ANNUAL REPORT **2016**

140 YEARS

1876

A TRADITION OF INNOVATION

STAHL

ON SITE AROUND THE WORLD

2016

Revenue
EUR 286.6 million

-8.4% year on year

EBIT
EUR 8.8 million

+125% year on year

ROCE
4.1%

+2.2 percentage points year on year

1876 was when it all began. And 140 years later, R. STAHL's success as a leading supplier is still based upon the same fundamental values: quality, innovation and customer orientation. Pioneering developments in explosion protection, early-stage internationalization, flexibility and adaptability have been just as much hallmarks as our high degree of reliability and consistency – for our customers as well as for our employees and business associates. The same holds true for the future: **A tradition of innovation.**

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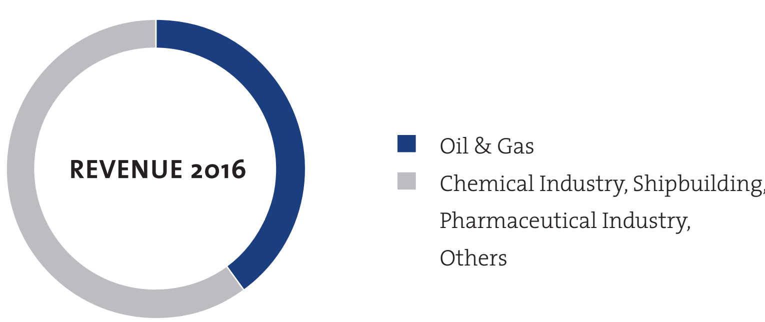
Dear shareholders, dear customers and business associates, dear employees,

Contrary to expectations at the beginning of the year, the downturn in the oil and gas sector – R. STAHL's most important sales market – which began in 2014 worsened during the course of the reporting period. As a consequence of the currently somewhat elevated but still very low oil price, oil and gas producers continued to reduce their growth investments as well as their maintenance spending. Whereas in the first half of the year this mainly affected crude oil production, the trend spread to an unexpected extent to the processing of oil in the second half of the year. For those companies supplying the industry, a decline in business of this scale had not been seen for decades. The situation was further exacerbated by the fact that not only order volumes were reduced but that price concessions became inevitable.

OIL AND GAS SECTOR PERSISTENTLY WEAK

R. STAHL was unable to escape this trend and as a consequence sales generated with clients in the oil and gas sector fell strongly. Our resolute response to this fundamental change in the market environment was to introduce a wide range of measures back in 2015. In order to reduce our reliance on the oil and gas sector, for example, we have stepped up our business with clients in the chemical and pharmaceutical sectors and rolled out new products with high added value. We made further progress in this field



Martin Schomaker, CEO; Bernd Marx, CFO

in 2016 and succeeded in offsetting falling sales in the oil and gas sector with growth in other areas. This enabled us to reach the sales target we set ourselves at the beginning of the year of between EUR 280 million and EUR 290 million. At EUR 286.6 million, however, sales were still 8.4% down on the previous year. This is the strongest decline in sales the Group has suffered since its realignment in 2005 and underlines the scale of the upheaval in the oil and gas sector – a sector which is still very important for us.

PROFITABILITY DEFENDED

Despite the downward trend in sales, we were able to raise profitability strongly in the reporting period. With earnings before interest and taxes (EBIT) of EUR 8.8 million, we more than doubled our prior-year result. There are many reasons for this: on the one hand, EBIT in 2015 was still burdened by exceptionals of EUR 7.5 million from the cost reduction program initiated in that year. On the other hand, this cost-cutting enabled us to reduce our cost basis by around EUR 20 million compared to 2015. Moreover, exceptionals totalling EUR 1.6 million in the reporting period – including income from the sale of land – contributed towards this improvement in earnings.

In spite of the exceptionally challenging environment, we also greatly enhanced our free cash flow in the financial year 2016. And we aim to let you, dear shareholders, participate in this success. The Supervisory Board and Executive Board will propose a dividend of EUR 0.60 per share at the Annual General Meeting in June.

PORTFOLIO STRENGTHENED

The measures to expand our business and achieve future organic growth were supplemented by acquisitions in 2016. In the third quarter, for example, we acquired a stake in Russia's second-largest supplier of explosion protection products, ZAVOD Goreltex, and thus greatly strengthened our presence on this market. Moreover, our investment in the South African company ESACO Pty. Ltd. – also in the third quarter – will enable us to drive our penetration of the African market. More than ever, we regard selective acquisitions aimed at strengthening regional market positions and our product portfolio as an important component of our growth strategy.

2016 was dominated by developments whose outcome could not be foreseen or planned, especially with regard to the geopolitical and macroeconomic situation. We believe this will not change in the current year. Assuming that the mean annual price of crude oil does not fall below USD 50.00 per barrel, however, we expect to end the downward sales trend of 2016 and achieve a slight increase in order intake, as well as sales on a par with the previous year. We expect a slight to noticeable weakening of EBIT before exceptionals, depending on revenue recognition and the sales mix.

PREPARING FOR GROWTH

In the current year, we will continue to focus on the four core elements of our growth strategy – expanding our business in regional growth markets, increasing the proportion of sales generated outside the oil and gas sector, especially in automation, raising revenue from the provision of services, innovations to extend our technological lead. One part of these measures is the ongoing development of our existing products as well as the creation of new innovative solutions that generate added value for both us and our customers. It is exactly these two elements – the rapid adaptation to changing market conditions on the one hand and technological leadership on the other – that have enabled R. STAHL over the past 140 years to master and emerge stronger from even the most difficult of times.

We would like to thank you, our shareholders, for your continued loyalty and support. Together, we remain firmly on course to achieve growth once again for R. STAHL. We enjoy close ties with our customers and business partners and are delighted by their strongly positive response to our products and services. Finally, we would like to express our respect and sincere gratitude to the employees of R. STAHL, who have been a key part of our success over the past two years and will continue to be so in future. The values that connect us with all our internal and external stakeholders have proven to be robust and will continue to inspire us. We are therefore certain that we can return to our former strength in the years ahead.

Martin Schomaker
Chief Executive Officer

Bernd Marx
Chief Financial Officer

MARTIN SCHOMAKER, CEO, joined R. STAHL in 1991 after working in various areas of IT and accounting. He held several management positions before being appointed to the Executive Board in 1995 and becoming Chief Executive Officer in 2002.

BERND MARX, CFO, has been with R. STAHL since 2004 and was appointed Chief Financial Officer in 2013. He has extensive commercial and financial expertise, as well as experience in operational management and the M&A business.

Ladies and Gentlemen,

the financial year 2016 brought major challenges for R. STAHL due to the ongoing decline in prices and demand in the oil and gas sector. Despite this extremely adverse environment, the company succeeded in defending its market share and profitability. Throughout the reporting period, the Supervisory Board advised the Executive Board and monitored the company's management in accordance with its legal obligations, the Articles of Association and its own rules of procedure. The success of the R. STAHL Group is based essentially on trusting cooperation between the Supervisory Board and Executive Board. The Executive Board maintains a constant dialogue with the Supervisory Board and informs it punctually and in detail on all significant company events. The Supervisory Board monitors the work of the Executive Board on the basis of regular oral and written reports. The members of the Supervisory Board were informed at least once a month about the Group's key performance indicators (KPIs). During personal meetings, as well as in verbal and written reports, the Executive Board regularly informed the Chairman of the Supervisory Board about the company's development and discussed current issues with him. The Executive Board also explained those exceptional events that were of particular importance for the Group. In view of the surprising decline in business, also in the processing of crude oil (downstream segment) as of summer 2016, measures to secure profitability were given top priority in the reporting period.

Supervisory Board meetings

In the reporting period, the Supervisory Board convened on nine occasions. In addition to its five ordinary and three extraordinary meetings, the Supervisory Board held a special conference in January 2016 to discuss in detail the company's future strategic alignment. With two exceptions, attendance of these Supervisory Board meetings was 100%. Mr Wild was excused from attending two meetings.

As in every year, the five ordinary meetings of the Supervisory Board were held on a regular basis. These meetings focused on the economic position and development prospects of the R. STAHL Group, as well as important business events. The Executive

Heiko Stallbörger, Chairman of the Supervisory Board

Board reported regularly to the Supervisory Board on the sales, earnings and financial performance of the company. The Supervisory Board meetings also dealt with questions of strategy for the Group and its business units. In particular, the following topics were discussed: at its meeting in February, the Supervisory Board appointed Mr Martin Schomaker as Chief Executive Officer for a further three-year term as of 2017. The preliminary annual financial statements and the company's corporate governance report and risk management system were also discussed. At the following meeting on 21 April 2016, the Supervisory Board approved the annual financial statements. The annual financial statements and auditor's report were explained by the Executive Board and Ebner Stolz GmbH & Co. KG. At the same meeting, the Supervisory Board discussed the individual agenda items and the agenda as a whole for the Annual General Meeting 2016. At the meeting on 2 June 2016, final preparations were made for the Annual General Meeting held on the following day. The meeting in September focused in particular on an analysis of the operating business trend and the Group's future strategic development. At its final meeting of the year on 14 December 2016, the Supervisory Board held its regular in-depth review of planning for the coming years and the budget for 2017.

Focus areas of the Supervisory Board's extraordinary meetings

At the extraordinary meeting held via telephone on 24 May 2016, the Supervisory Board approved an amendment to the annual financial statements after extensive discussions: in order to allow the dividend payment proposed by the Executive Board and Supervisory Board in the invitation to the Annual General Meeting, the annual financial statements of R. STAHL AG – which showed a balance sheet loss – had to be amended for bookkeeping reasons. As a dividend can only be distributed from a balance sheet profit, it was already clear from the original dividend proposal of the Executive Board and Supervisory Board that the balance sheet loss of EUR 4,655,981.99 could only be neutralized in bookkeeping terms via a transfer from revenue reserves. In order to distribute the announced EUR 3,864,000.00, a total amount of EUR 8,519,981.99 was transferred from revenue reserves. After the external auditors had checked the amended annual financial statements and duly issued their unqualified audit certificate, the Supervisory Board approved the amended annual financial statements via a circular resolution on 25 May 2016, and thus adopted the annual financial statements. During this procedure, the Supervisory Board also adopted the newly formulated dividend proposal of the Executive Board and the amended report of the Supervisory Board.

Directly after the Annual General Meeting, during its meeting on 3 June 2016, the Supervisory Board confirmed the resolution previously adopted by the Executive Board to pay a dividend – after weighing up all risks – following objections registered by shareholders at the Annual General Meeting. The Annual General Meeting had approved the dividend proposal with a large majority.

The third extraordinary meeting of the Supervisory Board, held once again via telephone in August, was necessitated by the emerging business situation in the second half of the year. The Supervisory Board once again analyzed the company's business situation after the first six months of the fiscal year and was informed by the Executive Board about measures to secure earnings.

Meetings of the committees

The Audit Committee held three meetings in the reporting period, which were attended by all members. It dealt with questions of accounting, risk management and compliance, the necessary independence of the auditors, the issuing of the audit mandate to the auditors, the determination of audit focal points and the fee agreement. In the second half of 2016, the committee also focused in particular on the preparation and introduction of the tendering process for annual auditing services, as required by the new auditing guidelines.

The Administration Committee held four meetings in 2016, which were attended by all members. It prepared the compensation decisions of the full Supervisory Board and presented proposals for the respective total remuneration of the Executive Board members. It also prepared the Supervisory Board's assessment on the appropriateness of Executive Board remuneration. Finally, the Administration Committee was heavily involved with the contract extension of the CEO and the related Executive Board remuneration.

The Strategy Committee convened once in 2016 with an attendance of 100%. On completion of the last tasks assigned to the committee and the decision of the full Supervisory Board not to delegate any more tasks to it, the Strategy Committee decided to suspend its activities for the time being and to renounce its right to separate remuneration for committee work during this period. This was approved by the Supervisory Board.

The Supervisory Board was regularly informed about the work of the committees.

Annual financial statements

The annual financial statements of R. STAHL AG as of 31 December 2016, as well as the consolidated financial statements of R. STAHL AG, were audited by the auditing firm selected by the Annual General Meeting and appointed by the Audit Committee of the Supervisory Board, Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, and were both certified without qualification.

The chief auditor confirmed that the consolidated financial statements comply with IFRS as mandated for EU companies and the supplementary provisions applicable under commercial law as set forth in Section 315a (1) HGB. The annual financial statements, the consolidated financial statements and the management reports were presented to all members of the Supervisory Board together with the corresponding audit reports of the external auditing firm.

The Audit Committee discussed the financial statements and audit reports in great detail with the auditors. At its balance sheet meeting on 20 April 2017, the Supervisory Board subsequently dealt with all issues relating to the audit of the financial statements. The Audit Committee reported to all members of the Supervisory Board on its findings. The chief auditor was present during the meeting and was on hand for discussions. The Supervisory Board concurred with the audit findings and raised no objections to the annual and consolidated financial statements and the management reports. It approved the annual financial statements of R. STAHL AG and the consolidated financial statements of R. STAHL AG, together with the management reports, as prepared by the Executive Board. The former is thus adopted.

