Vorwerk Annual Report 2016

Es lebe die Vielfalt / Long live diversity / 多样性万岁 / Vive la diversité / Evviva la diversità / Viva la diversidad / Fjölbreytnin lifi / *Across all cultures …*

Report on the 133rd business year

Editorial

What is humankind's greatest achievement? Probably our culture.

Without culture, we would still be cave dwellers, the pyramids would never have been built and Beethoven's Ninth would never had celebrated its premiere in a concert hall. Vorwerk also lives by a special culture, a family culture that shapes our values and the way we live and work together – and has been doing so for generations.

Pop culture, fan culture, even snack culture: Culture exists in all variations – even cult. We think it's about time to take a closer, if humorous and light-hearted, look at "culture".

We invite you to immerse yourself in a piece of reading culture. Long live diversity / *Across all cultures ...*

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A Review of Vorwerk

HEADQUARTERS OF THE VORWERK GROUP (HOLDING COMPANY)

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EXECUTIVE BOARD

Rainer Christian Genes (Managing Partner)
Reiner Strecker (Managing Partner)
Frank van Oers (Managing Partner)

SUPERVISORY BOARD

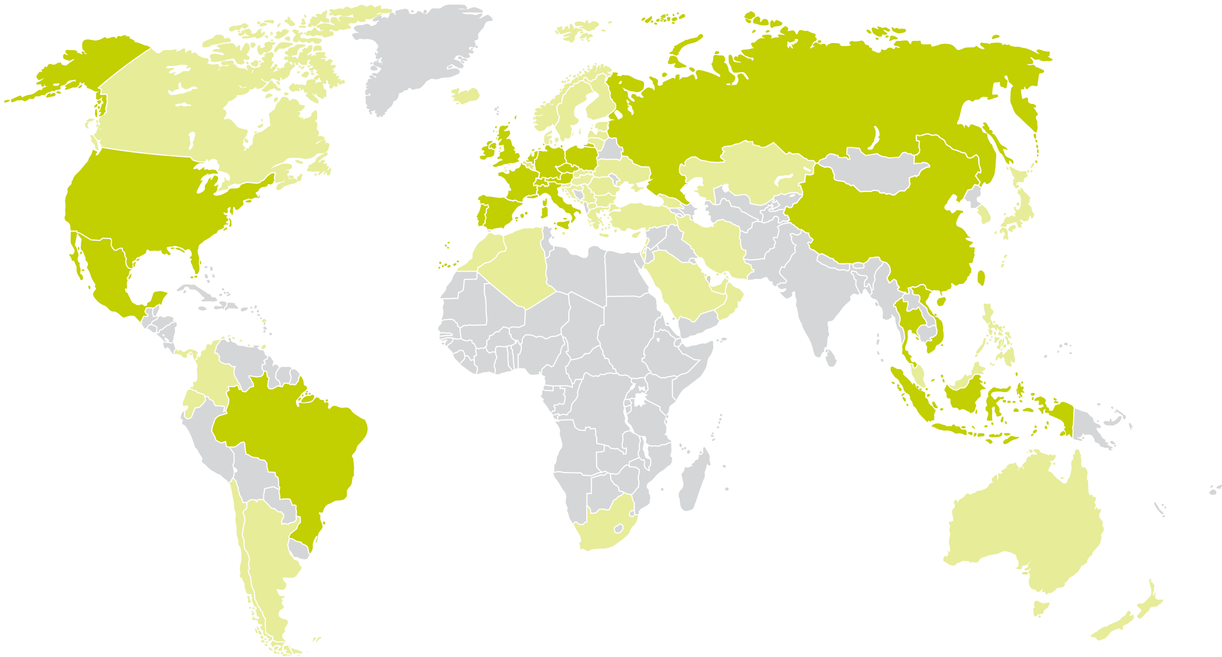
Dr. Jörg Mittelsten Scheid, Wuppertal/Germany (Honorary Chairman)
Rainer Baule, Überlingen/Germany (Chairman)
Prof. Dr. Ing. Pius Baschera, Zurich/Switzerland (Vice Chairman)
Dr. Axel Epe, Düsseldorf/Germany (2nd Vice Chairman)
Dr. Rainer Hillebrand, Hamburg/Germany
Verena Klüser, Munich/Germany
Dr. Timm Mittelsten Scheid, Munich/Germany
Sabine Schmidt, Waltrop/Germany

KEY FIGURES OF THE VORWERK GROUP

in million EUR	2013	2014	2015	**2016**
Group sales*	2,248	2,376	2,938	**3,058**
New business, akf group	865	925	1,073	**1,167**
Balance sheet total	3,633	4,159	4,509	**4,924**
Partners' equity	1,445	1,575	1,747	**1,840**
Partners' equity in % (akf group at equity)	66	65	64	**63**
Partners' equity in % (akf group fully consolidated)	40	38	39	**37**
Financial assets	987	1,147	1,298	**1,440**
Other fixed assets	994	1,066	1,196	**1,293**
Current assets	1,593	1,841	1,936	**2,107**
Cash and cash equivalents**	929	1,003	1,113	**1,184**
Capital expenditure***	364	383	483	**476**
Depreciation***	194	205	225	**248**
Personnel costs	419	454	517	**540**
Number of employees	12,536	12,771	12,612	**11,949**
Self-employed advisors	609,721	591,156	612,884	**637,126**

* Sales figures given are net values. Previous years have been correspondingly adjusted.
** Including short-term realizable assets
*** Excluding financial assets

INTERNATIONAL PRESENCE



SUBSIDIARIES

Austria, Brazil, China, Czech Republic, France, Germany, Indonesia, Ireland, Italy, Mexico, Netherlands, Poland, Portugal, Russia, Singapore, Spain, Switzerland, Taiwan, Thailand, United Kingdom of Great Britain and Northern Ireland, United States of America, Vietnam

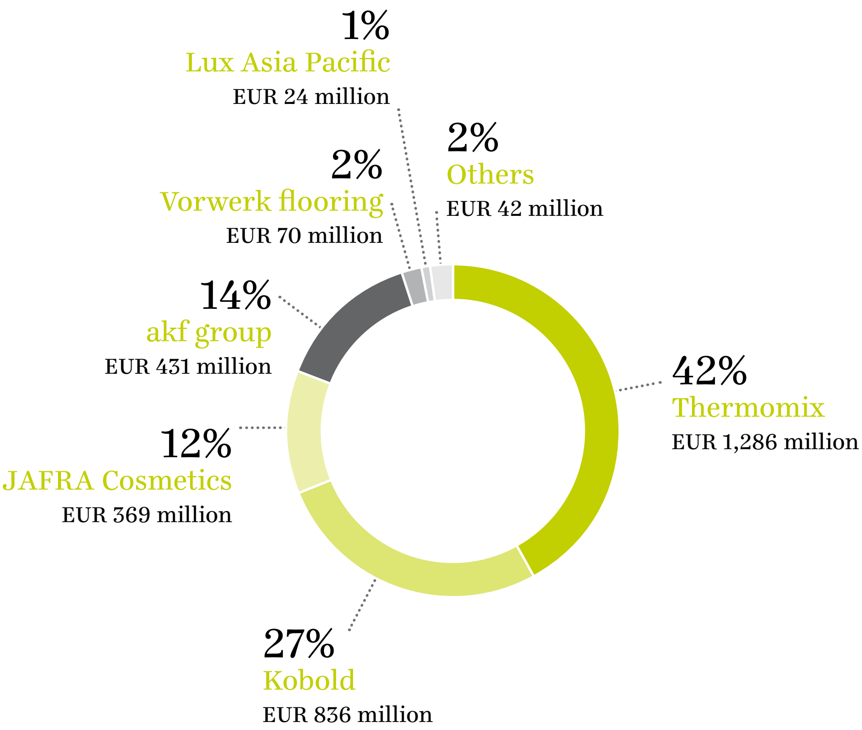
DISTRIBUTORS

Algeria, Argentina, Australia, Bahrain, Belgium, Brunei, Bulgaria, Canada, Chile, Columbia, Croatia, Cyprus, Denmark, Dominican Republic, Ecuador, Estonia, Finland, Georgia, Greece, Guadeloupe, Guernsey, Hong Kong, Hungary, Iceland, Iran, Israel, Japan, Jersey, Kazakhstan, Kosovo, Latvia, Lebanon, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Monaco, Montenegro, Morocco, New Zealand, Norway, Oman, Panama, Philippines, Romania, Saudi Arabia, Serbia, Slovakia, Slovenia, South Africa, South Korea, Sweden, Turkey, Ukraine, United Arab Emirates

THE VORWERK GROUP COMPRISED THE FOLLOWING BUSINESS SEGMENTS IN 2016:

Thermomix / Kobold / JAFRA Cosmetics / Lux Asia Pacific / Twercs / Vorwerk Engineering / akf group / Vorwerk flooring

VORWERK GROUP / SALES BY DIVISION 2016



Culture Shock

Juicy Exchange

“How are you?” says the American, friendly, but reserved. “None of your business!” replies the hard-headed Bavarian, flinging friendliness back in the American’s face – or rather, peach. Popular science might describe this encounter as a clash of two fruits from different cultures. In visual terms, the American is actually a peach – smart on the outside but deep down tough when it matters. The German, on the other hand, is like a coconut. You have to crack your way through the hard shell to reach the mellow center. In the end, though, the two mix really well.

Management Report / General Section on Business Development

The Vorwerk Group is reflecting on a good business year in 2016. In the 133rd year of the company's history, overall Group revenue rose by 4.1 percent to reach EUR 3.1 billion (excl. VAT).

The volume of business – which takes the EUR 1.2 billion of new business achieved by akf group into account – could also be increased once again. A total amount of some EUR 3.8 billion (excl. VAT) meant an increase of 4.7 percent as against the previous year.

Operating earnings were moderately lower than those of the previous year due e.g. to some negative exchange rate effects, but were still running at a satisfactory level. Revenue development was slightly below forecast.

The Vorwerk Group was operational in a total of seven divisions at the close of 2016: Thermomix, Kobold, JAFRA Cosmetics, Lux Asia Pacific, Engineering, akf group as well as Vorwerk flooring. Additionally, the Holding Company has a venture capital entity – Vorwerk Direct Selling Ventures. Moreover, the still relatively new Twercs business unit is operational in the market for high quality DIY power tools.

Together, all the direct selling activities at the Vorwerk Group achieved a revenue plus of 2.6 percent and a total of EUR 2.5 billion. Outside the direct sales operations, akf group was able to increase its revenue considerably and grow its volume of new business substantially. By contrast, Vorwerk flooring was substantially below the previous year's revenue due to the new alignment of the division and high capital expenditure in plant and production processes.

The Group is managed and steered on the basis of detailed budget plans and subsequent reporting and variance analyses. In this respect, the main performance indicators, sales revenues and operating earnings were planned and monitored at the divisional level.

In the case of specific divisions in the direct sales area, Vorwerk applies non-pecuniary performance indicators for the purposes of foresighted and sustainable corporate control. They concern the productivity (= sales per active advisor) and the activity – in other words the proportion of active sales advisors in relation to the total number. To enable a better understanding of the development of the company, percentage changes to the previous year will be described in this report with the following adjectives:

negligible/minor (1–2 percent), moderate/slight (3–5 percent), substantial/sizeable (6–10 percent), considerable/notable (11–15 percent), distinct/clear (16–24 percent), significant (more than 25 percent).

Vorwerk has a presence in a total of 79 countries across Europe, Asia, North and South America as well as in Australia and parts of Africa, either with its own subsidiaries or through trading partners – so-called distributors. The strong international alignment of the Wuppertal-based, family-owned company can readily be seen from the distribution of sales. The proportion of sales generated outside the company's domestic market, Germany, reached 62.9 percent. This share was even higher in the direct sales segment and amounted to 74.4 percent.

The partners' equity capital ratio at the Vorwerk Group amounted to 37.4 percent when akf group, operational in the area of financial services, is fully consolidated. A valuation of akf group at equity would result in a partners' equity capital ratio of 62.6 percent. Cash and cash equivalents are mainly invested in special funds and other short-term realizable assets and totaled EUR 1,184 million as of balance sheet date. The good equity capital endowment also ensures great entrepreneurial scope for the future and allows targeted investments.

Each division at the Vorwerk Group is run by its own responsible management board. The Group's strategic leadership is the responsibility of the Holding Company in Wuppertal. The members of the Executive Board are the Managing Partners Rainer Christian Genes, Reiner Strecker and Frank van Oers. One half of the Vorwerk Group's Supervisory Board comprises members from the owner family Mittelsten Scheid and the other half comprises external experts. Dr. Jörg Mittelsten Scheid, the head of the Vorwerk owner family, acts as Honorary Chairman of the Supervisory Board. Rainer Baule is Chairman of the Supervisory Board.

Aspects of sustainability have always been of outstanding importance for the family company Vorwerk. To meet the growing demands in this area, a sustainability organization was established in the year under review with the task of systematically addressing ecological, economic and social issues across the entire Group. In an initial first step, the main areas of activity for Vorwerk will be identified before, in a second step, appropriate sustainability programs are developed. One objective is to bundle the initiatives that are already ongoing within the Group and then to depict them in a sustainability report together with the newly developed programs. The first Vorwerk Sustainability Report is planned for publication in 2018.

The work on two business and IT projects continued to progress in the year under review. In the "VORward" project, new, harmonized business processes and IT solutions are being created and introduced internationally in the Thermomix and Kobold divisions. The "ACE" project at JAFRA Cosmetics is also aimed at establishing a uniform IT landscape across an international basis.

SUMMARY OF THE DEVELOPMENT OF THE INDIVIDUAL DIVISIONS

The Thermomix Division was able to increase revenue by 11.0 percent to almost EUR 1.3 billion. This means that Thermomix remains the division within the Vorwerk Group with the highest revenue.

By contrast, the Kobold Division recorded a slight reduction in sales levels. Kobold achieved revenue of EUR 836 million, a drop of 3.9 percent.

JAFRA Cosmetics was below the overall revenue level of the previous year with a fall of 7.0 percent, recording sales of EUR 369 million. The main part of the decline can be accounted for by exchange rate differences since particularly the largest country organization in Mexico was able to slightly improve its revenue in local currency.

Vorwerk flooring invested in production plant and its assortment in response to the new alignment of the division. Revenue was lost during this realignment phase with EUR 70 million sales being reported at the end of the year under review, a drop of 8.7 percent.

akf group was able to increase its revenue notably and grow its volume of new business substantially. The volume of new business recorded was EUR 1.2 billion, revenue increased by 11.9 percent to close at EUR 431 million.

THANKS TO THE STAFF

More than 640,000 people worldwide have established their own professional careers in the direct sales companies with our products, either as self-employed advisors or trading partners. Moreover, Vorwerk is the employer of almost 12,000 permanent staff in the production locations as well as in the administrations of the individual divisions and subsidiaries. The profile of the internationally-successful, family-owned company is characterized by creativity and entrepreneurial spirit at all levels. The Executive Board and the owner family would like to thank all “Vorwerkers” worldwide for their outstanding commitment.

