Group management report

1. Fundamental information about the Group

- Reliable partner for suppliers of on-the-go consumption
- Retail Enablement: support through tailor-made and innovative retail solutions
- Focus on the needs of consumers and customers

1.1 Business model of the Group

Lekkerland is an expert for on-the-go consumption in the European marketplace with a broadly based service portfolio, which ranges from wholesale, through logistics solutions, to shop concepts for its retail partners. The goal of the company is to be “Your most convenient partner” for its customers. The company’s track record of experience spanning more than 60 years and encompassing continuous development of its services means that Lekkerland plays a pioneering role in on-the-go consumption.*

The burgeoning mobility and flexibility of people drives a steady increase in the need and therefore the demand for products to be consumed on-the-go. The expectations of consumers for offerings in the area of on-the-go consumption are correspondingly diverse. The trend is particularly moving towards fresh, high-quality goods such as filled rolls, coffee specialities, sweet snacks and fresh smoothies – either for direct consumption or for enjoying later on. But tobacco goods and electronic value credits (for example telephone, voucher and gift cards) are also in demand on-the-go.

On-the-go consumption is a particularly dynamic area, which appeals through many different sales channels to highly varied target groups across different age categories and extending beyond socioeconomic bands. Today, convenience is no longer a channel but a lifestyle. The expansion of multimodal mobility – in other words the combination of different forms of transport, such as car and train – means that traffic hubs are gaining enhanced importance. They offer providers of on-the-go consumption new business opportunities at stations, airports and filling stations.

Partner for all sales channels

As a partner for all retail formats offering convenient consumption to people on the move, Lekkerland develops tailor-made solutions. Lekkerland supports its customers with a large number of advisory packages and services to assist them in their daily business. Lekkerland understands that as Retail Enablement. As one of the leading wholesalers, Lekkerland meets all the product and service needs of its retail partners and guarantees comprehensive, uniform quality standards. Lekkerland forms the interface between the manufacturers on the one hand, and the retailers with on-the-go products in their range on the other hand.

Lekkerland’s customer base comprises filling station shops of international and regional oil majors, food and beverage retailers, providers of system gastronomy, department stores, coffee shop operators, kiosks, canteens, bakeries, and many other providers of convenient enjoyment of on-the-go consumption.

Lekkerland divides its customers into the following groups: filling stations, system customers and regional customers. Differentiation within these groups permits optimum analysis of specific needs and enables us to offer each individual customer a carefully tailored range of products and services. Lekkerland has expert know-how in so-called fine and wide distribution, and this is virtually unrivalled by any other wholesaler. It specialises in the particular requirements of retailers operating in small outlets. In the business year 2017, the Group supplied approximately 90,900 delivery points in six European countries with some 610 trucks and vans.

Customer-specific complete solutions

Lekkerland offers its partners and customers a broadly-based portfolio of services ranging from sales and logistics modules to tailor-made complete solutions for shops which extend well beyond the specifics of the actual product. For example, professional category management at Lekkerland supports shop operators in the process of selecting and presenting their products and product ranges so as to generate optimised sales. This includes standardised concepts, solutions and product ranges, always adapted to the needs of the customer and developed in close cooperation with industry and suppliers. This business model makes Lekkerland a flexible and sales-enhancing retail partner across national borders.

Needs-based product ranges

The Lekkerland product range is divided into the product groups tobacco goods, food / non-food and commissions on electronic value (e-va) / miscellaneous. The range includes cigarettes and other tobacco goods, drinks, sweets, chilled and deep frozen fresh products and electronic value products. The product ranges are regularly adapted to consumer wishes and updated with new products and categories.

Lekkerland offers its customers a comprehensive range of own brands to complement the sale of branded products from international and regional industry partners. A specialised business unit within the Lekkerland Group coordinates the range of own brands and supports the national companies throughout the entire process from market analysis through product development and launch to marketing.
Value chain

The objective of Lekkerland is to be “Your most convenient partner” for its customers. In each case, the offering focuses on individual product range, service and marketing concepts for the different types of customer. The declared goal for Lekkerland is to be consistently in a position to deliver a sophisticated overall package of tailored services from the customer’s perspective. As part of the value chain, Lekkerland defines standards with its major customers in the product ranges, logistics and service. At the same time, Lekkerland offers its numerous independent local and national customers a high level of flexibility in cooperation.

Wholesale

Partnership in wholesale means more than the provision of goods. As a success-oriented wholesaler, Lekkerland supports its customers in putting together an optimum product configuration for their particular sales channel. Product innovations are an important sales driver in the on-the-go sector. Identifying trends and responding to them at an early stage therefore creates the key competitive advantage. In order to achieve this, Lekkerland is in continuous dialogue with industry. The company works together with its industrial partners to develop new products for on-the-go consumption, including new articles, pack sizes and types of offering. Strategic cooperations with suppliers, manufacturers and other partners will continue to be a focus of activities in the future.

The purchasing department at Lekkerland tracks trends throughout Europe, continually reviews the product ranges, compares sales figures, and swaps products with low demand for new products. This ensures that Lekkerland customers receive the products their customers want at an early stage. In this way, they are empowered to generate their own competitive advantages.

In this process, the sales and purchasing departments must meet the current and future requirements of the markets. The key function of the purchasing department is to create optimum framework conditions for putting together product ranges with competitive conditions and prices. Competitive conditions form the basis for successful implementation of strategic initiatives and measures. Lekkerland is therefore continuously reviewing its own competitiveness and evaluating shelf prices in the retail business regularly and systematically.

Category management at Lekkerland cooperates closely with the purchasing and sales departments in order to optimise the presentation of the products. This includes the definition of top-seller campaigns and the ongoing development of sales promotion campaigns and tools.

Tobacco goods continue to be important for achieving strong customer frequency in retail. As a specialist wholesaler, Lekkerland markets around 3,500 different tobacco products including various articles in the category New Generation Products (NGP), such as electronic cigarettes (e-cigarettes). Alongside the familiar brands, products include lower-priced brands and tobacco goods from the in-house BUFFALO brand, which are more affordable.

This gives retailers an attractive alternative to the trade names and the product ranges from discounters.

Drinks, hot and cold snacks, confectionery and savouries are the typical products for on-the-go consumption. They therefore define the product ranges that consumers want in filling station shops, convenience shops or kiosks. Alongside these classic ranges of products for on-the-go consumption, Lekkerland is also a reliable supplier of fresh and ultrafresh food offerings like salads and spreads for the bistro segment, and typical regional products, because consumers expect freshness, taste and diversity.

Furthermore, Lekkerland is a full-service provider in prepaid business. Lekkerland developed the prepaid product range e-va in this area. For many years now, this has been offering shop operators in many European countries the most comprehensive prepaid range on the market. It comprises SIM cards, top-up credits, gift and voucher cards, and payment cards. Lekkerland supplies sales outlets with easily operated sales and activation terminals combined with the latest range of prepaid products, and technical accessories for mobile devices.

Logistics

The group-wide logistics services range from parcel shipments, through same-day express deliveries to complex multi-temperature solutions. The area of procurement logistics has also been continuously developed over many years. Lekkerland has been selectively driving forward strategic cooperations with industrial partners and is working consistently on creating optimum solutions for all parties.

In the context of the increased demand for goods in different temperature zones, Lekkerland has massively expanded its programme of multi-temperature logistics over recent years, and it is equipped with nationwide coverage for multi-temperature logistics in all six countries.

The logistics chain allows quick service restaurants, as well as filling station shops with food service ranges to receive all the goods they have ordered in a single delivery. This is irrespective of whether they have ordered ambient, chilled or deep-frozen products. The practical one-stop delivery reduces the number of kilometres travelled and cuts down administrative costs for the shop operators.

Lekkerland works continuously to improve its logistics processes and offer its customers even more flexible and more individual distribution solutions.

The Lekkerland logistics centres are regionally established in all the national subsidiaries. This provides an excellent way of ensuring short delivery routes, tailor-made product ranges and outstanding delivery quality. The logistics centres operate with the advanced warehouse control and advanced picking systems.

The uniform telematics system used throughout Europe facilitates greater alignment on customers’ wishes with paperless processing and more transparency. The system provides support in process
documentation, document handling and for monitoring the cooling chain. Routes can be worked out with the assistance of IT route planning and telematics so that they are maximally time efficient and reduce fuel consumption.

Retail Enablement
As a full service-specialist in the on-the-go consumption, Lekkerland supports its customers with a large number of sales-promoting services and packages. The wide range of services includes appropriately configured order sets tailored to the needs of the individual customer group, specific product range lists, extensive news on innovations, price bargains and advertising materials, as well as tailor-made shop plans or optimisations to meet the individual needs of each customer.

The choice of individual shop concepts which Lekkerland offers its customers ranges from small self-service modules for independent customers to development of exclusive bistro solutions including a comfortable environment through to complete shops. A sector association and a trade magazine bestowed an award on Lekkerland for the “Frischwerk” concept developed by Lekkerland for the filling station channel.

The product and service packages are always tailored to the needs and circumstances of the customer and to the taste and needs of the individual region and target consumers. This is why the food service solutions from Lekkerland are in demand with operators of kiosks, filling stations and convenience shops. Lekkerland supplies tailor-made shop solutions for simple and fast preparation of bread rolls, snacks, salads and finger food. The company has also developed coffee concepts together with partners, and successfully positioned them in the marketplace.

Lekkerland supports its customers with professional category management so that they can tailor their product ranges to consumers. Lekkerland product group structuring covers optimisation of shops, product ranges and shelves, as well as the design of sales promotion tools.

This enables Lekkerland to help its customers achieve higher sales, for example through an improved structure for their product range, their shelf stocking and activities at the point of sale (PoS). The briefs to manage shelf, second-placement and promotional areas also facilitate attractive marketing opportunities for retail and industry in close consultation with all the sales channels involved. Category management also supports the development of new formats and modules for Lekkerland customers so that they can serve their needs in the on-the-go sector even more effectively. The strategic approach and professional approach to category management are key factors for success in this process.

The store check goes one step further and encompasses a complete analysis of the shops – from the product range placement in the aisles right through to an appraisal of the shop atmosphere. The shop ambience is also included in the analysis. Lekkerland builds on this platform to create an individual concept and also carries out the necessary restructuring, if desired – partly with the assistance of shop outfitters.

1.2 Targets and strategies
Lekkerland laid the foundation for successful development in subsequent years with the “Convenience 2020” strategy. However, since then the needs of consumers have undergone very dynamic development along with the offering in this sector. Today, convenience is no longer a segment or channel but a form of lifestyle and therefore a fixed element in the everyday routine of a large number of consumers. Against this background, the Board of Management of Lekkerland AG & Co. KG further developed the strategy in 2017.

The needs of the consumers and customers of Lekkerland are the focus of the modified strategy. The “Customer Experience” is the key success factor in the competition. Lekkerland has therefore defined its target of becoming “Your most convenient partner” for its customers. Customers need to experience cooperation with Lekkerland as easier and more convenient than with any other company. Each individual customer experience should be perfect.

On this platform, Lekkerland is expanding its strategy by two additional strategic thrusts: the focus on “Retail Enablement” and the marketing segment “Organised Food Service”. The topic of digitalisation is also being strategically pursued in all national companies.

Retail Enablement: Increasing the business success of customers
In order to be successful over the long term, Lekkerland’s customers need to offer consumers a perfect customer experience. This means that quality, ambience, product range and the processes of the individual sales outlet need to optimally meet the demands of consumers – and they should be competitive by comparison with other convenience providers such as food retailers and bakeries.

