelux group B.V.

EDDING (U.K.) LTD.[1]

St. Albans, Great Britain
Distribution in Great Britain

100 % edding AG

edding France SAS[1]

Roncq, France
Distribution in France

100 % edding International GmbH

edding Hellas Ltd.[1]

Athen, Greece
Distribution in Greece

100 % edding AG

edding Ofis ve Kirtasiye Ürünleri Tic. Ltd. Sti.[1]
Istanbul, Turkey
Distribution in Turkey
50 % edding AG
50 % edding International GmbH

edding Argentina S.A.[1]
Buenos Aires, Argentina
Distribution in Argentina and Southern Latin America as well as local production

100 % edding AG

edding Colombia S.A.S.[1]
Sabaneta, Colombia
Distribution in Colombia and Northern Latin America as well as local production

60 % edding AG

edding Mexico S. de. R.L. de C.V.
Mexico City, Mexico
In liquidation

50 % edding AG
50 % edding International GmbH

[1] To a limited extent also distribution in business segment Visual Communication

Business segment Visual Communication

Legamaster International B.V.

Lochem, Netherlands
International distribution and
business segement management
100 % edding Benelux group B.V.

Legamaster B.V.B.A. (Formerly: edding Lega International B.V.B.A.)
Mechelen, Belgium
Distribution in Belgium und France
99 % Legamaster International B.V.
1 % edding Benelux B.V.

Legamaster GmbH

Ahrensburg
Distribution in Germany

100 % edding AG

Other Group companies

EDWU Grundstücksverwaltungs-gesellschaft mbH
Ahrensburg
Property company

100 % edding International GmbH

edding Benelux group B.V.

Lochem, Netherlands
Holding company

100 % edding International GmbH

Shareholdings

Beruf und Familie im Hansebelt gGmbH
(Formely: Beruf und Familie Stormarn GmbH)
Bad Oldesloe
Support a better balance between family and working life
9,09 % edding AG

Office Gold Club GmbH

Düsseldorf
Organiser marketing activities

6,67 % edding Vertrieb GmbH

PBS Network GmbH

Stuttgart
IT service company for the paper, office supplies and stationary sector
16,67 % edding AG

Companhia de Canetas Compactor S.A.

Rio de Janeiro, Brazil
Writing utensils manufacturer

20,74 % edding International GmbH

In finacial year deconsolidated Group companies

edding Japan Inc.

Tokio, Japan
Closed down on 29 July 2016

76 % edding AG

edding AG & Co. Grundstücksverwaltung OHG

Düsseldorf
Merged with edding AG on 31 August 2016

100 % edding AG

EDWU Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[2]

Eschborn
Merged with edding AG on 31 October 2016

100 % edding AG

[2] Formerly: DEGEDESTRA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG

Employees

The Group had an average workforce of 637 employees during the 2016 reporting year. In 2015 there were only 624, meaning that the total number of employees had risen slightly year on year. The number of employees at the German sites increased more strongly, with the annual average standing at 351 employees (previous year: 331 employees).

On the other hand, in the foreign companies the workforce declined slightly in the past financial year with 286 employees on average compared to the previous year (293 employees). Therefore, in 2016 the proportion of employees outside Germany of 45% (previous year: 47%) was down slightly on the previous year's level.

The main focus of recruitment in 2016 was determined by the (re)structuring of strategic marketing and implementation of an international trade marketing structure plus optimisation of business processes in the area of master data management. Likewise the implementation of various other applications from the area of human resources taking place within the scope of Strategy 2020 was supported, in particular the introduction of an internal communication platform (SoCoNet).

edding AG had an average workforce of 72 during the year (previous year: 66 employees), Therefore, the total number of employees only increased slightly compared with the previous year.

In the area of personnel development, we concentrated on restructuring our range of basic and further training in the year under review. The result is that in 2017 the edding Academy will become the edding Campus, a place of learning with target group-specific measures consistently derived from the corporate strategy and our strategic performance management tool, the balanced scorecard. The planned training sessions will without exception support the objectives which are derived from the Strategy 2020 and recorded in the balanced scorecards. In 2017 we shall be focusing on topics from areas such eddiplementorship (Project Management Excellence), eddipreneurship (Innovation Excellence) and edding ink (Culture & Values).

Our second global employee survey ended in the year under review with an excellent participation rate of 85% of all workers. Across almost all locations it was apparent that noticeable progress had particularly been made on key topics from the previous year's survey, such as "Promoting strategic knowledge" and "Improving feedback culture". In other areas of the survey, many aspects were also at a very good or even excellent level. For example, the agreement rates for all questions from the Management category were higher than in the previous year. Innovation culture/eddipreneurship, an area which is strategically relevant for us, has also improved greatly.

The overall result of our global employee survey was positive in 2016. In the year under review, the system for measuring the results was changed to a two-dimensional strategic fitness model, where the agreement rates of employees in response to particular statements are measured in terms of 'Employee commitment' and 'Quality of the performance environment'. Therefore, in future we will no longer be grading the results according to how positive they are. For further details of these components, please refer to the section on the control system. The results of the employee survey can therefore be broken down as follows:

Agreement rates from the employee survey	2015	2016	Forecast 2017	Targets 2020
Employee Commitment	good	89 %	85 - 90 %	88 %
Quality of the performance environment	good	81 %	75 - 85 %	78 %

In terms of corresponding reference values from other companies, we are therefore in a very positive position, based on external comparisons. Our next worldwide employee survey will be conducted in Q3 2017.

Corporate Responsibility

Since June 2016 edding has been organising language training, which takes place in parallel with the official integration courses for a period of six months and offers places for ten to twelve refugees at a time. Our German class meets twice a week for three hours at the Group's headquarters in Ahrensburg. Volunteer employees help pupils from the integration course with their homework, preparation for exams and language training. Half the teaching time is "donated" by edding and the other half is provided by employees in their free time on a voluntary basis.

The thirst for knowledge, high level of motivation and gratitude of the pupils are a great incentive for all those involved. Integration goes beyond language training. A Germany game at the Euros in an edding public viewing session was a highlight for our pupils, likewise the communal Christmas party, with Dresdner Stollen and typical German Christmas biscuits, which was very well received and provided an opportunity for cultural exchange on how other religions and cultures celebrate festivals. Overall we are convinced that through such work, immigration can lead to significantly more opportunities than risks.

To celebrate surpassing the 100 million euro barrier for the first time for gross sales in the Writing and Marking business segment, as calculated in the internal reporting, 100 euro was donated per Group employee to charitable organisations. Employees selected the organisations they wanted to support and voted on them; they opted for Medecins sans Frontieres, Plant for the Planet, Plan International and SOS Kinderdörfer.

In the case of Plan International, edding supports, for example, a project which is intended to protect boys and girls in Tanzania from child labour.

Plant for the Planet uses part of the money for continuing reforestation efforts in Chile. The other part was spent on the Plant for the Planet Climate Academy. The aim of this institution is to alert children and young people to, and make them passionate about, climate issues. Such a climate academy was held at the edding production facility V. D. Ledermann & Co. GmbH in Bautzen on 22 October 2016. It included planting 14 trees at the nearby primary school.

Returned used marker pens were recycled for the first time last year. Now, on average, approximately, eight kilograms of aluminium, four kilograms of other metal and 73 kilograms of plastic are extracted and returned to the production process per 100 kilos of waste.

In summary, the edding Group posted the following selected environmental key performance indicators in 2016 compared with the previous year:

Key energy figures for the edding sites in Ahrensburg, Bautzen and Wunstorf	2016	2015
Gas consumption [MWh]	3,250	2,760
Electricity consumption [MWh]	2,740	2,378
Electricity production by photovoltaic systems, Ahrensburg, Bautzen [MWh]	169	178
Electricity production: combined heat & power plant, Ahrensburg [MWh]	265	247
Self-produced power as a percentage of total consumption [%]	14	15
Electricity consumption from renewable sources [%]	100	100
EcoLine development	2016	2015
Increase in EcoLine sales worldwide [%]	2	15
Increase in EcoLine sales in Germany [%]	19	12

Other functions

Production
The edding Group has one production site in Germany and two abroad.

The German production facility **V. D. Ledermann & Co. GmbH in Bautzen** achieved the best result in its almost 25-year history in 2016. With approximately 85 million markers, the production site posted an increase in output of more than 10% compared with the previous year (76 million markers). The weakness in sales of the products made in Bautzen especially for the Russian market has been overcome and is a key factor for the increase.

At the production site of **edding Argentina S.A.** in San Juan, capacity utilisation in 2016 was scaled back due to the uncertain political and economic situation, and was down on the previous year. A new president was elected in the presidential elections at the end of 2015, who announced far-reaching changes in economic policy, although they did not lead to the hoped for improvement in the economic situation in the course of 2016.

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. After the initial success stagnation began in 2015. In 2016 output was significantly below the prior year level due to difficulties in the market.


edding® 24
highlighter

Logistics

Central warehouse logistics is carried out for edding International GmbH by an external service provider in the Greater Hanover region. In the second year after outsourcing this service, processes were further optimised in 2016. A consistently strong performance with a marked increase in volumes was also confirmed as above average once again in customer ratings in 2016.

In addition to replenishment deliveries for the warehouses of our foreign distribution partners and Group companies in Great Britain, Turkey, Greece, Argentina and Colombia, the German central warehouse also directly supplies retail customers in Germany, the Benelux countries, France and Italy.

New requirements of customers from strategically defined, growth-related channels were safely satisfied in 2016. It is important to stress here that, in particular, digital expertise played a key role when implementing customers' requirements. Data quality, IT links and electronic data exchange according to customers' specifications are frequently of crucial importance in this regard.

The warehouse logistics for the Legamaster brand is completely in the hands of the Visual Communication segment at the Group's central warehouse in Lochem (Netherlands). The worldwide dispatch of this product range takes place from here.

Information technology

In 2016 the main challenges for information technology were the consolidation and modernisation of the infrastructure systems. The emphasis was on replacement of the server systems and the active network components at the computer centre in Ahrensburg. The bandwidths of the network connections to our branches were reviewed and extended accordingly to meet the current demands. At the same time, over the course of the year the majority of the sites and the work stations at these locations were converted to thin client technology in order to additionally reduce the support and maintenance expenses.

The introduction of a new generation of laptops involved switching to more compact, lighter and more modern computer systems. All these measures are leading the edding Group in the direction of introducing further flexibility into work stations to create the adaptive workplace of the 21st century. Here the IT of edding AG is assuming the role of initiator, innovation driver and central supporter in the Group. The strategy, which has been pursued continuously over the years of decoupling from the work station and physical infrastructure allows work in a modern company to be performed independent of location and end device.

On the application software front we have managed to harmonise and coordinate internal and external IT services. With the targeted use of various cloud services over the past few years, the manifold tasks in sales and marketing are efficiently and flexibly supported. With a hybrid CRM solution, cloud-based product data management solutions and an in-house social network introduced in 2016, edding can react to changing business requirements more quickly than ever.

Our security systems, which protect our network, server and application landscape, were also updated last year and readjusted to changing challenges. A holistic approach, which includes raising the awareness of our users, protects the comprehensive and modern service portfolio and our digital value chain from the risks of cyber criminality.

With its state-of-the-art, efficient system landscape and sophisticated IT management processes, edding is very well equipped to face the business process requirements of the future.

Research and development

The edding Group operates research and development departments at the German sites in Ahrensburg and Bautzen. Thirteen persons in all were employed in this field in financial year 2016, as in the previous year.

Total expenditure on research and development amounted to € 1.2 million in the year under review (previous year: € 1.1 million). This includes costs for R&D services of partner companies and depreciation of laboratory equipment, in addition to personnel expenses.

In the Visual Communication segment, the development of new products and the integration of new technologies from international product management is coordinated.

Management system

Strategic control

As the financial holding company of the edding Group, edding AG pursues the strategic goal of sustainable value appreciation and development of the edding Group with the Writing and Marking and Visual Communication segments.

In the year under review, we created a new balanced scorecard system within the scope of strategy implementation. This new system brings together our primary strategic goals for the period 2016 to 2020. For the first time, both business segments were included in this system, and the internal functional areas also set themselves medium-term objectives in this system. The balanced scorecards are individually tailored to edding's needs, and their structure already takes up essential elements of our corporate culture with the subjects of eddipreneurship and eddiplementorship. They contain financial and non-financial objectives in five dimensions:

- Finance
- Customer/Consumer: targets relating to our four main market strategies B2B and B2C for Writing and Marking in Europe, Visual Communication and broader growth in Latin America
- “eddiplementorship”: implementation of our ideas in the most efficient way
- “eddipreneurship”: courage and inventiveness to do things differently
- “edding ink”: edding ink flowing in the veins as the unifying element of our corporate culture

Financial control parameters

The edding Group uses various finance-related key performance indicators to control growth and profitability. In this context, the most important control parameters at Group level are sales and EBIT (earnings before interest and taxes). In our current Group strategy, long-term targets have been set that are scheduled to be reached by 2020. At the level of edding AG, the distributable net profit, which also determines the performance-based Management Board remuneration, is an additional parameter.

Within the framework of the annual budget planning, sales and earnings targets, in particular, are defined for the Group and geared to the strategic objectives for 2020. EBIT development is also the most important control parameter for managing the Group companies, and its achievement is an essential part of the short and medium-term 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 of each business segment are decisive. Alongside the Writing and Marking and Visual Communication business segments, individual subsidiaries also distribute partner brands. This area essentially serves to round off the product portfolio at the level of the individual Group companies so as to ensure an absolute importance in the respective market and/or individual channels, something which is essential for expanding the Group's brand business. Therefore, there are no strategic growth or 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.

Non-financial control parameters

The key non-financial control parameter for the edding Group is the results of the employee survey carried out each year. In the year under review, the measurement system was changed from the existing grade system to a two-dimensional strategic fitness model which measures the agreement rates of employees in the dimensions of 'Employee commitment' and 'Quality of the performance environment'.

The dimension of sustainable 'Employee commitment' comprises four components, namely loyalty to the company, willingness to give your best, work satisfaction and enjoyment and mental health (performance requirements, workload). The dimension 'Quality of the performance environment' takes account of the fact that employee commitment can only be fully developed in an organisation where motivation and employees' activities are based on the corporate strategy, and where they can do their work effectively and efficiently. The quality of the performance environment therefore covers questions with which we can, for example, evaluate whether the strategic direction is clear and whether the available systems and processes enable us to proceed in the predefined direction.

For both values, targets were set for 2020 within the scope of the balanced scorecards.

Economic report

Overall economic and industry-specific conditions

According to forecasts by the International Monetary Fund, the global economic growth rate in 2016 of +3.1% was roughly at the previous year's level.[1] Following previous years of declining growth, the emerging markets stabilised at a level of 4.1%. One important factor was the easing of the recession in Russia, one of our key markets, which has now practically broken even after a significant contraction in the previous year.

There was a cautiously positive trend in the eurozone, with growth of 1.7%, although the pattern was less heterogeneous in the Member States. Germany's performance was therefore exactly at the average. The other industrialised nations achieved comparable growth rates.

The situation in Latin America, where the economy shrank by 0.7%, was much more problematic, however. Especially in countries which are important for us, Argentina, Colombia and Ecuador, the general conditions deteriorated significantly for very individual reasons. While in Argentina the more liberal policies of the new administration make the consequences of suppressed inflation under the previous government transparent, the negative vote in the peace treaty referendum plunged Colombia into a political crisis. In Ecuador, it was the socialist tendencies of the government which caused the economy to slow significantly in 2016.

The situation in the paper, office supplies and stationery market was differentiated in 2016. The German Industrial Association of Paper, Office Supplies and Stationery Brands reported unweighted growth rates of 1.7% by members in the Paper sector and almost 4% by German manufacturers of traditional office supplies, although outside Germany they were somewhat weaker. Nevertheless, the pressure on these products from increasing digitisation can still be felt in many areas. Members from the Writing sector experienced a boom of a very analogous nature. The persistent demand for design-oriented high quality writing utensils and the trend towards painting for adults and art therapy brought companies sales increases of 11% on average in the domestic and export business. The online trade in particular proved to be a fast-growing sales channel for all segments.[2]

The global market for interactive displays, in which we have a presence, via our Legamaster brand, with interactive whiteboards and e-screens, grew again in 2016. According to the market research agency FutureSource, over 500,000 articles were sold worldwide for the first time in Q3 2016, and a sales volume of more than three billion US dollars was forecast for the year as a whole. Once again it was the Chinese and Turkish market which recorded growth, while, in contrast, the market in Western Europe failed to grow.[3]

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 progressively increasing organisational flexibility. We utilise the possibilities offered by the financial markets, for example with regard to currency hedging, to an extent that makes good economic sense, and we organise the procurement and distribution side of our operating business in such a manner that the currency risk is kept to a minimum.

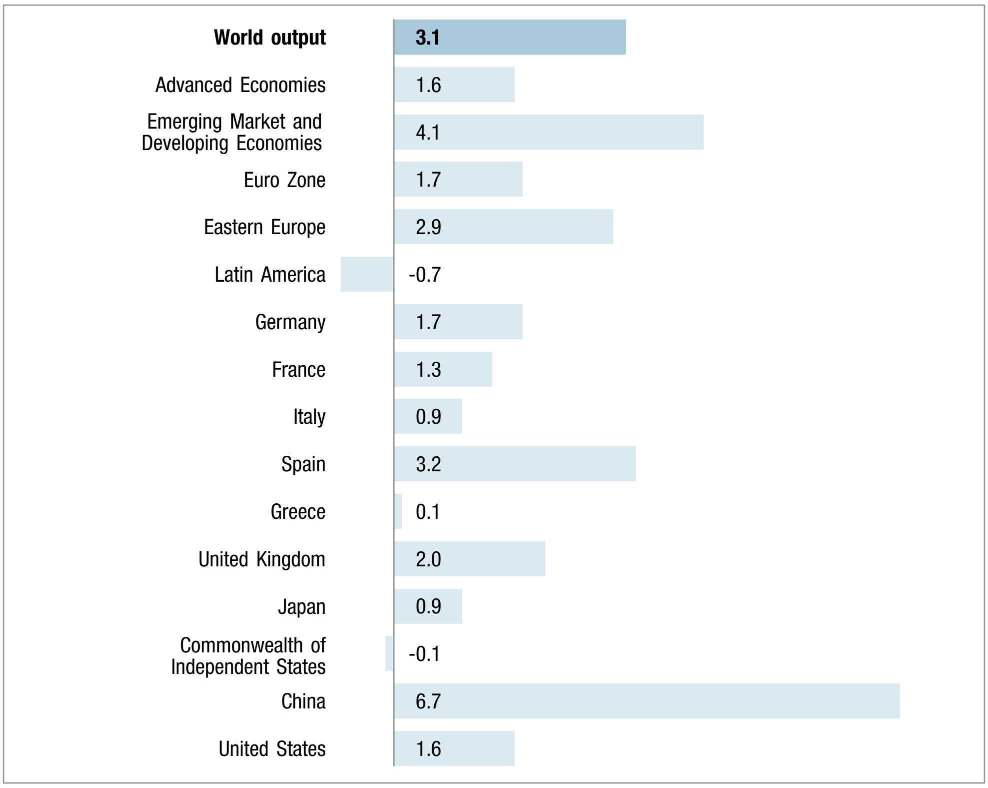
Although the markets in 2016 were somewhat more homogenous, we nevertheless benefited from our diversified country and product portfolio. Thus, we were able to achieve moderate growth in established categories, such as business-to-business for Writing and Marking and

[1] World Economic Outlook Update, IMF, January 2017
[2] http://www.pbs-markenindustrie.de/aktuelles/trend-zu-produktinnovationen-befoerdert-herbstaufschwung, 01/02/2017
[3] Futuresource Consulting, Quarterly Market Track World, Q3 2016

the traditional Visual Communication range, plus disproportionately high growth in the declared growth areas of business-to-consumer Writing and Marking and Legamaster Interactive.

GDP development of selected countries / regions in 2016 [4]

in percent



[4] World Economic Outlook Update, IMF, January 2017

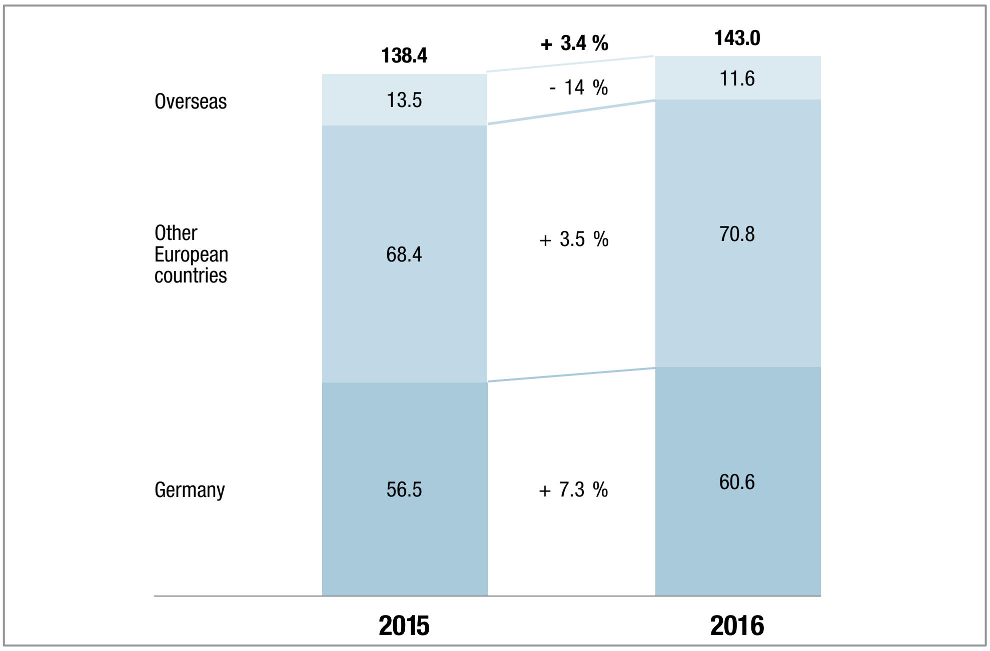
Development of the business segments

Overall, in the 2016 financial year, an increase in sales revenue of 3.4% was achieved. Growth was supported by both business segments, with Visual Communication generating a disproportionately large increase. Other Office Products was faced with a decline.

	2016 € '000	2015 € '000	Change € '000	Change %
Writing and Marking				
Germany	42,988	41,233	1,755	4.3
Other European countries	49,030	46,197	2,833	6.1
Overseas	9,725	11,632	– 1,907	– 16.4
	101,743	**99,062**	**2,681**	**2.7**
Visual Communication				
Germany	15,740	13,688	2,052	15.0
Other European countries	17,997	17,617	380	2.2
Overseas	747	915	– 168	– 18.4
	34,484	**32,220**	**2,264**	**7.0**
Other Office Products	**6,787**	**7,089**	**– 302**	**– 4.3**
Total for the Group	**143,014**	**138,371**	**4,643**	**3.4**

Sales in Germany and the rest of Europe rose overall. We are seeing significant growth in Germany in particular. On the other hand, overseas sales declined, reflecting the continuing difficult situation in Argentina. The proportion of sales outside Germany fell accordingly to 57.6% (previous year: 59.2%).

Sales revenue by region in comparison to the previous year
in € million



Writing and Marking business segment – main brand edding –

With total sales in the Writing and Marking segment of € 101.7 million, we were able to achieve a new record in 2016 for the fourth time in succession. Moderate growth of 2.7% is based on good sales increases in the German domestic market and the rest of Europe. Our overseas markets, and especially Latin America, declined significantly in a difficult environment.

With sales totalling € 43.0 million, Germany remained by far the strongest market and grew by 4.3%, as in the previous year. Growth was supported by both the B2C and B2B distribution channels.

Sales in the rest of Europe of € 49.0 million were once again higher than in Germany. In comparison with the previous year, we were able to increase revenues by 6.1%. Declining sales in the UK due to the exchange rate and a weaker year in Denmark and Portugal were more than compensated for by strong growth in virtually all our core markets. In particular, we should highlight here the large sales increases in the Netherlands, Turkey and Russia. Fortunately, our subsidiary in Greece appears to have reached a turning point, posting a clear double-digit increase in revenue.

Overseas the variable trends of previous years continued in 2016. The revenue gains of 2015 were relinquished once again, with our sales down by 16.4% to € 9.7 million. The main driver for this negative development was our subsidiaries in Argentina and Colombia, although Argentina managed to generate local currency gains. Our core market Ecuador suffered a drop in sales due to the difficult political climate. In Latin America, only Guatemala was able to buck the negative trend and post clear double-digit growth.

Marketing and products

In 2016, on the product side we benefited throughout Europe from substantial increases in some of our ranges for private consumers. Both creative products (mainly porcelain and chalk markers as well as fibre pens and sprays) and "Solutions for Home Use" (ranging from text markers and laundry/tile markers through to correction products) made significant gains. Our ranges for the B2B segment generally only achieved modest growth. Especially the area of "Educating and Presenting" was hit by the difficult (currency) situation in countries such as the UK and Turkey. On the other hand, professional solutions for the more industrial workplace were able to make slight gains.

The completely revamped range of compatible edding toners in 2016 enabled us to generate numerous relevant listings in the German market by the yearend, but the corresponding sales increases will only be apparent in the coming year.

In 2016, we were able to continue the success story of our new point-of-sale displays (POS shop). Distribution and visibility were expanded further in 2016 both nationally and internationally, thereby creating positive turnover momentum. It is pleasing to note that increasingly chain-store trade concepts are enjoying our POS solution, and so we intend to continuously develop this edding product presentation.

Our nail polish range was launched in the spring of 2015 under the edding L.A.Q.U.E. brand. A comparison of sales with the previous year is only possible to a limited extent, as in 2015 the focus was on supplying our customers with stocks of the products for the first time. In the first six months of 2016 we concentrated on promotions for updating the range and on seasonal fashionable colours. In the second half of 2016, we were able to initiate the first promising tests in some new distribution channels in Germany, Scandinavia and Turkey. We are expecting these to create positive impetus for the coming years.