The Supervisory Board would like to thank the Executive Board and all employees of the R. STAHL Group, in Germany and abroad, for the hard work and dedication they displayed over the past year. We will continue to advise the Executive Board in the challenging months ahead and carefully examine its proposals and decisions in the interests of the company. Particular gratitude is extended to the shareholders of R. STAHL AG for the trust they placed in us.

Heiko Stallbörger
Chairman of the Supervisory Board

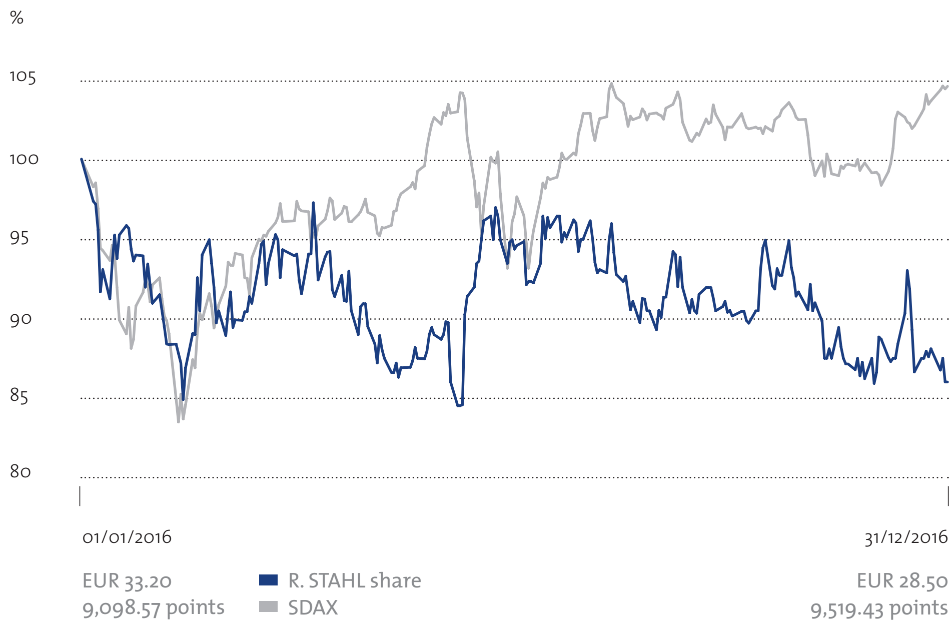
R. STAHL SHARE

Volatile capital markets in 2016

Macroeconomic challenges, unexpected political decisions and the continuation of extensive monetary measures taken by the world's central banks were responsible for substantial price fluctuations on the capital markets in 2016. The year got off to a volatile start due in particular to the further fall in crude oil prices to a multi-year low in January, as well as a subdued economic outlook for China and the resulting slump in Chinese equities. Subsequently, however, the leading national and international indices recovered strongly. The unexpected result of the UK's referendum on leaving the EU put temporary pressure on Europe's capital markets around the middle of the year. However, good economic data from Europe, China and the USA, as well as a more stable oil price trend and the expectation of good economic prospects following the election of Donald Trump as US president meant that stock markets were generally upbeat as trading closed in 2016.

The R. STAHL share started 2016 at a price of EUR 33.40 (4 January). Its closing price of EUR 32.31 on that first day was also the highest closing price of the past year. As the year progressed, the share price initially mirrored the SDAX trend to a large extent but then diverged towards the end of the first quarter. At the beginning of June, the price fell sharply a few days before the Annual General Meeting and reached a year-low of EUR 28.00 on 6 and 7 June. Following this low, the share recovered strongly and reached a temporary high of EUR 32.18 on 22 June. The downgrading of EBIT guidance on 10 August and 9 November 2016 had a negative impact on the R. STAHL share, resulting in greater volatility and a year-end price of EUR 28.50. Compared to the prior-year closing price of EUR 33.20 the share price fell 14.2% year on year. By contrast, the comparative SDAX index rose by 4.6% to end the year at 9,519 points.

PRICE DEVELOPMENT OF THE R. STAHL SHARE COMPARED TO THE SDAX (INDEXED AT 100% ON 01/01/2016)*)



Shareholder majority of owning family unchanged

With over 50% of voting rights, shareholders from the extended circle of the founding families Stahl and Zaiser continue to hold the majority of shares in R. STAHL AG. Further major investors include RAG-Stiftung Beteiligungsgesellschaft mbH with its stake of 11.07% at year-end and Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte with a stake of 9.79% at the end of 2016.

R. STAHL attaches great importance to its regular dialogue with shareholders. In order to inform existing and potential investors about the company's operational development and strategic objectives, the Executive Board attended several capital market conferences during the past fiscal year and held discussions with individual investors. R. STAHL also gives all interested investors access to its conference calls and online presentations, which are held regularly on the reporting dates. All the latest information on the R. STAHL share can also be found in the Investor Relations section of the company's website www.stahl.de.

Key figures of R. STAHL share*)

EUR	2016	2015
Number of shares (in thousands)	6,440	6,440
Market capitalization on 31.12. in EUR million	183.5	213.8
Year-low (06.+07.06.2016/04.11.2015)	28.00	27.75
Year-high (04.01.2016/27.02.2015)	32.31	46.00
Year-end price	28.50	33.20
Daily trading volume (average number of shares)	1,304	3,283
Earnings per share	0.64	- 0.02
Dividend per share	0.60**)	0.60
Dividend yield at year-end (%)	2.1	1.8

*) All stock exchange figures are based on the XETRA trading platform.
**) Proposal to the Annual General Meeting

Security ID	A1PHBB
ISIN	DE000A1PHBB5
Stock market ID	RSL2 (Bloomberg), RSL2.DE (Reuters)
Trading segment	Regulated market/Prime Standard
Indices	CDAX, Classic All Share, DAXplus Family, DAXsector All Industrial, DAXsector Industrial, DAXsubsector All Industrial Machinery, DAXsubsector Industrial Machinery, Prime All Share
Stock markets	XETRA, Frankfurt, Stuttgart, Düsseldorf, Munich, Berlin-Bremen, Hamburg

A TRADITION OF INNOVATION AND SUCCESS

FOUNDATION AND ESTABLISHMENT

In 1876, the master locksmith Rafael Stahl and his partner Gustav Weineck found the company Stahl und Weineck.

After the sons join the business, R. STAHL develops **innovative products** in the 1890s – such as circular spring needle machines or the first manual lift – and exports them to the USA, China and Italy.

The new century sees the advent of **electricity**. R. STAHL changes from manual to industrial production and builds the first "paternoster" lift in 1908. This innovation becomes the company's speciality. R. STAHL drives the successful development of explosion-protected, electric control devices – and remains a pioneer in this field for many decades.

1876 1908 1954 1976

NEW START AND GROWTH VIA INNOVATION

After 1945, R. STAHL experiences rapid growth and from 1954 onwards becomes one of the market leaders with its ground-breaking developments for explosion-protected electrical apparatus. This is the beginning of an extraordinary **success story** – in Germany and abroad.

In 1970, R. STAHL enters the automation technology business with its revolutionary safety barrier for intrinsically safe electric circuits.

In 1976, R. STAHL can look back on 100 years of tradition, innovative strength and outstanding technical achievements and is one of the market leaders in material handling and explosion protection.

GROWING PRESENCE ON THE WORLD MARKET

R. STAHL enjoys international growth in Europe, the Americas and Asia with the systematic establishment of local companies for development, production, sales and service: the first in the USA in 1979 and a further one in Japan in 1983. A total of **20 sales companies** are founded around the world from 1975 to 1985. In 1988, R. STAHL launches the first explosion-protected remote I/O system and in 1989 its first own lighting range.

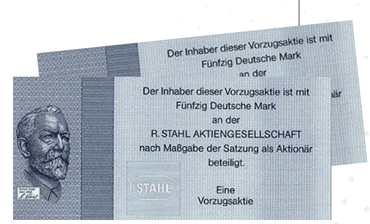
1997

1979

RELOCATION AND IPO

In order to finance further growth, R. STAHL decides **to go public** in 1997 and enters the market for operating and monitoring systems in 1998 with the acquisition of today's R. STAHL HMI Systems.

On its 125th anniversary in 2001, the company's new facility in Waldenburg for the Explosion Protection division is put into operation: light, transparency, open doors, communication and teamwork are the key values for the future.



IPO

STRATEGIC FOCUS AND GROWTH IN NEW SECTORS

In 2005, R. STAHL focuses on explosion protection, sells its Material Handling division, expands its systems business, and gains access to the **ship supply industry** with the acquisition in 2007 of Norwegian company TRANBERG AS.

During the economic crisis of 2009, the company's successful efficiency enhancement strategy enables it to master these difficult times without changes to its permanent workforce: the Group posts a positive EBIT result and expands its global market share.

Following the takeover of Clifford & Snell in 2010, R. STAHL moves up to **second place in Europe in the field of signalling devices** and founds R. STAHL Camera Systems in 2011 with a unique offering of camera hardware and software.

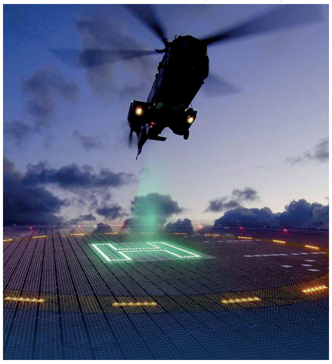
2015

2005

As of 2012, R. STAHL is the **global market leader** for explosion-protected systems solutions.

In 2013, R. STAHL pools its three Indian factories 40 km south of Chennai to form a new manufacturing and administration site with 14,000 m² of space. The US Coast Guard accepts the **IECEx standard** – opening up a new sales market for R. STAHL.

In 2015, R. STAHL ends a multi-year **investment program** with the completion of a new production and development centre in Cologne.



With its Helideck Lighting System, R. STAHL 2016 introduces a lighting solution for offshore helicopter landing pads which is fast and easy to install. The system also boasts low service and maintenance costs.

R. STAHL rolls out further innovative and highly efficient solutions in LED lighting with its **cutting-edge LED technology.** In addition to IECEx certification, there are also national certifications for Russia, India and Brazil.

R. STAHL acquires an equity stake in its long-standing distribution partner in South Africa, ESACO Pty. Ltd., as well as in ZAVOD Goreltex, Russia's number two in explosion protection.

2016

2017

EXTENDING MARKET LEADERSHIP IN EXPLOSION PROTECTION

R. STAHL lays the foundation for future growth. The main emphasis is on the focus regions East Europe, Middle East and Africa, a diversification of the client base, automation, and an expansion of its service offerings. And naturally, the very special tradition of R. STAHL: innovations.

R. STAHL'S SUCCESS SHAPED BY COMMON VALUES

140 years of R. STAHL – we are proud of this success! We achieved it together, with our employees, customers and business associates.

»TOGETHERNESS HAS ALWAYS BEEN IMPORTANT TO US – FOR 140 YEARS«

We owe our success above all to our very special corporate culture based on cooperation. The family's substantial shareholding ensures that this culture and our values have been constantly filled with life over the past 140 years. At the same time, sustainable business has always been a main focus of our activities. As the founding family, honouring the trust displayed by our customers, shareholders and employees at all times is our greatest and most enjoyable responsibility. Because only togetherness makes us so strong!

– Hans-Volker Stahl –

»INNOVATIONS BASED ON CREATIVITY AND EXPERTISE«

R. STAHL has been the technological leader in electrical explosion protection for decades. Milestones in the field of innovation, such as the introduction of plastic as a material for flameproof enclosures, the world's first explosion-protected fieldbus and remote I/O systems, or the first use of LEDs in explosion protection are all the result of an open and innovative climate throughout the company. Competent and creative employees are attracted and motivated by such innovation. The company's excellent vocational training programs ensure that our colleagues are always up-to-date in terms of methodology and technology. I am certain that the list of our groundbreaking new developments will grow even longer in future!

– Prof Thorsten Arnhold, VP Strategy & Technology and Chairman of the IECEx System –

»50 YEARS OF LOYALTY – LIKE IN A GOOD MARRIAGE«

If I were asked to give the recipe for a successful marriage, top of my list would be ingredients such as respect, fairness, openness and enjoying one another's company. And these are the same things that shaped my 50 years with the company. I always really enjoyed my work: with my colleagues, with our customers and suppliers, and as a long-standing member of the company's works council. I am absolutely convinced that the open and respectful way people treat each other at R. STAHL enabled us to overcome many an obstacle along the way.

– On 1 December 2016, Sylvia Bendel became the first woman to have been employed 50 1/2 years by R. STAHL, working in the sales and procurement departments –

»PRUDENT, FUTURE-ORIENTED AND A GLOBAL LEADER«

R. STAHL is the kind of partner a bank like us could only wish for: prudent, future-oriented and a global leader in its sector. That's why we have been committed to supporting the company as its principal bank for over 50 years.

