LUDWIG BECK LUDWIG BECK

Annual Report 2017

LUDWIG BECK am Rathauseck
Textilhaus Feldmeier AG
Marienplatz 11
80331 Munich
kaufhaus.ludwigbeck.de/english/

LUDWIG BECK
seit 1861

# LUDWIG BECK

Annual Report 2017

# CONTENTS

Annual Report 2017


## 1 TO OUR SHAREHOLDERS

| | |
|---|---|
| Key Figures of the Group | 7 |
| Group Structure | 8 |
| LUDWIG BECK Executive Board | 10 |
| Directors' Dialogue | 12 |
| Supervisory Board's Report | 15 |
| Corporate Governance Report | 18 |
| Share | 19 |
| Investor Relations | 21 |

## 2 CONSOLIDATED MANAGEMENT REPORT

| | |
|---|---|
| Group Fundamentals | 22 |
| Economic Report | 23 |
| Remuneration Report | 30 |
| Risk and Opportunity Report | 32 |
| Internal Control and Risk Management System | 37 |
| Supplementary Report | 37 |
| Forecast Report | 37 |
| Supplementary Details | 38 |

## 3 CONSOLIDATED FINANCIAL STATEMENTS & CONSOLIDATED NOTES

| | |
|---|---|
| Consolidated Balance Sheet | 41 |
| Consolidated Statement of Comprehensive Income | 42 |
| Consolidated Equity Statement | 43 |
| Consolidated Cash Flow Statement | 44 |
| Consolidated Notes | 46 |

## 4 ADDITIONAL INFORMATION

| | |
|---|---|
| Corporate Affidavit | 82 |
| Auditors' Report | 82 |
| Financial Calendar 2018 | 88 |
| Imprint & Contact | 88 |


*Store of the Senses*

# 1 TO OUR SHAREHOLDERS


KEY FIGURES OF THE GROUP 7
GROUP STRUCTURE 8
LUDWIG BECK EXECUTIVE BOARD 10
DIRECTORS' DIALOGUE 12
SUPERVISORY BOARD'S REPORT 15
CORPORATE GOVERNANCE REPORT 18
SHARE 19
INVESTOR RELATIONS 21


THERE ARE DEPARTMENT STORES, FASHION HOUSES AND TEMPLES OF CONSUMERISM – AND THEN THERE IS LUDWIG BECK. WHETHER FOR OUR CUSTOMERS, EMPLOYEES, INVESTORS AND BUSINESS PARTNERS, WE STRIVE TO BE RECOGNIZED AS MUCH FOR OUR HONESTY, UNIQUENESS AND DESIRABILITY AS FOR THE EXCLUSIVE BRANDS WE OFFER.

STYLE HAS A NEW HOME:
LUDWIG BECK.

PICTURE: WORMLAND'S FALL/WINTER 2017 CAMPAIGN

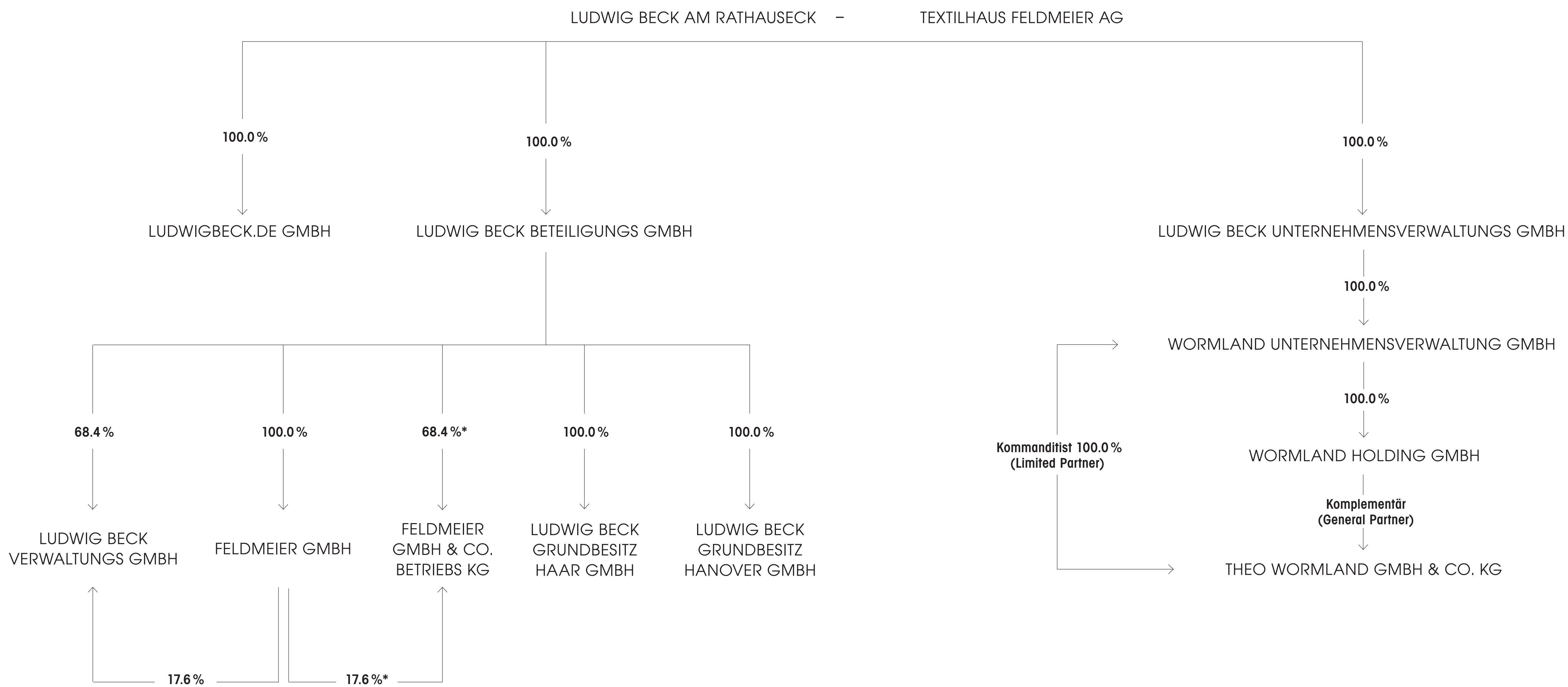


# KEY FIGURES OF THE GROUP

| Key figures of the Group | | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| | | (IFRS/IAS) | (IFRS/IAS) | (IFRS/IAS) | (IFRS/IAS) | (IFRS/IAS) |
| **Result** | | | | | | |
| Sales (gross) | €m | 173.2 | 177.1 | 158.6 | 102.7 | 102.1 |
| VAT | €m | 27.6 | 28.3 | 25.3 | 16.4 | 16.3 |
| Sales (net) | €m | 145.6 | 148.9 | 133.3 | 86.3 | 85.8 |
| | % | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Gross profit | €m | 69.6 | 71.3 | 64.5 | 42.7 | 43.4 |
| | % | 47.8 | 47.9 | 48.4 | 49.5 | 50.6 |
| Earnings before interest, taxes, depreciation & amortization (EBITDA) | €m | 10.9 | 10.3 | 22.3 | 13.4 | 15.1 |
| | % | 7.5 | 6.9 | 16.8 | 15.6 | 17.6 |
| Earnings before interest & taxes (EBIT) | €m | 6.5 | 6.3 | 18.3 | 10.6 | 12.3 |
| | % | 4.4 | 4.3 | 13.7 | 12.3 | 14.4 |
| Earnings before taxes (EBT) | €m | 5.6 | 5.2 | 17.3 | 9.5 | 10.8 |
| | % | 3.8 | 3.5 | 12.9 | 11.0 | 12.6 |
| Consolidated net profit | €m | 3.3 | 2.9 | 15.2 | 6.7 | 7.4 |
| | % | 2.2 | 1.9 | 11.4 | 7.8 | 8.6 |
| **Balance sheet** | | | | | | |
| Equity | €m | 79.4 | 79.0 | 79.4 | 67.2 | 64.4 |
| Equity ratio | % | 60.8 | 58.9 | 60.2 | 60.5 | 60.6 |
| Return on equity before taxes | % | 7.0 | 6.6 | 21.7 | 14.2 | 16.8 |
| Investments | €m | 2.5 | 5.4 | 2.2 | 6.5 | 3.2 |
| Balance sheet total | €m | 130.5 | 134.0 | 131.9 | 111.1 | 106.3 |
| **Personnel** | | | | | | |
| Employees | Individuals | 874 | 892 | 816 | 478 | 463 |
| Personnel expenses | €m | 29.3 | 30.4 | 26.4 | 17.7 | 17.0 |
| | % | 20.2 | 20.4 | 19.8 | 20.5 | 19.8 |
| Net sales per employee (weighted, average) | €k | 253.2 | 253.2 | 244.1 | 255.3 | 259.3 |
| **Share** | | | | | | |
| Number of shares | m | 3.70 | 3.70 | 3.70 | 3.70 | 3.70 |
| Earnings per share undiluted and diluted | € | 0.88 | 0.78 | 4.11 | 1.81 | 2.00 |
| Dividend | € | 0.65 | 0.65 | 0.75 | 0.75 | 0.50 |
| **Other details (as of December 31)** | | | | | | |
| Sales area | sqm | 28,600 | 28,600 | 27,200 | 12,415 | 11,589 |
| Gross sales per square meter | €/sqm | 6,056 | 6,193 | 5,832 | 8,271 | 8,813 |

# GROUP STRUCTURE

## The LUDWIG BECK Group




*rounded

As of December 31, 2017

# LUDWIG BECK EXECUTIVE BOARD

## DIETER MÜNCH

MEMBER OF THE EXECUTIVE BOARD OF LUDWIG BECK AG

Dieter Münch's first contact with LUDWIG BECK was as an intern during his business economics studies at Munich's University of Applied Sciences. Struck by the special LUDWIG BECK flair, he started his career in LUDWIG BECK AG's Controlling department on his graduation with a degree in Business Economics (UAS) in 1980. Following various positions in the company he was called to the Executive Board in April 1998, where he is responsible for Finance, Personnel and IT.

## CHRISTIAN GREINER

MEMBER OF THE EXECUTIVE BOARD OF LUDWIG BECK AG

In 2004, Christian Greiner developed the Young Fashion concept U1 for Rudolf Wöhrl AG in Nuremberg which he managed as a director until the end of 2007. Since 2008, Christian Greiner has been the managing director of INTRO Retail & Media GmbH and co-owner and managing director of the Nuremberg-based Kreativagentur nuts communication GmbH. In 2010, he changed from the Supervisory Board to the Executive Board of LUDWIG BECK AG and is now responsible for Purchasing, Sales and Marketing.

MEMBERS OF THE EXECUTIVE BOARD OF LUDWIG BECK
CHRISTIAN GREINER AND DIETER MÜNCH

# DIRECTORS' DIALOGUE

## IN CONVERSATION WITH DIETER MÜNCH AND CHRISTIAN GREINER

LUDWIG BECK Executive Board members Dieter Münch and Christian Greiner look back at the past fiscal year, discuss current developments and relate the Group's plans to extend its special position in stationary fashion trade.

**Mr. Münch, Mr. Greiner, which topics left their special mark on the year 2017?**

**Christian Greiner:** In a word: events. Whether concerning the opening of new appealing sales areas, the cooperation with renowned labels and artists or well-attended happenings – we have always preferred to present the LUDWIG BECK brand to the public in the form of special events. The year 2017 demonstrates in an impressive way that all our activities spring from a vibrant corporate culture which captivates customers and employees but also partners and shareholders in a shared experience that far exceeds any usual shopping feeling.

**Dieter Münch:** In general, we sought to stand shoulder-to-shoulder with the stars of the art scene once again. For instance, LUDWIG BECK was a partner for the great Peter Lindbergh exhibition at Kunsthalle in Munich – a cooperation which prompted the world-renowned photo artist, by the way, a skilled window dresser, to design the display of the main shop window at the *Store of the Senses*. Our motto: LUDWIG BECK closely cooperates with world-famous personalities who stand for a very special perspective on life ...

**Christian Greiner:** ... and offers high-end fashion, accessories and beauty products to customers who identify with this perspective – an intellectual transfer that reaches beyond just the product. We emotionalize utilizing our product ranges, brands and exceptional showcasing of merchandise. In 2017, carrying on with our beautiful tradition, we placed stronger focus on the staging of events. LUDWIG BECK and culture – a symbiosis that has been matchless for decades.

**Is special focus also placed on WORMLAND?**

**Dieter Münch:** Of course it is. All segments of the Group are, if I may say, equipped with the same genes, in spite of important strategic differentiation on the outside.

## LUDWIG BECK AND CULTURE – A UNIQUE SYMBIOSIS

**Dieter Münch:** Let's start with the *Store of the Senses*. Certainly the most important event in 2017 was the reopening of the redesigned first floor at the beginning of August. The visual concept featuring high quality materials, lively colors and design elements clearly favors a feminine vibrancy. Multi-label und shop-in-shop areas for individual brands are visibly separated. The customers' first steps right behind the entrance door lead them into the magical world of LUDWIG BECK on an area of 1,700 sqm, and, more than ever before, they feel immersed in a welcoming ambience that is different.

**Christian Greiner:** The year was marked by a sequence of highly visible events. Several times we invited customers to our flagship store at Marienplatz in Munich for a *100 Highlights a Day* shopping event. We not only presented some extras here and there as we usually did in traditional sales campaigns but unleased a sensual cosmos of brand variety, culinary art and special offers. For these two days, LUDWIG BECK had a number of special products produced and enhanced with the signets of famous artists.

WORMLAND is currently experiencing a healthy development. Without doubt, the Nuremberg-based WORMLAND store winning the HDE special prize *Store of the Year 2017*, awarded to outstandingly creative and innovative textile retail businesses, was one of this year's milestones. Not less than 50 stores from all over Germany had applied for the prize! This demonstrates that we pursue the right approach with WORMLAND, and set trends which create a signaling effect throughout the entire German fashion market.

**Christian Greiner:** … and that the stationary retail trade is still able to inspire and seduce. WORMLAND Munich and Hanover staged spectacular pop-up store openings within the framework of concerts of Guns N' Roses in Germany, where not only the fans of the cult band were presented with exclusive styles. In 2017, WORMLAND also established cooperative relationships with strong brands like Talbot Runhoff and worked with the Nuremberg street artist Julian Vogel. All these measures contributed to further developing the face of WORMLAND which has already been well-known to the target group, and rendering its features even more distinct.

**Sounds like an extensive marketing offensive.**

**Christian Greiner:** You bet! Our public image was a core topic in the past fiscal year. Our marketing relied on all the available media: from newspaper supplements over ads with photographically brilliantly staged motives to Citylights and Megalights. Let's take for instance our cooperation with Woolmark which engaged the entire flagship store. Design, photo shootings of the collection, our huge window display as well as an ad insert in Süddeutsche Zeitung, all showed the hand of LUDWIG BECK. An interaction like this achieves a lot for the brand – and all the more for us, as we offer an excellent platform, very few competitors, and certainly not a single online shopping portal have to show.

**Dieter Münch:** Among all these measures I would like to point out in particular the redesigning of our company's website. It went online in the 4th quarter and constitutes a virtual step forward as regards optics, functionality and up-do-dateness. We created it using a responsive layout, and we present it in the same innovative way that has earned ludwigbeck.de several prizes.

**Is this LUDWIG BECK's response to the pressures of e-commerce on the stationary fashion trade?**

**Dieter Münch:** We cannot come up with just one answer to that. However, our cooperative relationships are indeed a core element for honing our product competence in order to become even more appealing to customers in the market. Our brand and our cooperation partners' brands get charged by each other. This effect happens on site. People who prefer online shopping tours will not be aware of the showcasing effects that happen at the point of sale – but will miss them sooner or later. Furthermore, our unified brand policy contributes a lot to the recognition of our fashion store.

**Christian Greiner:** In addition thereto, we had announced a service offensive for the past year. And as LUDWIG BECK is well known for its high service level, we could score in this area as well.

**Dieter Münch:** Another decisive factor is that with ludwigbeck.de LUDWIG BECK participates in e-commerce itself and uses this well-attended online store as an alternative sales outlet supplementing its stationary offer. ludwigbeck.de, as a typical development of the Group, also relies on style, emotions and strong visual product presentations.

**Christian Greiner:** LUDWIG BECK's online business not only occupies a market niche and taps valuable potentials of the Munich area – it serves at the same time as a strategic tool to reabsorb market shares the stationary fashion trade has lost to the Internet. Thus, from an overarching perspective, the LUDWIG BECK's brand presence gets enhanced. Even though the typical shopping ambience on site cannot be adequately reproduced online, customers are supra-regionally provided with the opportunity to locate exclusive products at fair prices. Of course we will continue to parlay our classical values: the superb sales culture that distinguishes the flagship store and the WORMLAND branches, the scenographical appeal, the magic felt by many customers – these are indicators in favor of stationary trade despite the undeniable advantages of online business.

**Dieter Münch:** In this context, we should mention our endeavors to operate on a sustainable basis throughout the entire spectrum of our Group, as every decision we take has consequences for which we bear responsibility. Each one of us can create impulses. We are fully aware of our responsibility. To us, sustainability is more than just a trendy topic. Our goal is a future-oriented management characterized not only by lip service but by actions. Our current Sustainability Report informs the public about how this works in practice.

**Do you believe that one day the fashion trade will be restricted to the displays of cell phones?**

**Christian Greiner:** Not at all! Why should it? Online shopping may entice its target groups by fascinating functionalities, constantly improved image quality and a confusingly diverse range of choices. And LUDWIG BECK certainly operates a well-attended web portal itself. However, ludwigbeck.de is closely linked to other activities of the Group and is in line with our typical features, the core element being: persons take center stage. Instead of providing a sophisticated technical environment customers can easily get lost in we rather create emotions, genuine connection, trust and identification.

**Dieter Münch:** The fashion world is in a constant state of flux. Technical possibilities lead us to ever more levels of feasibility, while at the same time many people have the sense that the world is falling apart. Classical shopping habits have changed in many areas. This is actually good news for us, as LUDWIG BECK has always been able not only to meet traditional demands but also to strike innovative paths. This is due to the fact that our special status with customers enables us to act in close touch with the pulse of times.

**Christian Greiner:** This brings us back to the subject of experiential shopping which will remain with us also throughout 2018, and will motivate us to come up with new ideas. When we observe that leisure time, mobility and professional life accrete more and more experiential features, especially in an urban environment, and we see that performance and speed orientation alone cannot make us happy, then this insight all the more trickles down to new shopping attitudes as adopted by many people. In former times, shopping served the purpose of meeting special needs – whereas today shopping is a gift to oneself, and the shopping experience a way of self-rewarding. This has always been the philosophy of LUDWIG BECK.

**How was this position reflected in the economic development?**

**Dieter Münch:** Also in 2017, the entire German fashion trade registered a decline. The LUDWIG BECK Group, however, came off well and within the bounds of our expectations. In our present era, where an entire sector is redefining itself, this is definitely a positive sign. Nevertheless, the year ran a rather changeable course and delivered gross sales of € 173.2m (previous year: € 177.1m). In addition to many instances of anticyclical, capricious weather conditions, which cannot be planned for, the Christmas business, after quite a number of positive years developed less favorably. All in all, we can be satisfied, however, as we were able to steer a steady course in troubled waters. This shows that our measures made an impact, as did, of course, the people who courageously translated them into action.

**They say approvingly that with LUDWIG BECK it's the employees who make a difference.**

**Christian Greiner:** Our employees are truly the very icons of our sales culture. Their fashion expertise, their experience and their advisory skills make them the most important link to our customers. The same also goes for their social skills. Their ideas, commitment and enthusiasm to achieve great things day in and day out remain unsurpassed. This really should be spelled out here.

**Dieter Münch:** There is a sharp dividing-line between personal contact and digital menus, between individuality and mass consumption. Our customers are looking for flexibility, time-savings and product diversity. All this doesn't count for much without the personal contact – without the human element. Our employees are not only image bearers for LUDWIG BECK, they are LUDWIG BECK! Therefore, when providing training or creating working conditions, we put all our effort into finding ways to make our employees content so that they love coming to work.

**What's your outlook towards 2018, what are your comments?**

**Christian Greiner:** The reorientation of our sector will further unfold in 2018. We confidently participate in this process knowing that we have already set the course and are continuously optimizing and tapping our potentials.

**Dieter Münch:** The optimism of LUDWIG BECK rests on three strong pillars: service strength, high-end product lines and experiential value. The latter will play a growing key role in fashion trade in the future. Those who, like LUDWIG BECK, strongly inspire their customers and touch them at the core of their being don't have to worry about the future!

## PERSONAL THANKS

On this occasion, the Board of Directors would like to express his gratitude to all employees of the LUDWIG BECK Group for their great commitment during the year of 2017. We also want to thank all customers and business partners for their trust placed in our Group.

Dieter Münch Christian Greiner



# SUPERVISORY BOARD'S REPORT

In the 2017 reporting year, the Supervisory Board of LUDWIG BECK dealt extensively with the company's and the Group's development and their strategic goals, exercising its advisory, controlling and monitoring functions towards the Executive Board with great care and diligence. The Supervisory Board held a total of four sessions and discussed questions of corporate planning, corporate policy, risk position and risk management with the Executive Board.

The Supervisory Board essentially based its work on the verbal and written reports, as defined by section 90 Joint Stock Corporation Act (AktG), which were submitted by the Executive Board both within and outside formal meetings of the Supervisory Board and its committees. The Executive Board kept the Supervisory Board fully abreast of all relevant developments concerning the company and the Group on a regular basis, both verbally and in written form. The Executive Board fully complied at all times with its duty to provide information. There was no need for additional or supplementary reporting from the Executive Board.

In particular, the reporting covered corporate policy and other fundamental issues of corporate planning. Topics centered on the profitability of the company, on-going business developments, internal control systems, compliance, transactions having substantial impact on the profitability and liquidity of LUDWIG BECK AG and the Group, as well as investment and divestment decisions.

The Supervisory Board was involved in all significant strategic corporate decisions which it discussed, checked and – where necessary – approved. Within the scope of its monitoring function, the Supervisory Board was fully satisfied of the legality and correctness of the Executive Board's corporate management, as well as the efficiency of the company and the Group, the organization of which was discussed with the Executive Board.

The Supervisory Board and the Executive Board discussed the assessment of corporate opportunities and risks on a regular basis. The Executive Board informed the Supervisory Board of potential or occurred risk scenarios, and effective solutions were worked out in joint deliberations. Considerations also focused on engaging opportunities that best serve the company's economic interests.

There were no objections to the work of the Executive Board. Further details of the Supervisory Board's activities are elaborated below.

## FOUR MEETINGS IN 2017

The four meetings of the Supervisory Board held on March 28, May 23, September 11 and December 13, 2017, were regularly attended by all acting members of the Supervisory Board, as well as by the members of the Executive Board. Deliberations particularly concerned on-going business developments, as well as corporate strategy and its realization in the company and its subsidiaries.

According to section 171 par. 1 Joint Stock Corporation Act (AktG), a representative of the company's auditor also took part in the balance sheet meeting on March 28, 2017. At that meeting the company's annual financial statements were approved, the consolidated financial statements were adopted, the management report and the consolidated management report were reviewed, the Supervisory Board's report was authorized and the detailed planning for 2017 as well as the medium-term planning for 2018/2019 was agreed. Another subject of the meeting was endorsing resolution proposals for the agenda items for the Annual General Meeting 2017.

Subsequent to the company's Annual General Meeting on May 23, 2017, the second meeting of the Supervisory Board was convened. It dealt with developments in the 2017 fiscal year and the company's expansion in general.

At the meeting on September 11, 2017, current business developments as well as the company's mid-year result were addressed.

At its last meeting on December 13, 2017, developments in the 4th quarter were analyzed. On this occasion, the Supervisory Board occupied itself with the Executive Board's preliminary planning for the 2018 fiscal year and approved the Corporate Governance Code-compliant Declaration of Conformity.

The members of the Supervisory Board disclose potential conflicts of interest to the Supervisory Board. No conflicts of interest occurred in the 2017 fiscal year.

The Supervisory Board, and in particular the chairman of the Supervisory Board, maintained regular contact with the members of the Executive Board also beyond the scope of scheduled meetings, and was kept up to date on current business developments at all times.