SALES BY DIVISION

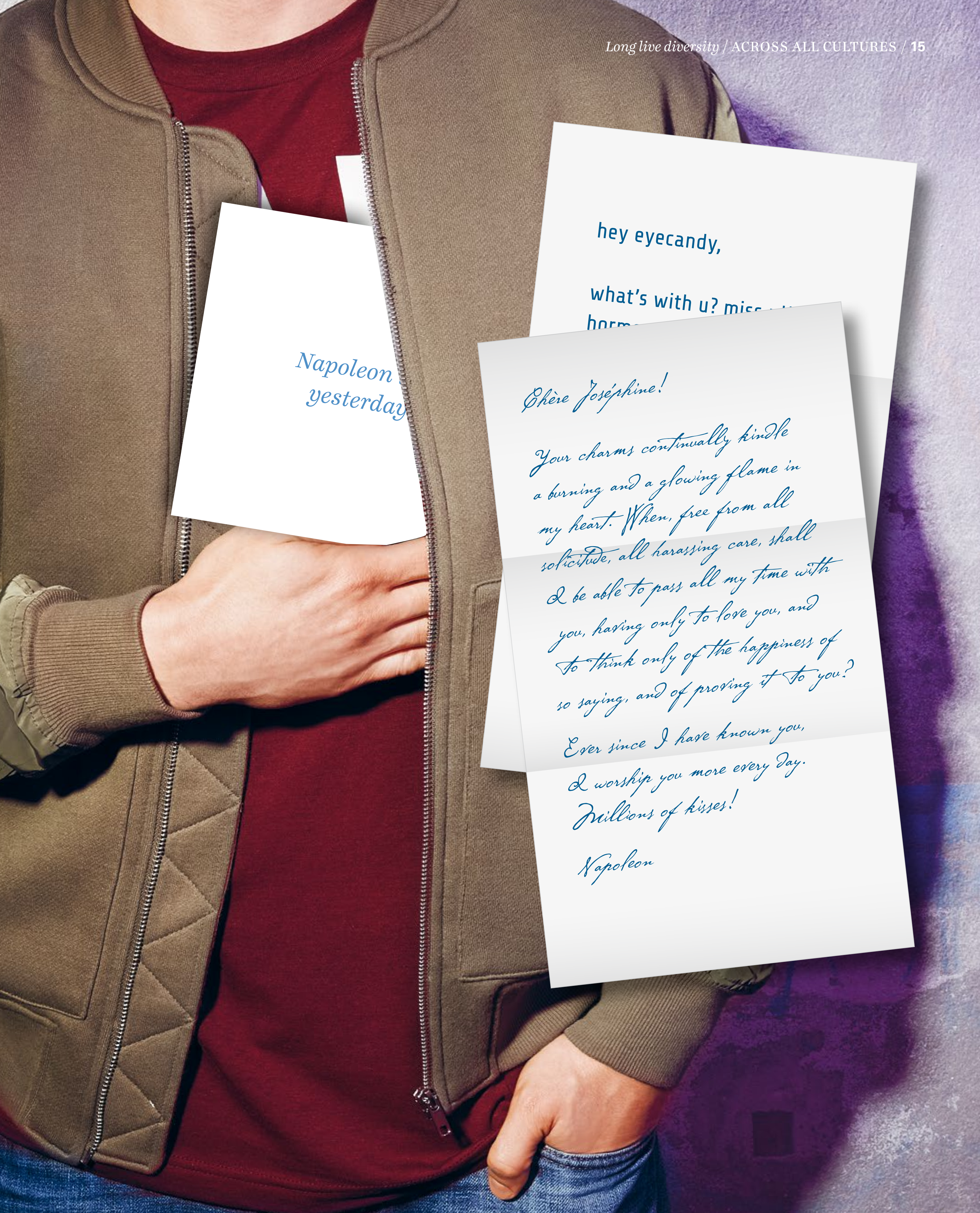
in million EUR	2013	2014	2015	**2016**
Direct sales	1,820.6	1,922.1	2,449.8	**2,514.6**
Thermomix	675.8	776.9	1,158.1	**1,285.6**
Kobold	715.9	746.7	869.7	**835.8**
JAFRA Cosmetics	401.5	372.5	396.8	**369.1**
Lux Asia Pacific	27.4	26.0	25.2	**24.1**
akf group	346.1	350.8	384.9	**430.7**
Vorwerk flooring	60.5	77.4	77.1	**70.4**
Others	21.0	26.1	26.3	**42.5**
Group sales	2,248.2	2,376.4	2,938.1	**3,058.2**

Language Culture

The Past was More Poetic.

Were things really better in the old days? Do the kids of today's Generation Y still know what romantic love is? Of course they do. It's just that they sound a bit different these days, more prosaic, and they get to the point faster. Want a comparison?

Read the love letter Napoleon wrote to Joséphine – the original and its modern interpretation.


Napoleon
hey eyecandy,
what's with u?
Chère Joséphine!
Your charms continually kindle
a burning and a glowing flame in
my heart. When, free from all
solicitude, all harassing care, shall
I be able to pass all my time with
you, having only to love you, and
to think only of the happiness of
so saying, and of proving it to you?
Ever since I have known you,
I worship you more every day.
Millions of kisses!
Napoleon

Management Report / Thermomix

/ AGAIN HIGHEST-TURNOVER DIVISION
/ COOK-KEY LAUNCHED AS NEW ACCESSORY

To tread new culinary paths, to unfold one's own cooking potential and to save time and effort in the process: Thermomix by Vorwerk really is a multi-talent. The Thermomix TM5 with its innovative recipe chips, its touchscreen and its Guided Cooking function has made cooking simpler and has set new standards. The Cook-Key newly launched in 2016 enables success guaranteed recipes to be sent directly by Wi-Fi from the online Recipe Platform Cookidoo to the Thermomix TM5 display and then to be made available there by means of the Guided Cooking function.

The Thermomix Division is once again reflecting on a successful business year. An increase of 11.0 percent meant that the Division recorded total revenue of almost EUR 1.3 billion. However, operating earnings were slightly below expectations due to sales targets not being fully achieved.

Subsidiaries are operational for the Thermomix Division in a total of 14 countries in Europe, Asia and North America, and Thermomix also has a number of distributors.

* THE HEART OF THE KITCHEN

Thermomix TM5 is not a machine. It is more than three million people sharing a fascinating cooking experience. It is a network of passionate advisors offering personal service. It is a whole world of recipes and inspiration. It is the connecting element of a global lifestyle community. Thermomix is simply delicious food. Every day.

In the year under review, all subsidiaries again reported an increase in comparison to the previous year. The strongest sales country was Germany with revenue developing positively to EUR 385 million, an increase of 7.0 percent.

France can also reflect on a very good year with an increase of 14.5 percent and revenue of EUR 284 million. The Italian sales organization slightly improved on the previous year with sales of EUR 229 million. The sales company in Spain also achieved growth of 6.5 percent to EUR 158 million. Poland was able to confirm the good development achieved in recent years and rose by 33.3 percent to close at EUR 59 million. The Portuguese sales organization likewise recorded an increase of 6.0 percent (revenue: EUR 42 million).

Similarly, the sales companies in Taiwan, Great Britain, Czech Republic, Mexico, Austria and China could grow revenue. The export business – i. e. the sale of Thermomix TM5 through so-called distributors – achieved record sales of EUR 59 million with an increase of 10.9 percent.

The reasons for this positive development in recent years are quite diverse. More and more people throughout the world are attaching importance to a healthy and balanced diet. In addition, there are the services offered by Vorwerk around the Thermomix TM5: the personal consultation from the competent advisors as well as the digital offerings such as the Cook-Key, the Thermomix Recipe Platform Cookidoo and the Thermomix communities. At the same time, the sales model offers attractive income and career opportunities for an ever-increasing number of advisors. On average, more than 45,500 self-employed advisors were working for the Division in 2016, an increase of 9.0 percent. The average productivity rose slightly. The activity of the advisors was negligibly below that of the previous year. Worldwide, a Thermomix was sold every 23 seconds in the year 2016.

Following the notable increases in the year under review and in previous years, the Division anticipates a moderate, positive development in revenue and a negligible decrease in operating earnings for the current year of 2017.

The sale of the Thermomix TM5 began in the United States in the year under review. Launches in other countries are planned.

Management Report / Kobold

/ NEW KOBOLD PRODUCT GENERATION

/ ROBOT VACUUM CLEANER WITH APP CONTROL

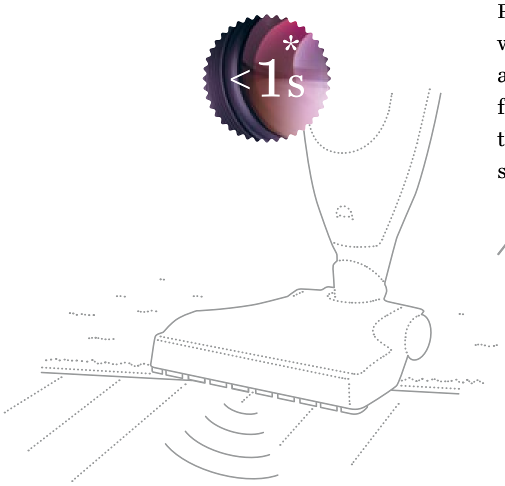
Innovation, quality and durability – that is what the high-grade room care and cleaning solutions from Kobold stand for. The Division launched a completely new product generation in the year under review and once again set the standard in the room care segment. The centerpiece of the cleaning system is the Kobold VK200 Upright Vacuum Cleaner. It does not only clean all kinds of flooring but also constitutes a complete modular cleaning system with its six variable attachment options. The Kobold SP530 DuoClean is among the attachments which turns the Kobold vacuum cleaner into an appliance that is able to vacuum and mop at the same time. Another highlight is the Kobold VR200 Robot Vacuum Cleaner, an appliance that can now be steered by an app and which was once again “best in class” in 2017 in a test conducted by the consumer watchdog “Stiftung Warentest”.

The Kobold Division is operational with its own subsidiaries in a total of nine countries in Europe and Asia. In addition, numerous distributors are engaged in selling the products. Kobold is operational worldwide with a direct sales approach as well as with online shops and company-own stores in a growing number of countries. In the year under review, for instance, three Vorwerk stores were opened in Austria.

However, the clear strategic focus continues to be on direct selling and the individual consultation provided to customers in their own homes by self-employed advisors. Additionally, there is the support of customers after purchase when accessories are delivered, for example.

The Kobold Division concluded the year with revenue of EUR 836 million, some 3.9 percent under the level of the previous year. Operating earnings were also substantially below expectations. On average, more than 13,700 self-employed advisors were working for the Division, an increase of 27.7 percent. One reason for this rise was the restructuring of the Chinese market which is focusing more and more on self-employed sales advisors. Activity, however, declined distinctly and productivity was also substantially below the level of the previous year.

Revenue in Italy fell 9.1 percent as against the previous year to EUR 436 million. This decline is primarily due to a one-off quantity effect from the year 2015, an effect which no longer prevailed in 2016.



* THE VACUUM CLEANER WITH THE MAGICAL EYE

Picture an upright vacuum cleaner that adapts automatically to any surface, and what you have is the Kobold VK200: a variable cleaning system with six different attachments, including the EB400 Automatic Electric Brush. Its sensor scans the floor 16 times per second, so if you move from carpet to a hard floor, for instance, the EB400 will adapt to the new surface in less than a second. That way, every floor surface receives the treatment that's exactly right for it. Magical.

The German sales organization was able to further continue the positive tendency from the previous years: With sales of EUR 251 million, the country entity achieved an increase of 2.4 percent. All sales channels contributed to this rise. Direct selling remained the most important pillar, but the online shop as well as company-own Vorwerk stores in good inner-city locations are also growing in significance – not least of all as an important contact point for customers. The number of stores in Germany has been increased and now encompasses more than 50 locations.

The Kobold sales organization in China reported a decline in revenue (minus 7.7 percent to EUR 47 million). Vorwerk France, by contrast, had an increase of 20.8 percent and recorded revenue of EUR 29 million. The sales company in Spain could improve on the revenue attained in the previous year by 3.9 percent with EUR 26 million being reported. Sales in Austria were negligibly below the level of the previous year with a volume of EUR 24 million being achieved. The sales organization in the Czech Republic recorded revenue that was substantially below that of the previous year (EUR 8 million). By comparison, revenue achieved through distributors could once again be improved. An increase of 21.7 percent meant that the export business broke through the EUR 10 million threshold for the first time.

At best, the Kobold Division expects that sales will grow negligibly in 2017 and that operating earnings will have a minor decline. It will only be in the following years that revenue will again increase strongly on account of the opening of new markets and a further extension of the omnichannel system combined with a higher number of advisors.

Travel Culture

Cultured Companion!

How practical that there's a handy bag in which you can stow everything you need to stay looking and smelling good on the move – scents, hair gel, lipstick, anti-aging cream. The toilet bag is our personal tool kit for a radiant appearance. It's not such a modern invention, though, because the Vikings started it all when they were looking for something handy to carry the perfect blade for trimming their bushy beards. The toilet bag also has a cultural history of its own. Take a look at this Victorian specimen – and a sniff, to find out how people liked to smell back then.

Management Report / JAFRA Cosmetics

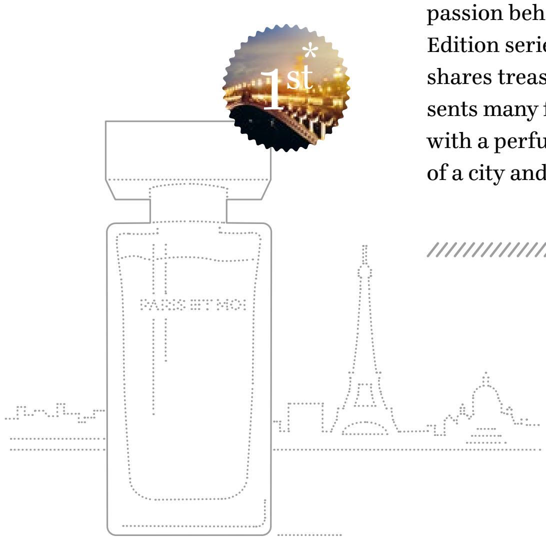
/ MEXICO INCREASES REVENUE IN LOCAL CURRENCY

/ MOST SUCCESSFUL PRODUCT LAUNCH IN COMPANY HISTORY

JAFRA Cosmetics, with its headquarters in the USA (Westlake Village/California), operates in a total of ten countries with its own subsidiaries and in another eight through distributors. The largest market by far is Mexico with more than 468,000 self-employed consultants. Other sales companies are to be found in the homeland of JAFRA Cosmetics, the USA, as well as Brazil, parts of Europe and Indonesia. JAFRA Cosmetics produces and sells high quality cosmetics and can look back on more than 60 years' experience in direct selling.

The range of products at JAFRA Cosmetics comprises skin and body care, decorative color cosmetics, fragrances and spa products. New articles are developed in the company's own research laboratories in the USA and production takes place in the modern JAFRA Cosmetics manufacturing facility in Querétaro, Mexico.

In the year under review, JAFRA Cosmetics extended its range in the Royal Jelly Ritual series by adding three new items – Global Longevity Crème, Vitamin Infusions Spot Serum with Vitamin C and Global



* INSPIRATION. PASSION. PARIS.

JAFRA has invited prestigious perfumers to share the inspiration and passion behind their creativity. Number 1 in this new JAFRA Perfumer's Edition series is Paris et Moi by Philippine Courtière, where Philippine shares treasured memories of the city she calls home. Paris et Moi represents many firsts: the 1st in a new fragrance franchise, the 1st collaboration with a perfumer, and the 1st time a story is created to convey the spirit of a city and the notion that you can get there with a single spray.

Longevity Eye Crème. The most successful product launch in the history of the company was celebrated in October in the "fragrances" product segment with the introduction of the JAFRA Perfumer's Edition in Mexico and the USA. The first fragrance, Paris et Moi, was created by the French perfumer Philippine Courtière and is meanwhile also available in Brazil, Italy, Germany, the Netherlands and Austria.

On a euro basis, JAFRA Cosmetics lost revenue in the year under review with a volume of EUR 369 million – a minus of 7.0 percent. Consequently, the Division did not satisfy its own expectations although this was mainly the result of unfavorable exchange rate developments. Operating earnings were also significantly below forecast for this reason.

The traditionally strongest market, Mexico, suffered a decline in revenue – when converted into euro – of 12.3 percent, with EUR 259 million being reported. By contrast, the sales organization was able to develop positively in local currency with an increase of 2.9 percent being posted in Mexican pesos.