– Karl Manfred Lochner, Member of the Board of Managing Directors for Corporate Customers, Landesbank Baden-Württemberg (LBBW) –

»COMPELLING AND LONG-STANDING PARTNERSHIP«

Our relationship with R. STAHL is based on a strong partnership spanning many years. We regularly exchange ideas and as a mid-sized company constantly benefit from the technical expertise of R. STAHL. This give and take represents a significant added value for us.

– Siegfried Wied, Managing Director Wied GmbH & Co. KG –

FINANCIAL INFORMATION

of R. Stahl Aktiengesellschaft, Waldenburg, for fiscal year 2016

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GROUP MANAGEMENT REPORT

of R. Stahl Aktiengesellschaft, Waldenburg, for fiscal year 2016

BASIC PRINCIPLES OF THE GROUP

BUSINESS MODEL OF THE GROUP

Company portrait: leading specialist for explosion protection and automation technology

Gases, vapours, mists and dusts are created during various production processes in a number of industries. If these are ignited, the resulting explosion can result in severe harm to human life and property. This applies in particular to the chemical and petrochemical industries, but also to the pharmaceutical, food and wood processing industries. R. STAHL's innovative products and systems are designed to protect people, machines and the environment from such explosion events. The R. STAHL Group's systems expertise is a critical success factor: our solutions comprise customized and technologically pioneering products, complemented by expert engineering and consulting services. Our aim is to provide the customer with bespoke, high-quality and innovative systems that meet the highest safety standards. System solutions for optimal system control, the acquisition of operating parameters and flexible process management are also part of our portfolio. With around 100 years of experience in explosion protection, R. STAHL is also a qualified and experienced partner for questions of certification.

Lean group structure and organization

The parent company of the R. STAHL Group is R. Stahl Aktiengesellschaft (in the following R. STAHL AG). It is subject to German law and governed by the two-tier system of Executive Board and Supervisory Board. The Executive Board has two members: as Chief Executive Officer, Mr Martin Schomaker is responsible for Sales/Marketing, Operations, Quality Management, Product Management and Human Resources, as well as Internal Audit and Risk Management. In addition to the Finance division, Mr Bernd Marx is also responsible for IT, Legal and Compliance, Investor Relations and M&A. The Supervisory Board consists of nine members – three of which are worker representatives – and has both a controlling and an advisory function. The main tasks of the Supervisory Board include the adoption of the annual financial statements and the appointment and dismissal of members of the Executive Board. Detailed information on corporate governance and the cooperation between Executive Board and Supervisory Board are provided in this Annual Report in the Report of the Supervisory Board and on the corporate website.

In 2016, R. STAHL's 24 subsidiaries were active in 22 countries with a further 50-plus representative offices around the world. All corporate functions are pooled at our headquarters in Waldenburg, Germany. As of 31 December 2016, R. STAHL employed 1,788 people. In the fiscal year 2016, it generated revenue of EUR 286.6 million and EBIT of EUR 8.8 million. As the parent company, R. STAHL AG sets the strategic alignment of its subsidiaries and performs controlling functions for the Group. In addition, it provides corporate services and advice for the subsidiaries. An overview of the Group's locations can be found in the list of shareholdings.

Global footprint

Via its own subsidiaries and representative offices, R. STAHL is present on every continent of the world. In addition to its numerous sales companies, R. STAHL has seven manufacturing facilities in Europe, the USA and India. At our main factory in Waldenburg, R. Stahl Schaltgeräte GmbH produces the majority of the Group's product range. The Weimar plant manufactures mostly light fittings for use in Ex areas. Our subsidiaries R. STAHL HMI Systems GmbH and R. STAHL Camera Systems GmbH, are specialists for operator interface systems and thus a core component of our site in Cologne, where products for our automation business are also produced. Based in the Dutch city of Hengelo, Electromach B.V. is a specialist company for explosion-protected large control panels. Our Norwegian subsidiary TRANBERG AS in Stavanger specializes in products for the shipbuilding industry and the oil and gas industry. In North America, we are represented by our own manufacturing plant in Houston, USA. Our subsidiary in Chennai, India, focuses on the development, and especially marketing and after-sales service, of explosion-protected products adapted to the specific needs of the Asian region.

Tailored, innovative products and services

A globally networked "Industry 4.0" requires energy-efficient and intelligent explosion protection solutions, as well as control and monitoring systems for all plant structures, regions and operating conditions. Thanks to our diverse portfolio of products, systems and services as well as our permanent innovations, we offer tailored solutions to ensure optimum security and efficiency. In cooperation with our global customers, we develop solutions that are geared exactly to their specific needs. Our product portfolio comprises around 7,000 different components that are classified according to their functions. In addition to the production of explosion-protected circuits and distribution systems, our product range also includes the fast-growing field of automation technology. With our innovative HMI and camera systems, we cover customer requirements for operating and monitoring equipment also in Ex areas. Moreover, our portfolio comprises a wide range of lighting solutions – from portable lamps to helideck lighting systems – as well as signal and alarm devices to ensure the safety of man, machine and the environment. R. STAHL's installation technology business deals with the conducting, connecting and distributing of electrical energy. We create added value for our customers by complementing our extensive product range with bespoke engineering and consulting services and integrating third-party components into the overall solutions as required. This specific systems approach enables us to supply complete solutions from a single source. In addition, we offer our customers training and seminars on the subject of explosion protection. These are run by our own team of experienced trainers at the customer's facility, or also regularly at many venues in Germany, Austria and Switzerland.

Challenging market environment

Explosion protection is incredibly important: a single spark on an oil rig or in a chemical plant can lead to an explosion with fatal consequences. Due to society's growing demand for safe, environmentally compatible and sustainable industrial processes, safety technology and explosion protection are becoming increasingly important around the world.

The market entry barriers in this field are high: the reputation of a provider of safety-critical explosion protection products and systems plays an important role for existing and potential customers. Competitors who want to establish themselves in the industry have to prove their expertise and the reliability of their products over several years. In the case of large-scale projects, clients tend to prefer internationally renowned and experienced providers who can also offer complete system expertise. Highly demanding certification requirements represent a further hurdle for competitors. The considerable administrative effort involved in proving compliance with various explosion protection standards leads to a high degree of customer loyalty and customer retention in this field.

In summary, there are two main factors which determine the development of the market for explosion-protected technologies: 1.) the global increase in society's need for safety and 2.) the international harmonization of standards in the developed markets, as well as the enormous potential for catch-up and growth in safety technology, especially in Africa, the Middle East and Asia.

Thanks to our comprehensive expertise in all areas of safety technology and our many years of experience and presence in the relevant markets, there is still additional expansion potential for R. STAHL. In order to tap new markets efficiently and effectively, we will strengthen our local presence while accelerating and actively shaping our access to new attractive regions by investing in established local providers with evolved and highly successful distribution structures. In order to effectively and dynamically supply the market for automation technology – whose structural requirements differ from those of low-voltage technology – R. STAHL pooled these activities in a new organization on 1 January 2017 to form a significantly strengthened unit within the Group.

Economic and regulatory factors remain difficult

External economic and political developments had a significantly adverse impact on the business trend of the R. STAHL Group in 2016. The main burden in the past financial year was the persistently low level of oil and gas prices, which led to a strong reluctance in our most important client industry to invest in new equipment. Over the course of the year, this also began to impact the downstream segment of the oil and gas sector. This adverse environment was compounded by geopolitical challenges such as the embargo imposed on Russia and the US dollar/euro exchange rate, which was initially unfavourable for European companies. Nevertheless, we enjoyed great success in driving the international expansion of our activities, tapping new customer segments and optimizing our business activities.

Regulation also has a major impact on business in our segment. R. STAHL's order situation depends to a great extent on how the various explosion protection guidelines and standards are accepted in different regions. The opening up of certain markets previously dominated by the US NEC (National Electrical Code) standard offers attractive sales opportunities in the short and medium term for IEC-based technology (International Electrical Commission), in which R. STAHL holds a leading market position. All in all, the measures implemented during the course of 2016 enabled us to enhance the competitive standing of the R. STAHL Group in spite of the challenging economic environment.

Skilled and motivated staff

A skilled and motivated team is a major success factor for a highly specialized and globally operating technology company like R. STAHL. This applies above all to our lead company in Waldenburg. Located in the north-east of the German state of Baden-Württemberg, the region boasts almost full employment. The HR department therefore employs a wide range of measures to differentiate the company in the competition for high-achieving junior staff. For example, we offer attractive opportunities for women to take up a technology-oriented career. We also attach great importance to in-depth, comprehensive and best-in-class vocational training within the company. In October 2016, our activities in this field were honoured for the second time with the DUALIS seal of the Heilbronn-Franconian Chamber of Commerce (IHK) for excellent company apprenticeships. As well as increasing our attractiveness as an employer with proactive employee retention activities and certified training standards, we also enable our apprentices and junior staff to spend time at our international subsidiaries. This gives them international experience and helps them gain an understanding for the working methods and mentality of other cultures. Strong networking between employees at different sites and in different departments also facilitates the fast and efficient exchange of existing know-how and experience within the Group during client projects – this is often a decisive advantage for the successful implementation of highly demanding customer requirements.

A further milestone in the reporting period was the conclusion of a new collective bargaining agreement for the Waldenburg site with a term of eight years. In 2017, the collectively agreed working time will remain at 37.5 hours per week, and fall to 37 hours from 2018 onwards. This will then be two hours per week longer than the regional collective bargaining agreement of the union IG Metall. The agreement enables reliable long-term planning and received the full support of our employees.

Another highlight of the past year was the 25th anniversary of our plant in Weimar on 1 April 2016 which featured an official ceremony with invited guests and employees.

During the reporting period, we implemented the necessary measures to pool the various units of our automation business. The new organization began operations as planned on 1 January 2017. In order to optimize our global structures and organization further, we also pooled the IT functions of our various companies with R. Stahl Services GmbH during the reporting period.

As of 31 December 2016, the R. STAHL Group employed 1,788 people (2015: 1,894). In addition, there were 89 apprentices and students at the end of the reporting period. As a result of the persistently adverse market environment, headcount at our American and Asian sites in particular was adjusted downwards.

OBJECTIVES AND STRATEGIES

The long-term strategy of the R. STAHL Group is aligned with two core objectives: increasing market penetration and achieving sustainable growth in profitability.

Our strategy for the further improvement of market penetration is based on four focus areas:

- *Exploiting regional growth potential to the full*
  We have set up our organization and sales activities in such a way that we can exploit emerging domestic and international growth potential to the full while addressing the needs of our client groups as specifically as possible. We aim to benefit from growth in Asia and therefore continue to improve our market access in this region. In the same way, we also plan to step up our efforts in Russia and the Middle East, as well as in the countries of Africa. To this end, we acquired stakes in regionally established providers in autumn 2016 whose sales structures we can use in future to accelerate our profitable penetration of these regions. In our established sales markets of Europe and North America, we are also working hard to further optimize our sales activities and product offerings.

  Despite the expected ongoing reluctance of the oil and gas industry to invest in new equipment and the high pressure on costs, the energy sector remains an important client industry for R. STAHL which still offers numerous opportunities. We aim to exploit this potential and thus also strengthen our position in this industry. To this end, we plan to develop even more powerful and efficient complete solutions.

- *Expand sales outside the oil and gas sector*
  We want to expand our sales activities also in industrial sectors outside the oil and gas sector. Our focus is mainly on the chemical and pharmaceutical industries, but also on the areas of food production and general plant construction. Our new products and product enhancements – especially in automation and LED lighting – are particularly attractive for customers in these industries. In Germany and Europe, we have already enjoyed major sales success and expect further growth. There are also huge opportunities for R. STAHL in the American and Asian markets. In order to strengthen our market position in automation technology, we pooled our group-wide expertise in this field to create a single dedicated organizational unit, which began operations at the beginning of 2017. The background for this move is that customer contact persons, customer groups, customer requirements and the products themselves in the field of automation often differ from those in the field of low-voltage solutions. In addition, “Industry 4.0” – also referred to as the “Internet of Things” – is a megatrend that

will significantly boost the demand and need for automation solutions in the coming years, also outside the field of explosion protection. With our new organizational and structural alignment, we are now even closer to the market in the automation business and can leverage existing growth and synergy potential more effectively, giving us a more targeted and profitable approach.

- *Increased business with service offerings*
  When advising clients, R. STAHL attaches great importance to taking an integrated approach. This clearly illustrates that an overall concept for explosion protection offers considerable advantages over individual solutions. With the aid of such holistic solutions, we can strengthen the competitive standing of our clients while at the same time promoting customer loyalty. This will cement our technological leadership in explosion protection and secure our technological edge over the competition, while also achieving correspondingly higher margins. We want to expand our range of training courses and production start-up support with the addition of safety-relevant service and planning offerings. We also aim to expand our range of safety-relevant services. We benefit from the fact that customers in the process industry often choose to limit their own resources in systematic safety management for cost reasons, while at the same time the regulatory requirements and expectations of society with regard to operational safety continue to grow. As a renowned, competent and experienced partner, we are able to offer especially globally operating customers reliable safety services which meet the highest standards from a single source and on site around the world. Moreover, service contracts give us greater visibility in sales planning and offer attractive margins. We are also significantly enhancing our customer proximity in this field.