Since the Annual General Meeting on May 13, 2015, the composition of the Supervisory Board with Dr. Steffen Stremme (chairman), Mr. Hans Rudolf Wöhrl (vice chairman), further shareholder representatives Mrs. Clarissa Käfer and Mrs. Edda Kraft as well as employee representatives Mr. Philip Hassler and Mr. Michael Neumaier has remained unchanged. There were no changes to the composition of the Executive Board of BECK AG in the 2017 fiscal year.

## AUDIT COMMITTEE

The Supervisory Board has established two committees, the audit committee and the management and personnel committee.

In the 2017 fiscal year, the audit committee convened for a meeting on March 28, 2017, attended by all acting members of the committee. The audit committee was mainly concerned with financial accounting and the audit of the annual financial statements, as well as the areas of risk management and compliance. Furthermore, the committee resolved to propose to the Supervisory Board to approve the annual financial statements and the consolidated financial statements for the fiscal year 2016, to review the consolidated management report and the management report of LUDWIG BECK AG for the 2016 fiscal year, and to confirm the auditor's declaration of independence. In addition, based on a further resolution, the committee recommended to the Supervisory Board to propose Munich auditor BTU Treuhand GmbH as auditor for the 2017 fiscal year to the Annual General Meeting. The audit committee is composed of the members Mrs. Clarissa Käfer (chairwoman), Dr. Steffen Stremme and Mrs. Edda Kraft.

## MANAGEMENT AND PERSONNEL COMMITTEE

In the reporting year, the members of the management and personnel committee, Dr. Steffen Stremme (chairman), Mr. Hans-Rudolf Wöhrl and Mrs. Clarissa Käfer, closely coordinated their efforts outside of meetings. Bilateral discussions initiated by the chairman of the management and personnel committee and relating to the tasks assigned to the management and personnel committee were held on a regular basis. In particular, they concerned the committee's recommendation to the Supervisory Board to extend the period of service and the employment contract of Mr. Dieter Münch. The Supervisory Board passed a decision on the relevant proposal of the management and personnel committee at its meeting on May 23, 2017. The resolution was then implemented by the chairman of the management and personnel committee.

## GERMAN CORPORATE GOVERNANCE CODE AND DECLARATION ON CORPORATE GOVERNANCE

The Supervisory Board is committed to the standards of good and responsible governance as laid down in the German Corporate Governance Code. The audit committee acting through its chairman obtained a statement from the auditor which confirmed that no business, financial, personal or other relationship existed between the auditor and the company that could call the auditor's independence into question. The auditor made this statement of independence to the chairman of the audit committee by letter dated March 16, 2018.

The statement also extended to consulting services the auditor performed for the company in the lapsed fiscal year and those that have been agreed for the current fiscal year.

The Declaration on Corporate Governance pursuant to section 161 Joint Stock Corporation Act (AktG), approved as of November 24, 2017, can be found in the corporate governance report section of the Annual Report, as well as on the company's website under the navigation point Investor Relations in the Corporate Governance section. The Supervisory Board and the Executive Board together issued the Declaration on Corporate Governance on March 20, 2018 and published it on the company's website.

## CONSOLIDATED FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS

The annual financial statements and the consolidated financial statements as per December 31, 2017, as well as the management report and the consolidated management report including accounting have been audited by the elected auditor BTU Treuhand GmbH, who issued an auditor's opinion without restriction. All documents and papers relating to the financial statements and audit reports were submitted to the members of the Supervisory Board in due time before the Supervisory Board's balance sheet meeting on March 20, 2018, and have been carefully reviewed by them. These documents and papers were discussed in detail by the audit committee and the entire Supervisory Board in the presence of the auditor. The auditor could find no shortcomings in the internal risk management and control systems with regard to the financial accounting process. The Supervisory Board could assure itself that the auditor's report complied with the statutory requirements. At this meeting, the auditor also gave details on the scope, points of focus and costs of the audit as well as his impartiality, and informed of services rendered above and beyond performance of the audit.

The Supervisory Board approved the results of the auditor's audit at said Supervisory Board meeting. After thorough review of the relevant documents presented before the meeting, the Supervisory Board verified the annual financial statements, the consolidated financial statements, the management report, the consolidated management report, as well as the Executive Board's recommendation on the use of the balance sheet profit. The statements contained in the management report and the consolidated management report, were consistent with the Supervisory Board's own assessments. In examining the Executive Board's proposal on the use of the balance sheet profit the Supervisory Board also took financial and investment planning and the liquidity of the company into account. Having considered the interests of the company and the shareholders, no objections were raised to the Executive Board's proposal on the use of balance sheet profit. In accordance with the final results of its own examinations, the Supervisory Board raised no objections against the annual financial statements, the consolidated financial statements, the management report, the consolidated management report and the Executive Board's proposal on the use of the balance sheet profit. The Supervisory Board unanimously approved the annual financial statements of LUDWIG BECK AG prepared by the Executive Board, which were thus adopted. It also approved the consolidated financial statements and endorsed the Executive Board's proposal on the use of the profit.

The Supervisory Board also reviewed the separate non-financial consolidated report for the LUDWIG BECK Group prepared by the Executive Board and thoroughly discussed it at the balance sheet meeting on March 20, 2018. The Executive Board expanded on the report and answered questions of the Supervisory Board. After completion of the review the Supervisory Board concluded that no objections to the separate non-financial consolidated report were to be raised. The Supervisory Board agreed to the separate non-financial consolidated report for the LUDWIG BECK Group.

In addition, the Supervisory Board, in accordance with section 312 Joint Stock Corporation Act (AktG), reviewed the Executive Board's report regarding relationships with associated companies for the past fiscal year (*Dependency Report*). In this report, the Executive Board issued the following conclusive statement:

*According to our knowledge of circumstances at the time of the relevant legal transactions with associated companies, or measures taken or not taken on the initiative or in the interest of these companies, the company received fair and reasonable consideration in each individual case and did not suffer any disadvantage as a result of measures being taken or not taken.*

BTU Treuhand GmbH, as company auditor for the 2017 fiscal year, has examined the Dependency Report and issued the following auditor's opinion on March 2, 2018:

*After diligent audit and assessment we confirm that*

1. *the facts and circumstances presented in the report are correct,*
2. *in the reported legal transactions the company's performance was not disproportionate or disadvantages were balanced,*
3. *there are no circumstances regarding the measures mentioned in the report which would require a significantly different approach than the one taken by the Executive Board.*

The Executive Board's Dependency Report and the auditor's report were available to the Supervisory Board. The Supervisory Board also discussed the audit report with the auditor through which it was satisfied in particular that all legal transactions and measures were fully captured. No concerns arose from the auditor's audit report. This being premised, the Supervisory Board approves the results of the auditor's examination. On the basis of the conclusions of its own analyses, the Supervisory Board raises no objections to the Executive Board's conclusive statement regarding relationships with associated companies.

## PERSONAL THANKS

The Supervisory Board expresses its gratitude to the Executive Board, the employees' representatives as well as all employees of LUDWIG BECK AG and subsidiaries for their great personal commitment, performance strength and enjoyment of dedicated work in 2017.

Munich, March 2018

Dr. Steffen Stremme, Chairman of the Supervisory Board

# CORPORATE GOVERNANCE REPORT

The term Corporate Governance stands for responsible corporate management and control aimed at sustained value creation. LUDWIG BECK is guided by the German Corporate Governance Code, first adopted in 2002. The code provides recommendations of national and international standards to stock exchange-listed businesses, in respect of positive, transparent and responsible business leadership. LUDWIG BECK has felt bound to these values and has complied with the recommendations of the German Corporate Governance Code without significant limitations since April 2003. Alongside an efficient and targeted co-operation between Executive Board and Supervisory Board, special emphasis is placed on the importance of shareholder and employee interests. The Corporate Governance Report, the Declaration on Corporate Governance as well as further Corporate Governance-relevant documents can be found on the company's website in the Investor Relations section under the Corporate Governance menu item. The Declaration on Corporate Governance is accessible via the direct link:
https://kaufhaus.ludwigbeck.de/en/company/investor-relations/corporate-governance/declaration-of-corporate-governance.

According to the recommendations in Clause 5.4.1 par. 2 of the German Corporate Governance Code the Supervisory Board set concrete objectives for its composition and prepared a competence profile for the entire body. The objectives and the competence profile can be found under the following link:
https://kaufhaus.ludwigbeck.de/en/company/investor-relations/corporate-governance/further-information. The objectives set by the Supervisory Board for its composition and the specifics of the competence profile are currently met. According to the Supervisory Board's assessment, the Supervisory Board should comprise at least two independent board members of the shareholder side. Currently, Mrs. Clarissa Käfer und Mrs. Edda Kraft, i. e. at least two independent shareholder representatives, are members of the Supervisory Board.

**Declaration on the Corporate Governance Code pursuant to section 161 Joint Stock Corporation Act (AktG)**
The following declaration refers to the recommendations of the German Corporate Governance Code (*Code*) as amended on May 5, 2015, which was made public in the German Federal Gazette on June 12, 2015 in regard to the period from November 25, 2016, the date the 2016 Declaration of Conformity was made until the expiry of April 23, 2017. As regards the period as of April 2017, the Declaration refers to the recommendations of the Code in its version of February 7, 2017, published in the German Federal Gazette on April 24, 2017.

The Executive Board and the Supervisory Board of LUDWIG BECK am Rathauseck – Textilhaus Feldmeier Aktiengesellschaft declare in accordance with section 161 Joint Stock Corporation Act (AktG) that they have conformed and will conform to the recommendations of the *Government Commission for the German Corporate Governance Code*, published in the official section of the German Federal Gazette by the Federal Ministry of Justice, with the following exceptions:

1. The recommendation in Clause 4.1.3 sentence 3 of the Code, applicable as of April 24, 2017, according to which employees shall be given the opportunity to report, in a protected manner, suspected breaches of the law within the company (establishment of a whistleblower hotline) is not complied with. The Executive Board and the Supervisory Board are of the opinion that the company has a well-functioning compliance management system in place and see no need for setting up a whistleblower hotline. Furthermore, it cannot be excluded that the establishment of a whistleblower hotline might burden the excellent work atmosphere and encourage a culture of denunciation.

2. The Executive Board of the Company has no chairman or spokesman (Code Clause 4.2.1 sentence 1). The Supervisory Board is of the opinion that this best reflects the close cooperation of the two members of the Executive Board, which is based on equality and trust.

3. In deviation from the recommendation in Clause 4.2.3 par. 2 sentence 3 of the Code, applicable as of April 24, 2017, the multiple-year assessment basis for determining the variable remuneration components to be granted to the members of the Supervisory Board which has been applied for many years is not generally future-oriented. In the view of the Supervisory Board the long-standing remuneration system has proven its worth. Furthermore, in order to safeguard existing standards, the existing contracts should not be interfered with, and the consistency of the employment contracts of the two members of the Executive Board should be preserved.

4. The Supervisory Board has not formed a nomination committee (Code Clause 5.3.3). The Supervisory Board is of the opinion that election proposals to the General Meeting for members of the Supervisory Board should be worked out in a plenary sitting of the manageable six-member body.

5. The Executive Board doesn't reason *interim financial information* with the Supervisory Board or its audit committee prior to their publication (Code Clause 7.1.2 sentence 2). The Supervisory Board and the Executive Board are in regular close contact on the basis of a monthly reporting system. Therefore, a separate discussion on Semi-annual Reports or other interim financial information prior to their publication is dispensable.



# SHARE

## THE 2017 STOCK EXCHANGE YEAR

**Worldwide stock markets reach new records**
After a stock market year of superlatives, the DAX recorded an annual growth rate of 15 per cent. The German leading index scored its all-time high at 13,525.60 points. The American S&P-500 even soared by approximately 20 per cent. The robust growth of the global economy and the harmoniously interacting economies of the United States of America, Europe and Japan with related corporate profits led to price fireworks fanned by low inflation and interest rates, as well as sustained expansionary monetary politics in 2017. Analysts refer to this as a Goldilocks scenario which is marked by continuous, moderate economic growth on a worldwide scale.

## THE LUDWIG BECK SHARE

| **Share Details** | |
|---|---|
| ISIN | DE0005199905 |
| WKN | 519990 |
| Ticker symbol | ECK |
| Industry | Retail |
| Accreditation segment | Prime Standard |
| Number of shares | 3,695,000 |
| Market capitalization at year's end 2017 | € 101.4m |
| Stock exchanges | Frankfurt/M., Stuttgart, Munich, Duesseldorf, Berlin/Bremen, Hamburg, XETRA |
| Year-end price (12/31/2017) | € 27.43 |
| Year-high price (1/20/2017) | € 32.20 |
| Year-low price (11/25/2017) | € 27.09 |
| Designated sponsor | DZ Bank |

**Development of the LUDWIG BECK share in the neutral range**
The share of the LUDWIG BECK AG closed the year 2017 with a price of € 27.43. The opening price was € 27.85, the year-high price came to € 32.20 on January 20 and the year-low price amounted to € 27.09 on November 25.

**Earnings per share**
Earnings per share are calculated by dividing LUDWIG BECK's Group earning by the average number of shares in circulation in the year under report. The average number of shares (diluted and undiluted) was 3,695,000 in 2017.

The consolidated net income for the year amounted to € 3.3m (previous year: € 2.9m) in the fiscal year 2017. Accordingly, earnings per share came to € 0.88 (previous year: € 0.78). Hence, the price-earnings rate at the end of the fiscal year was 31.2 (previous year: 36.5).

**Dividend**

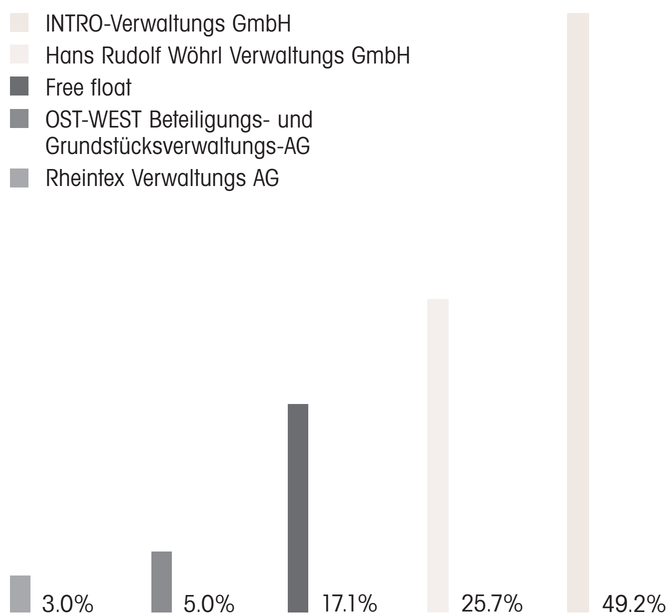
The LUDWIG BECK AG share enjoys the reputation of being a reliable dividend payer and, on account of a continuously pursued dividend development, maintains to provide shareholders with a fair share in the success of the business. The proposed dividend amount is commensurate with the stock corporation's financial objectives, whereby highest priority is placed on safekeeping the Group's solid financial basis for the realization of strategic goals. Equity capital shall be the bedrock for this approach also in the future. This will lead to a strong balance sheet position and appealing added value for the company and its shareholders.

In line with the business development in the reporting year, the Executive Board and the Supervisory Board of LUDWIG BECK AG will propose to the Annual General Meeting on May 15, 2018 to distribute a dividend of € 0.65 per share. This will result in a total distribution of € 2.4m (previous year: € 2.4m). The dividend yield in relation to the closing price at the last trading day in 2017 thus amounts to 2.4%.

**Shareholder structure**

**The shareholder structure of LUDWIG BECK AG is composed as follows:**

In 2017, INTRO-Verwaltungs GmbH was the largest individual shareholder with a shareholding of 49.2%. Hans Rudolf Wöhrl Verwaltungs GmbH held 25.7% of the shares, while OST-WEST Beteiligungs- und Grundstücksverwaltungs-AG held 5.0% and Rheintex Verwaltungs AG held 3.0% of the shares in LUDWIG BECK AG. As voting rights are only reported after reaching certain thresholds, the company's free float can only be estimated, and thus is probably below 17.1%.






# INVESTOR RELATIONS

As a Prime Standard listed company, LUDWIG BECK is committed to the rules of fair disclosure, which concern timeliness, continuity and equality of treatment in information policy. Therefore, the company maintains a regular dialogue with investors and analysts, and provides a continuous flow of information on activities and projects.

The Annual General Meeting held each year in May provides a significant communication platform, and is extensively used for establishing or maintain contacts between the company and its shareholders. By casting their vote at the Annual General Meeting on May 23, 2017, a large majority of shareholders approved the proposed payment of a dividend of € 0.65 per no-par share – an almost unanimous result showing the investors' trust in a stable value enhancement of their investment.

LUDWIG BECK's reporting is bilingual and linked to fixed dates, comprising for instance the sales report at the beginning of the year, or the balance sheet press conference in Munich and the analysts' conference in Frankfurt, where the management of LUDWIG BECK presents the Annual Report for the lapsed fiscal year. Approximately three weeks after the end of each quarter LUDWIG BECK AG informs the capital market by publishing Quarterly Releases for quarters 1 and 3 and a Quarterly Report for quarter 2, together with Corporate News.

The presentations shown at the aforementioned conferences are freely available online in the Investor Relations section at https://kaufhaus.ludwigbeck.de/en. At any rate, the Internet presence of LUDWIG BECK offers comprehensive information on corporate strategy, continuous publications of reports, Corporate News and analyst recommendations, and provides an archive of Annual Reports dating back to the year 2000. Company events and comments are related in regular shareholder newsletters. Furthermore, the Investor Relations team is always available for direct contact.

The company's Financial Calendar for 2018 can be found on page 88 of this Annual Report as well as online under Investor Relations/Corporate Events/Financial Calendar.

## CONTACT

LUDWIG BECK Investor Relations
esVedra consulting GmbH
Tel. +49. 89. 206021-210
Fax +49. 89. 206021-610
ludwig.beck@esvedragroup.com

# 2 CONSOLIDATED MANAGEMENT REPORT

GROUP FUNDAMENTALS 22
ECONOMIC REPORT 23
REMUNERATION REPORT 30
RISK AND OPPORTUNITY REPORT 32
INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM 37
SUPPLEMENTARY REPORT 37
FORECAST REPORT 37
SUPPLEMENTARY DETAILS 38

## I. GROUP FUNDAMENTALS

### 1. BUSINESS MODEL

**Business activity**
The Group operates a textile retail business under the brand LUDWIG BECK in the medium and premium price segments. The offered product range mostly consists of textile goods but also non-textile goods such as cosmetics, sound recordings and paper products. Its brick-and-mortar business centers on the *Store of the Senses* flagship store at Munich's Marienplatz. In addition, exclusive beauty products are available in an annex in FÜNF HÖFE, Munich.

In parallel, the Group offers and sells a wide range of exclusive cosmetics to all German-speaking regions via its ludwigbeck.de online portal.

Since 2015, the branch network of WORMLAND spread throughout Germany has formed a part of the Group. This brand stands for stylish men's fashion and constitutes the second pillar of stationary business.

### 2. STRATEGY AND GOALS

LUDWIG BECK seeks to permanently secure a top rank among Europe's leading fashion houses. To permanently secure this market position the companies operating under the corporate roof offer exclusive product selections of intrinsic experiential value, creatively staged in top city locations and presented within the framework of a high-end sales culture.

Product lines, presentation and sales space design are constantly reviewed with a clear focus on optimization. Particular emphasis is also placed on improving the already outstanding quality of service.

The further strengthening and enhancing of the LUDWIG BECK brand is accompanied by a redoubled effort to revitalize the WORMLAND brand in its pioneering role in the field of men's fashion throughout Germany.

Furthermore, LUDWIG BECK puts great emphasis on remaining a sought-after employer for all members of its staff, appreciated as a career home which offers optimal career-building opportunities. In the long term, high employee contentment is an indispensable prerequisite for the above-average service level pursued.

LUDWIG BECK stands for a commitment to offering shareholders a secure investment and participation in the business success based on the principle of sustainability. This goal finds its basis in values like reliability, stability and growth orientation.

### 3. INTERNAL CONTROL SYSTEM

An internal control system provides the company with all required information for controlling inventories, product selections and the allocation of sales areas in an efficient manner. The system allows for exact to-the-date resource planning analyses, organized by categories, such as product group and article number through to department und season volume.

The Group's financial scope of action is constantly monitored on the basis of these parameters by way of target-actual comparison, in order to be able to respond swiftly if significant deviations occur.

In addition to the financial performance indicators integrated into the aforementioned control system, the company uses a number of other key parameters to measure economic efficiency. These refer to developments in sales and earnings, working capital, as well as investments in relation to tied capital.

The monthly reporting system provides the Executive Board with information on target-actual analyses reflecting the development of the key parameters. This is to make sure that immediate action can be taken if current business performance results deviate from the plan. In parallel, a thorough cause analysis makes sure that risks are kept at a minimum and opportunities exploited.

## II. ECONOMIC REPORT

### 1. GENERAL AND BRANCH-SPECIFIC ECONOMIC FRAMEWORK CONDITIONS

**World economy displaying surprisingly dynamic growth**
The pessimism shown by many economists at the beginning of the year has not been justified: Despite the *Trump shock* and numerous geopolitical uncertainties, the world economy embarked on a heady flight which, according to initial reports, led to a 3.6% growth – the highest increase in six years. A dreaded quake emanating from the USA did not materialize nor did the trade war between the US and China or the negative effects of the Brexit negotiations which turned out to be of no concern. On the other hand, the oil price remained at a very low level sparking demand in the importing countries. Furthermore, the extremely loose monetary policy of the central banks brought cheap money into the global markets thus providing a solid basis for the worldwide economic growth in 2017.

**Germany economy in full swing**
According to the preliminary information provided by the Federal Office for Statistics, the German gross national product (GNP) grew by 2.2% in 2017. This would amount to the most significant economic revival since 2011 (2016: 1.9%). This upturn was strongly supported by the consumers' propensity to buy, an increased demand for German products from abroad and a growth in investments in equipment and machinery.

In the view of economic researchers from the Kiel-based Institute for World Economics (IfW), Germany left the path of sustained growth in 2017 and is now rapidly steering towards an economic boom. The upswing is broadly diversified – with the domestic economy contributing to the overall economic development. On account of positive employment and income prospects, private households consumed more in the 1st half of 2017 than in the past 15 years. According to the Association for Consumption Research (GfK), consumers were in an elevated mood throughout the year. According to calculations by the Federal Office for Statistics, retail sales went up 2.3% between January and December.

The German export industries reported their 4th record year in a row. In 2017, also the German state recorded a revenue surplus for the 4th year in a row. Last year's special effects due to higher public spending on account of the refugee crisis had less effect on the economy in 2017.

**Textile sector in the red once again**

Also in 2017, the brick-and-mortar fashion retail trade failed to benefit from the pleasant consumer sentiment and, for the second year in a row, concluded the year with sales down by 2%. Industry observers see an ongoing shift towards online sales, a factor that adds pressure on classical fashion businesses and boutiques. As Textilwirtschaft, the professional journal in the branch, concluded at the end of the year: *Customers are satisfied, wardrobes are full, the market is overcrowded.* As zero-sum competition in inner cities has shown, *top dogs* are very well able to safeguard their opportunities – by providing, among other things, service features that cannot be emulated online.

## 2. LUDWIG BECK BUSINESS DEVELOPMENT

**On a steady course in challenging times**

In the fiscal year 2017, business in the LUDWIG BECK and WORMLAND segments centered around assortment and service optimization, as well as the staging of huge shopping events.

In August, the newly designed 1st floor of the flagship store at Marienplatz was completed. Visitors entering the store are welcomed by an esthetically appealing ambience on 1,700 sqm showcasing the magic of the LUDWIG BECK brand and, through a clear differentiation between selling zones, purposively directing the visitors' attention. On several occasions, the *Store of the Senses* invited to a special shopping event under the motto *100 Highlights a Day* – an event that has always attracted huge crowds and caused quite a stir. The events staged by WORMLAND were as well received and attended, like for instance the pop-up stores, where Guns N' Roses textiles were sold at the same time the band gave their concerts in Munich and Hanover.

With the goal of playing on its competitive advantages in a more pronounced way, the company intensified its employee qualification programs. E-commerce and changing buying behaviors require stationary fashion businesses to create new service features, and the Group intends to be at the forefront when it comes to realizing them.

The development of the online shop at ludwigbeck.de unfolded according to the expectations the management had placed on this alternative sales channel. The Group being a classical retailer utilizes this platform as a tool for increasing its market shares through appealing online offers and for benefitting from the dynamics of this new medium.