In the second largest JAFRA market, the USA, sales revenue was running at EUR 59 million and was therefore slightly below the level of the previous year. The number of self-employed consultants remained stable at just over 41,000.

In the third largest market meanwhile, Indonesia, expectations were more than satisfied as revenue increased to EUR 20 million, almost treble the amount of the previous year. The increase in the number of self-employed consultants from 8,661 in the previous year to 31,322 in the year under review is also quite remarkable.

JAFRA Brazil was below the level of the previous year with revenue of EUR 10 million, a drop of 9.2 percent. Similarly, the European sales companies (Austria, the Netherlands, Switzerland, Italy and Germany) suffered a decline in sales volume. Total revenue attained by the European sales entities was running at almost EUR 20 million, some 7.1 percent less than that achieved in the previous year. JAFRA Russia reached the revenue level of the year before with EUR 1.4 million being reported.

JAFRA Cosmetics allows predominantly women the opportunity as self-employed consultants to achieve an income that is self-determined and related to their own performance through the direct sale of high-quality cosmetics. JAFRA Cosmetics is looking forward to substantially increased sales in the current business year. Operating earnings will decline significantly since extensive investments and expenditures are scheduled. A standardized and sustainable penetration of new markets should, for example, be made possible through a harmonization of IT systems, and the digital services and systems available to consultants and customers are going to be extended. Additionally, the building of new office premises in Mexico is planned.

Management Report / Lux Asia Pacific

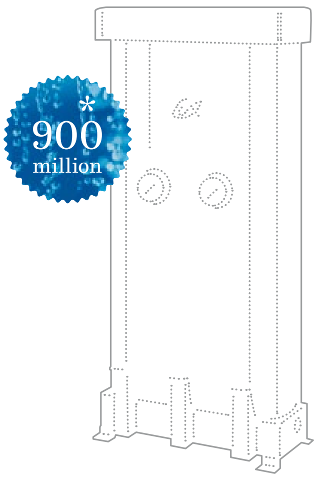
/ FOCUS ON HEALTH AND WELL-BEING
/ RESTRUCTURING STILL ONGOING

Healthy water, healthy air: Lux Asia Pacific focuses on the sale of high-quality water purifiers and air cleaners under the Lux brand name in the countries of Southeast Asia. In this respect, the company numbers among the few direct selling companies in this region that have specialized in high-ticket household products.

Some of the articles originate from Vorwerk's own manufacturing facilities in Shanghai. Lux Asia Pacific regards itself as a company that offers products such as water purifiers mainly under the aspect of the health benefits they provide for customers. The strategic alignment still provides for a concentration on the themes of "water purification" and "air cleaning".

The necessary modifications to the product range and sales systems are still ongoing in some individual markets. The new management installed at the top of the Division implemented a large number of changes in its first full year in charge, changes which should result in revenue growth and a further improvement in profitability in the coming years.

The total sales revenue of EUR 24 million at Lux Asia Pacific was, however, slightly lower than the level of the previous year and distinctly below expectations. Operating earnings were improved as against the



* GOD OF WELLS AND SPRINGS

Long ago in ancient Rome, the importance of clean water was recognized and the people worshipped Fontus, the god of wells and pure springs. The new filter system Lux FONTUS treats water at the point where it enters a house, making it ready for daily use. For many people, taking a shower, washing dishes and doing the laundry in clean, fresh, odor-free water is not something to be taken for granted; Lux FONTUS makes them possible. There are still almost 900 million people in the world today, who do not have access to this vital natural resource. Lux Asia Pacific is committed to changing this state of affairs.

Collecting Culture

On the Scales!

Hunting and gathering have been an important element of human life since prehistoric times. In those dim and distant days, we tended to bring home the mushrooms, herbs and mammoths essential for mere survival. That involved a great deal of exertion, which brought with it the very pleasant side-effect of keeping us lean and fit. Things are different today. We now collect virtual friends, status miles and bonus points. With little or no exercise, we amass kilos we have difficulty parting with again. And how much have you gained? Quick, do the math.

previous year, but remained considerably under forecast. This development was due to the still uncompleted restructuring process.

The largest market, Thailand, suffered a drop in revenue and achieved EUR 11 million (a decline of 7.8 percent). Lux Taiwan was able to grow revenue as against previous year by 2.8 percent to EUR 7 million and thereby confirmed the development of recent years. Lux Indonesia was able to maintain sales volume at a stable level and reported EUR 6 million, the same value as previous year.

Given the new alignment of the brand and the focus on water purification, Lux Asia Pacific will successfully conclude the restructuring process and is looking forward to a significant improvement in revenue – also in view of a new product line. Operating earnings will improve distinctly.

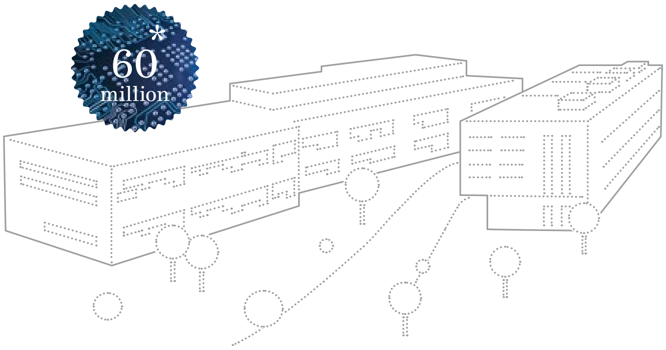
Management Report / Vorwerk Engineering

/ INNOVATIVE PRODUCTS
/ SUBSTANTIAL INVESTMENT IN INFRASTRUCTURE

The Vorwerk Engineering Division is represented at three sites: Wuppertal (Germany), Cloyes-sur-le-Loir (France) and Shanghai (China). The largest facilities in the network are in Wuppertal with almost 1,200 staff. The sector, Research & Development, is also located in Wuppertal. The Division manufactures its products as commissioned by the sales divisions which steer the development process and have successfully conceptualized the products over many years now by applying the experience gained from direct customer contacts.

The Engineering Division is therefore very dependent on the development of business at the Vorwerk sales companies. Revenue in 2016 developed in line with the sales trends reported at the sales divisions.

The Engineering Division has manufactured a number of innovative products in recent years that have successfully established themselves on the market. For the Thermomix TM5, launched in the autumn of 2014, there was timely investment in expanding infrastructure and the machinery park to enable the targeted higher output capacity to be achieved in the summer of 2016. Another innovative product impulse for the Thermomix TM5 was generated in 2016 with the Cook-Key.



* NEW SPACE FOR IDEAS

In 2016, Division Engineering invested just under 60 million euros in converting existing and erecting new buildings at the Vorwerk production facilities in Wuppertal, Cloyes-sur-le-Loir and Shanghai. This is the most extensive upgrade and expansion of our infrastructure in decades. At the same time, more space is created for better staff work conditions, and for new, innovative and ground-breaking products that impress people all over the world.

The entire product range at the Kobold Division was switched to the next generation appliances in the year under review.

The innovative strength is clearly reflected in the number of patent registrations. Worldwide, Vorwerk registered a total of 1,987 national and international patents or patent applications in 2016.

Purchasing at the Division was partially confronted with increasing prices in significant areas in 2016. Plastics and metals were particularly affected by this. This development was to a certain extent expected and so the price of copper e.g. could be hedged early enough. However, a much greater influence was felt from rate of exchange fluctuations with a clearly negative trend becoming apparent towards the end of the year.

Both hedging activities as well as the search for alternative suppliers combined with intensive negotiations contributed to material prices being kept at a more or less constant level. The risk management measures currently installed meant that the Division was not affected by insolvencies or other failures of key suppliers.

There was continue investment in infrastructure at all facilities. The main measures for Wuppertal include the building of a new motor manufacturing plant as well as the construction of a new administrative center that will also house R&D.

It is particularly pleasing that the Division could create new workplaces. In the Wuppertal plant alone, the number of staff increased by 108 to 1,182.

The Executive Board has approved capital expenditure over the next two years in an amount exceeding EUR 100 million for the infrastructure measures described above, particularly at the German locations, product launches and capacity extensions.

Overall, the Division expects a somewhat stable development of business for 2017. This will be correspondingly reflected both in revenue as well as in operating earnings.

Music Culture

Ode to the Violin

What would we be without fiddles? You can do so much with them. You can play someone like a fiddle, but first make sure they're not highly strung. Then again, if you are the kind of person who always has to play first fiddle, go get 'em, Maestro!

Management Report / akf group

/ **PLEASING DEVELOPMENT IN ALL SECTORS**

/ **NEW BUSINESS AT RECORD LEVEL**

The Wuppertal-based akf group is positioned as a traditional finance partner of small and medium-sized companies. On the market now for more than four decades, akf bank with its subsidiary ERNST Factoring as well as akf leasing with its foreign subsidiaries and akf servicelease have been offering a product portfolio tailored to the funding requirements of these clients. This comprises innovative loan models, capital-friendly leasing alternatives, flexibly structured hire purchase arrangements as well as factoring options to optimize operational liquidity. Safe and simply accessible cash deposit products round off the range of offerings. Customers come from the metal, plastics and wood-processing areas as well as the graphics industry. Further, manufacturers, dealers and buyers of cars, commercial vehicles, yachts and agricultural technology number among the clients.

All sectors of akf group developed pleasingly. The new business volume in the banking and leasing segments could be substantially increased with EUR 1.2 billion being reported, a rise of 8.8 percent as against the previous year.

Business with vehicle finance could be improved by EUR 35 million and continues to play a prominent role with a volume of EUR 558 million and an almost unchanged share of total business, namely 47.8 percent (previous year: 48.7 percent).

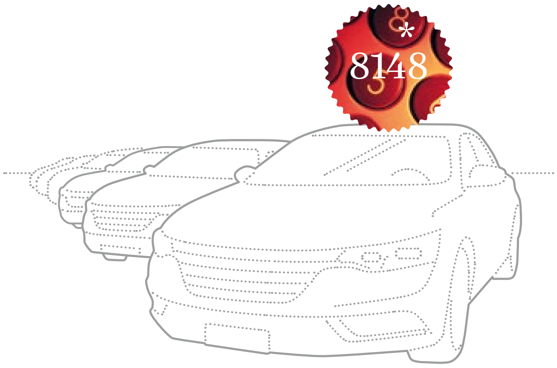
Business stemming from the financing of machinery and other equipment for the mainly small and mid-market segment amounted to EUR 363 million (previous year: EUR 331 million) and accounted for 31.1 percent (previous year: 30.9 percent) of overall business.

The funding of mobile agricultural and construction technology declined slightly with a business volume of EUR 102 million being reported (previous year: EUR 112 million), a figure which represented 8.7 percent (previous year: 10.4 percent) of total business.

Consumer finance for vendor funding of high-quality household appliances from the Vorwerk Group was 34.1 percent above the level of the previous year at EUR 145 million.

In the factoring business, the volume of purchased receivables grew from EUR 465 million to EUR 609 million.

In the case of financial services, revenue is calculated on the basis of the interest and leasing income as well as the payments for other services that are received as compensation for the relinquishment of capital or assets. Revenue (without VAT) at akf group increased by 11.9 percent to EUR 431 million.



* CALCULATOR, PLEASE

There are 12 months, 52 weeks, 365 days, 8,760 hours or 525,600 minutes in a year. Correct? Not necessarily. In fact, akf servicelease is ringing in a new era for itself. Add up the fleet financier's total rental months, in other words, the months in 2016 in which customers availed themselves of the just under 850 vehicles of its long-term rental fleet, and you get a total of 8,148 months. Let's not even get started on the minutes.

The development of new business, revenue and operating earnings exceeded expectations. The interest rate margin – the gap between the lending and refinancing rates – is of decisive importance for the earnings situation of akf group. Despite a slight decrease in interest margins by 40 basis points on a year-on-year comparison, interest income could be increased by 3.5 percent. The reason for this development was the larger than expected overall portfolio resulting from the substantial increase in the level of new business.

As in previous years, the refinancing of akf group was implemented – mainly with matching maturities – through interbank transactions, a revolving ABCP program, one open-ended ABS bond as well as the deposit-taking arm of the business. The bank intends to increase its ABS bonds in 2017 and raise the amount of its current ABCP transaction if need be. The deposit-taking business also developed positively in the business year just closed. The potential client base can be extended to include commercial clients where appropriate. The first transactions of this nature are scheduled to start in the first quarter of 2017. In total, some 20,600 clients (previous year: around 17,800 clients) had entrusted deposits of EUR 1,230 million (previous year: EUR 979 million). As in previous years, business was only transacted on an online basis. In terms of interest payments for the various products, akf group handles all clients in the same manner as a matter of principle and refrains from making any special offers to attract new clients. In addition, the market-driven interest rate cuts that were again necessary in 2016 were implemented with a time lag to the advantage of our portfolio clients.

In accordance with the company's strategic alignment, akf group has a highly diversified business operation both in terms of sectors and asset categories. akf group will continue to present itself as a reliable and competent partner to potential end customers for funding solutions as well as to manufacturers and dealers and therefore sees additional opportunities for the planned level of new business.

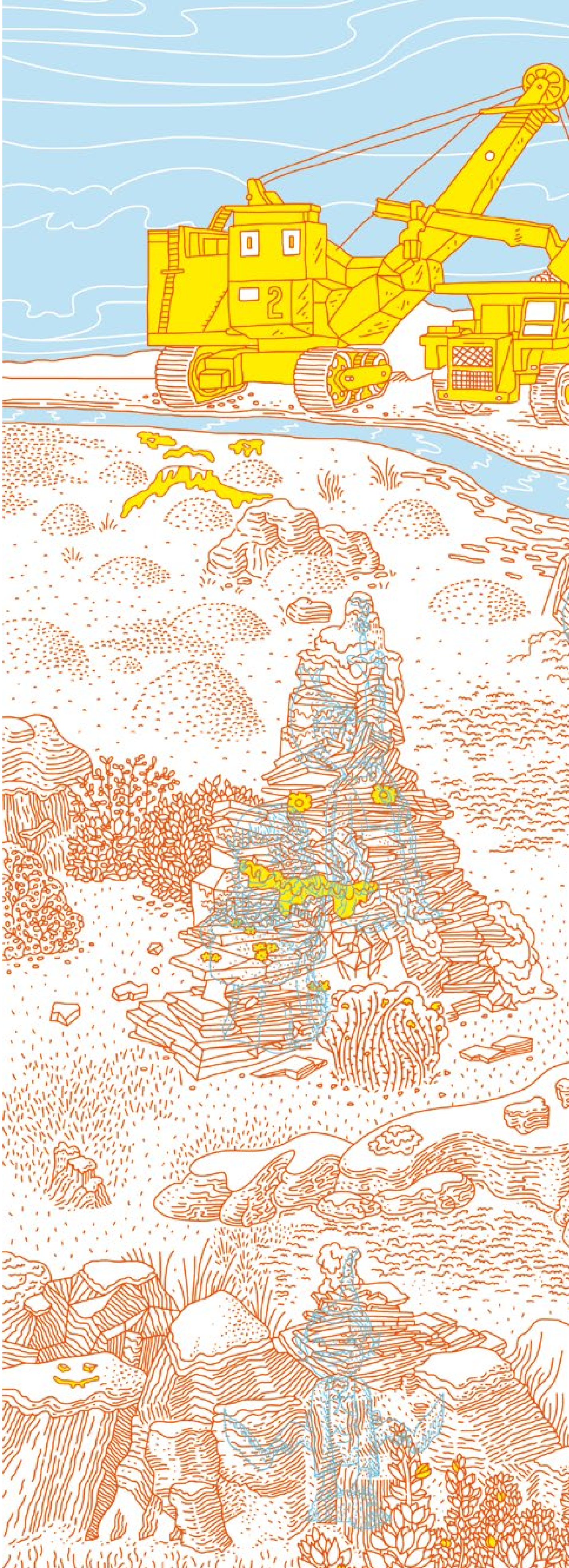
In the light of a distinct increase in new business, a considerably higher business portfolio is assumed for the 2017 business year. Slightly higher interest rate income is expected given an interest rate margin which will be somewhat lower, but still at a quite healthy level. Following the year 2016 in which a lower level of risk provisions in relation to the business portfolio was reported, akf group expects that costs for risk provisions will rise moderately in relation to the business portfolio and thereby also be higher in absolute terms than in the year under review. Naturally, this assessment is subject to certain risks associated with the economic situation.