- *Extend technological lead via innovations*
  We want to secure and extend our leading position with regard to technology and innovation in explosion protection. To this end, we invest heavily in research and development. The focus of our work is always on the core needs of our customers: reducing time and costs from start-up to the entire service life of their explosion protection solutions, while at the same time ensuring maximum safety. Just as complex as the requirements for explosion protection itself is the wide range of technological approaches – ranging from lighting systems and automation solutions to innovations in electrical explosion protection.

In order to accelerate our growth, we also consider investments in other companies or business units. Our main focus is on strengthening both our regional market positions and our product portfolio, thus enabling us to benefit more than average from market growth.

All our efforts have one common goal: to raise the enterprise value of the R. STAHL Group. In particular, we strive to achieve a sustained increase in our operating margin. In addition to tapping additional sales potential, we will use our resources even more efficiently and further optimize our processes and structures. We closely monitor and control our material and manufacturing costs.

MANAGEMENT SYSTEM

We measure the degree of our target achievement by using performance indicators. The Executive Board bases its decisions for steering the Group primarily on financial ratios, but also utilizes non-financial indicators. In addition to past values, our assessments are based on budget figures and the resulting comparison of actual and targeted figures. This enables us to continuously monitor the progress of budget compliance while also recognising trends via specific indicators which allow us to react swiftly to market changes and deviations within the company.

Financial and non-financial indicators

Our management system comprises both operational and strategic variables. The key performance indicators (KPIs) for our operating business are order intake, revenue growth and the EBIT margin. The development of sales revenue reflects the Group's growth. We use the EBIT margin to monitor the relationship between sales and earnings – and thus measure the profitability of the R. STAHL Group as a whole and that of our subsidiaries. Each of our Group companies submits a monthly income statement and a balance sheet, which we use to prepare the Group's consolidated figures. In this way, we can steer both the individual companies and the overall performance of the Group.

By ensuring a stable financial structure, we guarantee the continued independence of the Group. We therefore aim to maintain an appropriate equity ratio. We also attach great importance to using the capital provided by our shareholders and lenders efficiently and profitably in order to increase value. Our key performance indicator (KPI) for managing capital efficiency is return on capital employed (ROCE). We define ROCE as the ratio of EBIT to capital employed, whereby the latter is the total of shareholders' equity, interest-bearing loans, current and non-current pension provisions less cash.

We believe that sustainable and profitable growth also requires the inclusion of non-financial performance indicators. Against this background, innovations and new technologies are an essential component of our growth strategy. We therefore continuously identify promising areas of innovation and drive the development of new products.

Equally important for the future success of our company is the safety of our employees. A manual on health and safety management provides all necessary guidelines for the prevention of accidents. In addition, we provide regular employee training.

Comparison of actual and forecast business trend

We only partially achieved the targets for order intake, sales and earnings in 2016 which we formulated in the previous year's annual report in April 2016.

In view of persistently weak demand in the oil and gas sector, we had expected a decline in order intake and sales in the range of EUR 280 million to EUR 290 million for the reporting period. By contrast, we anticipated an increase in EBIT to a range of EUR 14 million to EUR 20 million due to a significant improvement in the cost basis achieved by the cost reduction program initiated in 2015. In reality, however, the demand trend in the oil and gas sector fell short of our already cautious forecast, especially in the second half of the year. We countered this trend by intensifying our sales activities in other industrial sectors and were thus able to achieve our targets with order intake of EUR 282.9 million and sales of EUR 286.6 million, despite the adverse conditions. However, as a result of price pressure, reduced volumes – especially in our high-margin product business – changes in the product mix, and adverse exchange rate changes, we had to abandon our initial EBIT target and downgrade it twice during the year.

EUR MILLION	Result 2015	Guidance February 2016	Guidance April 2016	Guidance May 2016	Guidance August 2016	Guidance November 2016	**Result 2016**
Order intake	317.3	–	–	280–290	275–285	275–285	282.9
Sales	312.9	280–290	280–290	280–290	275–285	275–285	286.6
EBIT before exceptionals*)	11.4	–	–	–	–	–	7.2
EBIT	3.9	–	14–20	14–20	11–15	6–8	8.8
EBIT as % of sales	1.2	5–7	–	–	–	2–3	3.1

*) Exceptionals: non-scheduled depreciation, impairment reversals, proceeds from the sale of non-current assets, restructuring charges, costs from portfolio activities

At EUR 8.8 million, EBIT at the end of the reporting period was above the most recently adjusted forecast range and more than double the prior-year figure, but still well below our initial forecast range. There are several causes for the significant improvement in EBIT compared to 2015. On the one hand, a one-off expense in connection with the cost reduction program burdened EBIT by EUR 7.5 million in 2015. On the other hand, there was a first-time benefit from savings generated by this program, which has resulted in a permanent reduction of the cost basis of around EUR 20 million per year. In addition, one-off special effects of EUR 1.6 million, including from the sale of property, contributed to the increase in EBIT in 2016. However, with regard to EBIT before exceptionals the savings from the cost reduction program were more than offset by the above-mentioned trends burdening earnings in the reporting year 2016.

Planning process

We always include forecasts on the global economic situation and specific sector developments when planning the expected development of our individual subsidiaries and the Group. This planning process is accompanied throughout by our Group Controlling division. Launched in September 2016 and incorporating the strategic guidelines of corporate management, this planning is made for the coming three years. The Managing Directors of our production companies presented their budgets to the Executive Board during management meetings. Our sales units also explained their budgets and integrated any subsequent amendments made by the Executive Board. The figures were then consolidated for the Group and submitted to the Supervisory Board in December. Group Controlling conducts monthly deviation analyses and discusses the findings with the Executive Board. Management also includes the development of order intake and the assessment of our sales team regarding potential client projects in its discussions. This enables it to react quickly to any market changes.

RESEARCH AND DEVELOPMENT

In 2016, we continued to drive our research and development activities in the field of basic research and serial development. All our efforts are guided by the desire to use modern technologies and materials to create market-ready products and solutions that meet customers requirements with regard to safety, reliability and ease-of-use as closely as possible and at all times. Our role as the technological pioneer is underlined by the 40 patents granted in 2016 with eight patent applications still pending.

The development of new serial production devices is always conducted via strong links between our own laboratories in Weimar, Cologne, Houston (Texas) and Chennai in India. In our lighting and signalling device product range, we extended our already comprehensive LED portfolio in 2016 with the addition of explosion-protected LED spotlights and battery-powered LED emergency lighting. In the field of explosion-protected LED lighting systems, R. STAHL has developed into the world's undisputed technological leader in recent years. In this particular product field, R. STAHL currently dominates the market – for both standard products and customer-specific systems.

Furthermore, our Norwegian subsidiary unveiled its new Ex-protected, high-voltage products and systems during the reporting period. The units are specially designed for extreme climatic and ambient conditions and are used, for example, on oil and gas platforms or in offshore wind parks.

In the reporting period, R. STAHL received the North American UL approval for its explosion-protected switch cabinets and distribution cabinets in the low-voltage range. This is a significant success for us and an essential foundation for the further expansion of our North American business with low-voltage technology.

Our research and development activities are also closely examining the possibilities of Industry 4.0. In-depth expertise in the field of manufacturing processes is fused here with cutting-edge information and communication technology. An essential component of such systems are robust and expandable networks for industrial plants. They ensure that the intelligent components can communicate with each other. This results in future-oriented and efficient production. R. STAHL can supply the complete network range for Ex areas.

In the field of automation technology, we have equipped our explosion-protected remote I/O system – which has long been the technological leader – with additional and improved functions. For example, extended diagnostics and status reports make processes more transparent and provide early warning of any malfunctions. Its innovative low-power design not only saves energy, but also significantly extends service life – even at higher ambient temperatures. This makes plant operation even more effective. During ongoing development, special emphasis was placed on system flexibility and all commonly used communication protocols run on our device. Naturally, the new multi-function module is also fully compatible with previous models.

In 2016, we expanded our portfolio of HMIs (Human Machine Interfaces) with the addition of remote PCs. The key benefit of these devices is that they meet the extreme cleanliness requirements of the pharmaceutical industry for example, as well those for fine chemicals, medicine and biotechnology – where they are also mandatory.

Finally, we are also laying the foundations for innovative new developments within the framework of joint research projects with renowned universities. In 2016, for example, we once again funded a dissertation at the Technical University of Dresden which examines the temperature behaviour of electrical components. In collaboration with the Ernst-Abbe University in Jena, we were able to gain new insights from the field of materials research. Many of these new developments can be patented internationally. It is important to quickly implement the results from our basic research: we will therefore be bringing a large number of highly innovative products and system solutions to the market once again in 2017.

Our expenses for research and development in the reporting period amounted to EUR 16.6 million (2015: EUR 17.2 million) and thus represented 5.8% of sales revenue (2015: 5.5% of sales).

ECONOMIC REPORT

GENERAL CONDITIONS

Macroeconomic conditions

Persistently weak oil price, global economic growth roughly on a par with previous year

International clients in the oil and gas sector account for a large proportion of R. STAHL's business. We also generate significant revenue in the chemical, pharmaceutical, food and biofuel industries, as well as with ship equipment suppliers and plant manufacturers. For this reason, three parameters are of particular importance when considering the macroeconomic conditions affecting our business: the development of the oil price, the development of foreign exchange rates – especially the US dollar to euro exchange rate – and economic growth in those countries which are important for our business.

The oil price, which had fallen heavily since the second half of 2014 and throughout 2015, initially continued its downward trend at the beginning of 2016 but was able to recover over the course of the year. Whereas a barrel of Brent crude cost just USD 27.67[1] on 18 January 2016, its price had more than doubled to USD 56.82[1] by the end of the year. This trend was significantly influenced by an agreement of the Organization of Petroleum Exporting Countries (OPEC) in November 2016 to set an upper limit for daily production volumes. Despite this recovery, oil prices are still well below their peak of USD 128.40[1] reached on 1 March 2012.

There was a similar development in the US dollar against the euro in 2016, albeit for fundamentally different reasons. The exchange rate also rose strongly towards the end of the year, due largely to the US presidential election on 8 November 2016 and the US central bank's long-expected interest rate hike. Following a year-low of EUR 0.8610 per US dollar at the beginning of May 2016, the dollar closed the year at EUR 0.9502.[1]

Global economic growth declined once again in 2016, following an already sluggish rate in 2015. Positive trends in certain economic areas were offset by the negative consequences of various political issues, such as the UK population's vote to leave the European Union, geopolitical tensions, military clashes, terrorist attacks in various countries and the generally low price of oil. According to estimates of the International Monetary Fund (IMF), global gross domestic product (GDP) grew by 3.1% all in all – corresponding to a slight fall on the prior-year figure of 3.2%.[2]

The economic trend in Europe varied in 2016. Whereas the IMF estimated faster economic growth for Germany, France and Switzerland with increases of 1.7%, 1.3% and 1.0%, the growth momentum in the UK and Norway slowed year on year with growth of 1.8% and 0.8%.[2]

[1] Details on this and all other sources are provided in the list of sources on page 83.

For the USA, the IMF's calculated GDP growth rate of 1.6% signifies a marked economic slowdown.[2] Apart from the weak oil price, this was probably due to uncertainty and postponed investment in the run-up to the presidential election. By comparison, Canada enjoyed slight GDP growth of 1.2%.[2]

As in the previous year, the economic trend in Brazil (GDP -3.3%) and Russia (GDP -0.8%) was negative, according to the IMF.[2] However, the decline was much smaller in Russia in the reporting period.[2] Together with the positive IMF forecasts for 2017, this can be interpreted as a possible turnaround for both countries.[2]

In Asia, the IMF estimates that the Chinese economy continued to slow compared to previous years with growth of 6.6%.[2] By contrast, there was further slight growth in South Korea of 2.7%, while the ASEAN 5 states (Indonesia, Thailand, Malaysia, Philippines and Vietnam) grew by 4.8% and India maintained its prior-year momentum with growth 7.6%.[2]

Sector-specific conditions

Moderate growth in the electrical industry

As a supplier of electrical and electronic safety technology for Ex environments, the sector-specific data of the German Electrical and Electronic Manufacturers' Association (ZVEI) are decisive for R. STAHL. According to ZVEI, order intake of German companies in the electrical industry was down 1.0% year on year in 2016, with comparable trends in both domestic and foreign demand. Sales revenue in the industry rose slightly by EUR 400 million to a total of EUR 178.6 billion,[3] whereby domestic sales were up 0.3% and exports by 0.1%.[3]

Oil and gas sector still facing challenges

At the beginning of 2016, political and economic tension between Saudi Arabia and Iran, as well as increased production in Iraq, drove the oil price down to a 12-year-low. The steady rise in oil stocks in the USA and the lifting of sanctions imposed on Iran stoked concerns about high oil supplies even further. In mid-February, Russia and Saudi Arabia surprisingly announced plans to freeze oil production rates if other oil-producing nations were willing to join them.