At the same time, LUDWIG BECK had to deal with the pressure the current upheaval in fashion trade puts on the markets throughout Europe. The vicissitudes of climate also contributed negatively to the Group's sales result in 2017. They also affected the Christmas business of the flagship store in 2017.

Nevertheless, LUDWIG BECK showed once again that a year as challenging as the past one can be mastered according to the management's expectations. Emotional product staging in a prime inner city location combined with excellent service and highly improved customer orientation once again proved their worth as efficient tools in a zero-sum competition with online competitors.

Also in 2017, the Group demonstrated that even in the face of critical framework conditions a stable management course focused on sustained growth can be pursued.



All sums in the following charts are calculated precisely and then rounded to one decimal place €m. Percentages were derived from precise (not rounded) values.

## 3. CONSOLIDATED EARNINGS SITUATION

| | 1/1/ – 12/31/2017 | | 1/1/ – 12/31/2016 | | Delta | |
|---|---|---|---|---|---|---|
| | €m | % | €m | % | €m | % |
| Gross sales | 173.2 | 119.0 | 177.1 | 119.0 | -3.9 | -2.2 |
| VAT | 27.6 | 19.0 | 28.3 | 19.0 | -0.6 | -2.2 |
| **Net sales** | **145.6** | **100.0** | **148.9** | **100.0** | **-3.3** | **-2.2** |
| Other own work capitalized | 0.0 | 0.0 | 0.2 | 0.1 | -0.1 | -72.3 |
| Other operating income | 4.8 | 3.3 | 4.2 | 2.8 | 0.6 | 14.9 |
| | **150.4** | **103.4** | **153.2** | **102.9** | **-2.8** | **-1.8** |
| Cost of materials | 75.9 | 52.2 | 77.6 | 52.1 | -1.7 | -2.2 |
| Personnel expenses | 29.3 | 20.2 | 30.4 | 20.4 | -1.1 | -3.5 |
| Depreciation | 4.5 | 3.1 | 4.0 | 2.7 | 0.5 | 12.7 |
| Cost of office and store space | 21.2 | 14.5 | 20.7 | 13.9 | 0.5 | 2.3 |
| Administrative expenses | 2.8 | 1.9 | 2.9 | 1.9 | -0.1 | -4.8 |
| Sales expenses | 7.7 | 5.3 | 8.0 | 5.3 | -0.3 | -3.7 |
| Other personnel costs | 1.4 | 0.9 | 1.7 | 1.1 | -0.3 | -17.7 |
| Insurance and contributions | 0.3 | 0.2 | 0.3 | 0.2 | 0.0 | 1.9 |
| Other expenses | 1.0 | 0.7 | 1.4 | 0.9 | -0.4 | -29.9 |
| **Sum total of other operating expenses** | **34.3** | **23.5** | **34.9** | **23.5** | **-0.7** | **-1.9** |
| **Earnings before interest and taxes (EBIT)** | **6.5** | **4.4** | **6.3** | **4.3** | **0.1** | **1.8** |
| Financial result | -0.9 | -0.6 | -1.1 | -0.8 | 0.2 | -19.3 |
| **Earnings before taxes on income (EBT)** | **5.6** | **3.8** | **5.2** | **3.5** | **0.3** | **6.3** |
| Taxes on income | 2.3 | 1.6 | 2.3 | 1.6 | 0.0 | -1.9 |
| **Consolidated net income** | **3.3** | **2.2** | **2.9** | **1.9** | **0.4** | **13.0** |
| Expenses (-) and income (+) directly entered into equity | 0.0 | 0.0 | -0.2 | -0.1 | 0.2 | 0.0 |
| **Consolidated comprehensive income** | **3.3** | **2.2** | **2.7** | **1.8** | **0.6** | **20.3** |
| Gross profit | 69.6 | 47.8 | 71.3 | 47.9 | -1.6 | -2.3 |
| EBITDA | 10.9 | 7.5 | 10.3 | 6.9 | 0.6 | 6.0 |
| Operating margin (EBT / net sales) in % | 3.8 | | 3.5 | | | |

**Segment reporting**

| 1/1/ – 12/31/2017 | LUDWIG BECK | | WORMLAND | | Consol. | Group | |
|---|---|---|---|---|---|---|---|
| | €m | % | €m | % | €m | €m | % |
| **Sales (gross)** | **99.0** | **119.0** | **74.2** | **119.0** | **0.0** | **173.2** | **119.0** |
| *Previous year* | *101.1* | *119.0* | *76.0* | *119.0* | *0.0* | *177.1* | *119.0* |
| VAT | -15.8 | 19.0 | -11.8 | 19.0 | 0.0 | -27.6 | 19.0 |
| *Previous year* | *-16.1* | *19.0* | *-12.1* | *19.0* | *0.0* | *-28.3* | *19.0* |
| **Sales (net)** | **83.2** | **100.0** | **62.4** | **100.0** | **0.0** | **145.6** | **100.0** |
| *Previous year* | *85.0* | *100.0* | *63.9* | *100.0* | *0.0* | *148.9* | *100.0* |
| Cost of sales | -43.2 | 52.0 | -32.7 | 52.4 | 0.0 | -75.9 | 52.2 |
| *Previous year* | *-44.0* | *51.8* | *-33.6* | *52.6* | *0.0* | *-77.6* | *52.1* |
| **Gross profit** | **40.0** | **48.0** | **29.7** | **47.6** | **0.0** | **69.6** | **47.8** |
| *Previous year* | *41.0* | *48.2* | *30.3* | *47.4* | *0.0* | *71.3* | *47.9* |
| Other income | 3.5 | 4.2 | 1.4 | 2.2 | 0.0 | 4.9 | 3.4 |
| *Previous year* | *3.2* | *3.7* | *1.2* | *1.9* | *0.0* | *4.4* | *2.9* |
| Personnel expenses | -17.4 | 20.9 | -11.9 | 19.1 | 0.0 | -29.3 | 20.2 |
| *Previous year* | *-18.3* | *21.5* | *-12.1* | *19.0* | *0.0* | *-30.4* | *20.4* |
| Depreciation | -2.8 | 3.3 | -1.7 | 2.7 | 0.0 | -4.5 | 3.1 |
| *Previous year* | *-2.9* | *3.4* | *-1.1* | *1.7* | *0.0* | *-4.0* | *2.7* |
| Other expenses | -14.4 | 17.3 | -19.9 | 31.9 | 0.0 | -34.3 | 23.5 |
| *Previous year* | *-14.4* | *16.9* | *-20.5* | *32.1* | *0.0* | *-34.9* | *23.5* |
| **EBIT** | **8.9** | **10.7** | **-2.4** | **-3.9** | **0.0** | **6.5** | **4.4** |
| *Previous year* | *8.6* | *10.1* | *-2.3* | *-3.5* | *0.0* | *6.3* | *4.3* |
| Financial result | -0.8 | 1.0 | -0.1 | 0.2 | 0.0 | -0.9 | 0.6 |
| *Previous year* | *-1.1* | *1.3* | *0.0* | *0.0* | *0.0* | *-1.1* | *0.8* |
| **EBT** | **8.1** | **9.7** | **-2.5** | **-4.1** | **0.0** | **5.6** | **3.8** |
| *Previous year* | *7.5* | *8.8* | *-2.3* | *-3.6* | *0.0* | *5.2* | *3.5* |
| Taxes on income | -2.3 | 2.8 | 0.0 | 0.0 | 0.0 | -2.3 | 1.6 |
| *Previous year* | *-2.3* | *2.7* | *0.0* | *0.0* | *0.0* | *-2.3* | *1.6* |
| **Net profit** | **5.8** | **7.0** | **-2.5** | **-4.1** | **0.0** | **3.3** | **2.2** |
| *Previous year* | *5.2* | *6.1* | *-2.3* | *-3.6* | *0.0* | *2.9* | *1.9* |

The segment reporting of LUDWIG BECK deals with the segments *LUDWIG BECK* and *WORMLAND*.

**Sales development**

In the 2017 fiscal year, the LUDWIG BECK Group generated sales of € 173.2m (previous year: € 177.1m). Under extremely arduous circumstances the LUDWIG BECK segment fared quite well and, together with its online beauty shop, recorded sales of € 99.0m (previous year: € 101.1m). The WORMLAND segment contributed € 74.2m (previous year: € 76.0m).

Total sales were in line with the management's expectations which had anticipated gross sales between € 170m and € 180m for 2017.

In a problematic year for all textile retailers LUDWIG BECK was not able to fully escape the negative effects of climatic and politico-economic imponderabilities. The positive trend in the 3rd quarter was not sufficient to buck the overall decline in sales in the 2017 fiscal year. The Christmas business of LUDWIG BECK underperformed last year's figure.

The online trade at www.ludwigbeck.de remained on a positive path and met the management's expectations.

**Earnings situation**

The gross profit reached € 69.6m (previous year: € 71.3m). The LUDWIG BECK segment contributed € 40.0m to this result (previous year: € 41.0m). WORMLAND's contribution to the gross profit amounted to € 29.7m (previous year: € 30.3m). The gross profit margin remained at last year's level (47.9%) and came to 47.8%. The margin improvement of 0.7 percentage points achieved in the 1st nine months could not be maintained after the dropping sales in the 4th quarter as warning sales dynamics in the 4th quarter required a greater extent of price reductions.

Other earnings composed of rental income, income generated by the administrative, sales and personnel departments, cafeteria profits and own work capitalized amounted to € 4.9m (previous year: € 4.4m).

Earnings before interest, taxes and depreciation (EBITDA) came to € 10.9m (previous year: € 10.3m). EBITDA in the LUDWIG BECK segment amounted to € 11.7m (previous year: € 11.5m). Losses in gross profit could be overcompensated by cost savings.

The WORMLAND segment generated EBITDA in the amount of € -0.7m (previous year: € -1.2m). The decline in gross profit was more than balanced by cost savings.

Earnings before interest and taxes (EBIT) at Group level reached € 6.5m in aggregate (previous year: € 6.3m). On account of a stringent cost policy, EBIT exceeded the management's anticipated range of € 4m to € 6m despite declining sales.

The financial result could be improved to € -0.9m (previous year: € -1.1m). As a result of the positive development of the cash flow from operating activities and low investment expenses, medium-term loans and current account lines could be redeemed as scheduled. This not only led to an improved financial structure but also to an improved financial result.

Earnings before taxes (EBT) amounted to € 5.6m (previous year: € 5.2m). The EBT margin was 3.8% as compared to 3.5% in the previous year.

As in the year before, taxes on income amounted to € 2.3m in the 2017 fiscal year.

Net profits amounted to € 3.3m (previous year: € 2.9m). Net profits of the LUDWIG BECK segment came to € 5.8m (previous year: € 5.2m), and net profits of the WORMLAND segment to € -2.5m (previous year: € -2.3m). In the 2017 fiscal year, WORMLAND's result was burdened by an impairment write-down for the WORMLAND branch in Nuremberg amounting to € 0.4m. In the course of the acquisition of WORMLAND, LUDWIG BECK received € 10.3m in aggregate to balance future losses to be reported as other operating income in the amount of € 9.8m in 2015 and of € 0.5m in 2016.

## 4. CONSOLIDATED ASSET SITUATION

| Assets | 2017 | | 2016 | |
|---|---|---|---|---|
| | €m | % | €m | % |
| **Long-term assets** | | | | |
| Intangible assets | 5.1 | 3.9 | 5.2 | 3.9 |
| Property, plant and equipment | 99.3 | 76.1 | 101.2 | 75.5 |
| Other assets | 0.1 | 0.1 | 0.1 | 0.1 |
| | **104.6** | **80.1** | **106.5** | **79.5** |
| **Short-term assets** | | | | |
| Inventories | 20.7 | 15.8 | 21.3 | 15.9 |
| Receivables and other assets | 3.7 | 2.8 | 4.6 | 3.5 |
| Cash and cash equivalents | 1.6 | 1.2 | 1.5 | 1.2 |
| | 25.9 | 19.9 | 27.5 | 20.5 |
| **Balance sheet total** | **130.5** | **100.0** | **134.0** | **100.0** |

The balance sheet total of the LUDWIG BECK stood at € 130.5m (previous year: 134.0m) as per the reporting date December 31, 2017.

As in previous years, property, plant and equipment in the amount of € 99.3m constituted the largest item of long-term assets (December 31, 2016: € 101.2m). The property at Marienplatz in Munich is carried at more than € 70m under this item. The shares in the real estate company were acquired in the 2001 fiscal year. The carrying value was taken over unchanged until December 31, 2017. All in all, write-downs in the fiscal year 2017 clearly exceeded investments, as investment activities of the LUDWIG BECK Group were scaled back as compared to recent years.

Intangible assets of € 5.1m (December 31, 2016: € 5.2m) almost remained at last year's level. Write-downs were largely offset by investments in software, as well as investments in the existing resource planning system.

Short-term assets went down by € 1.6m and came to € 25.9m (December 31, 2016: € 27.5m). The reduction of receivables and other assets was characterized by a repayment of excessive tax prepayments of € 0.8m by the tax authority.

Cash and cash equivalents came to € 1.6m in aggregate as per the reporting date December 31, 2017 (December 31, 2016: € 1.5m). Apart from € 0.4m attributable to subsidiaries, they mainly consisted of cash assets of the operational companies. In order to optimize the financial structure of the LUDWIG BECK Group, almost all the bank balances of the operational companies were applied to reduce utilization of existing overdraft facilities on a constant basis.

## 5. CONSOLIDATED FINANCIAL SITUATION

| Liabilities | 2017 | | 2016 | |
|---|---|---|---|---|
| | €m | % | €m | % |
| **Shareholders' equity** | **79.4** | **60.8** | **79.0** | **58.9** |
| **Long-term liabilities** | | | | |
| Financial liabilities | 26.2 | 20.1 | 27.6 | 20.6 |
| Accruals | 3.7 | 2.8 | 4.0 | 3.0 |
| Deferred taxes | 0.8 | 0.6 | 0.8 | 0.6 |
| | **30.7** | **23.5** | **32.4** | **24.2** |
| **Short-term liabilities** | | | | |
| Financial liabilities | 9.2 | 7.1 | 11.7 | 8.7 |
| Trade liabilities | 2.9 | 2.2 | 2.6 | 1.9 |
| Accrued taxes | 0.1 | 0.1 | 0.2 | 0.1 |
| Other liabilities | 8.1 | 6.2 | 8.3 | 6.2 |
| | **20.4** | **15.6** | **22.7** | **16.9** |
| **Balance sheet total** | **130.5** | **100.0** | **134.0** | **100.0** |

As at the relevant date December 31, 2017, shareholders' equity of the LUDWIG BECK Group amounted to € 79.4m (December 31, 2016: € 79.0m). The Group's positive consolidated income had an equity increasing effect of € 3.3m. Equity was reduced by disbursements to third parties, as well as the dividend payment of € 2.4m resolved by the Annual General Meeting on May 23, 2017 (€ 0.65 per share). The LUDWIG BECK Group was able to increase its equity ratio by 1.9 percentage points to 60.8% as per December 31, 2017 (December 31, 2016: 58.9%).

In the fiscal year 2017, the aggregate financial liabilities of the Group could be reduced by € 4.0m as a result of the positive cash flow from operating activities and lower investment spending, and amounted to € 51.1m (December 31, 2016: € 55.1m). After discharging liabilities of € 3.9m, financial liabilities stood at € 35.4m in aggregate (December 31, 2016: € 39.3m). The development of financial liabilities reflected the positive development of the financial result.

There were no major changes regarding accruals, trade liabilities and other liabilities as compared to the previous year.

Like in previous years, trade liabilities were recognized at repayment value. Due to the short-term maturities of these liabilities, this amount corresponds to the fair value of these liabilities. Suppliers are generally paid within 10 days in order to benefit from cash discounts, whereas the credit period is generally 60 days.

The Group's finance policy is directed at securing the company's liquidity while simultaneously optimizing financing costs. To the extent possible, non-operational risks are to be excluded.

**Cash flow**

The cash flow from operating activities amounted to € 8.7m (previous year: € 6.0m) in the 2016 fiscal year. Basically, increased cash inflows from the operating concern as well changes in working capital for inventories and other assets were decisive for this development.

The cash flow from investment activities amounted to € -2.5m as at December 31, 2017 (December 31, 2016: € -5.4m). Investments not only related to the flagship store at Marienplatz, Munich, but emphasis was placed on IT investments as well. In the previous year, investments were also made in a new enterprise resource planning system for LUDWIG BECK and a WORMLAND branch in Nuremberg.

In the 2017 fiscal year, dividends in the amount of € 2.4m were distributed for the fiscal year 2016. The cash flow from financing activities reached a total of € -6.1m (previous year: € -1.1m). It not only concerned the financing of current operations but also the redemption of short-term and medium-term liabilities, as well as investments in fixed asset.

The consolidated cash flow statement lists more details about individual cash flow items.

## 6. SUMMARY STATEMENT ON BUSINESS DEVELOPMENT

The Management of LUDWIG BECK considers the Group's economic situation positive. Even in the face of extremely arduous framework conditions, the lapsed fiscal year could be concluded above expectations. The Group's sound foundation for future business success provides everything needed for healthy growth.

## 7. NON-FINANCIAL PERFORMANCE INDICATORS

**Employees**
LUDWIG BECK's success is based essentially on employee qualification, advisory competence and motivation. Employees form a crucial, irreplaceable link between customer and product. While each season features new products, replaced by new products in the following season, the Group's intrinsically valuable foundation is its staff. This well-appreciated, preserved and promoted internal value helps the company stand out among competitors in the long run. The individual class and commitment of each LUDWIG BECK employee very well match the customers' sophisticated demands and the premium selection of goods.

In order to further enhance employee potentials, LUDWIG BECK puts a lot of effort into staff development and qualification. In 2017, numerous training events were held with the objective to gradually step up the already high-end service level in various areas. This has proven to be an effective tool for differentiating the Group in the face of intensifying competition in stationary trade.

LUDWIG BECK also applies the principles of *Leading Healthy,* which include the realization of holistic approaches, from workshops over fitness training activities with cooperation partners to offering balanced nutrition in the cafeteria. These measures forming part of a *Corporate Health Management* clearly help reduce absences, enhance well-being at work and improve motivation. Last not least, they help strengthen staff loyalty, thus inspiring employees to identify wholeheartedly with the company's goals.

In 2017, the LUDWIG BECK Group had 874 employees on average (previous year: 892). The number of apprentices was 40 (previous year: 52). The weighted number of employees stood at 575 (previous year: 588).

**Corporate Responsibility**
In 2017, LUDWIG BECK complied with the guidelines on responsible business practices as set out in the separate non-financial consolidated report following the Corporate Responsibility guidelines, which is available on the company website at https://kaufhaus.ludwigbeck.de/sites/default/files/annual-reports/2018-03/180320_ludwigbeck_SeparateNonfinancialConsolidatedReport_engl_0.pdf.

**Marketing**
The business success of the Fashion Group LUDWIG BECK is mainly based on marketing activities custom-tailored to individual target groups and accompanying public relations work. The high visibility of the brand in public perception is the result of all-year campaigns and artistic window dressings which grab the attention of regular customers, Munich visitors and tourists alike. Since the integration of the WORMLAND segment, target groups are addressed with a two-pronged approach. Promotional measures for the flagship store display a soft, fanciful character, while the men's fashion specialist prefers a pointedly masculine, direct approach. Both segments pay special attention to the distinctive emotionality of their brands' messages.

# III. REMUNERATION REPORT

## 1. REMUNERATION OF THE EXECUTIVE BOARD

The total remuneration of the members of the Executive Board consists of several remuneration components. Non-performance-related components include fixed remuneration, fringe benefits and pension promise. The performance-related component is a bonus. The bonus amount depends on the development of the Group's return on sales in the last three years. Furthermore, the Supervisory Board can, at its discretion, grant a special bonus to reward special accomplishments. Benefits in kind are valued in line with payroll tax regulations.

The structure of the remuneration system for the Executive Board as proposed by the personnel committee is discussed and reviewed by the Supervisory Board on a regular basis. Decisions on remuneration are passed by the general Supervisory Board.

The criteria for adequacy of the remuneration are in particular the duties of the respective members of the Executive Board, their personal performance as well as the economic situation, the success and the future prospects of the company in a comparable business environment.

The total remuneration of the members of the Executive Board amounted to € 1,207k in the 2017 fiscal year (previous year: € 1,212k).

Individual details are shown in the following chart:

**Value of *remunerations granted* in the report year 2017:**

| | Dieter Münch<br>Board member for Personnel, Finances, IT | | | | Christian Greiner<br>Board member for Purchasing, Sales, Marketing | | | |
|---|---|---|---|---|---|---|---|---|
| **in €k** | **2016** | **2017** | **2017 (min)** | **2017 (max)** | **2016** | **2017** | **2017 (min)** | **2017 (max)** |
| Fixed salary | 286 | 286 | 286 | 286 | 386 | 386 | 386 | 386 |
| Fringe benefits | 17 | 17 | 17 | 17 | 15 | 15 | 15 | 15 |
| **Subtotal** | **303** | **303** | **303** | **303** | **401** | **401** | **401** | **401** |
| One-year variable pay | 223 | 223 | 0 | 223 | 223 | 223 | 0 | 223 |
| **Subtotal** | **526** | **526** | **303** | **526** | **624** | **624** | **401** | **624** |
| Contributions to pension fund | 62 | 57 | 57 | 57 | 0 | 0 | 0 | 0 |
| **Total remuneration** | **588** | **583** | **360** | **583** | **624** | **624** | **401** | **624** |

***Inflow* in/for the report year 2017:**

| | Dieter Münch<br>Board member for Personnel, Finances, IT | | Christian Greiner<br>Board member for Purchasing, Sales, Marketing | |
|---|---|---|---|---|
| **in €k** | **2016** | **2017** | **2016** | **2017** |
| Fixed salary | 286 | 286 | 386 | 386 |
| Fringe benefits | 17 | 17 | 15 | 15 |
| **Subtotal** | **303** | **303** | **401** | **401** |
| One-year variable pay | 223 | 223 | 223 | 223 |
| **Subtotal** | **526** | **526** | **624** | **624** |
| Contributions to pension fund | 62 | 57 | 0 | 0 |
| **Total remuneration** | **588** | **583** | **624** | **624** |

The above charts also show allocations to retirement benefit provisions for one member of the Executive Board. Retirement benefit payments commence upon attainment of age 63 or in case of a permanent inability to work.

No member of the Executive Board has been promised further benefits in case of departure. In the lapsed fiscal year, no member of the Executive Board received benefits or corresponding undertakings from third parties regarding his activities as a member of the Executive Board.

## 2. REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board was determined by the Annual General Meeting and is regulated by the articles of association. The remuneration depends on the duties and responsibilities of the members of the Supervisory Board.

Chairing of and membership in the committees of the Supervisory Board are remunerated separately in accordance with the German Corporate Governance Code. Members of the Supervisory Board who belong to the Supervisory Board for less than a full year are remunerated on a pro rata basis.

The fixed remuneration for members of the Supervisory Board is € 25k per fiscal year. The chairman's fixed pay is € 50k; the vice chairman receives € 37.5k. The remuneration for serving in a committee is € 2.5k, per fiscal year, and € 5.0k for the chairman.

Individual details are shown in the following chart:

| in €k | 2016 | 2017 |
|---|---|---|
| Dr. Steffen Stremme | 58 | 58 |
| Hans Rudolf Wöhrl | 40 | 40 |
| Clarissa Käfer | 33 | 33 |
| Edda Kraft | 28 | 28 |
| Philip Hassler *) | 25 | 25 |
| Michael Neumaier *) | 25 | 25 |
| **Total remuneration** | **208** | **208** |

*) Employee representative

# IV. RISK AND OPPORTUNITY REPORT

## RISK REPORT

**Evaluation – a core mission**
Long-term business success in a dynamic market can only be achieved by recognizing and engaging opportunities early on. This necessity is one of the fundamental entrepreneurial obligations.

The companies of the LUDWIG BECK Group are exposed to external and internal factors of influence that can have a direct or indirect impact on the business. LUDWIG BECK classifies these potentials by quantitative and qualitative indicators. The Management constantly examines the thus identified risks and opportunities, taking into consideration that almost a third of LUDWIG BECK's customers are tourists. Locally insignificant risks become more and more important from a trans-regional and global perspective. The same holds true for opportunities.