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. In addition, in 2016 we started the launch of the electronics range in Latin America. In the case of Legamaster we were able to make considerable gains in 2016, following on from the already strong year of growth in 2015, with net sales growth of 7.0%.

The regional growth driver was once again Germany, where we achieved a 15% increase. The rest of Europe proved heterogeneous for Legamaster, with only minor growth (+2.2%), while Latin America fell 18.4% below the previous year's level in the face of the cutback in investment activity and negative exchange rate developments, despite the introduction of the electronics range.

In general, the Interactive Technology product segment, which includes both electronic whiteboards and e-screens (LED screens with touch technology for schools and conference rooms), proved to be very strong once again with over 10% growth. We also succeeded once again in achieving sales growth of almost 7% in the competitive traditional business.

Marketing and products
We restructured our international marketing for the Visual Communication segment in 2016 as part of our Legamaster Value Innovation Strategy. Instead of focusing on products, we made users the focal point and concentrated on developing value-creating overall solutions for each application.

The first concepts developed in 2016 are already being deployed. Solutions have been developed for the modern cooperation forms of “Scrum” and “Agile”. A product highlight was the introduction of our Magic Chart Notes, which cling to any flat surface using static and are a symbiosis of moderation cards and post-it notes. This range has already received many plaudits, including Paper, Office Supplies and Stationery Brands product of the year in the Commercial Office Supplies category.

We also develop products within the scope of application-based solutions for the Corporate and Education segments in the area of interactive technology. Excellent product quality and the latest technology remain our commitment for every Legamaster product. Thus, in 2016 we were able to successfully bring to market our largest e-screen to date; with a 98 inch screen diagonal.

Other Office Products

The concentration on strategic partner brands was also continued in 2016, so that we further consolidated with a decrease in turnover of 4.3%. Our new cooperation in the cutting and stamping range with the Fiskars brand in Germany developed positively.

edding®

Net assets, financial position and results of operations of the edding Group

Results of operations of the edding Group

Development of the results of operations

	2016 € '000	2015 € '000	Change € '000	Change %
Sales revenue	143,014	138,371	4,643	3.4
Changes in inventories and own work capitalised	190	755	– 565	– 74.8
Total output	**143,204**	**139,126**	**4,078**	**2.9**
Raw materials and consumables used	– 52,296	– 51,252	– 1,044	2.0
Gross profit	**90,908**	**87,874**	**3,034**	**3.5**
as % of total output	63.5 %	63.2 %		
Employee benefits expense	– 36,692	– 35,394	– 1,298	3.7
as % of sales	25.7 %	25.6 %		
Depreciation expense	– 2,360	– 2,507	147	– 5.9
Other operating income	5,612	5,694	– 82	– 1.4
Other operating expenses	– 45,620	– 43,447	– 2,173	5.0
EBIT	**11,848**	**12,220**	**– 372**	**– 3.0**
as % of sales	8.3 %	8.8 %		
Financial result and result from investments	– 270	– 87	– 183	n/a
Profit before tax	**11,578**	**12,133**	**– 555**	**– 4.6**
Income taxes	– 4,437	– 3,584	– 853	23.8
Group annual result	**7,141**	**8,549**	**– 1,408**	**– 16.5**
as % of sales	5.0 %	6.2 %		

Results of operations showed a slight decrease in EBIT compared with the previous year. The sales revenue-related increase in gross profit was offset by higher other operating expenses and higher personnel costs. The Group annual result was a good 16% below the previous year's level due to higher expenses in the financial result and result from investments and a higher tax ratio.

The **sales revenue** of the edding Group was 3.4% up on the previous year at € 143.0 million. Growth was supported by both business segments, with Visual Communication generating a disproportionately high increase. Other Office Products saw a decline. At the same time, the gross profit ratio remained largely stable.

The rise in **personnel costs** by € 1.3 million can be attributed to a slight increase in the edding Group's headcount along with the general wage increases.

Other operating expenses were € 2.2 million higher than the previous year. These include € 1.1 million higher exchange rate losses; on the other hand the exchange rate gains included in other operating income were at the previous year's level. The higher expenses resulted in particular from the devaluation of the British pound and the Argentine peso. Expenditure is additionally increased by a largely sales-related rise in freight charges and customer-related marketing costs and higher write-downs on trade receivables. As an opposing effect, lower expenses were posted for maintenance measures for the building.

The **EBIT** was 3.0% down on the previous year's figure at € 11.8 million. This equates to a slight decrease in the EBIT margin from 8.8% to 8.3%.

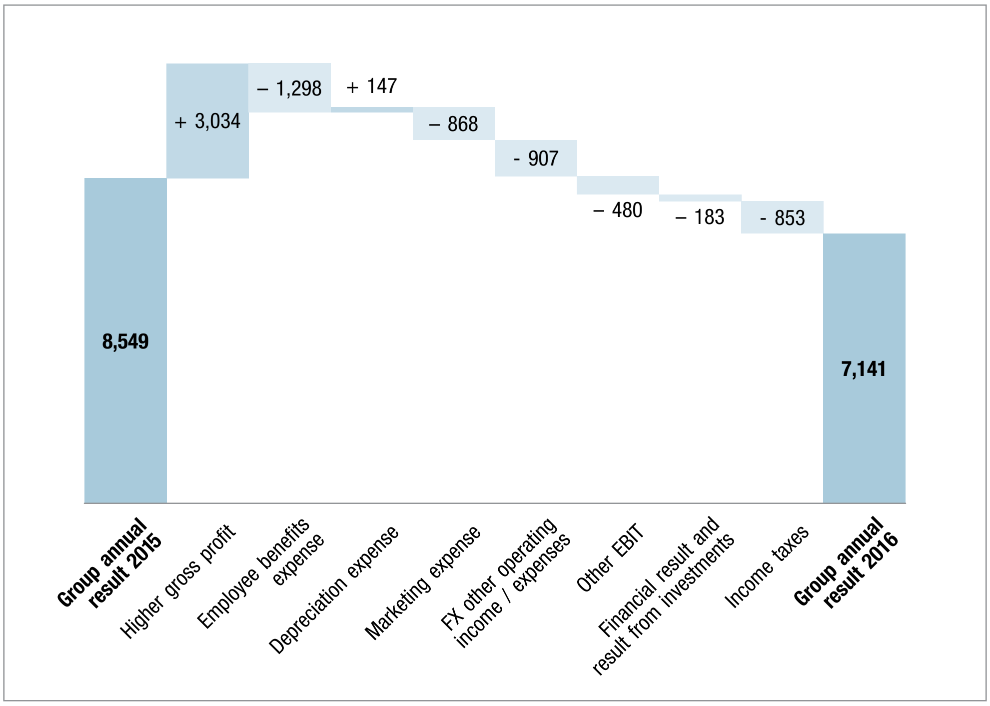
The currently negative **financial result and result from investments** was € 0.2 million higher. This essentially resulted from a positive non-recurring effect in the previous year.

Income tax expenses rose year on year by € 0.9 million in spite of falling revenue. Therefore, the income tax ratio increased by 29.5% to 38.2%. The higher income tax ratio in 2016 compared with the prior year can mainly be attributed to tax expenses not relating to the accounting period as a result of a tax audit and the conservative estimate of deferred taxes on losses carried forward.

The Group's **net profit** of € 7.1 million is therefore 16.5% lower than the previous year's level, which represents a good result from the Management Board's point of view, especially taking into account the numerous activities for implementing the Strategy 2020, combined with higher exchange rate losses.

Development of Group result in 2016

€ '000



Business development compared with the outlook for 2016

In the outlook section of the 2015 annual report, we anticipated a moderate overall decline in results for the financial year 2016 with increasing sales generated from the two business segments. This led on the basis of earnings before interest and taxes (EBIT) of € 12.2 million in 2015 to a forecast corridor for 2016 of between € 10.0 and € 12.5 million. The expected corridor for sales revenues was € 142.0 million to € 149.0 million.

In terms of the segment result development, we forecasted a moderate decline for the Writing and Marking segment owing to the higher marketing expenses, and for Visual Communication a slight increase due to higher revenues.

In the area of non-financial control parameters, we expected that our global employee survey would produce a stable result in the “good” range.

We kept to this forecast over the course of the year.

Net sales revenue increased by 3.4% in the year under review. The development of the Visual Communication business segment, with growth of 7.0%, contributed disproportionately to this, while revenue in the Writing and Marking segment rose by 2.7%. Overall sales in the Writing and Marking segment were somewhat lower than expected, especially due to the weaker development in Latin America. In the Visual Communication segment expectations were exceeded, particularly in Germany.

The EBIT of the edding Group of € 11.8 million was € 0.4 million or 3.0% below the prior year level and therefore corresponds to our forecast.

The segment result (EBIT) for the Writing and Marketing segment fell moderately by 6.2% from € 20.2 million to € 19.0 million, as expected. The segment result for Visual Communication was slightly lower than the previous year, down by 5.3% from € 1.9 million to € 1.8 million, and therefore failed to live up to expectations due to a higher than planned increase in logistics costs.

The overall result of our global employee survey was positive, achieving the second highest ranking on the scale, and therefore within our forecast.

Net assets and financial position of the edding Group

As of 31 December 2016, the edding Group's total assets remained constant with only a slight increase by 0.2% from € 98.5 million in the previous year to € 98.7 million. Moreover, in the 2016 financial year, equity increased considerably from € 50.2 million to € 55.0 million. This was mainly due to the consistently high consolidated annual result and the actuarial gains recognised outside profit or loss from the decrease in pension provisions. These effects were offset by the distribution of dividends and the development of the difference arising from the currency conversion, not affecting the income statement. With the simultaneous decreases in the amount of short and long-term borrowed capital, the equity ratio therefore rose significantly year on year from 51.0% to 55.7%.

Non-current assets (€ 25.9 million) fell slightly by € 1.3 million compared with the previous year, and within these assets there were three recognisable opposing effects. Firstly, the carrying amount of property, plant and equipment fell in the 2016 financial year by € 0.7 million, as the amount of additions only partially compensated for the scheduled depreciation of property, plant and equipment. Likewise, deferred tax assets declined by € 0.9 million compared with the previous year. On the other hand, an increase in other non-current receivables and assets of € 0.4 million was posted, essentially as a result of the fair value assessment of shares in securities-based funds held to partly cover pension commitments and an increase in long-term shares of fair values of currency derivatives.

Investment of € 1.7 million in financial year 2016 was € 0.5 million lower than the level of the previous year. The main investments were in the areas of IT software and hardware, technical equipment and machinery and office 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 slightly by 2.1% from € 71.3 million to € 72.8 million. This trend is particularly due to the rise in inventories and trade accounts receivable, which was offset by a slight decrease in other receivables and assets.

The scope of inventories increased slightly in the year under review by € 0.6 million, mainly due to the higher Group-wide inventories influenced by the continued positive course of business. A further year-on-year increase of € 1.4 million, likewise attributable to business volume, was posted in the area of trade receivables. The decline in other receivables and assets by € 0.4 million as of 31 December 2016 was in particular due to the lower positive fair values in financial year 2016 of the currency derivatives held to hedge payment flows in foreign currency in the area of the Japanese yen and the US dollar.

In financial year 2016, non-current liabilities declined by € 19.0 million compared with the previous year (€ 21.1 million); this was mainly attributable to the decrease in pension provisions. A regrettable fatality involving a member of the group of entitled persons based on an individual commitment from the period prior to the IPO in 1986 led to a review, conducted during the year, of the balance sheet recognition of pension commitments and a corresponding adjustment. On the other hand, an increase in other long-term provisions for bonuses to employees was posted.

As of 31 December 2016, current liabilities totalling € 24.8 million were below the level on the previous year's balance sheet date (€ 27.2 million). Several developments need to be explained in this connection. Firstly, a decline in short-term financial liabilities by € 1.9 million to € 4.5 million was posted across the Group, in particular as a result of the local credit lines acquired by the Turkish subsidiary. Trade accounts payable also decreased by € 1.5 million due to the reporting date, while the provisions made in the previous year for restructuring were fully utilised in the year under review as a result of the closure of our Japanese subsidiary. The increase in other current liabilities by € 1.4 million due to the higher accruals of advertising cost subsidies and customer bonuses as of 31 December 2016 had a compensatory effect.

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

The cash flow from current operating activities declined significantly by € 6.5 million compared to the previous year (€ 10,2 million). The reason for this, along with a slight decline in the Group result, was, in particular, the € 0.8 million higher increase in trade accounts receivable, the € 0.7 million higher build-up of inventories as well as the decrease in trade accounts payable by € 1.5 million, whereas in the previous year they had increased by € 0.4 million.

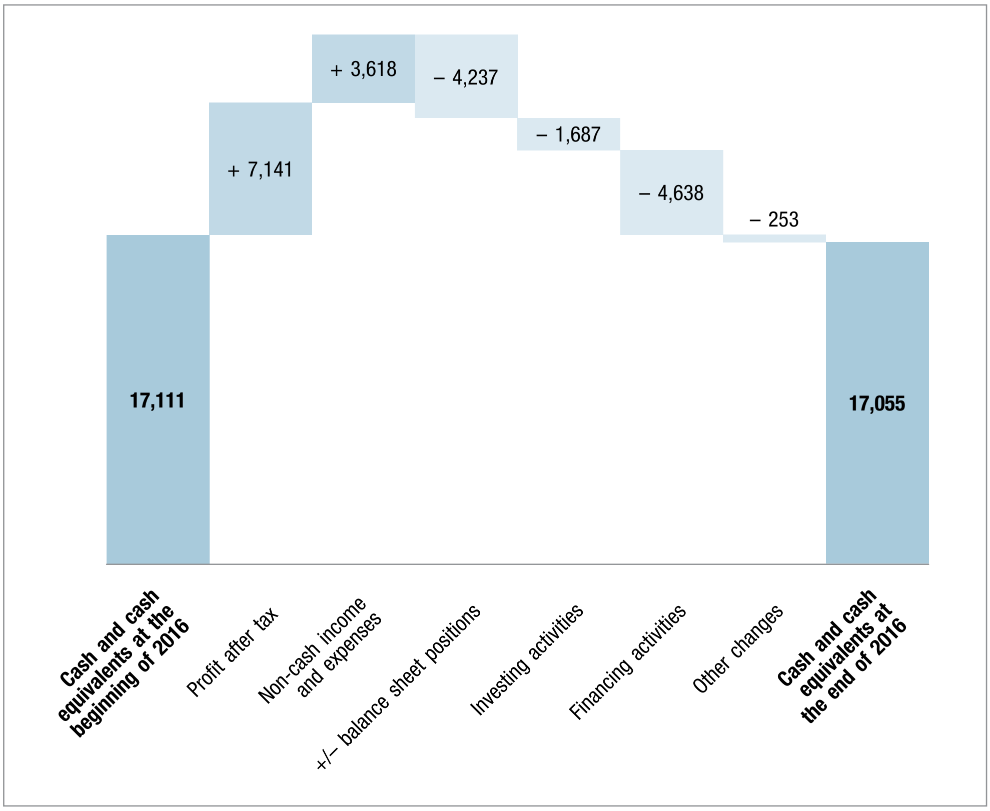
The negative cash flow from investing activities (€ 1.7 million) decreased marginally; this was mainly due to the fact that investment in intangible assets and property, plant and equipment was slightly reduced in the 2016 financial year, in particular at edding AG, by € 0.4 million.

Cash flow from financing activities amounting to € -4.6 million fell sharply by € 3.2 million compared with the prior year (€ -1.4 million) due to the repayment of credit lines.

The Group was solvent at all times in 2016. This continues to be the case in the current financial year 2017.

Change in cash and cash equivalents in 2016

in € ’000



Net assets, financial position and results of operations of edding AG

Results of operations of edding AG

Development of the results of operations

The task of edding Aktiengesellschaft is the overall business management of its subsidiaries and affiliated companies. Key management functions, finance and controlling, human resources and IT are based at edding AG.

	2016 € '000	2015 € '000	Change € '000	Change %
Result from profit transfer agreements	19,220	17,976	1,244	6.9
Income from shareholdings	1,318	632	686	108.5
Write-ups / write-downs of financial assets	– 3,051	– 123	– 2,928	2,380.5
Expenditure from disposals of participating interests	– 108	–	– 108	n/a
Write-ups / write-downs of receivables from affiliated companies / associates	– 5	– 21	16	– 76.2
Result from investments	**17,374**	**18,464**	**– 1,090**	**– 5.9**
Sales revenue	4,885	4,475	410	9.2
Employee benefits expense	– 6,148	– 7,422	1,274	– 17.2
Depreciation expense	– 1,175	– 1,008	– 167	16.6
Other operating income	2,123	986	1,137	115.3
Other operating expenses / other taxes	– 6,527	– 7,042	515	– 7.3
EBIT	**10,532**	**8,453**	**2,079**	**24.6**
Financial result	– 373	– 432	59	– 13.7
Profit before tax	**10,159**	**8,021**	**2,138**	**26.7**
Income taxes	– 3,019	– 2,651	– 368	13.9
Net income	**7,140**	**5,370**	**1,770**	**33.0**

The results of operations of edding AG were characterised by income and expenses within the scope of the result from investments, which result primarily from profit and loss transfer agreements with edding International GmbH, Legamaster GmbH and V. D. Ledermann & Co. GmbH.

The result from investments is broken down as follows:

	2016 € '000	2015 € '000
Profit transfers/income from participations		
edding International GmbH	18,288	17,385
EDDING (U.K.) LTD.	730	626
V. D. Ledermann & Co. GmbH	725	103
edding Japan Inc,	583	–
Legamaster GmbH	207	488
PBS Network GmbH	5	5
EDWU Grundstücksverw. Ges. mbH & Co. Immobilien-Vermiet. KG (Formerly: DEGEDESTRA Grundstücksverw. Ges. mbH & Co. Immobilien-Vermiet. KG)	0	1
	20,538	**18,608**
Write-ups		
Securities held as fixed assets	0	129
	0	**129**
Write-downs and value adjustments		
edding Ofis ve Kirtasiye Ürünleri Tic. Ltd. Sti. (shareholding)	– 2,434	– 252
edding Argentina S.A. (shareholding)	– 617	–
edding Argentina S.A. (receivables)	30	– 3
edding Mexico S. de R.L. de C.V. (receivables)	– 35	– 18
	– 3,056	**– 273**
Expenditure from disposals of participating interests		
EDWU Grundstücksverw. Ges. mbH & Co. Immobilien-Vermiet. KG (Formerly: DEGEDESTRA Grundstücksverw. Ges. mbH & Co. Immobilien-Vermiet. KG)	– 126	–
edding AG & Co. Grundstücksverwaltung OHG	18	–
	– 108	**–**
	17,374	**18,464**

The **result from investments** fell year on year by € 1.1 million to € 17.4 million. This was the result of the markedly increased write-downs and value adjustments for investments, which were only partially offset by higher profit and loss transfers and income from participating interests.

The rise in **profit and loss transfers and income from participating interests** was due to turnover-related higher profit transfers from edding International GmbH and V.D. Ledermann & Co. GmbH. In addition the proceeds from the liquidation of edding Japan Inc. were paid within the scope of the company's closure.

Write-downs and value adjustments increased considerably.

edding Ofis ve Kirtasiye Ürünleri Tic. Ltd. Sti. once again achieved significant sales growth of 19% in local currency and a corresponding increase in profit. In regard to the existing and planned growth within the scope of Strategy 2020, the company carried out a capital increase at the beginning of June 2016 totalling € 2.4 million in a ratio of 88:12 between edding International GmbH and edding AG. The positive company result in the year under review was, however, overshadowed by the large degree of political and economic uncertainty, which intensified considerably in the period following the attempted putsch in June 2016; besides the significant volatility of the currency, the high levels of foreign public debt and high unemployment also played a part. In addition, the import duty for certain product groups was raised drastically in Q4 2016, which, like the development of the exchange rate, had a negative impact on profit margins. Furthermore, the Turkish lira depreciated again in January 2017 by 9%, making it necessary to write down the company's shares, roughly in the amount of the increased participation that had taken place previously, because of our generally uncertain business prospects.

Contrary to expectations, the economic and social situation in Argentina has not improved but rather deteriorated even further following the election of Mauricio Macri and the government's initial corrective measures. Inflation, devaluation and high unemployment as well as low consumption are continuing. At edding Argentina S.A. this led to a price-adjusted decrease in turnover of around 15% and a high loss in 2016. Correspondingly the situation can currently be viewed much more pessimistically than in the previous year and the company's shares had to be written down by € 0.6 million.

The lower result from investments contrasted with positive effects in particular from reduced staff costs and from higher other operating income, which led overall to a significant increase in the pre-tax result of € 10.2 million.

The **sales revenue** of edding AG mainly relates to licence fees from edding International GmbH as well as intragroup charges. In addition to a turnover-related increase in licence revenue, the rise of € 0.4 million resulted from increased allocations of IT costs due to higher user numbers and from the apportionment of rental costs relating to the buildings in Bautzen and Wunstorf; they were transferred from the former property companies to edding AG in the year under review.

The decline in **personnel expenses** in conjunction with a slight increase in employee numbers stems from higher one-off staff costs in the previous year without any corresponding expenditure in the year under review. In addition, the costs for retirement pensions fell because the pension obligations have been reduced substantially. This effect had an impact on **other operating income,** which increased by € 1.1 million. This includes a one-off effect from the partial release of a pension provision of € 1.8 million. A regrettable fatality involving a member of the group of entitled persons based on an individual commitment from the period prior to the IPO in 1986 led to a review during the year of the balance sheet recognition of pension commitments and a corresponding adjustment.

The decline in **other operating expenses** is due to lower costs for maintenance work carried out on the building.

Therefore, the **profit before tax** was € 2.1 million higher year on year.

The tax ratio fell compared with the previous year from 32.8% to 29.7% because, in particular, the income from the partial release of the pension provision and the increased dividend payments were not included or only included to a small extent in the tax calculation.

Hence, the **net income for the year** was increased compared with the prior year by € 1.8 million to € 7.1 million, which represents a good result from the Management Board's point of view.

Of the net income, € 2.3 million are to be distributed to the shareholders. According to the recommendation by the Management Board, the dividend will be € 2.15 per preference share and € 2.10 per ordinary share with a notional par value of € 5.00. Therefore, the dividend is € 0.20 higher for preference shares and € 0.19 higher for ordinary shares than in the previous year.

Business development compared with the outlook for 2016
In the outlook section of the 2015 annual report, we expected a moderate decrease in the operating result of edding AG for the 2016 financial year, according to the assumptions for the development of the Group, with increased marketing expenses and rising sales revenues. Based on an annual net income in 2015 of € 5.4 million, this led to a forecast corridor for 2016 of between € 4.0 and € 5.5 million.

This forecast was upgraded to a corridor of between € 6.5 and 8.0 million in the ad hoc announcement of 17 November 2016, with the disclosure of the one-off effect from the partial release of a pension provision of around € 2.2 million.

The annual net income of edding AG of € 7.1 million is within the new forecast corridor. Adjusted for the one-off effect from pension provisions, the annual net income is also within the original corridor.

Net assets and financial position of edding AG

At € 66.0 million, the total assets of edding AG increased modestly by € 1.1 million as of 31 December 2016, compared with the balance sheet date in the previous year.

The carrying amount of the property, plant and equipment grew in the 2016 financial year by € 1.1 million. In particular, the following non-recurring item had to be reported: the assets and liabilities of the property special purposes vehicles edding AG & Co. Grundstücksverwaltung OHG and EDWU Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG (Formerly: DEGEDESTRA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG) were merged with edding AG in the 2016 financial year as a result of the scheduled expiration of the leasing constructs. This led, as of 31 December 2016, to an increase in the net carrying amount of the property, plant and equipment of € 0.9 million.

Year on year the volume of investment carried out by edding AG totalling € 1.4 million fell slightly by € 0.2 million. Within the scope of the investment volume for 2016, € 1.1 million was spent on property, plant and equipment (previous year: € 0.9 million), consisting mainly of investments in IT hardware, office supplies and laboratory equipment. Additions to intangible assets of € 0.3 million (previous year: € 0.7 million) relate exclusively to IT software.

Financial assets fell sharply year on year by € 35.5 million (31 December 2015: € 39.0 million). The main effects in this case are the write-downs of financial assets carried out in regard to the investments in the Turkish and Argentinian subsidiaries. A risk provision of € 0.6 million was made in the 2016 financial year for the equity holding in edding Argentina S.A. Moreover, in the first half of the year, a capital increase of € 0.3 million was carried out by edding AG for edding Ofis ve Kirtasiye Ürünleri Tic. Ltd. Sti., and in the further course of the financial year a risk provision of € 2.4 million was made for the participation.

Furthermore, the two property special purpose vehicles ceased to exist due to the abovementioned mergers, which was another reason for the decline in financial assets.

In addition, the business operations of the subsidiary edding Japan Inc. were terminated as of 31 December 2015 and the operational tasks were subsequently integrated in edding International GmbH. With effect as of 29 July 2016 the formal liquidation of the company was completed, which is why the remaining carrying amount of the shareholding had to be written off after appropriation of the liquidation proceeds.

The shares in affiliated companies and the participating interests are as follows compared to the prior year:

	31/12/2016 € '000	31/12/2015 € '000
Affiliated companies		
edding International GmbH	26,466	26,466
edding Ofis ve Kirtasiye Ürünleri Tic. Ltd. Sti. ((Turkey)	2,593	4,734
edding Argentina S.A. (Argentina)	1,897	2,514
V. D. Ledermann & Co. GmbH	1,534	1,534
Legamaster GmbH	700	700
EDDING (U.K.) LTD. (Great Britain)	658	658
edding Colombia S.A.S. (Columbia)	258	258
edding AG & Co. Grundstücksverwaltung OHG	–	400
EDWU Grundstücksverw. Ges. mbH & Co. Immobilien-Vermiet. KG (Formerly: DEGEDESTRA Grundstücksverw. Ges. mbH & Co. Immobilien-Vermiet. KG)	–	383
edding Japan Inc. (Japan)	–	48
edding Hellas Ltd. (Greece)	–	–
edding Mexico S. de R.L. de C.V. (Mexico)	–	–
	34,106	**37,695**
Holdings		
PBS Network GmbH	52	52
Beruf und Familie im Hansebelt gGmbH (Formerly: Beruf und Familie Stormarn GmbH	9	3
	61	**55**
	34,167	**37,750**

In addition to the participating interests and shares in affiliated companies, edding AG maintains a branch in Wunstorf, which does not conduct any business operations. Therefore, this branch is of minor importance for the edding Group.