This led to a recovery in oil prices that was further stimulated by an agreement of the OPEC nations in November to place an upper limit on output. This is the first time since 2008 that oil production has been capped, with a target of 32.5 million barrels per day.[4]

The low price of oil remained a challenge for our customers in 2016 and affected them to varying degrees: those companies specializing in processing and refining (downstream) could initially offset the effect of lower sales prices on earnings with more favourable purchase prices until the middle of the year. From mid-2016 onwards though, the segment also suffered from reduced capital expenditure and project postponements – as previously experienced by the oil-producing (upstream) companies. According to the Norwegian consulting firm Rystad Energy, platform operators and other suppliers (service companies) posted a 27% fall in sales, compared to the previous year.[5] The downturn was even more pronounced for companies active in mainland North America. Not all players were able to withstand the massive pressure in the industry: in North America alone, over 100 service companies filed for insolvency in 2016.[5] However, this trend had a stimulating effect on North America's shale oil producers, who were able to drastically reduce their production costs and thus offset part of the price decline.

The reduction in capital spending by all companies in the oil industry that began in 2015 thus intensified in 2016. Together with cost-cutting measures and massive redundancy programs, this exerted enormous pressure on the oil producers, service providers and oil company suppliers. According to the research and consultancy group Wood Mackenzie, the industry cut its capital expenditure by USD 370 billion in 2016 and 2017, compared to the level before the oil price decline.[6] Rystad Energy states that global spending in the oil and natural gas sector slumped by 25% to USD 520 billion in 2016.[7]

As oil and gas are in direct competition as fuels, there was no impetus for increased sales from natural gas production. Until mid-2016, the price of natural gas was even weaker than that of oil before rising to a comparable level in the second half of the year.

Explosion protection: change to IECEx standard making further progress

Under unfavourable conditions, explosions may occur in industrial plants which not only cause severe damage to property but also result in personal injury. Such explosions are not restricted to the oil production and chemical industries, but also occur in many areas of manufacturing. Precautions to prevent such explosions are strictly regulated by law in most countries. An international process has established itself around the world for this purpose: the IECEx system in accordance with the standards developed by the International Electrotechnical Commission (IEC). R. STAHL is a globally leading supplier in this field. The increasing spread of the IECEx standard, and the replacement of national standards with IECEx standards in many industrial facilities in 2016, will therefore increase our market volume in the long term and reduce documentation and certification costs due to the harmonization of international explosion protection regulations. In the long term, the megatrend "Industry 4.0" will also increase demand for a wide variety of electrical and non-electrical devices, components and sub-assemblies that are certified for use in a variety of applications in Ex atmospheres.

"Industry 4.0" on the rise

There are few topics which are currently gripping all sectors of the German economy as much as the so-called fourth industrial revolution – also referred to as "Industry 4.0". The term stands for the digital networking of people, machines, objects and systems. Apart from the huge challenges it represents, there are also considerable opportunities for the manufacturing industry. "Industry 4.0" describes an economic paradigm shift that will lead to enhanced efficiency for various processes on the one hand, and allow the restructuring of added value and the creation of new business models for industry on the other. The digital transformation process will break up rigid processes and see the emergence of inter-disciplinary, flexible networks along the entire value chain, from product development to production and logistics. Although many projects labelled "Industry 4.0" still sound somewhat futuristic, the first pilot operations were already introduced in 2016.

The digitization of the manufacturing industry or networking of production also offers new market opportunities for customers of R. STAHL and opens up the possibility for us to position ourselves more favourably with our products and services for process control and monitoring.

Mixed trend in chemical and pharmaceutical sectors

In view of the economic challenges – such as persistently low oil prices, despite the recovery – the German chemical and pharmaceutical sectors could only raise output slightly in 2016. According to the German chemical industry association (VCI), growth amounted to 0.5%.[8] The pharmaceutical sector fared somewhat better than the chemical industry, where production of consumer chemicals such as soap and detergents, as well as inorganic basic materials such as fertilizers, also declined.[8] In order to optimize capacity utilization, producers passed on cheaper raw material costs to their customers. According to the auditing firm PWC, global sales of the chemical industry rose by 2.1%[9] – although this lagged behind overall global economic growth, it continued to display a slight upward trend. Estimates put global sales of explosion-protected equipment in the chemical industry at around USD 0.9 billion in 2017.[10]

The pharmaceutical industry closed 2016 on a positive note with numerous drug launches. The association of research-based pharmaceutical companies in Germany (vfa) states that in Germany alone, pharmaceutical companies expanded treatment options with the addition of 30 drugs with new active ingredients.[11] Global sales of explosion-protected equipment in the pharmaceutical industry in 2017 is estimated to be around USD 0.7 billion.[10]

BUSINESS DEVELOPMENT

Falling orders from oil and gas sector over the year

Due in particular to the volatile oil price which is only slowly beginning to recover, R. STAHL continued to operate in a challenging macroeconomic environment in 2016. In the first three months of 2016, we were able to win orders in new customer segments with our innovative products. This was a clear indication that our strategy for the past fiscal year to step up the company's penetration of markets outside the oil and gas sector was proving effective. However, these gains were unable to fully offset the decline in sales generated with clients in the oil and gas industry. Against this backdrop, sales of the R. STAHL Group in 2016 were down on the previous year. The oil and gas sector is still R. STAHL's largest market, whereby the upstream segment is slightly more important than the downstream segment.

With regard to order intake, our expectations for the Group were initially exceeded slightly in the second quarter. In view of the persistently tense market situation and an uncharacteristically weak third quarter, however, order intake as a whole remained within the projected range. Whereas the US and Asian markets suffered most from the reduced investment caused by low oil prices, order intake in Europe made good progress in the reporting period.

Highlights 2016: horizontal and regional diversification

After a difficult 2015 in which our customers in the oil and gas industry reacted to depressed oil prices by slashing capital spending, 2016 was a year of diversification for R. STAHL with a view to positioning itself for future business opportunities. A key element of this strategy is the further development of our product portfolio in order to reach new customers outside the oil and gas sectors. At the same time, we aim to use our expertise in explosion protection to serve our existing customers with new, resource-conserving technologies and system solutions offering long-term, cost-saving potential.

In addition, we repositioned ourselves in two important future markets by acquiring equity stakes in two companies: ZAVOD Goreltex, the number two in explosion protection in Russia, and the South African company ESACO Pty. Ltd.. Our 25% stake in ZAVOD Goreltex will give us easier access to the Russian market. In particular, this will benefit the marketing of our automation technology products, which are neither locally manufactured nor subject to the European Union's trade embargo for Russia. With our 35% stake in ESACO Pty. Ltd., we aim to drive our penetration of African market with a focus on the sub-Saharan region. Major investment projects are planned in the coming years in Mozambique, Angola, Namibia and Nigeria in particular.

Strengthening of our organization for automation products

The entire R. STAHL product portfolio boasts a high degree of system solutions expertise coupled with our own high standards for our innovative and technically pioneering products. Our range of automation products is also very closely aligned with market requirements and sets new standards – a strength we aim to exploit and develop for the entire future positioning of the Group. However, customer needs and requirements in the field of automation differ strongly in some cases from those in other product fields – for example as a result of differing voltage ranges. This means that we often have several contact partners for these products within the same client company, or that certain customers are not fully aware of the breadth and benefits of our entire portfolio. We therefore used the past fiscal year to restructure our automation business. The newly created organization began operations as planned on 1 January 2017. To this end, we brought R. STAHL HMI Systems GmbH and R. STAHL Camera Systems GmbH, both based in Cologne, more closely together with the Automation business unit based in Waldenburg and our sales organization for automation products. The aim is to enhance our customer proximity in this long-term growth market, and in particular to fully exploit the cross-selling potential of our entire product and solution portfolio.

FINANCIAL POSITION AND PERFORMANCE

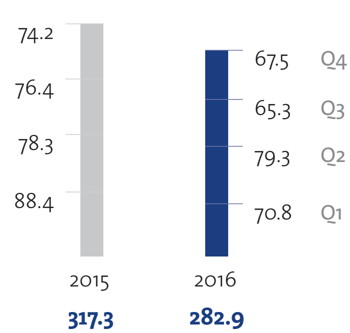
EARNINGS POSITION

Our weak sales and order situation in 2016 compared to the previous fiscal year was mainly a result of the external influences described above. The cost pressure to which our main customers in the oil and gas industry, and the related downstream sectors, were exposed in 2016 had a direct impact on the business performance of the R. STAHL Group. For example, sales revenue was down 8.4% year on year at EUR 286.6 million (2015: EUR 312.9 million). However, the cost-cutting measures introduced in autumn 2015 played a major role in improving our profitability: despite the fall in sales, EBIT more than doubled to EUR 8.8 million in 2016 (2015: EUR 3.9 million). This cost reduction program reduces our annual cost base by around EUR 20 million compared to 2015.

Weaker order intake in second half of the year

At EUR 282.9 million (2015: EUR 317.3 million), order intake in 2016 was within the most recently projected target corridor, but still 10.8% below the prior-year level. Following a modest start to the year, the order situation initially stabilized in the first six months. However, the unexpectedly strong slump in demand from our customers in the oil processing (downstream) segment during the second half of the year had a significant impact on the development of order intake over the year as whole.

ORDER INTAKE BY QUARTER (EUR MILLION)



Fewer orders in all regions

From a regional perspective, there were significant differences in the development of order intake. Overall, however, it declined in all four reported regions.

In **Germany,** order intake fell by 10.4% to EUR 61.6 million (2015: EUR 68.7 million). No major projects were awarded in the reporting period. In the first half of the year, we received numerous smaller-volume orders for LED luminaires. There was also a positive trend in the field of automation technology.

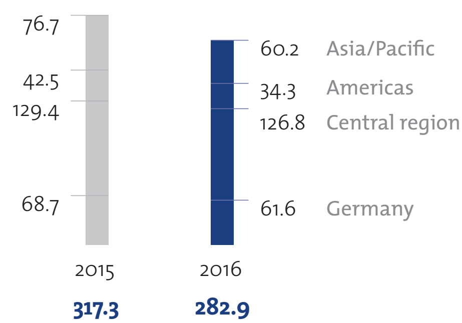
In the **Central region** – comprising Africa and Europe without Germany – order intake of EUR 126.8 million was just 2.0% below the prior-year figure (2015: EUR 129.4 million). Among the highlights in this region were a new project to modernize a refinery on Poland's Baltic Sea coast, during which R. STAHL received orders for terminal boxes and lighting technology, as well as an order from a fertilizer producer. We also managed to gain another new customer in the chemical industry and thus further diversify our client base.

The tense market situation in the **Americas** intensified over the course of the reporting period as the reluctance of oil and gas producers to invest in new equipment spread to the downstream segment. Order intake in this region reached EUR 34.3 million and thus fell 19.1% short of the prior-year figure (2015: EUR 42.5 million). In addition to follow-up orders from a Canadian customer who extracts crude oil from oil sands, we also received a first order for our new helideck lighting system from a US shale oil producer. There were also orders for the delivery of mobile power systems used for temporary plant shutdowns.

R. STAHL was also unable to maintain its prior-year order intake level in the **Asia/Pacific** region, which reported a decline of 21.5% to EUR 60.2 million (2015: EUR 76.7 million). Due to the strong pressure on prices in the oil and gas industry, major projects above all in the downstream segment were postponed several times. However, we achieved encouraging sales success with the LED luminaires produced at our Indian facility in Chennai, including products used in cleanrooms by the pharmaceutical industry.

At year-end 2016, the order backlog of EUR 80.7 million was 15.2% down on the previous year (2015: EUR 95.2 million).

ORDER INTAKE BY REGION (EUR MILLION)



Expected year-on-year decline in sales, Central region up

The fall in order intake during 2016 also led to a decline in the R. STAHL Group's sales revenue. At EUR 286.6 million, sales fell 8.4% (2015: EUR 312.9 million) and were thus within the range of EUR 280 million to EUR 290 million anticipated at the beginning of the year. In addition to volume and price decreases, as well as a changed product mix, the sales trend was negatively affected by exchange rate fluctuations, especially the slide in the British pound and the Norwegian krone. Considering all currencies of relevance for R. STAHL, this represented a burden on the sales trend of EUR 3.9 million for the R. STAHL Group in 2016.

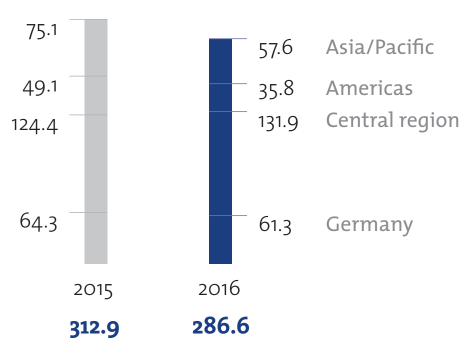
In **Germany,** we were able to partially offset weak demand from the oil and gas industry with sales in other industries. Although the production and processing of crude oil naturally plays no direct role in this region, our products sold in Germany are also used by customers in their foreign facilities. At EUR 61.3 million (2015: EUR 64.3 million), sales in 2016 were down 4.7% year on year. Sales of our innovative LED luminaires made further good progress in the reporting period. Our clients for these products include a well-known aircraft manufacturer, who uses them in production and maintenance. R. STAHL's modern luminaires are particularly favoured due to their low weight.