For the purpose of risk monitoring and evaluation, LUDWIG BECK and WORMLAND have established the following risk categories:

**Class A – significant risks:** They include risks that, should they come to pass, would potentially endanger the company's existence. Diminishing or shifting these risks through controlling measures is only marginally possible – or not at all.

**Class B – acceptable, yet relevant risks:** Risks of this category either have a high damage potential and minor probability, or a high probability and minor damage potential.

**Class C – non-relevant risks:** Based on their extent of damage and probability these risks can be classified as minor.

Constant evaluation enables the company to forestall and avert problems, and to utilize latent potentials to create value. Due to their size, DAX companies have the personnel and technical resources to measure and evaluate opportunities and risks on a daily basis. LUDWIG BECK, however, relies on communication structures. In order to make the analytical process as efficient as possible, the Group's employees are in constant communication with the Executive Board that pursues an open door policy. On a higher level, Executive Board and Supervisory Board discuss potential risks and opportunities, consider solutions and determine adequate sets of measures.

### 1. RISKS FROM THE ENVIRONMENT

**Macro-economic risks (class B)**
The combination of comprehensive reflationary programs, rescue packages for financial institutions and states, and sinking tax receipts led to an exceptional, historical high in budget deficits and to record levels of national debt in Western industrialized nations. The developments in Greece and other European countries exemplified quite plainly how easily investor concerns regarding a country's public finances can spread to other countries as well. Furthermore, high levels of national debt can dampen economic growth in the long term, ultimately endangering monetary stability. The partial and cumulative effects to be considered may reverberate in a possibly significant worsening of the still upheld positive consumer sentiment, should other topics gain higher priority.

**Political and sociopolitical risks (class B)**
As the Group partially targets demand from international customers, it has to consider global, sociopolitical risks. Political crises, currency slumps, civil wars, revolutions and other societal upheavals in the customers' home countries, as well as calls for boycott can cause important target groups to stay away from major locations like Hamburg, Munich, Frankfurt or Berlin.

The influx of refugees into Europe, and Germany in particular, which may have been restrained only temporarily, increases the risk of societal distortions as exemplified by the continuously harsher tone in public discourse, terrorist attacks committed by offenders who entered as refugees, the departure of large segments of the population from mainstream media and the government, New Year's Eve celebrations in major cities which are only safe under the protection of massive police presence, and discussions about public security which have never before been held with such fervor.

Worries and fears of many German citizens, poor information policy, the absence of clear signals from the government, and a revival of radical currents could lead to an increasing polarization of German society, incidentally influencing economic circumstances and consumer climate. Then again, it is currently not possible to predict whether the migrants that have entered Germany since 2015 can be integrated into the social life and labor markets in a way creating positive effects for all. If this cannot be achieved in the long term, increasing exposure to the aforementioned risk potential could be the consequence.

**Risk of terrorism (class B)**
In the wake of Islamist terror attacks in Brussels, Nice, Berlin and other cities in Europe and worldwide, this risk will remain factual in the foreseeable future. The potential consequences of such a threat to the German society for the overall economic situation are difficult to assess. Not only real threats but also putative dangers may cause customers to avoid bustling places and the centers of cities. In case of an actual terror alert, or immediately after a real terrorist attack someplace else, the flagship store at Marienplatz could be affected by the absence of regular customers and tourists, at least for a while. The same holds true in regard of potential attacks in cities where WORMLAND operates its branches. On account of the mere existence of this type of risk, an anxious population and people impelled to change their plans may well become significant factors to take into consideration.

**Weather risks (class B)**
The world-wide climatic change is one of the fundamental risks of a textile retail business. Summers are too cool and damp, winters too mild or extremely cold. Temperatures show anti-cyclical patterns; the macro weather situation is unpredictable. This uncertainty thwarts the consumers' propensity to buy. The familiar rules regarding desired shopping goods for a season are interrupted. A rainy summer has a negative impact on the swim fashion collection, a mild winter curbs the demand for winter wear such as coats, gloves and hats. The past two years were examples of the damage a sequence of unpredictable weather conditions can wreak on the entire German fashion sector.

**Nuclear risks (class B)**
Severe accidents can occur in any nuclear power plant as a result of technical defects, human errors, terrorist attacks or natural cataclysms, and large amounts of radioactivity can be released into the environment. According to the official *German Risk Study for Nuclear Power Plants – Phase B,* which was commissioned by the Federal Minister for Research and Technology, the probability of a worst case scenario occurring in a German nuclear power plant with a 40-year period of operation lies at 0.1%. More than 131 nuclear power plants are being operated in the European Union. There is a 16% probability of a worst case scenario in Europe. World-wide, approximately 440 nuclear power plants are being run, thus increasing the probability of a worst case scenario to 40% in 40 years on a global level. Potential damages from a nuclear disaster in a highly industrialized country are all but incalculable, as there is no historic data. A worst case scenario in a highly industrialized area would, however, certainly result in long-term damage with significant effects on the economic development of the region.

**Accessibility risk (class B)**
The central locations of the flagship store at Marienplatz as well as of many WORMLAND branches rely to a great extent on accessibility via the public transport system. Public service strikes or interruptions of the local transportation networks can therefore hamper or even prevent the unobstructed transportation of customers to the city center. Thus, there is a risk of reduced sales if normal business in the following days cannot compensate the loss. Obstructions by public renovation works in close proximity, which are carried out at Marienplatz on a multi-annual rotational basis, also count as accessibility risks.

## 2. SECTOR RISKS

**Online competition risks (class B)**
Possible additional online vendors in the same sector can entail the risk of exacerbated competition in the segments LUDWIG BECK and WORMLAND are operating in. A broader range of online vendors could create a situation of multiple choices for brick-and-mortar customers in regard to identical or similar products, due to the rising appeal, higher service quality and, if nothing else, enticing pricing of web portals. The Group recognizes this risk, yet is able to face it with relative nonchalance, as customers are offered a unique shopping experience with its second-to-none product presentation at one of Europe's best locations on the one hand. On the other hand, the Group has operated the successful, award-winning online shop ludwigbeck.de for two years, and this line of business will continue to complement and even stimulate the brick-and-mortar business in a meaningful way.

**Risks through consumer behavior (class C)**
Altered consumer behavior or a changing competitive situation in retail, triggered by the general economic situation, commercial framework conditions and income trends require a constant realignment of the marketing concepts to meet the needs of customers in terms of product selection and service.

The corporate policy orientation is not least based on targeted market observation and an analysis of the competitive situation, trends in consumer behaviors, as well as particular behavioral patterns of the relevant target groups. As vendors of an exclusive product portfolio, LUDWIG BECK and WORMLAND play the role of trendsetters with the ability to influence the shopping behavior of the target group to their benefit.

With a clear positioning and strategy, LUDWIG BECK and WORMLAND use all opportunities resulting from this permanently changing market. High quality service and depth of product ranges allow the company to benefit from niches in the specialist store segment. The Group can also compensate for possible customer migration trends by operating the online shop in addition to the brick-and-mortar business.

**Seasonal risks (class C)**
As goods are purchased much earlier than seasonal and sales peaks occur, this causes outflows of cash at times during which there are not necessarily corresponding sale revenues/inflows of liquid funds. These cash flow fluctuation risks are monitored and controlled through the financial management using a variety of cash management tools.

## 3. ECONOMIC PERFORMANCE RISKS

**Supplier risks (class C)**
As fashion retail businesses LUDWIG BECK and WORMLAND depend on reliable external service providers. The resulting risk factors are interruptions in product supply, infringements of quality, security or social standards, ethical dubiousness or environmental exploitation. In order to supply their customers with high-quality products in sufficient amounts according to their desires, LUDWIG BECK and WORMLAND select their suppliers very carefully and scrutinize them on a regular basis. Due to the large number of well-cultivated cooperation partnerships, the company does not depend on any individual supplier.

**Logistic risks (class C)**
Any interruption of the chain of value creation at the level of product supply directly impacts the availability of the products offered by LUDWIG BECK and WORMLAND. The broad spectrum of the product selection is vulnerable to risks that may threaten the inventory as a whole. This holds true for the brick-and-mortar business as well as the online shop. For this reason, LUDWIG BECK and WORMLAND diligently observe the existing supply structures and take corrective action if necessary.

## 4. FINANCIAL RISKS

**Financial risks (class B)**
As a result of the public debt crisis in European countries, with still no end in sight, currently unforeseeable difficulties or reluctance of banks to grant loans may arise for industry and commerce. In case of a further exacerbation this could lead to liquidity constraints as the banking sector is already under pressure.

The LUDWIG BECK Group operates a central financial risk management system to identify, measure and control financial risks. A financial resources balancing system between the various businesses in the Group means that short-term excess liquidity from one can be used to finance the capital needs of another. This internal clearing system helps reduce the amount of external finance required and optimize cash deposits, thus positively affecting the interest result of the individual companies and the Group as a whole.

LUDWIG BECK's open and up-to-date information policy and equal treatment of all lenders is the basis for the trust which creditors have in the company and thus for their willingness to provide credit lines. Loans are spread between several lenders to minimize risks of concentration. The company's solid equity position, its current cash flows and the available bank loans form the basis for the company's long-term financing. Interest risks are controlled through the mix of loan periods and through fixed and variable interest positions. In order to cover future capital requirements, the financial management team also regularly checks alternative financing opportunities.

**Risk of bad debt (class C)**
Currently, the Group is exposed to the risk of bad debt to only a relatively limited extent. The risks resulting from credit card payments are mainly borne by the credit card providers. Monitoring of EC-card payments is outsourced to an external service provider. Risks arising from the physical movement of cash are minimized through implementation of control mechanisms.

**Liquidity risk (class C)**
A liquidity risk is the result of insufficient available funds to meet financial obligations in due time. LUDWIG BECK has such obligations, particularly for the repayment of financial liabilities. The LUDWIG BECK Group constantly monitors and plans its liquidity. The Group companies regularly have liquid funds available to be able to meet their current payment obligations. Furthermore, short-term lines of credit and overdraft facilities can be called upon. These are based on solid financing. The Group has a strong operative cash flow, considerable liquid funds and unutilized lines of credit. Forward-looking liquidity planning ensures that LUDWIG BECK is always solvent.

## 5. OTHER RISKS

**IT risks (class C)**
IT risks mainly concern the requirement for the no-fail availability of the cash register and computer systems including the necessary IT network, as well as the integrity of data in connection with potential external attacks on the IT systems. The quality and security of processes in the field of data processing are guaranteed by a combination of external and internal services. An effective IT management ensures that the company's IT systems are permanently available and that measures to protect the system from external attacks are taken.

**Personnel risks (class C)**
Employees are one of the most decisive factors of success. Alongside the creation of a positive work environment, our human resources activities focus on providing training and advanced training measures and developing junior managers. The development of staff, in combination with the application of our management principles, reduces the risk of personnel fluctuations and ensures the high standard of qualification and service orientation of our employees.

**Legal and tax risks (class C)**
LUDWIG BECK and WORMLAND are exposed to legal and tax risks through possible breaches of legal provisions. The monitoring of the current legal position along with upcoming legislative amendments is kept within the focus of the company at all times. External legal advisers are employed to help minimize this risk and to make the adjustments necessitated by the ever-changing legal position on a regular basis.

To the best of the companies' knowledge they are not currently facing, nor expecting, legal proceedings or arbitration which might have an impact on the economic situation of LUDWIG BECK and WORMLAND. As a result, no impact on business development is expected.

The company has sufficient insurance cover for risks from damages and liability claims, whose requirements and conditions are subject to continual assessment both internally and externally.

**Risks related to rental agreements (class C)**
With the takeover of WORMLAND the company expanded its brick-and-mortar business throughout Germany. This gives rise to the risk that current locations are jeopardized whenever rental agreements are not renewed, or that optimal rental properties cannot be found in projected new locations. At the extreme, this would lead to store closings or the postponement of expansion plans.

**Compliance risks (class C)**
For an internationally active business, complying with a multitude of legal systems and regulations requires a high degree of attention and the integrity of employees in every position. Compliance risks can result from corruption when dealing with authorities, breaches of data protection rules or non-observance of labor laws. In order to practically rule out infringements, LUDWIG BECK and WORMLAND thoroughly educate their staff and ensure vigilant compliance awareness.

### 6. OVERALL RISK EVALUATION

The management of the LUDWIG BECK Group currently considers most of the aforementioned risks controllable or negligible due to their minute probability. At present, no risks that can threaten the company's existence are evident.

No fundamental shift in the risk and opportunity situation is expected for the near future. With a plethora of opportunities available, the Executive Board intends to utilize growth stimulating factors while relying on the solid base of the Group's earning power. Last not least, the Group's ownership of the real estate at Marienplatz in Munich – one of the best sales locations in Europe – contributes to this assessment.

LUDWIG BECK and WORMLAND bear all entrepreneurial risks concerning the company's core and supporting processes, but only if they are controllable and the required effort contributes to the Group's increase in value. The relevant measures may include strategic models, decisions about new areas of enterprise or the purchasing and selling of products. Beyond that, the LUDWIG BECK Group generally does not take risks.

### OPPORTUNITIES REPORT

The economic forecasts open up optimistic perspectives for a positive business development of the companies of the LUDWIG BECK Group in 2018. Generally, the continuous economic uptrend in Germany provides numerous opportunities for utilizing growth potentials and for relying on the potential buying propensity of the German population.

Alongside these societal conditions for a successful business year, the Group can come up with several factors that may be identified and turned into opportunities:

With the excellent inner city location in Munich and other city locations throughout Germany, the LUDWIG BECK and WORMLAND segments are in a promising position for prevailing in the current zero-sum competition. As it turned out, top locations are more important than ever for stationary trade.

Customers can find this unique high-end range of products, almost unrivaled in many areas, only under the roof of LUDWIG BECK. An almost magical shopping ambience provides customers with a well-appreciated experiential value that is lacking on the part of most other stationary businesses and cannot be duplicated online. The opportunities for intensifying customer retention thus created will be seized by LUDWIG BECK also in 2018. The further enhancement of service quality and the focus on product ranges, brands and cooperation arrangements hold further potentials for the Group that will play a leading role in the upcoming fiscal year.

The online shop at **www.ludwigbeck.de** forms an alternative to the brick-and-mortar business offering above-average growth opportunities that can be strategically acted on – a way to make LUDWIG BECK's beauty products available throughout Germany.

As a whole, these potentials give the management reason for a generally optimistic sentiment regarding the future development.

# V. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The LUDWIG BECK Group has established a system of internal controls to secure proper accounting in compliance with legal requirements. LUDWIG BECK's accounting procedures are governed by standardized guidelines and rules, as well as a clearly defined course of action. To this effect, uniform accounting parameters and booking directions for various business transactions were established. Another control tool is the clear allocation of functions regarding various accounting processes. Accounting-relevant items are mainly recorded on an automated basis.

For Group-accounting purposes all book-keeping data of the consolidated companies can be assessed.

To survey compliance with applicable rules, LUDWIG BECK basically relies on process-integrated monitoring systems. LUDWIG BECK divided these systems into ongoing automated control mechanisms, like separation of functions and restricted access to certain sets of books for unauthorized personnel, and controls integrated into work processes which are secured through automated bookings, permanently stored codes, automated booking procedures and the recording of the entire sales process (cash register systems).

The accounting-related risk management system of LUDWIG BECK Group is set up in a way that the risks of misrepresentation, which mainly ensue from new business processes or amendments to legal provisions, are constantly monitored. These risks are contained by transferring decisions on accounting-related data resulting from unusual business transactions to the management level. Ongoing training regarding changes to the applicable accounting provisions is provided to the Management. External providers carry out up-to-date training in the basic principles set out in literature. In case of doubt, external consultants are called in for the implementation of changes and their integration into existing processes.

# VI. SUPPLEMENTARY REPORT

There were no significant events to report after the balance sheet date December 31, 2017 that could affect the company's financial, assets and earnings situation.

# VII. FORECAST REPORT

### FULMINANT GLOBAL GROWTH

At the beginning of the year, the World Bank attested that the global economy was experiencing a broadly based growth recovery, and forecast a 3.1% increase for the coming year. The organization of industrialized countries, OECD, even expects a 3.6% growth. According to World Bank experts, the global economy won't have time to relax, however, as financial markets, in particular, remain vulnerable if central banks, due to cyclical considerations, were to increase interest rates thus triggering inflation. The International Monetary Fund warned that, even in the middle of robust growth, the industrialized nations, including China, were required to implement reforms in order to save for a rainy day.

### GERMAN ECONOMY GAINING MOMENTUM

In its winter forecast, the Institute for World Economics (IfW) revised its forecast upwards and now expects the German gross national product (GNP) to rise by 2.3%. The economic researchers concluded that there was no economic risk involved in the delayed formation of the federal government, yet that the substantial surpluses in the public purse did pose a threat.

Also, as a result of the boom, continuous overstraining of production capacities may trigger a cyclical downturn in the wake of the ensuing adjustment recession. The further decline of unemployment puts a strain on the labor market situation. At the same time, in view of good sales prospects, businesses are increasing their investments. The construction sector is booming, and further rises in exports can be expected according to IfW calculations.

The high employment rate, a noticeable increase in real wages and the favorable economic situation are expected to increase private consumption by 1.75%. According to the Association for Consumption research (GfK), various indicators point to a highly favorable and unclouded development of the consumer climate in 2018.

### CONTINUED ZERO-SUM COMPETITION IN FASHION TRADE

Insiders unanimously agree that the German fashion trade is undergoing swift, radical changes. Further store closure, large brand manufacturers competing with the stationary trade, as well as the ongoing loss of business to online trade will put retailers to the acid test also in 2018. However, from the viewpoint of market observers this global phenomenon also presents an opportunity for pampering customers with special service features that cannot be duplicated online – and LUDWIG BECK has definitely embarked on this path.

Economic researchers identified yet another trend that will force textile retailers to come up with constructive responses in the coming years: the aging of the population and, associated therewith, a shrinking of the market and of affluent consumer classes.

### LUDWIG BECK CONSIDERS ITSELF WELL EQUIPPED FOR 2018

The management of LUDWIG BECK shares the optimistic economic forecasts of the economic researchers. The Executive Board is well aware of the ongoing challenges constituted by the online fashion trade which will place a considerable strain of the stationary market also in 2018. In spite of all related problems, the Group considers itself well equipped for the coming fiscal year.

**This optimism is based on three internal strengths:**
Firstly, a product selection apt for addressing fashion-conscious consumer groups that is second to none in the German fashion world. It provides the Group with a competitive edge regarding variety and high-end quality.

Secondly, an exceptional service strength which results from the strong emotional bind between employee and customer and manifests in the form of an individual advice quality that is superior to any other web portal offer.

And last not least, the high experiential shopping value customers experience in the flagship store at Marienplatz in Munich and all of the WORMLAND outlets – an attractive alternative concept in contrast to everyday life, a unique cosmos turning shopping into a frequently sought-after special event fulfilling fundamental needs like no place else.

In the midst of the transformation of the German fashion trade, the Group will keep an eye on its core values, operate in accordance with its stability objective and strive for healthy growth.

Confident of these outcomes the management of the LUDWIG BECK Group expects gross sales to range between € 170m and € 180m and the EBIT margin to reach between 3.5% and 5% of net sales.

## VIII. SUPPLEMENTARY DETAILS

### 1. DETAILS ACCORDING TO SECTION 315 PAR. 4 COMMERCIAL CODE (HGB)

**Composition of subscribed capital**
The subscribed capital (share capital) of LUDWIG BECK is divided into 3,695,000 no-par shares (ordinary shares). The no-par shares are issued to bearer. The nominal value of each capital share is € 2.56 per no-par share. Direct and indirect capital holdings which represent more than ten in a hundred of the voting rights are listed below.

**Direct and indirect holdings**
The listed companies and individuals directly or indirectly held more than ten in a hundred of the voting rights at LUDWIG BECK at the time of the preparation of the annual financial statements:

- INTRO-Verwaltungs GmbH, Reichenschwand, 49.2% (direct)
- Hans Rudolf Wöhrl Verwaltungs GmbH, Reichenschwand, 25.7% (direct)
- Hans Rudolf Wöhrl Vermögensverwaltungs GmbH & Co. KG, Reichenschwand, 25.7% (indirect)
- Hans Rudolf Wöhrl Beteiligungs GmbH, Reichenschwand, 25,7% (indirect)
- Herr Hans Rudolf Wöhrl, Germany, 74.9% (indirect)

**Authorization of the Executive Board, in particular the possibility to issue and acquire own shares**
By resolution passed by the Annual General Meeting on May 8, 2013, the company was authorized to acquire own shares in the aggregate proportional amount of up to 10% of the capital stock existing at the time of the resolution until expiry of May 7, 2018. The company cannot use this authorization to trade own shares; for the rest, the determination of the acquisition purpose is at the Executive Board's discretion. Pursuant to the authorization, the Executive Board has the choice to acquire LUDWIG BECK shares via the stock exchange or through a public offering to all shareholders. The Executive Board has been authorized to also use shares, thus acquired or bought based on a previous authorization pursuant to section 71 par. 1 no. 8 Joint Stock Corporation Act (AktG), under exclusion of shareholders' statutory subscription rights, as set forth under agenda item 7 of the Annual General Meeting, published in the German Federal Gazette on March 27, 2013. Own shares acquired based on the authorizing resolution of May 8, 2013 or on any previous authorization granted pursuant to section 71 par. 1 no. 8 Joint Stock Corporation Act (AktG) may also be withdrawn.

The complete text of the General Meeting's resolution of May 8, 2013 can be found on the corporate website under https://kaufhaus.ludwigbeck.de/sites/default/files/basic-pages/2018-02/130327_LB_HVDokumente_TOP_7.pdf (only in German available).

So far, the company has not availed of this authorization.

**Legal provisions and terms of the articles of association concerning the appointment and removal of members of the Executive Board as well as amendments to the articles of association**
According to the articles of association and the relevant legal provisions, the members of the Executive Board are appointed and removed by the Supervisory Board. The number of members is determined by the Supervisory Board. The Executive Board is composed of a minimum of two persons. Any amendment to the articles of association requires a resolution of the Annual General Meeting (section 179 par. 1 Joint Stock Corporation Act (AktG)).

According to section 16 par. 3 of the articles of association, the resolution of the Annual General Meeting requires a simple majority of the votes cast or, as the case may be, in addition, a simple majority of the represented share capital, unless a larger majority or further prerequisites are stipulated by law or the articles of association. This is the case for resolutions on changes to the nature and purpose of the business or capital measures excluding shareholders' subscription rights. According to section 12 par. 2 of the articles of association, the Supervisory Board is authorized to implement changes to the articles of association which only concern the wording.

**Further details according to section 315 par. 4 Commercial Code (HGB)**
Since the provisions of section 315 par. 4 no. 2, no. 4, no. 5, no. 8 and no. 9 Commercial Code (HGB) do not apply, no details have to be provided.

### 2. DETAILS ACCORDING TO SECTION 312 JOINT STOCK CORPORATION ACT (AKTG) (DEPENDENCY REPORT)

Since no control and profit transfer agreement was concluded with the principal shareholder, the Executive Board of LUDWIG BECK was obligated to prepare a report about relations to associated companies pursuant to section 312 par. 3 Joint Stock Corporation Act (AktG). The Dependency Report contains the following conclusive statement:

*According to our knowledge of circumstances at the time of the relevant legal transactions with associated companies or measures taken or not taken on the initiative or in the interest of these companies, the company received fair and reasonable compensation in each individual case and did not suffer any disadvantage as a result of measures taken or not taken.*

### 3. DECLARATION ON CORPORATE GOVERNANCE ACCORDING TO SECTION 289A COMMERCIAL CODE (HGB)

The Declaration on Corporate Governance has been made publicly available on the company's website at https://kaufhaus.ludwigbeck.de/en/company/investor-relations/corporate-governance/declaration-of-corporate-governance.