As of 31 December 2016 a sharp increase of € 4.0 million was posted in the area of receivables from affiliated companies. On the one hand, the higher receivables from profit transfer agreements are responsible for this, which rose by € 1.2 million compared with the balance sheet date in the previous year. On the other hand, the balance of the liabilities of edding AG from internal settlement vis-à-vis edding International GmbH fell in the 2016 financial year by € 2.6 million. The other items on the assets side of the balance sheet only showed minor fluctuations as of 31 December 2016 compared with the balance sheet date in the previous year.

Equity grew in the year under review by a total of € 5.1 million, as the annual surplus generated in 2016 of € 7.1 million more than compensated for the dividend paid in the course of the year of around € 2.0 million. The equity ratio therefore increased, despite the increased balance sheet total, from 69.4% as of the balance sheet date in the previous year to 76.0% as of 31 December 2016.

Provisions fell as of 31 December 2016 year on year by a total of € 2.8 million to € 12.3 million. Essentially a fatality involving a member of the group of entitled persons based on an individual pension commitment and the discounting of pension provisions carried out for the first time as of 31 December 2016 at the average interest rate prevailing over the past ten years led to this decrease. In the area of other liabilities, the decrease in trade payables attributable to the reporting date and the lower amount of liabilities to banks resulting from the scheduled repayment of long-term loans are mainly responsible for the decrease in liabilities of edding AG by € 1.1 million compared with the balance sheet date in the previous year.

The company was solvent at all times in 2016 and as of the balance sheet date. This continues to be the case in the current financial year 2017.

General statement by the Management Board on the net assets, financial position and results of operations of the edding Group and edding AG

The Management Board considers the business performance in 2016 to be positive. Although the company was not able to achieve another record EBIT after three record years in succession from 2013 to 2015, 2016 was nevertheless one of the four best financial years in edding's history. Sales revenue increased by € 4.6 million to € 143.0 million and the EBIT of € 11.8 million is just under the previous year's figure. This is a good result and special thanks go to our employees for a particularly memorable year, in which we managed to forge ahead with many projects relating to organisational development within the scope of Strategy 2020.

In 2016, the picture was only clouded by a negative trend in our South American markets, which fell well short of their targets in both business segments due to the economic and political conditions, and were even faced with declining sales.

Once again the Visual Communication segment made a particular contribution to the positive development in 2016, although the double-digit growth of the previous year could not be repeated. After 14.2% in 2015, growth was only 7.0%, although in Germany, our most important individual market, the rate of growth was a pleasing 15.0%, and we were able to further extend our market share in this area. Another positive aspect was that not only the new products, but also the traditional range once again contributed to the overall growth in this business segment.

In the Writing and Marking segment, sales growth was only modest at 2.7%. This was especially attributed to the weakness in the overseas markets which we have already mentioned. In Germany and the other European markets, growth was, however, in the mid-single-digit percentage range, like in the previous year. Especially gratifying is the fact that we were able to achieve an increase in the Russian business again for the first time after several years.

The Management Board also rates the results of the parent company as positive. A record net income for the year of € 7.1 million was generated, but this was influenced by a one-time effect arising from a change in the valuation parameters for the pension obligations. Excluding this effect, a result was achieved that was just under the previous year's level, in line with the Group EBIT.

Performance of Group companies [5]

For the individual functions of the companies in the Group, please refer to the Organisational and Shareholding Structure section in this Combined Company and Group Management Report.

Parent company

The task of **edding Aktiengesellschaft** is the overall business management of its subsidiaries and affiliated companies. Key management functions, finance and controlling, human resources and IT are based at edding AG.

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, Legamaster GmbH and V. D. Ledermann & Co. GmbH and also include valuation effects on Group receivables and shares in affiliated companies. The result from investments amounts to € 17.4 million and is € 1.1 million lower than the previous year's figure. Considerably higher write-downs and value adjustments of shares in edding Ofis ve Kirtasiye Ürünleri Tic. Ltd. Sti. and edding Argentina S.A. can only be partially offset by higher profit transfers and investment income.

The lower result from investments contrasted with positive effects in particular from reduced personnel costs and from higher other operating income. Other operating income includes a one-time effect from the partial release of a pension provision which is not recognised in income in the consolidated income statement under IFRS.

The pre-tax result is € 10.2 million and therefore substantially exceeds the previous year's figure of € 8.0 million. A net income for the year of € 7.1 million remains after tax (previous year: € 5.4 million).

Subsidiaries

In the context of strategy development for the Visual Communication business segment, the synergies between the segments Writing and Marking and Visual Communication are assessed to be decreasing. Consequently it was decided that, for focus markets, a distinction would be made between the two segments in order to address the two separate markets in a more targeted manner. This approach was already taken a few years ago in the German market. Therefore, from the start of the year, the distribution companies for the Benelux region, and in the course of the year for France, were restructured and in some cases renamed. Since the beginning of 2016, local distribution for the Writing and Marketing segment for the Netherlands, Belgium and Luxembourg has been carried out by edding Benelux B.V. (Formerly: edding Legamaster B.V.). Legamaster B.V.B.A. (Formerly: edding Lega International B.V.B.A.) covers the area of Visual Communication in Belgium and Luxembourg and gradually for France, although the transition in France will only be completed in the course of 2017. Distribution for Visual Communication in the Netherlands is carried out via Legamaster International B.V.

[5] Comments on the subsidiaries are based on local accounting regulations.

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 and loss transfer agreement exists. The profit transferred from edding Vertrieb GmbH amounted to € 4.3 million (previous year: € 5.3 million). Sales revenues of edding International GmbH increased by 8%. The main growth drivers in this case were Germany, Russia, Turkey, Spain and the Netherlands. On the other hand, decreases in sales were posted in particular in Argentina and the UK. Given the mainly revenue-related reduction in transferred profit, the result increased by € 0.9 million versus the previous year to € 18.3 million. The profit was transferred to edding AG in accordance with the profit and loss transfer agreement.

Legamaster International B.V. (Netherlands) manages the Visual Communication business segment. In addition it has managed the local distribution of the business segment in the Netherlands previously undertaken by edding Legamaster B.V. (Netherlands) since 2016.

In total we saw the company's sales rise by 15%. Adjusted for the mentioned structural change, the international arm achieved an increase in turnover of 8%. A high level of growth was particularly achieved in Germany and Switzerland. On the other hand, sales in the UK fell as a result of the uncertainty in the market. If we compare local sales in the Netherlands with the previous year's sales, the rate is stable year on year. The overall increase resulted from both the classic communication product group and the interactive range, with a disproportionate level of growth being generated in particular with e-screens (LED screens with touch technology). Profit increased in line with the development of sales to € 0.9 million (previous year: € 0.6 million).

Local distribution companies specialising in Writing and Marking
edding Vertrieb GmbH generated sales growth of 5% in the year under review, which can be attributed to the new cooperation with Fiskars (distribution of cutting and stamping ranges) in addition to corresponding growth in the Writing and Marking segment. Positive developments resulted from both the business-to-business (B2B) and the business-to-consumer (B2C) sales channels, where significant growth was posted in online trading. This trend is supported overall by positive economic effects in Germany. The profit transferred to edding International GmbH of € 4.3 million was below the previous year's level of € 5.3 million due to increased personnel costs and marketing expenses, especially for the B2C category as investment in the future.

A comparison of the results of our subsidiary **edding Benelux B.V. (Netherlands, formerly: edding Legamaster B.V.)** with the previous year is only possible to a limited extent due to the changed focus strategy. Since financial year 2016, the company has carried out distribution for the Writing and Marking segment in Belgium, the Netherlands and Luxembourg. In the previous year, though, distribution was carried out solely in the Netherlands, but for both business segments. As a result sales revenues fell by 27% overall, with an increase of 46% being generated in the Writing and Marking segment. In the Netherlands, growth of 17% was achieved, which was particularly supported by the positive development in the B2C distribution channel. Across the company we see a stable sales trend for Belgium and Luxembourg in the Writing and Marking business segment. The company's profits rose due to the higher level of profitability in the Writing and Marking segment.

edding Ofis ve Kirtasiye Ürünleri Tic. Ltd. Sti. (Turkey) once again achieved significant sales growth of 19% in local currency. This is all the more pleasing given the continuing uncertainty in the market. 86% of total revenue is generated with the Writing and Marking segment, and growth for this operating area amounted to 22%. The annual result of the subsidiary was negatively affected by the devaluation of the Turkish lira versus the euro by approximately 9% compared with the average rate in the previous year. This led to added costs for the purchase of goods and to largely unrealised exchange losses from the valuation of Group liabilities. As a result of the strong growth in previous years, it was necessary to restructure the financing of the company, and in this connection there was a capital increase and an intra-group waiver of accounts receivable. Adjusted for this effect, earnings before interest and taxes (EBIT) were nevertheless up on the positive previous year's figure. The pre-tax result was also positive. The positive company result in the year under review was, however, overshadowed by the large degree of political and economic uncertainty, which intensified considerably in the period following the attempted putsch in June 2016; besides the significant volatility of the currency, the high levels of foreign public debt and high unemployment also played a part. In addition, the import duty for certain product groups was raised drastically in Q4 2016, and this, like the development of the exchange rate, had a negative impact on profit margins. In addition, the Turkish lira depreciated again in January 2017 by 9%.

The increase in revenue of **EDDING (U.K.) LTD.** of 2% in local currency was somewhat lower compared to the strong previous years. The weaker sales with some large international customers were absorbed by the positive trend in regard to local customers. In our opinion Brexit has not yet had a noteworthy impact on turnover in 2016, but the British pound depreciated significantly against the euro compared with the average rate by around 12%. This led to a corresponding rise in the company's goods purchasing costs, which can only be partially passed on to the market as a price increase. This meant that the annual result was lower year on year, but still very positive. At the present time the effects of the Brexit vote in the United Kingdom cannot be fully estimated. We expect the British pound to weaken further next year, although at present we are not anticipating that this will have a significantly negative impact on sales in 2017.

A portion of the sales of the Visual Communication segment of edding **France SAS** was generated for the first time via the Belgian Legamaster B.V.B.A. as part of the segment focus. Correspondingly, turnover in the French company fell by 10%. Excluding the structural change, this means a decrease in sales of 2%. The turnover of the Writing and Marking segment is almost at the previous year's level, which roughly equates to the development of the French market. With reduced costs, a slightly higher profit was generated than in the previous year.

A slight economic recovery was visible in Greece for the first time in years. **edding Hellas Ltd. (Greece)** increased its sales revenue by 16%. The annual result was up on the previous year, but still slightly negative, as expected. As a result of the somewhat improved market conditions combined with our continuing high market share, we can see a medium-term break-even result as a realistic prospect again for the first time.

The subsidiary **edding Mexico S. de R.L. de C.V. (Mexico)** will be closed down in 2017 as a consequence of the structural changes already initiated in previous years. Sales revenues are already generated via the Mexican distribution partner. The company posted a loss of € 0.5 million in 2016. This was also the result of exchange rate losses from the valuation of intra-group liabilities, write-downs of merchandise and partially still accruing cost items. The largest part of the intra-group receivables was transferred as a contribution in kind to the equity capital of edding Mexico S. de R.L. de C.V. as of 30 December 2016. The company was already in liquidation on the balance sheet date. Closure is to take place in the course of 2017.

Local distribution companies specialising in Visual Communication

Once again **Legamaster GmbH** was able to generate a satisfying increase in turnover of 16%. In contrast with previous years, this reflects not only the continuing very positive development of revenue from e-screen sales (LED screens with touch technology). Sales in the traditional visual communication segment also improved. The profit transferred to edding AG of € 0.2 million is, however, below the previous year's level of € 0.5 million. This is mainly due to a significant increase in costs in the area of logistics. Alternative options will be investigated for 2017.

Within the scope of the focus strategy, **Legamaster B.V.B.A. (Belgium, formerly: edding Lega International B.V.B.A.)**, part of the sub-group of Dutch companies, has covered the distribution of the Visual Communication business segment in Belgium and Luxembourg since 2016, and since September 2016 in France. Distribution for the Writing and Marking business segment is now carried out via edding Benelux B.V. Therefore, the turnover development of our Belgian subsidiary is also only comparable with the previous year to a limited extent. Sales revenues decreased overall by 19%, as the drop in turnover from the Writing and Marking segment could not be compensated for by the newly acquired sales revenue from the Visual Communication segment. Nevertheless an increase in sales of 7% adjusted for the acquisition of customers from France was achieved in the Visual Communication segment. The company result is well below the previous year's level due to the restructuring, but remains positive. We expect a significant increase in sales revenue and results in the coming years as a result of the further development of the business.

Local distribution companies with local production
At **edding Argentina S.A.** sales in local currency were 27% higher than in the previous year and therefore decreased by around 15% after adjustment for price rises. Contrary to expectations, the economic and social situation in Argentina has not improved but rather deteriorated even further following the election of Mauricio Macri and the government's initial corrective measures. Inflation, devaluation and high unemployment as well as low consumption are continuing. As a result of lower sales in conjunction with higher costs, which could not be passed on to the market in full, the annual result is clearly negative and below the previous year's level. It remains to be seen how the situation will develop in 2017.

edding Colombia S.A.S. had to contend with a decrease in sales of 6% in local currency for the first time in three years. In addition to the continuing weak economic conditions with heightened price pressure, this was due to increased stockpiling by large numbers of wholesalers in 2015. The Colombian peso gained slightly in value overall following a devaluation at the beginning of 2016, but remains volatile. The result of the subsidiary is also impaired by partially realised exchange rate losses from the valuation of currency derivatives. Consequently the annual result was negative and below the prior year figure. On the other hand, the operating result before exchange rate effects was positive. We are expecting an improvement in 2017.

Production company
The production company **V. D. Ledermann & Co. GmbH** achieved a higher capacity utilisation and thereby an increase in sales of 14%, in particular due to the improved development of Group sales in Spain and Russia. In addition, new products and customised displays had an effect. This led to a significant increase in earnings with a profit of € 0.7 million, which will be transferred to edding AG as per the profit transfer agreement.

Purchasing company with local distribution
The functions of **edding Japan Inc. (Japan)** were transferred to edding International GmbH at the beginning of the 2016 financial year. The company was closed down as of 31 July 2016, and was included in the Group result for 2016 with a small loss. edding AG received liquidation proceeds of € 0.6 million in the course of the company closure.

Leasing companies for commercial property
The assets and liabilities of the two leasing companies **EDWU Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG** (Formerly: DEGEDESTRA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG) and **edding AG & Co. Grundstücksverwaltung OHG** were transferred to edding AG in the course of the 2016 financial year after expiry of the financing periods. Please refer to the notes within the framework of the organisational structure. Overall expenses from the disposal of shares of € 0.1 million were recorded in edding AG.

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 2017, 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 2016 as the basis for our planning and budgets. In the Writing and Marking segment we are budgeting for a higher level of growth than in 2016. This applies to almost all the regions in Europe, with South East Europe clearly ahead of Northern Europe, and in terms of our markets in South America we are assuming that sales will rise again in 2017 after a price-adjusted decline in sales. Should the general level of economic demand improve even further in the next few years, especially in the Southern European markets and in France, this should 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 2017 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 further, as we are the only local brand producer in the marker segment. In the case of our core Latin American markets Argentina, Colombia and Ecuador, we are generally expecting some significant increases in 2017, which are also based on a reversal of the underlying economic trend. Should the political and economic conditions develop far more positively, especially in Argentina and Ecuador, we expect further positive effects on our sales revenue and results of operations.

Following the positive development of sales in Russia in 2016, we anticipate a continued increase in 2017, based on both a further improvement in marketing strategy and stabilisation of the economic climate as a whole. Should the economic situation in Russia markedly improve, this should have a positive effect on our sales revenue and results of operations.

Following significant growth in 2016 in Turkey, we are budgeting for relatively modest growth in this core edding market in 2017 due to the difficult overall situation. Should the political and economic effects improve in the short term contrary to expectations, this will also have a positive impact on our sales revenue and results of operations.

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 still see brand-extending projects as a key area with high potential. In the case of the edding L.A.Q.U.E. nail polish range, our aim for 2017 is to extend distribution in Germany, the core market, and to achieve initial broader listings in other European countries. Should we generate additional qualified distribution channels more quickly than planned, this will have a positive effect on our sales revenue and results of operations.

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 2016 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 tenth time in succession. In Turkey too, an independent market research company confirmed that in a survey of Paper, Office Supplies and Stationery brand producers, our Turkish distribution company had come out on top in all the relevant criteria compared with its peers in the industry. We are working continuously on the further optimisation of our customer relationships and are increasingly focusing on international B2C retailers, in both online and stationary trading. 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. In 2016 we successfully started our cooperation with the Fiskars brand in the German marketplace. We are currently discussing other country-specific cooperations with new and existing partnerships. These potential new cooperations are not planned in the business outlook. Should other attractive cooperations materialise in this area in the short term, 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 growing numbers of 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. Legamaster's success in terms of innovative product lines is borne out by the two relevant awards received simultaneously in our core markets:

Legamaster Magic Notes won the Benelux Office Product Award for the best marketing campaign in October 2016 and the German Association of the Paper, Office Supplies and Stationery Brand Industry voted this new range “Product of the Year” in the Commercial Office Supplies category. All in all, thanks to our premium processes and our high product quality/innovative strength, we continue to see 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 level of penetration of classrooms, conference rooms and specific industrial fields of application 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. Should we acquire more projects than planned with the help of these new products, this should have a positive effect on our revenue and results of operations.

Opportunities through the specialisation of distribution companies in Western Europe
In 2016 we focused our attention firmly on developing specialist distribution units for the Visual Communication segment. In Belgium/Luxembourg and the Netherlands we have been using organisationally independent companies to distribute Legamaster products since January 2016; the relevant French Legamaster customers have also been transferred by edding France SAS to the Belgian Legamaster distributor. Should we be able to acquire new trading partners more quickly than planned in 2017 and the following years with the specialised distribution units, especially in the interactive sector, this will have a positive effect on our revenue and results of operations.


Step-by-Step: Drawing a Car
car drawing

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 2016 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 / Performance risks

The edding Group is exposed to market risks on both the procurement and sales front. On the purchasing side the availability of finished goods primarily poses a potential risk. This risk has been countered in recent years by building up reserve stocks, which has led to a significant improvement in delivery performance.

To reduce pricing and purchasing risks on the procurement side, we also pursue a policy of longterm delivery contracts and continuous optimisation of our supplier portfolio. Agreements with price guarantees also serve to reduce negative effects caused by purchase price changes. In terms of core products produced externally, edding endeavours to establish a close cooperation with suppliers and includes them in new developments at a very early stage to secure economic success.

To reduce selling risks, edding has started to further strengthen the B2C segment with the Strategy 2020 initiative. Hence, wide-ranging adjustments have been made to the organisation, especially in retail marketing and distribution organisation, which already had a very positive effect on the result last year.

The EU Regulation concerning the Registration, Evaluation, Authorisation & Restriction of Chemicals (REACH) and other legal requirements are increasing the procurement and development risks within the Group. The product development process in the edding Group has been adjusted so as to ensure that we are fully informed about the latest product safety regulations in good time and are able to carry out product development in an even more targeted way. All product development plans are already supported by the Regulatory Affairs department during the ideas phase in order to further minimise development risks.

On the production side, edding AG has further optimised its prevention measures, especially at the Bautzen site, thus further reducing the likelihood of damage caused by natural hazards.

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. Unlike in previous years, the euro depreciated moderately, in particular against the US dollar and Japanese yen, currencies which are important for our goods procurement. On the other hand, the euro mostly strengthened against the currencies of countries which play a key role in our distribution. In relation to the US dollar, the long awaited turnaround on interest rates by the Fed, which came in December 2016, played a role, whereas the ECB’s expansionary monetary policy persisted. The weakness of currencies such as the British pound and the Turkish lira is, however, a homemade problem. The British pound fell sharply in value in the wake of the Brexit decision, while in Turkey confidence in politicians declined in light of the dramatic repercussions of the attempted putsch in June 2016. In Argentina, the economy has yet to pick up after the change of government in autumn 2015 and consumption is still at a very low level.

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, to a somewhat 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 Argentinian subsidiary the local foreign currency position has largely been balanced for several years.
- In the balance sheet of the Turkish subsidiary we carried out capital measures in 2016 so that the risk exposure would not increase as a result of higher Group trade payables.
- As in the year under review, in 2017 too the foreign currency item of edding Colombia S.A.S. will be hedged by a non-deliverable-forward (NDF) that we already concluded in Germany at the end of the previous year and have passed on internally within the Group.
- 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 only the Turkish subsidiary had any noteworthy bad debts in 2016. The level of irrecoverable bad debts on receivables remains within reasonable limits.

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 33 in the consolidated financial statements.

Staff risks

Committed, skilled and high-performing staff are one of the crucial success factors for the edding Group. We pool our long-term activities for the development and transfer of knowledge with our edding Campus. This training and further education programme opens up attractive, target group-specific development possibilities for all employees.

For education and training, we utilise in-house expertise in addition to external trainers. This is an approach which not only contributes to internal networking, but with which we also preempt risks such as loss of know-how through possible departures. In the interest of long-term staff retention at a time when there is a growing shortage of qualified personnel, our employees also benefit, on a site-by-site basis, from various measures in terms of occupational health management, support with balancing work and family life and other individual needs connected with work. As an international company, it is very important to provide these services globally. In the year under review we therefore pressed ahead with the internationalisation of personnel management tools, a process that started in 2014.

Across all international borders, we focussed on the global entrenchment of our corporate culture in 2016. To implement Strategy 2020, we aim to further develop our corporate culture. We see the edding culture as essential for success. This includes the imagination and courage to do things differently ("eddipreneurship") coupled with the ability to implement new ideas in a solution-oriented and effective manner ("eddiplementorship"). The common element that links these sometimes conflicting characteristics is the edding ink flowing in the veins of our employees ("edding ink"). With local culture workshops we have already created a platform in some markets through which to explain the good reasons for change and jointly discover and develop the cultural values behind it. This series will continue in 2017.

Reward for these and other activities: The global employee survey confirms that we were again an extremely attractive employer in 2016. In addition to staff loyalty, our focus is also on ensuring that we compete effectively for new specialists and managers. Therefore, in the year under review we initiated the continuous expansion of our employer branding activities.

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. 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 reduced dependence on the German market and therefore the performance of the German economy. We already achieved this objective a few years ago.

The growth markets identified in our Strategy 2020 outside Germany are especially in Latin America and South Eastern and Eastern Europe. These countries in particular are, however, especially volatile and therefore exposed to geopolitical and economic policy risks.

Especially in 2016 the developments in a large number of countries held us on tenterhooks. In addition to Turkey's attempted putsch of summer 2016, the terrorist attacks and a changing political climate, the Brexit decision in Great Britain is of course worthy of mention in this context. However, the economic policy situation in Argentina is also anything but stable, while in Europe sanctions against Russia are still in place. On the other hand, we do not expect the more protectionist economic policy adopted by the US administration under President Trump to have any direct effect on the edding Group due to a lack of notable sales in the region.

Despite the volatile and uncertain situation in **Turkey**, the Turkish distribution company managed to generate a significant increase in turnover and a pleasing result. Nevertheless, the strong depreciation of the Turkish lira against the euro, particularly at the end of the year, depressed the company's profits due to the resultant increase in goods purchasing costs. In addition, the weaker economic development in the country meant that a new provision for bad debts had to be made for around € 0.5 million. In light of this, the increase in the positive result is a particular success on the part of our staff on the ground.

In the first half of 2016 we carried out a significant capital increase in order to finance existing and future growth until 2020. At that time the sharp downturn and the now increasingly negative forecasts for the Turkish economy were not yet foreseeable. Another factor is the additional import duty on certain product groups that was introduced in November, which will cost us a low six-digit figure in additional duties in the Writing and Marking segment. In addition, the Turkish lira depreciated again in January 2017 by 9%. This exchange rate development is particularly influenced by the high level of foreign public debt and high unemployment in addition to the uncertainty of the situation and the darker future prospects. We are sure that we can at least partially pass this effect on to end users in the form of price increases, although our growth in the subsequent period will be somewhat lower than planned.

Nevertheless, we are sticking to our commitment and are sure that even under the current conditions we can generate profitable growth that will make a notable contribution to our growth targets for the Group until 2020, even though we had to significantly increase the write-downs of our investment in the Turkish company in the German individual financial statements due to the weaker year-on-year prospects.

At the present time the effects of the Brexit vote in the **United Kingdom** cannot be fully estimated. Devaluation of the British pound already took place at the beginning of Q3 2016, and we expect further moderate depreciation over time. Therefore, our UK-based subsidiary, EDDING (U.K.) LTD., may experience a further increase in procurement costs, which can be passed on to the market through price increases that have already partially been announced in the absence of locally producing competitors. Our competitors have also announced or already implemented corresponding price increases. In addition, economic output in the UK is expected to decline, which may lead to lower sales, but we anticipate that this can be offset at least in part by the market position that we have developed in previous years. The company's contribution to the Group's revenue in 2015 was 8%. Only minor effects on the earnings position were recorded in 2016. In the future, a negative earnings effect in the low-to-mid six-digit euro range may occur for the reasons specified above.

After the presidential election and the victory of the business-friendly candidate Mauricio Macri in **Argentina** at the end of 2015, the latter quickly took deregulatory measures, which then led to a sharp depreciation of the peso in December 2015. As virtually the only locally producing supplier in the market, we estimated that this long awaited devaluation would significantly improve our competitive position. Unfortunately the country's economic situation has so far not improved substantially, with continuing inflation, devaluation, high unemployment and low consumption, which has led to a significant, price-adjusted, decrease in sales and a negative result. Here too, we are sticking to our commitment and are expecting to break even again in 2017. Nevertheless, in light of this development, it was necessary to increase the risk provision in edding AG's financial statements. 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 Argentina S.A. is largely balanced in terms of the currency composition, and crisis-resistant. At Group level the company's assets have been written down since 2013. If the situation develops positively in the long term, there will be write-up potential again.