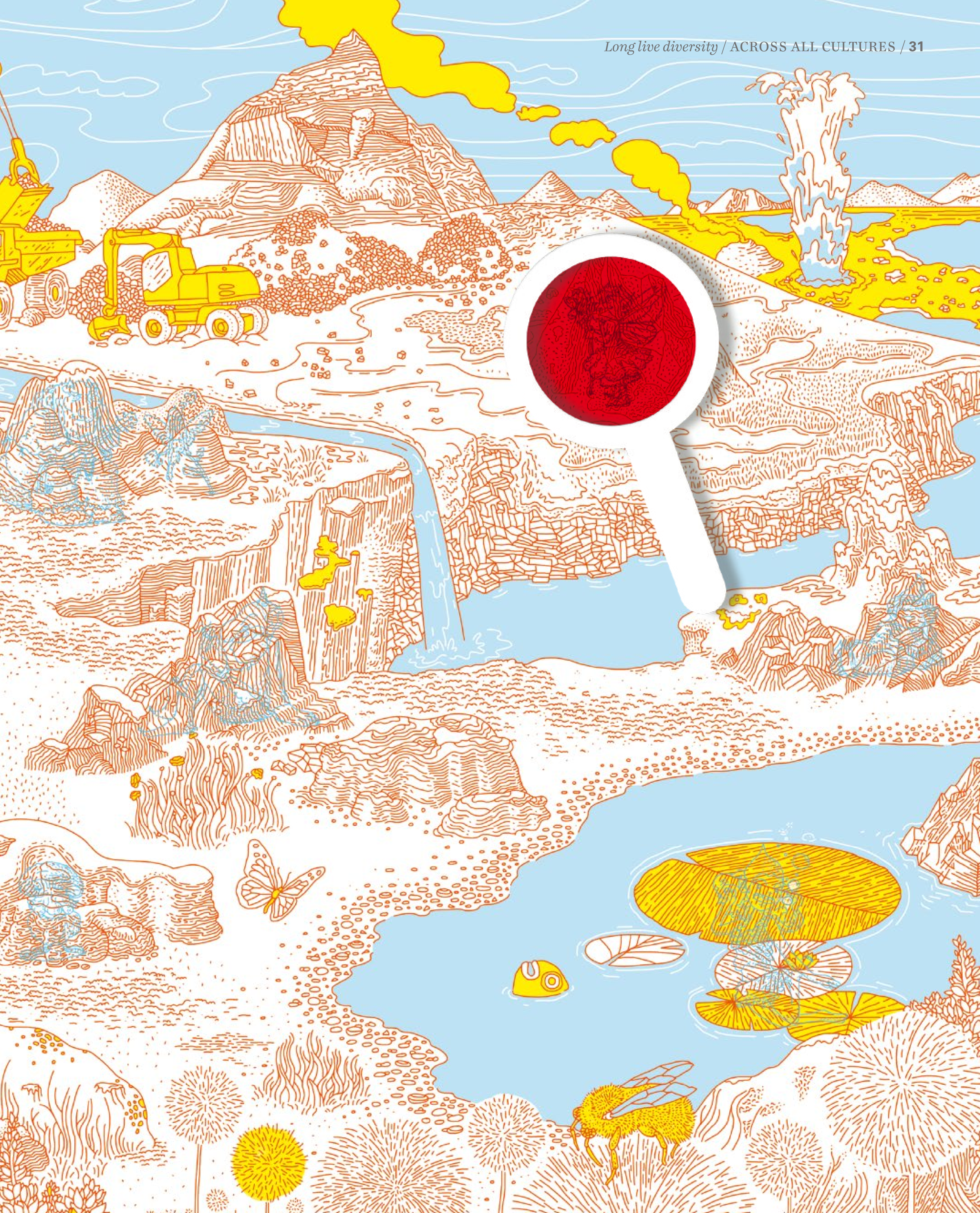
Mystic Culture

Very Troll

It’s well known that faith can move mountains – or at least entire roads, as in Iceland, when it’s a question of protecting elves, gnomes and trolls. Folklore has it that these ethereal beings inhabit many of the island’s rocks and their homes must not fall prey to construction projects. Official experts decide whether or not a particular location is an elf habitation.

Do you have what it takes to become an official elf expert? See if you can find all ten mythical beings hidden here.





Management Report / Vorwerk flooring

/ DIVISION RESTRUCTURED

/ LEAD PLANT IN HAMELIN STRENGTHENED

The Vorwerk flooring Division was completely restructured in the year under review and a strategic change process introduced. Besides investments in strengthening its position in the market and innovative offers, the program will also provide for an enhanced production platform. This will mean that the Hamelin headquarters will be strengthened through substantial capital expenditure. The production facilities will be improved to number among the most innovative in the entire industry. In this respect, the factory locations at Geesthacht and Hamelin were brought together and combined in 2016. Essential products and wholesale collections that had previously been manufactured at the Geesthacht carpeting facility are now being produced at Hamelin. Manufacturing at the plant at Geesthacht was suspended at the end of October 2016.

The Vorwerk flooring Division could yet again hardly escape the negative trend throughout the industry and, contrary to forecast, the revenue reported of EUR 70 million (a decline of 8.7 percent) was below that of the previous year. Operating earnings fell significantly short of expectations due to some special effects and the decline in revenue but was improved in comparison to the previous year.

* COLOR CULL

One aspect of esthetics is choosing the ideal color. In order to achieve the perfect composition, the dyeworks laboratory at Vorwerk Teppichwerke uses a meticulous, high-tech procedure to discard between 13 000 and 14 000 different shades step by step every year. That translates into an average of some 70 shades every single workday, which just goes to show that when it comes to quality and beauty, we are dyed-in-the-wool committed.

Vorwerk flooring launched a number of new collections for the residential and contract segments in the year under review and commenced with targeted marketing activities aimed at exploiting the brand potential of Vorwerk in the future. In this respect, a new lead collection supplemented by an accessory range for living spaces could be placed across a broad base within the trade. Additionally, Vorwerk flooring launched a new collection for the contract business under the Nordpfeil brand. Moreover, the marketing of the Vorwerk brand was purposefully strengthened in the trading environment with more rapid recognition through the development of a high quality furniture collection.

Overall, Vorwerk flooring assumes that the market situation for textile floor coverings will continue to be challenging. Given the high brand awareness and the acknowledged good quality, however, it should be possible to further improve the position in the market.

Vorwerk flooring is looking forward to moderate revenue growth in the 2017 business year and to a significant improvement in operating earnings.

Management Report / Vorwerk Direct Selling Ventures

/ FUNDING OF DYNAMICALLY GROWING COMPANIES
/ FOSTERING AND EXCHANGE OF KNOW-HOW

Access to innovations in direct selling and the fostering of change and renewal: Vorwerk Group has been investing since 2007 in business models pursuing novel and promising sales concepts through its venture capital unit, Vorwerk Direct Selling Ventures.

Vorwerk Ventures had participations in 13 companies at the end of 2016. The portfolio of the investment arm includes the entities Dinner-for-Dogs Group, CrossEngage, flaschenpost, Gestigon, HelloFresh, Horizn Studios, JUNIQE, Lesara, Mädchenflohmarkt, MeinAuto, Pippa&Jean, STOWA and VANIDAY. The investment portfolio is managed with a view to the exit potential.

In the 2016 business year, the investments in stylefruits and Tennis-Point were successfully sold. In addition to investments as part of a wider, external financial consortia commitment in the existing portfolio, new participations in CrossEngage and flaschenpost were entered into in 2016. Vorwerk Ventures contributed positively to the Group's results yet again.

Management Report / Personnel Development

/ STAFF AS A COMPETITIVE ADVANTAGE
/ SYSTEMS REVISED AND STANDARDIZED

Effective organizational and leadership competence has been identified as an essential strategic priority for all HR activities at the Vorwerk Group to support the long-term growth approach and to meet the present and future entrepreneurial challenges. Strategic personnel planning will play a key role in fostering the long and mid-term expansion of the Group by ensuring that HR makes available the right degree of human capital in the desired quality.

Vorwerk revised its leadership principles and the statement of its essential core competencies in the year under review. In the next few years, advanced training will be available on a continuous basis to enable management staff at all levels of the organization to bring forward, lead and live the management culture and the strategic change initiatives that are necessary to ensure sustained growth. Other training programs will be initiated when needed and at the appropriate point in time.

Strategic human resources systems such as “Performance Management” and “Talent Management” have been standardized across the entire Group so as to be able to specifically adapt them to current and future corporate requirements and to offer all staff across the whole organization interesting personal and career development opportunities. Staff members are trained systematically to make sure they are able to effectively implement all the processes and systems.

The commitment and satisfaction of employees is not only verified on the basis of the regularly conducted international staff surveys but also as part of a half-yearly “climate poll” that was introduced into the Vorwerk Group in the first half of the year under review.

In the second half of 2016, agreement was found with the employee representation regarding the introduction of working time accounts at the German companies in the Vorwerk Group. These working time accounts will enable Vorwerk to face the new challenges associated with demographic change. The target from applying an anticipatory HR approach is to pay due attention to the demands for family-friendly, age and performance-oriented working conditions and training opportunities as well as to create the possibilities for a flexible transition into retirement. This instrument helps commit and bind staff to the company, an aspect that is just as important.

649,075 people, on average, worked in 2016 for the companies of the Vorwerk Group either as self-employed sales advisors or as permanent staff members. The number of permanent employed staff was 11,949; the number of self-employed sales advisors 637,126.

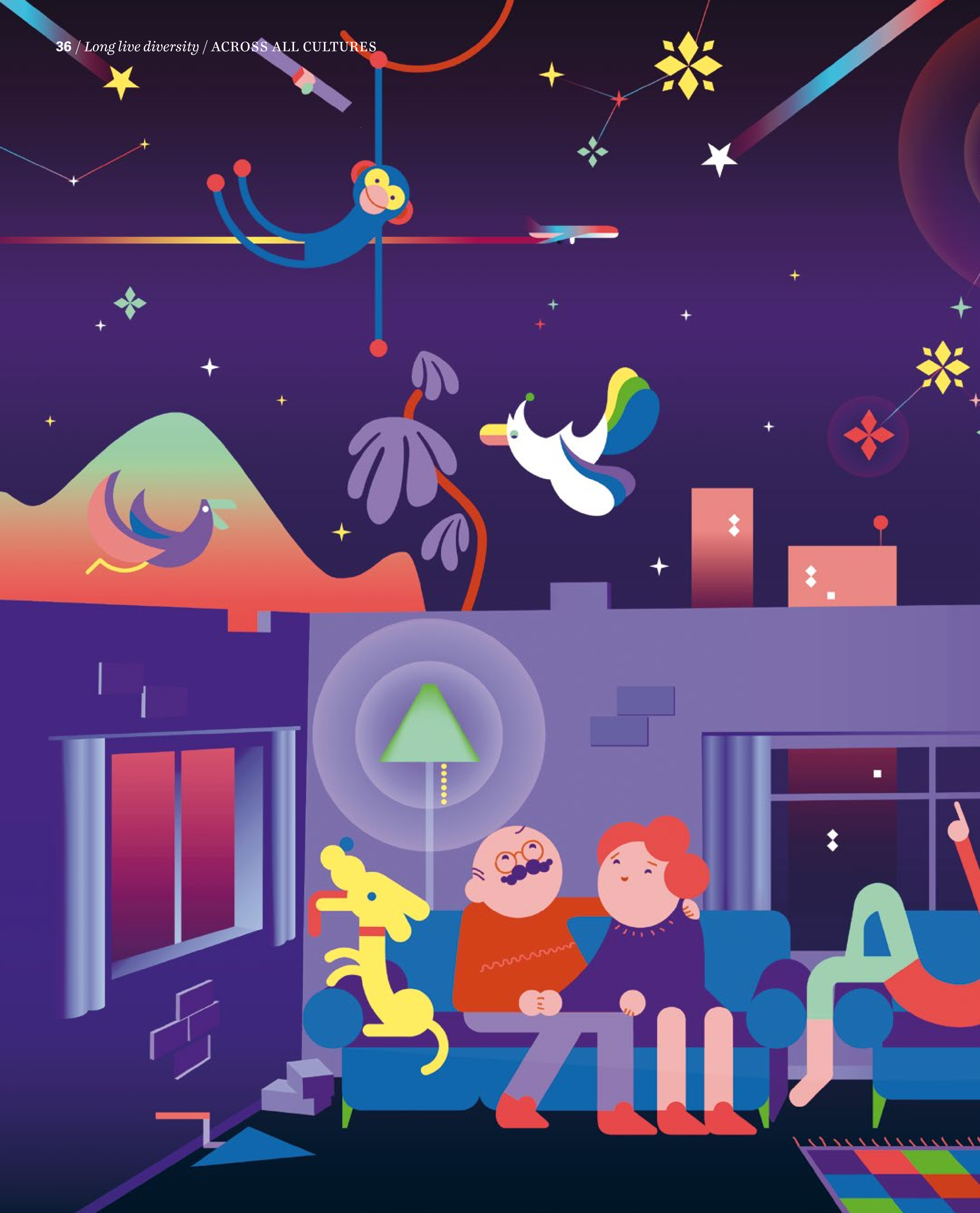
STAFF (ANNUAL AVERAGE)

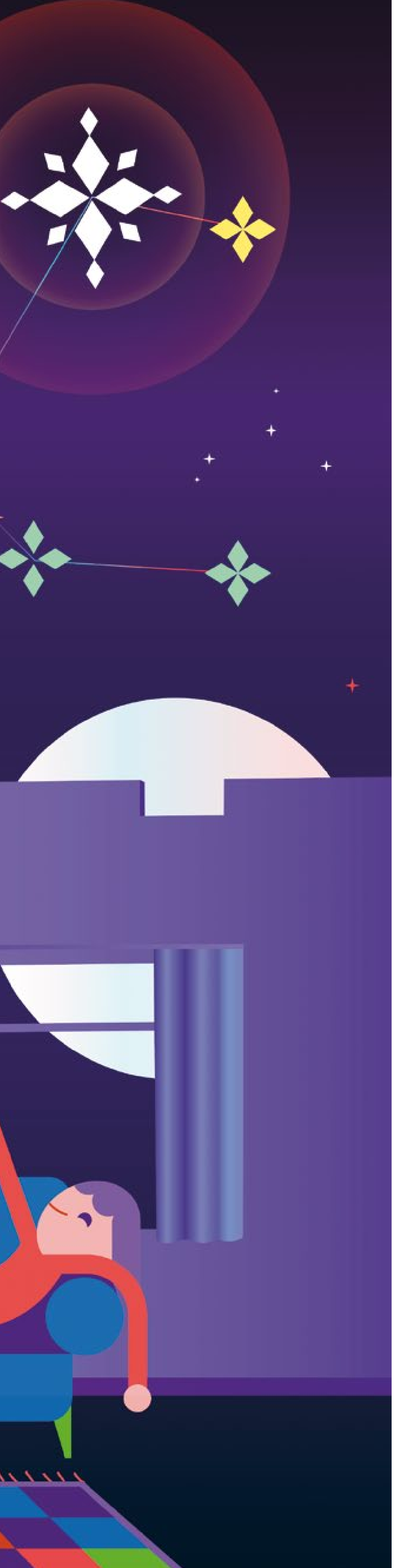
	2013	2014	2015	**2016**
Direct sales				
Thermomix*	1,734	1,944	2,264	**2,762**
Kobold*	2,902	3,115	3,336	**2,238**
JAFRA Cosmetics	2,119	2,251	2,103	**2,153**
Lux Asia Pacific*	3,720	3,200	2,380	**2,075**
Vorwerk Engineering	1,227	1,307	1,519	**1,699**
akf group	362	386	418	**430**
Vorwerk flooring	328	400	422	**414**
Others	144	168	170	**178**
Total*	12,536	12,771	12,612	**11,949**

SELF-EMPLOYED SALES ADVISORS (ANNUAL AVERAGE)

	2013	2014	2015	**2016**
Thermomix	30,330	34,417	41,884	**45,672**
Kobold	9,552	9,900	10,739	**13,712**
Others	146	259	324	**422**
Self-employed sales advisors "household appliances"	40,028	44,576	52,947	**59,806**
Self-employed sales advisors JAFRA Cosmetics	569,693	546,580	559,937	**577,320**
Self-employed sales advisors in total	609,721	591,156	612,884	**637,126**
Total Vorwerk workforce	622,257	603,927	625,496	**649,075**
of which sales advisors*	614,638	596,014	617,514	**640,615**

* Including employed sales advisors





Building Culture

Room With a View

For some time now, a new trend in architecture has been in evidence in Bolivia. People are simply doing without a roof and enjoying an unobstructed view of the universe.