Munich, February 15, 2018
The Executive Board

Dieter Münch Christian Greiner

# 3 CONSOLIDATED FINANCIAL STATEMENTS & CONSOLIDATED NOTES

CONSOLIDATED BALANCE SHEET 41
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 42
CONSOLIDATED EQUITY STATEMENT 43
CONSOLIDATED CASH FLOW STATEMENT 44
CONSOLIDATED NOTES 46

## CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET OF LUDWIG BECK AM RATHAUSECK – TEXTILHAUS FELDMEIER AG, MUNICH, AS OF DECEMBER 31, 2017, ACCORDING TO IASB

| **Assets** | | | **12/31/2017** | **12/31/2016** |
|---|---|---|---|---|
| | | Notes | €k | €k |
| **A.** | **Long-term assets** | | | |
| I. | Intangible assets | (1) | 5,108 | 5,242 |
| II. | Property, plant and equipment | (1) | 99,306 | 101,156 |
| III. | Other assets | (2) | 143 | 150 |
| | **Total long-term assets** | | **104,558** | **106,547** |
| **B.** | **Short-term assets** | | | |
| I. | Inventories | (3) | 20,666 | 21,293 |
| II. | Receivables and other assets | (4) | 3,691 | 4,627 |
| III. | Cash and cash equivalents | (5) | 1,570 | 1,550 |
| | **Total short-term assets** | | **25,927** | **27,469** |
| | | | **130,484** | **134,016** |

| **Liabilities** | | | **12/31/2017** | **12/31/2016** |
|---|---|---|---|---|
| | | Notes | €k | €k |
| **A.** | **Shareholders' equity** | | | |
| I. | Subscribed capital | (6) | 9,446 | 9,446 |
| II. | Capital reserves | (6) | 3,459 | 3,459 |
| III. | Accumulated profit | (6) | 66,994 | 66,564 |
| IV. | Other equity components | (6) | -505 | -517 |
| | **Total shareholders' equity** | | **79,394** | **78,952** |
| **B.** | **Long-term liabilities** | | | |
| I. | Financial liabilities | (9) | 26,239 | 27,563 |
| II. | Accruals | (8) | 3,664 | 4,017 |
| III. | Deferred taxes | (10) | 821 | 813 |
| | **Total long-term liabilities** | | **30,724** | **32,393** |
| **C.** | **Short-term liabilities** | | | |
| I. | Financial liabilities | (9) | 9,221 | 11,652 |
| II. | Trade liabilities | (9) | 2,913 | 2,554 |
| III. | Tax liabilities | (9) | 119 | 166 |
| IV. | Other liabilities | (9) | 8,114 | 8,300 |
| | **Total short-term liabilities** | | **20,366** | **22,672** |
| | **Total debt (B. – C.)** | | **51,091** | **55,065** |
| | | | **130,484** | **134,016** |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF LUDWIG BECK AM RATHAUSECK – TEXTILHAUS FELDMEIER AG, MUNICH, FOR THE PERIOD FROM JANUARY 1, 2017 – DECEMBER 31, 2017, ACCORDING TO IASB

| | Notes | 1/1/2017 – 12/31/2017 €k | 1/1/2017 – 12/31/2017 €k | 1/1/2016 – 12/31/2016 €k | 1/1/2016 – 12/31/2016 €k |
|---|---|---|---|---|---|
| 1. Sales revenue | (11) | | | | |
| - Sales (gross) | | 173,207 | | 177,128 | |
| - minus VAT | | 27,637 | | 28,261 | |
| - Sales (net) | | | 145,569 | | 148,867 |
| 2. Other own work capitalized | (12) | | 43 | | 155 |
| 3. Other operating income | (13) | | 4,837 | | 4,209 |
| | | | **150,450** | | **153,231** |
| 4. Cost of materials | (14) | 75,921 | | 77,605 | |
| 5. Personnel expenses | (15) | 29,339 | | 30,400 | |
| 6. Depreciation | (16) | 4,474 | | 3,969 | |
| 7. Other operating expenses | (17) | 34,257 | 143,991 | 34,913 | 146,887 |
| **8. EBIT** | | | **6,458** | | **6,344** |
| **9. Financial result**<br>- Of which financial expenses: € 994k (previous year: € 1,203k) | (18) | | **-908** | | **-1,125** |
| **10. Earnings before taxes on income** | | | **5,550** | | **5,219** |
| 11. Taxes on income | (19) | | 2,293 | | 2,337 |
| **12. Consolidated net income** | | | **3,258** | | **2,882** |
| **13. Expenditures and income entered directly into equity** | (20) | | | | |
| 13a. Components which cannot be reclassified in the income statement<br>Actuarial profits (+) / losses (-) from pension commitments | | | 18 | | -245 |
| 13b. Deferred taxes on expenditures and income entered directly into equity (expenditures (+) / income (-)) | | | 6 | | -81 |
| **Expenditures and income entered directly into equity in total** | | | **12** | | **-164** |
| **14. Consolidated comprehensive income** | | | **3,270** | | **2,718** |
| Diluted and undiluted earnings per share in €<br>Average number of outstanding shares in thousands | (21) | | 0,88<br>3,695 | | 0,78<br>3,695 |



# CONSOLIDATED EQUITY STATEMENT

## CONSOLIDATED EQUITY STATEMENT OF LUDWIG BECK AM RATHAUSECK – TEXTILHAUS FELDMEIER AG, MUNICH, FOR THE PERIOD FROM JANUARY 1, 2017 – DECEMBER 31, 2017

| | Subscribed capital (6) €k | Capital reserve (6) €k | Accumulated profit (6) €k | Other equity capital components*) (6) €k | Total €k |
|---|---|---|---|---|---|
| **As of 1/1/2017** | **9,446** | **3,459** | **66,564** | **-517** | **78,952** |
| Consolidated net income | 0 | 0 | 3,258 | 0 | 3,258 |
| Dividend payments | 0 | 0 | -2,402 | 0 | -2,402 |
| Disbursements to other shareholders | 0 | 0 | -426 | 0 | -426 |
| Change in income and expenditures entered directly into consolidated shareholders' equity | 0 | 0 | 0 | 12 | 12 |
| **As of 12/31/2017** | **9,446** | **3,459** | **66,994** | **-505** | **79,394** |

## CONSOLIDATED EQUITY STATEMENT OF LUDWIG BECK AM RATHAUSECK – TEXTILHAUS FELDMEIER AG, MUNICH, FOR THE PERIOD FROM JANUARY 1, 2016 – DECEMBER 31, 2016

| | Subscribed capital (6) €k | Capital reserve (6) €k | Accumulated profit (6) €k | Other equity capital components*) (6) €k | Total €k |
|---|---|---|---|---|---|
| **As of 1/1/2016** | **9,446** | **3,459** | **66,845** | **-353** | **79,397** |
| Consolidated net income | 0 | 0 | 2,882 | 0 | 2,882 |
| Dividend payments | 0 | 0 | -2,771 | 0 | -2,771 |
| Disbursements to other shareholders | 0 | 0 | -392 | 0 | -392 |
| Change in income and expenditures entered directly into consolidated shareholders' equity | 0 | 0 | 0 | -164 | -164 |
| **As of 12/31/2016** | **9,446** | **3,459** | **66,564** | **-517** | **78,952** |

*) Other equity capital components mainly result from actuarial profits and losses which in the future cannot be reclassified in the income statement.

# CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED CASH FLOW STATEMENT OF LUDWIG BECK AM RATHAUSECK – TEXTILHAUS FELDMEIER AG, MUNICH, FOR THE PERIOD FROM JANUARY 1, 2017 – DECEMBER 31, 2017, ACCORDING TO IASB

| | 1/1/2017 – 12/31/2017 | 1/1/2016 – 12/31/2016 |
|---|---|---|
| | €k | €k |
| **Earnings before taxes on income** | **5,550** | **5,219** |
| Adjustments for: | | |
| Depreciation | 4,474 | 3,969 |
| Interest income | -86 | -78 |
| Interest expenses | 994 | 1,203 |
| Losses from the disposal of capital assets | 140 | 26 |
| **Operating result before changes to net working capital** | **11,072** | **10,340** |
| ***Increase/decrease (-/+) in assets:*** | | |
| Inventories | 627 | -845 |
| Trade receivables | -427 | 196 |
| Other assets | 1,038 | -136 |
| ***Increase/decrease (+/-) in liabilities:*** | | |
| Trade liabilities | 359 | -3 |
| Other liabilities | -186 | 771 |
| ***Increase/decrease (+/-) in accruals:*** | | |
| Accruals | -353 | 134 |
| **Cash flow from operating activities (before interest and tax payments)** | **12,129** | **10,457** |
| Interest paid | -941 | -1,142 |
| Interest received | 10 | 1 |
| Disbursements to other shareholders | -426 | -392 |
| Taxes on income paid | -2,077 | -2,953 |
| **A. Cash flow from operating activities** | **8,695** | **5,971** |

(continued on next page ...)

| | 1/1/2017 – 12/31/2017 | 1/1/2016 – 12/31/2016 |
|---|---|---|
| | €k | €k |
| **A. Cash flow from operating activities** | **8,695** | **5,971** |
| Disbursements for investments in intangible assets and fixed assets | -2,434 | -5,303 |
| Disbursements for investments in plan assets | -85 | -93 |
| **B. Cash flow from investing activities** | **-2,520** | **-5,396** |
| Dividend payments | -2,402 | -2,771 |
| Acceptance/repayment (+/-) of long-term bank loans and loans from insurance companies | -1,324 | -4,403 |
| Acceptance/repayment (+/-) of short-term bank loans and loans from insurance companies | -1,948 | 6,693 |
| Acceptance/repayment (+/-) of other loans | -385 | -476 |
| Repayment of finance leases | -97 | -104 |
| **C. Cash flow from financing activities** | **-6,156** | **-1,061** |
| Changes in cash and cash equivalents affecting cash flows (A.+B.+C.) | 20 | -486 |
| Cash and cash equivalents at beginning of fiscal year | 1,550 | 2,036 |
| **Cash and cash equivalents at end of fiscal year** | **1,570** | **1,550** |

# CONSOLIDATED NOTES

## TO THE IFRS-COMPLIANT CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR 2017 OF LUDWIG BECK AM RATHAUSECK – TEXTILHAUS FELDMEIER AG, MUNICH


**A. General data** .....48

**B. Accounting and consolidation principles** .....49
**I. Consolidated Group** .....49
**II. Consolidation methods** .....50
1. Capital consolidation .....50
2. Consolidation of receivables and liabilities .....50
3. Consolidation of income and expenses .....50
4. Elimination of unrealized profits .....50
**III. Principles of foreign currency translation** .....51
**IV. Accounting principles and valuation methods** .....51
1. General .....51
2. First-time application of IFRS/IAS .....51
3. Currency translation applied by consolidated companies .....52
4. Intangible assets .....52
5. Property, plant and equipment .....53
6. Inventories .....54
7. Receivables and other assets .....54
8. Cash and cash equivalents .....54
9. Accruals .....54
10. Liabilities .....55
11. Deferred taxes .....55
12. Maturities .....55
13. Revenue recognition .....55
14. Financial instruments .....56
15. Changes in accounting and valuation methods .....57

**C. Explanations to individual items of the consolidated balance sheet and the consolidated statement of comprehensive income** .....57
**I. Consolidated balance sheet** .....57
(1) Intangible assets and property, plant and equipment .....57
(2) Other assets (long-term) .....60
(3) Inventories .....60
(4) Receivables and other assets (short-term) .....61
(5) Cash and cash equivalents .....62
(6) Shareholders' equity .....62
(7) Compensation claim for other shareholders .....64
(8) Accruals .....65
(9) Liabilities .....67
(10) Deferred taxes (assets-side and liabilities-side) .....70
**II. Consolidated statement of comprehensive income** .....71
(11) Sales revenue .....71
(12) Other own work capitalized .....71
(13) Other operating income .....71
(14) Cost of materials .....71
(15) Personnel expenses .....72
(16) Depreciation .....73
(17) Other operating expenses .....73
(18) Financial result .....73
(19) Taxes on income .....74
(20) Income and expenses directly recognized in equity .....75
(21) Explanations to earnings per share .....75

**D. Explanations to segment reporting** .....75

**E. Explanations to consolidated cash flow statement** .....77

**F. Explanations to consolidated equity statement** .....77

**G. Other details** .....78
**I. Contingent liabilities, contingent receivables** .....78
1. Contingent liabilities .....78
2. Contingent receivables .....78
**II. Other financial commitments** .....78
**III. Declaration of conformity according to section 161 Joint Stock Corporation Act (AktG) (Corporate Governance)** .....78
**IV. Relations to related companies and persons** .....78
**V. Supplementary report** .....80
**VI. Audit fees** .....81
**VII. Personnel** .....81
**VIII. Information according to section 297 par. 2 commercial code (HGB)** .....81

# A. GENERAL DATA

LUDWIG BECK am Rathauseck – Textilhaus Feldmeier AG, Munich (hereinafter also referred to as LUDWIG BECK AG), the parent company of the LUDWIG BECK Group, was founded on August 13, 1992, by means of transformation from the company LUDWIG BECK am Rathauseck – Textilhaus Feldmeier GmbH, Munich. The registered seat of LUDWIG BECK AG is in 80331 Munich, Marienplatz 11.

LUDWIG BECK AG is listed in the commercial register of the Local Court of Munich, Germany, under registration number HR B No. 100213.

The object of the LUDWIG BECK Group is the sale of all kinds of goods, especially the wholesale and retail of textiles, clothing, hardware and other merchandise, also by mail order or online, as well as the acquisition, holding and management of investments in unincorporated and incorporated companies, especially companies that own real estate or which themselves hold interests in such companies.

The consolidated financial statements of LUDWIG BECK AG as of December 31, 2017 have been prepared in accordance with International Financial Reporting Standards (concisely: IFRS) / International Accounting Standards (concisely: IAS) as applicable in the EU, and the interpretations of the International Financial Reporting Interpretations Committee (concisely: IFRIC) / Standing Interpretations Committee (concisely: SIC). All of the afore-mentioned standards and interpretations which were mandatorily applicable to the fiscal year 2017 were complied with. In line with section 315a German Commercial Code (HGB), certain information including the consolidated management report was added to the consolidated financial statements.

The consolidated balance sheet of LUDWIG BECK AG was drawn up as per the balance sheet dates December 31, 2017 and December 31, 2016. The relevant consolidated statement of comprehensive income, the consolidated equity statement, the consolidated cash flow statement and the notes to the consolidated financial statements cover the periods from January 1, 2017 to December 31, 2017 and from January 1, 2016 to December 31, 2016. The balance sheet dates of the consolidated companies are identical.

The amounts contained in the consolidated financial statements are given in €k (thousand Euro). The consolidated financial statements have been set up on the basis of precise (unrounded) figures which were then rounded to €k. This may lead to summation-related rounding differences.

The present consolidated financial statements complying with the relevant IFRS/IAS standards in all respects give an accurate picture of the actual assets, financial and earnings situation of LUDWIG BECK AG.

The layout of items in the consolidated balance sheet, the consolidated statement of comprehensive income (total cost method), the consolidated equity statement and the consolidated cash flow statement is in accordance with IAS 1.

The preparation of the consolidated financial statements requires estimations and assumptions which may affect the amounts stated for assets, liabilities and financial commitments as at the balance sheet date, as well as income and expenses of the fiscal year. Actual future amounts may differ from these estimations. The most important future-oriented assumptions and other major sources of uncertainty regarding estimations as at the relevant date, involving the considerable risk that major adjustments of the book values of assets and debts will be required in the following fiscal year, are disclosed in the relevant explanations. The LUDWIG BECK Group made estimations and assumptions in particular with regard to the valuation of intangible assets, tangible fixed assets (cf. subclauses 4 and 5), inventories (cf. subclause 6), accruals (cf. subclause 9) and deferred taxes (cf. subclause 11).

The consolidated financial statements will be submitted to the Supervisory Board for approval at the meeting on March 20, 2018. The Executive Board will afterwards release the consolidated financial statements for publication. The Annual General Meeting cannot change the consolidated financial statements approved by the Supervisory Board.

# B. ACCOUNTING AND CONSOLIDATION PRINCIPLES

## I. CONSOLIDATED GROUP

In addition to the parent company, LUDWIG BECK AG, the following subsidiaries, all domiciled in Germany, are included in the consolidated financial statements as of December 31, 2017:

| Name | Shareholding ratio (also voting rights ratio) |
|---|---|
| **Direct shareholdings:** | |
| LUDWIG BECK Beteiligungs GmbH | 100.0% |
| ludwigbeck.de GmbH | 100.0% |
| LUDWIG BECK Unternehmensverwaltungs GmbH | 100.0% |
| **Indirect shareholdings:** | |
| LUDWIG BECK Verwaltungs GmbH | 86.0% |
| Feldmeier GmbH & Co. Betriebs KG | 85.9% |
| Feldmeier GmbH | 100.0% |
| LUDWIG BECK Grundbesitz Haar GmbH | 100.0% |
| LUDWIG BECK Grundbesitz Hannover GmbH | 100.0% |
| WORMLAND Unternehmensverwaltung GmbH | 100.0% |
| WORMLAND Holding GmbH | 100.0% |
| THEO WORMLAND GmbH & Co. KG | 100.0% |

The aforementioned companies are fully consolidated since they are controlled by majority of voting rights.

WORMLAND currently sells men's wear in 15 branches throughout Germany, mainly in the premium price segment, based on two different store concepts: WORMLAND men's fashion and THEO.

There are only minor differences between the risk profile of WORMLAND and the operative risks of the LUDWIG BECK Group.

The risk of ludwigbeck.de GmbH as an online retailer also differs only slightly from the operative risks of the LUDWIG BECK Group.

The consolidated Group also comprises three real estate companies which hold real estate exclusively used by the Group, thus merely being exposed to risk relating to the market value development of these properties.

THEO WORMLAND GmbH, Munich, was merged into THEO WORMLAND GmbH & Co. KG, Hanover, as per January 1, 2017. The merger was entered in the commercial register, commercial register B, of the Local Court of Hanover under registration number HRB 5628.

ludwigbeck.de GmbH, Munich, has partially drawn on the exemption provisions of section 264 par. 3 Commercial Code (HGB).

## II. CONSOLIDATION METHODS

**1. Capital consolidation**
The capital of the fully consolidated companies is consolidated using the purchase method. The acquisition costs of the investment are offset against the proportionate shareholder's equity of the fully consolidated company at the time of purchase. In the course of consolidation, the hidden reserves and liabilities were allocated to the assets and liabilities of the acquired company. A complete revaluation of assets and liabilities was undertaken for the purpose of consolidation.

According to IFRS 3, the amount of € 10.3m from the acquisition of WORMLAND had to be reported as income in the years 2015 and 2016 which was shown under other operative income.

The capital of Feldmeier GmbH & Co. Betriebs KG was consolidated at the date of acquisition, while for all other first-tier and second-tier subsidiaries capital consolidation was undertaken at the time of foundation or acquisition of the enterprises.

Within the scope of subsequent consolidation, uncovered hidden reserves and liabilities are treated in the same way as the corresponding assets and liabilities.

The equity components of other shareholders (limited partners) of Feldmeier GmbH & Co. Betriebs KG are reported in compliance with IAS 32 and IAS 1.

No differences in amount resulted from capital consolidations.

**2. Consolidation of receivables and liabilities**
Receivables and liabilities between consolidated companies were eliminated during the consolidation of receivables and liabilities.

**3. Consolidation of income and expenses**
Inter-company sales, other operating income, costs of materials and other operating expenses were offset. Interest income and interest expenditure within the Group were also netted against each other.

**4. Elimination of unrealized profits**
There was no need for elimination of unrealized profits resulting from inter-company sales and services.

## III. PRINCIPLES OF FOREIGN CURRENCY TRANSLATION

No foreign currency translations were required during consolidation of the subsidiaries, as all subsidiaries are German.

The reporting currency is thousand Euro (€k).

## IV. ACCOUNTING PRINCIPLES AND VALUATION METHODS

**1. General**
The consolidated balance sheets and the consolidated statements of comprehensive income of the consolidated companies were generally prepared in accordance with the hereinafter described accounting principles and valuation methods applied by the parent company.

**2. Initial application of IFRS/IAS**
In the past years, the IASB made several amendments to existing IFRS and published new IFRS and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC).

The following interpretations and standards were to be mandatorily applied by entities for the first time in the fiscal year commencing on January 1, 2017:

- Amendments to IAS 7 *Statement of cash flows*: disclosure initiative, published in January 2016
- Amendments to IAS 12 *Income taxes*: accounting for deferred tax assets on unrealized losses, published in January 2016

The application of these standards did not have any effects on the consolidated financial statements as per December 31, 2017.

The following standards may be voluntarily applied ahead of time by entities as of the fiscal year commencing on January 1, 2017:

- IFRS 9 *Financial instruments*

The new standard sets out new requirements for classification, recognition and measurement of financial assets and financial liabilities, as well as for hedge accounting. It will be mandatorily effective for the fiscal year beginning on January 1, 2018. LUDWIG BECK has examined the effects of the initial application of IFRS 9 on the consolidated financial statements and currently assumes that all existing major financial assets and liabilities can be carried at amortized costs also under IFRS 9, and that the initial application of the standard will not have any significant effects on the consolidated financial statements.

- Amendments to IFRS 4: Application of IFRS 9 *Financial instruments* in connection with IFRS 4: *Insurance contracts*, published in September 2016. The initial application of this standard will not have any effects on the consolidated financial statements of LUDWIG BECK.

- IFRS 15 *Revenue from contracts with customers*

The standard specifies uniform principles as to how an entity is supposed to provide the recipients of the financial statements with information on type, time, amount and uncertainty aspects of revenue and cash flows arising from contracts with customers. The standard will be mandatorily effective for the fiscal year beginning on January 1, 2018. On account of the business model adopted by the Group, the initial application of IFRS 15 will not have any significant effects on the consolidated financial statements.

- IFRS 16 *Leases*

In January 2016, the IASB published the new IFRS 16 standard *Leases* to replace the former lease standard IAS 17. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. Earlier adoption is admissible if IFRS 15 is adopted as well. The Group will apply IFRS 16 in the fiscal year beginning on January 1, 2019 for the first time.

The new standard provides a single lessee accounting model: Leases have to be recorded as usage rights and pertinent liabilities. The Lessee may elect not to apply this standard to low-value assets and lease terms of 12 months or less. As regards lessor accounting, IFRS 16 does not differ significantly from IAS 17. The lessor still has to differentiate between finance lease and operating lease.

LUDWIG BECK basically concludes leases as an operating lessee. The following consequences for the presentation of the Group's assets, financial and earnings situation will ensue from the application of IFRS 16: As regards the minimum lease payments from operating leases reported under the *Other financial commitments* item, the initial application of the standard will lead to an increase in long-term assets as a result of the accounting for usage rights. Accordingly, financial liabilities will go up as a result of the disclosure of pertinent liabilities. Furthermore, the type of costs arising from these leases will change as well, as straight-line expenses for operating leases will have to be replaced by write-offs of usage rights and interest expenses according to IFRS 16. In addition thereto, IFRS 16 requires the reporting of the repayment portion of lease payments as a component of the cash flow from financing activities which will result in an improvement of the cash flow from operating activities.

The Group has set up an intragroup project for the implementation of the new standard. It is currently impossible to make any reliable statements on the quantitative effects this standard will have on the consolidate financial statements. The current operating lease volume is shown under other financial commitments.

**3. Currency translation applied by consolidated companies**
No hedging transactions for foreign currencies were concluded.

Receivables and payables in foreign currencies are always reported at the exchange rate valid on the day of the transaction pursuant to IAS 21.

Receivables and payables in foreign currencies are valued at the relevant exchange rate on the consolidated balance sheet date.

**4. Intangible assets**
With the exception of the brand *LUDWIG BECK*, intangible assets acquired on a payment basis are capitalized at acquisition cost and amortized in scheduled amounts over their expected useful lives using the straight-line method (pro rata temporis) in accordance with IAS 38.

Non-scheduled impairment losses were not recognized.

**Software, industrial property rights and similar rights**
These concern licenses and purchased or modified user software, which are written down over an expected useful life of 3 years or 8 years in the case of essential software programs. In connection with the acquisition of the shares in WORMLAND the brand right *WORMLAND* had to be capitalized pursuant to IFRS 3. It will be amortized in scheduled amounts over an expected useful life of 10 years.

**Brand name *LUDWIG BECK***
The enterprise value *LUDWIG BECK* (€ 2,039k) is reported under the item *Intangible assets*, as it is an identified brand name according to IAS 38. In line with the application of this standard, scheduled amortization ended as per January 1, 2004, as this right is not consumed over time (unlimited useful life). As to the impairment test performed, please refer to section C.I.(1). Consequently, no impairment of the brand name as per December 31, 2017 was required.

**5. Property, plant and equipment**
Property, plant and equipment are carried at acquisition or production cost including ancillary expenses, if any, according to IAS 16.