In **Russia** we were able to post rising sales revenues again for the first time in several years despite the continuing sanctions. Here we are currently investing anticyclically in the development of our brand in the country, and so we are expecting a further rise business volume in the coming years.

As already mentioned above, edding is hardly affected directly by the change of administration in the **US**. Should a wave of mutual trading barriers be created, the indirect effects will probably also be felt by edding, but at present this is not foreseeable and cannot be evaluated.

Finally we should mention the still not completely overcome European debt crisis, which is still afflicting Greece and Italy. However, both countries only play a minor role in terms of the current sales level of the edding Group and future growth, and so edding will be less affected should the crisis flare up again in these countries. Here too, there may of course be indirect developments should the problems spill over to other countries, but they cannot currently be predicted.

The refugee crisis in Europe and, particularly, in Germany, which was a concern for us in the past, now seems to be having more of a positive effect on the domestic economy. No significant risks stemming from this alone that could have an impact on edding can be identified at present.

Many of these impacts were already being felt in 2016 or even in previous years. Nevertheless, the edding Group was able to achieve new sales records and good results during this period several times in succession. This is, for example, a testament to the success of the risk diversification mentioned above through the broad sales base and the large number of countries in which edding is distributed.

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 or 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 and standard terms and conditions by lawyers.

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.

Std 3
2a
edding 8014
laboratory marker

Other Reporting

Remuneration report

Remuneration system

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 member 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.

Components of the Management Board's remuneration

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 either a defined benefit pension plan or a pension pledge through the conclusion of a direct insurance policy for the purposes of an old-age, disability and survivor's pension. Like any employee, the members of the Management Board also have the right to convert current earnings into a company pension. The company subsidises such a salary conversion for all employees by paying a fixed allowance of € 160.00 per annum.

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. They do not receive any additional remuneration for accepting directorships in Group companies.

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 15 June 2016 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 2016 to 2020 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 2016.

Compensation in the event of premature departure from the Management Board
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. No other contractual provisions have been made in this area.

Remuneration of the Supervisory Board
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 amounted to € 20,000.00 for the financial year 2015. No other remuneration or benefits for personally rendered services have been paid or granted to the members of the Supervisory Board. The basic remuneration of a member of the Supervisory Board is anticipated to be € 20,000.00 in the 2016 financial year.

Information relating to takeovers

Subscribed capital
The fully paid up share capital of edding AG amounted to € 5,366,095 as of 31 December 2016 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 are non-voting.

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). If the preferred dividend has to be paid retrospectively and is not paid, or not paid in full, in any given year and is not paid in the following year in addition to the full preferred dividend for that year, preference shareholders shall be granted voting rights until the arrears have been settled. If the preferred dividend does not have to be paid retrospectively and is not paid, or not paid in full, in any given year, preference shareholders shall be granted voting rights until the preferred dividend has been paid in full in any given year. For as long as the voting rights exist the preference shares shall also be taken into account when calculating a capital majority required by law or under the company's articles of association.

Direct or indirect holdings

Holdings (including indirectly 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 Angelika Schumacher
Ms Dina Alexandra Schumacher
Mr David Alexander Schumacher
Ms Beatrix Ledermann
Ms Julia Marie Ledermann
Mr Jan Moritz Ledermann
Mr Léon Thadaeus Ledermann (new addition in March 2017)
Mr Per Ledermann
Ms Anika Ledermann (new addition in January 2016)
Mr Yannick Nicolas Ledermann
Ms Elisa Sophie Ledermann (new addition in January 2016)
Mr Luis Gabriel Ledermann (new addition in January 2016)

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 Annual General Meeting 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.

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/corporate-governance/erklaerung-zur-unternehmensfuehrung/.

Report on post-balance sheet date events

For transactions or events with a significant impact on the results of operations, assets and financial position of edding AG and the edding Group occurring after the end of the reporting period, we refer to Note 44 in the Notes to the Consolidated Financial Statements and Note 37 in the Notes to the Financial Statements of edding AG for the 2016 financial year.

Outlook

Economic development in 2017 is influenced by many geopolitical factors that make a forecast difficult.

The large number of political currents, often tending towards protectionism following previously collective action, are opening up many bilateral playing fields, the effects of which are frequently difficult to foresee. Above all, the size and number of the countries affected is worrying, namely the USA, Russia, Turkey, Brazil, the Middle Eastern states, to name but a few.

Nevertheless, the International Monetary Fund is anticipating a positive economic scenario and forecasts 3.4% global economic growth, driven by the emerging markets, but 1.6% for the eurozone and 1.5% for Germany. Consequently Russia will be able to leave behind the recession with growth of 1.1%.

The same applies to Latin America, which was already unable to live up to expectations in 2016 and therefore remains beset by uncertainty. However, should Brazil return to the growth zone and reform efforts in Argentina bear fruit, the downward trend in this region may have bottomed out.[6]

Despite the generally worrying and confusing situation on the global markets, the mood in the German market is quite positive overall. In the retail trade with stationery, school and office products, dealers assessed their current situation as being less unfavourable, although they no longer rate their prospects for the near future quite so positively. Prices were already raised in the reporting month, and the increase in prices is even set to accelerate in the next few months. According to an extract from the results of the wholesale trade, in the area of consumer goods both sub-indicators went up, meaning that the business climate visibly improved.[7]

Traditionally we only react to current economic developments on a risk-oriented basis, as our strategies are long-term rather than following short-term economic cycles. Currently our activities are focusing on the organisation and implementation of Strategy 2020.

In the area of the edding brand, we are concentrating on two main tasks. On the one hand, we aim to expand our market shares in the highly competitive business-to-business sector while, on the other hand, establishing our brand in the business-to-consumer sector. In both areas our brand strength and the portfolios developed with a precise focus on the end consumer form the basis for our work. Owing to our differing market position and the diversity of the distribution channels in the two sectors, we have decided to operate with specially selected teams for each.

[6] IMF, World Economic Outlook Update, January 2017
[7] ifo economic barometer 12/2016

As part of our brand expansion in 2016, we introduced a considerably extended and more attractive toner range.

The basis for the management and focus of the organisation on strategy implementation is the balanced scorecard system 2020 developed in 2016, which defines goals connected to the corporate strategy for all core functions.

The key projects for 2017 also serve to implement our Strategy 2020. Especially the further rollout of the Product Information Management System introduced in 2016, in which worldwide product data is combined centrally, is the centre piece of our growth, not only in relation to our online customers. The “Workplace 2.0” project, which is designed to ensure that we remain attractive as an employer in the future, and the further optimisation of our internal communication platform SoCoNet serve to maintain our excellent staff motivation and to facilitate an intensified exchange across departmental and locational boundaries.

We also take account of the increased regulatory requirements for chemical substances in various development and procedural projects.

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.

After weighing up the existing opportunities and risks for further business development in the coming year 2017, we are expecting an operating result comparable with the consolidated financial statements 2016, with moderately increasing sales revenue. Both segments will contribute to the increased revenue. In terms of the segment results, we expect a comparable development of earnings for both segments, with a substantial increase in expenses in the area of Marketing and Trade Marketing. In previous years these expenses fell well short of the planned or desired level.

In our opinion, the key control parameters will develop as follows:

	2015 € m	2016 € m	Forecast 2017 € m
edding Group			
Sales revenue	138.4	143.0	147.0 - 155.0
EBIT	12.2	11.8	10.5 - 13.0
Approval ratings from the employee survey			
Employee commitment*	good	89 %	85 - 90 %
Quality of the performance environment *	good	81 %	75 - 85 %
edding AG (individual financial statements)			
Profit after tax	5.4	7.1	4.2 - 5.7

* Until 2015 the results of the employee survey were evaluated with a system of grades. Since 2016 a two-dimensional strategic fitness model has been used.

Ahrensburg, 20 April 2017

The Management Board

Per Ledermann Thorsten Streppelhoff Sönke Gooß


edding
permanent spray
edding
permanent spray
edding
permanent spray
EFFECT
RUST
edding
permanent spray

Alternative key performance indicators

This document and other documents which edding AG or the edding Group has published or may publish contain key financial performance indicators for explaining the results of operations, assets and financial position which are not defined according to national or international accounting regulations and are defined below. If the definition of a key performance indicator of edding AG varies from the valid definition for the edding Group, the key indicator for the edding Group and for edding AG will be explained separately. Unless stated otherwise, the reconciliation of the alternative key performance indicator is based on the results of operations, assets and financial position of this Combined Company and Group Management Report.

Result from investments
edding Group: Result from other holdings plus financial result.

edding AG: Result from profit transfer agreements plus earnings from holdings plus/minus write-ups/write-downs of financial assets plus/minus write-ups/write-downs of receivables from affiliated companies/holdings.

EBIT margin
EBIT in relation to sales revenues in percent.

Equity ratio
Equity in relation to total capital in percent.

(Group) earnings before taxes (EBT)
edding Group: Abbreviation for "Earnings Before Taxes". EBIT plus investment income and financial result, before taking into account taxes on income as well as deferred tax expenses/tax income.

edding AG: Abbreviation for "Earnings Before Taxes". Investment income plus financial result, before taking into account taxes on income as well as deferred tax expenses/tax income.

(Group) earnings before interest and taxes (EBIT)
edding Group: Abbreviation for "Earnings Before Interest and Taxes". Total output less cost of materials, personnel expenses and depreciation plus other operating income and less other operating expenses. EBIT is the most important key figure for profitability management in the edding Group. No adjustment has been made for any extraordinary income or expenses.

edding AG: Abbreviation for "Earnings Before Interest and Taxes". Investment income plus sales revenues and other operating income minus personnel costs, depreciation and other operating expenses/other taxes.

Financial result
Interest and similar income minus interest and similar expenses plus/minus write-ups/write-downs of securities.

Total output
edding Group: Sales revenues plus/minus changes in inventories and own work capitalised.

edding AG: Sales revenues plus other operating income.

Quick ratio
Cash and cash equivalents plus current assets (excluding inventories and excluding prepaid/deferred items) in relation to current liabilities.

Gross profit
Total output less cost of materials.

Gross profit ratio
Gross profit in relation to total output in percent.

Group result adjusted for non-cash items
Group result plus non-cash expenses and minus non-cash income. The non-cash expenses and income in the edding Group regularly result from depreciation and amortisation of non-current assets, unrealised foreign currency losses/gains, deferred tax claims, changes in pension provisions as well as impairment of inventories and trade accounts receivable and other receivables. The reconciliation of the group result adjusted for non-cash items is shown in the consolidated cash flow statement of these interim consolidated financial statements.

Cool
IT'S
FRESH
edding
Glass, Metal, Plastic, Paper
1-2 mm

Consolidated Financial Statements
of edding AG as at 31 December 2016

Consolidated statement of financial position as at 31 December 2016

ASSETS	Note	31/12/2016 € '000	31/12/2015 € '000
Goodwill	8	2,754	2,754
Other intangible assets	8	1,020	975
Property, plant and equipment	9	12,304	13,011
Investment property	10	664	665
Other financial assets	11	3,482	3,474
Deferred tax assets	31	531	1,477
Income tax receivables	31	239	307
Trade receivables	13	96	88
Other receivables and assets	13	4,814	4,432
NON-CURRENT ASSETS		**25,904**	**27,183**
Inventories	12	29,703	29,091
Trade receivables	13	22,772	21,365
Income tax receivables	31	350	309
Other receivables and assets	13	1,746	2,176
Cash and cash equivalents	14	17,055	17,111
Prepaid expenses and deferred charges	15	1,190	1,269
CURRENT ASSETS		**72,816**	**71,321**
TOTAL ASSETS		**98,720**	**98,504**

EQUITY AND LIABILITIES	Note	31/12/2016 € '000	31/12/2015 € '000
Share capital	16	5,366	5,366
Capital reserve	16	4,246	4,246
Retained earnings and net earnings	16	53,044	47,864
Other changes in equity	16	– 7,615	– 7,522
Equity attrib. to shareholders of edding AG		**55,041**	**49,954**
Non-controlling interests	16	– 50	245
EQUITY		**54,991**	**50,199**
Provisions for pensions	17	12,623	15,227
Deferred tax liabilities	31	68	57
Other non-current provisions	18	1,323	546
Non-current financial liabilities	19	3,506	4,005
Other non-current liabilities	20	1,457	1,236
NON-CURRENT LIABILITIES		**18,977**	**21,071**
Short-term provisions	18	20	389
Current financial liabilities	19	4,484	6,394
Trade payables	20	3,810	5,265
Other current liabilities	20	15,874	14,445
Income tax liabilities	31	564	741
CURRENT LIABILITIES		**24,752**	**27,234**
TOTAL EQUITY AND LIABILITIES		**98,720**	**98,504**

Consolidated income statement
for the period from 1 January to 31 December 2016

	Note	2016 € '000	2015 € '000
Sales revenue	23	143,014	138,371
Changes in inventories and own work capitalised	24	190	755
TOTAL OUTPUT		**143,204**	**139,126**
Raw materials and consumables used	25	– 52,296	– 51,252
Employee benefits expense	26	– 36,692	– 35,394
Depreciation expense	27	– 2,360	– 2,507
Other operating income	28	5,612	5,694
Other operating expenses	29	– 45,620	– 43,447
Total operating expenses		**–131,356**	**–126,906**
EARNINGS BEFORE INTEREST AND TAXES (EBIT)		**11,848**	**12,220**
Result from equity-accounted companies	11	–	– 106
Result from other holdings	11	5	5
Financial result	30	– 275	14
Financial result and result from investments		**– 270**	**– 87**
PROFIT BEFORE TAXES		**11,578**	**12,133**
Income taxes	31	– 4,437	– 3,584
GROUP ANNUAL RESULT		**7,141**	**8,549**
of which attributable to:			
Shareholders of edding AG		7,249	8,659
Non-controlling interests		– 108	– 110
Earnings per ordinary share (600,000 shares)	32	6.69 €	8.00 €
Earnings per preference share (473,219 shares)	32	6.83 €	8.16 €

Consolidated statement of comprehensive income for the period from 1 January to 31 December 2016

	2016 € '000	2015 € '000
Group annual result	**7,141**	**8,549**
Items which are not subsequently reclassified to profit or loss		
Pension obligations		
Actuarial gains/losses	1,490	– 133
Deferred taxes	– 358	30
	1,132	**– 103**
Items which are subsequently reclassified to profit or loss provided certain conditions are met		
Currency translation difference		
Equity attrib, to shareholders of edding AG	– 1,106	– 1,026
Non-controlling interests	– 26	17
	– 1,132	**– 1,009**
Cash flow hedges		
Fair value changes recognised in other comprehensive income	1,021	637
Transferred to profit and loss	– 1,186	151
Deferred taxes	46	– 231
	– 119	**557**
Other comprehensive income	**– 119**	**– 555**
Total comprehensive income	**7,022**	**7,994**
of which attributable to:		
Shareholders of edding AG	7,156	8,087
Non-controlling interests	– 134	– 93

For more details, see Note 16 to the Consolidated Financial Statements.

Consolidated statement of cash flows

Indirect method[1]

	2016 € '000	2015 € '000
Profit after tax	7,141	8,549
+ depreciation of fixed assets	2,360	2,507
– decrease in provisions for pensions	– 1,113	– 147
+/– other non-cash expenses / income	2,371	444
Group result adjusted for non-cash items	**10,759**	**11,353**
+ loss from the disposal of fixed assets	14	48
– Increase in inventories	– 857	– 135
– Increase in trade receivables	– 1,415	– 625
– Increase in other assets	– 1,141	– 964
– increase / + decrease in trade payables	– 1,455	396
+ increase in other liabilities	617	169
Cash flow from operating activities	**6,522**	**10,242**
+ cash receipts from the sale of intangible assets and property, plant and equipment	54	160
– Payments for investments / + incoming payments from divestments		
property, plant and equipment	– 1,303	– 1,568
intangible assets	– 430	– 669
financial assets	– 8	7
Cash flow from investing activities	**– 1,687**	**– 2,070**
– dividend payment to shareholders of edding AG	– 2,069	– 2,069
– dividend payment to non-controlling shareholders [2]	– 161	–
+ cash receipts from borrowings	321	2,825
– cash payments for the redemption of loans	– 2,206	– 1,585
– payments from current financial liabilities	– 523	– 556
Cash flow from financing activities	**– 4,638**	**– 1,385**
Net change in cash and cash equivalents	197	6,787
+/– effect of exchange rate fluctuations	– 253	0
+ cash and cash equivalents at the beginning of the period	17,111	10,324
Cash and cash equivalents at the end of the period	**17,055**	**17,111**

[1] For explanations see Note 37 to the notes to the consolidated financial statements
[2] The dividend payment of € 161,000 is solely attributable to the non-controlling shareholder of the former subsidiary edding Japan Inc. and includes a pro rata share capital repayment of € 17,000.

Statement of changes in equity for the period from 1 January to 31 December 2016

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

	Share capitall € '000	Capital reserves € '000	Retained earnings and net earnings € '000	Reva- luation of pension obligations € '000	Currency- trans- lation difference € '000	Cash flow hedges € '000	Equity attrib. to share- holders of edding AG € '000	Non- con- trolling interests € '000	**Total € '000**
01/01/2015	**5,366**	**4,246**	**41,274**	**– 3,187**	**– 3,480**	**– 283**	**43,936**	**338**	**44,274**
Group annual result	–	–	8,659	–	–	–	8,659	– 110	8,549
Other comprehensive income	–	–	–	– 103	– 1,026	557	– 572	17	– 555
Total comprehensive income	**–**	**–**	**8,659**	**– 103**	**– 1,026**	**557**	**8,087**	**– 93**	**7,994**
Dividend payments	–	–	– 2,069	–	–	–	– 2,069	–	– 2,069
31/12/2015	**5,366**	**4,246**	**47,864**	**– 3,290**	**– 4,506**	**274**	**49,954**	**245**	**50,199**
Group annual result	–	–	7,249	–	–	–	7,249	– 108	7,141
Other comprehensive income	–	–	–	1,132	– 1,106	– 119	– 93	– 26	– 119
Total comprehensive income	**–**	**–**	**7,249**	**1,132**	**– 1,106**	**– 119**	**7,156**	**– 134**	**7,022**
Dividend payments	–	–	– 2,069	–	–	–	– 2,069	– 161[1]	– 2,230
31/12/2016	**5,366**	**4,246**	**53,044**	**– 2,158**	**– 5,612**	**155**	**55,041**	**– 50**	**54,991**

For more details, see Note 16 to the Consolidated Financial Statements.

[1] The dividend payment of € 161,000 is solely attributable to the non-controlling shareholder of the former subsidiary edding Japan Inc. and includes a pro rata share capital repayment of € 17,000.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GERMANY

Notes to the Consolidated Financial Statements

1 Segment reporting

	Writing and Marking € '000	Visual Communi-cation € '000	Total segments € '000	Reconci-liation € '000	**edding Group € '000**
2016					
External sales revenue	107,761	34,484	142,245	769	**143,014**
Depreciation expense	1,167	101	1,268	1,092	**2,360**
Segment result (EBIT)	18,982	1,814	20,796	− 8,948	**11,848**
2015					
External sales revenue	105,256	32,220	137,476	895	**138,371**
Depreciation expense	1,425	104	1,529	978	**2,507**
Segment result (EBIT)	20,241	1,916	22,157	− 9,937	**12,220**

For more details on segment reporting, see Note 36.

2 Development of fixed assets (in € '000)[1]

2016	Acquisition cost 01/01/2016	Currency transla-tion	Additions	Transfers	Disposals	Acquisition cost 31/12/2016
Intangible assets						
Goodwill	4,277	– 14	–	–	–	4,263
Customer bases, trademarks	5,154	–	–	–	880	4,274
Other intangible assets	5,206	– 58	215	259	16	5,606
Advance payments on intangible assets	563	–	131	– 175	–	519
	15,200	**– 72**	**346**	**84**	**896**	**14,662**
Property, plant and equipment						
Land, land rights and buildings including buildings on land owned by others	26,948	– 58	13	151	118	26,936
Technical equipment and machinery	24,478	– 11	260	11	145	24,593
Office and other equipment	12,238	– 127	943	– 235	412	12,407
Advance payments and assets under construction	45	– 5	171	– 11	–	200
	63,709	**– 201**	**1,387**	**– 84**	**675**	**64,136**
Investment property	**4,182**	**–**	**2**	**–**	**–**	**4,184**
Other financial assets	**3,474**	**–**	**8**	**–**	**–**	**3,482**
Group fixed assets	**86,565**	**– 273**	**1,743**	**–**	**1,571**	**86,464**

[1] Rounding differences might occur

Accumulated depreciation 01/01/2016	Currency translation	Additions	Transfers	Write-ups	Disposals	Accumulated depreciation 31/12/2016	Net carrying amounts 31/12/2016	Net carrying amounts 31/12/2015
1,523	– 14	–	–	–	–	1,509	2,754	2,754
5,154	–	–	–	–	880	4,274	–	–
4,794	– 56	306	76	–	15	5,105	501	412
–	–	–	–	–	–	–	519	563
11,471	**– 70**	**306**	**76**	**–**	**895**	**10,888**	**3,774**	**3,729**
21,217	– 56	332	147	–	118	21,522	5,414	5,731
18,869	– 39	867	–	22	72	19,603	4,990	5,609
10,578	– 134	852	– 223	–	395	10,678	1,729	1,660
34	– 5	–	–	–	–	29	171	11
50,698	**– 234**	**2,051**	**– 76**	**22**	**585**	**51,832**	**12,304**	**13,011**
3,517	**–**	**3**	**–**	**–**	**–**	**3,520**	**664**	**665**
–	**–**	**–**	**–**	**–**	**–**	**–**	**3,482**	**3,474**
65,686	**– 304**	**2,360**	**–**	**22**	**1,480**	**66,240**	**20,224**	**20,879**

2015	Acquisition cost 01/01/2015	Currency translation	Additions	Transfers	Disposals	Acquisition cost 31/12/2015
Intangible assets						
Goodwill	4.310	– 33	–	–	–	4.277
Customer bases, trademarks	5.405	–	–	–	251	5.154
Other intangible assets	5.004	– 126	302	26	–	5.206
Advance payments on intangible assets	277	–	371	– 30	55	563
	14.996	**– 159**	**673**	**– 4**	**306**	**15.200**
Property, plant and equipment						
Land, land rights and buildings including buildings on land owned by others	26.771	– 90	302	4	39	26.948
Technical equipment and machinery	24.591	– 260	464	49	366	24.478
Office and other equipment	12.716	– 233	723	–	968	12.238
Advance payments and assets under construction	97	– 13	11	– 49	1	45
	64.175	**– 596**	**1.500**	**4**	**1.374**	**63.709**
Investment property	**4.119**	**–**	**63**	**–**	**–**	**4.182**
Financial assets						
Shares in equity-accounted companies	3.440	–	–	–3.334	106	–
Other holdings	147	–	–	3.334	7	3.474
	3.587	**–**	**–**	**–**	**113**	**3.474**
Group fixed assets	**86.877**	**– 755**	**2.236**	**–**	**1.793**	**86.565**

Accumulated depreciation 01/01/2015	Currency translation	Additions	Transfers	Write-ups	Disposals	Accumulated depreciation 31/12/2015	Net carrying amounts 31/12/2015	Net carrying amounts 31/12/2014
1,556	– 33	–	–	–	–	1,523	2,754	2,754
5,405	–	–	–	–	251	5,154	–	–
4,628	– 124	291	–	–	1	4,794	412	376
14	–	–	–	–	14	–	563	263
11,603	**– 157**	**291**	**–**	**–**	**266**	**11,471**	**3,729**	**3,393**
20,725	– 90	608	–	–	26	21,217	5,731	6,046
18,339	– 190	948	–	–	228	18,868	5,609	6,252
11,071	– 201	660	–	–	952	10,578	1,660	1,645
47	– 13	–	–	–	–	34	11	50
50,182	**– 494**	**2,216**	**–**	**–**	**1,206**	**50,698**	**13,011**	**13,993**
3,517	**–**	**–**	**–**	**–**	**–**	**3,517**	**665**	**602**
–	–	106	–	–	106	–	–	3,440
–	–	–	–	–	–	–	3,474	147
–	**–**	**106**	**–**	**–**	**106**	**–**	**3,474**	**3,587**
65,302	**– 651**	**2,613[1]**	**–**	**–**	**1,578**	**65,686**	**20,879**	**21,575**

[1] Of the € 2,613,000 depreciation for the financial year shown here, € 2,507,000 is reported in the consolidated income statement under Depreciation and € 106,000 in the results from equity-accounted companies.

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 2017, 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:

Legamaster GmbH, Ahrensburg
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 2016. 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 43 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.

As of the balance sheet date 31 December 2016, the following change was made to the scope of consolidation:

The closure of the subsidiary edding Japan Inc. was completed in full in financial year 2016, as forecast in the previous year's financial statements. The company was deconsolidated according to the requirements of IFRS 10 as at 29 July 2016.

The former property company edding AG & Co. Grundstücksverwaltung OHG was merged with edding AG in the wake of the withdrawal of the two personally liable external shareholders as of 31 August 2016.

The leasing agreement of DEGEDESTRA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG for the business premises in Wunstorf expired on 29 February 2016. In the wake of this, edding AG acquired the 2% limited partner shares from the existing external limited partner and the newly formed 100% subsidiary EDWU Grundstücksverwaltungsgesellschaft mbH joined the company as general partner. DEGEDESTRA was then renamed EDWU Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG. As of 31 October 2016 the general partner EDWU Grundstücksverwaltungsgesellschaft mbH withdrew from EDWU Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG. EDWU Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG subsequently merged with edding AG as of 31 October 2016. In addition, edding AG sold its stake in EDWU Grundstücksverwaltungsgesellschaft mbH to edding International GmbH with effect from 6 December 2016 at a purchase price of € 25,000. EDWU Grundstücksverwaltungsgesellschaft mbH will be fully integrated in the edding consolidated financial statements as of 31 December 2016 and merged with edding International GmbH with effect from 1 January 2017.