While the weather may cause inconvenience or discomfort, recompense for these advantages comes in the prospect of gazing at Scorpius and Sirius.

Does that make Bolivians hopeless romantics? Not at all. Nearer the mark would be to view them as crafty foxes making the most of a loophole. You see, in Bolivia, not having a roof over your head means a big reduction in your tax bill.

Management Report / Assets and Earnings Situation

The consolidated balance sheet total of the Vorwerk Group had increased by EUR 414.7 million to EUR 4,924.0 as of balance sheet date on 31 December 2016. The increase was mainly attributable to the increase in the fixed assets by an amount of EUR 238.5 million. Additionally, the positive development of business at akf group also contributed to this.

Last year, the Vorwerk Group invested substantially in tangible fixed assets, particularly in the production facilities and in the rental assets. Although the additions to the tangible fixed assets overall were 4.8 percent below previous year in the year under review, a higher level of investment could once again be witnessed. The Engineering Division continued with its investments in production capacities and infrastructure measures in the year under review, albeit not to the same extent as in the previous year (minus 13.2 percent). Additions to the leasing assets corresponded approximately to those of the previous year. Cash flow from investment activities was again correspondingly impaired despite the decline in capital expenditure. The investment ratio of 26.7 percent was 4.4 percentage points lower than that of the previous year but continued to be at a high level. The tangible assets ratio of 26.6 percent approximately reached the level of the previous year despite the increased balance sheet total.

Vorwerk increased financial assets by more than EUR 100 million in the year under review so as to secure future investments.

Similar to the fixed assets, the current assets showed a substantial increase of 8.8 percent with varying intensities in the separate items.

Inventory assets increased by EUR 48.8 million, primarily due to an increase in stocks of production materials to ensure the delivery capability. On account of the increase in inventory levels as against the year before, the frequency of stock rotation was 4.1 percent below the level of the previous year.

The value of the trade receivables was negligibly lower by 1.6 percent. At the same time, the value adjustments were adapted to the payment conduct of customers. The value adjustment ratio is approximately unchanged at the same level as the previous year (plus 0.2 percentage points).

Despite consistently falling interest rates, the expansion in the installment loan, investment credit and forfeiting business at akf group resulted in an increase in the level of receivables from customers in the banking and leasing sector by EUR 142.9 million. In this area, the value adjustments ratio fell by 1.6 percentage points.

Receivables from affiliated companies rose by EUR 4.4 million, in particular due to loans granted to companies not consolidated within the Group.

The other assets item has essentially increased by EUR 14.6 million due to the establishment of a security reserve. The 42.8 percent ratio of current assets to total assets was at the level of the previous year. The cash ratio – defined as the cash resources available at short notice against current liabilities – amounted to 47.4 percent in the year under review (previous year: 48.9 percent).

The liabilities side was characterized by partners' equity of EUR 1,839.9 million. This also expresses the partners' equity capital ratio of 37.4 percent (previous year: 38.7 percent). Given an assumed consolidation of akf group at equity, the partners' equity capital ratio would be lower than previous year at 62.6 percent (previous year: 64.3 percent). The equity to fixed assets ratio amounted to 67.3 percent and was thereby 2.7 percentage points lower than the previous year.

Accruals increased by 11.4 percent. Provisions for pensions and similar obligations were, for a first time, based on the average market interest rate prevailing over the previous ten years and not discounted with the average market interest rate over the last seven years as in the previous year. Consequently, the provisions for pensions were almost at the same level as the previous year. Besides higher provisions to cover tax risks, the rise in other accruals mainly concerned higher accruals for personnel cost provisions due to some special measures and other reserves for outstanding invoices, in particular for EDP work within the scope of the ongoing IT projects.

The renewed expansion of business at akf group had an increasing effect on the obligations, just as it did on the receivables. The liabilities increased overall by EUR 244.1 million.

Liabilities to banks were predominantly attributable to akf group. Liabilities from the deposit-taking business exclusively concern akf group. They rose by EUR 259.5 million in the year under review despite the declining interest rate level and were used to refinance the expansion of business across the entire Vorwerk Group.

Trade payables fell by EUR 93.6 million, primarily on account of another repayment of an ABS transaction by akf group. The generally higher level of liabilities also had an impact on the degree of indebtedness which increased by 8.3 percentage points to 163.8 percent as against the previous year. Given an assumed consolidation of akf group at equity, the degree of indebtedness would amount to 58.6 percent (previous year: 55.5 percent).

The deferred income item included besides year-end-related income accruals, accrued net present values for the leasing receivables sold to third party banks which were subject to scheduled reversal. The extension of business at akf group mainly resulted in this EUR 23.4 million increase in the deferred income item in the year under review.

Vorwerk achieved Group sales of EUR 3,058.2 (excluding VAT) million in the 2016 business year, an increase of 4.1 percent. The return on sales was lower by 1.2 percentage points. The growth in revenue was mainly due to the sustained good level of demand for the Thermomix TM5. Reference is made to the respective comments on the divisions for detailed explanations on revenue development.

In comparison to the previous year, the cost of materials (without the bank and leasing operations) increased by 10.5 percent. The cost-of-materials ratio was 1.5 percentage points higher than the previous year. This was due to the switchover to the new generation models at Kobold and upfront production runs to ensure the delivery capability in all areas.

The increase in the costs of loan and leasing transactions by EUR 21.3 million was primarily due to the renewed higher residual book values of the leasing assets.

Besides the general increase in wages and salaries, the increase in personnel expenses by EUR 23.5 million was also due to some special effects from the planned restructuring measures. The number of staff and employed advisors fell by 5.3 percent.

As a consequence of the high levels of investment in the last two years, depreciation rose by 10.4 percent and mainly concerned the extension of capacities at the manufacturing locations of the Engineering Division as well as the rental assets of akf group.

The other operating expense item increased by 4.4 percent in the year under review. In particular, this concerned the expenses for commission payments made in the direct sales area for high-ticket items, which rose in relation to the increase in sales, as well as expenditure resulting from two business and IT projects. The higher revenues also led to an increase in the expense for warranties.

The EUR 9.0 million increase in the financial result was mainly attributable to the discounting of provisions for pensions and similar obligations at the average market interest rate of the last ten years and not the last seven as in the previous year. This meant that the interest expenses were lower.

The operating earnings and the development of income were below expectations across most Divisions. The negative earnings situation at Lux Asia Pacific and Vorwerk flooring is dissatisfactory.

Legal Culture

Legal Giggles

Every constitutional state has an elaborate body of laws. Not even in the land of endless possibilities is everything allowed, as the following laws reveal – and yes, they really do exist! Don't even think of playing dominoes on a Sunday in Alabama. And if you are considering tying up your private elephant at a parking meter, don't forget to pay the parking fee. Before you come into conflict with the law, better have a word with your friendly neighborhood cop.

Management Report / Financial Situation and Development of Financial Assets

The financial markets were once again mainly influenced by political events and emotions last year. The macroeconomic trends were indeed positive, but they hardly played any role on market movements. Significant market-impacting factors were several terror attacks, anxiety about developments in China in the first quarter, the “Brexit” decision in Great Britain in June, the OPEC decision to cut output in September, the somewhat surprising election result in the USA in November as well as the unsuccessful referendum in Italy in December. Together with these political occurrences, the activities of the central banks played a major role for the capital markets in 2016.

In the USA, which reported relatively good economic data throughout the entire year, the U.S. Federal Reserve implemented the long-expected interest rate hike in December. The European Central Bank modified its quantitative easing policy very slightly towards the end of the year. This can be attributed to the astonishingly positive development of business in Europe despite the “Brexit” decision and the political crises.

The performance of the euro was also quite remarkable. An appreciation in value against sterling and the Chinese yuan had to be balanced against a weakening towards commodity currencies (e. g. Australian and Canadian dollar) as well as the US dollar.

The events described above repeatedly led to short-term volatility on the share markets, an effect that was, however, never sustainable. It had even fallen to its lowest level in years at the end of the year.

The Vorwerk Group adapted its strategic asset allocation in some areas accordingly. A policy of hedging against extreme exchange rate fluctuations contributed to ensuring that the risk parameters were not excessively strained, particularly at the beginning of the year and after the Brexit decision. The widely diversified portfolio achieved another positive result in the business year just closed and the reserves could be further built up. As in past years, Vorwerk (without akf group) funded itself almost exclusively from operative cash flow.

The policy relating to the investment of the freely available liquidity from the entire Group ensures that 60 percent of the liquidity portfolio can be realized within a three-month period and made available for the operational business if need be. In the year just closed, liquidity at the Vorwerk Group again developed favorably despite investment in the extension of the manufacturing capacities.

As in previous years, akf group refinanced its lending operations mainly with matching maturities using the interbank market, a revolving asset-backed commercial paper (ABCP) program and two similarly open-ended ABS bonds. One ABS bond went into its scheduled amortization phase and a new ABS bond was issued in the year under review. The securitization programs had been taken up to an extent of EUR 804 million as of balance sheet date, leaving a free line of EUR 9 million.

The deposit-taking operations developed successfully in the year under review. From a total volume of EUR 1.230 million (previous year: EUR 979 million), fixed-term deposits accounted for EUR 818 million and overnight money for EUR 412 million.

Liabilities of akf group towards banks amounted to EUR 530 million as of balance sheet date compared with EUR 503 million in the previous year.

The parameters pursuant to the Liquidity Directive (LiqV) were satisfied in the maturity band 1 with 2.5 percent as of December 31, 2016. The lowest figure in the business year 2016 was 2.5 percent.

akf bank can always cover its short-term liquidity needs from third-party banks and by taking up credit lines made available by the German Central Bank within the scope of open market transactions.

Management Report / Risk Management System, Opportunities and Risks

Handling the opportunities and risks of probable developments is a constituent element of the entrepreneurial leadership function at the Vorwerk Group. The principles relating to risk management have been defined and approved by the Executive Board of Vorwerk & Co. KG. The structure and assessment of the risks have not changed considerably in comparison to the previous year.

The Vorwerk risk management process forms an integral part of the controlling and management processes. The risk situation is represented in a risk matrix and evaluated regularly. The process comprises the identification, assessment, communication as well as the steering and control of risks. The overall performance as well as the opportunities and risks associated with current business are discussed in Executive Board and Supervisory Board meetings. In principle, uniform guidelines apply across all divisions. They are defined by the Executive Board of Vorwerk & Co. KG and monitored in the form of a reporting process by the Executive Board to ensure they are adhered to.

RISK ASSESSMENT MATRIX

Possible financial impact	Very low 1–5 %	Low > 5–20 %	Medium > 20–50 %	High > 50 %
Significant > EUR 30 million		Business environment & industry risks Production & supply chain		
Moderate > EUR 20–30 million		Legal risks	Financial risks	
Insignificant EUR 1–20 million		Risks from pension obligations		

Occurence probability

The risks are quantified twice a year within the scope of a risk analysis, which comprises an assessment of the expected level of damage from the risk and the probability of it occurring. Irrespective of this, the risk situation in the individual divisions is closely monitored during the year.

Within the scope of business activities, some risks with a low occurrence probability and with no significant effect on the earnings and financial situation may emerge from legal disputes, particularly with regard to competition, patent, taxation or contractual law or product liability. Internal guidelines and, if need be, legal counseling actively address such risks and attempt to limit them from the very outset. Possible future risks may result from tax reform initiatives which could impair financial and taxation planning dependability. The risks from pension obligations are mainly interest rate risks, which have been considered in the planning to the greatest possible extent and would only have minimal impact on the earnings outlook.

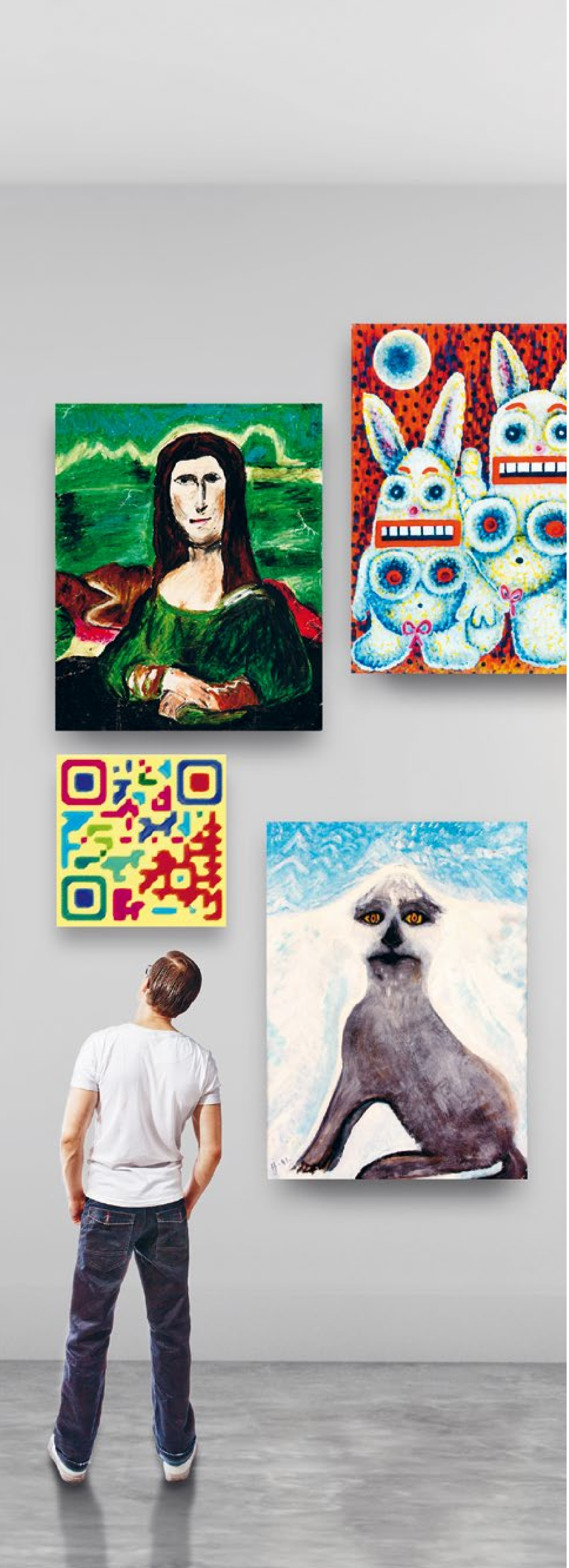
Some risks emerge from the manufacturing operations, particularly when production equipment breaks down or a lead production facility is incapacitated. This would have direct consequences on the capability to supply the products and thereby have a significant impact on incoming revenue and correspondingly also on the earnings and liquidity situation. Engineering addresses these risks with the controls already installed, targeted investments in preventive measures and the successive establishment of back-up solutions.