This succeeds with the concepts, services and solutions of Lekkerland, which are arranged holistically or in modular form to suit individual requirements. Lekkerland describes this strategic approach as “Retail Enablement”.

A key success factor in Retail Enablement is provided by food service solutions. The objective of Lekkerland is to be the leading provider of convenience food service solutions. Lekkerland created the prerequisites for this in the course of “Convenience 2020” – with the development of tailor-made solutions and by building up extensive competence in this area.

Custom-fit and advanced logistics solutions also play an important role in enhancing the customer’s business success. The offering of Lekkerland ranges from package dispatch, same-day express delivery to holistic supply chain management solutions – and this is consistently being developed further.
Organised Food Service: Acquiring new customers
The organised food service segment also benefits from the trend of growing on-the-go consumption away from home. For Lekkerland, this relates to gastronomy and food service chains with standardised concepts and offerings, for example burger and coffee shop chains as well as “casual dining” concepts.

The aim of Lekkerland is to continue expanding its market positions in this area. The company will benefit in this endeavour from the experiences and successes of the Spanish national company, which today already achieves the lion’s share of its sales with this group of customers.

Digitalisation: Making use of opportunities
Digitalisation plays a central role for Lekkerland on the route to the goal of becoming “Your most convenient partner” for its customers. Lekkerland sees digitalisation as the enabler because digital tools and solutions make the customer’s everyday routine easier and can increase their success. Customers should experience the offerings of Lekkerland in the area of digitalisation as fast and innovative as well as simple and convenient to use.

At the same time, digitalisation places Lekkerland in the position of being able to cooperate even more efficiently for the success of its customers and develop new growth fields.

1.3 Corporate controlling and value management
Lekkerland divides its business into regional segments, and the national companies are allocated to the Germany and Rest of Western Europe segments. The Board of Management administers and develops the segments as a uniform group within the framework of the Group portfolio. The overarching objective is to achieve a sustainable increase in the value of the Lekkerland Group through continuous improvement in profitability.

In 2012, the strategic decision was taken to withdraw from the countries of Poland, Romania and the Czech Republic. In the business year 2017, the final liquidation of the Polish national company was brought to an end in line with expectations so that the Eastern Europe segment could be finally wound up.

As the “Convenience 2020” strategy was rolled out, particular focus was placed on defining the following success indicators for managing the operating business: revenues, gross profit, EBIT (result from operations before financial result) and EBITDA (result from operations before financial result plus depreciation and amortisation).

<table>
<thead>
<tr>
<th>Financial Performance Indicators</th>
<th>2017</th>
<th>2016</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>12,784.3</td>
<td>13,002.6</td>
<td>-1.7</td>
</tr>
<tr>
<td>Gross profit</td>
<td>632.6</td>
<td>620.5</td>
<td>2.0</td>
</tr>
<tr>
<td>EBITDA</td>
<td>142.3</td>
<td>124.0</td>
<td>14.8</td>
</tr>
<tr>
<td>EBIT</td>
<td>104.3</td>
<td>85.4</td>
<td>22.1</td>
</tr>
</tbody>
</table>

1.4 Research, development and innovation
As a wholesale, logistics and service company, the Lekkerland Group does not carry out any research and development activities in the conventional sense. However, Lekkerland continuously analyses the various sales channels of its products and services, and identifies the emerging trends in retail at an early stage. This is carried out by internal specialists and partly in cooperation with universities and external institutes. The Lekkerland Group is often a generator of ideas and indeed a trendsetter in many other areas of its sector. For example, Lekkerland played a key role in transforming filling station shops into independent convenience stores. A wide range of shop formats and modules are based on developments by Lekkerland. Lekkerland is also a trendsetter and innovator in the area of electronic prepaid credit with its e-va product portfolio.

2. Report on the economic situation
- Global economy with high dynamic growth
- Unexpectedly strong economic recovery in the eurozone
- Upturn continues in the German economy

2.1 Macroeconomic and sector-specific situation
Macroeconomic framework conditions
Since the end of 2016, the global economy has been posting significant growth. Global investments and global trade underwent a tangible rise, and an increasing number of national economies are buoyant. This unexpectedly strong dynamic upturn is likely to be due in particular to the fact that important risks that had been previously anticipated by market players in their expectations, were dissipated over the course of 2017. For example, China succeeded in preventing a significant slump in 2017 and the Brexit vote in the United Kingdom has so far only resulted in a slowdown in growth. The latest pre-European election results in many member states of the European Union (EU) have strengthened the cohesion of the EU and led to improved sentiment of companies and households. Furthermore, the expansive monetary policy is driving global growth forward. Overall, the assessment of macro-economic development published by the Council of Experts (Sachverständigenrat) in its annual report for 2017 is assuming acceleration of global growth from 2.6% in the previous year to 3.2% in the current business year.

In 2017, the economy in the eurozone experienced a powerful upswing that has now extended to all member states. This upswing was accompanied by an extraordinarily good mood among consumers and companies as well as increased utilisation of production capacities, particularly in the second half of 2017. Growth is also being supported by structural adjustments in the southern European member states, reduced political risks and the very positive development of the global economy. Alongside the ongoing expansive monetary policy, the general good appetite for investment is providing a powerful accelerator for the upturn and exports are continuing to rise. Growth in gross domestic product (GDP) of 2.2% continues to be forecast for the eurozone in 2017 compared with a growth rate of 1.7% in 2016.
The situation in the employment market has further improved overall and the unemployment rate in the eurozone fell to 8.7% by comparison with 9.7% in the previous year. This is the lowest rate to be posted in the eurozone since January 2009. In spite of a continuing rise in employment, there are major differences between the individual member states and the unemployment rate remains relatively high in many European countries.

Annual inflation in the eurozone rose once again in the course of 2017. In 2017, inflation was 1.4% compared with 1.1% in the previous year. The development of energy prices was a particular contributor to this increase. They reached a low at the beginning of 2016 but went back up to a higher level again in 2017. Furthermore, the cost of food and luxuries underwent a stronger increase on average than the overall cost of living.

The following table shows the development of GDP adjusted for prices in the European countries in which the consolidated companies of the Lekkerland Group were operating during the period under review.

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP* Percentage Change Relative to Previous Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>2.2%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3.2%</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.7%</td>
</tr>
<tr>
<td>Austria</td>
<td>2.6%</td>
</tr>
<tr>
<td>Spain</td>
<td>3.1%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

* Percentage change relative to the previous year
Source: EU Commission/SECO

The European Commission is forecasting a GDP of 2.2% in Germany for the year 2017, which is 0.3 percentage points above the year-earlier value of 1.9%. The German economy is continuing to experience an upturn. Production capacities are being utilised in the wake of the economic development. In spite of the very good position in the employment market, wages are only undergoing relatively moderate growth so that pressure on costs in companies and prices for goods and services are only increasing slightly on average. The inflation rate at 1.7% is significantly above the level of previous years (0.4% in 2016 and 0.1% in 2015). This disproportionate increase is almost exclusively due to the fact that energy prices are not continuing to fall and there are therefore no savings on this side. The unemployment rate fell from 4.1% in the previous year to 3.7%. The hesitant increase in wages is explained by the fact that so far collective-bargaining agreements have only yielded moderate results and there has been inward migration of qualified specialist workers from other European countries.

The Netherlands is the country in the Rest of Western Europe segment with the strongest sales from Lekkerland’s perspective, and here the economic growth is continuing. Growth of projected 3.2% in GDP has been forecast for 2017, while this was 2.1% in the previous year. The economy has therefore developed more dynamically than on average in the EU and has now posted growth above three percent for the first time in ten years. The economic upswing is being powered by private consumption, exports and investments in plant and construction. Economic growth has also exerted a positive effect on the unemployment rate, which was 4.8% in 2017 after 6.0% in the previous year.

The Belgian economy is currently in a phase of moderate growth. In 2017, Belgium achieved economic growth of 1.7% and is therefore above the growth achieved in the previous year (1.2%). Belgium is extremely well integrated in the global economy with a high level of foreign trade and export ratio. It is therefore very dependent on global economic developments, particularly those in Europe. The relatively high level of unemployment fell back slightly to 7.3% in 2017 compared with 8.0% in 2016.

Austrian companies assess their current situation and development in the coming months as extremely positive. After a long series of weak years, the dynamic investment has been successfully reinvigorated and exports were already going through a strong upswing in 2016 which continued throughout 2017. More robust growth is being driven by lively domestic demand supported by the favourable employment situation and an associated rise in the income of private households. Economic growth of 2.6% is projected for 2017 and is therefore significantly above the previous year (1.5%). The unemployment rate at 5.6% also developed positively by comparison with 6.0% in 2016.

Thanks to its continuing high level of innovative strength and its flexible employment market, Switzerland continues to be one of the richest countries in the world. On account of weak economic growth in the first half of the year, the Swiss Confederation anticipates an overall moderate GDP growth of 1.0% for 2017. The Swiss economy grew strongly in the third quarter and the upswing went on to become significantly more broadly based. While at the beginning of the year, economic growth was driven exclusively by the industrial sector, most service sectors have meanwhile also started to post growth again. The group of experts continues to assume for the quarters lying ahead that the dynamic global economy will support the export sector and the domestic economy will also gain momentum. The unemployment rate at 3.2% for 2017 is virtually at the level for the previous year.

Spain continues to remain on a growth trajectory. The Spanish economy experienced stronger growth than the European average for the third year in succession. In 2016, the economy expanded by 3.2%, while economic growth of 3.1% is forecast for 2017. The key growth driver is domestic demand. The improved situation in the employment market is driving household consumption and the domestic construction industry. The export sector is also contributing to the ongoing growth dynamic. Spain is also benefiting from the loose monetary policy of the European Central Bank.
The unemployment rate came down to 17.4% in 2017 compared with 19.6% in 2016.

The following conclusions can be drawn overall. The macro-economic framework conditions in all the countries where Lekkerland is operating stabilised compared to the previous year, and in most countries they even improved. However, the individual macro-economic conditions cannot be directly mapped onto the product and service ranges of Lekkerland since the trade in products for on-the-go consumption partly follows its own rules. For example, the typical mobile consumer who eats on-the-go is significantly motivated by spontaneous impulse.

**Sector-specific framework conditions**

The average retail volume for 2017 increased by 2.6% compared with 2016 in the eurozone and in the 28 member states of the EU (EU 28). This increase in the eurozone is due to increases in the non-food sector of 2.7% and in food, beverages and tobacco goods by 1.3%, while sales of engine fuels fell back by 0.8%.

Cigarette sales in Germany came down by 1.8% compared with the previous year. Sector experts perceive various reasons for the decline in consumption. An important influencing factor appears to be the introduction of shock images and messages on the tobacco packaging. In particular, smoking has now also become far less popular among young people than used to be the case. The proportion of young smokers has declined significantly over recent years. Furthermore, sector experts have increasingly observed a connection between the weather and the consumption of tobacco. Tobacco appears to have become a seasonal product. The experts attribute this observation to a number of factors and in particular the smoking bans in Germany. Smokers who are no longer permitted to smoke in enclosed rooms, for example a pub, will significantly restrict their consumption if the weather is poor and not then smoke more subsequently to make up for it.

In 2017, the tobacco market continued to be subject to the implementation of new legal regulations under the EU Tobacco Product Directive (TPD II). Apart from the expiry of the time limit for the sale of products not in conformity with TPD II in May 2017, the first cyclical change of 15 shock images on cigarettes and fine-cut packs was introduced.