Sales in the **Central region** were increased by 6.1% to EUR 131.9 million (2015: EUR 124.4 million). While the contribution of the Scandinavian countries was noticeably reduced due to high production costs in the North Sea, sales in other countries in this region grew as a result of deliveries for major long-term projects. In the third quarter, for example, products were delivered for a gas production and processing plant in northern Russia and an offshore project in Angola. Buoyant demand from the chemical and pharmaceutical sectors also helped boost sales.

In 2016, we suffered the strongest regional decline in revenue in the **Americas** region, where sales fell by 27.1% to EUR 35.8 million (2015: EUR 49.1 million). The massive decline in drilling activity over the course of the year and the growing spread of spending cuts to those sectors dependent on the oil and gas industry had a significant impact on R. STAHL's business. In the USA in particular – R. STAHL's most important market in this region – the effects of low oil prices on the oil and gas sector are especially large, as production costs here are comparatively high. In the second half of the year, we achieved success with efforts to diversify our client base. We were able to gain a new customer in the pharmaceutical industry who took delivery of our automation solutions.

There was also a strong decline in sales in the **Asia/Pacific** region in the fiscal year 2016. Following strong growth in the previous year, sales fell by 23.3% to EUR 57.6 million (2015: EUR 75.1 million). The importance of oil and gas production and processing for this region also played a vital role in the development of R. STAHL's sales here. South Korea and the United Arab Emirates deserve a positive mention as we were able to generate follow-up orders in these countries despite an extremely adverse market environment.

SALES BY REGION (EUR MILLION)



Cost reduction program dampens effects of price pressure and falling volumes

In spite of reduced sales, earnings before interest and taxes (EBIT) more than doubled year on year to EUR 8.8 million in 2016 (2015: EUR 3.9 million). This was due to partially opposing effects. On the one hand, EBIT in 2015 was impacted by exceptionals of EUR 7.5 million in connection with the initiated cost reduction program. On the other hand, the savings generated by this cost reduction program took effect in 2016, leading to a permanent reduction in the cost base of around EUR 20 million compared to the previous year. In addition, there was a positive contribution to the EBIT trend in the reporting period from increased other operating income, which rose by 18.0% to EUR 12.9 million (2015: EUR 10.9 million) due mainly to the sale of a plot of land in Waldenburg which is no longer required and strategically insignificant. These positive effects were opposed by negative influences, in particular from price pressure, falling volumes and a changed product mix.

As a result of the lower order volume, our material expenses in the reporting period fell by 7.4% to EUR 101.1 million (2015: EUR 109.2 million). As a consequence, the cost of materials ratio – cost of materials as a proportion of total performance – increased to 35.6% (2015: 34.6%). Price pressure and a changed product mix were also noticeable here.

Due to the socially compliant redundancy program implemented in the previous year and necessitated by our cost reduction program, personnel expenses decreased by 8.0% to EUR 118.3 million (2015: EUR 128.6 million).

Depreciation and amortization of tangible and intangible assets was largely unchanged from the previous year at EUR 13.4 million (2015: EUR 13.5 million). Following the completion of our multi-year investment program to drive the expansion of our facilities in the years 2012 to 2015, capital expenditure returned to a lower level in the reporting period. In 2016, capital expenditure was thus roughly on a par with annual depreciation.

Other operating expenses fell by 22.2% to EUR 55.6 million (2015: EUR 71.6 million). This was due in particular to the structural savings from the cost reduction program. Moreover, negative foreign exchange rate changes had a much lesser effect on earnings than in the previous year.

The interest result of EUR -3.1 million was roughly on a par with the previous year (2015: EUR -3.2 million). Interest income of EUR 0.3 million (2015: EUR 0.3 million) was opposed by interest expenses of EUR 3.4 million (2015: EUR 3.5 million). This includes net interest expenses for pension obligations of EUR 2.1 million (2015: EUR 1.9 million). There was a corresponding improvement in EBT to EUR 5.8 million (2015: EUR 0.7 million).

In the reporting period, income taxes amounted to EUR 1.6 million (2015: EUR 0.8 million) and led to net profit after taxes of EUR 4.2 million (2015: EUR -0.1 million). This resulted in earnings per share of EUR 0.64 (2015: EUR -0.02).

FINANCIAL POSITION

Principles and objectives of our financial management

The primary objective of our financial management is to ensure the sound financial position of the R. STAHL Group. The centralized management of financial transactions by R. STAHL AG guarantees a standard approach towards banks and equity providers and ensures a coherent financial risk management system.

The task of financial management is to ensure the necessary funds are available for the business operations of the Group's companies. Moreover, we ensure that the funds required for investment projects are available. To this end, we have established monthly rolling liquidity planning. This includes the funds required for activities of our individual subsidiaries, which we cover by means of internal Group loans or external bank loans. As part of our cash management system, we carefully manage the Group's credit, interest rate and currency risks. We hedge against such risks by using standard derivative financial instruments based exclusively on the hedged item.

Financial analysis

R. STAHL manages the Group's funding requirements centrally from the company's headquarters in Waldenburg. There is a cash pooling system for R. STAHL AG and the German subsidiaries to balance out financial requirements: surplus liquidity of individual Group companies is used to cover the funding requirements of other subsidiaries. They therefore reduce new borrowing needs and interest expense. If external funds are necessary, foreign subsidiaries use local banks. The parent company provides guarantees for these credit lines.

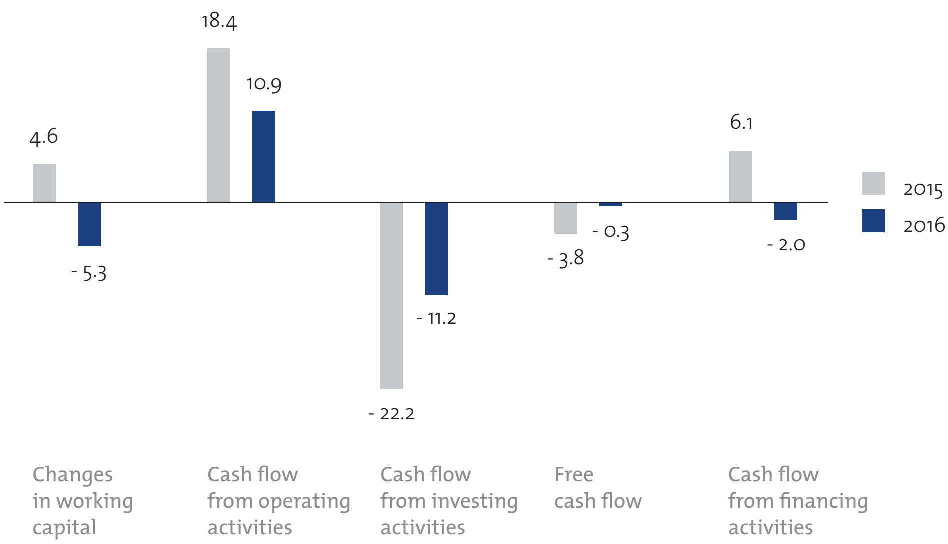
A syndicated loan agreement concluded in the fourth quarter of 2015 with a term of five years and a volume of EUR 95.0 million, plus an expansion option of EUR 25.0 million, ensures the stable medium-term funding of the Group and provides scope for investments and acquisitions. In addition, there are current bilateral credit lines of EUR 7.0 million and two fixed-interest deposit base loans totalling EUR 6.3 million with a term until 2017 and interest rates of 2.45% and 2.9% p.a., respectively.

Statement of cash flows

Cash flow in 2016 increased year on year by 17.0% to EUR 16.2 million (2015: EUR 13.8 million). By contrast, cash flow from operating activities fell by 40.9% – due mainly to an increase in working capital of EUR 5.3 million – to EUR 10.9 million (2015: EUR 18.4 million). This increase was caused above all by a decline in prepayments from customers and reduced provisions for severance pay. In addition, there was a decrease in inventories and a fall in trade payables as a result of lower sales revenue. The strong decrease in cash flow from investing activities of 49.5% to EUR -11.2 million (2015: EUR -22.2 million) is mainly due to the completion of our multi-year investment program in 2015. In the reporting period, this is reflected in a year-on-year decline in capital expenditure of EUR 10.2 million to EUR -6.3 million in the reporting period (2015: EUR -16.5 million). Total payments of EUR 5.8 million for the investments in ZAVOD Goreltex and ESACO Pty. Ltd. during the third quarter were opposed by almost identical inflows of EUR 5.5 million from the disposal of property, plant & equipment. As capital expenditure in the reporting period fell more strongly than cash flow from operating activities, free cash flow improved year on year to EUR -0.3 million (2015: EUR -3.8 million).

At the Annual General Meeting in 2016, shareholders approved a dividend payment of EUR 0.60 per voting share. This corresponds to a total cash outflow of EUR 3.9 million. During the reporting period, there was also a cash outflow of EUR 0.4 million for the purchase of the remaining 25% of shares in R. STAHL Camera Systems from Orlaco Products B.V.. At the same time, we took out net financial liabilities of EUR 2.3 million. All in all, cash flow from financing activities fell to EUR -2.0 million (2015: EUR 6.1 million). At the end of the reporting period, R. STAHL had cash and cash equivalents of EUR 16.2 million (2015: EUR 18.3 million).

CASH FLOW 2016 (EUR MILLION)



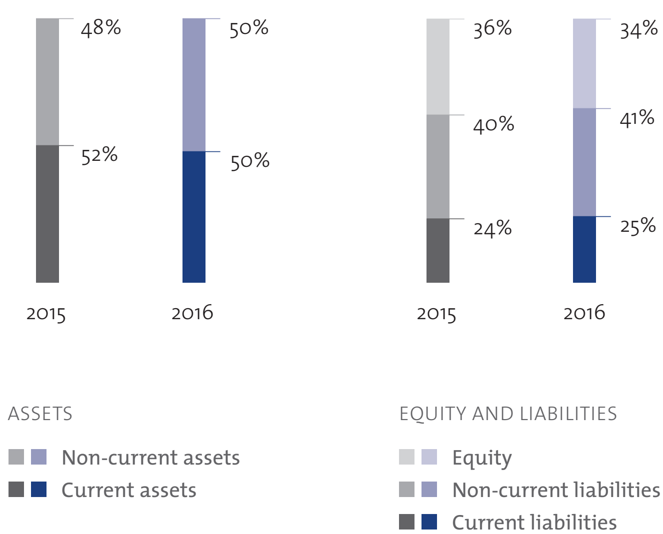
Rating

We did not commission any credit ratings from external rating agencies in 2016. From the regular dialogue with our principal banks we can conclude that R. STAHL is within the stable investment grade range. Our good credit rating is also confirmed by the positive cooperation we enjoy with our lenders.

ASSET POSITION

As of 31 December 2016, R. STAHL's balance sheet total was virtually unchanged from the previous year at EUR 278.6 million (2015: EUR 278.8 million). There were some small changes in both assets and liabilities. Net financial liabilities (without pension obligations) increased to EUR 21.8 million (2015: EUR 17.4 million).

BALANCE SHEET STRUCTURE



Development of assets

As of 31 December 2016, non-current assets rose to EUR 139.6 million (2015: EUR 133.9 million). This was mainly due to the minority stakes in ZAVOD Goreltex and ESACO Pty. Ltd. acquired in the third quarter. Effects from a reduction in property, plant & equipment, mainly from the above mentioned sale of property in Waldenburg in the fourth quarter, were approximately offset by an increase in deferred taxes. At the end of the reporting period, non-current assets accounted for 50.1% of the balance sheet total (2015: 48.0%).

Compared to the previous year, current assets fell slightly to EUR 139.0 million as of 31 December 2016 (2015: EUR 144.9 million). This was mainly due to lower inventories. Effects from increased other receivables and other assets were roughly equivalent to the decrease in cash and cash equivalents, which fell to EUR 16.2 million (2015: EUR 18.3 million). At the end of the reporting period, current assets accounted for 49.9% of the balance sheet total (2015: 52.0%).

Development of liabilities

As of 31 December 2016, shareholders' equity of the R. STAHL Group fell by EUR 6.2 million to EUR 94.8 million (2015: EUR 101.0 million). This was due in particular to a rise in pension provisions as a result of the significantly lower interest rate used for calculations in the reporting period. In the previous year, an increase in this interest rate had led to a rise in equity of over EUR 7 million. At the end of the year, the equity ratio amounted to 34.0% (2015: 36.2%).

Non-current liabilities were slightly up on the previous year at EUR 112.9 million (2015: EUR 110.5 million) or 40.5% of the balance sheet total (2015: 39.7%). The above mentioned strong increase in pension provisions – up EUR 11.0 million to EUR 96.7 million (2015: EUR 85.7 million) – was opposed by a decrease in financial liabilities of EUR 8.8 million to EUR 10.4 million (2015: EUR 19.2 million).