The risk of losing strategically important suppliers is counteracted by Vorwerk with a sustainable supplier management approach. In this respect, Vorwerk maintains long-term strategic partnerships with its most significant suppliers to stabilize purchase prices and also to obtain competitive conditions for 2017.

The individual divisions operate in markets that are characterized by ever-changing customer requirements and by the possible entry of competitors. To meet the needs of customers in these areas and to differentiate ourselves from potential competitors, new products and services are continually being developed, existing products and services improved and investments made in the development of new technologies. The launch of new, innovative products calls for a strong commitment to R&D, for which the investment of considerable financial resources is necessary, but which may not always produce the desired results. Sales revenues and earnings could be negatively impacted by investments in such products should they not be accepted by the market as expected.

The investment strategy at the Vorwerk Group primarily pursues the target of securing assets long-term. The instituted Internal Financial Committee regularly scrutinizes the strategy with the aim of optimizing the opportunity/risk profile. Risks ensuing from exchange rate fluctuations are also taken into consideration and hedged as far as possible. The risk from investments and foreign currencies is expressed in terms of the “value at risk” (VaR). This value was EUR 42.3 million for investment management and EUR 9.9 million (without akf group) for foreign exchange management at the close of the business year under review.


MORE!!!!



Art and Culture

Eyesores

Art derives from ability? The answer to this question lies very much in the eye of the beholder. The Museum of Bad Art in Somerville, Massachusetts, exhibits works by artists who are serious about their painting, but not taken seriously. “It can’t be so bad if it’s on the wall here,” some burglars thought to themselves and stole one of the works. The epoch-making ransom money of no less than 36.73 dollars offered for its return was magnanimously refused by the anonymous finder, who must have been an expert on bad art.

Ignore or invest? Scan the QR code to visit the MOBA.

Vorwerk pursues a fundamental policy of further internationalizing its business segments so as to reduce the risks resulting from an unbalanced dependency on individual products and on the development of single subsidiaries. The target is to minimize any impact on sales revenues and earnings. On the other hand, the continued internationalization of the divisions as well as the development and launch of new products provide considerable opportunities for the company. A main focus in the upcoming years will be on further developing digital offers and services – a segment which offers substantial growth opportunities for the Vorwerk Group. With this in mind, product development is already working on new innovations.

Derivative financial instruments are only used to hedge underlying transactions in the areas of foreign exchange and raw material management. The basis for the use of such instruments is the systematic ascertainment and verification of the exposure and the financial risks thus resulting. The objective of applying financial derivatives is to reduce the identified risks.

A critical examination of the risk portfolio allows the conclusion that there were no risks that might have jeopardized the existence of the company in the year just closed and that, based on current knowledge, such are not identifiable for the 2017 business year.

The opportunities and risks as well as the risk management system installed at akf group are briefly represented below. Since akf bank is closely tied to its sister companies and subsidiaries, both in terms of staffing and organization, the bank's risks outlined below also include the risks of akf leasing and akf servicelease.

In the main, akf group runs an asset-covered business and therefore has, in principle, a low-risk operation. Besides the secured asset itself, there are additional buy-back guarantees from dealers or manufacturers for some of the funded transactions to reduce the risk of default.

The assumption of risks is an inherent component and significant performance factor for the banking sector. The professional management of these risks allows an appropriate balance of opportunities and risks. A restrictive approval policy combined with a good economic situation meant that in 2016 the institute was able to keep the costs for risks below the level of the previous year.

akf group meets the high requirements demanded for the management of these risks by permanently further developing its systems. They help in identifying, measuring, controlling and steering expected and unexpected risks. The functional separation defined in the clear organizational structure ensures regulatory compliance and the effectiveness of the risk management process.

The risk inventory that is compiled annually identifies default, market price, liquidity and operational risks as being significant.

The default risk of akf group mainly comprises the lending risk incurred when a customer cannot fulfill the contractual obligations either fully or partially. Within the scope of the annually-reviewed risk strategy, business is conducted across a diverse group of borrowers and business sectors with high credit standing requirements being demanded. The existing credit risk management system encompasses a detailed and structured credit approval process with credit standing analysis, as well as an effective dunning procedure and escalation process.

Market price risks are understood as being potential losses from adverse changes to market prices or price-influencing parameters. The relevant market risks are subdivided according to influencing factors into interest rate change risks and currency risks – the latter not being regarded as significant. Since the akf group is a non-trading book institute, there are no market price risks from shares, foreign exchange and precious metals or from the corresponding derivatives.

The interest rate change risk describes the danger of having to accept a lower than planned or expected level of interest rate earnings or narrower interest rate margins due to fluctuations in market interest rates. Those items that cannot be adapted at any time to modified market interest rates are subject to such risk. The period for the fixed term interest rate and the number of transactions linked to this interest rate are decisive for the level of risk.

Stress tests are carried out for the default and market price risks on the basis of hypothetical and historical scenarios.

The liquidity risk refers to the risk that present or future payment obligations cannot be met on time or in their entirety. Refinancing of akf bank is effected through loans from third-party banks or through the revolving sale of credit and hire purchase receivables within the scope of an ABCP program. Moreover, akf bank refinances itself through the open-ended sale of credit and hire purchase receivables, as well as leasing receivables purchased from akf leasing within the framework of the KMU ABS bond. Besides this, the deposit-taking activities serve as a significant refinancing instrument. The main purpose is to have a more or less congruent refinancing of the lending business. The liquidity risks are subject to quarterly stress tests.

Like any other company, akf group is also exposed to operational risks. The significant operational risks were identified in a risk inventory on the basis of a risk catalogue using a self-assessment approach. They exist in the form of legal, working, technological and personnel risks. Moreover, external events (e.g. fraud) are also relevant.

The preconditions for flexible and reliable working procedures have been created in the IT department thanks to the software currently in use and the hardware that is constantly updated to correspond to the latest technical standards. A complete back-up computer center with organizational and spatial separation is operated in addition to the in-house solution, thus ensuring maximum protection against the effects of any acts of God.

To reduce the risk of fraud, a working group is involved in dealing with cases that arise on the customer-side so as to prevent any continuation or reoccurrence. A fraud indicator report system is designed to help in identifying possible cases at an early point in time. In principle, there are early-warning systems in place for the general prevention of operational risks. They determine how information that may point to the incidence of a fraud risk can be relayed bank-internally and the measures that are to be initiated. In this respect, every department in the process chain relating to the automotive vendor business and mobile assets is involved.

To monitor operational risks, the cases of damage occurring from risks defined in the risk inventory are reported to Risk Management quarterly and documented in a loss database.

The entire risk management process at akf group, including the methods used and responsibilities, is documented in the risk manual and checked regularly by internal auditing.

From today's point of view, there are no risks for the individual divisions that could prejudice the continuation of business at the Vorwerk Group. The high equity capital ratio of recent years and the enhanced worldwide strategic positioning have led to the creation of higher, risk-covering volumes. At the same time, Vorwerk's diversified base means that the company is generally well-protected against any implications resulting from region, industry or product-specific impairments.

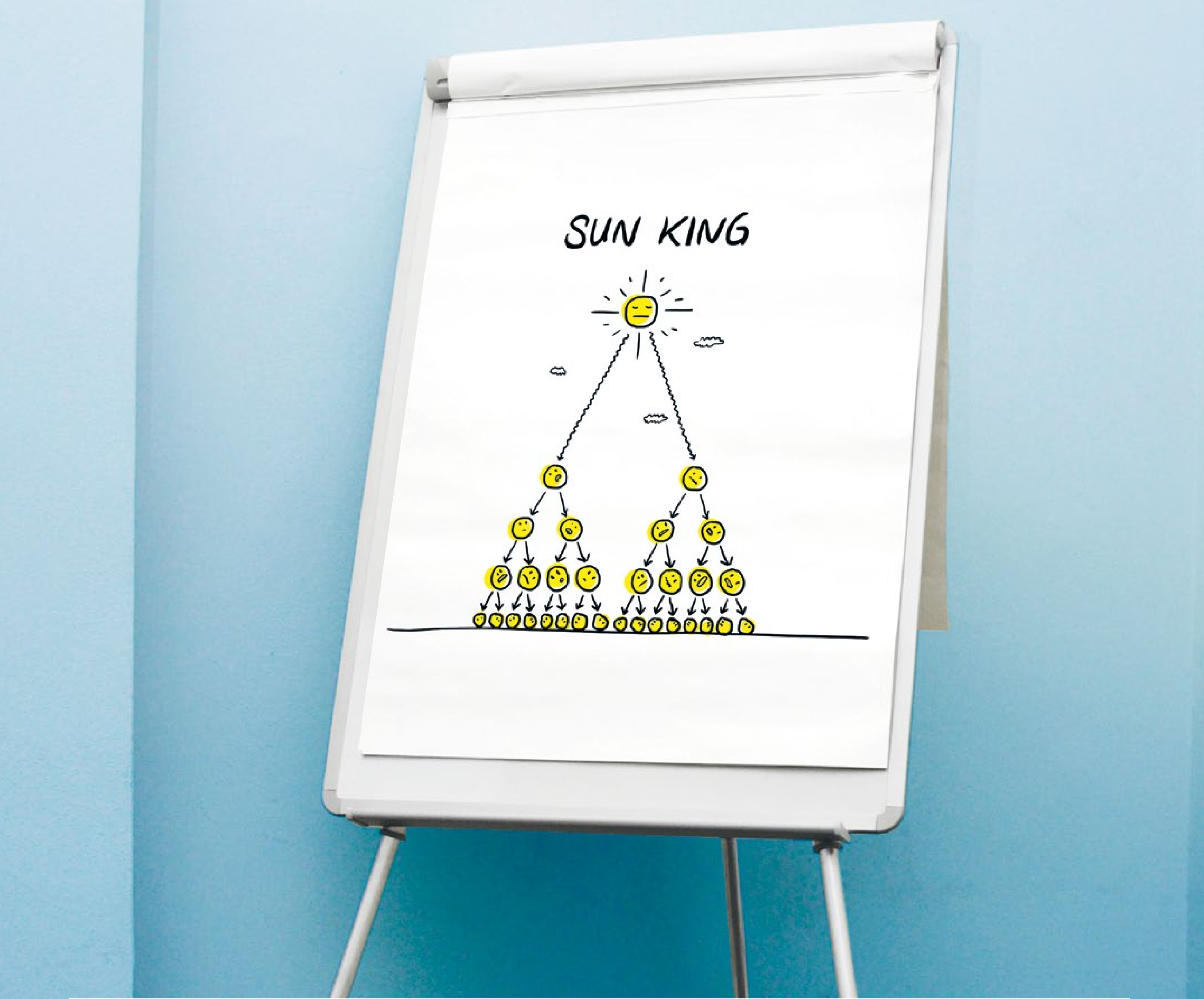
Management Report / Outlook Report

The Vorwerk Group is greatly diversified in terms of products and sales systems, as well as on account of its international positioning. The Group will also benefit from favorable market developments in the future as a result of this structure. The stable foundations of the business will provide the basis for distinctly enhanced capital expenditure in the future. The Vorwerk Group has defined the household segment as its strategic focus. The new vision: “Our superior products and services elevate the quality of life everywhere you call home” will result in greater investment in IT technologies, infrastructure and customer relationship in the upcoming business years.

As a family-owned company that thinks and acts long-term, the Vorwerk Group will rise to the future challenges with self-financed, organic growth or even consider acquisitions should the right opportunity present itself. In this respect, the Group has always attached great importance to a broadly diversified portfolio whilst at the same time intensifying and internationally extending its high degree of competence in the direct sale of high quality household products.

Assuming a stable economic development in its most important markets, the Vorwerk Group expects revenue to be slightly higher in the 2017 business year. This rise will basically come from all the divisions, but particularly from the Thermomix and Kobold divisions. In this respect, we assume that the number of advisors working for us will increase and that there will be a simultaneous enhancement in productivity and activity. The volume of new business at akf group is planned to be distinctly above the level of the year under review. The outlook for the individual divisions has been represented in detail in the respective chapters of the Management Report.

Based on the forecasts from the individual divisions, it can be assumed that operating earnings will be some 6 to 8 percent below the level of the previous year, not least due to expenditures for R&D and for IT projects.



Corporate Culture

This is How it Works!

Top-down or bottom-up? More leadership from above or freedom for the lower echelons? Such decisions shape corporate culture. But you can look at the problem from every angle. The boss shows how it’s done. And at the end of day, it all comes down to the annual balance sheet. We have prepared a few charts for you to leaf through: organograms of corporate culture. Be our guest.

Consolidated Financial Statements 2016

Consolidated Balance Sheet

As at December 31, 2016

Assets	12/31/2016 € 000	12/31/2015 € 000
A. Fixed assets		
I. Intangible assets		
1. Purchased concessions, industrial property and similar rights and assets,		
and licences in such rights and assets	35,834	14,811
2. Goodwill	197,161	208,753
3. Prepayments	960	978
	233,955	**224,542**
II. Tangible assets		
1. Land, similar rights and buildings		
including buildings on leasehold land	92,086	91,400
2. Technical equipment and machinery	119,124	107,090
3. Other equipment, factory and office equipment	62,700	55,582
4. Rental assets	731,985	681,621
5. Prepayments and construction in process	53,264	36,021
	1,059,159	**971,714**
III. Financial assets		
1. Shares in affiliated companies	36,562	21,102
2. Loans to affiliated companies	35,308	21,913
3. Participations in associated companies	40	20
4. Other participations	36,887	30,479
5. Loans to companies in which the company has a participating interest	1,341	700
6. Long-term securities	1,293,410	1,181,292
7. Other loans and other financial assets	36,146	42,509
	1,439,694	**1,298,015**
Fixed assets	**2,732,808**	**2,494,271**
B. Current assets		
I. Inventories		
1. Raw materials and supplies	82,901	62,049
2. Work in progress	12,826	13,643
3. Finished goods and merchandise	168,007	139,395
4. Prepayments	181	72
	263,915	**215,159**
II. Receivables and other assets		
1. Trade receivables;	472,079	479,789
of which with a remaining term of more than 1 year	(56)	(17)
2. Receivables from customers from banking and leasing business;	979,855	836,941
of which with a remaining term of more than 1 year	(597,140)	(510,519)
3. Receivables from affiliated companies	6,517	2,107
4. Receivables from companies in which the company has a participating interest	900	793
5. Other assets;	119,395	104,768
of which with a remaining term of more than 1 year	(11,642)	(5,621)
	1,578,746	**1,424,398**
III. Other securities	**6,039**	**16,546**
IV. Cheques, cash on hand, bank balances	**258,371**	**280,352**
Current assets	**2,107,071**	**1,936,455**
C. Prepaid expenses and deferred charges	**37,958**	**41,465**
D. Deferred tax assets	**46,152**	**37,082**
	4,923,989	**4,509,273**

As at December 31, 2016

Equity and Liabilities

	12/31/2016	12/31/2015
	€ 000	€ 000
A. Partners' equity		
1. Capital shares, reserves, capital contributions		
of silent partners, net profit share of parent company,		
currency conversion difference	1,839,576	1,746,311
2. Non-controlling interests		
in capital and reserves	21	5
in profits	280	292
	301	**297**
	1,839,877	**1,746,608**
B. Accruals		
1. Accruals for pensions and similar obligations	156,271	156,848
2. Tax accruals	82,822	62,190
3. Other accruals	287,995	254,143
	527,088	**473,181**
C. Liabilities		
1. Bank loans and overdrafts	560,055	532,238
2. Liabilities from the deposit-taking business	1,268,505	1,009,021
3. Customer advances	7,415	12,744
4. Trade payables	222,425	316,011
5. Drafts and notes payable	5	5
6. Liabilities to affiliated companies	1,325	210
7. Other liabilities;	427,255	372,622
of which taxes	(43,670)	(56,151)
of which social security payables	(20.456)	(20,389)
	2,486,985	**2,242,851**
D. Deferred income	**70,039**	**46,633**
	4,923,989	**4,509,273**

Consolidated Profit and Loss Account

For the period January 1 to December 31, 2016

	2016	2015
	€ 000	€ 000
1. Sales		
a) External sales	2,627,517	2,553,168
b) Income from loan and leasing transactions	430,657	384,942
	3,058,174	**2,938,110**
2. Change in finished goods and work in progress inventories	27,116	2,277
3. Other own work capitalized	795	1,303
	3,086,085	**2,941,690**
4. Other operating income;	131,594	125,574
of which income from currency translation	(12,462)	(12,842)
5. Cost of materials		
a) Cost of raw materials, supplies and merchandise	565,307	512,445
b) Cost of purchased services	22,156	19,106
	587,463	**531,551**
6. Cost of loan and leasing transactions	174,148	152,866
	2,456,068	**2,382,847**
7. Personnel expenses:		
a) Wages and salaries	437,242	417,714
b) Social security,		
pension and other benefits;	102,956	98,954
of which relating to pensions	(16,742)	(15,324)
	540,198	**516,668**
8. Amortization and depreciation of fixed intangible and tangible assets	247,802	224,510
9. Income from participating interest	963	1,453
10. Income from other long-term securities and other loans/financial assets	23,941	20,525
11. Other interest and similar income	13,618	15,702
12. Write-down of long-term financial assets and current securities	414	210
13. Interest and similar expenses;	15,467	23,873
of which expenditure from accrued interest on provisions	(4,536)	(15,609)
14. Collective heading;	1,690,709	1,655,266
of which expenditure from currency translation	(12,227)	(26,346)
Other items not shown separately		
(other operating expenses, taxes, net profit for the year)		

*56

Vorwerk shops and stores pulled in tens of thousands of visitors in 2016 to experience the world of Vorwerk – live. And the trend is up.