Over the long term, the German Tobacco Association assumes that the market overall will be slightly regressive while at the same time, innovative tobacco products and product innovations such as e-cigarettes will become established.

The entire food / non-food market particularly in Germany is characterised by extremely tough competition. Primarily discounter with long shop opening hours are increasingly being used by price-sensitive consumers as alternatives for the various sales channels of on-the-go consumption. In addition, online retailers – including mail-order companies and small start-ups – are also attempting to gain access to the market. Food and everyday items are increasingly being purchased online. A study carried out by audit consulting company Ernst & Young in spring 2017 demonstrated that already 65.0% of Germany’s citizens are making purchases online and 16.0% also buy food online. The study assumes that the proportion of food ordered online will increase in future.

The trends of recent years in the prepaid sector were also confirmed in 2017. The Prepaid Mobile product range continues to be defined by price reductions on account of the high level of competitive pressure and attractive subsidies on mobile phones in the postpaid areas. Sales development therefore continues to be in decline. Development of the identification obligation when purchasing prepaid SIM cards introduced on 1 July 2017 cannot yet be estimated (for further information on this, see the section on regulatory framework conditions – obligation to prove identity when purchasing prepaid cards). On the other hand, the payment voucher range has shown strong growth and continues to develop positively. Products for anonymous payment on the Internet in an easily usable voucher format continue to enjoy great popularity. The paysafecard product is the leader, followed by vouchers for the Sony Playstation, iTunes and Google Play Store.

Physical vouchers from the gift and payment areas continue to experience strong demand. Particularly during the Christmas period, these products are important for increasing footfall at filling stations and kiosks. It is important to emphasise that food retail and most importantly leading discounters have meanwhile recognised the importance and potential of prepaid products as part of their product mix. Prominent voucher placements in the market with the maximum number of facings will increase the pressure on filling stations and kiosks in this product range during the course of 2018.

**Regulatory framework conditions**

Lekkerland is influenced by a number of different regulations as a result of the different product ranges and groups of customers. The framework conditions governing the sale and consumption of luxury items like tobacco goods and alcoholic drinks have been characterised by a sustained tightening of restrictions for some years. The latest developments and initiatives listed below have potential effects on the Lekkerland Group.

**EU Tobacco Products Directive**

The EU Tobacco Products Directive regulates the marketing and sale of tobacco products in the EU. The directive came into force on 19 May 2014 and had to be implemented in national law by the member states by 20 May 2016.

The regulations under the TPD II contains provisions for the introduction of warning notices which are a combination of pictures (“shock images”) and text. Regulations governing e-cigarettes have been introduced for the first time. More stringent safety and quality requirements came into force on 20 May 2017, along with packaging and identification conditions for e-cigarettes containing nicotine and replenishment containers. This directive also provides for a ban on cigarettes and fine-cut tobacco with a characteristic aroma. Menthol cigarettes may only be sold up until 19 May 2020.
In addition, TPD II requires the introduction of a Track & Trace system throughout the EU. The system serves to monitor and track the entire supply chain for tobacco products. Implementation of Track & Trace affects all the participants in the supply chain, from manufacturer, through wholesale to retail. The implementation period for cigarettes and fine-cut packs ends on 20 May 2019 and for all other tobacco products on 20 May 2024. The primary objective is to constrain organised cigarette smuggling and counterfeits of tobacco products. On 15 December 2017, the European Commission formally adopted the Delegated Act and the Implementation Acts for the introduction of Track & Trace.

**Disposable / Multius**

On 12 May 2017, the new Recyclable Materials Act (VerpackG) was adopted by the German Federal Council and it comes into force on 1 January 2019. From this date, the law will replace the Packaging Directive in Germany. This act is intended to ensure that recycling and avoidance of packaging waste is more effectively established in the future. The dual systems financed by trade and industry will have to achieve significantly higher recycling quotas in future. For example, the recycling quota for plastic packaging will be increased from the current level of 36.0% to 63.0% by the year 2022. A recycling rate of as much as 90.0% has been specified for metals, glass and paper.

Furthermore, multiuse packaging is being particularly promoted. The target quota is 70.0% for drinks packaging. The legislation requires retailers to provide easily identifiable shelf identification so that shoppers can better distinguish between disposable and multiuse bottles. In addition, the mandatory deposit will be extended to fruit and vegetable nectars containing carbon dioxide in disposable packs. The proportion of drinks filled into multiuse packs will be determined and published on an annual basis so as to review the effectiveness of multiuse promotion. This effectiveness check will be carried out by the Federal Ministry of the Environment, Nature Conservation and Nuclear Safety.

**Truck toll**

On 1 July 2018, the truck toll in Germany was extended to trucks from 7.5 tons on all federal roads. The basis for the expansion is the fourth Act on Amendment of the Federal Road Toll Act (BFStrMG), which came into force on 31 March 2017. This increases the federal road network subject to tolls to 40,000 kilometres. Currently around 13,000 kilometres of motorways and 2,300 kilometres of federal roads are subject to a toll. The amount of the toll is measured on the basis of the distance travelled, the number of axles on the vehicle or the vehicle combination and the emission class of the vehicle.

**Fourth EU Anti-Money Laundering Directive**

The fourth EU Anti-Money Laundering Directive (4th AMLD) was implemented in German law on 23 June 2017 by the Implementation Act for the 4th AMLD, the EU Money Transfer Directive and for reorganisation of the Central Office for Finance Transaction Investigations. The existing Money Laundering Act was amended and additional laws were revised in the course of implementation.

While the 4th AMLD has just been transferred to national law, the EU has already resolved to make changes to this directive. The formal confirmation of the changes looks likely to be approved by the EU Parliament and the EU Council in the short term and the period for implementation into national law is likely to be 18 months. The background to the renewed change is the fact that the threat of terrorism has continued to increase recently and the nature of the threat has changed. The implementation of the amendments to the 4th AMLD will lead to significantly more stringent requirements. These will include definition of stricter prerequisites under which e-money (electronic money) products may be issued anonymously. At the same time, the modified directive gives concrete form to the provision whereby payment cards that can only be used for a very limited selection of goods and services do not come under the definition of e-money pursuant to the previous Anti-Money Laundering Directive.

**Second EU Payment Services Directive**

The EU Payment Services Directive (PSD II) was implemented in German law with the Implementation Act on the Second Payment Services Directive on 17 July 2017. The act came into force in accordance with the provisions of the PSD II on 13 January 2018. The objective of this act is to harmonise the current legal framework for payment services with technological progress, to improve the security of payments (for example on the Internet) and to strengthen the rights of customers when they are using standard payment procedures. An important aspect of the act is regulation of the area of exemptions. The exemptions for prepaid products that no longer qualify as e-money has been significantly expanded through implementation of PSD II.

**Identification obligation for purchasing prepaid cards**

Since 1 July 2017, amendments to the Telecommunications Act require an identity check to be carried out when prepaid SIM cards are purchased before the card is activated by the provider. Previously, customers already needed to provide their personal data online, and since July these data have to be verified by providing identity. The SIM card providers such as Telefonica or Vodafone provide different online and offline versions for this purpose. It is important that a valid official identification card with a picture of the holder is presented. This is intended to ensure unequivocally that each SIM card can be allocated reliably to the owner. The process of identification does not take place in the shop. Identification must take place by post identification, video identification or personally in a shop of the relevant provider – in other words not at the filling station or kiosk.
2.2 Business development

Highlights 2017

Important contractual extensions and new customers

The past business year 2017 also saw important contractual extensions, acquisition of new customers and establishment of a new strategic partnership in Switzerland. These include the following:

In Germany, the acquisition of an additional customer from the “Organised Food Service” segment (gastronomy and food service chains with standardised concept) was in harmony with the further developed strategy “Convenience 2020”. This new customer – a second leading coffee shop chain – was acquired for supply to more than 200 stores in seven European countries for the next three years in the first instance. Lekkerland will here be responsible for the entire supply chain. This means that Lekkerland will coordinate and implement the purchasing, inventory management, order picking and delivery of several hundred products including fresh and deep-frozen products, and non-chill products.

Lekkerland was also able to extend the contract with an oil company by a further five years until the end of 2022. In future, Lekkerland will provide even greater support for this customer as a consultant and competence provider, for example by expanding cooperation in the areas of food service and training sessions. Lekkerland will also supply the filling stations with a large proportion of their product range such as beverages, confectionery, tobacco goods including e-cigarettes, deep-frozen bakery goods, e-va products and non-food articles. In the case of five other oil companies, the contracts could in some cases be extended in advance by one year, five years and by three years respectively. Alongside supply to filling stations with a large proportion of their product range, Lekkerland will also enter into close cooperation with an oil major for design and implementation of a joint marketing concept.

Furthermore, the cooperation with a national oil retailer operating 130 filling stations was extended in advance by a further five years. In the context of this extension, the service spectrum of Lekkerland was significantly extended. Over and above the existing supply of a large proportion of the product range, this entails adoption of the impulse ice cream product group and extended cooperation in the areas of food service and coffee.

The contract with an existing customer – a large coffee and retail group – was extended by a further three years until August 2020 during the course of this business year. Lekkerland has been providing a reliable supply of deep-frozen, fresh and beverage products to the customer’s branches in Germany since 2008.

The cooperation contract with a Europe-wide retail and logistics company was renewed in advance by four and a half years at the end of the business year 2017. The contract comprises delivery with a range of tobacco goods, beverages, confectionery, and fresh and deep-frozen products.

After launching a cooperation with a leading global online mail-order retailer in February 2016, Lekkerland also concluded an agreement with this online mail-order retailer in Austria in July 2017 for delivery from the dry and beverage range.

Furthermore, Lekkerland was also able to extend in advance the existing contract with an oil major in Austria by a further year. Lekkerland supplies the customer with products from the food, non-food and food service product ranges.

In addition, Lekkerland succeeded in acquiring as a new customer another major customer from the bakery sector in the business year 2017 in Austria so that the bakery branches will now be supplied by Lekkerland with beverages, dairy products and a range of goods including goods for production. The contract was concluded for an indefinite period of time.

Existing contracts with two oil companies in Belgium were extended by another three and two years respectively.

A new contract was concluded with another oil company for delivery of e-vouchers and gift cards over a period of three years.

The existing contract with a food retailer in Belgium was extended by two further years. This now encompasses direct delivery of individual shops instead of central delivery as was previously the case. The customer will be supplied by Lekkerland with the entire tobacco and e-va product range.

In the Netherlands, the contracts with three oil companies were extended by five years, and by three and two years respectively.
Furthermore, the contract with a bakery chain comprising 170 branch offices was extended by a further year. The customer is supplied with products from the food / non-food product range.

In addition, various new customers were acquired in the Netherlands including an additional oil company, a restaurant chain operator and a retail company. A new contract with the restaurant chain operator was concluded and comprises delivery of fresh and deep-frozen articles. The 600 branch offices of the newly acquired retail company will be supplied by Lekkerland with confectionery for the checkout area over the next three years.

In the business year 2017, a strategic partnership was agreed in Switzerland with a Swiss company with the objective of driving forward further development of filling station shops. The strategic partnership involves an oil major and operator of 463 filling stations in Switzerland. A new concept has already been developed which is currently being tested at various locations in Switzerland.

In Spain, the contract with a long-standing major customer, a restaurant chain, was extended by a further five years until 2023.