There was also a slight increase in current liabilities, which rose to EUR 71.0 million (2015: EUR 67.3 million). As a result, they accounted for 25.5% of the balance sheet total (2015: 24.1%). The rise in current financial liabilities of EUR 11.1 million was slightly larger than the decline in non-current financial liabilities, due mainly to the growing proximity of loan maturities. This was offset in particular by a reduction in other liabilities of EUR 2.8 million to EUR 10.9 million (2015: EUR 13.6 million) in connection with the settlement of projects for which we had received advance payments. In addition, the reduced order position led to a decline in trade payables, which fell by EUR 1.5 million to EUR 13.4 million (2015: EUR 14.9 million).

EXECUTIVE BOARD'S OVERALL ASSESSMENT OF THE ECONOMIC SITUATION

The business trend in 2016 was dominated by the biggest sales crisis to hit suppliers of the oil and gas sector in decades. Capital spending in this key client industry and its downstream segment was virtually put on ice as a result of the strong pressure on prices which our customers were exposed to. In the course of the reporting period, we were forced to downgrade our targets for sales, order intake and earnings several times. At the end of the year, sales of EUR 286.6 million were within our initial guidance range and slightly above our last adjustment to guidance. At EUR 282.9 million, order intake was both within the original and last stated guidance range. Due to necessary price concessions and shifts in numerous projects of our main clients, we fell well short of our original EBIT target for 2016, but were within the most recently adjusted guidance range at the end of the year.

There were shortfalls in order intake and sales once again in 2016 in those regions in which the oil and gas business accounts for a large proportion of our business. This is especially the case in the Americas and Asia/Pacific. After an initially encouraging trend in the downstream segment in 2015, spending behaviour became increasingly restrictive during the reporting period. However, we scored major sales successes in both regions with customers outside the oil and gas industry. Our innovative LED lighting solutions and automation technology proved particularly popular. In Europe and Germany, we once again benefited from our broad and diversified client base in 2016. In addition to the processing of large orders in the petrochemical industry, we also gained customers from other sectors for our automation solutions, LED lighting and safety technology. All in all, the decline in sales to the oil and gas sector and expansion of our business in other industries reduced our reliance on the oil price trend to less than half in 2016.

Despite the extremely challenging market environment, we achieved a significant increase in EBIT to EUR 8.8 million compared to the previous year. During the reporting period, we benefited for the first time from savings achieved by the cost-saving program initiated in 2015. The sale of a plot of land which is no longer required and strategically insignificant also made a contribution to earnings.

The scheduled completion of our multi-year investment program in 2015 led to an improvement in our free cash flow in 2016.

In order to strengthen our position as an innovative technological leader for safety-related products and services, we focused on the further optimization of our cost structures and targeted measures to increase efficiency in 2016, after successfully completing our investment program at the end of 2015. This also includes the realignment and pooling of our expertise in the field of automation solutions. At the same time, we continued our accelerated sales drive to tap new client groups outside the oil and gas industry as well as our regional expansion in 2016. In the third quarter, for example, we acquired a 25% stake in ZAVOD Goreltex, the Russian number two in explosion protection. This gives R. STAHL simplified access to the highly promising Russian market and lays the foundation for additional growth. R. STAHL will also supply our partner with automation technology, as these products are neither subject to the EU embargo nor need to be produced locally. Just a few weeks later, we acquired 35% of shares in ESACO Pty. Ltd. in South Africa. ESACO has been a distributor of R. STAHL products in Africa for over 40 years. We want to build on this long-standing and successful sales partnership and expand our market activities especially in sub-Saharan African countries, such as Angola, Mozambique, Namibia and Nigeria, while supporting our existing customers via local branch offices. In the next few years, we expect several major projects to be awarded. We aim to be prepared for this development. In the medium term, we believe sales growth of EUR 15–20 million in the region is realistic. As well as improving its access to local markets, R. STAHL will also benefit from the operating development of these companies.

SUSTAINABILITY

For some time now, the production of oil and gas and the manufacturing industry have generally been regarded as a threat to nature and the environment. Although the conveniences of modern life would be largely impossible without these basic materials and their industrial use, their extraction can lead to life-threatening dangers for humans and ecosystems if the necessary precautions are not taken. Accidents which regularly occur, such as the explosion at a large chemical plant in Ludwigshafen in 2016, underline how real and present these dangers are – even if great care and caution is taken. R. STAHL's business model is largely based on preventing such explosions and fires as well as minimizing the risks involved with the production and processing of oil and gas, thus protecting mankind and nature. This commitment is also reflected in our internal processes and actions, which are always in line with environmental, human and social criteria. Treating our environment with respect is just as important to us as the good relationships we enjoy with all our stakeholders, especially our customers, suppliers, business partners, employees and shareholders.

Ecological responsibility

We take our responsibility towards the environment very seriously and do not restrict it solely to providing the best-possible explosion protection for the facilities of our customers. We also believe that climate change is one of the greatest global challenges. It is therefore becoming increasingly important for companies, especially in the manufacturing industry, to view their processes under ecological aspects – also for R. STAHL.

On the one hand, our services and products – such as switchgear, buttons, lights and controls – help the operators of industrial plants to ensure safety in Ex areas and thus prevent environmental damage. We constantly develop our products and systems under the aspect of maximum safety. On the other hand, the conservation of resources also has top priority in the development of our new products. For example, the LED lights used in most R. STAHL products have only very low power consumption. This in turn reduces cable diameters and makes the systems lighter and more compact – not only reducing energy consumption, but also costs over the entire operating and life cycle.

Environmental protection is not only an important issue with regard to the benefits of our products and solutions, we also pay great attention to energy management at our own facilities. In the field of facility management, we have one employee who has been certified by the Chamber of Commerce (IHK) Heilbronn as an energy manager. In December 2015, the Waldenburg, Weimar and Cologne sites were successfully certified according to DIN EN 16247 as part of our efforts to increase energy efficiency and reduce energy consumption. In addition, two apprentices have been trained as energy scouts. In a first successfully completed project, energy savings were achieved by using ultrasound to detect and then remove leaks in the compressed air network of a production area. All our activities have helped achieve a significant reduction in carbon dioxide emissions compared with the previous year.

	2012	2013	2014	2015	**2016**
Emissions CO_2 (t)	2,677	2,446	2,021	2,267	**1,855**

Our combined heat and power plant in Waldenburg makes a major contribution to the sustainable reduction of emissions: thanks to its low heat loss, the efficiency of this plant is well above that of ordinary energy generation. This combined heat and power plant generates more heat and electricity for our development building than is directly consumed there. As a result, other building areas can also be supplied in order to reduce the heating and power requirements of these sections. We continue to work hard on reducing our CO_2 emissions. We currently have detailed and reliable data above all for our head office in Waldenburg, but also want to acquire energy consumption data for all our locations in the medium term.

Social responsibility

We take our responsibility towards all employees very seriously and attach particular importance to the field of occupational safety and health (OSH). However, our conscientious approach also marks us out us as a reliable partner for our customers, who audit us as part of their own sustainability reporting. In addition, we also take responsibility for employees: a large proportion of the 180 or so training courses held every year was involved with safety and explosion protection.

In early October 2016, the Health & Safety Management System of R. Stahl Schaltgeräte GmbH was once again audited and approved by the employers' liability insurance association Energie Textil Elektro Medienerzeugnisse (BG ETEM). The audits are conducted every three years. During the audit, special emphasis was placed on the implementation of OSH measures in everyday activities, also at management level.

In the reporting period, there were 16.47 reportable accidents per 1,000 insured staff at our largest production facility in Waldenburg – below the industry-average accident rate of 18.3 measured by BG ETEM.[12] The reportable accidents did not include any serious injuries. In our efforts to reduce the already low number of accidents, we provide basic safety training for new employees as well as annual safety training for all employees and conduct regular safety inspections. First aid training is offered every two years. 18% of R. STAHL employees are currently trained first aid helpers – well above the legally required level of 10%.

In addition to OSH issues, R. STAHL undertakes a variety of measures to make it an attractive employer for our staff. Our goal is to maintain and promote employee satisfaction and performance for the future. For example, our employees can take advantage of flexible working time models to improve their work-life balance. In addition, our health concept includes in-company medical support, free flu jabs and the promotion of various fitness and sports activities. Our comprehensive training program helps maintain the high skill and motivation level of our employees. It includes internal and external training courses on explosion protection, various IT fields and management skills, as well as language courses and soft skill training. Participation in these training courses requires prior consultation with the employee's respective supervisor and is subsequently evaluated.

Corporate social responsibility

We regard R. STAHL as part of society. As an internationally aligned company, we intend to make an important contribution to this society and actively shape its development. We also motivate our employees to engage in social activities. During our twice-yearly Inventor Days in Waldenburg, for example, we use fun activities to give children and young people a first impression of technology and science. A further example is the social project week of our apprentices, which we have been successfully conducting for many years now. In 2016, more than 20 apprentices were active at six institutions, such as a nursing home and a sheltered workshop ("Beschützende Werkstätte e.V."). This social project week led to the development of the project "Vocational Integration with Disabled Youths". At R. STAHL's training workshop, apprentices helped handicapped young people produce a station for water-based games to be installed at a children's day-care facility.

But we not only support children in our domestic market: we founded a non-profit organization whose first project is to support a children's home in India. Our goal is to sustainably improve the living conditions of the 25 or so children aged two to 17 living there and to contribute towards their livelihood and education. We want to show the young people opportunities for their future – including the possibility of an internship or a job at R. STAHL (P) Limited located just 30 km away.

DECLARATION ON COMPANY MANAGEMENT

Since fiscal year 2009, all German stock companies are required by Section 289a HGB (German Commercial Code) to make a declaration in regard to company management. Our declaration has been made publicly available on the corporate website www.stahl.de under Investor Relations/Corporate Governance.

ADDITIONAL INFORMATION PURSUANT TO SECTION 315 (4) HGB

Capital structure

On 31 December 2016, the subscribed capital of R. STAHL AG amounted to EUR 16,500,000.00, consisting of 6,440,000 no-par value registered shares. Theoretically, therefore, one share corresponds to EUR 2.56 of the capital stock.

Members of the Stahl and Zaiser families have pooled substantial portions of the voting shares in a consortium agreement with which they commit themselves to casting their votes or having their votes cast according to the resolutions of the consortium. With a notification according to Section 21 (1) German Securities Trade Act (WpHG) dated 10 July 2006, the members of the consortium stated that they held more than 25% of the voting rights in R. STAHL AG. According to this notification, the total number of voting rights attributable to the individual members of the consortium according to Sections 21, 22 WpHG amounts to a value between 36.02% and 38.35% of the voting shares. The total number of voting rights attributable to the consortium may have changed in the meantime, without the requirement of a new notification pursuant to WpHG.

With a notification according to Section 21 (1) WpHG dated 20 August 2015, RAG-Stiftung Beteiligungsgesellschaft stated that its share of voting rights in R. STAHL AG had exceeded the 10% threshold.

Shareholder rights and obligations

Every shareholder has economic and administrative rights.

According to Section 58 (4) German Stock Corporation Act (AktG), economic rights are the right to participate in the profits and, according to Section 271 AktG, participation in liquidation proceeds, as well as, according to Section 186 AktG, a subscription right to new shares in the case of a capital increase.

An administrative right is the right to take part in the Annual General Meeting and the right to talk, to submit questions and applications and to exercise the voting rights.

Every no-par value share grants one voting right at the Annual General Meeting. The Annual General Meeting elects the members of the Supervisory Board representing the investors and the auditor, it decides on the approval of the actions of the Executive Board and Supervisory Board, on amendments to the Articles of Association and corporate actions, on authorization to acquire treasury shares and, if required, on special audits, on premature removal of Supervisory Board members and on the dissolution of the company.

Composition of the Supervisory Board

The Supervisory Board has nine members, six of whom are to be elected by the Annual General Meeting and three according to the German One-Third Participation Act. Resolutions of the Supervisory Board are passed with a simple majority of the votes cast, if no other majorities are compulsorily prescribed by law. If the election outcome is a tie, a new debate is only held if the majority of the Supervisory Board so decides. Otherwise, voting has to be repeated immediately. Should another tie occur in this new voting on the same issue, the Chairman of the Supervisory Board has two votes according to Section 12 (6) of the Articles of Association.

Statutory regulations and provisions in the Articles of Association on the appointment and dismissal of members of the Executive Board and on the amendment of the Articles

The appointment and dismissal of Executive Board members are governed by Sections 84 and 85 AktG. This specifies that members of the Executive Board are to be appointed by the Supervisory Board for a maximum of five years. Reappointment for another five years is possible.

Additionally, Section 6 of the Articles governs that the Executive Board comprises one or more persons. The Supervisory Board decides on the number of Executive Board members, appointment and revocation of an appointment and the service contracts. The Supervisory Board is entitled to appoint a member of the Executive Board as chairman and it will also appoint Executive Board deputy members.