Movements in Fixed Assets

From January 1 to December 31, 2016

	Gross values					
	As at 1/1/2016	Currency translation differences	Additions	Disposals	Transfers	As at 12/31/2016
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
I. Intangible assets						
1. Purchased concessions, industrial property and similar rights and assets, and licences in such rights and assets	63,498	-3,449	22,846	1,440	6,154	87,609
2. Goodwill	339,458	–	657	–	–	340,115
3. Prepayments	978	-11	598	19	-586	960
	403,934	**-3,460**	**24,101**	**1,459**	**5,568**	**428,684**
II. Tangible assets						
1. Land, similar rights and buildings, including buildings on leasehold land	173,785	-2,278	9,284	5,663	333	175,461
2. Technical equipment and machinery	306,343	-2,406	29,270	10,347	13,510	336,370
3. Other equipment, factory and office equipment	159,560	-1,510	23,428	9,036	5,582	178,024
4. Rental assets	1,021,453	-317	342,828	274,896	4,168	1,093,236
5. Prepayments and construction in process	36,021	-1,132	47,541	5	-29,161	53,264
	1,697,162	**-7,643**	**452,351**	**299,947**	**-5,568**	**1,836,355**
III. Financial assets						
1. Shares in affiliated companies	21,102	–	17,760	2,300	–	36,562
2. Loans to affiliated companies	21,913	–	13,395	–	–	35,308
3. Participations in associated companies	20	–	–	–	20	40
4. Other participations	30,494	–	9,755	4,505	1,568	37,312
5. Loans to companies in which the company has a participating interest	700	–	2,229	–	-1,588	1,341
6. Long-term securities	1,181,317	–	135,768	23,650	–	1,293,435
7. Other loans and other financial assets	42,586	6	–	6,368	–	36,224
	1,298,132	**6**	**178,907**	**36,823**	**–**	**1,440,222**
	3,399,228	**-11,097**	**655,359**	**338,229**	**–**	**3,705,261**

	Accumulated depreciation/amortization					**Net values**	
	As at 1/1/2016	Currency translation differences	Additions	Disposals	As at 12/31/2016	As at 12/31/2016	As at 12/31/2015
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
	48,687	-2,842	7,334	1,404	51,775	35,834	14,811
	130,705	–	12,249	–	142,954	197,161	208,753
	–	–	–	–	–	960	978
	179,392	**-2,842**	**19,583**	**1,404**	**194,729**	**233,955**	**224,542**
	82,385	-282	5,255	3,983	83,375	92,086	91,400
	199,253	-899	29,167	10,275	217,246	119,124	107,090
	103,978	-1,068	19,993	7,579	115,324	62,700	55,582
	339,832	-24	173,804	152,361	361,251	731,985	681,621
	–	–	–	–	–	53,264	36,021
	725,448	**-2,273**	**228,219**	**174,198**	**777,196**	**1,059,159**	**971,714**
	–	–	–	–	–	36,562	21,102
	–	–	–	–	–	35,308	21,913
	–	–	–	–	–	40	20
	15	–	410	–	425	36,887	30,479
	–	–	–	–	–	1,341	700
	25	–	2	2	25	1,293,410	1,181,292
	77	1	–	–	78	36,146	42,509
	117	**1**	**412**	**2**	**528**	**1,439,694**	**1,298,015**
	904,957	**-5,114**	**248,214**	**175,604**	**972,453**	**2,732,808**	**2,494,271**

Explanatory Notes to the Consolidated Financial Statements 2016 pursuant to §§ 13 par. 3 in association with 5 par. 5 PublG

I. Introductory Remarks

Vorwerk & Co. KG has prepared consolidated financial statements and a group management report for the financial year 2016 in accordance with the requirements of the German Publication and Disclosure Law (Publizitätsgesetz, PublG) and the German Commercial Code (Handelsgesetzbuch, HGB) in the version of the German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz, BilRUG), in conjunction with the German bank and financial services accounting directive (Verordnung über die Rechnungslegung und Finanzdienstleistungsinstitute, RechKredV). The company that is domiciled in Wuppertal is entered into the register of the District Court of Wuppertal under the number HRA 14658.

For a more transparent presentation, the publication of the information pursuant to § 313 (2) HGB, which is an integral component of the notes to the consolidated financial statements, has been omitted. This information will be published under Vorwerk & Co. KG in the electronic German Federal Gazette.

As a consequence of the German Accounting Directive Implementation Act (BilRUG), the definition of revenue pursuant to § 277 HGB has changed as follows: “Revenue is defined as the proceeds from the disposal and letting or leasing of products and from the providing of services after deduction of revenue and sales tax as well as other taxes directly associated with sales.” Compared to the old version, this new definition has resulted in an increase in the content of revenue to the detriment of other operating income. At the same time, expenses in the context of revenue must be reviewed in terms of reporting them as cost of materials or other operating expenses. The year-earlier figures disclosed have not been adjusted to accommodate the changes under BilRUG – comparability with the previous year’s figures is therefore only possible to a limited extent. The prior-period figures pertaining to the individual items as a result of applying the new legislation are shown in the notes to the consolidated financial statements.

II. Consolidated Group

The parent company is Vorwerk & Co. KG, Wuppertal (holding company). The Group companies operate in the following business segments: the manufacture and direct sale of high-quality household appliances, cosmetics, facial and body care products, bank and leasing as well as carpeting.

One company was merged with another subsidiary in fiscal 2016 and is no longer part of the consolidated group. One company was established in the reporting year and included in the consolidated financial statements for the first time. The change to the companies included in the consolidated financial statements is collectively and individually immaterial. The consolidated financial statements therefore remain comparable with those for the previous year.

Five (previous year: four) associated companies have not been included in the consolidated financial statements at equity because of their minor importance pursuant to § 311 (2) HGB, but instead have been recognized at cost.

Ten (previous year: nine) companies have not been included in the consolidated financial statements because of their minor importance pursuant to § 296 (2) HGB. The balance sheet total and sales of the companies not included in the consolidated group collectively and individually account for less than 2 percent of the consolidated balance sheet total and consolidated sales.

III. Classification, Accounting and Valuation Methods

The classification of the balance sheet and profit and loss account are laid out for preparation purposes in accordance with the classification presentation for corporations defined under §§ 290 et seq., 266 and 275 HGB in the version of BilRUG.

For disclosure and for the preparation of the annual report, the equity in the consolidated balance sheet is shown as a total, while the taxes and net profit reported in the consolidated income statement have been included with other operating expenses under the compound item “Other items not shown separately” (§ 5 (5) PublG).

Due to the full consolidation of the akf group, the balance sheet and profit and loss account include bank- and leasing-specific items where the akf group’s assets, debts, expenses and earnings could not be assigned to the existing items or allow more transparent reporting.

In addition to loans, other loans and other financial assets also contain non-securitized minority interests in closed real estate funds.

The capital contributions of silent partners, which are provided with a subordination clause, are included in partners’ equity due to their equity-similar characteristics.

The accounting and valuation principles applied in the annual financial statements of Vorwerk & Co.KG and the domestic subsidiaries also pertain to the consolidated financial statements. Valuation principles of the akf group have been adopted without change pursuant to § 308 (2) sentence 2 HGB. The financial statements of non-German subsidiaries drawn up in accordance with national rules have been adjusted in line with what is known as the Handelsbilanz II (Type II Commercial Balance Sheet). The valuation methods applied correspond to uniform valuation as defined in § 308 (1) HGB. To the exception of the changes described in the following applicable to the valuation of pension provisions, they remained unchanged from the previous year.

Purchased intangible assets have been capitalized at acquisition cost less straight-line amortization over their estimated useful lives on a pro rata temporis basis.

The period for scheduled straight-line amortization of items of goodwill acquired against payment is five or 30 years.

In the case of tangible fixed assets and rental assets (allowing for contractual periods and residual carrying values) where the useful life is definite, the acquisition or manufacturing cost has been depreciated on a straight-line basis over their estimated useful lives. Borrowing costs are not recognized. Manufacturing costs include the directly attributable costs from the consumption of goods and the use of services, as well as appropriate proportions of necessary material and manufacturing overheads. Depreciation of additions to the tangible fixed assets is generally effected on a pro rata basis. If the fair values of individual assets fall below the corresponding carrying amounts of the assets, additional impairments are recognized if the reduction in value is expected to be permanent.

Financial assets (excluding lending) have been valued at acquisition cost and loans at nominal value. Where impairment is likely to be permanent, amortization is performed at the lower fair value.

The development of fixed assets is presented in the consolidated fixed asset movement schedule.

Inventories have been valued at acquisition or manufacturing cost in accordance with the lower of cost or market principle. Borrowing costs are not recognized. The acquisition cost of raw materials, supplies and merchandise is calculated using the average cost method. Apart from direct costs, the manufacturing costs of the finished goods and work in progress include only the adequate portions of the material and manufacturing overheads required and depreciation on the fixed assets caused by manufacturing.

Receivables and other assets have been shown at nominal value less appropriate valuation allowances. Receivables from customers from factoring and hire purchase transactions have been reported at their present value less individual or general valuation allowances.

Marketable securities have been stated at acquisition cost or at the lower fair value prevailing as of the balance sheet date. Cash and cash equivalents have been stated at nominal value.

Prepaid expenses and deferred charges include payments that are deemed expenses for a specific period after December 31, 2016.

Foreign currency transactions are recognized at the historical rate at the time of initial recognition. Receivables, other assets, payables and cash and cash equivalents in foreign currencies have been valued at the mean spot exchange rate on the balance sheet date. In the case of foreign currency items with a remaining term of more than one year, the acquisition cost and realization principles have been adopted. The provisions under § 340 h HGB have been applied to the foreign currency translation of the assets and liabilities of the companies of the akf group.

Reversals of impairment are generally recognized in accordance with § 253 (5) HGB.

Provisions are recognized at the settlement amount dictated by prudent business judgment.

Provisions for pensions and similar obligations also allow for surviving dependents' benefits, in addition to payments arising from individual and collective programs. They are formed according to the projected credit based on actuarial calculations using the 2005G mortality tables of Prof. Dr. Klaus Heubeck that factor in generation-dependent life expectancies. In the context of implementing the directive on residential real estate loans, the legislator decided to apply the average market interest rate of the past ten years published by the Deutsche Bundesbank and calculated on an assumed residual term of 15 years to pension provisions from 2016 onward.

The interest rate in December 2016 stood at 4.01 percent (previous year: 3.89 percent). The new legislation entered into force on March 17, 2016, the day after its announcement in the Federal Law Gazette. Up until December 31, 2015, a 7-year annual average interest rate published by the Deutsche Bundesbank had been applied. Based on a 7-year annual average interest rate, the difference calculated as of December 31, 2016, amounts to EUR 9.9 million that is subject to a payout restriction if the free reserves available are insufficient.

The calculation was based on expected pension increases of 1.80 percent (previous year: 1.80 percent) and an annual fluctuation depending on service and age essentially ranging between 1.00 percent and 5.00 percent. In line with the pension commitment, the pensionable person receives annual components where future payments are directly linked to the employee's service. Since the earned portion of the obligation therefore corresponds to the balance accrued as of the balance sheet date, a salary trend does not need to be taken into account.

In evaluating anniversary provisions, the same valuation parameters as for pension obligations are generally applied, with the exception of the growth in creditable income, which lies between 2.40 percent and 3.50 percent, as well as taking the average market interest rate of the last seven years of 3.24 percent as a basis. Term-specific interest rates of between 1.59 percent and 1.81 percent are also used for semi-retirement obligations under semi-retirement provisions.

Other accruals and provisions with a remaining term of more than one year have been discounted – in accordance with their remaining term – at the average market interest rate prevailing over the past seven business years.

Other provisions are calculated in such a way as to account for the recognizable risks and contingent liabilities. Allowance is made for future price and cost increases where there are sufficient objective indications of them arising.

Liabilities have been shown at their settlement amounts. The capital with participating rights – included under other liabilities – has been reported at nominal value.

Deferred income mainly includes special rental payments and rental prepayments attributable to future business years, as well as accrued net present cash values from leasing receivables sold to banks. Such amounts will be reversed on a straight-line basis in accordance with the underlying term and, where applicable, pursuant to the principles of loss-free valuation.

To compensate for counteracting cash flows and fluctuations in value, assets, liabilities and anticipated transactions have been combined in financial instruments (valuation unit). To account for the effective portion of the valuation unit, the net hedge presentation method has been applied. Insofar as the preconditions for the creation of valuation units are not satisfied, the items are accounted for in accordance with the general valuation principles.

IV. Foreign Currency Translation

All financial statements of the subsidiary companies of the Group that are included in the consolidated financial statements, but which are located outside the euro zone, have been translated into euros from the respective local currency using the modified closing rate method. The items of the balance sheet – with the exception of equity that is translated into euros at historical rates – have been translated at the mean spot exchange rate on the balance sheet date.

Items of income and expense shown in the corresponding profit and loss account have been translated at the average annual rate of exchange for the year 2016. The resulting translation difference between the net income converted at the average rate and the rate on the balance sheet date of EUR 2.5 million has been included without affecting net income within the consolidated shareholders' equity after the reserves under the “Equity difference from currency translation” line item. The translation differences resulting from exchange rate fluctuations have led to a EUR 10.2 million decrease in the line item “Equity difference from currency translation” without affecting net income.