5 Consolidation principles

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

Business combinations are accounted for according to 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 recognised 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.

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.

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.

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

Currency area		Closing rate 31/12/2016	Closing rate 31/12/2015	Average rate 2016	Average rate 2015
Great Britain	GBP	0.86	0.74	0.82	0.72
Japan	JPY	123.40	131.66	120.42	133.52
Mexico	MXN	21.77	18.89	20.68	17.67
Turkey	TRY	3.71	3.18	3.35	3.04
Argentina	ARS	16.71	14.11	16.46	10.40
Colombia	COP	3,127.34	3,421.08	3,339.73	3,047.79
Brazil	BRL	3.43	4.26	3.86	3.70
Miscellaneous	USD	1.05	1.09	1.10	1.11

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.

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 inaccordance 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 or in other comprehensive income.

Intangible assets
Goodwill, 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 life. In principle, 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.

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 is any indication that an asset may be impaired.

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.

Scheduled depreciation is mainly based on the following useful lives:

	in years
Factory and office 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, provided it is material.

Impairment

In the case of all intangible assets 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 there is a “triggering event”. 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 (CGU), the depreciation is determined based on the recoverable amount of this CGU. In cases where the recoverable amount of the CGU 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 2016, a pre-tax discount rate (weighted average cost of capital [WACC]) of 7.36% (previous year: 8.22%) was used. 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 CGU. 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 CGU. The determined cash flows reflect management assumptions and are backed up by external information sources.

When validating the values in use calculated for the CGU, the key parameters of each CGU are reviewed annually. In addition, the main assumptions applied for the DCF model are subjected to a sensitivity test in order to test the resilience of the values in use. The achievable amounts of all the CGUs tested in the edding Group were, with the exception of the CGU 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 CGU of the edding Group would not lead to an impairment and the disclosure of a sensitivity analysis was waived.

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

The other holdings in non-consolidated companies reported under financial assets are classified as "available for sale" in accordance with IAS 39. These are measured at cost in accordance with IAS 39.46(c), as their fair value cannot be reliably measured.

Derivative financial instruments

Derivative financial instruments as defined by IAS 39 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.

Derivative financial instruments 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. For existing default and transfer risks, the receivables and other assets are recognised at the lower realisable amount, taking into account specific valuation allowances. 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.

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 2016 were applied for financial year 2016. We refrained from the premature application of standards that were not yet mandatory as of 31 December 2016. Starting with the financial year 2016, 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
Amendment to standards		
IAS 19	Defined Benefit Plans: Employee Contributions	01/02/2015 (EU)
Miscellaneous	Annual Improvements to IFRS (2010 – 2012 cycle)	01/02/2015 (EU)
IAS 1	Guidelines on Implementation of the Concept of Materiality	01/01/2016 (EU)
IAS 16 / 38	Clarification of Acceptable Methods of Depreciation and Amortisation	01/01/2016 (EU)
IAS 16 / 41	Agriculture: Bearer Plants	01/01/2016 (EU)
IAS 27	Equity Method in Separate Financial Statements	01/01/2016 (EU)
IFRS 10 / IFRS 12 / IAS 28	Investment Entities: Applying the con-solidation exception	01/01/2016 (EU)
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	01/01/2016 (EU)
Miscellaneous	Annual Improvements to IFRS (2012 – 2014 cycle)	01/01/2016 (EU)

The Annual Improvements to IFRS (2010 - 2012 cycle) comprise one clarification on IFRS 8 “Operating Segments”. In accordance with IFRS 8, under the 2010 - 2012 cycle, application of which is mandatory in the European Union as of 1 February 2015, the disclosure of measurement of all assets and liabilities must be published in the disclosures for segment reporting if this is included in the internal reporting to the entity’s chief operating decision maker. In addition, only in this case should a reconciliation of the total of the reportable segments' assets to the entity's assets be disclosed. edding already dispensed with the separate disclosure of segment assets in accordance with IFRS 8 in the consolidated financial statements as from financial year 2015 because such a representation is not used for internal controlling purposes.

The changes to IAS 1 “Guidelines on Implementation of the Concept of Materiality” essentially relate to clarification of the treatment of notes to the financial statements and of primary components of the financial statements as well as the subdivision of items and subtotals. The clarifications were taken into account for the first time as of 31 December 2016 for presentation of the primary components of the Consolidated Financial Statements and in the Notes to the Consolidated Financial Statements. They led, for example, to the reduction of unimportant information and to the adjustment of the presentation of tables.

The other amendments to standards which were applicable for the first time had no material, impact on the Consolidated Financial Statements of edding AG.

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 2016:

Standard / Interpretation	Content of reform / Revision	Mandatory application	Adoption by EU expected	Expected effects
New standards and interpretations				
IFRS 9	Financial Instruments	01/01/2018	yes	See following explanation
IFRS 14	Regulatory Deferral Accounts	01/01/2016	not planned	none
IFRS 15	Revenue from Contracts with Customers	01/01/2018	yes	See following explanation
IFRS 16	Leasing	01/01/2019	yes	See following explanation
Amendment to standards				
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	01/07/2017	yes	none
IAS 7	Disclosure Initiative: Statement of Cash Flows	01/01/2017	yes	Additional information on the causes of changes to financial liabilities from financing activities in a reconciliation
IFRS 2	Classification and Measurement of Share-based Payment Transactions	01/01/2018	yes	none
IFRS 4	Applying IFRS 9	01/01/2018	yes	none
IFRS 10 / IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	deferred	deferred	Because of the uncertainty concerning the definitive standard, no evalution of the effects has been carried out to date.

IFRS 9 "Financial Instruments"

On 24 July 2014 the IASB issued the final version of IFRS 9 "Financial Instruments". The standard must be applied in the EU from financial year 2018 as a mandatory requirement and replaces the existing standard IAS 39 "Financial Instruments: Recognition and Measurement". Analysis of the impact of IFRS 9 on the Consolidated Financial Statements of edding AG has not yet been completed. The current status of the analysis is described below:

IFRS 9 contains a new model for the classification of financial assets. There are no changes for financial liabilities, with the exception of liabilities which are classified as measured at fair value through profit or loss. Likewise, a new model has been introduced for the measurement of impairment of financial assets. The existing "Incurred Loss Model" is replaced by an "Expected Credit Loss Model", which is geared more to the future. When measuring impairment, there is a choice of three different approaches. The edding Group will probably use the "simplified approach". On initial recognition and on each subsequent balance sheet date, a risk provision must be recorded in the amount of the expected credit default over the entire term. On account of the short term to maturity, no significant change in the amount of risk provision for trade receivables is expected through the application of the new model. This assessment also applies to the recognition and measurement of other active contractual items. According to IFRS 9 it is permitted to apply an impairment matrix as practical relief for the measurement of expected credit defaults on trade receivables. The edding Group is currently working on adjusting the previously implemented impairment matrix.

Beyond this, IFRS 9 does not stipulate any fundamental changes to the existing rules on the accounting of hedge relationships. However, the standard is intended to present risk management activities more accurately and make the accounting of hedge relationships more flexible. A relevant innovation for the edding Group is, in particular, the possibility of recognising a change in the fair value of a currency option or the interest rate components of a forward exchange transaction in other comprehensive income. As of 31 December 2016 the application of this option would have impacted on the Group result to the tune of € 335,000 (income). The amount is expected to be in this range in subsequent years.

In addition, the existing option under IAS 39.46(c) for the measurement of unquoted equity instruments at cost has not been included in IFRS 9. Instead, under IFRS 9 a fair value is to be determined in future. The edding Group reported shares in other companies measured at cost of € 3,482,000 as of 31 December 2016. We assume that the shares in these companies do not contain any material hidden reserves or charges, and so, based on an initial preliminary assessment, we do not expect any significant effect from the initial recognition at fair value on the results of operations, assets and financial position. Under IFRS 9, equity instruments can either be classified as recognized at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL). We have yet to make a decision on this. As yet we cannot make a reliable assessment of the effects of the introduction of IFRS 9 on the accounting of our equity instruments.

IFRS 15 “Revenue from Contracts with Customers”
On 28 May 2014 the IASB issued IFRS 15 “Revenue from Contracts with Customers” and on 11 September 2015 an amendment to IFRS 15. The standard has to be applied in the EU as a mandatory requirement from financial year 2018 onwards. Earlier application is permitted, but not intended. We have nearly completed our analysis of the effects on our Consolidated Financial Statements and in particular expect changes to the reporting of allowances for advertising costs in connection with the new standard. As from the 2018 financial year, the general listing fees included in the agreements with our customers as well as sales-based advertising cost subsidies will be deducted directly from turnover as a revenue deduction and separated from the marketing-related advertising cost subsidies. However, this reclassification from other operating expenses to sales revenue without altering earnings from operational activities leads to a significant drop in sales and other operating expenses at the time of the initial application. We assume that around 85% to 95% of the expenses for advertising cost subsidies recognised in the Consolidated Financial Statements 2016 of € 9,351,000 no longer have to be reported under other operating expenses. Based on the 2016 financial year, around € 7.9 million to € 8.8 million less revenue would have to be reported. In addition, we are expecting possible effects of secondary importance on the disclosure, amount and time of recognition of warranty provisions. Based on the current status of our analysis, we do not expect any significant effects on the time of revenue recognition.

IFRS 16 “Leasing”
On 13 January 2016 the IASB issued IFRS 16 “Leasing”. Subject to adoption by the EU, the standard has to be applied as a mandatory requirement for the first time from financial year 2019 onwards. Earlier application with simultaneous application of IFRS 15 is permitted, but not intended. The standard represents a comprehensive amendment in regard to the recognition, measurement and representation of leases, especially for the lessee. Until now the majority of leases were not included in the balance sheet, as they are what is known as operate-leasing agreements. Under IFRS 16 all leases have to be represented in the lessee's balance sheet, and the previous distinction between operate-lease and finance-lease no longer applies. Instead the lessee enters a right of use for the leased asset in the balance sheet and, coupled with this, the contractually expected lease payments. edding already analysed the impact of the new standard on net assets, financial position and results of operations in the 2014 financial year. We are of the opinion that these results will also enable a sufficiently precise analysis for the 2016 financial year, as the scope of the lease agreements and the development of total assets have only changed slightly.

As a result of entering virtually all leases in the balance sheet, the total assets of the edding Group are likely to increase by approximately 3% to 8%. In particular the capitalisation of so-called rights of use for leased items will impact on property, plant and equipment. They are expected to rise by 10% to 20%. At the same time the non-current and current liabilities from outstanding lease payments will increase. Non-current liabilities will probably increase by 50% to 60%, while current liabilities will increase by around 10%. As the rights of use have to be reported as non-current assets even if there is only a small residual term, but the lease payment expected in the next 12 months has to be recognised as a current liability, we expect a slight deterioration in the key liquidity figures, but this will not affect edding’s actual solvency. On the basis of information currently available, we do not envisage a risk to financial covenants or refinancing opportunities for example.

An analysis of changes to the consolidated income statement based on data from the 2014 financial year showed that minor net effects on the annual result of the edding Group can be expected, and that there will be changes to the disclosure of various items in the consolidated income statement. The write-downs are expected to increase significantly by 65% to 75% on the date of initial application as a result of the scheduled depreciation of rights of use to be capitalised in the future. Other operating expenses, which contain the existing operate leasing expenses, will on the other hand be reduced by around 4% to 8%. Interest expenses are expected to rise by around 30% to 45% and have a corresponding impact on the financial result. Set against this, the Group EBIT is expected to increase by between 2% and 4%, as the decrease in other operating expenses will have a greater impact on the operating result than the increased write-downs. The described effects will also lead to shifts within the consolidated cash flow statement between the cash flow from operating activities and the cash flow from financing activities, although the new standard will have no overall effect on the cash and cash equivalents.

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 2016 and 2015 are outlined in the notes under Note 2.

The goodwill carrying amount relates to the Dutch subsidiary in 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 2016 financial year amounted to € 1,173,000 (previous year: € 1,079,000), 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 € 2,500,000 (previous year: € 3,000,000).

In the wake of the merger, completed in the 2016 financial year, of the two former property companies edding AG & Co. Grundstücksverwaltung OHG and EDWU Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG (Formerly: DEGEDESTRA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG) with the parent company edding AG, the existing land charges in favour of commercial banks relating to the properties in Wunstorf and Bautzen were transferred to edding AG. € 5,222,000 (previous year: € 5,522,000) are for the property in Wunstorf and € 6,953,000 (previous year: € 6,953,000) for the property in Bautzen. As at the balance sheet date, secured loans were valued at € 0,000 (previous year: € 443,000).

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 2016 financial year. No property, plant or equipment were permanently shut down.

As of 31 December 2016 there were no material contractual obligations for the acquisition of property, plant and equipment.

In the reporting year € 114,000 (previous year: € 145,000) of the government grants (Investment Subsidy Act) received were reported as deferred income. Of the deferred income, € 32,000 (previous year: € 39,000) was released to profit or loss in the 2016 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".

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 € 226,000 (previous year: € 205,000) 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 € 6,000 (previous year: € 56,000) in the financial year.

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:

	31/12/2016 € '000	31/12/2015 € '000
up to 1 year	226	226
1 – 5 years	686	912
more than 5 years	–	–
	912	**1,138**

The fair value of the investment property (derived from a property valuation report) amounts to € 2,889,000 (previous year: € 2,889,000). 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. In the reporting year 2016 there was no material change in the fair value.

11 Other financial assets

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 € 3,482,000 (previous year: € 3,474,000).

As of 31 December 2014 the edding Group disclosed shares in equity-accounted companies amounting to € 3,440,000, which were solely attributable to Companhia de Canetas Compactor S.A., Rio de Janeiro, Brazil. As of 31 December 2015 the edding Group could no longer exert its significant influence within the meaning of IAS 28, despite the unchanged proportion of voting rights and holding a Supervisory Board post. Consequently, the at-equity accounting had to end, and, as at 31 December 2015, the equity stake was disclosed, pursuant to IAS 39, as a financial asset available for sale at cost under IAS 39.46(c), and was measured at € 3,334,000. As of 31 December 2016 the stake will continue to be disclosed as a financial asset available for sale, since, following a review of the criteria of IAS 28, a significant influence is still not exerted on the equity holding.

12 Inventories

Reported inventories were as follows:

	31/12/2016 € '000	31/12/2015 € '000
Raw materials and supplies	2,971	2,941
Work in progress	689	716
Finished goods and goods purchased for resale	26,043	25,434
	29,703	**29,091**

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 value allocations due to lower net realisable values of € 3,402,000 (previous year: € 3,157,000). The changes in valuation allowances are recorded in expenses for raw materials and consumables used.

Inventories are adjusted on the basis of both coverage analyses and individual estimates. In the financial year 2016, inventories totalling € 405,000 (previous year: € 0,000) were recognised as expense in profit or loss. Value adjustments reported in previous periods amounting to € 160,000 (previous year: € 339,000) were eliminated through profit or loss.

13 Trade receivables / Other receivables and assets

	31/12/2016 € '000	31/12/2015 € '000
Trade receivables	22,868	21,453
Other receivables and assets	6,560	6,608
	29,428	**28,061**
Of which with a remaining term of:		
up to 1 year	24,518	23,541
more than 1 year	4,910	4,520

Other receivables and assets were composed as follows:

	31/12/2016 € '000			31/12/2015 € '000		
	Total	of wich non-current	of wich current	Total	of wich non-current	of wich current
Financial other receivables and assets	**2,437**	**962**	**1,475**	**2,348**	**678**	**1,670**
Other receivables and assets	1,369	597	772	1,228	678	550
of which staff loans	456	400	56	501	419	82
of which receivables from the sale of Olivagro S.A.	141	141	–	230	184	46
of which receivables suppliers	379	–	379	171	–	171
of which rental deposits	146	56	90	166	75	91
of which other	247	–	247	160	–	160
Derivatives	884	365	519	925	–	925
Securities (held for trading purposes)	184	–	184	195	–	195
Non-financial other receivables and assets	**4,123**	**3,852**	**271**	**4,260**	**3,754**	**506**
Asset values of insurance policies/securities-based fund for financing the company pension scheme	3,782	3,782	–	3,612	3,584	28
VAT receivables	198	70	128	459	53	406
Advance payments	21	–	21	34	–	34
Other	122	–	122	155	117	38
	6,560	**4,814**	**1,746**	**6,608**	**4,432**	**2,176**

As of 31 December 2016, bad debt provisions on trade receivables amounting to € 1,870,000 (previous year: € 1,413,000) existed. Under other assets, receivables amounting to € 99,000 (previous year: € 99,000) are adjusted in value. As in the previous year, no significant ownership or 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:

	2016 € '000	2015 € '000
Balance as at 01/01	1,413	1,453
Additions recognised as an expense	721	153
Utilisation	– 153	– 86
Release	– 111	– 107
Balance as at 31/12	**1,870**	**1,413**

The ageing structure of trade receivables is as follows:

	31/12/2016 € '000	31/12/2015 € '000
Neither past due nor impaired	19,267	20,009
Past due, not individually impaired in the following time brackets:		
< 1 month	2,851	661
1 - 3 months	450	577
3 - 6 months	189	176
6 - 12 months	15	– 60
> 12 months	96	90
Total	3,601	1,444
Individually adjusted receivables which are not overdue	–	–
Net book value	**22,868**	**21,453**

The trade accounts receivable which were overdue by 6 to 12 months but not impaired included in the previous year an unrecognised credit note for € 95,000, with the result that this timeframe has a negative figure overall.

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.

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

14 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 € 17,055,000 (previous year: € 17,111,000) mainly relates to bank deposits.

15 Prepaid expenses and deferred charges

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

16 Equity

The development of equity in the 2016 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 are non-voting.

In accordance with article 19 of the articles of association, holders of non-voting preference shares receive a 2% higher dividend from the annual net profit than holders of ordinary shares, but at least a dividend of 4% of the proportionate amount of the capital stock attributable to each of the preference shares. If the net earnings are not sufficient in one or more financial years to distribute a preferential dividend of at least 4% on the preference shares, the arrears are payable without interest from the net earnings of the following years in such a way that the older arrears are settled before the more recent arrears and that the preferential payments to be made from the earnings of a given financial year are only to be made once all arrears have been settled. This right to subsequent payment constitutes an integral part of the dividend for the financial year in which the subsequent payment on the preference shares is made from the net earnings of the year.

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). If the preferred dividend has to be paid retrospectively and is not paid, or not paid in full, in any given year and is not paid in the following year in addition to the full preferred dividend for that year, preference shareholders shall be granted voting rights until the arrears have been settled. If the preferred dividend does not have to be paid retrospectively and is not paid, or not paid in full, in any given year, preference shareholders shall be granted voting rights until the preferred dividend has been paid in full in any given year. For as long as the voting rights exist the preference shares shall also be taken into account when calculating a capital majority required by law or under the company's 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.

Actuarial gains and losses from pension provisions in accordance with IAS 19 were fully recognised in equity without affecting profit or loss in a reserve created for this purpose. The corresponding deferred taxes are also recognised in equity.

In addition, a cash flow hedge reserve is formed in equity without affecting profit or loss, 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.

Non-controlling interests

Non-controlling interests exist in the subsidiaries listed below. Further information regarding the companies can be found under Note 43.

Group company	Co-shareholders	31/12/2016 Capital share %	31/12/2016 Capital share € '000	31/12/2015 Capital sharel %	31/12/2015 Capital sharel € '000
edding Colombia S.A.S.	local management	40	– 50	40	48
edding Japan Inc.[1]	local management	–	–	24	197
			– 50		**245**

[1] The subsidiary was closed in financial year 2016..

The capital share corresponds to the share of voting rights. The share of Group annual result 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.[1]	
	31/12/2016 € '000	31/12/2015 € '000	31/12/2016 € '000	31/12/2015 € '000
Sales and earnings	3,144	3,736	27	8,593
Expenses	3,384	3,795	70	8,954
Annual result – share of the edding Group	– 144	– 35	– 33	– 274
Annual result – share of non-controlling interests	– 96	– 24	– 12	– 87
Non-current assets	612	568	–	–
Current assets	3,264	3,364	–	1,268
Non-current liabilities and provisions	1,506	1,509	–	–
Current liabilities and provisions	2,496	2,304	–	445
Equity - edding Group	– 75	72	–	626
Equity – share of non-controlling interests	– 50	48	–	197
Dividends of non-controlling interests	–	–	– 161	–

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 1,567,000 from the credit facility as of 31 December 2016.

[1] The subsidiary was closed in financial year 2016.

17 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 € 3,782,000 (previous year: € 3,584,000) 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 for staff and, to a small extent, for members of the Management Board through funds currently consisting exclusively of securities.

The securities risks are counteracted by ensuring that the pension plans are reviewed on a regular basis and adjusted 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 Group's pension commitments are subdivided into unit-linked pension plans and those which are financed by provisions as follows:

	31/12/2016 € '000	31/12/2015 € '000
Present value of individual commitments	8,841	11,643
Present value of unit-linked pension commitments	3,782	3,584
Defined benefit obligation = stated value	**12,623**	**15,227**

In financial year 2016 the pension provisions included high actuarial gains of € 1,490,000 (previous year: actuarial losses of € 133,000). In the area of non-unit-linked pension provisions, a regrettable fatality led to a review of the adequacy of the actuarial parameters used in the case of an individual commitment for former members of the Management Board. In this connection the collective method used in previous years to calculate a widow's pension was replaced by the individual actuarial method for this individual commitment. The adjustment of valuation parameters led, as of 31 December 2016, to a significantly reduced projected benefit obligation for individual commitments compared with the previous year. This one-time effect largely had to be recognised directly in equity as an actuarial gain.

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

	2016 € '000	2015 € '000
Defined benefit obligation (DBO) 01/01	15,227	15,271
Current service cost	184	174
Interest cost	300	264
Change in value of the additional obligation from securities	– 396	525
Actuarial gains / losses	– 1,490	133
Benefits paid	– 1,230	– 1,204
Employee contributions	28	64
Defined benefit obligation (DBO) 31/12	**12,623**	**15,227**

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

The defined benefit obligations include cumulative actuarial losses amounting to € 3,130,000 (previous year: cumulative losses of € 4,620,000), which were recognised in equity without affecting profit or loss. The corresponding deferred taxes were also recognised in equity without affecting profit or loss. The change in actuarial losses results from inventory changes and the modification of interest rate and trend assumptions as well as the explained switch from the collective to the individual method for an individual commitment.

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

	31/12/2016	31/12/2015
Discount rate	1.4 % - 1.9 %	2.1 % - 2.6 %
Salary increases trend	0.0 %	0.0 %
Pension increases trend	0.0 % - 1.8 %	0.0 % - 1.8 %

As in the previous year, Prof. Dr. Klaus Heubeck's guideline tables (2005 G mortality tables) continued to be used as a 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:

	2016 € '000	2015 € '000
Expenses for pension entitlements earned in the reporting year (current service cost)	184	174
Interest cost	300	264
Net pension expenses	**484**	**438**

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 € 2,043,000 in the 2016 financial year (previous year: € 1,986,000). 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) or by 25 basis points (trend in pension increases) would increase or reduce the projected benefit obligation by the following amounts:

Change in DBO	Increase / decrease	31/12/2016 € '000	31/12/2015 € '000
Discount rate	– 50 BP	501	609
	+ 50 BP	– 464	– 566
Pension increases trend	+ 25 BP	119	190
	– 25 BP	– 117	– 185

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

Change in DBO	Increase / decrease	31/12/2016 € '000	31/12/2015 € '000
Life expectancy	+ 1 year	751	758
	– 1 year	– 712	– 736

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 € 185,000 for financial year 2017.

The average weighted duration of the pension obligation is 12.8 years (previous year: 13.0 years). The expected benefit payments in the next ten years are shown in the following table:

	31/12/2016 € '000
Expected benefit payments	
2017	1,418
2018	1,141
2019	1,073
2020	949
2021	905
2022 - 2026	3,420

18 Other current and non-current provisions

Other provisions developed as follows:

	Other non-current provisions € '000	Other current provisions € '000
01/01/2015	**605**	**22**
Utilisation	– 111	– 2
Release	–	–
Currency differences	– 2	5
Addition	55	364
31/12/2015	**546**	**389**
Utilisation	– 96	– 404
Release	–	–
Currency differences	– 2	35
Addition	875	–
31/12/2016	**1,323**	**20**

The non-current provisions mainly cover provisions for anniversary payments and for loyalty bonuses to employees payable on retirement. Anniversary commitments and loyalty bonuses were actuarially calculated as "other long-term employee benefits" using the projected unit credit method with a discount rate of 1.87% (previous year: 2.6%), 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.

In the previous year, current provisions mainly related to provisions for restructuring expenses in connection with the dissolution of the subsidiary edding Japan Inc. As of 31 December 2016 this item only included warranty provisions for claims within one year.

19 Current and non-current financial liabilities

Current and non-current financial liabilities totalling € 7,990,000 (previous year: € 10,399,000) can be broken down as follows:

	31/12/2016 € '000	31/12/2015 € '000
Liabilities to banks	**4,821**	**7,063**
Of which: remaining term up to 1 year	1,315	3,058
remaining term 1 - 5 years	3,506	3,505
remaining term more than 5 years	–	500
Of which: secured by a mortgage	2,500	3,356
Other financial liabilities	**3,169**	**3,336**
Of which: remaining term up to 1 year	3,169	3,336
remaining term 1 - 5 years	–	–
remaining term more than 5 years	–	–
Of which: secured by a mortgage	–	87

Liabilities to banks with a term of more than one year are used to finance the expansion of inventories.

In financial year 2016 other financial liabilities comprised purchase price liabilities from the acquisition of shares.