The essential item is the real estate of Feldmeier GmbH & Co. Betriebs KG at Marienplatz in Munich, reported at its assessed fair value in 2001 following acquisition through merger by LUDWIG BECK Beteiligungs GmbH. The fair value of the land at initial consolidation in 2001 was determined on the basis of the acquisition costs, as well as the development of guideline land prices between 1998 and 2000. The amount stated in 2001 remained unaltered until December 31, 2017. The building is depreciated in scheduled amounts.

Tangible fixed assets with limited useful lives are written down in scheduled amounts (pro rata temporis) over their average, customary useful lives (possibly limited by shorter rental / lease agreements) using the straight-line method.

Depending on the relevant assets, the following useful life spans are assumed:

| | |
|---|---|
| Buildings | 25 – 40 years |
| Buildings on third-party land | 10 – 20 years |
| Other fixtures and fittings, tools and equipment | 3 – 10 years |

Movable items of capital assets up to the value of € 150.00 are fully reported with effect on expenses outside of fixed assets in the year of acquisition. Movable items of capital assets above the value of € 150.00 and below € 1,000.00 are pooled for materiality reasons in the year of acquisition and depreciated over a useful life span of 5 years using the straight-line method.

Payments on account for assets under construction are capitalized with the amounts paid.

Maintenance costs are expensed in the respective period.

**Leasing**
In cases in which leasing agreements qualify as finance leases within the meaning of IAS 17, the relevant leased object is capitalized in the balance sheet while payment obligations regarding future leasing rates are carried as financial liabilities. As a consequence of categorization as finance leasing, depreciation charges in relation to the useful life of the leased object and financing expenses are carried in the consolidated statement of comprehensive income.

**6. Inventories**

In accordance with IAS 2, raw material, supplies and merchandise are always valued at acquisition cost. The FiFo principle was applied to the consumption of inventory where necessary.

Appropriate deductions from net realizable value were made for old stock and goods of reduced salability (marketability). In addition, lump-sum reductions for cash discounts were recognized. The cost of external capital was not capitalized.

**7. Receivables and other assets**

Trade receivables are carried at amortized costs which usually equal nominal values before valuation allowances. Adequate valuation allowances are made for doubtful receivables and receivables with recognizable risks; bad debts are written off.

Other assets are carried at amortized costs. There are no recognizable risks requiring valuation allowance.

The deferred item is a component of other assets and only concerns prepaid operating expenses.

The book values of trade receivables and other assets correspond to their fair values.

**8. Cash and cash equivalents**

Cash and cash equivalents comprise cash-in-hand and short-term bank balances. The amounts are given at nominal values. Fair value equals book value. There is no risk of default.

**9. Accruals**

According to IAS 37, accruals are recognized when an entity has a current legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

The amount posted to accrual corresponds with the best estimate of the expense required to settle the current obligation as per the relevant date of the financial statements.

Long-term non-interest-bearing accruals are discounted at their cash values.

**Pension commitments**

Accounting for pension commitments was carried out in compliance with the provisions of IAS 19R *Employee Benefits*.

The actuarial valuation of pension commitments is based on the projected unit credit method as prescribed for old-age pension commitments in IAS 19R. According to this method not only the pension benefits and accrued future pension benefits known at the balance sheet date but also expected increases of salaries and pensions are taken into account. Actuarial profits and losses are recognized directly in equity.

**10. Liabilities**

**Financial liabilities**

According to IFRS 13, financial liabilities are basically carried at their fair value. Fair values are determined by taking into consideration changes in market interest levels for financial liabilities with comparable conditions (term, repayment conditions, securities).

**Trade and other liabilities**

Trade and other liabilities are generally carried at amortized costs which basically equal fair values. Most of them fall due within one year. They comprise a variety of individual items.

**Derivative financial instruments**

The LUDWIG BECK Group does not utilize any derivative financial instruments.

**11. Deferred taxes**

Deferred taxes are calculated according to the balance sheet-oriented liability method (IAS 12). This generally requires deferred taxation items to be stated for all temporary accounting and valuation differences between valuations according to IFRS and tax-relevant valuations. Assets-side deferred taxes are only considered if recognition is expected.

In calculating deferred taxes (corporate tax, solidarity surcharge, trade tax) the corporate tax rate of 32.975% applicable to LUDWIG BECK AG was applied throughout. The trade tax rate calculated on the basis of the municipal trade tax factor of 490% for Munich was 17.15%. For temporary differences resulting from Feldmeier GmbH & Co. Betriebs KG, the tax rate of 15.825% (corporate tax and solidarity surcharge) was applied to the portions attributable to LUDWIG BECK Beteiligungs GmbH and Feldmeier GmbH. Due to trade tax reduction regulations applying to Feldmeier GmbH & Co. Betriebs KG trade tax was not taken into account for these temporary differences.

Temporary differences relating to the WORMLAND companies resulted in an excess in assets-side deferred taxes which were not recognized according to IAS 12.24.

Deferred tax assets and liabilities were offset in accordance with IAS 12.74.

**12. Maturities**

Asset and liability items with a residual term of up to one year were recognized as *short-term*. Asset and liability items with a residual term of more than one year were recognized as *long-term*.

**13. Revenue recognition**

Sales revenue is recognized when sales contracts are concluded. Sales revenue is reported, less revenue reductions and refund credits, with deduced value added tax clearly disclosed.

### 14. Financial instruments

Financial assets and liabilities included in the consolidated balance sheet comprise cash and cash equivalents, trade receivables and trade payables, other receivables, other payables and liabilities to banks. The accounting principles regarding carrying amounts and valuation of these items are described in the respective explanations to these consolidated notes.

Financial instruments are classified as assets or liabilities, according to the economic content of the contractual terms. Interest, profits and losses from these financial instruments are therefore carried as expenses or income. Interest, profits and losses from these financial instruments are therefore carried as expenses or income.

Financial instruments are offset if the Group has a legally enforceable right to use offsetting and intends to settle either just the difference or both the receivables and payables at the same time.

Financial assets and liabilities are carried as soon as the relevant contractual payment claims or contractual payment obligations arise. They are written off when payment is made, total loss of the payment claim has occurred or LUDWIG BECK is relieved from the obligation.

In accordance with IAS 32.18 (b), shareholdings of the other shareholder in Feldmeier GmbH & Co. Betriebs KG are classified as borrowed capital.

**Management of financial risks**
The LUDWIG BECK Group uses a centralized approach to financial risk management for the identification, valuation and control of risks. No major risks are discernible as per the balance sheet date. Areas of risk from financial assets and liabilities can be subdivided into liquidity, credit and interest risks.

***Liquidity risk***
The term generally describes the risk that the LUDWIG BECK Group would not be in a position to meet its obligations resulting from financial liabilities.

The management is constantly monitoring and planning required liquidity needs on the basis of up-to-date cash flow figures and schemes. The company depends on framework credit facilities and bank loans in order to be able to provide sufficient liquid funds. As per the relevant date, short-term credit facilities in the amount of € 42,000k were available until further notice; approximately 31% (including bank guarantees taken out) have been utilized as per the balance sheet date.

As a result of cash flow planning for the future and available credit lines, no liquidity bottle-necks are discernible at present. Basically, risks would only occur in case of a deteriorating credit standing or if cash flows forecasted within the scope of business planning fall considerably short of the estimates. The maturity structure of liabilities is illustrated in connection with the relevant individual balance sheet items.

***Risk of bad debt***
The risk of bad debt concerns the default risk involved in financial assets. LUDWIG BECK basically generates primary sales against cash or credit card or EC card receivables. Therefore, LUDWIG BECK is exposed to the risk of bad debt only to a very limited extent. The online trade still played a subordinate role in comparison to stationary trade. The risks involved in credit card payments are mainly borne by the credit card providers. Monitoring of claims from sales on EC card basis is outsourced to an external provider. Risks arising from physical movement of cash are minimized through implemented monitoring mechanisms.

***Derivative financial instruments***
As per the balance sheet date, there were no derivative financial instruments to report.

***Interest risk***
The LUDWIG BECK Group uses current account overdraft facilities subject to variable interest. With regard to these items the Group is exposed to interest risks from financial liabilities which can be considered as minor under current market conditions.

### 15. Changes in accounting and valuation methods

Accounting and valuation principles remained unchanged in comparison to the previous year.

# C. EXPLANATIONS TO INDIVIDUAL ITEMS OF THE CONSOLIDATED BALANCE SHEET AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## I. CONSOLIDATED BALANCE SHEET

**(1) Intangible assets and property, plant and equipment**
This term comprises the following items shown in the consolidated balance sheet:

- Intangible assets
- Property, plant and equipment

The development of acquisition costs, cumulative depreciation and book values of intangible and tangible fixed assets is presented in the fixed assets schedule on the following page.

**Intangible assets**
Intangible assets only comprise assets acquired on a payment basis.

Intangible assets (industrial property rights and similar rights) can be subdivided as follows:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | €k | €k |
| Software, industrial property rights and similar rights | 1,731 | 1,682 |
| Brand name *WORMLAND* | 1,338 | 1,521 |
| Brand name *LUDWIG BECK* | 2,039 | 2,039 |
| | **5,108** | **5,242** |

**Development of fixed assets of LUDWIG BECK am Rathauseck – Textilhaus Feldmeier AG, Munich, for the period from January 1 – December 31, 2017**

| | Acquisition/production costs | | | | | | | | Depreciation | |
|---|---|---|---|---|---|---|---|---|---|---|
| | As of 1/1/2017 *1/1/2016* | Addition | Disposal | Reclassification | As of 12/31/2017 *12/31/2016* | Cumulative depreciation | Book value 12/31/2017 *12/31/2016* | Book value 12/31/2016 *12/31/2015* | Total 2017 *2016* | thereof IAS 36 2017 *2016* |
| | €k | €k | €k | €k | €k | €k | €k | €k | €k | €k |
| I. Intangible assets | | | | | | | | | | |
| 1. Software, industrial property and similar rights | 4,377 | 380 | 121 | 9 | 4,645 | 2,915 | 1,731 | 1,682 | 329 | 0 |
| *Previous year* | *3,999* | *977* | *861* | *263* | *4,377* | *2,695* | *1,682* | *722* | *265* | *0* |
| 2. Brand names | 5,224 | 0 | 0 | 0 | 5,224 | 1,846 | 3,378 | 3,560 | 183 | 0 |
| *Previous year* | *5,224* | *0* | *0* | *0* | *5,224* | *1,664* | *3,560* | *3,743* | *183* | *0* |
| 3. Payments on account | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Previous year* | *263* | *0* | *0* | *-263* | *0* | *0* | *0* | *263* | *0* | *0* |
| | 9,601 | 380 | 121 | 9 | 9,869 | 4,761 | 5,108 | 5,242 | 511 | 0 |
| *Previous year* | *9,486* | *977* | *861* | *0* | *9,601* | *4,359* | *5,242* | *4,727* | *448* | *0* |
| II. Property, plant and equipment | | | | | | | | | | |
| 1. Land, land rights and buildings including buildings on third-party land | 134,552 | 864 | 689 | 79 | 134,806 | 41,899 | 92,907 | 94,040 | 2,068 | 114 |
| *Previous year* | *134,452* | *1,338* | *1,364* | *126* | *134,552* | *40,512* | *94,040* | *94,558* | *1,970* | *0* |
| 2. Other fixtures and fittings, tools and equipment | 24,167 | 1,152 | 2,061 | 38 | 23,296 | 17,144 | 6,152 | 6,978 | 1,895 | 279 |
| *Previous year* | *24,491* | *2,851* | *3,269* | *95* | *24,167* | *17,190* | *6,978* | *5,587* | *1,552* | *0* |
| 3. Payments on account and assets under construction | 138 | 247 | 12 | -126 | 247 | 0 | 247 | 138 | 0 | 0 |
| *Previous year* | *220* | *138* | *0* | *-220* | *138* | *0* | *138* | *220* | *0* | *0* |
| | 158,857 | 2,263 | 2,762 | -9 | 158,349 | 59,043 | 99,306 | 101,156 | 3,963 | 393 |
| *Previous year* | *159,164* | *4,327* | *4,633* | *0* | *158,857* | *57,701* | *101,156* | *100,366* | *3,522* | *0* |
| | 168,458 | 2,643 | 2,882 | 0 | 168,219 | 63,804 | 104,414 | 106,397 | 4,474 | 393 |
| *Previous year* | *168,649* | *5,303* | *5,495* | *0* | *168,458* | *62,060* | *106,397* | *105,093* | *3,969* | *0* |

The useful life of software is between 3 and 8 years. Software is depreciated pro rata temporis using the straight-line method. The enterprise resource planning system purchased in the 2016 fiscal year is depreciated over a useful life span of 8 years.

The brand name *WORMLAND* was capitalized at € 1,825k as part of the purchase price allocation as per May 12, 2015, and will be amortized (pro rata temporis) in scheduled amounts over a useful life span of 10 years.

The intangible asset originating from the purchase of the brand name *LUDWIG BECK* in 1995 was amortized pro rata temporis in annual amounts of € 170k until December 31, 2003 using the straight-line method. By virtue of the applied IAS 36 and IAS 38 standards, the annual scheduled amortization of this intangible asset ended on January 1, 2004.

The brand name *LUDWIG BECK* only concerns the cash-generating unit *Marienplatz Flagship Store*. Impairment tests are carried out on an annual basis. The recoverable amount equals the utility value, as there is no active market for the brand name. The utility value was derived from the planned cash flows of the flagship store (before financing activities and income taxes), which were discounted by an interest rate after taxes of 2.6%. The interest rate was determined on the basis of weighted average capital costs. The cash flows were deduced from previous years and were extrapolated within the company's three-year plan. An increase in sales of 1.5% as well as a gross profit margin of 50% and cost indexation of 1.5% were assumed.

No adjustments for diminution of value had to be made as a result of the impairment test. LUDWIG BECK considers discount rate- and sales growth-related assumptions as basic assumptions underlying the calculations for the performance of the impairment test. Alternative scenarios were calculated with a +1% discount rate difference and a +1% sales growth variance. All scenarios showed that no impairment losses had to be taken into account.

As for the previous year, no payments on account had to be reported for the 2017 fiscal year.

**Property, plant and equipment**

***Land, land rights and buildings, including buildings on third party land***

Buildings are depreciated over their expected useful lives of 25 – 40 years (pro rata temporis) using the straight-line method. Improvements are depreciated by all Group companies (pro rata temporis) over a customary useful life span of 10 – 20 years, or shorter lease terms as the case may be, using the straight-line method.

*Real estate at Marienplatz*

The land was valued at € 68,779k on September 1, 2001. As of the date of acquisition within the scope of initial consolidation, the building (September 1, 2001: € 3,527k) is depreciated over 30 years in annual rates of € 118k (December 31, 2017: € 1,600k). For the valuation of land at initial consolidation of Feldmeier GmbH & Co. Betriebs KG, hidden reserves amounting to € 66,661k were uncovered. For the fair value measurement of land at initial consolidation in 2001, the acquisition costs and the development of guideline land prices between 1998 and 2000 were considered. The carrying value determined in 2001 was maintained until December 31, 2017 without changes.

The property at Marienplatz is burdened with land charges for reported interest-bearing liabilities in the amount of € 26,553k (previous year: € 27,429k).

*Other real estate*

The LUDWIG BECK Group also owns a logistics and operations center in Haar near Munich, as well as two properties in Hanover used for the local Blue House branch and headquarters.

*Other fixtures and fittings, tools and equipment*

The assets listed under this item are basically depreciated (pro rata temporis) over a useful life of 3 to 10 years using the straight-line method.

Other fixtures and fittings, tools and equipment contain finance lease-related book values of € 80k (previous year: € 145k).

Payments on account and assets under construction amounted to € 247k (previous year: € 138k) as per December 31, 2017. For the purposes of the annual impairment test prescribed by IAS 36, the individual branches are considered a CGUs. The utility value was derived from the planned cash flows of the branches (before financing activities and income taxes), which were discounted by a term-adequate interest rate after taxes of 5% to 6%. The interest rate was determined on the basis of weighted average capital costs. The cash flows were deduced from previous years and were extrapolated within the company's planning. An increase in sales of 1.5% as well as a gross profit margin of 50% and cost indexation of 1.5% were assumed. Since the WORMLAND branch in Nuremberg was only opened at the end of October 2016, no comparative values for a long-term sales forecast were available. Consequently, for the purposes of the impairment test, the sales development of the Nuremberg branch was projected on the basis of expected square meter sales derived from a reference branch.

As a result of the impairment test, an impairment in the amount of € 393k had to be recognized for the Nuremberg branch. No impairments had to be recognized for all the other branches.

**(2) Other assets (long-term)**

Other long-term assets basically concerning rent advances are shown under this item for materiality reasons. This deferred item (prepaid expenses) in the amount of € 143k will be written back in the 2042 fiscal year. Rent advances will be offset against the last rent payments to the contractual partner upon termination of the rental agreement. Other long-term assets amounted to € 143k in aggregate (previous year: € 150k).

**(3) Inventories**

Inventories consist of the following items:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | €k | €k |
| Raw material and supplies (at cost) | 289 | 223 |
| Merchandise (at cost) | 22,209 | 23,114 |
| Less impairment of merchandise | -1,832 | -2,044 |
| | **20,666** | **21,293** |

The usual retention of title until complete payment for the merchandise applies to all disclosed inventories. It can be expected that most inventory items will be sold within the next 12 months.

Up until the date of inventory taking actual inventory discrepancies were taken into account for stock determination. Between the date of inventory taking and December 31, 2017, goods on hand per department were reduced by a deduction for wastage based on the average of the last three years. This deduction led to a value allowance of € 377k (previous year: € 363k). All merchandise was carried at cost less value allowances. Appropriate deductions on the lower realizable net value were made for stocks of reduced salability (marketability). In addition, lump-sum reductions for cash discounts were recognized. In the fiscal year, write-down amounted to € 1,832k (previous year: € 2,044k). Additional and reversed write-downs are netted (IAS 2.36 e, f).

In the reporting period, merchandise in the amount of € 75,921k (previous year: € 78,165k) was carried as expense (cost of goods sold before adjustment of value allowance on net realizable value).

**(4) Receivables and other assets (short-term)**

Receivables and other assets comprise the following items:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | €k | €k |
| Trade receivables | 2,189 | 1,762 |
| Other assets | 1,281 | 2,669 |
| Deferred item | 221 | 196 |
| | **3,691** | **4,627** |

The disclosed carrying amounts correspond to market values. All maturities are within one year. There are no risks of default as per the relevant date.

**Trade receivables (short-term)**

Trade receivables contain the following items:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | €k | €k |
| Total receivables | 2,206 | 1,774 |
| Less allowances | -17 | -12 |
| **Inventory of receivables** | **2,189** | **1,762** |

There are specific and general allowances.

There were no hedging activities.

**Other assets (short-term)**
Other short-term assets consist of the following items:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | €k | €k |
| Debit-side creditors | 328 | 454 |
| Receivables due from tax authorities | 249 | 1,125 |
| Receivables from yield guarantees | 239 | 371 |
| Receivables under leases | 300 | 106 |
| Other | 165 | 613 |
| | **1,281** | **2,669** |

**Deferred item**
The deferred item concerns various expenses representing costs incurred for a specific period after the consolidated balance sheet date.

**(5) Cash and cash equivalents**
Cash and cash equivalents comprise cash-in-hand and bank balances.

Cash and cash equivalents contain the following items:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | €k | €k |
| Cash-in-hand | 1,176 | 1,116 |
| Bank balances | 394 | 434 |
| | **1,570** | **1,550** |

Bank balances were not subject to interest as of the relevant date. Cash-in-hand is not interest-bearing. There are no hedging activities.

**(6) Shareholders' equity**
As regards the presentation of changes in shareholders' equity in the fiscal year 2017, we refer to the equity statement.

The company's capital management objectives focus mainly on:

- Safeguarding financing and liquidity on an ongoing basis
- Ensuring befitting credit rating and
- Procuring adequate interest on equity

The principal objective of capital management is the control of liquid funds and debt capital, whereas the provision of sufficient liquidity at any time for the financing of planned investments and the ongoing business is paramount.

The Group monitors equity by means of various equity key figures such as equity ratio and return on equity. The equity ratio is determined by putting economic equity in relation to the balance sheet total. Economic equity of the LUDWIG BECK Group corresponds to balance sheet equity. Neither LUDWIG BECK AG nor any of its consolidated subsidiaries is subject to external minimum capital requirements.

**Subscribed capital**
The subscribed capital (share capital) of LUDWIG BECK AG is divided into 3,695,000 no-par shares (ordinary shares) as per December 31, 2017 (December 31, 2016: 3,695,000). The no-par shares are issued to bearer and represent an imputed € 2.56 share of the equity capital each. The share capital was fully paid up. In the fiscal year 2017, 3,695,000 shares were outstanding on average. All ordinary shares are entitled to the profit distribution to be resolved by the General Meeting. In the fiscal year 2017, dividend payments for 2016 amounted to € 2,402k (€ 0.65 per share).

In the fiscal year, the subscribed capital amounted to € 9,446k (previous year: € 9,446k).

**Shareholder structure**
According to the company's knowledge, the shareholder structure of LUDWIG BECK AG as of December 31, 2017 is as follows:

| | % |
|---|---|
| INTRO-Verwaltungs GmbH, Reichenschwand | 49.2 |
| Hans Rudolf Wöhrl Verwaltungs GmbH, Reichenschwand | 25.7 |
| OST-WEST Beteiligungs- und Grundstücksverwaltungs-AG, Cologne | 5.0 |
| Rheintex Verwaltungs AG, Cologne | 3.0 |
| Small investors (holdings below 3%) | 17.1 |

**Notifications pursuant to section 21 resp. section 33 par. 1 German Securities Trading Law (WpHG)**
***Indirect and direct shareholdings:***
OST-WEST Beteiligungs- und Grundstücksverwaltungs-AG, Cologne, reported on June 18, 2009 that it exceeded the 5% threshold of voting rights in LUDWIG BECK AG on June 18, 2009 and held 5.007% at that date. This corresponds to 185,000 votes, 4.87% (180,000 votes) of which are attributable to subsidiaries.
***Direct shareholding:***
Rheintex Verwaltungs AG, Cologne, reported on June 22, 2009 that it exceeded the 3% threshold of voting rights in LUDWIG BECK AG on June 18, 2009 and held 3.019% at that date. This corresponds to 111,550 votes.
***Direct shareholding:***
INTRO-Verwaltungs GmbH, Reichenschwand, reported on December 23, 2010 that it fell below the 50% threshold of voting rights in LUDWIG BECK AG on December 22, 2010 and held 49.19% at that date. This corresponds to 1,817,605 votes.
***Direct shareholding:***
Hans Rudolf Wöhrl Verwaltungs GmbH, Reichenschwand, reported on March 25, 2011 that it exceeded the 25% threshold of voting rights in LUDWIG BECK AG on March 24, 2011 and held 25.35% at that date. This corresponds to 936,545 votes.
***Indirect shareholding:***
Hans Rudolf Wöhrl Vermögensverwaltungs GmbH & Co. KG, Reichenschwand, reported on March 25, 2011 that it exceeded the 25% threshold of voting rights in LUDWIG BECK AG on March 24, 2011 and held 25.35% at that date. This corresponds to 936,545 voting rights.
***Indirect shareholding:***
Hans Rudolf Wöhrl Beteiligungs GmbH, Reichenschwand, reported on March 25, 2011 that it exceeded the 25% threshold of voting rights in LUDWIG BECK AG on March 24, 2011 and held 25.35 % at that date. This corresponds to 936,545 voting rights.

In the fiscal year 2017, LUDWIG BECK AG did not receive any notifications pursuant to section 21 resp. section 33 par. 1 German Securities Trading Law (WpHG).

**Capital reserve**

The development of capital reserve is shown in the equity statement. Capital reserve serves to secure the long-term financing of the company.

**Accumulated profit**

The development of accumulated profit is shown in the equity statement. Accumulated profit serves to secure the short-term and long-term financing of the company.

Compensation claims resulting from limited partners' interests of other shareholders are basically to be classified as debt capital according to IAS 32.18 (b) (cf. explanations in clause (7) below).

### (7) Compensation claim for other shareholders

The compensation claim for other shareholders of Feldmeier GmbH & Co. Betriebs KG is subject to the provisions set forth in the company agreement. The amount of the compensation claim is calculated on the basis of the market value of the relevant shares, whereas the carrying amount of the market value of the Marienplatz property was determined in the company agreement. Furthermore, the agreement provides that the company shall be entitled to set off payment claims against a withdrawing shareholder against this shareholder's compensation balance, if any, at any time. In the year under report, the following calculation was made:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | €k | €k |
| Assumed market value of Feldmeier GmbH & Co. Betriebs KG for the purpose of computing a potential compensation claim according to the company agreement | 87,069 | 87,068 |
| Other shareholders' interest (14.06%) | 12,242 | 12,242 |
| Receivables from other shareholders | -15,420 | -15,194 |
| | **-3,178** | **-2,952** |

Since receivables from the other shareholder exceed its share in the market value of the company, no compensation obligation had to be entered into the balance sheet.