**NACS Award and shop concepts**

Already in the last business year 2016, the new “Frischwerk” test shop concept impressed and captivated customers at the UNITI EXPO and in the two pilot stores.

Almost one year after opening the first pilot stores, the initial conclusion by customers and consumers is very positive. The concept and in particular the food service concept “Backschmiede” for bakery goods and the coffee business are enjoying an exceptionally positive reception and are posting significant growth rates. However, the other categories also developed very positively. Lekkerland is currently still in the pilot phase and is continuously optimising the concept, product range, services and processes. On account of the high demand and numerous prospects, the establishment of additional “Frischwerk” stores is planned for the coming months.

In June 2017, the impressive concept received an “Honourable Mention” at the prestigious “International Convenience Retailer of the Year Award” in the “small formats” category of the trade association NACS. This competition is well established in the sector and has a very high reputation. The award acknowledges Lekkerland for the conceptual development and implementation of the new shop concept.

The prize once again highlights the fact that Lekkerland is on the right track with its strategy of establishing the profile of a Retail Enabler. The contract extensions and expansions also demonstrate that customers increasingly regard Lekkerland as a partner for cooperation in the area of food service and coffee.

Lekkerland in the Netherlands also has developed a new shop concept under the name "Eet & Gerei". “Eet & Gerei” is Dutch and means “Food and all related things”. The store is a so-called Lab Store based on a creative concept in which a range of different ideas are tested.

Like the German “Frischwerk” concept, this concept accords with Lekkerland’s strategy to act as a Retail Enabler in the marketplace. The objective is to make shops more attractive and thereby enhance their profitability and competitiveness.

In Belgium, roll-out of a coffee-to-go coffee concept was launched in November 2017. This concept was designed specially for small shops in which the operators are supplied with everything from coffee, through furniture to accessories and maintenance in an all-round package. Additionally, the concept can also be supplemented with cake and bakery goods.

**Further development of products**

The e-va product range was systematically developed further in Germany. The developments included the exclusive supply within the Lekkerland product range of lottery vouchers for a Christmas lottery held in Germany in offline retailing.

Another product expansion was provided in the area of technical accessories for mobile devices. The company amv GmbH owned by Lekkerland designed the Hama add-on display with bestsellers in electronics accessories including automobile charging cables, adaptors and headphones. The add-on is a perfect complement to the e-va shelf because the products address the same target group and offer a new sales area even in small shops without any complex structural work. The electronics accessories from Hama and other non-food ranges such as gift articles, souvenirs and sun glasses can be conveniently ordered through Lekkerland.

A further product innovation is the Fresh Box that has been positioned by Lekkerland in Switzerland and Austria. The Fresh Box provides Lekkerland with a new competence for delivering small quantities of fresh products. The insulated box with elements for precise temperature management keeps the temperature stable for 36 hours and a display in the lid indicates the internal temperature. This allows customers to check the temperature without opening the package. Lekkerland can also easily read off the data when the box arrives back at the logistics centre and then verify retrospectively that the integrity of the cooling chain was maintained. The box is dispatched in Switzerland and Austria as a package through the countries’ postal services to make good use of the efficient and dense network of package delivery options.

**Track & Trace**

The TPD II Directive defines a number of requirements including the roll-out of a Track & Trace system for all tobacco products, as already set out in detail in the section on Regulatory Framework Conditions – EU Tobacco Products Directive. TPD II requires each tobacco product to be unambiguously identifiable in the future with an individual identification attribute (code) at any time.
Furthermore, all relevant data must be recorded step by step for all tobacco products over the entire supply chain by all manufacturers and retailers involved in a central EU database. This means that it will be possible in future to use the unique code to track the entire production and retail chain for each individual tobacco product at any time.

Lekkerland is addressing the challenges presented by the TPD II and in 2016 already started the project TPD II – Track & Trace. Since the start of the project, various pilot projects and test phases have been carried out so as to be in a position to reflect the requirements as efficiently as possible in terms of time and cost. The scope of the project covers 19 logistics centres distributed over three countries. Lekkerland has an obligation as a tobacco retailer to transfer a wide range of notifications and data to the EU database, for example the incoming goods notification from the manufacturer and the dispatch notification to the customer. Complying with the comprehensive reporting obligations requires each product to be scanned with its individual code and all the relevant data must be recorded in the EU database so as to be traceable in virtually real time. Compliance with these requirements is extremely cost-intensive and characterised by enormous complexity. The logistics processes need to be adjusted and integrated into the existing IT landscape. It is also necessary to purchase new hardware and software and deal with the implementation in the new processes as well as synchronisation.

Lekkerland is very well positioned with the project TPD II – Track & Trace. In the business year 2017, Lekkerland carried out intensive test phases and cooperated closely on the new logistics processes with industry. It is also in continuous dialogue with representatives from government and industry. Since 2016, Lekkerland is also co-chair of the Retail Working Group together with another wholesaler and is working actively on designing and implementing the directive. In 2017, Lekkerland representatives participated twice in stakeholder meetings with the European Commission and they attended several meetings concerning this issue at the key Federal Ministry for Food and Agriculture.

In 2018, the project focus will be on the roll-out of Track & Trace concepts at all Lekkerland tobacco locations as well as the development of the necessary IT adjustments such as a concept for data storage and for creating the technical interfaces with the central EU database.

**Project Become One for harmonisation of the IT and process landscape**

Since a large number of financial and holding companies are working with the new group-wide IT landscape Become One, the first operating national company was migrated to live operation in Switzerland at the beginning of the business year 2017. The first weeks with the new system proceeded positively overall. In line with expectations, some further potential areas for improvement were identified during live operation and these issues were resolved in a stabilisation phase by the end of August.

Simultaneously, the concept phase for conversion of the biggest operating national company was launched in Germany in May. The focus of the ongoing workshops is on identification of additional necessary adjustments or expansions of the system in order to reflect the requirements of the German national company in full and as well as possible.

At the end of September, two additional important milestones in the Become One project were reached. Firstly, the introduction of a system update and the subsequent go-live of the Lekkerland subsidiary company convivo GmbH on 1 October 2017. Both milestones were successfully concluded.

**Digitalisation**

The topic of digitalisation is an explicit component of the strategy “Convenience 2020” in its developed form and it is being consistently implemented in all the national companies. A focus here is on the ongoing development of the existing web shops which Lekkerland is operating in the national companies and for its customers. Corporate Digital Business Development is a dedicated department dealing with the data-driven and technology-based business development. Two main areas of activity can be derived from the adjusted strategy of Lekkerland. Firstly, the area of Digital Services and secondly the area of Digital Retail Enablement. The area of Digital Services deals with continuously improving the customer experience. This entails making cooperation between Lekkerland and the customer as convenient, simple and practical as possible and ensuring Lekkerland outperforms any other company in this respect. An example of this is the development of a supply tracking solution which gives the customer the opportunity to get up-to-date information about the relevant status of their delivery from Lekkerland.

Digital Retail Enablement addresses how Lekkerland can improve the customer’s business and make it more profitable using technology and data, and explores how Lekkerland can itself develop new business models. Work is currently being carried out in this area of activity on a solution to enhance the motivation of customers’ employees by using the gamification approach. This involves applying elements similar to computer games, such as advance bars or ranking lists in a non-play context. The technology is intended to support users in improving their work results, for example by visualising sales data.

**Change in the Supply Chain Officer**

Kay Schiebur, Chief Supply Chain Officer of Lekkerland AG & Co. KG, decided for personal reasons not to extend his contract as a Board Member at Lekkerland. In October 2017, Dr Jochen Großpietsch was appointed as the new Chief Supply Chain Officer. In this function, he is responsible for the portfolio of logistics, quality, facility management and digitalisation.
Refinancing with new USPP
In the first half-year of 2017, the executive management decided to carry out a further US private placement (USPP) amounting to €70.0 million in order to ensure the long-term financial requirements of the Lekkerland Group. Potential investors in the United Kingdom and the United States were addressed in the context of a roadshow. The subsequent bidder process was carried out in June and ended with a good pool of potential investors and a bidder book that was multiply oversubscribed. Against this background, the Lekkerland Group increased the original placement volume from €70.0 million to €100.0 million. Out of the newly placed €100.0 million, €70.0 million have a term of ten years at an fixed interest rate of 1.87% and €30.0 million have a term of twelve years at an fixed interest rate of 2.07%. Furthermore, the management was able to achieve key contractual improvements compared to the contracts concluded for placement of the USPP in 2005 and 2007. The placement was supported on the banking side by Deutsche Bank and ING-Bank.

Course of business
A challenging tobacco goods market and a further increase in the competitive intensity throughout the entire on-the-go sector meant that the Lekkerland Group reported a slight decline in revenues in the business year 2017 to €12,784.3 million (previous year: €13,002.6 million).

The decline in revenues was restricted to the tobacco goods product group. Nevertheless, it proved possible to increase the gross profit in absolute terms by €12.1 million to €632.6 million (previous year: €620.5 million).

An increase in the other operating income (€+ 6.8 million) in conjunction with overall virtually unchanged distribution and administrative expenses resulted in an improvement of EBIT from continuing operations by €18.9 million to €104.3 million (previous year €85.4 million).

A comparison of the assumptions projected in the forecast report in the Group Management Report 2016 for the year 2017 with the actual business development in 2017 shows the following picture:

- The revenues and the gross profit were forecast at the level of the previous year. However, in the tobacco goods product range, industry price increases could not fully compensate the unit sale reductions so that the actual revenues declined slightly (~1.7%). Conversely, the gross margin posted an increase (~2.0%).

- In line with the forecast, the impacts on sales due to the gradual switch of a major customer in Germany to a competitor were only tangible to a certain extent in the business year 2017 on account of the contract extension until the middle of 2018.

- The transformation programmes carried out in the Netherlands, Belgium and Austria exerted a positive effect.

- EBITDA and EBIT of the continuing operations grew more strongly than had been forecast.

2.3 Economic situation
Results of operations
It is important to bear in mind when reading the following explanations that on account of the liquidation of the Polish national company, which was concluded in entirety during the reporting year 2017, the Eastern Europe segment was classified as a “Discontinued operation” for the last time in accordance with IFRS 5 (IFRS = International Financial Reporting Standards). This involves separate recognition in the income statement with respect to “Continuing operations” and “Discontinued operation”.

Revenues in the Germany segment decreased from €165.9 million (~2.1%) and they therefore amount to €7,571.0 million (previous year: €7,736.9 million).

In the Rest of Western Europe segment, the national companies in Spain, Belgium and Austria generated increases in sales while the companies in the Netherlands and Switzerland posted sales reductions. Overall, revenues decreased in the Rest of Western Europe segment by 1.0% or by €52.4 million to €5,213.3 million (previous year: €5,265.7 million).
The commissions on electronic value (e-va) / miscellaneous product range generated an increase in sales amounting to €2.5 million (2.1%) in the business year 2017. The Germany segment increased sales of €0.7 million (0.9%) and the Rest of Western Europe segment generated an increase of €1.9 million (4.8%).

If the proportion of sales by channels is analysed, the following developments emerge:

- Revenues in the filling station channel decreased overall by €115.4 million (–1.8%). Revenues in the Germany segment came down by €114.1 million, which was primarily caused by the gradual switch of a major customer. Adjusted by this one-off effect, the Germany segment posted an increase in revenues within the filling station sales channel. Revenues in all countries in the Rest of Western Europe segment with the exception of the Netherlands posted an increase in sales in the filling station channel. Overall, revenues in the Rest of Western Europe segment in this sales channel therefore remained virtually unchanged (–0.1%).