20 Trade payables / Other current and non-current liabilities

	31/12/2016 € '000	31/12/2015 € '000
Trade payables	**3,810**	**5,265**
Of which: remaining term up to 1 year	3,810	5,265
Other liabilities	**17,331**	**15,681**
Of which: remaining term up to 1 year	15,874	14,445
remaining term 1 - 5 years	1,152	870
remaining term more than 5 years	305	366

Other current and non-current liabilities are made up as follows:

	31/12/2016 € '000	31/12/2015 € '000
Other liabilities	**17,331**	**15,681**
Other financial liabilities	8,847	7,339
Of which original financial liabilities	8,477	7,138
Of which derivative financial liabilities	370	201
Employee benefits	6,910	6,699
VAT liabilities	727	728
Liabilities from other taxes	441	393
Other	406	522

Original financial liabilities of € 7,013,000 (previous year: € 5,837,000) relate to accrued liabilities for customer bonuses and advertising cost subsidies.

Other current and non-current liabilities include accruals totalling € 15,123,000 (previous year: € 13,572,000). The exchange of performance has already taken place, but not been billed yet. 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:

	31/12/2016 € '000	31/12/2015 € '000
Customer discounts and marketing allowances	7,013	5,837
Performance-based and one-off employee remuneration	5,084	4,875
Holiday pay and time credits	1,105	969
Other	1,921	1,891
	15,123	**13,572**

21 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.

22 Other financial obligations

Other financial obligations are operating lease obligations for the car fleet, warehouse technology and software as well as rental obligations for buildings and operational and business equipment. The obligations are due as follows:

	31/12/2016 € '000	31/12/2015 € '000
Lease obligations for movable and immovable property		
remaining term up to 1 year	2,539	2,192
remaining term 1 - 5 years	4,263	2,491
remaining term more than 5 years	53	82
	6,855	**4,765**

In financial year 2016, expenses from operating lease contracts for immovable property amounted to € 1,291,000 (previous year: € 1,369,000) and for movable property to € 1,135,000 (previous year: € 1,237,000). This only includes minimum lease payments.

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

	31/12/2016 € '000	31/12/2015 € '000
Expected minimum obligations from long-term service contracts		
up to 1 year	1,393	1,374
1 – 5 years	2,580	3,880
more than 5 years	–	–
	3,973	**5,254**

Future income from subletting as lessor falling due in the years 2017 to 2021 amounts to € 368,000 (previous year: € 141,000 due in the years 2016 to 2020). 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

23 Sales revenue

	2016 € '000	2015 € '000	Change € '000	Change %
Writing and Marking				
Germany	42,988	41,233	1,755	4.3
Other European countries	49,030	46,197	2,833	6.1
Overseas	9,725	11,632	– 1,907	– 16.4
	101,743	**99,062**	**2,681**	**2.7**
Visual Communication				
Germany	15,740	13,688	2,052	15.0
Other European countries	17,997	17,617	380	2.2
Overseas	747	915	– 168	– 18.4
	34,484	**32,220**	**2,264**	**7.0**
Other Office Products	**6,787**	**7,089**	**– 302**	**– 4.3**
Total for the Group	**143,014**	**138,371**	**4,643**	**3.4**

24 Changes in inventories and own work capitalised

As in the prior year, the item ‘Changes in inventories and own work capitalised’ amounting to € 190,000 (previous year: € 755,000) does not include any development expenses, which are capitalised according to IAS 38.

25 Raw materials and consumables used

	2016 € '000	2015 € '000
Cost of raw materials, supplies and purchased goods	51,854	50,798
Costs of purchased services	442	454
	52,296	**51,252**

26 Employee benefits expense

	2016 € '000	2015 € '000
Germany	24,803	22,251
Other countries	11,889	13,143
	36,692	**35,394**

Employee benefits expenses rose year on year by around 3.7%. This increase can mainly be attributed to higher staffing levels domestically in the context of the implementation of Strategy 2020. In the 2016 financial year, the one-off employee benefits included in the employee benefits expense amounted to € 1.520,000 (previous year: € 1,572,000).

Number of employees (annual average):

	2016	2015
Wage-earning staff		
Germany	42	51
Other countries	46	52
Salaried staff		
Germany	309	280
Other countries	240	241
	637	**624**

27 Depreciation expense

In the 2016 financial year, non-scheduled write-downs amounted to a total of € 120,000 (previous year: € 63,000). As in the prior year, this relates to the non-scheduled write-downs of the fixed assets of CGU in Argentina, carried out on the basis of an impairment test. There is no need to reinstate the original values for the non-scheduled write-downs of the fixed assets of CGU in Argentina carried out in previous years because the reasons which were applied at the time are still valid. The fixed assets of CGU in Argentina were therefore completely written off as of 31 December 2016 in an amount equivalent to € 287,000 (previous year: € 308,000).

28 Other operating income

	2016 € '000	2015 € '000
Exchange rate gains (including value changes from currency derivatives)	3,162	3,012
Income from the release of provisions and accruals	846	1,119
Rental income	479	458
Marketing allowances	186	222
Earnings from cooperations	113	99
Income from the release of bad debt provisions on receivables	111	107
Income from power feed-in	78	88
Income from the disposal of assets	53	14
Income from investment grants	32	39
Other income	552	536
	5,612	**5,694**

29 Other operating expenses

	2016 € '000	2015 € '000
Advertising and marketing costs	14,846	13,979
Freight and logistics costs	6,592	6,512
Exchange rate losses (including value changes from currency options)	4,319	3,262
Auditing, legal and consultancy fees	3,217	3,135
Car fleet costs	2,096	2,105
Room costs	2,086	2,650
Incidental personnel expenses	1,984	1,895
IT costs	1,675	1,659
Rental and lease expenses (buildings)	1,291	1,369
Travel expenses	1,271	1,302
Delcredere commission	943	870
Changes in bad debt provision and write-off of receivables	721	153
Communication costs	607	665
Insurance	566	582
Other expenses	3,406	3,309
	45,620	**43,447**

Advertising and marketing costs rose year on year as scheduled due to the further expansion of business activity.

Expenses and write-offs of receivables in the 2016 financial year were largely attributable to a Turkish subsidiary, which incurred a large payment default by a customer in the amount of € 421,000.

The exchange rate losses of € 4,319,000 (previous year: € 3,262,000) contrast with exchange rate gains of € 3,162,000 (previous year: € 3,012,000) reported under other operating income. As at the balance sheet date, the currency result changed from € -250,000 to € -1,157,000, which is mainly due to the exchange rate developments in Turkey, Colombia and Argentina.

The decrease in expenses for office space by € 564,000 to € 2,086,000 essentially includes rental costs and expenses for repairs and maintenance. The previous year was negatively impacted by higher costs for scheduled maintenance work.

30 Financial result

	2016 € '000	2015 € '000
Interest and similar income	496	743
Interest and similar expenses	– 758	– 1,147
Write-up (+) / write-down (–) of securities	– 13	418
Financial result	**– 275**	**14**

31 Income taxes

	2016 € '000	2015 € '000
Actual tax expense	3,871	3,588
Deferred tax expense (+) / income (–)	566	– 4
	4,437	**3,584**

The income tax paid or owed by German and foreign Group companies is reported under the item Actual tax expense. In the 2016 financial year, expenses that are attributable to other periods of € 223,000 (previous year: income of € -173,000) were included in the actual tax expense.

The income tax liabilities as at the balance sheet date of € 564,000 (previous year: € 741,000) relate to German income tax liabilities for corporation and trade tax amounting to € 147,000 (previous year: € 329,000) and foreign income tax liabilities of € 417,000 (previous year: € 412,000). As at the balance sheet date, long-term income tax receivables of € 239,000 (previous year: € 307,000) existed, which mainly included advance tax payments paid abroad. The current portion of the corporate tax credit of € 155,000 (previous year: € 155,000) and tax credits eligible in the future of € 195,000 (previous year: € 154,000) from minimum taxation are disclosed in the current income tax receivables of € 350,000 (previous year: € 309,000).

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 29.72% (previous year: 28.96%).

No deferred tax assets were recognised for loss carryforwards of € 2,179,000 (previous year: € 1,759,000) or deductible temporary differences of € 207,000 (previous year: € 231,000) which can essentially be attributed to inventories. Loss carryforwards expire after five years in Greece and Turkey and the prepayment based on the minimum taxation expires in Argentina after ten years and in Colombia after five years. Loss carryforwards are stated as an asset if there is a high probability that they will be utilised within the next three years. 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. There were no significant tax effects from undistributed profits carried forward in subsidiaries as of the balance sheet date. The accumulated profits carried forward of all subsidiaries amounted to approximately € 4.2 million (previous year: € 3.2 million). 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.

In the 2016 financial year, deferred taxes of € -312,000 were recognised without affecting profit and loss (previous year: € -201,000).

Deferred tax assets and liabilities as of 31 December 2016 were attributable to the balance sheet items as shown below:

	Deferred tax assets		Deferred tax liabilities	
	31/12/2016 € '000	31/12/2015 € '000	31/12/2016 € '000	31/12/2015 € '000
Intangible assets	–	–	3	4
Property, plant and equipment	–	–	1,620	1,150
Other financial assets	–	–	5	–
Other non-current receivables	–	–	97	–
Other assets	–	56	518	407
Non-current assets	**–**	**56**	**2,243**	**1,561**
Inventories	647	401	–	–
Trade receivables	178	22	3	66
Other assets	–	–	173	181
Current assets	**825**	**423**	**176**	**247**
Provisions for pensions and similar obligations	1,241	2,055	–	–
Other provisions	131	185	–	–
Financial liabilities	92	3	–	–
Other non-current liabilities	178	–	–	–
Non-current liabilities	**1,642**	**2,243**	**–**	**–**
Current liabilities	**250**	**60**	**19**	**–**
Loss carryforwards	184	446	–	–
Sub-total	**2,901**	**3,228**	**2,438**	**1,808**
Offset	– 2,370	– 1,751	– 2,370	– 1,751
Balance according to consolidated statement of financial position	**531**	**1,477**	**68**	**57**

The differences between the expected income tax expense based on edding AG's arithmetical tax rate of 29.72% (previous year: 28.96%) and the actual income tax expense can be seen in the following reconciliation:

	2016 € '000	2015 € '000
Expected income tax expense	3,450	3,514
Differing tax rates	99	39
Permanent differences	177	– 10
Non-recognition or valuation adjustment of tax losses	459	361
Utilisation of non-recoverable loss carryforwards in the previous year	–	– 354
Value adjustment of deferred taxes from temporary differences / Utilisation of non-valued temporary differences	23	158
Taxes relating to other periods	223	– 173
Other differences	6	49
Reported tax income expense	**4,437**	**3,584**

32 Earnings per share

The ordinary shares of edding AG are not traded either on or off-exchange. Therefore, edding AG is not required under IAS 33.2(b)(i) to provide information on the earnings per share in the IFRS Consolidated Financial Statements. The following disclosures on the earnings per share of edding AG in accordance with IAS 33 are therefore made on a voluntary basis.

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. As there are no conversion or option rights, the diluted earnings per share correspond to the basic earnings per share.

The earnings per share pursuant to IAS 33 were calculated as follows:

	2016 € '000	2015 € '000
Consolidated annual result attributable to the shareholders of edding AG	7,249	8,659
less preference dividend paid in the financial year	923	923
less ordinary share dividend paid in the financial year	1,146	1,146
Sub-total	**5,180**	**6,590**
Number of ordinary shares	600,000	600,000
Number of preference shares	473,219	473,219
Income attributable to ordinary shareholders not paid out in dividends	2,871	3,652
Income attributable to preference shareholders not paid out in dividends	2,309	2,938
Sub-total	**5,180**	**6,590**
Distributed earnings per ordinary share	1.91	1.91
Undistributed earnings per ordinary share	4.78	6.09
Basic / diluted earnings per ordinary share	**6.69**	**8.00**
Distributed earnings per preference share	1.95	1.95
Undistributed earnings per preference share	4.88	6.21
Basic / diluted earnings per preference share	**6.83**	**8.16**

The 2% dividend advantage of the preference shares compared with the ordinary shares, as stipulated in the articles of association, was included in the calculation. For information on the rights of the various share classes, please refer to Note 16.

Clarification on the adjustments to the earnings per share in the edding Half-Year Financial Report as at 30 June 2015 and in the edding Consolidated Financial Statements as at 31 December 2015:

The German Federal Financial Supervisory Authority (BaFin) found that the edding Consolidated Financial Statements 2014 contained an error in regard to the calculation of the earnings per share and, furthermore, that certain rights of preferential shareholders had not been indicated. edding AG publicised this error in accordance with section 37q (2) of the German Securities Trading Act (WpHG) on 20 January 2017 in the German Federal Gazette (Bundesanzeiger) and via an electronically operated information system.

A correction of the calculation of the earnings per share for the current financial year 2015 was already made in the Half-Year Financial Report of the edding Group as of 30 June 2015, including an amendment of the previous year's figure as per 30 June 2014. This adjustment was made prior to the announcement of an audit by the German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung e.V.) as the first stage of BaFin's investigation procedure. edding AG had provided the necessary information according to IAS 8 in the Half-Year Financial Report as at 30 June 2015, but did not classify the retrospective amendment as a retrospective amendment due to an error.

Likewise, edding AG had adjusted the calculation of the earnings per share for the 2015 financial year in the Consolidated Financial Statements as at 31 December 2015 and amended the previous year's figure as well as adding the information in the Notes to the financial statements concerning the rights of preferential shareholders. edding AG again made the necessary disclosures under IAS 8 in the Consolidated Financial Statements as at 31 December 2015. However, as the investigation by BaFin had not been completed at the time when approval was given by the Management Board for publication of the Consolidated Financial Statements 2015 (20 April 2016), we did not identify the retrospective amendment as a retrospective amendment due to an error.

By way of clarification, we would like to point out that the changes made in the edding Half-Year Financial Report as at 30 June 2015 and in the edding Consolidated Financial Statements as at 31 December 2015 constituted retrospective amendments in accordance with IAS 8 due to an error.

Other disclosures

33 Objectives and methods of financial risk management

The main financial liabilities incurred by the Group, with the exception of derivative financial instruments, 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 derivative financial instruments in the form of interest rate swaps, foreign currency options and forward exchange transactions. The purpose of these derivative financial instruments 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 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 2016 and 2015.

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, ARS and US dollar), Great Britain (British pound, GBP), Turkey (New Turkish lira, TRY) and Colombia (Colombian peso, COP).

Exchange rate risks also exist in the edding Group from intra-Group loans. In financial year 2016 forward exchange transactions for the British pound were concluded for the first time to hedge foreign currency risks arising from intra-Group procurement in EUR.

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

Overview of foreign currency derivatives	Secured currency risk	Maturity	Nominal volume 31/12/16	Nominal volume 31/12/15	Market value in € '000 31/12/16	Market value in € '000 31/12/15
Currency options - designated as cash flow hedge	Procurement in JPY	monthly 2018	900 m JPY	480 m JPY	– 232	253
Forward exchange transactions - designated as cash flow hedge	Procurement in JPY	monthly 2017	960 m JPY	1,440 m JPY	395	246
Forward exchange transactions JPY	Procurement in JPY	monthly 2018	180 m JPY	–	– 7	–
Currency options USD	Currency hedging for procurement in USD	monthly 2018	1.8 m USD	2.0 m USD	121	46
Forward exchange transactions USD	Currency hedging for procurement in USD	monthly 2017 / 2018	7.8 m USD	8.8 m USD	249	32
Forward exchange transactions GBP	Currency hedging for intragroup procurement in EUR	monthly 2017 / 2018	3.6 m EUR	–	62	–
Forward exchange transactions COP/USD	Currency hedging for intragroup procurement in USD	End of 2017	8,583.4 m COP	7,182.9 m COP	– 66	129

The currency options and the currency forwards for Japanese yen were largely 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 24 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 consolidated 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 cumulative changes in market value from cash flow hedges recognised in other comprehensive income outside profit or loss in financial year 2016 amounted before tax to € 323,000 (previous year: 386,000). In the 2016 financial year before tax € -1,186,000 (previous year: € 151,000) were transferred from other comprehensive income to the consolidated income statement within the framework of the cash flow hedge accounting, and fair value changes of € 1,021,000 (previous year: € 637,000) were recognised in equity. The loss recognised in the financial year for the ineffective part of the hedge amounted to € 329,000 (previous year: income of € 133,000).

For the currency derivatives existing at the balance sheet date, the following table shows the sensitivity of the Group's 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 against the euro or the US dollar.

Sensitivities of currency derivatives	Change in equityl 31/12/2016 € '000	Change in equity 31/12/2015 € '000	Change in pre-tax result 31/12/2016 € '000	Change in pre-tax result 31/12/2015 € '000
Appreciation of the EUR by 10% against derivative foreign currency (JPY / USD / GBP / TRY)				
Currency options JPY - designated as cash flow hedge	– 347	– 151	202	– 98
Forward exchange transactions JPY – designated as cash flow hedge	– 498	– 574	– 2	187
Forward exchange transactions JPY – not designated as cash flow hedge	– 94	–	– 134	–
Currency options USD	– 78	– 59	– 111	– 83
Forward exchange transaction in USD	– 468	– 408	– 666	– 574
Forward exchange transaction COP/USD	163	138	232	195
Forward exchange transaction in GBP	227	–	323	–
Forward exchange transaction in TRY	–	80	–	113
Total	**– 1,095**	**– 974**	**– 155**	**– 260**
Depreciation of the EUR by 10 % against derivative foreign currency (JPY / USD / GBP / TRY)				
Currency options JPY - designated as cash flow hedge	399	277	149	– 191
Forward exchange transactions JPY – designated as cash flow hedge	609	624	89	– 215
Forward exchange transactions JPY – not designated as cash flow hedge	115	–	164	–
Currency options USD	116	121	165	171
Forward exchange transaction USD	572	657	814	924
Forward exchange transaction COP/USD	– 199	– 168	– 284	– 238
Forward exchange transaction GBP	– 277	–	– 395	–
Forward exchange transaction TRY	–	– 98	–	– 138
Total	**1,335**	**1,413**	**702**	**313**

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.

	2016 € '000	2015 € '000
Appreciation of currency used within the Group by 10%		
Turkish lira	207	377
Forward exchange transaction in Turkish lira	–	– 138
Colombian peso	171	161
Forward exchange transaction in USD/COP	– 284	– 238
Mexican peso	9	299
British pound	58	40
Forward exchange transactions in GBP	– 395	–
Argentinian peso	279	159
US dollar	166	60
Forward exchange transactions and options in US dollar	979	1,095
Japanese yen	2	– 34
Forward exchange transactions in JPY	164	–
	1,356	**1,781**

	2016 € '000	2015 € '000
Depreciation of currency used within the Group by 10%		
Turkish lira	– 207	– 377
Forward exchange transaction in Turkish lira	–	113
Colombian peso	– 171	– 161
Forward exchange transaction in USD/COP	232	195
Mexican peso	– 9	– 299
British pound	– 58	– 40
Forward exchange transactions in GBP	323	–
Argentinian peso	– 279	– 159
US dollar	– 166	– 60
Forward exchange transactions and options in US dollar	– 777	– 657
Japanese yen	– 2	34
Forward exchange transactions in JPY	– 134	–
	– 1,248	**– 1,411**

As a result of the situation in Argentina, the sensitivity of the Group result to a 20% or 40% appreciation or depreciation in the Argentine peso against the euro was also calculated for the 2016 financial year.

	2016 € '000	2015 € '000
Argentinian peso		
Appreciation by 20 %	558	317
Appreciation by 40 %	1,116	634
Depreciation by 20 %	– 558	– 317
Depreciation by 40 %	– 1,116	– 634

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 capital subject to fixed and variable interest rates.

To hedge against interest rate change risks, edding AG held one (previous year: one) interest rate swap as at 31 December 2016 with a nominal volume of € 300,000 (previous year: € 600,000) and a maturity date 29 December 2017. As of the balance sheet date the negative market value of the interest rate derivatives was € -8,000 (previous year: negative market value of € -28,000).

We have not shown the interest rate sensitivities because the edding Group is not exposed to any substantial interest rate risks.

Other price risk

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 13.

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 redemption payments of the original financial liabilities as well as the derivative financial instruments 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.

2016	Book value 31/12/16 € '000	Cash flows 2017 Interest € '000	Redemption € '000	Cash flows 2018-2021 Interest € '000	Redemption € '000	Cash flows 2022 et seqq. Interest € '000	Redemption € '000
Original financial liabilities	**20,277**	**321**	**16,771**	**281**	**3,506**	**–**	**–**
Current and non-current financial liabilities	7,990	321	4,484	281	3,506	–	–
Of which liabilities to banks	4,821	321	1,315	281	3,506	–	–
Of which other financial liabilities	3,169	–	3,169	–	–	–	–
Trade payables	3,810	–	3,810	–	–	–	–
Other liabilities	8,477	–	8,477	–	–	–	–
Derivative financial liabilities	**370**	**8**	**231**	**–**	**178**	**–**	**–**
Interest derivatives with negative market value	8	8	–	–	–	–	–
Gross outflows from currency derivatives	362	8	– 2,745	–	– 7,471	–	–
Gross inflows from currency derivatives	–	–	– 2,514	–	– 7,293	–	–
Net outflows from currency derivatives	362	–	231	–	178	–	–

2015	Book value 31/12/15 € '000	Cash flows 2016 Interest € '000	Redemption € '000	Cash flows 2017-2020 Interest € '000	Redemption € '000	Cash flows 2021 et seqq. Interest € '000	Redemption € '000
Original financial liabilities	**22,803**	**374**	**16,798**	**312**	**3,505**	**9**	**500**
Current and non-current financial liabilities	10,399	374	6,394	312	3,505	9	500
Of which liabilities to banks	7,063	374	3,058	312	3,505	9	500
Of which liabilities from forfeited lease payments	87	–	87	–	–	–	–
Of which other financial liabilities	3,249	–	3,249	–	–	–	–
Trade payables	5,265	–	5,265	–	–	–	–
Other liabilities	7,138	–	7,138	–	–	–	–
Derivative financial liabilities	**201**	**20**	**–**	**8**	**154**	**–**	**–**
Interest derivatives with negative market value	28	20	–	8	–	–	–
Gross outflows from currency derivatives		–	–	–	12,388	–	–
Gross inflows from currency derivatives		–	–	–	– 12,234	–	–
Net outflows from currency derivatives	173	–	–	–	154	–	–

34 Additional disclosures on financial instruments

Carrying amounts, 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]	31/12/2016 Book value € '000	31/12/2016 Fair value € '000	31/12/2015 Book value € '000	31/12/2015 Fair value € '000
Financial assets					
Loans and receivables		**41,292**	**41,242**	**39,792**	**39,792**
Trade receivables	–	22,868	22,868	21,453	21,453
Other financial receivables and assets (excluding derivatives)	–	1,369	1,369	1,228	1,228
Cash and cash equivalents	–	17,055	17,055	17,111	17,111
Assets measured at fair value		**1,068**	**1,068**	**1,120**	**1,120**
Financial assets held for trading purposes	1	184	184	195	195
Derivatives with a positive market value with hedging relationship (cash flow hedges)	2	452	452	543	543
Derivatives with a positive market value without hedging relationship held for trading	2	432	432	382	382
Financial assets available for sale		**3,482**	**n/a**	**3,474**	**n/a**
Holdings	n/a	3,482	n/a	3,474	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 which can be observed for the financial instrument either directly as a price or indirectly based on prices.
Level 3 based on valuations using factors that are not based on observable market data.

	Fair value hierarchy level [1]	31/12/2016 Book value € '000	31/12/2016 Fair value € '000	31/12/2015 Book value € '000	31/12/2015 Fair value € '000
Financial liabilities					
Other financial liabilities measured at cost		**20,277**	**20,463**	**22,803**	**23,065**
Liabilities to banks	–	4,821	5,007	7,063	7,326
Other financial liabilities	–	3,169	3,169	3,336	3,336
Trade payables	–	3,810	3,810	5,265	5,265
Other financial liabilities (excluding derivatives)	–	8,477	8,477	7,138	7,138
Liabilities measured at fair value through profit or loss		**370**	**370**	**201**	**201**
Derivatives with a negative market value with hedging relationship (cash flow hedges)	2	290	290	43	43
Derivatives with a negative market value without hedging relationship	2	80	80	158	158

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.

[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 which can be observed for the financial instrument either directly as a price or indirectly based on prices.
Level 3 based on valuations using factors that are not based on observable market data.

Cash and cash equivalents, trade receivables and other receivables predominantly have short remaining terms. Therefore, their carrying amounts 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 carrying amount, 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. Calculation of fair value for comparison purposes corresponds to the Level 3 fair value hierarchy. Assuming that the credit rating is unchanged, a market value comparison is dispensed with for loans subject to variable interest due to the regular adjustment of the interest rate to the market rate.

The other financial liabilities comprise current purchase price liabilities from the 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 carrying amounts.

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:

2016	From interest € '000	At fair value[1] € '000	Impairment[1] € '000	From disposal € '000	Net result 2016 € '000
Loans and receivables	38	–	– 610	–	– 610
Argentine government bonds measured at fair value through profit or loss	34	20	–	–	20
Other financial instruments measured at fair value through profit or loss	– 20	509	–	– 325	184
Hedging transactions	–	– 329	–	–	– 329
Financial liabilities measured at cost	– 616	–	–	–	–
Total gain / loss from financial instruments	**– 564**	**200**	**– 610**	**– 325**	**– 735**

2015	From interest € '000	At fair value[1] € '000	Impairment[1] € '000	From disposal € '000	Net result 2015 € '000
Loans and receivables	53	–	– 46	–	– 46
Argentine government bonds measured at fair value through profit or loss	3	–	–	167	167
Other financial instruments measured at fair value through profit or loss	– 34	283	–	–	283
Hedging transactions	–	133	–	–	133
Financial liabilities measured at cost	– 568	–	–	–	–
Total gain / loss from financial instruments	**– 546**	**416**	**– 46**	**167**	**537**

[1] from the subsequent measurement

For valuation adjustments on assets from the loans and receivables category, please refer to Note 13.

In the 2016 financial year, the valuation categories “Loans and receivables” and “Financial liabilities, valued at cost” contained foreign currency losses of € 800,000 (previous year: € 352,000) from the measurement of receivables and liabilities. This includes € 968,000 (previous year: € 1,028,000) from the foreign currency valuation of the receivables and liabilities from intercompany delivery of goods and services as at the balance sheet date, although the intercompany receivables and liabilities that form the basis for the foreign currency valuation were eliminated in the course of the debt consolidation.