According to the provisions set forth in the company agreement, the other shareholder is generally not obligated to settle the aforementioned receivables – with the exception of the aforementioned setoff option. Therefore LUDWIG BECK cannot claim receivables from the other shareholder on account of this excess.



### (8) Accruals

The following details on formed accruals are provided in accordance with IAS 37:

| | As of 1/1/2017 | Utilization | Release | Addition | As of 12/31/2017 |
|---|---|---|---|---|---|
| | €k | €k | €k | €k | €k |
| Asset retirement obligation | 2,283 | 0 | 107 | 0 | 2,176 |
| *Previous year* | *2,170* | *0* | *0* | *113* | *2,283* |
| Pension commitments | 613 | 0 | 68 | 0 | 545 |
| *Previous year* | *419* | *0* | *0* | *194* | *613* |
| Obligation from accepted legacy | 1,121 | 178 | 0 | 0 | 943 |
| *Previous year* | *1,294* | *173* | *0* | *0* | *1,121* |
| **Total accruals** | **4,017** | **178** | **175** | **0** | **3,664** |
| *Previous year* | *3,883* | *173* | *0* | *307* | *4,017* |

**Repair and maintenance obligations**

These accruals concern repair and maintenance obligations from rental agreements and were formed on the basis of expert opinions. They concern deconstruction obligations upon termination of rental agreements. The amounts of the obligations were estimated for the anticipated dates of performance. The values set down in the expert opinions were extrapolated on the basis of an average construction cost increase and discounted at a normal market rate. Unless this estimation is to be adjusted in the coming years, the accruals will be compounded proportionally.

Utilization is scheduled for the relevant determination dates of the underlying rental agreement (residual terms between 2 and 25 years).

**Pension commitments**

Accruals for pension commitments are established for employee benefit schemes providing for retirement, disability and surviving dependents' benefits if the pension plan is to be qualified as performance-oriented plan according to IAS 19R.

Pension accruals for defined benefit plans are determined in accordance with the internationally accepted *projected unit credit method* pursuant to IAS 19R. Future pension commitments are measured on the basis of the prorated acquired entitlements as of the balance sheet date.

In these present consolidated financial statements, the company reports pension commitments in line with the provisions of IAS 19R. Accordingly, so-called actuarial profits and losses are recognized directly under shareholders' equity pursuant to IAS 19R. Furthermore, the company pays premiums to an external insurance company which will make payments in the event giving rise to benefits. This insurance policy is to be qualified as plan asset. On account of the aforementioned transfer of pension liabilities to a pension fund, LUDWIG BECK assumes that the Group won't have any payment obligations when pension benefits fall due.

The cash value of the pension commitment and the fair value of the plan assets have developed as follows in the fiscal year:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | €k | €k |
| Cash value of pension commitments as of 1/1 | 2,975 | 2,611 |
| Current service costs | 58 | 53 |
| Interest costs | 54 | 61 |
| Actuarial profits (-) / losses (+) to be accounted for directly in equity | -33 | 250 |
| Cash value of pension commitments as of 12/31 | 3,054 | 2,975 |
| **Carrying amount of pension commitments before offsetting** | **3,054** | **2,975** |

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | €k | €k |
| Cash value of plan assets as of 1/1 | -2,362 | -2,192 |
| Contributions to plan assets | -85 | -93 |
| Return on plan assets | -77 | -71 |
| Actuarial profits (-) / losses (+) | 16 | -6 |
| **Cash value of plan assets as of 12/31** | **-2,508** | **-2,362** |
| | | |
| **Remaining difference as of 12/31** | **546** | **613** |

The cash values of pension commitments amounted to € 2,611k as of December 31, 2015 and to € 2,585k as of December 31, 2014; the cash values of plan assets to € 2,192k respectively € 1,987k.

The following actuarial assumptions form the basis for the determination of the balance sheet value of the commitments:

| | 2017 | 2016 |
|---|---|---|
| Discount factor | 1.80% | 2.35% |
| Pension trend | 1.00% | 1.00% |

Since pension entitlements are subject to contractually agreed rates of increase, the usual general salary trends are not to be taken into account.

The *2005 G Reference Tables* by Klaus Heubeck served as biometric basis for the relevant calculations.

Actuarial profits and losses result from asset changes and deviations of the actual trends (e.g. interest rate variations) from the original calculation parameters.

A +0.5% actuarial rate change would result in a cash value decrease of benefit commitments to € 2,839k; a -0,5% cash value change would raise the cash value of benefit commitments to € 3,294k.

A 7.5% pension trend adjustment every 15 years would reduce the cash value of benefit commitments to € 2,832k; a 7.5% adjustment every 5 years would raise the cash value of benefit commitments to € 3,240k.

The company expects service costs in the amount of € 60k and interest costs in the amount of € 54k, as well as plan asset yields in the amount of € 80k for the fiscal year 2018. As the contractually agreed benefits have been paid for an active member of the Executive Board in monthly instalments starting on December 1, 2017, no further contributions to plan assets have been made as of that date. No contributions to plan assets are made for one member of the Executive Board who has already retired.

**Obligation from accepted legacy**

By accepting the legacy of a late shareholder, LUDWIG BECK incurred contractual obligations towards the surviving relatives of this former shareholder which amounted to € 721k (previous year: € 899k) as per December 31, 2017. In return, the LUDWIG BECK Group received the shareholder's interest in Feldmeier GmbH & Co. Betriebs KG. For the acquired share, inheritance tax in the amount of € 222k will arise for LUDWG BECK.

Of the total amount of € 943k, the sum of € 424k (including settlement of inheritance tax in the amount of € 222k) is expected to be utilized within twelve months. Furthermore, prorated utilization can be expected until the year 2023.

### (9) Liabilities

As of the balance sheet date, liabilities are composed as follows:

| | | Residual term | | |
|---|---|---|---|---|
| | Sum total | Up to 1 year | 1 – 5 years | Over 5 years |
| | €k | €k | €k | €k |
| 1. Financial liabilities | 35,460 | 9,221 | 4,567 | 21,672 |
| *Previous year* | *39,215* | *11,652* | *4,587* | *22,976* |
| 2. Trade liabilities | 2,913 | 2,913 | 0 | 0 |
| *Previous year* | *2,554* | *2,554* | *0* | *0* |
| 3. Tax liabilities | 119 | 119 | 0 | 0 |
| *Previous year* | *166* | *166* | *0* | *0* |
| 4. Other liabilities | 8,114 | 8,114 | 0 | 0 |
| *Previous year* | *8,300* | *8,300* | *0* | *0* |
| - tax-related: € 2,661k (previous year: € 2,582k) | | | | |
| - social security-related: € 8k (previous year: € 0k) | | | | |
| **12/31/2017** | **46,605** | **20,366** | **4,567** | **21,672** |
| *Previous year* | *50,235* | *22,672* | *4,587* | *22,976* |

In connection with the aforementioned financial liabilities the following contractually agreed interest payments will have to be made in the coming years:

| | | Residual term | | |
|---|---|---|---|---|
| | Sum total | Up to 1 year | 1 – 5 years | Over 5 years |
| | €k | €k | €k | €k |
| Loan interests | 2,747 | 644 | 1,738 | 365 |
| *Previous year* | *3,423* | *676* | *2,221* | *526* |

€ 26,553k of financial liabilities in the aggregate amount of € 35,460k were applied to financing the *Marienplatz* property. The liabilities are secured as follows:

| | €k |
|---|---|
| Land charges SIGNAL Krankenversicherung a.G. | 11,933 |
| Land charges UniCredit Bank AG | 14,620 |
| Assignment of rents to SIGNAL Krankenversicherung a.G. | 5,633 |

The other liabilities are not secured as of December 31, 2017.

**9 a) Financial liabilities (long-term)**
Long-term financial liabilities are composed as follows:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | €k | €k |
| Loan SIGNAL Krankenversicherung a.G. | 11,180 | 11,933 |
| Loan UniCredit Bank AG | 14,464 | 14,620 |
| Leasing | 71 | 387 |
| Other loans | 524 | 623 |
| | **26,239** | **27,563** |

Loans do not contain any loan derivatives (structured products) that have to be split off or valued separately.

Long-term financial liabilities are generally carried at amortized cost. Interest rates ranged between 1.15% and 4.17% in the year under report.

The other loans have terms of up to 5 years and are subject to an interest rate ranging between 2.00% and 3.50%.

The fair value of the long-term financial liabilities amounted to € 28,317k (previous year: € 30,581k) as per the balance sheet date.

**9 b) Financial liabilities (short-term)**
Short-term financial liabilities consist of the following items:

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | €k | €k |
| Liabilities to banks | 7,970 | 10,365 |
| Loan UniCredit Bank AG | 155 | 153 |
| Loan SIGNAL Krankenversicherung a.G. | 753 | 723 |
| Leasing | 317 | 385 |
| Other loans | 26 | 25 |
| | **9,221** | **11,652** |

As of December 31, 2017, credit facilities granted by banks amounted to € 42,000k in aggregate. They were subject to interest at market rates when utilized.



Short-term financial liabilities are recognized at repayment value.

The interest rates for short-term financial liabilities ranged between 0.85% and 4.17% in the year under report.

***Summarized presentation of long-term and short-term liabilities from finance leasing***

| | | Residual term | | |
|---|---|---|---|---|
| | Sum total | Up to 1 year | 1 – 5 years | Over 5 years |
| | €k | €k | €k | €k |
| 1. Minimum leasing payments | 398 | 327 | 71 | 0 |
| *Previous year* | *808* | *410* | *398* | *0* |
| 2. Interest and administrative costs | 10 | 10 | 0 | 0 |
| *Previous year* | *36* | *26* | *10* | *0* |
| 3. Redemption (cash value of leasing liabilities) | 388 | 317 | 71 | 0 |
| *Previous year* | *772* | *385* | *388* | *0* |

Leases concerning shop fittings qualifying as operating leasing contracts pursuant to German law, are to be classified as finance leases in line with IAS 17.

Operating leasing agreements mainly concern the Group's rental agreements reported under other financial commitments. No acquisition options were agreed within the framework of operating leasing contracts.

**9 c) Trade liabilities (short-term)**
Trade liabilities in the amount of € 2,913k (previous year: € 2,554k) are carried at their repayment values. Due to the short-term maturities of these liabilities, this amount corresponds to the fair value of these liabilities. Suppliers are generally paid within 10 days in order to benefit from cash discounts, whereas the credit period is generally 60 days.

**9 d) Other liabilities (short-term)**

| | 12/31/2017 | 12/31/2016 |
|---|---|---|
| | €k | €k |
| Wage and sales taxes | 2,661 | 2,582 |
| Purchase vouchers | 1,892 | 1,871 |
| Personnel expenses | 1,171 | 1,782 |
| Year-end closing and tax declaration costs | 241 | 226 |
| Other accrued liabilities | 2,149 | 1,839 |
| | **8,114** | **8,300** |

**9 e) Tax liabilities (short-term)**
Income tax liabilities amounted to € 119k (previous year: € 166k) as of December 31, 2017.

### (10) Deferred taxes (assets-side and liabilities-side)

Deferred taxes are attributable to the following consolidated balance sheet items or matters:

| | 12/31/2017 | | 12/31/2016 | |
|---|---|---|---|---|
| | Assets-side | Liabilities-side | Assets-side | Liabilities-side |
| | €k | €k | €k | €k |
| **LUDWIG BECK** | | | | |
| Brand name *LUDWIG BECK* | | 673 | | 673 |
| Land | | 361 | | 361 |
| Buildings | | 66 | | 73 |
| Accruals | 258 | | 272 | |
| Other | 22 | | 22 | |
| **Subtotal** | **280** | **1,100** | **294** | **1,107** |
| **WORMLAND** | | | | |
| Brand name *WORMLAND* | | 399 | | 453 |
| Other intangible assets | 0 | | 1 | |
| Tenant fixtures | 240 | | 298 | |
| Operating and office equipment | 48 | | 45 | |
| Accruals | 82 | | 38 | |
| Liabilities | 29 | | 71 | |
| **Subtotal** | **399** | **399** | **453** | **453** |
| **Sum total** | **678** | **1,499** | **747** | **1,560** |
| Net balance of deferred taxes | -678 | -678 | -747 | -747 |
| **Sum total according to consolidated balance sheet** | **0** | **821** | **0** | **813** |

With the exception of the categories brand name *LUDWIG BECK* and land, deferred taxes have resulted exclusively from taxable temporary differences between the tax balance sheet and the IFRS balance sheet of the respective company concerned (IAS 12.15). These temporary differences, and hence the deferred taxes will be released over the corresponding periods (until the recognition of the respective asset or liability).

Deferred tax liabilities were formed for a *quasi-permanent* difference between the valuation of the land in the tax balance sheet of Feldmeier GmbH & Co. Betriebs KG and the IFRS balance sheet. The sale of the real estate company has been considered as the most probable realization proposition.

Deferred tax liabilities were also formed for the *quasi-permanent* difference in the recognition of the enterprise value *LUDWIG BECK* in the IFRS balance sheet and in the tax balance sheet.

The residual terms of the accrual-related deferred items formed for both these *quasi-permanent* differences exceed 12 months.

The balance sheet item for deferred taxes relating to accruals include assets-side deferred taxes in the amount of € 180k (previous year: € 202) attributable to income and expenses directly recognized in equity.

At the balance sheet date, assets-side deferred taxes in the amount of approximately € 1,208k (previous year: € 1,477k) were not recorded by the Group.

## II. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The consolidated statement of comprehensive income was prepared according to the total cost method.

### (11) Sales revenue

| | 2017 | 2016 |
|---|---|---|
| | €k | €k |
| Sales | 145,569 | 148,867 |

Sales are explained in more detail in the segment reporting section. With the exception of an amount totaling € 344k (previous year: € 315k), all net sales of the LUDWIG BECK Group were generated in Germany.

### (12) Other own work capitalized

In the fiscal year 2017, other own work capitalized amounted to € 43k (previous year: € 155k). This item concerns personnel expenses incurred during refurbishing works at the department store at Marienplatz, as well as the introduction of a new enterprise resource planning system in Munich in the previous year.

### (13) Other operating income

Other operating income consists of the following items:

| | 2017 | 2016 |
|---|---|---|
| | €k | €k |
| Rental income | 1,134 | 863 |
| Sales proceeds | 1,058 | 1,247 |
| Personnel earnings | 603 | 642 |
| Cafeteria earnings | 371 | 379 |
| Aperiodic income | 875 | 256 |
| Other income | 796 | 822 |
| | **4,837** | **4,209** |

As a result of the acquisition of WORMLAND on May 12, 2015 (date of first-time consolidation), other income in the amount of € 475k accrued for the last time in the fiscal year 2016. In the current year, the premature termination of a rental agreement generated other income of € 300k.

### (14) Cost of materials

| | 2017 | 2016 |
|---|---|---|
| | €k | €k |
| Cost of merchandise | 75,921 | 77,605 |

The expenses carried under this item contain merchandise at cost less discounts received, as well as changes in opening and closing stock and reductions due to lack of salability.

## (15) Personnel expenses

| | 2017 | 2016 |
|---|---|---|
| | €k | €k |
| Wages and salaries | 24,814 | 25,575 |
| Social security contributions | 4,311 | 4,601 |
| Pension costs | 214 | 224 |
| | **29,339** | **30,400** |

### Pensions

The company has set up so-called contribution-oriented and performance-oriented pension schemes (IAS 19R) for employees of the LUDWIG BECK Group.

These are divided into two groups:

*a) Pension schemes for all employees of LUDWIG BECK*

As of January 1, 2001, employees have the possibility to apply for inclusion in the union-agreed pension scheme after 6 months of service.

For employees who joined the company before March 31, 2000, the pension scheme is a direct insurance agreement concluded with an independent third party (with complete reinsurance cover). For employees who joined the company after March 31, 2000, contributions are paid into a pension fund.

The scheme is financed by employer contributions which are expensed to the consolidated profit and loss account.

Employees who joined the company before March 31, 2000, are older than 25, and have worked for the company for a minimum of 5 years receive a voluntary pension promise by LUDWIG BECK against which union-agreed pension claims are offset.

The scheme qualifies as contribution-oriented plan within the meaning of IAS 19R.

The costs of these pension commitments amounted to € 123k in 2017 (previous year: € 133k).

A total of 309 (previous year: 301) employees participate in these pension schemes.

*b) Pension scheme for members of the Executive Board*

LUDWIG BECK gave one active and one former member of the Executive Board pension promises. This commitment qualifies as performance-oriented plan within the meaning of IAS 19R.

Expenses for pension obligations are explained in clause (8).

*c) Pension scheme for all employees of WORMLAND*

As of January 1, 2002, all employees covered by a collective bargaining agreement have the possibility to apply for inclusion in the company pension scheme after 6 months of service.

Employees who were covered by a collective bargaining agreement will be entitled to pension benefits according to collectively agreed regulations also after conversion to contracts without collective bargaining coverage.



Employer contributions to the pension scheme are expensed to the consolidated profit and loss account.

Some of the executives are covered by direct insurance agreements concluded with an independent third party.

The costs of these pension commitments amounted to € 19k in 2017 (previous year: € 23k).

A total of 55 (previous year: 74) employees participate in these pension schemes.

## (16) Depreciation

For details concerning the composition of depreciation and amortization of intangible assets and property, plant and equipment, please refer to the fixed assets schedule.

## (17) Other operating expenses

Other operating expenses comprise the following items:

| | 2017 | 2016 |
|---|---|---|
| | €k | €k |
| Rental expenses | 16,868 | 16,594 |
| Other occupancy costs | 4,294 | 4,085 |
| Administrative expenses | 2,762 | 2,901 |
| Sales expenses | 7,664 | 7,961 |
| Other personnel expenses | 1,366 | 1,661 |
| Insurance/contributions | 332 | 325 |
| Other taxes | 121 | 121 |
| Other | 850 | 1,264 |
| | **34,257** | **34,913** |

No aperiodic expenses were recorded in the fiscal year and the previous year. Rental expenses mainly concern long-term rental agreements for building parts at Marienplatz not owned by the Group, the rental agreement for the HAUTNAH annex in FÜNF HÖFE, as well as rental agreements for 14 branches of WORMLAND. The rental agreements are long-term, expiring in 2042 at the latest. Rental expenses are subject to rates of increase tied to the Consumer Price Index.

## (18) Financial result

| | 2017 | 2016 |
|---|---|---|
| | €k | €k |
| Interest income | 86 | 78 |
| Interest expenditure | 994 | 1,203 |
| **Financial result** | **-908** | **-1,125** |

Interest income basically concerned interest received on plan assets in the amount of € 77k (previous year: € 71k), as well as interest in the amount of € 9k (previous year: € 7k). The interest portion of interest expenditure relating to pension commitments was € 54k (previous year: € 61k).

### (19) Taxes on income

| | 2017 | 2016 |
|---|---|---|
| | €k | €k |
| Taxes on income | 2,290 | 2,384 |
| Other deferred tax income (-) / tax expense (+) | 3 | -47 |
| | **2,293** | **2,337** |

| **Deferred tax income/expense** | **2017** | **2016** |
|---|---|---|
| | €k | €k |
| From temporary differences in accounting for buildings | -14 | -63 |
| From temporary differences in accounting for pension accruals | 17 | 16 |
| **Total deferred tax income (-) / expense (+)** | **3** | **-47** |

The following table reflects the transition from tax expenses or yields calculated on the basis of the Group-specific tax rate of 32.975 % (corporate tax, solidarity surcharge, trade tax), and the tax expenses or yields carried in the IFRS-compliant consolidated financial statements:

| | 2017 | 2016 |
|---|---|---|
| | €k | €k |
| Earnings before taxes on income | 5,550 | 5,219 |
| Nominal Group-specific tax rate in % | 32.975 | 32.975 |
| Arithmetic tax expense | 1,830 | 1,721 |
| Changes in arithmetic tax expense: | | |
| - Tax rate differences from real estate companies of the LUDWIG BECK Group | -603 | -565 |
| - Tax-free income from acquisition of WORMLAND | 0 | -157 |
| - Tax rate difference from WORMLAND subgroup | 834 | 905 |
| - Deviating basis for tax assessment | 257 | 275 |
| - Other | -25 | 158 |
| **Actual tax expense** | **2,293** | **2,337** |

### (20) Income and expenses directly recognized in equity

Income and expenses directly recognized in equity are subject to the following deferred tax expenses or income:

| | 2017 | 2016 |
|---|---|---|
| | €k | €k |
| Net pension commitment | | |
| - Income (+) / expense (-) | 18 | -245 |
| - Deferred tax income (-) / tax expense (+) | 6 | 81 |
| Net income (+) / net expense (-) | 12 | -164 |
| **Sum total of income (+) and expenses (-) directly recognized in equity** | **12** | **-164** |

### (21) Explanations to earnings per share

Earnings per share are calculated in accordance with IAS 33 by dividing consolidated net profit by the weighted average number of shares issued during the period under review.

**Earnings per share**

| | 2017 | 2016 |
|---|---|---|
| Consolidated net profit in €k | 3,258 | 2,882 |
| Weighted number of shares in thousands | 3,695 | 3,695 |
| Earnings per share in € (undiluted and diluted) | 0.88 | 0.78 |

Undiluted and diluted earnings are identical.

**Dividend proposal**

As regards the appropriation of profit, the Executive Board has proposed to distribute a dividend in the amount of € 0.65 per share to the shareholders. This equals a dividend sum of € 2,402k in aggregate.

# D. EXPLANATIONS TO SEGMENT REPORTING

The following segment reporting complies with IFRS 8 *Operating Segments*, which defines the requirements for reporting on the financial results of a company's operating segments. The applied method is the so-called *Management Approach* which requests a company to present segment information on the basis of the internal reports that are regularly reviewed by the so-called *Chief Operating Decision Maker* for the purpose of deciding on the allocation of resources to individual segments and performance assessment.

The reporting stage is based on the segments *LUDWIG BECK* and *WORMLAND*.

In the fiscal year 2017, the key figures of this Group to be segmented are spread among the individual segments as follows:

| | LUDWIG BECK | WORMLAND | Consol. | Group |
|---|---|---|---|---|
| | €k | €k | €k | €k |
| **Sales revenue (gross)** | **98,996** | **74,211** | **0** | **173,207** |
| *Previous year* | *101,143* | *75,985* | *0* | *177,128* |
| VAT | -15,789 | -11,849 | 0 | -27,637 |
| *Previous year* | *-16,129* | *-12,132* | *0* | *-28,261* |
| **Sales revenue (net)** | **83,207** | **62,363** | **0** | **145,569** |
| *Previous year* | *85,014* | *63,853* | *0* | *148,867* |
| Cost of sales (without discounts, rebates, etc.) | -43,249 | -32,672 | 0 | -75,921 |
| *Previous year* | *-44,017* | *-33,587* | *0* | *-77,605* |
| **Gross profit** | **39,958** | **29,691** | **0** | **69,648** |
| *Previous year* | *40,997* | *30,266* | *0* | *71,262* |
| Operating income | 3,516 | 1,365 | 0 | 4,880 |
| *Previous year* | *3,158* | *1,206* | *0* | *4,364* |
| Personnel expenses | -17,412 | -11,927 | 0 | -29,339 |
| *Previous year* | *-18,252* | *-12,148* | *0* | *-30,400* |
| Depreciation | -2,784 | -1,690 | 0 | -4,474 |
| *Previous year* | *-2,900* | *-1,069* | *0* | *-3,969* |
| Other operating expenses | -14,387 | -19,871 | 0 | -34,257 |
| *Previous year* | *-14,399* | *-20,514* | *0* | *-34,913* |
| **EBIT** | **8,891** | **-2,432** | **0** | **6,458** |
| *Previous year* | *8,604* | *-2,260* | *0* | *6,344* |
| Financial result | -811 | -97 | 0 | -908 |
| *Previous year* | *-1,116* | *-9* | *0* | *-1,125* |
| **EBT** | **8,079** | **-2,529** | **0** | **5,550** |
| *Previous year* | *7,488* | *-2,268* | *0* | *5,219* |
| Taxes on income | -2,293 | 0 | 0 | -2,293 |
| *Previous year* | *-2,337* | *0* | *0* | *-2,337* |
| **Consolidated net profit** | **5,787** | **-2,529** | **0** | **3,258** |
| *Previous year* | *5,150* | *-2,268* | *0* | *2,882* |

| | LUDWIG BECK | WORMLAND | Consol. | Group |
|---|---|---|---|---|
| | €k | €k | €k | €k |
| **Segment assets** | | | | |
| Intangible assets | 3,559 | 1,549 | 0 | 5,108 |
| *Previous year* | *3,553* | *1,689* | *0* | *5,242* |
| Property, plant and equipment | 90,493 | 8,813 | 0 | 99,306 |
| *Previous year* | *91,179* | *9,976* | *0* | *101,156* |
| Inventories | 11,516 | 9,150 | 0 | 20,666 |
| *Previous year* | *12,116* | *9,177* | *0* | *21,293* |
| Receivables and other assets | 2,490 | 1,202 | 0 | 3,691 |
| *Previous year* | *3,324* | *1,303* | *0* | *4,627* |
| **Segment assets total** | **108,058** | **20,714** | **0** | **128,771** |
| *Previous year* | *110,172* | *22,145* | *0* | *132,317* |
| **Segment liabilities** | | | | |
| Liabilities | 43,287 | 7,804 | 0 | 51,091 |
| *Previous year* | *48,336* | *6,728* | *0* | *55,065* |
| **Segment liabilities total** | **43,287** | **7,804** | **0** | **51,091** |
| *Previous year* | *48,336* | *6,728* | *0* | *55,065* |

# E. EXPLANATIONS TO CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement shows how the Group's liquid funds changed during the year under review as a result of inflows and outflows of cash. In accordance with IAS 7 (Cash Flow Statements), the company distinguishes between cash flows from operating, investing and financing activities. Liquidity shown in the cash flow statement comprises cash-in-hand and bank balances.