- Sales with system customers expanded overall by €90.5 million (2.0%). While the Germany segment achieved sales at the level of the previous year, revenues in the system customers channel were expanded particularly in Spain, Switzerland and the Netherlands.

- Conversely, revenues in the regional customers channel fell overall by €193.4 million and hence by 9.3%. The decrease came in particular from the countries Switzerland, Germany and the Netherlands.

Sales broken down by product groups show the following development:

- Tobacco goods: €–284.9 million (–2.7%)
- Food / Non-food: €+64.1 million (+2.6%)
- Commissions on electronic value (e-va) / miscellaneous: €+2.5 million (+2.1%).

The unit sales of tobacco goods in Germany had already been declining since the fourth quarter of 2016. The unit sales of the Lekkerland Group in Germany were also reduced on account of a major customer gradually switching to a competitor. Overall, the revenues in the Germany segment for the tobacco goods product range came down by €185.6 million (–2.9%) to €6,271.1 million.

In the Rest of Western Europe segment, revenues from tobacco goods declined overall by the sum of €99.3 million (–2.5%) across all national companies. Conversely, countervailing developments were posted in the individual countries. While Belgium was able to post rising tobacco sales, these were falling in the Netherlands and Switzerland.

By contrast, sales in the higher-margin food / non-food product range increased overall by €64.1 million (2.6%). The Germany segment and all the countries in the Rest of Western Europe segment with the exception of Switzerland succeeded in posting tangible sales increases.

### SALES BY PRODUCT RANGES

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco goods</td>
<td>10,120.7</td>
<td>10,405.6</td>
<td>–2.7</td>
</tr>
<tr>
<td>Food/Non-food</td>
<td>2,544.4</td>
<td>2,480.3</td>
<td>2.6</td>
</tr>
<tr>
<td>Commissions on electronic value (e-va)/miscellaneous*</td>
<td>119.2</td>
<td>116.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Total</td>
<td>12,784.3</td>
<td>13,002.6</td>
<td>–1.7</td>
</tr>
</tbody>
</table>

* Only commissions received and not the nominal values of credits are recognised.

### SALES BY CHANNELS

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filling stations</td>
<td>6,375.7</td>
<td>6,491.1</td>
<td>–1.8</td>
</tr>
<tr>
<td>System customers</td>
<td>4,513.7</td>
<td>4,423.2</td>
<td>2.0</td>
</tr>
<tr>
<td>Regional customers</td>
<td>1,894.9</td>
<td>2,088.3</td>
<td>–9.3</td>
</tr>
<tr>
<td>Total</td>
<td>12,784.3</td>
<td>13,002.6</td>
<td>–1.7</td>
</tr>
</tbody>
</table>

### PROPORTION OF SALES BY PRODUCT RANGES WITHOUT TOBACCO TAX

- Tobacco goods: 52%
- Food / Non-food: 46%
- Commissions on electronic value (e-va) / miscellaneous: 2%

### PROPORTION OF SALES BY CHANNELS

- Filling stations: 50%
- System customers: 35%
- Regional customers: 15%
The percentage of gross profit margins across all three product groups improved in percentage terms from 4.8% to 4.9%. This development is influenced by a number of factors including higher performance payments and lower partly aperiodic sales reductions. In spite of lower revenues, gross profit increased by €12.1 million.

The total other operating income increased overall by a total of €6.8 million in particular owing to different one-off effects including higher exchange rate gains and compensation payments.

The distribution expenses without depreciation were reduced overall by €1.9 million.

The general and administrative expenses without depreciation by contrast underwent an increase of €2.5 million.

Cost reductions resulted in particular from the area of personnel expenses (€7.9 million) and in-house fleet costs (€1.3 million). Particularly in Germany and the Netherlands, the number of employees was below the level of the previous year.

Cost increases resulted primarily in the areas of subcontracted personnel (€3.5 million), freight costs (€2.9 million) and IT costs (€3.3 million). A higher proportion of external warehouse employees and the increased usage of subcontracted freight forwarders led to the increase in the costs of subcontracted personnel and subcontracted freight. The rise in IT costs was due to a number of factors including the go-live of Become One in the Swiss national company.

A summary of the main changes in EBITDA compared with the previous year is accordingly given as follows:

<table>
<thead>
<tr>
<th>CHANGES IN EBITDA</th>
<th>in € million</th>
<th>2017</th>
<th>2016</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit</td>
<td></td>
<td>12.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other operating income</td>
<td></td>
<td>6.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution expenses before depreciation</td>
<td></td>
<td>1.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administration expenses before depreciation</td>
<td></td>
<td>–2.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>18.3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Depreciation and amortisation at €38.0 million were virtually at the level of the previous year (previous year: €38.6 million; decrease: €0.5 million).

Overall, EBIT therefore amounted to €104.3 million in the business year 2017 (previous year €85.4 million).

The financial result (interest result, result from investment and profit share of associated companies and joint ventures, which are accounted for by the equity method), improved slightly by €0.3 million to €–8.1 million (€–8.4 million).

As in the previous year, interest expenses amounted to €10.5 million. An interest reduction on account of the planned repayment of US$100.0 million (€77.1 million) contrasted with interest from taking out new loans amounting to €100.0 million.

Interest income came down from €2.1 million to €1.1 million owing to a number of factors including changed recognition of specific supplier conditions among other things.

Overall, the Lekkerland Group generated a consolidated result after tax of €78.1 million in 2017 from continuing operations as compared with €62.1 million in 2016.

Profit after tax from the discontinued operation Eastern Europe in the reporting year amounted to €0.2 million (previous year: loss of €1.9 million) The liquidation of the Polish national company was concluded in full in 2017.

<table>
<thead>
<tr>
<th>EBITDA BY SEGMENTS</th>
<th>in € million</th>
<th>2017</th>
<th>2016</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td></td>
<td>105.4</td>
<td>91.7</td>
<td>14.9</td>
</tr>
<tr>
<td>Rest of Western Europe</td>
<td></td>
<td>47.0</td>
<td>44.3</td>
<td>6.1</td>
</tr>
<tr>
<td>Holdings/Consolidation</td>
<td></td>
<td>–10.1</td>
<td>–12.0</td>
<td>15.8</td>
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<tr>
<td>Total</td>
<td></td>
<td>142.3</td>
<td>124.0</td>
<td>14.8</td>
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</table>

<table>
<thead>
<tr>
<th>EBIT BY SEGMENTS</th>
<th>in € million</th>
<th>2017</th>
<th>2016</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td></td>
<td>79.0</td>
<td>65.8</td>
<td>20.1</td>
</tr>
<tr>
<td>Rest of Western Europe</td>
<td></td>
<td>35.5</td>
<td>31.7</td>
<td>12.0</td>
</tr>
<tr>
<td>Holdings/Consolidation</td>
<td></td>
<td>–10.2</td>
<td>–12.1</td>
<td>15.7</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>104.3</td>
<td>85.4</td>
<td>22.1</td>
</tr>
</tbody>
</table>
Development of the segments

Germany

In the business year 2017, Lekkerland generated revenues of €7,571.0 million (previous year: €7,736.9 million) in Germany. This corresponds to 59.2% of total sales of the Lekkerland Group (previous year: 59.5%). Out of total revenues in the business year, €6,271.1 million and hence 82.8% were generated by the tobacco goods product range (previous year: €6,456.7 million; 83.5%).

The unit sales of cigarettes to consumers in Germany continue to decline. In 2017, 1.8% fewer cigarettes were sold in the market overall. The unit sales of Lekkerland in Germany fell by approximately 4.7% in the business year 2017. This disproportionate fall results on the one hand from the switch by a major customer to a competitor, and on the other hand from a growing market share taken by discounters at the expense of customers supplied by Lekkerland. As already outlined in the section “Sector-specific framework conditions”, experts attributed the declining trend for tobacco consumption to a number of different influencing factors and developments. The value of the sustained fall in quantity is at least partly compensated by regular increases in revenue stamp prices.

The share of the food / non-food product group in revenues amounted to €1,222.5 million in the year under review and corresponds to a percentage share of 16.2% of the total revenues in this segment (previous year: €1,203.5 million; 15.6%). This increase reflects the sustained trend towards more fresh products and aware and high-quality consumption on-the-go. Consumers are increasingly demanding products from the fresh product range, coffee specialities, unsweetened drinks and juices, salads and specific product ranges such as vegan or gluten-free products. Confectionery tends to be a declining segment, particularly in the filling station segment.

The commissions on electronic value (e-va) / miscellaneous generated revenues of €77.4 million (previous year: €76.7 million). This corresponds to a 1.0% share of total revenues in the Germany segment (previous year: 1.0%). This product range has seen growth in the diverse and increasing number and type of products relating to shop vouchers on offer which are popular as gifts.

As has already been explained in the section on results of operations, the classification of revenues by sales channels in Germany shows a fall at filling stations and regional customers. Conversely, revenues were maintained at a nearly stable level in the system customers sales channel.

In the tobacco goods product group, margin improvements resulting from industry price increases over the course of the year were largely cancelled out owing to the unrelenting increase in competitive pressure. Conversely, positive margin effects result from higher performance payments in the business year 2017. In the food / non-food product range, the percentage gross profit margin was at the level of the previous year across all products.
Rest of Western Europe
In the Rest of Western Europe segment, revenues were reduced by €52.4 million to €5,213.3 million.

### REST OF WESTERN EUROPE – SALES BY COUNTRY

<table>
<thead>
<tr>
<th>Country</th>
<th>2017</th>
<th>2016</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>2,400.4</td>
<td>2,458.1</td>
<td>-2.3</td>
</tr>
<tr>
<td>Belgium</td>
<td>1,520.9</td>
<td>1,495.2</td>
<td>1.7</td>
</tr>
<tr>
<td>Switzerland</td>
<td>657.8</td>
<td>723.7</td>
<td>-9.1</td>
</tr>
<tr>
<td>Spain</td>
<td>520.9</td>
<td>483.2</td>
<td>7.8</td>
</tr>
<tr>
<td>Austria</td>
<td>113.3</td>
<td>105.5</td>
<td>7.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,213.3</strong></td>
<td><strong>5,265.7</strong></td>
<td><strong>-1.0</strong></td>
</tr>
</tbody>
</table>

Out of total revenues, €3,849.5 million and therefore 73.8% were attributable to the tobacco goods product range (previous year: €3,948.8 million; 75.0%). The decline in tobacco revenues by €99.3 million results from the Netherlands (€– 64.1 million) and Switzerland (€– 52.5 million). Conversely, tobaccos sales were increased particularly in Belgium (€+ 17.3 million).

Unit sales of cigarettes in the overall market of the Netherlands declined by approximately 1.0% in 2017. Lekkerland reported a higher fall of approximately 3.1% due to the loss of a customer.

The development of tobacco sales in Switzerland can be attributed to factors including the streamlining of the customer portfolio following the takeover of the wholesale activities of Contadis AG in 2016. In Switzerland, the Lekkerland Group rose to become one of the important tobacco distributors as a result of the takeover of the wholesale activities of Contadis AG. As a result of the takeover, two contracts were terminated with system customers in 2017 in line with plans. By contrast, an important new customer was acquired.

In Belgium, unit sales in the market overall fell by approximately 4.4%, whereas the Lekkerland Group succeeded in maintaining its unit sales at a virtually constant level. This positive development is one of the consequences of the increase in sales volumes with two portfolio customers.