35 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 2016 compared with the prior year are shown below:

	31/12/2016 € '000	31/12/2015 € '000	Change %
Equity	**54,991**	**50,199**	**9.5**
as % of total capital	72.1 %	66.2 %	
Non-current financial liabilities, provisions for pensions and similar obligations	16,743	19,232	– 12.9
Current financial liabilities	4,484	6,394	– 29.9
Borrowed capital	**21,227**	**25,626**	**– 17.2**
as % of total capital	27.9 %	33.8 %	
Total capital within the meaning of capital management	**76,218**	**75,825**	**0.5**

In the case of short-term borrowed capital, there is the option of using existing bilateral short-term credit lines. As at 31 December 2016, credit agreements for a total of € 22,565,000 existed with several banks, although only € 2,225,000 was drawn down. The borrowed capital was 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.

36 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), revenue from the licence business with printer cartridges and revenue from the nail polish business are also assigned to the Writing and Marking segment. Neither the licence nor the nail polish business are seen as independent business segments, as currently no separate operating results from these segments are communicated to the top decision-makers, nor is the earning power of these segments regularly reviewed by the management. The reason for this is the minor importance at present of these segments for the profitability of the edding Group.

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 2016 or the previous year

Sales revenue is broken down by region as follows:

	2016 € '000	2015 € '000	Change € '000	Change %
Germany	60,598	56,472	4,126	7.3
Other European countries	70,783	68,369	2,414	3.5
Overseas	11,633	13,530	– 1,897	– 14.0
edding Group	**143,014**	**138,371**	**4,643**	**3.4**

In the financial year 2016 and in the previous year, no more than 10% of the sales revenue of the edding Group was generated with any one customer. In the 2016 financial year, non-scheduled depreciation of € 120,000 (previous year: € 63,000) was incurred, which was mainly attributable to the Writing and Marking segment.

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

	2016 € '000	2015 € '000
Segment result (EBIT)	20,796	22,157
EBIT edding AG	– 8,917	– 9,912
Consolidation	– 31	– 25
EBIT edding Group	**11,848**	**12,220**
Result from investments	5	– 101
Financial result	– 275	14
Group result before taxes	**11,578**	**12,133**

37 Disclosures on the consolidated statement of cash flows

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

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:

	2016 € '000	2015 € '000
Interest received	71	696
Interest paid	616	604
Income tax paid	4,126	3,295

38 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 are under the influence of another related party of edding AG.

No noteworthy business activities were effected with the majority shareholder Volker Detlef Ledermann or his relatives Angelika Schumacher, Dina Alexandra Schumacher, David Alexander Schumacher, Beatrix Ledermann, Julia Marie Ledermann, Jan Moritz Ledermann, Léon Thadaeus Ledermann, Per Ledermann, Anika Ledermann, Yannick Nicolas Ledermann, Elisa Sophie Ledermann and Luis Gabriel Ledermann in 2016.

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.

The members of the Management Board and the Supervisory Board are persons in key positions, whose remuneration has to be specified separately according to different categories pursuant to IAS 24. Furthermore there are disclosure requirements for outstanding balances and liabilities vis-à-vis the persons in key positions. For the disclosures please refer to Note 40.

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

At the end of December of the previous year the redistribution of ordinary shares within the Ledermann family group was carried out in three legal stages. On 21 March 2017, Mr Léon Thadaeus Ledermann confirmed that he had exceeded the thresholds of 10, 15, 20, 25, 30 and 50% of voting rights in edding AG.

By way of explanation, the following table shows the current status of notifications where the share of the voting rights in edding AG exceeded or fell below the thresholds of 3, 5, 10, 15, 20, 25, 30, 50 and 75%:

Name	Date of voting rights notification	Limit exceeded in %	Limit not reached in %
Volker Detlef Ledermann	Previous years	3, 5, 10, 15, 20, 25, 30, 50, 75	n/a
Angelika Schumacher	Previous years	3, 5, 10, 15, 20, 25, 30, 50, 75	n/a
	07/01/2016	n/a	75
Dina Alexandra Schumacher	Previous years	3, 5, 10, 15, 20, 25, 30, 50, 75	n/a
	07/01/2016	n/a	75
David Alexander Schumacher	Previous years	3, 5, 10, 15, 20, 25, 30, 50, 75	n/a
	07/01/2016	n/a	75
Beatrix Ledermann	Previous years	3, 5, 10, 15, 20, 25, 30, 50, 75	n/a
	07/01/2016	n/a	75
Julia Marie Ledermann	Previous years	3, 5, 10, 15, 20, 25, 30, 50, 75	n/a
	07/01/2016	n/a	75
Jan Moritz Ledermann	Previous years	3, 5, 10, 15, 20, 25, 30, 50, 75	n/a
	07/01/2016	n/a	75
Léon Thadaeus Ledermann	07/01/2016	3, 5	n/a
	21/03/2017	10, 15, 20, 25, 30, 50	n/a
Per Ledermann	Previous years	3, 5, 10, 15, 20, 25, 30, 50, 75	n/a
Anika Ledermann	05/01/2016	3	n/a
	07/01/2016	5, 10, 15, 20, 25	n/a
Yannick Nicolas Ledermann	Previous years	3, 5, 10, 15, 20, 25, 30, 50, 75	n/a
	07/01/2016	n/a	75
Elisa Sophie Ledermann	05/01/2016	3	n/a
	07/01/2016	5, 10	n/a
Luis Gabriel Ledermann	07/01/2016	3, 5, 10	n/a

In this connection, we refer to our notices according to section 21 et seqq. WpHG. The voting rights of the Ledermann family are combined in a voting rights pool unless they may be assigned in accordance with section 22 (1) sentence 1 No. 6 WpHG.

40 Executive bodies of edding AG

The Supervisory Board is made up as follows:

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

Mr Wahby has held an additional position as a member of the statutory supervisory board of peakwork AG, Düsseldorf since 20 May 2015.

The other members of the Supervisory Board hold no additional positions on statutory supervisory boards or comparable controlling bodies of commercial enterprises.

The Management Board consists of following members:

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 positions on statutory supervisory boards or comparable controlling bodies of commercial enterprises.

At the Annual General Meeting of edding AG on 15 June 2016, it was decided to dispense with individualised disclosure of the Management Board remuneration according to the disclosures required in section 314 (1) No. 6a sentences 5 to 8 of the German Commercial Code (HGB) for the Consolidated Financial Statements. The total remuneration of the Management Board in the financial year 2016 amounted to € 1,389,000 (previous year: € 1,333,000).

Expenses for remuneration of the Management Board reported in the consolidated financial statements

The company spent € 647,000 (previous year: € 525,000) on fixed remuneration for the Management Board. Expenditure for fringe benefits amounted to € 40,000 (previous year:

€ 32,000) and was mainly attributable to company cars and health and long-term care insurance contributions.

€ 320,000 (previous year: € 355,000) were spent on short-term variable remuneration. The agreement on short-term bonuses contains a penalty rule that is applied in the event of an annual loss by edding AG. The expense for variable remuneration based on long-term goals amounted to € 242,000 (previous year: € 173,000). € 66,000 (previous year: € 66,000) was spent on pension schemes.

Expenditure carried in the income statement for variable remuneration based on long-term goals was calculated on the basis of provisional estimates until the final bonus targets are determined, and may therefore be adjusted in subsequent periods. In the 2016 financial year, adjustments for previous years amounting to € 6,000 (previous year: € 0.000) were made. In the 2016 financial year, long-term bonus claims for two members of the Management Board were able to be finally determined due to the expiration of the assessment period. The sum of € 316,000 therefore became due for payment after deducting prepayments of € 150,000 already made. In the previous year, a long-term bonus claim for a member of the Management Board was able to be finally determined due to the expiration of the assessment period. The sum of € 355,000 therefore became due for payment after deducting prepayments of € 113,000 already made. As of 31 December 2016 a long-term bonus agreement existed with a member of the Management Board with a maximum earnable remuneration of up to € 540,000, which will fall due at the end of the 2019 financial year. In the previous year, long-term bonus agreements were agreed for two Management Board members with a maximum earnable remuneration of up to € 400,000. The long-term bonus agreements do not contain any penalty rules.

Payments for remuneration to the Management Board contained in the consolidated financial statements

The fixed remuneration and the fringe benefits were due for payment in full in 2015 and 2016. The provisions of € 355,000 made in the previous year for the short-term variable remuneration led to payments of € 355,000 in the 2016 financial year. € 290,000 (previous year: € 100,000) was paid to the Management Board in 2016 for variable remuneration based on long-term goals, of which € 50,000 (previous year: € 50,000) was non-forfeitable. In the 2016 finanial year, € 0.000 (previous year: € 50,000) relate to part payments of Management Board remuneration based on long-term goals, which may have to be paid back.

Provisions made in the consolidated financial statements for the Management Board

The provisions made for the Management Board's long-term bonus amounted to € 316,000 as of the balance sheet date (previous year: € 368,000).

The pension provisions created for members of the Management Board as of 31 December 2016 amounted to € 624,000 (previous year: € 588,000).

Expenses and payments to former Management Board members

The remuneration for former members of the Management Board from pension commitments amounted to €1,218,000 (previous year: € 1,192,000). The pension provisions set up for former members of the Management Board totalled € 8.822,000 as of 31 December 2016 (previous year: € 11,624,000).

Expenses and payments to the Supervisory Board
The Supervisory Board receives only fixed remuneration plus the reimbursement of expenses. In the financial year 2016, € 120,000 was spent on this (previous year: € 120,000). In the financial year 2016, € 120,000 was paid out (previous year: € 108,000).

41 Proposal on the appropriation of earnings

After the transfer of € 3,570,000 from the net income 2016 to other retained earnings of edding AG, a balance sheet profit of € 3,570,000 remained.

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

€ 2.15 Dividend per preference share
with a notional par value of € 5.00

€ 2.15 Dividend per ordinary share
with a notional par value of € 5.00

The unappropriated surplus of € 1,292,000 that remains after distribution of the dividend is to be transferred to other retained earnings.

42 Total fees and services of the Group auditors

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

	2016 € '000	2015 € '000
Audit services	135	126
Other certification services	8	4
Tax advisory services	–	–
Other services	24	21
Total fees	**167**	**151**

The expenses for audit of the financial statements include fees for ongoing support of the enforcement procedure of € 9,000. Other auditing services are for the audit in accordance with section 20 WpHG (EMIR) and the auditing duties arising from the German Packaging Ordinance (VerpackV). Other auditing services arose, for example, in connection with the first-time application of the Accounting Directive Implementation Act (BilRUG).

43 Shareholdings

Name	Registered office	Shareholding %
Parent company		
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
EDWU Grundstücks-verwaltungsges. mbH	Ahrensburg	100[1]
Other countries		
edding Benelux group B.V. (Formerly: edding Legamaster B.V.)	Lochem, Netherlands	100[1]
Legamaster International B.V.	Lochem, Netherlands	100[1]
edding Benelux B.V.	Lochem, Netherlands	100[1]
Legamaster B.V.B.A. (Formerly: 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 Colombia S.A.S.	Sabaneta, Colombia	60
edding Mexico S. de R.L. de C.V.[3]	Mexico City, Mexiko	100[2]

[1] indirectly via edding International GmbH or its affiliates.
[2] 50% directly; 50% indirectly via edding International GmbH.
[3] The company has been in liquidation since 31 December 2016.

edding AG holds 16.67% of the shares in PBS Network GmbH, Stuttgart as well as 9.09% of the shares in Beruf und Familie in Hansebelt gGmbH (Formerly: Beruf und Familie Stormarn GmbH), Bad Oldesloe. edding Vertrieb GmbH holds 5.56% of the share capital of Office Gold Club GmbH, Düsseldorf. edding International GmbH holds 20,74% of the shares in Companhia de Canetas Compactor S.A., Rio de Janeiro, Brazil, but a 26.1% share of voting rights in the company.

44 Events after the balance sheet date / Supplementary report

On 3 April 2017 edding International GmbH acquired a 25.1% stake in Prismade Labs GmbH, Chemnitz. The object of the company is research and development of printed electronics. edding International GmbH undertook, within the framework of the participation and subject to fulfilment of a condition precedent, to make equity injections of up to € 750,000 into the capital reserve of the company, which could become payable within the next two years. These additional payments into the capital reserve of the company are dependent upon the attainment of fixed milestones and are payable in three tranches. Should a milestone not be reached, the obligation to make the additional payment that is subject to the attainment of this milestone no longer applies. The acquisition costs for the 25.1% capital share amounted to € 250,000.

No other significant recognisable events or non-recognisable, but disclosable events occurred after the balance sheet date in accordance with IAS 10 and section 314 (1) No. 25 HGB until the time when publication of the Consolidated Financial Statements was approved.

45 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 2017

The Management Board

Per Ledermann Thorsten Streppelhoff Sönke Gooß

Auditor's Report

We have audited the consolidated financial statements prepared by edding Aktiengesellschaft, Ahrensburg, comprising the consolidated statements of financial position, profit or loss and other comprehensive income, changes in equity and cash flow and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of edding Aktiengesellschaft, for the financial year from 1 January 2016 to 31 December 2016. 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 consoli-dated 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 IFRS, as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a par. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The 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 2017

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Thomas Götze Auditor	Florian Riedl Auditor

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 combined Management and Group Management Report gives 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 2017

The Management Board

Per Ledermann | Thorsten Streppelhoff | Sönke Gooß


Porcelain brushpen
1-4 mm
edding
EN Bake for 25 mins at 160°C · store horizontally DE 25 Min. bei 160°C einbrennen

Annual financial statements of edding AG as at 31 December 2016

Statement of financial position as at 31 December 2016

ASSETS	Note	31/12/2016 € '000	31/12/2015 € '000
A. Fixed assets			
I. Intangible assets	6	1,011	966
II. Property, plant and equipment	7	4,935	3,824
III. Financial assets	8	35,547	39,017
		41,493	**43,807**
B. Current assets			
I. Receivables and other assets	9		
1. Receivables from affiliated companies		20,136	16,087
2. Other fixed assets		261	538
II. Cash and cash equivalents		3,106	3,432
		23,503	**20,057**
C. Prepaid expenses and deferred charges	10	**497**	**481**
D. Deferred tax assets	16	**472**	**505**
		65,965	**64,850**

EQUITY AND LIABILITIES	Note	31/12/2016 € '000	31/12/2015 € '000
A. Equity			
I. Share capital	11	5,366	5,366
II. Capital reserve		4,246	4,246
III. Revenue reserves	12	36,918	32,732
IV. Balance sheet profit	12	3,570	2,685
		50,100	**45,029**
B. Provisions			
1. Provisions for pensions	13	9,065	11,624
2. Tax provisions	16	147	288
3. Other provisions	14	3,076	3,166
		12,288	**15,078**
C. Liabilities	15		
1. Liabilities to banks		2,500	3,000
2. Trade payables		195	934
3. Liabilities to affiliated companies		44	176
4. Other liabilities		366	128
		3,105	**4,238**
D. Deferred tax liabilities	16	**472**	**505**
		65,965	**64,850**

Income statement
for the period from 1 January to 31 December 2016

	Note	2016 € '000	2015 € '000
1. Sales revenue	20	4,885	4,475
2. Other operating income	21	2,154	986
3. Employee benefits expense	22	– 6,148	– 7,422
4. Depreciation of intangible assets and property, plant and equipment	23	– 1,175	– 1,008
5. Other operating expenses	24	– 6,536	– 6,990
6. Income from participations	25	1,318	632
7. Income from profit transfer agreements	26	19,220	17,976
8. Other interest and similar income	27	185	362
9. Depreciation of financial assets	23	– 3,051	– 252
10. Interest and similar expenses	28	– 666	– 665
11. Taxes on income and earnings	29	– 3,019	– 2,651
12. Profit after taxes		**7,167**	**5,443**
13. Other taxes		– 27	– 73
14. Net income		**7,140**	**5,370**
15. Allocation to other revenue reserves		– 3,570	– 2,685
16. Balance sheet profit		**3,570**	**2,685**


EF
edding
great on dark surfaces/toll auf dunklen Material

Notes

1 Development of fixed assets (in € '000)[1]

	Acquisition costs 01/01/2016	Additions	Transfers	Disposals	Acquisition costs 31/12/2016
Intangible assets					
Industrial property rights and similar rights, licences	4,588	201	175	–	4,964
Advance payments	563	130	– 175	–	518
	5,151	**331**	**–**	**–**	**5,482**
Property, plant and equipment					
Land, land rights and buildings including buildings on land owned by others	18,149	1,107	–	–	19,256
Office and other equipment	7,272	894	–	350	7,816
	25,421	**2,001**	**–**	**350**	**27,072**
Financial assets					
Shares in affiliated companies	48,583	293	–	831	48,045
Holdings	55	6	–	–	61
Long-term investments	837	113	–	–	950
	49,475	**412**	**–**	**831**	**45,056**
Fixed assets	**80,047**	**2,744**	**–**	**1,181**	**81,610**

[1] Rounding differences may occur.
[2] The column "Fair value measurement of securities" relates to the fair value measurement of the securities acquired to cover the pension commitments in accordance with section 254 HGB, which is disclosed openly in the changes in the fixed assets on a cumulative basis until the respective reporting date.

Accumulated depreciation 01/01/2016	Additions	Disposals	Accumulated depreciation 31/12/2016	Fair value measurement of securities 31/12/2016 [2]	Fair value measurement of securities 31/12/2015 [2]	Net carrying amounts 31/12/2016	31/12/2015
4,185	286	–	4,471	–	–	493	403
–	–	–	–	–	–	518	563
4,185	**286**	**–**	**4,471**	**–**	**–**	**1,011**	**966**
15,364	253	–	15,617	–	–	3,639	2,785
6,233	636	349	6,520	–	–	1,296	1,039
21,597	**889**	**349**	**22,137**	**–**	**–**	**4,935**	**3,824**
10,888	3,051	–	13,939	–	–	34,106	37,695
–	–	–	–	–	–	61	55
–	–	–	–	430	430	1,380	1,267
10,888	**3,051**	**–**	**13,939**	**430**	**430**	**35,547**	**39,017**
36,670	**4,226**	**349**	**40,547**	**430**	**430**	**41,493**	**43,807**

2 General information

edding AG is based in Ahrensburg, Germany, and is registered in the Commercial Register of Lübeck Local Court (Amtsgericht) (Register No. HRB 2675AH).

The annual financial statements of edding AG have been prepared in accordance with the provisions of the German Commercial Code (HGB), as amended by the Accounting Directive Implementation Act (BilRUG), and the additional provisions laid down in the German Stock Corporation Act (AktG).

The changes compared with the previous year's financial statements relate in particular to the application of the amended form of classification by the BilRUG for the income statement as well as the reclassification from "Other operating income" to sales revenue. As a result of the amended classification regulations of section 275 HGB, the item "Results from ordinary activities" which was still shown in the previous year has been omitted from the income statement of edding AG. A new item "Profit after taxes" was added in the year under review. By deleting extraordinary items in the classification scheme of the income statement according to BilRUG, extraordinary expenses are each assigned to the original types of expenses, as from reporting year 2016. Otherwise, the presentation and structure of the financial statements correspond to the previous year's principles. We have not adjusted the previous year's amounts in the income statement.

The recognition and measurement of the annual financial statements correspond to the previous year's principles with the exception of a change to the measurement of pension provisions (Note 13).

In the income statement and balance sheet, individual items are combined to improve clarity, and are shown separately in the notes to the financial statements. The classification items in the notes to the financial statements are indicated in the balance sheet and in the income statement. The income statement was drawn up using the total cost (nature of expense) method. The amounts are always in thousands of euros (€ '000) unless otherwise specified. As a result, rounding differences may occur.

In line with the law for the implementation of the Mortgage Credit Directive and for the amendment of the regulations under commercial law, the measurement rule for company pension scheme obligations (section 253 (2) sentence 1 and (6) HGB, revised version), has been adjusted and the period for determining the average interest rate has been extended from seven to ten years.

The audited annual financial statements and the combined management and group management report as at 31 December 2016 of edding AG are published in the German Federal Gazette.

3 Shareholdings (as at 31 December 2016)

Company	Registered office	Equity € '000	Result € '000	Share %
Germany				
edding International GmbH	Ahrensburg	26,472	13,982 [1]	100
edding Vertrieb GmbH	Ahrensburg	5,205	4,306 [2]	100 [4]
V. D. Ledermann & Co. GmbH	Ahrensburg	1,534	725 [1]	100
EDWU Grundstücksverwaltungs-gesellschaft mbH	Ahrensburg	24	– 1	100 [4]
PBS Network GmbH	Stuttgart	1,030	29	17
Legamaster GmbH	Ahrensburg	759	207 [1]	100
Office Gold Club GmbH	Düsseldorf	122	– 54	6 [4]
Beruf und Familie im Hansebelt gGmbH (Formerly: Beruf und Familie Stormarn GmbH)	Bad Oldesloe	46	– 9	9
Other countries				
edding Benelux group B.V.	Lochem, NL	811	0	100 [4]
edding Benelux B.V. (Formerly: edding Legamaster B.V.)	Lochem, NL	301	426	100 [4]
Legamaster B.V.B.A. (Formerly: edding Lega International B.V.B.A.)	Mechelen, BE	543	30	100 [4]
Legamaster International B.V.	Lochem, NL	2,722	919	100 [4]
edding France SAS	Roncq, FR	240	53	100 [4]
EDDING (U.K.) LTD.	St. Albans, UK	1,236	540 [3]	100
edding Hellas Ltd.	Athens, GR	265	– 18	100
edding Ofis ve Kirtasiye Ürünleri Tic. Ltd. Sti.	Istanbul, TR	4,707	1,530 [3]	100 [5]
edding Mexico S. de R. L. de C.V. [6]	Mexico City, MX	93	– 492 [3]	100 [5]
edding Argentina S.A.	Buenos Aires, AR	2,485	– 840 [3]	100
edding Colombia S.A.S.	Sabaneta, CO	– 119	– 240 [3]	60
Companhia de Canetas Compactor S.A.	Rio de Janeiro, BR	29,590 [7]	296 [7]	21 [4]

[1] Prior to the profit transfer to edding AG.
[2] Prior to the profit transfer to edding International GmbH.
[3] The equity was converted at the closing rate, and the annual result at the average rate.
[4] Indirectly via edding International GmbH or its affiliates.
[5] 50% directly; 50% indirectly via edding International GmbH.
[6] The company has been in liquidation since 31 December 2016.
[7] The last available annual financial statements were for the year ended 31 December 2014. The equity was converted at the closing rate, and the annual result at the average rate in 2014.

4 Accounting policies

Purchased intangible assets are carried at cost of acquisition and depreciated on a scheduled basis by the straight-line method over their economic useful life. Internally generated intangible assets are not capitalised.

Property, plant and equipment are carried at cost of acquisition and depreciated in accordance with their economic useful life using the straight line method. Low-cost fixed assets with net acquisition costs of up to € 150.00 are depreciated in full in the year in which they are purchased in accordance with section 6 (2) sentence 1 of the German Income Tax Act (EStG) and not included in the inventory. Fixed assets with net acquisition costs of more than € 150.00 and no more than € 410.00 are inventoried and depreciated in full in the year in which they are purchased.

Financial investments are capitalised at cost or at fair value, whichever is lower. An exception is made for securities used to cover the pension obligations, which are measured at fair value.

Receivables and other assets are recognised at nominal value. Write-downs, which are determined on the basis of the probable risk of default, are made where necessary.

Prepaid expenses comprise payments before the balance sheet date if they represent expenditures for a specific time after this date.

Deferred taxes are calculated for temporary differences between the accounting and tax carrying values, which in particular apply for pension provisions. As well as differences arising from its own balance sheet items, edding AG also includes those relating to subsidiaries of the German tax group. Deferred taxes are calculated on the basis of the combined income tax rate for the German tax group headed by edding AG, which is currently 29.72% (previous year: 28.96%). The combined income tax rate comprises corporate income tax, trade tax and the solidarity surcharge. Any resulting overall tax liability would be reflected in the balance sheet as a deferred tax liability. Deferred tax assets are only reported in the balance sheet up to the amount of the existing deferred tax liabilities. In the event of a surplus of deferred tax assets, no capitalisation is performed, in accordance with the option under section 274 (1) sentence 2 HGB.

Measurement of the pension provisions is explained in detail in Note 13.

Other provisions take account of all identifiable risks and contingent liabilities on the balance sheet date. The size of the provisions is measured based on the amount which is required to be paid according to a reasonable commercial assessment; future price and cost increases are taken into consideration where there is sufficient objective evidence that they will occur. Provisions with a residual term of more than one year are discounted at the average market interest rate of the past seven financial years, calculated by the Deutsche Bundesbank on the balance sheet date, which corresponds to their residual term.

Liabilities are carried at their settlement amount.

Foreign-currency receivables and payables with a residual term of more than one year are carried at the exchange rate on the transaction date, observing the minimum and maximum value principle. Short-term receivables and payables in foreign currency are valued at the rate prevailing on the closing date, with the result that unrealized gains may also be recorded.

5 Fixed assets

The breakdown of the asset items summarised in the balance sheet and their development in the 2016 financial year are outlined in the fixed-asset movement schedule under Note 1.

6 Intangible assets

Additions of € 331,000 (previous year: € 658,000) relate to advance payments for IT software of € 130,000 (previous year: € 371,000) and investments in IT software and licences of € 201,000 (previous year: € 287,000).

7 Property, plant and equipment

Essentially the additions to property, plant and equipment totalling € 2.001,000 (previous year: € 922,000) relate to land and buildings (€ 1.107,000) (previous year: € 348,000), IT hardware (€ 545,000) (previous year: € 381,000) and office supplies and laboratory equipment (€ 130,000) (previous year: € 72,000). The additions to land and buildings are mainly the result of the integration of the property assets of the two affiliates EDWU Grundstücks-verwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG (Formerly: DEGEDESTRA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG) and edding AG & Co. Grundstücksverwaltung OHG into edding AG, which was carried out in the 2016 financial year (see detailed information under Note 8).