Cash and cash equivalents within the meaning of IAS 7.6. et seq. equal the sum of cash-in-hand and short-term bank balances.

As per December 31, 2017, LUDWIG BECK Group has access to framework credit facilities of € 42,000k. Approximately 31% of said facilities have been utilized for bank guarantees and short-term bank loans.

# F. EXPLANATIONS TO CONSOLIDATED EQUITY STATEMENT

The equity statement reflects the changes to the Group's individual equity items in the course of the year under review. Presentation is in accordance with IAS 1.

# G. OTHER DETAILS

## I. CONTINGENT LIABILITIES, CONTINGENT RECEIVABLES

**1. Contingent liabilities**
In addition to actual commitments covered by accruals, there are no probably occurring commitments depending on future events.

**2. Contingent receivables**
There are no contingent receivables to be disclosed pursuant to IAS 37.

## II. OTHER FINANCIAL COMMITMENTS

The Group's other financial commitments are as follows:

| | Annual commitment | | Total commitment | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | €k | €k | €k | €k |
| Other financial commitments | 17,362 | 17,697 | 201,038 | 208,460 |

Maturities within the total commitment are as follows:

| | Up to 1 year | 1 – 5 years | Over 5 years | Total |
|---|---|---|---|---|
| | €k | €k | €k | €k |
| Other financial commitments | 17,362 | 62,906 | 120,770 | 201,038 |

Furthermore, the company is bound by a purchase order commitment for merchandise in the value of € 9,189k (previous year: € 5,158k).

## III. DECLARATION OF CONFORMITY ACCORDING TO SECTION 161 JOINT STOCK CORPORATION ACT (AKTG) (CORPORATE GOVERNANCE)

The Executive Board and Supervisory Board of LUDWIG BECK AG issued the Declaration of Conformity according to section 161 Joint Stock Corporation Act (AktG) on November 24, 2017.

The Declaration of Conformity has been made permanently available to shareholders at the company's Internet site at https://kaufhaus.ludwigbeck.de/en/company/investor-relations/corporate-governance/declaration-of-corporate-governance.

## IV. RELATIONS TO RELATED COMPANIES AND PERSONS

The following lists the companies and persons related to the Group pursuant to IAS 24.

Each member of the Executive Board has sole power of representation. The members of the Executive Board are authorized to represent the company in legal transactions with themselves as representatives of a third party without restrictions.

**Executive Board:**

Dieter Münch, Businessman
Christian Greiner, Businessman

Total remuneration of the Executive Board of LUDWIG BECK am Rathauseck – Textilhaus Feldmeier Aktiengesellschaft amounted to € 1,207k (previous year: € 1,212k) in the fiscal year 2017.

As of December 31, 2017, the members of the Executive Board held 16,000 shares (previous year: 16,000; purchased: 0; sold: 0).

Individual details of Executive Board remuneration are included in the remuneration report section of the consolidated management report.

**Supervisory Board:**

Dr. Steffen Stremme, Chairman, Businessman, Erlangen
Hans Rudolf Wöhrl, Vice Chairman, Businessman, Reichenschwand
Clarissa Käfer, Tax Consultant and Lawyer, Munich
Edda Kraft, Businesswoman, Leipzig
Philip Hassler, Department Manager, Munich*)
Michael Neumaier, Commercial Clerk, Grafrath*)

Total remuneration of the Supervisory Board in the fiscal year 2017 amounted to € 208k (previous year: € 208k).

Companies relatable to Mr. Christian Greiner and Mr. Hans Rudolf Wöhrl rendered services worth € 96k (previous year: € 81k).

Rental expenses in the amount of € 809k (previous year: € 74k) payable to a company relatable to Mr. Christian Greiner and Mr. Hans Rudolf Wöhrl were incurred. In return, this company provided a construction subsidy of € 800k in the previous year.

Other companies relatable to Mr. Hans Rudolf Wöhrl rendered services worth € 61k (previous year: € 0k). LUDWIG BECK rendered rental services in the amount of € 17k (previous year: € 0k) to these companies.

A company relatable to Mrs. Clarissa Käfer rendered services in the amount of € 31k (previous year: € 41k). LUDWIG BECK rendered rental services in the amount of € 36k (previous year: € 36k) to this company.

All business transactions with related persons were conducted on an arm's length basis.

*) Employee Representative

The following members of the Executive Board and Supervisory Board hold seats on supervisory boards or similar executive bodies of further companies:

**Mr. Christian Greiner**
**Supervisory Board chairman:** Rudolf Wöhrl SE, Nuremberg
DORMERO Hotel AG, Berlin
**Supervisory Board:** TETRIS Grundbesitz GmbH & Co. KG, Reichenschwand
**Advisory Board:** Bültel International Fashion Group, Salzbergen
Deutsche Bank AG, Advisory Board for Bavaria

**Mr. Dieter Münch**
**Advisory Board:** DIMA Finanzierungs- und Immobilientreuhand GmbH, Berlin

**Dr. Steffen Stremme**
**Supervisory Board:** BU-Holding AG, Nuremberg
**Shareholders' Board:** GfK e.V., Nuremberg
**Advisory Board:** Commerzbank AG, Nuremberg
menzerna polishing compounds GmbH & Co. KG, Ötigheim

**Mr. Hans Rudolf Wöhrl**
**Supervisory Board:** NÜRNBERGER Allgemeine Versicherungs-AG, Nuremberg
AURUM-Project AG, Reichenschwand
TETRIS Grundbesitz GmbH & Co. KG, Reichenschwand

**Mrs. Clarissa Käfer**
**Supervisory Board:** Käfer AG, Parsdorf
Münchner Bank eG, Munich
**Member of the Board of Trustees:** Bayrische Sportstiftung, Munich
**Advisory Board:** Stadtfeuerwehrverband München e.V., Munich

**Mrs. Edda Kraft**
**Supervisory Board:** Medienboard Berlin-Brandenburg, Potsdam
Constantin Medien AG, Ismaning
**Advisory Board:** *Sabine Christiansen Kinderstiftung*, Berlin

74.9% stake (2,767,004 shares) in LUDWIG BECK AG is indirectly attributable to Mr. Hans Rudolf Wöhrl.

The other members of the Supervisory Board held no shares as of December 31, 2017.

## V. SUPPLEMENTARY REPORT

There were no significant events to report after the balance sheet date December 31, 2017 that could affect the company's financial, assets and earnings situation.



## VI. AUDIT FEES

The fee of the auditor for the lapsed fiscal year 2017 amounted to € 211k (previous year: € 203k).

The fee for the audit of the consolidated financial statements, the annual financial statements of LUDWIG BECK am Rathauseck – Textilhaus Feldmeier AG, the annual financial statements of THEO WORMLAND GmbH & Co. KG, as well as audit reviews carried out for subsidiaries amounted to € 185k (previous year: € 190k). The amount incurred for tax consulting was € 17k (previous year: € 8k) and for other services € 9k (previous year: € 5k).

## VII. PERSONNEL

| | **2017** | **2016** |
|---|---|---|
| Full-time | 304 | 325 |
| Part-time | 443 | 447 |
| Temporary | 127 | 120 |
| | **874** | **892** |

Apprentices were not included in the calculation.

## VIII. INFORMATION ACCORDING TO SECTION 297 PAR. 2 COMMERCIAL CODE (HGB)

The Executive Board issued the statutory declaration required by section 297 par. 2 Commercial Code (HGB).

Munich, February 15, 2018

The Executive Board

# 4 ADDITIONAL INFORMATION


| | |
|---|---|
| CORPORATE AFFIDAVIT | 82 |
| AUDITORS' REPORT | 82 |
| FINANCIAL CALENDAR 2018 | 88 |
| IMPRINT & CONTACT | 88 |


## CORPORATE AFFIDAVIT

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

Munich, February 15, 2018

Dieter Münch Christian Greiner

## INDEPENDENT AUDITOR'S REPORT

To LUDWIG BECK am Rathauseck – Textilhaus Feldmeier Aktiengesellschaft

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE CONSOLIDATED MANAGEMENT REPORT

**Auditor's opinions**

We have audited the consolidated financial statements of LUDWIG BECK am Rathauseck – Textilhaus Feldmeier Aktiengesellschaft and its subsidiaries (the Group) – comprising the consolidated balance sheet as per December 31, 2017, the consolidated statement of comprehensive income, the consolidated equity statement and the consolidated cash flow statement for the fiscal year from January 1 to December 31, 2017, together with the consolidated notes, including a summary of significant accounting methods. We also audited the consolidated management report of LUDWIG BECK am Rathauseck – Textilhaus Feldmeier Aktiengesellschaft for the fiscal year from January 1 to December 31, 2017.

According to our assessment based on the findings of our audit

- the attached consolidated financial statements comply with the IFRS as adopted by the EU, as well as with section 315e par. 1 Commercial Code (HGB) applicable as a supplementary source of German law, in all major aspects, and, with due regard to these provisions, give a true and fair view of the assets and financial situation of the Group as per December 31, 2017 and the Group's earnings position for the fiscal year from January 1 to December 31, 2017, and

- the attached consolidated management report, as a whole, provides a suitable view of the Group's position. The consolidated management report is consistent with the consolidated financial statements in all major aspects, complies with the provisions of German law and accurately represents the opportunities and risks of future development.

In accordance with section 322 par. 3, sentence 1 Commercial Code (HGB) we declare that our audit has not revealed any grounds for objections against the regularity of the consolidated financial statements or the consolidated management report.

**Grounds for our audit opinions**

We conducted our audit of the consolidated financial statements and the consolidated management report pursuant to section 317 Commercial Code (HGB) and the EU Audit Regulations (No. 537/2014; hereinafter referred to as *EU APrVO*) and with due regard to the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility according to these provisions and principles is set out in more detail in the *Responsibility of the auditor for the audit of the consolidated financial statements and the consolidated management report* section of our auditor's report. We are independent of the Group companies within the meaning of European and German provisions of commercial and professional law and have complied with our other professional duties under German law and the foregoing requirements. Furthermore, we declare in accordance with article 10 par. 2 lit. f) EU APrVO that we didn't render any prohibited non-audit services according to article 5 par. 1 EU APrVO. We believe that the audit evidence obtained forms a sufficient and appropriate basis for our audit opinions on the consolidated financial statements and the consolidated management report.

**Particularly significant factual matters relevant for the audit of the consolidated financial statements**

Particularly significant factual matters relevant to the audit are factual matters that, at our reasonable discretion, have been the most important ones for the audit of the consolidated financial statements for the fiscal year from January 1 to December 31, 2017. These factual matters were taken into consideration in connection with our audit of the overall consolidated financial statements and the formation of our relevant audit opinion. We do not provide any separate opinion on these factual matters.

**Impairment test for the WORMLAND Group according to IAS 36**

*Grounds for consideration as particularly significant factual matter:* The companies of the WORMLAND Group, acquired in May 2015 and fully consolidated, have been in a persistent loss-making situation already at the date of their acquisition. Against this background, an adjustment of the book values of the individual cash-generating units (i.e. the individual branches of the WORMLAND Group) to their fair values was made within the scope of the purchase price allocation in 2015. Each year, in accordance with IAS 36.9, LUDWIG BECK reviews the realizable amounts of the assets reported in the consolidated financial statements for the WORMLAND Group. The budgetary accounting forming the basis for this review requires the legal representative of LUDWIG BECK to make discretionary decisions, estimations and assumptions in regard to the amounts realizable in the following years. Due to the high degree of predictive uncertainty the impairment test therefore represents a particularly significant audit factual matter.

*Audit approach:* We examined the corporate planning for the WORMLAND Group and the determination of realizable amounts relating to the individual cash-generating units (i.e. the WORMLAND branches) as set up by LUDWIG BECK, with regard to planning assumptions and arithmetic correctness. Furthermore, we examined the adherence to budgetary plans by comparing them with historical planning data.

Our audit activities did not give rise to any objections regarding the assessment of the realizable amounts and the resulting carrying amounts of the assets held by the WORMLAND branches.

*Reference to pertinent information:* As regards the conducted impairment test and the ensuing impairment loss, we refer to *Explanations to individual items of the consolidated balance sheet and the consolidated statement of comprehensive income – consolidated balance sheet – intangible assets and property, plant and equipment* in chapter C. I. (1) of the consolidated notes.

**Valuation of merchandise**

*Grounds for consideration as particularly significant factual matter:* Merchandise is reported at cost less deductions for old stock and goods of reduced salability (fashion risk). In our view, this valuation approach qualifies as particularly significant, audit-relevant factual matter, as the determination of the relevant deductions requires discretionary decisions, estimations and assumption in regard to the price reductions that will actually be granted on inventories in the following year, as well as of the selling costs that will be incurred until the sale of the goods.

*Audit approach:* Within the scope of our audit we assessed the structuring of the accounting-related internal control system in the merchandise management area and valued its efficiency by random checking. Building on that, we retraced the deductions made using risk-oriented, selected samples for retrograde valuation. Furthermore, we reviewed the deductions for plausibility on the basis of the price reductions granted in the time after the reporting date.

Our audit activities did not give rise to any objections regarding the reporting of merchandise.

*Reference to pertinent information:* As regards the accounting principles applied by LUDWIG BECK to the reporting of merchandise, we refer to *Accounting and valuation methods – inventories* in chapter B. IV. 6., and to *Explanations to individual items of the consolidated balance sheet and the consolidated statement of comprehensive income – consolidated balance sheet – inventories* in chapter C. I. (3) of the consolidated notes.

**Other information**

The legal representatives are responsible for the following other information we expect to be submitted to us after the date of our auditor's report:

- non-financial consolidated report according to sections 315b et seq. Commercial Code (HGB). According to section 315b par. 3 Commercial Code (HGB), LUDWIG BECK am Rathauseck – Textilhaus Feldmeier GmbH prepares a separate non-financial consolidated report outside the consolidated management report and publishes this report on its website

- Corporate Governance report according to no. 3.10 of the German Corporate Governance Code

- Declaration according to sections 264 par. 2, sentence 3 and 289 par. 1, sentence 5 Commercial Code (HGB) and

- The remaining parts of the annual report for the fiscal year 2017, with the exception of the audited consolidated financial statements, the consolidated management report and our pertinent auditor's report



The Supervisory Board is responsible for the following information we expect to be provided to us after the date of this auditor's report:

- Supervisory Board's report

Our audit opinions regarding the consolidated financial statements and the consolidated management report do not extend to other information. Accordingly, we neither give any audit opinion nor draw any other audit conclusion with regard thereto.

In the context of our audit, it is our responsibility to read the other information and to assess whether the other information

- contains significant inconsistencies regarding the consolidated financial statements, the consolidated management report or our audit findings or

- was otherwise gravely misrepresented.

**Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the consolidated management report**

The legal representatives are responsible for the preparation of the consolidated financial statements in compliance with the IFRS as adopted by the EU, as well as with section 315e par. 1 Commercial Code (HGB) applicable as a supplementary source of German law, in all major aspects, and for ensuring that, with due regard to these provisions, they convey an accurate and fair picture of the Group's assets, financial and earnings situation. Furthermore, the legal representatives are answerable for the internal controls they consider essential in order to facilitate the preparation of the consolidated financial statements free of significant – intentional or inadvertent – misrepresentations.

With regard to compiling the consolidated financial statements, the legal representatives are also obligated to assess the Group's ability to continue as a going concern. The legal representatives are also requested to present factual matters that are relevant to the continuation as a going concern. Furthermore, it is their responsibility to base their accounting on the accounting principle of going concern unless they intend to liquidate the Group or discontinue operations or have no viable alternative to this.

The legal representatives are also responsible for ensuring that the consolidated management report prepared by them basically conveys an accurate picture of the Group's situation, is consistent with the consolidated financial statements in all major aspects, complies with the provisions of German law and correctly represents the opportunities and risks of future development. Furthermore, the legal representatives are answerable for all precautions and measures (systems) they consider essential in order to facilitate the preparation of the consolidated management report in compliance with the applicable provisions of German law and to provide sufficient and appropriate evidence for the statements contained in the consolidated management report.

The Supervisory Board is responsible for monitoring the Group's financial reporting process as applied to the preparation of the consolidated financial statements and the consolidated management report.

**Responsibility of the auditor for the audit of the consolidated financial statements and the consolidated management report**

It is our objective to attain a sufficient level of assurance as to whether the consolidated financial statements as a whole are free of – intentional or inadvertent – misrepresentations and the consolidated management report basically gives an accurate view of the Group's situation, is consistent with the consolidated financial statements and the audit findings in all major aspects, complies with the provisions of German law and correctly represents the opportunities and risks of future development, and to provide an auditor's report that reflects our audit opinions concerning the consolidated financial statements and the consolidated management report.

Sufficient assurance means a high level of assurance, yet no guarantee that an audit carried out in accordance with section 317 Commercial Code (HGB) and EU APrVO, with due regard to the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW), will always detect significant misrepresentations. Misrepresentations may result from infringements or inaccuracies. They are considered significant if they can be reasonably expected to influence the economic decisions, individually or generally, taken by the recipients on the basis of these consolidated financial statements and this consolidated management report.

With regard to our audit we exercise due discretion and maintain a critical stance. Furthermore, we

- identify and assess the risks of significant – intentional or inadvertent – misrepresentations in the consolidated financial statements and the consolidated management report, plan and carry out audit procedures in response to such risks and obtain audit evidence that is sufficient and appropriate to form the basis for our audit opinions. The risks of significant misrepresentations remaining undetected is higher in case of infringements than they are in case of inaccuracies, as infringements may include fraudulent collaboration, forgeries, inadvertent incompleteness, misleading representations or circumvention of internal controls.

- gain an understanding of the internal control systems relevant to the audit of the consolidated financial statements and the precautions and measures relevant to the audit of the consolidated management report in order to be able to plan audit actions that are appropriate under the given circumstances while at the same time refraining from giving an audit opinion on the efficiency of these systems.

- evaluate the appropriateness of the accounting processes applied by the legal representatives, as well as the tenability of the estimated values and pertinent information provided by the legal representatives.

- draw conclusions on the adequateness of the accounting principle of going concern as applied by the legal representatives, as well as on the question as to whether, based on the audit evidence obtained, there is any significant uncertainty in connection with events or circumstances that gives rise to reasonable doubt about the Group's ability to continue as a going concern. If we arrive at the conclusion that there is a significant uncertainty, we are obligated to draw attention to the pertinent information contained in the consolidated financial statements and the consolidated management report in our auditor's report, or if this information is inappropriate, to qualify our audit opinion. We draw our conclusions based on the audit evidence obtained until the date of our auditor's report. Future events or circumstances may, however, lead to a situation where the Group is no longer able to continue as a going concern.

- assess the overall representation, layout and contents of the consolidated financial statements including pertinent information, and evaluate whether the consolidated financial statements reflect the transactions and events they are based on in a way that the consolidated financial statements convey a fair and accurate picture of the Group's assets, financial and earnings situation, in compliance with the IFRS as adopted by the EU, as well as with section 315e par. 1 Commercial Code (HGB) applicable as a supplementary source of German law.

- obtain sufficient and appropriate audit evidence for the companies' accounting details and inter-Group transactions in order to give audit opinions on the consolidated financial statements and the consolidated management report. We are responsible for the instruction, monitoring and performance of the audit of the consolidated financial statements. We have sole responsibility for our audit opinions.

- evaluate the consolidated management report's consistency with the consolidated financial statements, its legality and the picture of the Group's situation it conveys.

- perform audit activities with regard to the future-oriented information given by the legal representatives in the consolidated management report. On the basis of sufficient and appropriate audit evidence, we particularly retrace the significant assumptions the legal representatives based their future-oriented information on, and evaluate the proper derivation of the future-oriented information from these basic assumptions. We do not give any separate audit opinion on this future-oriented information or these basic assumptions. There is a considerable risk that future events may differ materially from this future-oriented information.

Among other, we discuss with the persons responsible for monitoring the planned scope of and the time planning for the audit as well as significant audit findings, including possible shortcomings of the internal control system, which we detect in the course of our audit.

We declare vis-à-vis the persons responsible for monitoring that we have complied with the relevant requirements of independence, and explain to them all relations and other circumstances that can reasonably be expected to have an effect on our independence, as well as the safeguards applied with regard thereto.

From all factual matters discussed with the persons responsible for monitoring we select those factual matters that were most significant for the audit of the consolidated financial statements for the current reporting period and therefore qualify as particularly significant factual matters. We relate these factual matters in our auditor's report unless statutory or other legal provisions preclude publication of the relevant data.

## ADDITIONAL STATUTORY AND LEGAL REQUIREMENTS

**Other information according to article 10 EU APrVO**
We were appointed as auditors for the consolidated financial statements by the Annual General Meeting held on May 23, 2017. We were engaged by the Supervisory Board on September 13, 2017. We have acted as auditors for the consolidated financial statements of LUDWIG BECK am Rathauseck – Textilhaus Feldmeier Aktiengesellschaft since the fiscal year 2009 without interruptions.

We declare that the audit opinions contained in our auditor's report are consistent with the supplementary report to the audit committee pursuant to article 11 EU APrVO (auditor's report).

## RESPONSIBLE AUDITOR

The responsible auditor for this audit is Mrs. Claudia Weinhold.

Munich, March 2, 2018

BTU TREUHAND GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Hagen Müller | Claudia Weinhold |
| Public Auditor | Public Auditor |

# FINANCIAL CALENDAR 2018

| | |
|---|---|
| Sales Figures 2017 | **January 8, 2018** |
| Balance Sheet Press Conference for the Annual Report 2017 (Munich) | **March 20, 2018** |
| Publication of the Annual Report 2017 | **March 20, 2018** |
| Analyst Conference for the Annual Report 2017 (Frankfurt) | **March 21, 2018** |
| Interim Notification for the 1st Quarter 2018 | **April 25, 2018** |
| Annual General Meeting 2018 (Munich) | **May 15, 2018** |
| Interim Report for the 2nd Quarter and the 1st Six Months 2018 | **July 25, 2018** |
| Interim Notification for the 3rd Quarter and the 1st Nine Months 2018 | **October 24, 2018** |

## IMPRINT & CONTACT

**Editor:** LUDWIG BECK am Rathauseck – Textilhaus Feldmeier AG | Marienplatz 11 | 80331 Munich
Tel. +49. 89. 23691-0 | Fax +49. 89. 23691-600 | info@ludwigbeck.de | **kaufhaus.ludwigbeck.de/english/**

**Concept, editing, text and design:** esVedra consulting, Munich

More information about LUDWIG BECK is available at **kaufhaus.ludwigbeck.de/english/**.
Sign up there for our financial newsletter and receive all information promptly and comprehensively!