The percentage share of the food / non-food product range in revenues amounted to €1,321.9 million in the year under review, which corresponds to a percentage share in total sales of 25.4% (previous year: €1,276.9 million; 24.2%). This means that food / non-food sales increased in a year on year comparison by €45.0 million.

All countries with the exception of Switzerland were able to increase their revenues in the food / non-food product group. Spain presents the highest increase in absolute terms with growth of €37.7 million. As in the previous year, this results primarily from increased sales volumes for important portfolio customers, in particular international operators of quick service restaurant chains.

The commissions on electronic value (e-va) / miscellaneous product range generated revenues of €41.9 million (previous year: €40.0 million) which is unchanged by comparison with the year-earlier value and corresponds to a share of 0.8% in total revenues. The sale increase is generated in the Netherlands (€+ 1.8 million) and Austria (€+ 0.8 million), while Belgium experienced a drop in revenues (€– 0.8 million).

### REST OF WESTERN EUROPE – SALES BY PRODUCT RANGES

<table>
<thead>
<tr>
<th>Product Range</th>
<th>2017</th>
<th>2016</th>
<th>Change in €</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco goods</td>
<td>3,849.5</td>
<td>3,948.8</td>
<td>-2.5</td>
</tr>
<tr>
<td>Food / Non-food</td>
<td>1,321.9</td>
<td>1,276.9</td>
<td>3.5</td>
</tr>
<tr>
<td>Commissions on electronic value (e-va) / miscellaneous*</td>
<td>41.9</td>
<td>40.0</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,213.3</strong></td>
<td><strong>5,265.7</strong></td>
<td><strong>-1.0</strong></td>
</tr>
</tbody>
</table>

*Only commissions received and not nominal values of credits are recognised.

All national companies in the Rest of Western Europe segment with the exception of Switzerland succeeded in increasing their absolute gross profit in a year-on-year comparison.

The total distribution and administrative expenses remained at the level of the previous year. While expenses in the areas of transport and subcontracted personnel increased primarily due to volume, they were largely compensated by cost savings in other areas including personnel.

EBITDA overall for all countries in the Rest of Western Europe segment was increased by €2.7 million to €47.0 million (previous year: €44.3 million).

Depreciation at €11.5 million was €1.1 million lower than in the previous year (€12.6 million) so that EBIT went up by €3.8 million to €35.5 million (previous year: €31.7 million).

### Financial position and net assets

#### Principles and goals of financial management
The top priority within the Lekkerland Group is to secure adequate liquidity and financial stability. The financial requirements of the Lekkerland Group continue to be covered by a combination of operating cash flows, short-term credit facilities that are adequate at all times, and long-term financing through loans. The strategic direction of the Group is directed towards profitability, liquidity and stability, and enhancing corporate value over the long term. The corporate policy of the Group pursues this strategic goal by means of measures directed at internal and external processes.

Internal measures include optimisation of net operating capital and central management of available liquidity. This is also underpinned by the central organisation of financial management.
Financing
A description of the long-term financing of the Lekkerland Group through loans is provided below:

### USPP STRUCTURE

<table>
<thead>
<tr>
<th>Amount in million</th>
<th>Currency</th>
<th>Due date Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>US private placement 2005</td>
<td>40.0</td>
<td>US$</td>
</tr>
<tr>
<td>US private placement 2007</td>
<td>30.0</td>
<td>US$</td>
</tr>
<tr>
<td>US private placement 2007</td>
<td>35.0</td>
<td>US$</td>
</tr>
<tr>
<td>US private placement 2017</td>
<td>70.0</td>
<td>€</td>
</tr>
</tbody>
</table>

In 2005 and 2007, the Lekkerland Group placed loans (USPP) amounting to a total of US$295.0 and €8.0 million on the private US capital market. Cross-currency swaps were concluded for the entire term corresponding to the underlying transactions in order to hedge the currency and interest risks in the loans denominated in US$ and bearing interest in US$. In line with expectations a total of US$125.0 million and €8.0 million were repaid in the years 2010 to 2016, and US$100.0 million in the year 2017.

In 2017, loans were once again placed on the private US capital market, but this time in € with a total value of €100.0 million. Out of these loans, €70.0 million have a term of ten years and €30.0 million a term of twelve years.

Further details on the hedging of risks arising from financing are presented in the notes to the consolidated financial statements, in particular in the sections 4.13, 5.10 und 11. There are no financial instruments which are used for speculation purposes.

Lekkerland has a multi-currency cash pool that operates across national borders for purposes of current financing and interest optimisation. Furthermore, all major long-term loans made within the Group are grouped together in a loan pool. The objectives of this loan pool are to optimise and simplify the processes for allocating and documenting the individual loans and to take account of the applicable requirements for intra-group transfer prices.

Lekkerland has agreed credit lines with its principal banks directed towards the primary purpose of being able to secure the necessary short-term liquidity requirements in particular for seasonal fluctuations and special stockpiling arrangements. On 31 December 2017, the company had opened credit lines amounting to some €176.0 million. If drawn on, the interest to be paid was between 0.7 and 1.25 percentage points above Euribor or EONIA.

### Balance sheet

On the balance sheet date, the balance sheet total of €1,485.1 million was €90.1 million (+ 6.5%) above the balance sheet total for the previous year (previous year: €1,395.0 million).

On the assets side, the non-current assets came down by a total of €21.4 million, while current assets went up by €111.4 million.

### Non-current assets

The total amount for intangible assets and property, plant and equipment was reduced by €12.2 million on account of scheduled depreciation. Additions entailed by the IT and process optimisation project Become One were also reduced by the go-live of the first operational company in Switzerland at the beginning of the business year 2017.
The financial assets increased by €2.7 million on account of the acquisition of a participation which was reported in the balance sheet according to the equity method as a joint venture (we refer to the section “Important contractual extensions and new customers” in section 2.2).

The reduction in non-current financial assets by €7.2 million essentially results from the fall in market value of the cross-currency swaps which were used to hedge the amounts falling due in 2019 from the US private placement 2007.

The fall in deferred tax assets by €5.8 million results in particular from the use of loss carryforwards.

**Current assets**

The inventory asset shows an increase of €88.4 million. This rise is mainly due to tobacco stockpiling at the end of the year.

The trade receivables rose by a total of €12.7 million primarily related to the balance sheet date.

The year-on-year increase in other assets by €21.6 million essentially results from an increase in pretax rebate claims in conjunction with tobacco stockpiling and an increase in other receivables booked but not yet settled.

Conversely, the current financial assets underwent a fall of €17.9 million. This is essentially due to the fact that in the previous year the market values of cross-currency swaps were included in this item at €18.2 million. These were attributable to the tranches of the US private placements 2005 and 2007 which were repaid in the reporting year 2017.

The cash and cash equivalents increased by €6.2 million. A key reason for this development is the improvement in net operating capital (balance of inventories and current trade receivables) from €+12.6 million to €-6.9 million.

On the liabilities side, the non-current financial liabilities due to shareholders and equity rose by €12.4 million. This development essentially results from the market valuation of cross-currency swaps and the change in the pension provision. In connection with the balance sheet extension of €90.1 million, this was associated with a slightly improved equity ratio from 12.1% to 12.2%.

The non-current provisions and liabilities increased by €89.4 million, while current provisions and liabilities decreased by €11.8 million.

**Current provisions and liabilities**

The trade liabilities rose by €120.7 million. This is essentially due to tobacco stockpiling before the balance sheet date.

Current other provisions fell by €18.2 million. One the one hand, this is the result of lower outstanding customer refunds and on the other hand it is the result of additions from personnel provisions in the previous year.

The current financial liabilities decreased by €96.6 million, in particular due to the planned repayment of a total of US$100.0 million (€77.1 million).

The other liabilities posted a fall of €11.8 million which was mainly caused by lower refunds not yet paid.

The “Liabilities in connection with the disposal of assets held for sale” were reduced from €6.9 million to zero on account of the completed liquidation and deconsolidation of the Polish national company.

**Cash flow**

On account of the treatment of the Eastern Europe segment as “Discontinued operation”, cash inflows and outflows are shown separately in accordance with IFRS 5.

The “Liabilities in connection with the disposal of assets held for sale” were reduced from €6.9 million to zero on account of the completed liquidation and deconsolidation of the Polish national company.

The origin and use of the funds is shown below for continuing operations:

**Continuing operations**

The inflow of funds from operating activities decreased by €19.7 million from €113.9 million to €94.2 million. Cash inflows resulting from the increased operating result and the improvement in net operating capital compared with overall higher cash outflows arising from the reduction of refunds, the increase in other assets and the reduction in other liabilities.

In the business year 2017, the aggregated outflow of funds from cash flow for investment activity amounted to €24.7 million (previous year: €37.6 million). As in the previous year, the investments essentially related to the Become One project. Additional cash outflows resulted from a participation in the context of a strategic partnership in Switzerland.

The outflow of funds for financing activities decreased by €15.0 million and was therefore €61.2 million (previous year: €76.2 million). This development essentially results from the planned repayment of three tranches from the US private placements 2005 and 2007 in connection with the new placement of a US private placement amounting to a total of €100.0 million.

The total cash flow for the business year 2017 from “Continuing operations” was €8.2 million (previous year: €0.1 million).
Investments
During the business year 2017, Lekkerland invested a total of €27.4 million in the Germany, Rest of Western Europe and Holdings/Consolidation segments, excluding financial investments. This is €13.8 million less than in the equivalent year-earlier period.

Aside from expansions in conjunction with the Become One IT and process project, the significant additions in investments arise in particular from investments in warehouses and IT hardware. In the year 2018, further investments are necessary for the Become One project, the implementation of the Track & Trace requirements and for other measures in connection with implementation of the strategy. Based on our current assessments, these can be financed from our own resources.

Overall statement
Declining unit sales for tobacco goods and the increasingly tough competition in the on-the-go sector presented challenging framework conditions for the Lekkerland Group and led to a slight fall in sales during the reporting year 2017. Nevertheless, Lekkerland succeeded in increasing the gross profit and once again significantly raised the consolidated result. This development was facilitated by consistent income and cost management in conjunction with one-off effects. Overall, the Group can therefore once again look back on a gratifying year.

3. Opportunities, risk and forecast report

» Development and implementation of innovation in a fast-moving market
» Faster implementation of the strategy
» No risks identified posing a threat to the company’s continued existence as a going concern

3.1 Opportunities report
The Lekkerland Group operates in a very dynamic market and a competitive environment which is continually offering new opportunities. If chances are in harmony with corporate strategy, they are assessed in the light of market and competition analyses, and by making use of business cases.

The budget figures reflect opportunities to the extent that it is anticipated that there is a high probability of their coming to fruition. The following paragraphs set out future trends and developments which could result in a positive deviation for the Lekkerland Group from the development forecast in the outlook.

The opportunities presented below cover all company segments and product groups to differing degrees except where this is specified. The outlined opportunities are based on the same period of time which is also used for outlook reporting.

Opportunities for positive economic framework conditions and price developments
The economic framework conditions and developments exert an indirect or direct impact on the business activity and results of the Lekkerland Group. The forecast for the business year 2018 has been drawn up based on the assumptions contained in the approved budget and therefore reflects the expectations that the future framework conditions and assumed sales, price and cost developments will occur. If the individual determinants for Lekkerland develop better than assumed in the budget, the revenues and amounts for earnings could exceed the forecast values. The opportunities include positive earnings contributions arising from current antitrust lawsuits.