V. Balance Sheet Date and Consolidation Principles

The subsidiaries included in the consolidated financial statements all have December 31 as their balance sheet date. Consolidation of the balance sheets and profit and loss accounts of the consolidated subsidiaries has been carried out in accordance with the following principles:

1. Capital Consolidation

Capital consolidation for acquisitions up to December 31, 2009 was effected in accordance with the carrying amount method. Capital consolidation for first-time consolidations, starting with January 1, 2010, has been carried out pursuant to the revaluation method. In this respect, the carrying values of the holdings have been offset against the allocable equity of the corresponding subsidiary companies at the date of acquisition following a revaluation of the assets and liabilities acquired and realization of hidden reserves and hidden charges.

Capitalized differences from the first-time consolidation of the JAFRA Group in the 2004 business year have been recognized as goodwill on the assets side after reversal of hidden reserves in the assets.

The goodwill of the JAFRA Group reported under fixed assets results from the acquisition of the group in 2004. The goodwill is amortized in accordance with the expected useful operating life over a period of 30 years. This is derived from the use of the brand and brand-similar benefits which, besides the sales system and the know-how of the staff in R&D, constitute essential elements of the company's goodwill.

The remaining capitalized differences from initial consolidations prior to 2010 have been stated separately under equity. Should any credit differences have resulted from this netting in previous years, such amounts have been combined with the reserves in previous years on account of their reserve characteristics. The asset-side differences arising from the initial consolidation of ERNST factoring GmbH in fiscal 2015, of Vorwerk UK Ltd. in fiscal 2014 and of CLOSe Logistics GmbH in fiscal 2013 were capitalized as goodwill. Scheduled amortization is carried out respectively, owing to the use of the customer base and brand names over a period of five years.

Minority interests in the equity capital and reserves and in the results of the incorporated subsidiaries have been shown under the “non-controlling interests” item.

2. Debt Consolidation

In accordance with debt consolidation (§ 303 HGB), receivables and payables with companies within the consolidated group have been offset against each other.

3. Consolidation of Income and Expenses

The consolidation of income and expenses contained in the items shown in the consolidated profit and loss account comply with § 305 HGB. Intercompany sales and the corresponding expenses, as well as other intercompany income and expenses in the profit and loss accounts of the consolidated companies, have been offset against each other.

4. Deferred taxes

Deferred taxes are recognized for differences between the assets and liabilities stated in the commercial balance sheet and the balance sheet drawn up for tax purposes (tax base) to the extent that this will lead to a tax burden or refund in the future. Deferred taxes are also recognized for potential losses and interest carried forward provided they are expected to be utilized within the next five years.

The option to recognize an excess of deferred tax assets over deferred tax liabilities pursuant to § 274 (1) sentence 2 in conjunction with § 300 (2) sentence 2 HGB has been exercised in the consolidated financial statements. Deferred tax assets and liabilities are netted against each other when the necessary prerequisites are met. For the purposes of the consolidated financial statements, an aggregated figure is reported for the items pursuant to § 274 HGB (§ 306 sentence 6 HGB).

Deferred taxes for tax differences and commercial differences arising from the first-time recognition of goodwill are not reported. Additionally, deferred taxes are not recognized for differences between the tax base of an interest in a subsidiary or in associated companies and the commercial valuation of the net assets reported in the consolidated financial statements.

As of December 31, 2016, the net balance of future tax burden/relief calculated on the basis of the different approaches applied for the commercial balance sheet and the tax base balance sheet mainly arose from receivables and payables from/to affiliated companies, inventories, pension and other provisions and tax loss carryforwards. When calculating taxes for consolidation entries affecting profits pursuant to § 306 HGB, a uniform Group-wide average tax rate of 30 percent has been generally applied to debt consolidation and the interim profit elimination; otherwise, company-specific tax rates have been applied. The calculation of deferred taxes in the individual financial statements is based on the tax rates applying to the individual companies, which are between 16 percent and 35 percent.

VI. Other statutory disclosures pursuant to § 314 HGB and explanatory notes to various items in the consolidated balance sheet and consolidated profit and loss account

1. Receivables

Of the receivables from affiliated companies in an amount of EUR 6.5 million (previous year: EUR 2.1 million), EUR 4.7 million (previous year: EUR 2.0 million) apply to financial transactions and EUR 1.8 million (previous year: EUR 0.1 million) to other assets.

2. Liabilities

Remaining Terms for Liabilities (RTL)	12/31/2016				12/31/2015			
In € 000	RTL <= 1 Y	RTL > 1 Y	of which RTL > 5 Y	Total	RTL <= 1 Y	RTL > 1 Y	of which RTL > 5 Y	Total
Bank loans and overdrafts	156,010	404,045	58,579	560,055	215,981	316,257	24,521	532,238
Liabilities from the deposit taking business	911,827	356,678	14,551	1,268,505	725,927	283,094	3,905	1,009,021
Customer advances	7,415	–	–	7,415	12,744	–	–	12,744
Trade payables	222,341	84	–	222,425	315,955	56	–	316,011
Drafts and notes payable	5	–	–	5	5	–	–	5
Liabilities to affiliated companies	1,325	–	–	1,325	210	–	–	210
Other liabilities	425,418	1,837	146	427,255	334,228	38,394	676	372,622
Liabilities	**1,724,341**	**762,644**	**73,276**	**2,486,985**	**1,605,050**	**637,801**	**29,102**	**2,242,851**

Trade payables include akf group liabilities amounting to a special-purpose company of EUR 100.3 million (previous year: EUR 211.8 million).

3. Contingent Liabilities, Other Financial Commitments and Off-Balance-Sheet Transactions

Contingent Liabilities

The following contingent liabilities existed on the balance sheet date:

In € 000	Total 2016	Total 2015
Contingent liabilities for sureties;	19,359.6	16,234.1
of which in favor of affiliated companies	16,688.9	16,190.6
Secondary liability for pension obligations transferred to provident fund	18,707.2	17,433.4

The risk of recourse from the joint liability for the pension obligations that have been transferred to the provident fund can more or less be excluded since the provident fund is highly likely to be able to meet its long-term obligations from its own cash assets.

The risk of recourse from guarantees to third parties is considered to be low, as this mainly involves the collateralization of a capital loan for an unconsolidated affiliated company that is highly likely to be able to continue to meet its obligations in the future. There are also further security interests for the creditor.

Other Financial Commitments

Commitments arising from rental, tenancy and lease contracts as of the balance sheet date amounted to EUR 61.3 million for the following years, of which EUR 19.0 million fall due in 2017. Purchase commitments for investments amount to EUR 3.2 million (previous year: EUR 17.2 million). There are long-term obligations arising from contracts with suppliers in the amount of EUR 15.6 million as of the balance sheet date.

akf bank has irrevocable loan commitments totaling EUR 116.3 million (previous year: EUR 114.0 million).

akf bank has a binding letter of comfort to the general public arising from an equity participation.

Off-Balance-Sheet Transactions

Among other things, akf bank uses an asset-backed commercial paper (ABCP) program to refinance its customer receivables, and sells customer receivables in this context, thereby transferring all opportunities and risks. The receivables sold are withdrawn from the balance sheet at that point. This program is ongoing and has a volume of EUR 446.0 million which was fully utilized except for an amount of EUR 9.2 million on the balance sheet date.

4. Profit and Loss Account

Group sales including revenue from the credit and leasing business

The prior-year revenue figures are not comparable due to the new version of § 277 (1) HGB through BilRUG. In application of § 277 (1) HGB in the version of BilRUG, net revenue would have come in at EUR 2,959.7 million (EUR + 21.6 million). This largely concerns commission income from the bank and leasing business (EUR + 9.7 million), insurance payments (EUR + 4.5 million), as well as agents' commission (EUR + 2.4 million).

In contrast to the disclosure in the previous year, revenue is recognized on a net basis. The revenue figures from the previous year were adjusted accordingly.

Breakdown by Region	2016 EUR m	2015 EUR m
Germany	1,133.2	1,057.8
Europe	1,417.9	1,361.8
North and South America	345.4	378.3
Rest of world	161.7	140.2
Total	**3,058.2**	**2,938.1**

Breakdown by Division	2016 EUR m	2015 EUR m
Thermomix	1,285.6	1,158.1
Kobold	835.8	869.7
JAFRA Cosmetics	369.1	396.8
Lux Asia Pacific	24.1	25.2
akf group	430.7	384.9
Vorwerk flooring	70.4	77.1
Others	42.5	26.3
Total	**3,058.2**	**2,938.1**

Other Operating Income

Other operating income includes prior-period income from the reversal of provisions and write-downs to receivables in the amount of EUR 61.0 million. The first-time adoption of BilRUG led to a reduction in other operating income. In application of the new legislation, other operating income in the previous year would have amounted to EUR 104.0 million.

5. Derivative Financial Instruments and Valuation Units

Commodity swaps, cross-currency swaps, currency futures as well as interest rate swaps and options are used at the Vorwerk Group for hedging purposes, both for operational business activities as well as in the area of foreign currency financing. The fair value of a derivative financial instrument is the price for which an independent party would acquire the rights and/or obligations of the financial instrument from another independent party. The net carrying values and fair values of the derivative financial instruments of the Vorwerk Group (excluding the akf group) that are not included in valuation units are reported as follows:

Derivative Financial Instruments under § 285 No. 19 HGB (excluding valuation units)

			Fair value as of December 31, 2016	
In € 000	Nominal value	Net carrying value	positive	negative
Currency futures				
Open transactions	51,788	-191	1,737	-191
Closed transactions	38,485	-132	95	-227
Commodity swaps	1,311	–	294	–

The closed currency futures are even transactions for which the profits or losses of the corresponding currency futures are realized at the time of evening-up. The overall profits (losses) arising from the transactions for the closed item are carried under other assets in the amount of EUR 0.1 million (bank loans and overdrafts of EUR 0.2 million).

Due to the negative market value, provisions for impending losses of EUR 0.2 million have been recognized to cover specific derivatives that are not combined in a valuation unit.

The nominal value of the derivative financial instruments is determined using the exchange rates on the closing date. The fair value of currency futures and currency swaps is determined according to the closing rate on the balance sheet date, taking forward premiums and discounts into account. The fair value of currency options is assessed on the basis of option pricing models pursuant to Black & Scholes. The fair value of interest rate hedging instruments (interest rate swaps and options), as well as commodity swaps is determined on the basis of discounted, anticipated future cash flows with the current market interest rates or market rates for commodities for the remaining term of the financial instruments being applied.

The Vorwerk Group (excluding the akf group) has the following valuation unit: A development loan extended to a Mexican subsidiary amounting to EUR 25.0 million was disbursed in euros. The loan is, however, serviced in Mexican pesos. To hedge against currency risks, a cross-currency swap was concluded and combined together with the loan in a micro valuation unit. As of the balance sheet date, the cross-currency swap was attributed a positive market value of EUR 6.9 million (hedged risk).

The Vorwerk Group continues to use portfolio hedges in order to hedge the currency risks of standard transactions that are highly likely to reoccur and combines them into valuation units as defined by § 254 HGB.

As of the balance sheet date, Vorwerk had 35 currency futures with five banks in an overall nominal volume of EUR 90.0 million. The total fair values of currency futures financial instruments were calculated using the mark-to-market method and totaled EUR 3.6 million on the balance sheet date.

The changes in the value of the underlying transactions and hedging instruments are not balanced by applying the net hedge presentation method over a period up until December 2017. The effectiveness of the valuation units is assessed with the aid of the critical term match method.

To hedge against payment fluctuations arising from interest and currency risks, the akf group applies micro and portfolio hedges and combines them into valuation units as defined by § 254 HGB.

As of the balance sheet date, akf bank had a total of 16 interest rate swaps with three banks to a total nominal volume of EUR 758.5 million and 1 cap in a nominal volume of EUR 50.0 million. These transactions are assigned to the banking book, where they provide interest hedging. The credit equivalent amount calculated using the market valuation method totals EUR 6.0 million. The total fair values for these derivative financial instruments were calculated using the mark-to-market method and totaled EUR -5.9 million on the balance sheet date.

Micro and portfolio valuation units have been formed to even out changes in value in the opposite direction pursuant to § 254 HGB, in order to hedge the resulting risks. Micro valuation units formed for the securities in the liquidity reserves largely hedge against the general interest fluctuation risk. Interest-rate-induced changes in the values of securities are offset as far as possible by the change in the value of the corresponding hedging transactions.

Portfolio valuation units are recognized to hedge against the interest rate risk for bank loans and overdrafts, payables due to customers and other liabilities. This combines single and similar hedged items in the portfolio and hedges the total position of the portfolio.

The changes in value of the underlying transactions and the hedging instruments are not balanced by applying the net hedge presentation method over a period up until December 2019.

The effectiveness of the valuation units is largely proven through an analysis of interest rate sensitivities. In the process, the effects of a sudden and unexpected change in interest rates of +/- 200 basis points are regularly assessed. On the assets side, underlyings are attributable to loan, hire-purchase receivables and on the liabilities side to customer payables and bank loans and overdrafts as well as other liabilities.

The book value of the total assets hedged with valuation units is EUR 80.7 million on the balance sheet date, while the book value of the hedged liabilities is EUR 507.1 million.

The interest rate risk hedged with valuation units at the akf group totals EUR 6.8 million.

The financial instruments applied to hedge against interest rate risks, which are grouped into valuation units, have residual terms of one to eight years.

6. Information on Shares in Investment Funds

The Vorwerk Group holds 100 percent of the units of the VWUC Fund. The VWUC Fund has mixed fund assets pursuant to German investment law.

The investment policy aims to generate an attractive increase in value in euros with a longer-term strategy. To achieve this investment objective, the assets are invested in fixed-interest securities as well as in money market instruments and liquid funds. Moreover, the fund can invest in securities on the stock market and in units of open and closed investment funds (stocks, commodities and real estate). To secure as well as to invest and efficiently manage the assets, the fund may, in addition, also deploy derivatives and other techniques and instruments as well as securities lending.

Value of the Units and Carrying Value Differences

In € 000	Carrying value	Market value	Difference
VWUC Fund	903,349	987,862	84,513

Vorwerk received a gross dividend of EUR 18,513 million (EUR 2.26 per unit) for the fund's fiscal year (December 1, 2015 to November 30, 2016).

The fund's units could be redeemed on any stock exchange trading day in the year.

The fund's units were valued throughout the entire year in accordance with the lower of cost or market principle.

7. Other Disclosures

In the year under review, auditing fees amounted to EUR 1.933 million, the fees for tax advisory services stood at EUR 193,000 and fees for other services totaled EUR 1.329 million.

Material transactions relevant for assessing the net assets, financial position and results of operations did not arise after the reporting date.

Average Annual Number of Personnel

	2016	2015
Employees*	11,949	12,612
Advisors in Direct Sales	637,126	612,884
Thermomix	45,672	41,884
Kobold	13,712	10,739
JAFRA Cosmetics	577,320	559,937
Other	422	324

* Including employed sales advisors

Management of the parent company Vorwerk & Co. KG is in the hands of the personally-liable partners: Rainer Christian Genes, Düsseldorf/Germany, Reiner Strecker, Wuppertal/Germany, and Frank van Oers, Veldhoven/Netherlands.

Wuppertal, April 18, 2017

Rainer Christian Genes

Reiner Strecker

Frank van Oers

Auditors’ Report

The foregoing consolidated balance sheet and profit and loss account, the explanatory notes (without any listing of investment holdings) together with the Group Management Report comply with the legal requirements.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Essen, expressed the following opinion on the complete set of consolidated financial statements and the Group Management Report.

“Audit opinion:

We have audited the consolidated financial statements – prepared by Vorwerk & Co. KG, Wuppertal, comprising the balance sheet, profit and loss account and explanatory notes, together with the Group Management Report for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the Group Management Report in accordance with German commercial law is the responsibility of the Managing Partners of the company. Our responsibility is to express an opinion on the consolidated financial statements and the Group Management Report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with German principles of proper accounting. The Group Management Report is consistent with the consolidated financial statements, corresponds with the statutory requirements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.”

Essen, April 18, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Lutz Granderath
Auditor

Heike Böhle
Auditor

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