8 Financial assets

The company owns capital shares of companies where the shareholding is intended to bring about a permanent affiliation. These are described in the Shareholding Overview under Note 3.

The additions to the shares in affiliated companies of € 293,000 in the 2016 financial year (previous year: no additions) referred to a capital increase at the associate company edding Ofis ve Kirtasiye Ürünleri Tic. Ltd. Sti.

In the 2016 financial year, disposals of shares in affiliated companies of € 831,000 (previous year: € 0.000) were posted. These relate firstly to the disposal of the participation in edding AG & Co. Grundstücksverwaltung OHG amounting to € 400,000. The company was integrated with edding AG in conjunction with the withdrawal of the two personally liable external shareholders as of 31 August 2016. Likewise, EDWU Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG (Formerly: DEGEDESTRA Grundstücksverwaltunggesellschaft mbH & Co. Immobilien-Vermietungs KG) was merged with edding AG in conjunction with the withdrawal of the general partner – the newly founded wholly owned affiliate EDWU Grundstücksverwaltungsgesellschaft mbH – as per 31 October 2016, and the participation was disposed of in the amount of € 383,000. In addition, the participation in edding Japan Inc. was disposed of in the amount of € 48,000 due to the liquidation of the company in 2016.

In the 2016 financial year, financial assets totalling € 3,051,000 were written off and recognised in income. A probably permanent impairment in accordance with section 253 (3) sentence 3 was the reason for the unscheduled write-down of the participation in edding Ofis ve Kirtasiye Ürünleri Tic. Ltd. Sti. This led to a write-down expense of € 2,434,000. Likewise the participation in edding Argentina S.A. had to be written down because of a probably permanent impairment in the amount of € 617,000. In the case of the capital increase carried out in December 2016 at edding Mexico, fully impaired receivables in previous years with a nominal value of € 239,000 had been invested. The fair value at the time of the investment was € 0,000, and so the acquisition cost of the participation had not increased. Despite the expected liquidation in 2017, the capital increase was necessary in order to comply with local capital maintenance regulations.

Shares in investment funds are shown as long-term investments. These serve to cover unitlinked pension provisions and are, in terms of commercial law, carried as a valuation unit at fair value amounting to € 1.380,000 as at 31 December 2016 (previous year: € 1.267,000). As the conditions for offsetting against the pension obligations are not met, they are reported separately under financial assets. No write-ups or write-downs took place in 2016 (previous year: write-ups of € 129,000).

9 Receivables and other assets

Receivables from affiliated companies refer to deliveries and services and the provision of financial resources. Of these receivables, € 5,100,000 (previous year: € 2,600,00) have a residual term of more than one year.

Of the other assets amounting to € 261,000 (previous year: € 538,000), € 0,000 (previous year: € 150,000) have a residual term of more than one year.

Other assets include the present value of the corporate income tax credit from the previous tax credit procedure of € 156,000 (previous year: € 306,000), which will be paid out within one year. No claims to VAT refunds are reported (previous year: € 108,000).

10 Prepaid expenses and deferred charges

Prepaid expenses and deferred charges mainly include prepaid maintenance and licence costs as well as insurance premiums.

11 Share capital

The 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, with a notional value of € 5.00 per share. All shares are bearer shares.

12 Retained earnings and net earnings

Other retained earnings	2016 € '000	2015 € '000
Balance as at 1/1	32,732	29,787
Allocations from previous year's profit retained	616	260
Transfer from net income	3,570	2,685
Balance as at 31/12	**36,918**	**32,732**

The reconciliation of net earnings is presented in the income statement. The net earnings for 2015 of € 2,685,000 were transferred to other retained earnings in the amount of € 616,000 and paid as a dividend in the amount of € 2,069,000.

13 Provisions for pensions

Pension provisions are broken down into unit-linked and non-unit-linked obligations.

The non-unit-linked pension provisions are measured according to recognised actuarial principles using the projected unit credit method based on Prof. Dr. Klaus Heubeck's guideline tables (2005 G mortality tables). In some cases reinsurance policies have been taken out for these obligations.

As of 31 December 2016 an interest rate of 4.01% p.a. (previous year: 3.89% p.a.) was used as a basis, which, in accordance with the new legal regulations under section 253 (2) sentence 1 HGB, corresponds for the first time to the average market interest rate of the last ten years calculated by Deutsche Bundesbank (in the previous year: average market interest rate of the last seven years) for an assumed blanket residual term of 15 years. Annual pension increases of up to 1.8% were assumed for all entitled employees when carrying out the valuation. A fluctuation probability was not taken into consideration, in view of the actual circumstances, as the non-unit-linked obligations are exclusively current pension obligations. Equally, salary increases were not taken into account, as the majority of the pension provisions are not dependent on salary growth.

In the area of non-unit-linked pension provisions, a regrettable fatality in the 2016 financial year involving a member of the group of entitled persons based on an individual commitment from the period prior to the IPO in 1986 led to a review of the recognition of pension commitments for former Management Board members of edding AG. This means that in the case of an individual commitment, the valuation of the survivor's pension as of 31 December 2016 and for future periods will be carried out individually instead of the previous collective valuation of the entitlement to a widow's pension. The valuation of the entitlement to a widow's pension according to the individual method (with a probability of marriage of 0% or no inclusion of an entitlement to a widow's pension) gives a more accurate representation of the net assets, financial position and results of operations of edding AG following a comprehensive analysis. In the 2016 financial year, the provision of € 1,771,000 was consequently released with effect on income.

The unit-linked pension provisions are combined as a valuation unit with the securities held to cover them and measured at the fair value of the securities as long as the fair value does not fall below the guaranteed minimum amount.

We refer you to Note 30 for an explanation of the amounts blocked, in accordance with section 253 (6) sentence 2 HGB, for the pay-out from the discounting of pension provisions at the average market interest rate of the last ten years, compared with discounting at the average market interest rate of the last seven years.

14 Other provisions

Other provisions mainly concern bonuses and other personnel-related expenses of € 2,385,000 (previous year: € 2,328,000) as well as outstanding invoices and provisions for derivative financial instruments with a negative market value (€ 8,000, previous year: € 28,000). For derivative financial instruments, we also refer you to Note 19 of the Notes to the Financial Statements.

15 Liabilities

	31/12/2016 € '000	31/12/2015 € '000
Liabilities to banks	2,500	3,000
of which Remaining term up to 1 year	500	500
Remaining term 1 - 5 years	2,000	2,000
Remaining term more than 5 years	–	500
Secured by a mortgage	2,500	3,000

As in the previous year, no short-term money market loans were taken out as of 31 December 2016.

As in 2015, all other liabilities have a residual term of up to one year.

The liabilities to affiliated companies relate to deliveries and services and the provision of financial resources.

	31/12/2016 € '000	31/12/2015 € '000
Other liabilities	366	128
of which from taxes	365	125

Other liabilities from taxes as at 31 December 2016 included liabilities from an external wage tax audit for financial years 2012 to 2015 of € 77,000 (previous year: € 0,000).

16 Tax provisions and deferred taxes

As a result of an external tax audit for the assessment periods 2010 to 2014, tax provisions of € 318,000 were created in financial year 2016, primarily for income taxes to be subsequently paid.

As of 31 December 2016, deferred tax liabilities from temporary recognition and measurement differences of € 472,000 existed. The change in deferred tax balances compared with the previous year of € -33,000 is shown in the table below:

	01/01/2016 € '000	Addition € '000	Disposal € '000	31/12/2016 € '000
Development of deferred tax liabilities				
Securities held as fixed assets to cover the pension obligations	388	6	4	390
From supplementary balance sheets of subsidiaries in the legal form of partnerships	94	–	94	–
Unrealised exchange gains/losses	19	49	1	67
Other	4	12	1	15
	505	**67**	**100**	**472**

The deferred tax assets result from the balance sheet items Pension provisions and Inventories (in tax group companies). For the calculation, the expected tax rate when the deferred taxes are realised of 29.72% was used, which is based on the current legal situation.

The existing legal option from section 274 (1) sentence 2 HGB was exercised to the extent that deferred tax assets are only shown in the balance sheet up to the amount of the mandatory deferred tax liabilities that have to be accounted for, and a surplus of deferred tax assets over deferred tax liabilities is not recognised.

17 Contingent liabilities and other commitments

As at 31 December 2016, there were contingent liabilities from guarantees of € 3,024,000 (previous year: € 4,442,000), of which € 2,936,000 (previous year: € 4,354,000) in favour of affiliated companies. It is unlikely that they will be utilised, as the guarantees are largely for current account liabilities of affiliated companies, which have hitherto fully complied with their obligations.

edding AG had joint and several liabilities in the previous year from its status as general partner at EDWU Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG (Formerly: DEGEDESTRA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG) and from its status as partner at AG & Co. Grundstücksverwaltung OHG. The risk of utilisation was considered to be small, as the rental agreements were concluded with group companies, and they have met their obligations in full.

Following the withdrawal of the two personally liable external shareholders and the merger of edding AG & Co. Grundstücksverwaltungsgesellschaft OHG with edding AG as per 31 August 2016, and following the merger of EDWU Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG with edding AG as of 31 October 2016, the joint and several liabilities ceased to exist in the 2016 financial year. As of 31 December 2016 edding AG had no joint and several liability.

18 Off-balance sheet transactions and other financial obligations

As in the previous year, there were no transactions requiring disclosure as of the balance sheet date in accordance with section 285 No. 3 HGB. Otherwise we refer you to Contingent liabilities

Other financial obligations existed of € 1,962,000 (previous year: € 1,653,000) with the following maturities:

	€ '000
due 2017	977
due 2018 - 2021	985
due 2022	–

The obligations are mainly based on leasing agreements for motor vehicles as well as IT software and hardware. They do not relate to obligations for old-age pensions nor are they vis-à-vis affiliated companies.

19 Derivative financial instruments and valuation units

As of the balance sheet date, there were no unrecognised derivative financial instruments at edding AG that were grouped together with the underlying transactions in valuation units.

A contingent loss provision was established for the negative market value of the following derivative financial instrument (interest rate swap):

Swap	Transaction year	Nominal volume € '000	Term until	Market value 31/12/2016 € '000	Market value 31/12/2015 € '000
1	2007	300	29/12/2017	– 8	– 28

The market value of the derivative financial instrument as of the balance sheet date was calculated by the issuing bank according to the mark-to-market method.

20 Sales revenue

The sales revenue of € 4,885,000 (previous year: € 4,475,000) will be recognised as from the 2016 financial year according to the new definition of section 277 (1) HGB in the version of the BilRUG. Consequently income hitherto shown under other operating income will be partly reported under sales revenue in the year under review. The prior year sales revenue would increase by € 26,000 to € 4,501,000 in accordance with the new definition.

The sales revenue primarily relates to licences and intragroup charges, with € 4,414,000 (prior year € 4,062,000) of sales generated from the German market and € 471,000 (prior year: € 413,000) from the other countries. Sales revenue in 2016 was higher than the previous year's level. This was mainly due to the rise in licence income and the increased earnings from the apportionment of rental charges arising from the leasing of the buildings in Bautzen and Wunstorf to V. D. Ledermann & Co. GmbH and edding Vertrieb GmbH since the 2016 financial year.

21 Other operating income

	2016 € '000	2015 € '000
Income from adjustment of the measurement of a pension obligation	1,771	–
Income from the release of provisions	186	173
Currency conversion	89	48
Income from the reversal of bad debt allowances	30	–
Income from the reimbursement of charges	–	640
Income from the reversal of special items with an equity portion	–	39
Other income	78	86
	2,154	**986**

Other operating income was recognised as from the 2016 financial year according to the new definition of section 277 (1) HGB in the version of BilRUG. The prior year's other operating income would decrease by € 26,000 to € 960,000 in accordance with the new definition.

The increase in other operating income can mainly be attributed to the exceptional nature of the non-recurring adjustment to the valuation of the pension obligation for a former member of the Management Board of edding AG of € 1,771,000 (see detailed information under Note 13).

Income from the reimbursement of charges in the previous year related to the repayment of securities lending fees from previous years by a credit institution. Income from the reversal of provisions and impairments likewise represent out-of-period earnings. The reversed provisions mainly comprise special payments for staff and unused provisions for interest rate swaps.

Other operating income includes earnings from currency conversion of € 89,000 (previous year: € 48,000).

22 Employee benefits expense / Employees

Employee benefits expense	2016 € '000	2015 € '000
Wages and salaries	5,353	5,764
Social security contributions	685	609
Expenses relating to retirement benefits	110	1,049
	6,148	**7,422**

Number of employees (annual average)	2016	2015
Salaried staff	62	56
Wage-earning staff	1	1
Trainees	9	9
	72	**66**

23 Depreciation expense

Depreciation and amortization of intangible assets and property, plant and equipment of € 1,175,000 (previous year: € 1,008,000) is reported under this item. For unscheduled depreciation of financial assets see Note 8.

24 Other operating expenses

In particular expenses for IT, maintenance costs and other office space costs, insurance, personnel development as well as legal and consulting costs are reported under this item. Other operating expenses include exchange rate losses of € 4,000 (previous year: € 87,000). In financial year 2016 they included out-of-period expenses of € 41,000 (previous year: € 0,000) from input tax payable retrospectively as a result of a tax audit of the assessment period 2010 to 2014. No extraordinary expenses were incurred in the financial year.

25 Income from participations

Income from participations relates to a dividend payment by EDDING (U.K.) LTD. of € 730,000 (previous year: € 626,000) as well as payment of a final dividend due to the liquidation of edding Japan Inc, which was closed in financial year 2016, of € 583,000 (previous year: € 0.000). Also included in this item are a profit distribution by PBS Network GmbH for the financial year 2015 of € 5,000 (previous year: € 5,000) and the profit distribution of EDWU Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG (Formerly: DEGEDESTRA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG) for the period from 1 January to 29 February 2016 of € 200 (previous year: € 1,000). Therefore income from participations is almost exclusively attributable to affiliated companies.

26 Income from profit transfer agreements

The income reported here results from the profit transfers of the following companies:

	2016 € '000	2015 € '000
edding International GmbH	18,288	17,385
V. D. Ledermann & Co. GmbH	725	103
Legamaster GmbH	207	488
	19,220	**17,976**

27 Other interest and similar income

This item includes interest income from affiliated companies of € 155,000 (previous year: € 203,000), income from securities of € 16,000 (previous year: € 140,000) and interest income from corporate income tax credits of € 11,000 (previous year: € 16,000).

28 Interest and similar expenses

In financial year 2016, this item included interest payable to affiliated companies of € 11,000 (previous year: € 5,000). The portion of interest from the compounding of pension, semi-retirement, gratuities and long service provisions amounts to € 407,000 (previous year: € 460,000). In addition, interest and similar expenses in the 2016 financial year include interest from back taxes in accordance with section 233a of the German Tax Code (AO) of € 36,000 (previous year: € 0,000) as well as € 108,000 of extraordinary expenses (previous year: € 0,000) from losses due to the merger of EDWU Grundstücks-verwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG (Formerly: DEGEDESTRA Grundstücksverwaltungs-gesellschaft mbH & Co. Immobilien-Vermietungs KG) and edding AG & Co. Grundstücks-verwaltungsgesellschaft OHG.

29 Taxes on income and earnings

As in the previous year, taxes on income and earnings do not include any deferred taxes. In financial year 2016, they include out-of-period tax expenses of € 241,000 from a tax audit of the assessment period 2010 to 2014. In financial year 2016, expenses for income taxes did not include any income from tax refunds attributable to prior years (previous year: tax refunds of € 170,000 attributable to prior years).

30 Amounts excluded from distribution

As of 31 December 2016, an amount of € 310,000 which is subject to the dividend distribution restriction of section 253 (6) sentence 2 HGB was included in the net income for the first time. This amount (difference) results from the adjustment of the discounting of pension provisions at the average market interest rate of the last ten years compared with discounting at the average market interest rate of the last seven years (see Note 2). The amounts excluded from distribution relate to the non-unit-linked pension provisions of edding AG.

An amount is already recognised as a liability for the unit-linked pension provisions of edding AG based on the recognition of pension obligations from the actuarial assessment in conjunction with the fair value of the shares of the securities fund allocated to employees as at 31 December 2016. The recognised amount also exceeds the pension obligation discounted at the average market interest rate of the last seven years, and therefore there is no amount excluded from distribution for this.

The subsidiaries affiliated directly or indirectly to edding AG through profit transfer agreements edding International GmbH, edding Vertrieb GmbH, Legamaster GmbH and V. D. Ledermann & Co. GmbH transfer the entire result under commercial law directly or indirectly to edding AG without setting a distribution restriction, and do not increase the amount excluded from distribution of edding AG, as the law does not provide for any indirect amounts excluded from distribution. Nevertheless the amounts excluded from distribution which are attributable to these subsidiaries are recognised in the financial statements of edding AG as the parent company for information purposes. As of 31 December 2016 no amounts excluded from distribution in accordance with section 253 (6) sentence 2 HGB were attributable to these subsidiaries.

31 Related party disclosures

No reportable transactions in accordance with section 285 No. 21 HGB were conducted in the financial year.

32 Notifications regarding the existence of participations in accordance with section 21 et seqq. of the German Securities Trading Act (WpHG)

At the end of December of the previous year the redistribution of ordinary shares within the Ledermann family group was carried out in three legal stages. Likewise, on 21 March 2017, Mr Léon Thadaeus Ledermann confirmed that he had exceeded the thresholds of 10, 15, 20, 25, 30 and 50% of voting rights in edding AG.

By way of explanation, the following table shows the current status of notifications where the share of the voting rights in edding AG exceeded or fell below the thresholds of 3, 5, 10, 15, 20, 25, 30, 50 and 75%:

Name	Date of voting rights notification	Limit exceeded in %	Limit not reached in %
Volker Detlef Ledermann	Previous years	3, 5, 10, 15, 20, 25, 30, 50, 75	n/a
Angelika Schumacher	Previous years 07/01/2016	3, 5, 10, 15, 20, 25, 30, 50, 75 n/a	n/a 75
Dina Alexandra Schumacher	Previous years 07/01/2016	3, 5, 10, 15, 20, 25, 30, 50, 75 n/a	n/a 75
David Alexander Schumacher	Previous years 07/01/2016	3, 5, 10, 15, 20, 25, 30, 50, 75 n/a	n/a 75
Beatrix Ledermann	Previous years 07/01/2016	3, 5, 10, 15, 20, 25, 30, 50, 75 n/a	n/a 75
Julia Marie Ledermann	Previous years 07/01/2016	3, 5, 10, 15, 20, 25, 30, 50, 75 n/a	n/a 75
Jan Moritz Ledermann	Previous years 07/01/2016	3, 5, 10, 15, 20, 25, 30, 50, 75 n/a	n/a 75
Léon Thadaeus Ledermann	07/01/2016 21/03/2017	3, 5 10, 15, 20, 25, 30, 50	n/a n/a
Per Ledermann	Previous years	3, 5, 10, 15, 20, 25, 30, 50, 75	n/a
Anika Ledermann	05/01/2016 07/01/2016	3 5, 10, 15, 20, 25	n/a n/a
Yannick Nicolas Ledermann	Previous years 07/01/2016	3, 5, 10, 15, 20, 25, 30, 50, 75 n/a	n/a 75
Elisa Sophie Ledermann	05/01/2016 07/01/2016	3 5, 10	n/a n/a
Luis Gabriel Ledermann	07/01/2016	3, 5, 10	n/a

In this connection, we refer you to our notifications pursuant to section 21 et seqq. WpHG. The voting rights of the Ledermann family are combined in a voting rights pool unless they have to be assigned in accordance with section 22 (1) sentence 1 No. 6 WpHG.

33 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) on the internet at www.edding.de.

34 Total remuneration of the Supervisory Board, the Management Board and former members of the Management Board

At the Annual General Meeting of edding AG on 15 June 2016, it was decided to dispense with individualised disclosure of the Management Board remuneration according to the disclosures required in section 285 No. 9a sentences 5 to 8 of the German Commercial Code (HGB) for the Financial Statements. The total remuneration of the Management Board in the financial year 2016 amounted to € 1,389,000 (previous year: € 1,333,000).

Expenses for remuneration of the Management Board reported in the Financial Statements

The company spent € 647,000 (previous year: € 525,000) on fixed remuneration for the Management Board. Expenditure for fringe benefits amounted to € 40,000 (previous year: € 32,000) and was mainly attributable to company cars and health and long-term care insurance contributions.

€ 320,000 (previous year: € 355,000) were spent on short-term variable remuneration. The agreement on short-term bonuses contains a penalty rule that is applied in the event of an annual loss by edding AG. The expense for variable remuneration based on long-term goals amounted to € 242,000 (previous year: € 173,000). € 66,000 (previous year: € 66,000) was spent on pension schemes.

Expenditure carried in the income statement for variable remuneration based on long-term goals was calculated on the basis of provisional estimates until such time as achievement of the bonus targets is finally determined, and can therefore be adjusted in subsequent periods. Adjustments for previous years of € 6,000 were made in the 2016 financial year (previous year: € 0.000). In the 2016 financial year, long-term bonus claims for two members of the Management Board were finally calculated at € 316,000 following the expiration of the assessment period, and therefore became due for payment after deducting prepayments already made of € 150,000. In the previous year, a long-term bonus claim of € 355,000 for a member of the Management Board was finally calculated following the expiration of the assessment period, and therefore became due for payment after deducting prepayments already made of € 113,000. As of 31 December 2016, a long-term bonus agreement existed with a member of the Management Board with a maximum earnable remuneration of up to € 540,000, which will fall due at the end of the 2019 financial year. In the previous year, long-term bonus agreements were agreed for two Management Board members with a maximum earnable remuneration of up to € 400,000. The long-term bonus agreements do not contain any penalty rules.

Payments for remuneration to the Management Board contained in the financial statements

The fixed remuneration and the fringe benefits were due for payment in full in 2015 and 2016. The provisions of € 355,000 made in the previous year for the short-term variable remuneration led to payments of € 355,000 in the 2016 financial year. € 290,000 (previous year: € 100,000) was paid to the Management Board in 2016 for variable remuneration based on long-term goals, of which € 50,000 (previous year: € 50,000) was non-forfeitable. Advances on Management Board remuneration based on long-term goals accounted for € 0.000 (previous year: € 50,000), and may have to be repaid.

Provisions made for the Management Board in the financial statements

The provisions made for the Management Board's long-term bonus amounted to € 316,000 as of the balance sheet date (previous year: € 368,000).

The pension provisions established for members of the Management Board as of 31 December 2016 amounted to € 624,000 (previous year: € 588,000).

Expenses and payments to former Management Board members

Pension payments were made to former Management Board members of € 1,218,000 (previous year: € 1,192,000). Pension provisions for former Management Board members of € 7,671,000 (previous year: € 10,338,000) are recognised in the financial statements.

Expenses and payments to the Supervisory Board

The Supervisory Board receives only fixed remuneration plus the reimbursement of expenses. In the financial year 2016, € 120,000 was spent on this (previous year: € 120,000). In the financial year 2016, € 120,000 was paid out (previous year: € 108,000).

35 Executive bodies of edding AG

The Supervisory Board is made up as follows:

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

Mr Wahby has held an additional position as a member of the statutory supervisory board of peakwork AG, Düsseldorf since 20 May 2015.

The other members of the Supervisory Board hold no other seats on statutory supervisory boards or comparable controlling bodies of commercial enterprises.

The Management Board consists of following members:

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 seats on any statutory supervisory boards or comparable controlling bodies of commercial enterprises.

36 Fees and services of the Group auditors

The fee recognised as expenditure for the Group auditors for the financial year is stated in the Notes to the Consolidated Financial Statements of edding AG.

37 Report on post-balance sheet date events

No events of particular significance occurred after the balance sheet date and up to the time when the Notes to the Financial Statements were prepared which have not been taken into consideration in the income statement or the balance sheet of edding AG.

38 Proposal on the appropriation of earnings

After the transfer of € 3,570,000 from the net income 2016 to other retained earnings of edding AG, a balance sheet profit of € 3,570,000 remained.

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

€ 2.15 Dividend per preference share with a notional par value of € 5.00

€ 2.10 Dividend per ordinary share with a notional par value of € 5.00

The net retained profits of € 1,292,000 remaining after distribution of the dividend are to be appropriated to other revenue reserves.

Ahrensburg, 20 April 2017

The Management Board

Per Ledermann Thorsten Streppelhoff Sönke Gooß

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the combined management report of the edding AG, Ahrensburg for the business year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and combined management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § [Article] 317 HGB [„Handelsgesetzbuch": „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company 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 books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and combined 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 annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with [German] principles of proper accounting. The combined management report is consistent with the annual financial statements, complies with the legal requirements and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

Hamburg, 21 April 2017

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Thomas Götze	Florian Riedl
Auditor	Auditor

Responsibility statement

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

Ahrensburg, 20 April 2017

The Management Board

Per Ledermann Thorsten Streppelhoff Sönke Gooß

Glossary

B2B (Business-to-Business)
At edding, in contrast with the usual definition, B2B describes distribution to retail customers or distribution channels which mainly serve commercial end users as end customers.

B2C (Business-to-Consumer)
At edding, in contrast with the usual definition, B2C describes distribution to retail customers or distribution channels which mainly serve private end users as end customers.

edding ink
The edding ink flowing in the veins of our employees is the cement that binds together our corporate culture.

eddiplementorship (Project Management Excellence)
eddiplementorship describes the implementation of our ideas in the most efficient and solution-based manner possible.

eddipreneurship (Innovation Excellence)
eddipreneurship refers to the courage and inventiveness to do things differently.

Dimensions of the Strategic Fitness Model from our employee survey

a) Employee Commitment
Sustainable employee commitment comprises four components: loyalty to the company, willingness to give your best, work satisfaction and enjoyment and mental health (performance requirements, workload).

b) Quality of the performance environment
Quality of the performance environment' takes account of the fact that employee commitment can only fully develop in an organisation where motivation and employees' activities are based on the corporate strategy and where they can do their work effectively and efficiently. The quality of the performance environment therefore covers questions with which we can, for example, evaluate whether the strategic direction is clear and the systems and processes that are in place enable us to proceed in the predefined direction.

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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.

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