Opportunities through new products and services
The on-the-go consumption sector is defined by speed and innovative force. The increasing mobility and flexibility of people continually result in new requirements for products and services which cannot be taken account of in today’s plans for the Lekkerland Group and can therefore contribute to positive business development. Examples of this are the potential strengthening of the market position as a tobacco distributor in conjunction with the requirements resulting from Track & Trace and the continual growth in the number of new prepaid products. The development of new shop concepts also offers opportunities in a rapidly growing and changing market.

Opportunities through faster implementation of the strategy
The Lekkerland strategy exerts an influence on the results of the Lekkerland Group. The strategy has been defined for the long term and is directed towards Lekkerland becoming the preferred partner (“Your most convenient partner”) for Lekkerland customers. The success of Lekkerland is significantly dependent on the speed of implementation for the further developed strategy. If the projects for achieving the strategic goals can be implemented faster than expected, this could impact positively on the revenues and profitability of the Lekkerland Group.

3.2 Risk report
Adopting an entrepreneurial approach involves deliberately entering into risks and making the most of the available opportunities. Lekkerland operates a Corporate Governance System with the aim of identifying risks at an early stage and taking appropriate action to combat those risks. It is based on the following components:

The General Business Principles define the approach for action. In particular, they include the Code of Conduct, the rules of procedure and the company guidelines.

• The Group uses the Business Risk Management System (RMS) to review the risks entailed in the business processes and the effectiveness of the measures required to take counteraction.
By signing a Declaration of Compliance each year, the management provides documentary confirmation for observance of and compliance with the provisions of the Company Guideline of Corporate Governance in all areas. The system should be used to report any matters of non-compliance.

The Board of Management is explicitly committed to the Corporate Governance System. This has made a contribution to a significant reduction of the risks within the Lekkerland Group. The Corporate Governance System therefore makes a crucial contribution to the successful future of the Group. The RMS is a fixed element of the business, planning and controlling processes at Lekkerland. Risks are identified, analysed, evaluated and addressed by the management teams of the individual subsidiary companies. The relevant risk officer of the subsidiary companies reports regularly and in a structured approach to the Chief Risk Officer (CRO) of the Group holding company. Meetings of the Audit Committees are regularly convened to discuss risks and appropriate measures. The CRO summarises all the risk reports from the divisions in the risk report for submission to the Board of Management and the Audit Committee of the Supervisory Board. This ensures unimpeded vertical information flow from the national companies, through the Group holding company and the executive management, to the Supervisory Board.

Lekkerland has also introduced a Compliance Management System in order to ensure compliance with contractual and statutory obligations. This applies in particular to compliance with the relevant regulations and guidelines applicable to retailing with food, tobacco goods and prepaid credits. The Compliance Management System is necessary in order to meet the rising requirements of customers and suppliers along the supply chain. The contractual obligations to comply with statutory regulations and non-statutory requirements have been on the increase.

Transparency for the compliance requirements helps to reduce compliance risks and integrate compliance issues in the routine daily business processes. Proactive commitment to compliance also increases the confidence of customers and employees in the company.

Lekkerland is committed to adhering to the following compliance principles:

- Lekkerland is committed to complete compliance with all relevant statutory regulations and provisions, as well as to internal company regulations and requirements.
- Lekkerland is committed to complete fulfilment of the services and obligations agreed with its business partners.
- Lekkerland commits itself and its employees through the Compliance Management System to upholding all the relevant laws, directives and guidelines, as well as contractual agreements and voluntary rules.
- Lekkerland uses its Compliance Management System to create transparency and an unconditional requirement to meet its high standards of quality.
- Lekkerland aims to support its managers through the Compliance Management System by fulfilling their original management responsibilities.

The Compliance Management System comprises Compliance Risk Management, the Code of Conduct, the Corporate Governance Code.

Important characteristics of the Internal Control and Risk Management System relevant for the consolidated financial reporting process:

Within the Lekkerland Group, the accounting-related Internal Control System (ICS) comprises all the principles, procedures and measures for safeguarding proper and reliable external accounting.

The accounting-related ICS is intended, in particular, to ensure that:

- Business transactions are recorded, processed and documented comprehensively, promptly and correctly in accordance with the statutory regulations, the articles of association and other internal guidelines,
- the book-keeping documents are correct and complete,
- proper performance of stock-taking operations and appropriate measures are adopted if there are any divergences,
- assets and liabilities are recognised, classified and valued appropriately, and
- dependable and relevant information is prepared promptly and comprehensively.

The accounting-related ICS at Lekkerland comprises rules for steering and rules for monitoring the company’s activities. The monitoring system is in turn comprised of process-integrated and process-independent measures.

The accounting-related ICS of the companies consolidated in the Group’s financial statements encompass the following important characteristics and tools:

- Clear and unambiguous organisation, controlling and monitoring structure, as well as separation of duties,
- Safeguarding the necessary qualitative and quantitative human resources in the relevant departments,
Ensuring uniform accounting by use of a “Group Accounting Manual” applicable across the Group,

reporting on SAP standard software SEM-BCS,
group-wide harmonised planning, reporting and controlling processes and tools,
completeness and correctness of accounting data are regularly verified by suitable and appropriate controls,
strict separation of recording and auditing functions,
regulations and monitoring of authorisation to access accounting-related data and IT systems, and
review of accounting-related processes by internal audits.

Accounting-related risks arising from derivative financial instruments are explained in the notes to the consolidated financial statements.

The ICS relating to consolidation comprises the following important characteristics and tools:

consolidation using the SAP standard software SEM-BCS,
safeguarding the necessary qualitative and quantitative human resources in the Group Accounting Department,
group-wide guidelines for uniform presentation and booking of internal transactions within the Group and
clearly-defined process for identifying and implementing regulations relevant to accounting.

The ICS methodology is based on the requirements of the internationally acknowledged COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework. Its use is focused in the operational companies in Germany and in Switzerland and it will be gradually rolled out for other Group companies in the future.

Risk Management System in relation to the accounting process
In relation to the accounting process, risk management is embedded in the RMS covering all the Lekkerland activities. This comprises the organisational rules and measures for risk identification and the approach taken to entrepreneurial risks.

Risk assessment
The RMS at Lekkerland is based on a systematic analysis of the status quo and continuous updating of all known relevant and material risks. These risks are related to EBIT in accordance with their estimated probability of occurrence and the potential for damage, and classified on the basis of the EBIT and summarised in a country risk map.

Risk categories and individual risks
The risk factors regarded by the company management as relevant are outlined below. The risk evaluation relates to all segments unless otherwise indicated.

The risks are aggregated in the evaluation more than is the case for internal controlling. The assessment and classification of the risks presented below is essentially based on the same period which is also used for forecasting reports.

Environmental and sector risks
Macro-economic development and continuously changing consumer behaviour influence the Lekkerland Group directly. Changes in government policy can also exert a direct influence on sales and earnings performance in the Group, for example interventions included increases in consumer taxes, smoking bans, the Tobacco Product Directive, the Payment Services Directive and the resulting duties of care, and the road tolls for trucks, the potential prohibition on driving diesel vehicles in big cities and the deposit on non-returnable packaging in Germany. Furthermore, a potential ban on vending machines for tobacco goods is currently being debated in the Netherlands. This could exert negative effects on the local company of the Lekkerland Group which operates the vending-machine business in the Netherlands. Developments in global raw materials markets, for example sugar and cocoa, generally exert an indirect effect on business. The Lekkerland Group needs to compensate for interventions of this nature and external influences, and intends to act in this area.
This is why Lekkerland has developed an organisation that is maximally flexible. The Group keeps its dependence on individual product ranges to a minimum by marketing a broad range of products and using variable sales and distribution concepts.

In view of these measures, Lekkerland classifies the probability of occurrence of these risks as low but a moderate potential for damage cannot be excluded. Lekkerland assesses these risks as low risks.

**Performance risks**

Lekkerland expands the Group’s business base by developing customer relationships and expanding the product ranges and service packages. The two biggest customers of the Group together have a share of sales amounting to approximately 20%, while other customers account for significantly lower percentages of total sales. The contractual relationships and conditions with customers are renegotiated at regular intervals partly in the context of invitations to tender. The high level of competence and the overall package which can be offered at attractive conditions and associated with the existing long track record of successful cooperation with these customers means that the risk of a significant loss of customers is essentially assessed as medium, and cannot therefore be excluded. In 2016, for example, a major customer decided to enter into a business relationship with a retail company in the future, in addition to its business relationship with Lekkerland. This could lead to customer losses as a result of consolidation efforts and company sales. Additional risks exist in the form of receivables defaults. Lekkerland counters the risk of receivables default by taking out trade credit insurance or other insurance instruments, depending on the individual risk calculation, and the probability of occurrence is therefore assessed as low. Lekkerland believes that on account of its leading position in the market and the measures taken, the probability of occurrence can be assessed as medium. However, a significant potential for damage overall cannot be completely excluded. We classify the overall risk as a medium risk.

**Financial risks**

The business with tobacco in particular regularly leads to a relatively high financial requirement for net operating capital. Lekkerland has built up an international Treasury and Cash Management and a group-wide cash pool with Lekkerland Finance B.V. in the Netherlands.

During the years 2005 and 2007, Lekkerland took out loans hedged against fluctuations in interest rates and exchange rates amounting overall to US$295.0 million and €8.0 million (US private placements) to secure medium-term and long-term finance. As scheduled, a total of US$125.0 million and €8.0 million of this amount were repaid in the years 2010 to 2016, and a further US$100.0 million were repaid in 2017. The last two tranches amounting to a total of US$70.0 million will fall due in 2019.

We refer to the section “Financial position and net assets” in section 2.3 for information on risk reporting.

In 2017, the long-term financial requirement was secured by placing new bonds in € with a total volume of €100.0 million. Out of this, €70.0 million have a term of ten years and €30.0 million a term of twelve years.

These bonds and maintaining long-term relationships with the principal banks are deemed to secure short-term and long-term finance for the Group. Finance for the Group is partly linked with specific contractual conditions (financial covenants) where non-compliance can entail a premature right to serve notice of termination or request immediate repayment. Compliance with these covenants is continuously monitored by Lekkerland within the framework of operating business activities and also taken account of in planning. There were no indications of a potential risk arising from non-compliance with these financial covenants at the balance sheet date, and currently this is also the case.

Lekkerland assesses the probability of the occurrence of the risk as low, and Lekkerland evaluates the damage potential as slight. We therefore classify the overall risk as a low risk.

**IT and event risks**

As an international trading and logistics group, Lekkerland is dependent on a powerful and fully functional IT landscape.

Business Continuity Management at Lekkerland therefore regulates all important aspects of IT. The defined emergency plans and disaster recovery plans cover faults in the IT environment and event-based risks (for example natural perils). Regular training sessions on prevention and cover through insurance packages reduce the impact. Lekkerland has transferred responsibility for Lekkerland data systems and computer centres and their administration to an international IT service provider with the aim of giving the computer centres until then based at the Headquarters in Frechen a more cost-effective, more efficient and more secure structure. Standardisation of the IT landscape through the Become One project reduces the occurrence of potential IT risks in the future. In 2016, Become One was launched successfully in all administrative companies and there were also launches for convivo GmbH as the company responsible for in-house brand business and in the operating company in Switzerland in 2017.

Group-wide introduction of a new IT landscape is naturally associated with a considerable input of resources and is also subject to a large number of risks.

When the measures outlined above take effect, the probability of occurrence of the risk can be assessed as low. The integrated IT systems and processes mean that serious potential for damage cannot be excluded. This therefore leads to an overall assessment of medium risk.

