



Internal control and risk management system

Compliance

The company strongly emphasises compliance in terms of measures to ensure conformity with applicable legislation and internal policies and their observance by the Group's companies. The Board of Management of the general partner has implemented various mechanisms in line with its responsibilities in this respect, which are intended to ensure optimal fulfilment of these compliance requirements.

The Compliance Officer appointed for this issue continuously addresses the maintenance and development of the compliance structure of the company and the Group, in line with applicable requirements and the needs of the company. In particular, his activities focus on training for employees and on legal risk management. He reports to the CEO of the general partner. In case of any specific issues, the Compliance Officer will consult the persons with responsibility in the company's respective divisions and obtain external legal advice, where necessary.

The company has also appointed an external lawyer as an ombudsman. Employees and also third parties may contact this person to point out possible violations of the law or policy violations within Group companies. Four reports were filed with the ombudsman in the reporting period. These were investigated. However, no relevant violations were determined.

The German Corporate Governance Code ("GCGC") requires disclosures concerning internal control and risk management which exceed the statutory requirements for a management report and have thus been excluded from the auditor's audit of the management report ("non-management report disclosures"). These are included as part of the management declaration; moreover, they are set apart by means of separate paragraphs from the disclosures which are to be audited.

Risk management system

Goals and strategy of the risk management system

As an internationally operative business group, CEWE Stiftung & Co. KGaA and its subsidiaries are exposed to various risks which may adversely affect their business activities as well as their net assets, financial position and results of operations. Accordingly, in compliance with industry standards and statutory provisions CEWE has established an internal control and risk management system for identification and assessment of potential opportunities and risks and, where necessary, implementation of appropriate countermeasures. This control and risk management system is incorporated within the information and communication system of the CEWE Group as an integral part of its business, planning, accounting and control processes and is a key element of the CEWE

Group's management system. Its control and risk management system is based on a systematic risk identification, assessment and management process for the overall Group. CEWE is continuously improving its risk management system. That includes its ongoing dovetailing with the company's internal control system and other management systems.

As a function which identifies risks at an early stage, monitors them on an ongoing basis and contributes to risk control, risk management forms part of the second line of CEWE's integrated governance, risk and compliance approach.

Organisation and structure of the risk management system

The Board of Management, the managers of the company's regional profit centres in Germany and other countries and its central departments and project managers are responsible for its control and risk management system. The Board of Management has overall responsibility for the handling of control and risk management. From a functional point of view, the Board of Management has transferred to the Group's risk management personnel operational implementation of monitoring, coordination and ongoing development tasks within the scope of risk management processes.

The risk management system covers the risks and opportunities associated with the individual risk areas, within the scope of an annual, Group-wide risk inventory. The



annual report on risks and opportunities has been produced on the basis of the risk inventory. In the course of a year, the company's risk and opportunity assessments are reviewed at least quarterly. The Supervisory Board is notified of these assessments at least quarterly. Following notification of the risk officer, new risks and opportunities are incorporated in the risk management system and assigned to a risk manager. In addition to the regular processes, ad hoc risks can be registered and reported at any time where situations suddenly arise. Corresponding measures are likewise taken into consideration for risk assessment purposes. A net risk assessment is thus also implemented.

Key features of the internal control system

The internal control system (ICS) is an integral component of the business processes of the CEWE Group. The goal is for all operating units where risks may arise and must be managed to be able to identify such risks at an early stage through internal controls and to deal with them. This system is intended to ensure compliance with external and internal requirements. The internal control system thus represents the first line of the integrated management approach. It encompasses a variety of different monitoring and control mechanisms and is essentially based on five principles:

- Dual-control principle
- Signature guidelines
- IT authorisation concept
- Separation of functions
- Integrated reporting

The dual-control principle is safeguarded by means of rules and regulations such as articles of association, policies, rules of procedure, instructions and powers of representation and authorisations to sign. The operationally effective signature guidelines are an important aspect of these rules and regulations. The CEWE Group's coordinated IT authorisation concept is a further management and control mechanism. This regulates the activities of individual persons and groups of persons and their access to the Group's generally SAP-based applications and their functional competences.

To ensure the integrity of procedures and thus the quality of individual processes, the CEWE Group maintains a strict separation of functions for critical business processes. In addition, specific departments handle central tasks and thus have reciprocal responsibility for supervision of the Group's activities. The integrated reporting system comprises a detailed planning, management and reporting concept covering the Group's current position and its outlook. The planning process is based on a combined bottom-up and top-down approach, in line with monthly planned figures. The existing Group information system relies on a monthly target/actual/prior-year comparison as well as supplementary multiple-location business reviews at the level of the individual profit centres and at Group level. Developments, risks, opportunities and measures are discussed there and documented accordingly.

The CEWE Group also monitors the fair value of its interests in subsidiaries within the scope of its control and risk management system. Its shareholdings undergo regular as well as ad hoc impairment tests.

Moreover, as the third line of our integrated management approach all of the Group's companies and profit centres regularly undergo specialised, in-depth audits covering the areas of finance and accounting, IT, technical security and insurance policies as well as other functional competences. These audits are carried out by external or internal specialists.

Key aspects of the internal control system, in relation to the Group accounting process

The accounting-related internal control system is embedded within the company-wide risk management system, as a component of the overall internal control system (ICS) of the CEWE Group. Its purpose is to minimise the risk of a material misstatement in the company's accounting and external reporting, to identify undesirable developments early on and to implement countermeasures. This ensures that the Group's affairs are presented in compliance with applicable legislation and standards in separate financial statements and in the consolidated financial statements.



The “Group balance sheets” unit, central Finance division, is responsible for preparing the consolidated financial statements including any consolidation measures. The preparation process for the financial statements of the CEWE Group is based on a uniform Group accounting policy which is regularly adjusted in line with applicable legal outline conditions. The Board of Management has sole responsibility in relation to this accounting policy.

The Group’s accounting policy sets out its IFRS accounting standards for all of the Group’s companies, in Germany and in other countries, to ensure the application of uniform recognition, measurement and reporting methods for its IFRS consolidated financial statements. Binding instructions have been laid down in relation to internal reconciliations and other tasks for preparation of the financial statements. All key dates have been specified throughout the Group in the Group’s policy.

The local companies are responsible for compliance with the relevant rules and are supported and monitored by the Group Accounting unit. The Group Accounting unit handles consolidation of the separate financial statements of the Group companies – which are mainly prepared using SAP – centrally by means of a specific consolidation module.

The necessary work steps within the scope of the accounting process undergo a large number of automatic and manual checks and plausibility reviews. In addition, the effectiveness of accounting-related internal checks is continuously monitored through internal auditing. This task is handled by internal auditors as well as external auditors appointed by the company. A rolling process ensures that all of the companies within the scope of consolidation undergo this supervisory process. The Board of Management and the Supervisory Board are regularly notified of the results of these effectiveness reviews.

The separate financial statements included within the consolidated financial statements are audited by various local auditors. Compliance with applicable accounting rules and regulations and the accuracy and completeness of all other locally produced documents which are relevant for the consolidated financial statements are thus safeguarded. The external auditor of the consolidated financial statements summarises audit findings at the level of the separate financial statements and the consolidated financial statements regarding the effectiveness of the accounting-related internal control system of the CEWE Group and notifies the Supervisory Board accordingly.