**Process risks**

Lekkerland is continually improving its processes. The diverse regulations of the Control Systems support the company in identifying and correcting mistakes at an early stage.

Project and change management processes and a well-developed quality management system address risks which could arise from
changing processes. Risks are addressed openly at all levels as part of the corporate culture. Also in relation to process risks, the Become One project will ensure that process risks are reduced as much as possible by standardising and optimising processes. Implementation of a group-wide standards project management method provides an additional building block in successfully implementing major projects at Lekkerland.

Lekkerland assesses the probability of occurrence as low. However, if this risk occurs, it could result in a moderate potential for damage. Lekkerland assesses this risk to be a low risk.

**Legal risks**

The regulatory environment has continued to get tougher during recent years. Some of the regulations have become extremely complex. Every non-compliance with the relevant laws and regulations on the part of Lekkerland and each allegation of a breach of legislation levied against Lekkerland – irrespective of whether it is justified – could exert a significant effect on the earnings of Lekkerland.

A precise assessment of the risk is difficult on account of the large number of relevant statutory and legal requirements and the equally large number of possible breaches.

Lekkerland is continually checking new statutory regulations, new developments in law enforcement, and information generally available in the public domain on compliance problems which occur in wholesale, in the product ranges or business in general.

Against this background, Lekkerland ensures that its employees are familiar with the Code of Conduct and comply with it.

In order to ensure compliance with legal requirements by its corporate bodies and employees, Lekkerland operates a Compliance Management System. The Chief Compliance Officer is responsible for the organisation and development of the Compliance Management System, monitoring measures selectively in order to raise the awareness of the corporate bodies and employees of Lekkerland in relation to compliance with laws and guidelines (compliance) and to provide them with tools and methods of prevention and remedying compliance incidents.

In conjunction with the Board of Management of Lekkerland AG, the Chief Compliance Officer coordinates the introduction of relevant directives and corresponding career training and implementation measures across the company. These measures are monitored and documented with the aim of identifying trends, analysing risks and ensuring uniform application of directives in the entire Group.

With the support of the Legal Affairs Department, Lekkerland furthermore attempts to anticipate legal risks as early as possible.

Identification of these risks, assessment of their potential effects and the implementation of appropriate preventive measures are intended to contribute towards avoiding disputes involving legal proceedings or liability obligations. Lekkerland also engages external service providers for this purpose in order to take reasonable account of specialist topics. No risks posing a threat to the continuation of the Group as a going concern are entailed from outstanding proceedings or liability obligations.

Although Lekkerland regards the probability of occurrence becoming reality as low, Lekkerland cannot entirely exclude the possibility of a significant potential for damage. The risk is defined by Lekkerland as a medium risk.

**Overall assessment of the risks and opportunities situation**

Lekkerland has a range of comprehensive measures for identifying and evaluating opportunities and risks. Potential effects are regularly and systematically evaluated. Furthermore, reasonable measures are taken to respond to these effects. Any remaining risks are adequately covered, for example by insurance.

In the opinion of Lekkerland, the individual risks and all the risks in their entirety do not endanger the ongoing existence of the company as a going concern.

### 3.3 Forecast report

**Development of the overall economy and the sector**

The Council of Experts for assessing the macro-economic development expects overall a continuation of the upswing in the world economy. In its forecasts for the United States, the Council of Experts assesses that the moderate dynamic growth will continue in 2018. The council also believes that there are unlikely to be any major disruptions in China and that growth should remain consistently high. In 2018, the United Kingdom is likely to remain at the same level as in 2017. The upswing is also projected to continue in Japan and the eurozone, although growth rates may well ease somewhat in view of the already high capacity utilisation. Overall, global GDP is predicted to be 3.2% for the year 2018. Further global development is exposed to a large number of risks. However, there is currently more of an equilibrium in the relationship between opportunities and risks than has been the case in previous years. This is reflected in a global economy that appears to be increasingly robust. Nevertheless, geopolitical risks in particular, the ongoing political uncertainty in the United States, the risk of a weakening in the Chinese economy and potential turbulence in international financial markets are some of the risks that could exert a significant impact on the development of the global economy in the future.

The strong dynamic growth in the eurozone is likely to continue in a slightly weakened form. The most important growth driver will be the expected robust domestic demand which assumptions indicate will be further strengthened by the sustained improvement in employment. Although the overall high utilisation of production capacities leads to expectations of ongoing strong dynamic growth over the coming year, this growth is likely to ease somewhat. The Council of Experts has forecast an increase in the GDP to 2.1% for the year 2018. The burgeoning political risks, the ongoing high level of distressed loans in some member countries and an unexpected increase in interest rates could exert a negative impact on the expected growth. By comparison
with this, there are opportunities with potentially positive effects such as more robust dynamic investment and expansion of production capacities. However, over the long term the sustained low growth in productivity in the eurozone will act to depress growth. Inflation in consumer prices is likely to remain at 1.5% over the coming year. A slight drop in the unemployment rate to 8.5% in the eurozone is predicted for 2018. In 2017, this was at 8.7%.

The strong upswing in the German economy looks set to continue in 2018. The European Commission is forecasting that economic growth is likely to be 2.1% in 2018. This puts economic growth at virtually the level of 2017. The German economy is therefore gradually entering a boom phase and there are significant signs of overload in macro-economic production capacities. On account of the associated increase in a shortage of workers, prices and wages are already showing signs of a moderate upward trend. Together with projected stable development in the employment market, private consumption will remain the main engine of economic development in Germany. Growth of 1.8% in private consumption is expected for 2018.

Growth in GDP of 2.7% is forecast for the Netherlands in the coming year. Expert opinions believe that the upswing in Austria will continue to experience strong growth rates. Private consumption and a very dynamic investment climate form the platform for expected economic growth of 2.4% in 2018. An increase of 1.8% is predicted for Belgium. Growth in Spain continues to be stable at 2.5%, even though growth rates are below the year-earlier level on account of the decline in private consumption. The Swiss Confederation is expecting relatively strong growth in GDP at 2.3% for 2018.

These assessments for the individual countries and for the overall economy are exposed to numerous risks. Furthermore, it is virtually impossible to predict with any reliability how the developments will impact on consumer sentiment in the relevant countries. Moreover, it is also important to take into account that the on-the-go consumption sector is also subject to other influencing factors. It is therefore difficult to make a precise forecast for the question of how the macro-economic and sector-specific framework conditions will impact concretely on the Lekkerland product ranges, service packages and customers. Lekkerland continues to assume that the steady upward trend in mobility will ensure that convenience shops will continue to be well frequented. Furthermore, the desire of consumers for easy and convenient food and drink is likely to continue to become even more widespread alongside the desire to consume snacks and beverages on-the-go.

The regulatory interventions in relation to the sale and consumption of tobacco goods and alcoholic drinks will continue to become stricter in the future throughout Europe. They will present ongoing challenges for the business activity of the Lekkerland Group.

### ECONOMIC DEVELOPMENT GDP, FORECAST *

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>2.1%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2.7%</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.8%</td>
</tr>
<tr>
<td>Austria</td>
<td>2.4%</td>
</tr>
<tr>
<td>Spain</td>
<td>2.5%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

* Percentage change relative to the previous year

Source: EU Commission/SECO

**Business development**

Convenience will increasingly be a growth trend in all areas of life, a form of lifestyle. That will lead to an increasing number of competitors focusing on this attractive area of business, which will in turn intensify the competitive conditions for Lekkerland in this growth market.

Furthermore, the tobacco market is reflecting a steady decline with resulting pressure on prices and margins.

Lekkerland is countering the increasing competitive intensity and the difficult framework conditions in the tobacco segment with a range of short-term to medium-term initiatives. These are directed towards growth and optimisations in the product service range and the customer portfolio.

In view of the very gratifying result in the business year 2017, the Group is assuming for the business year 2018 a slight decline in sales and a lower gross profit.

The various transformation programmes already started and remaining to be implemented dovetail with each other in the national companies and they will continue to contribute to further enhancement of effectiveness and efficiency.

However, the operational implementation of the further developed strategy assumes the expansion of additional internal specialist competences in some areas or external support. Furthermore, lower other operating income is expected by comparison with the current business year owing to one-off effects in 2017.

Overall, EBITDA and EBIT for continuing operations in the business year 2018 are therefore anticipated at the good level of the year 2016.
Attention is here drawn to the fact that the first-time adoption of IFRS 15 “Revenues from Contracts with Customers” will in some cases lead to sales of goods or a service not qualifying partly or entirely for classification under sales in the business year 2018. Reference is made to section 1.2 in the Notes to the Consolidated Financial Statements for further information on this matter.

**Segment development**

In the Germany segment, Lekkerland expects a slight fall in revenues for 2018 and a lower growth profit. The decline in sales on account of the above-mentioned gradual tailing off of a major customer and the developments on the tobacco market both mean that in spite of a comprehensive package of measures it will not be possible to entirely mitigate these factors.

Lower other operating income and higher personnel expenses due to wage tariff increases are likely to contribute to a noticeable decline in EBITDA and EBIT.

In the Rest of Western Europe segment, revenues and gross profit are expected to be at the level of the previous year overall in 2018. The rising competitive pressure in the individual countries will lead to customer losses in individual instances, although these are likely to be balanced by new customers, expansion of sales volumes and a higher proportion of the food/non-food product group, which is characterised by more robust margins.

In the Netherlands, Belgium and Austria, the individual transformation programmes will continue to generate further optimisations, which may counteract inflation-related cost increases.

The overall expectation for the Rest of Western Europe segment is that EBITDA and EBIT will remain at the level of the reporting year 2017.

**Overall statement on the forecast report**

The Lekkerland Group will continue with its focused approach in implementing the enhanced strategy “Convenience 2020” during the year 2018. On account of the increasing competitive pressure and the challenging tobacco market, the key success indicators in the business year 2018 are likely to be lower than in 2017 but are expected to be at the good level achieved in the year 2016.

**Strategic alignment**

The “Convenience 2020” strategy formed the platform for the successful development of the Lekkerland Group over recent years. Dynamic changes in consumer behaviour naturally demand regular reviews and optimisations of a strategy. The Board of Management of Lekkerland AG & Co. KG therefore carried out further development of the “Convenience 2020” strategy in 2017. The modified “Convenience 2020” strategy continues to place the direct Lekkerland customer and the consumer at the centre of all its activities. The stated goal is to become “Your most convenient partner” for Lekkerland customers and to achieve this across all areas of the entire value chain.

On-the-go consumption forms part of the everyday routine particularly for the young generation. Sustained growth development may therefore be regarded as secure. The opportunities for consumers to take advantage of on-the-go consumption have increased significantly and they are continually on the rise. This changes the expectations of end-consumers in relation to quality, offering, value for money and consumer experience. The development of new product ranges, sales channels, services and attractive shop concepts is supported by various selected and integrated projects.

The on-the-go consumption sector is innovative and generates high growth by supplying convenience products and services. It will continue to offer comprehensive opportunities to facilitate profitable growth at the Lekkerland Group in the future.

The further developed corporate strategy “Convenience 2020” is targeted and will transform Lekkerland over the medium and long term into an even more empowered and competitive provider of solutions in the on-the-go consumption sector.

The Lekkerland Group therefore has a clear medium-term and long-term corporate strategy which will empower sustainable growth in the future.

Frechen, 29 March 2018

Lekkerland AG, Ternitz (Austria)

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