Powers of the Executive Board members, especially in regard to the possibility of issuing or buying back shares

In the reporting period, there was no authorization to create authorized capital nor to acquire treasury shares.

Significant agreements which take effect in the event of a change of control following a takeover bid

R. STAHL AG has not made any significant agreements which take effect in the event of a change of control due to a takeover bid. No compensation payments have been granted to the Executive Board members and employees in the event of a takeover bid.

Remuneration system for the Supervisory Board and Executive Board

The main features of the remuneration system for the Supervisory Board and Executive Board are disclosed in the notes to the consolidated financial statements under “Executive bodies of R. STAHL AG” and are a constituent part of the Group management report.

SUBSEQUENT EVENTS

There were no events between the end of the reporting period and the preparation of this report which had, or might have, an impact on our financial position and performance.

RISK REPORT

RISK MANAGEMENT SYSTEM

The risk management system included in the operational and organizational structure of the R. STAHL Group is an integral part of our business processes and corporate decisions for all companies and central functions.

It includes the entirety of the installed IT systems, processes, activities, instructions and rules of conduct that are implemented in all our companies world-wide as applicable standards and it is subject to a constant process of improvement and further development. Part of the risk management system especially is a group-wide risk reporting on the basis of the law on control and transparency in businesses (KonTraG), a uniform planning and controlling process and the internal monitoring system consisting of the internal controlling system with guidelines that are applicable across the Group and internal auditing. Furthermore, a compliance management system supplements the risk management system. The entirety of the implemented systems makes it possible for the Group's management to identify risks at an early stage to be able to take countermeasures in time. The effectiveness and efficiency of the risk management system is also continuously checked and enhanced and also examined by the auditor in accordance with statutory requirements.

Moreover, unforeseeable events that may have an influence on markets, processes, systems and the financial position and performance are analyzed. These may include, for example, conflicts in critical regions of the world, the failure of production equipment or targeted attacks on computer networks, so-called cyber attacks. Their possible effects on the R. STAHL Group are determined and action plans derived where necessary. The results obtained are presented to and discussed with the Supervisory Board – enabling swift and efficient reactions in the event that such events actually occur.

Risk reporting/early warning system

Existing risk reporting is based on a risk catalogue divided into eight main risk categories: macro environment/country risks, market/competition, strategy, supporting processes, IT, performance-related risks, personnel, financial risks and compliance.

The risk owners in the subsidiaries and the division managers of the corporate divisions are included in this early warning system and report risks once a quarter. The collected information is entered and processed in a central data base. Our risk management officer prepares a risk report for each company which describes, besides the risks themselves, also the potential risk value, its probability of occurrence and the action plan to avoid or reduce the risk.

Risk assessment is conducted for a one-year planning period. Reporting in the management report also refers to one year.

Risk assessment

As part of the risk reporting process, a gross and a net risk of the respective reporting units is stated. The gross risk describes the maximum loss potential without consideration of hedging and risk reduction measures. The residual risk after counter-measures is the net risk.

To determine which risks pose a threat to the company's continued existence, risks are classified according to their estimated probability of occurrence and the extent of their damage. The scales used to measure these two indicators at divisional and individual company level are shown in the tables below.

Probability of occurrence	Description
0 to 10%	Very unlikely
11 to 20%	Unlikely
21 to 50%	Possible
51 to 90%	Likely
91 to 100%	Very likely

According to this classification, a very unlikely risk is defined as an event that occurs only in exceptional circumstances. A very likely risk is an event whose occurrence can almost certainly be expected within a specified period.

Extent of damage	Definition of effects
Insignificant	Insignificant negative impact on operations, financial position and performance and cash flows
Low	Low negative impact on operations, financial position and performance and cash flows
Medium	Some negative impact on operations, financial position and performance and cash flows
High	Significant/damaging negative impact on operations, financial position and performance and cash flows

According to their estimated probability of occurrence and their impact on operations, financial position and performance and cash flows, risks are aggregated at Group level and classified as “high”, “medium” or “low”. This classification is based on the following value intervals:

- Low < EUR 1.5 million
- Medium EUR 1.5 million – EUR 5.0 million
- High > EUR 5.0 million

The following table shows the classification based on the individual risk areas.

Risk area	Probability of occurrence	Extent of damage (net)
Macro environment/country risks	High	High
Market/competition	Medium	Medium
Supporting processes	Medium	Medium
Strategy	Low	Medium
Performance-related risks	Low	Medium
Personnel	Low	Low
Financial risks	Medium	Medium
Compliance	Low	Medium

Significant risks to the company and in particular those which pose a threat to the company's continued existence are reported immediately to the Executive Board and Group management. The reporting units are obliged to inform the Executive Board without delay about time-critical or significant risks. The quarterly evaluation of risks serves as a basis for management to react swiftly to critical situations and take the appropriate counter-measures. A summary of all risks of the Group companies – in which all reported and assessed risks are aggregated – is regularly prepared in order to determine the overall risk for the Group.

Planning and controlling process

Group Controlling staff are the contacts for business topics within our globally operating subsidiaries. They offer support for those colleagues responsible for these tasks in the subsidiaries with questions concerning accounting, the acquisition of business data and their evaluation. Group Controlling provides various IT systems to collect and evaluate business data. The financial position and performance and cash flows of the companies are analyzed during monthly reporting, whereby a special focus is placed on the comparison of planned/actual figures. Once a month, Controlling prepares a forecast review for this purpose. In addition, the current business trend is analyzed during regular conference calls with the subsidiaries.

Internal control system

A further essential component of the R. STAHL Group's risk management system is the internal control system which includes all basic principles, procedures and measures that have been introduced by management to ensure

- the effectiveness and efficiency of business operations,
- the correctness and reliability of internal and external reporting, and
- compliance with group-wide guidelines and standards, as well as the relevant statutory regulations.

The internal control system for accounting includes all regulations, measures and processes that are required to guarantee the effectiveness, reliability and safety of the accounting process as well as the preparation of consolidated financial statements and the financial statements of the subsidiaries. In addition to compliance with statutory regulations, it also ensures the safeguarding of company assets.

The key instruments for controlling the accounting process are:

- the group-wide standards applicable for financial and administrative areas,
- the Group's IFRS accounting guidelines,
- the clear separation of functions and assignment of responsibilities,
- the use of uniform ERP systems and standard software,
- detailed authorization schemes.

These measures and processes are constantly monitored by the staff responsible for these tasks in the Group companies and by the Group's Internal Audit division.

Internal audit

The Internal Audit division provides independent and objective auditing and advisory services aimed at creating added value and improving business processes. It serves the organization's objectives by evaluating the effectiveness and efficiency of the internal management and monitoring processes with a systematic and targeted approach and thus helps to continuously improve them. A further task is to improve corporate governance, which is aimed at raising the company's long-term value and the trust of stakeholders (investors, customers, suppliers, employees, public) in its management and monitoring. The department reports directly to the CEO of R. STAHL AG. Audits are held on the basis of an annual risk-oriented audit plan.

Compliance Management System, Code of Conduct (CoC)

We have installed a Compliance Management System whose aim is to avoid violations of anti-corruption, anti-trust or data protection laws and prevent business crimes. Our compliance organization reports directly to the Executive Board and the Compliance Officer is integrated into business processes as well as reporting and controlling. Compliance is part of our company culture and is a self-evident component of our daily activities.

GROUP'S RISK POSITION

Macro environment/country risks

Due to the international alignment of our business activities, risks may arise as a result of political and economic instability in individual regions or countries. Thanks to our international diversification, we are able to respond flexibly and locally to regional market developments. Against the backdrop of challenging external conditions, we always pay attention to our cost structures in order to ensure the long-term competitiveness of the R. STAHL Group.

The main risk in 2017 is a continuation of the subdued trend in oil prices. This would force producers with high production costs to maintain their strict cost discipline and reduce their propensity to invest. We continue to expect an unpredictable oil price trend in 2017.

We also believe that the geopolitical environment will remain difficult to predict. Against the backdrop of the conflict between Russia and Ukraine, for example, the European Union has extended its sanctions against Russia. The embargo regulations directly restrict our business, as they explicitly include equipment for the oil and gas sector: there is a direct and indirect ban on the export, sale and delivery of these goods to Russia or their use in Russia if there are justified grounds to believe that the equipment is to be used for the exploration or production of deep-sea oil, arctic oil or shale oil. In 2016, R. STAHL acquired a stake in the Russian company ZAVOD Goreltex with the aim of substitutional business on the one hand and building up our local presence on the other, so that we will be even better positioned in the time after the embargo has been lifted.

It is also impossible to predict whether and to what extent the new US government will intensify the nationalization of its own economic policy. There were clear statements in this direction during the presidential election campaign. As our business is highly dependent on the decision-making of energy and chemical companies, which tend to postpone investment decisions if the external conditions cannot be reliably calculated, these situations can have a considerable impact on our business volume in individual years.

Finally, the international alignment of our business activities in different jurisdictions also represents a legal risk. As part of their business activities, R. STAHL AG and its subsidiaries are involved in a few pending court proceedings as defendants or adversaries. Negative rulings at the expense of the respective company cannot be ruled out in individual cases. The companies of R. STAHL AG defend themselves in these proceedings in the actual and legally required manner. A reliable forecast of the results of such proceedings is not possible. At present, however, we do not expect any material adverse effects on our financial position and performance.

Market/competition

With its range of attractive products and services, R. STAHL operates in dynamic markets. Our business depends heavily on the investment climate in our client sectors. To counter the increasing competition also from new providers in the components business, we seek to consolidate our market position by continuously expanding our technological leadership, by driving our horizontal and regional diversification, and by developing products which our clients appreciate due to the efficiency enhancements and cost savings they offer. Although the entry barriers are higher in our systems business and the risk of competition correspondingly lower, the possibility of new competitors appearing on the market cannot be generally excluded. Existing competitors may also gain a market advantage by forging alliances. We respond to market challenges with our excellent know-how and many years of experience. Moreover, many energy companies are increasing the price pressure on their suppliers in order to save costs and thus at least partially cushion the effects of the current low oil price. This stricter pricing policy represents a risk for our business, in particular with regard to reaching our targeted profit margin.

The international alignment of R. STAHL also entails the risk that customers may prefer regional suppliers because they are better acquainted with their products, have greater confidence in their product characteristics, or are encouraged to do so for political reasons. As R. STAHL aims to widen its customer base as part of its current business strategy, the establishment of brand awareness and reputation is critical. R. STAHL therefore employs an appropriate number of highly qualified sales experts, is represented at trade fairs all over the world, and also offers its own seminars to train customers in dealing with the company’s products.

Strategic risks

The tapping of new markets and sectors, as well as the expansion of existing sales areas – also via acquisitions – may involve risks which cannot be completely assessed in advance. We analyze the risk potential of individual markets and industry sectors in different regions very carefully and take it into consideration for risk assessment. We treat the risks in connection with the company's further development with the requisite care.

In addition, there are procurement risks. Depending on the market situation, purchase prices may fluctuate and affect our cost structures. We avoid these risks with our international procurement and strict cost management approach. We do not currently foresee any bottlenecks in the availability of materials and therefore regard the risk of a shortage of raw materials as low. Due to a low propensity to invest as a result of the currently unattractive oil price, some of our suppliers may suffer a decline in demand, thus raising the general risk of their insolvency. We minimize this risk by actively monitoring the financial data of our main suppliers and by observing price behaviour and delivery service. In addition, we reduce our reliance on individual suppliers by using second source releases.

We continue to assess the risk of product and brand piracy as minor. Continuous improvement of our core products and production technologies, our specialist knowledge and our experience reduce the risk that R. STAHL products can be replicated in comparable quality. In the field of explosion protection, quality and certification reliability are among the most important purchase criteria.

Risks from supporting processes/IT

The field of explosion protection is primarily about the safety of man, machine and the environment. Consequently, the quality of our products has top priority. Product defects do not necessarily lead to life-threatening situations but they can significantly damage the company's reputation. Strict quality management with a continuous improvement process plays a central role in minimizing product quality risks. End-to-end quality control of every manufactured component and every system solution is therefore essential for most of our products. In addition, bought-in components and their suppliers are also subject to strict quality requirements and must undergo detailed audits. Although these very exacting controls and quality checks involve additional time and expense, these high quality standards and our expertise in explosion protection represent competitive advantages and have a positive effect on the sales and image of our products.

In view of the growing competitive pressure in all sectors of the electronics industry, delivery times and reliability are becoming ever more important for our dealings with customers. Excessive delivery times or non-compliance with delivery dates pose general risks for customer loyalty and thus our further business trend. In addition to various measures we took to optimize logistics and manufacturing processes in the past years, R. STAHL worked on further improving the punctuality of its deliveries in 2015 and 2016. In 2016, a further focus area was to make our entire supply chain more efficient, enabling us to achieve our increased targets for delivery times and delivery reliability.

In international trade and industrial production, the digitization of processes is steadily increasing. However, this also increases the risk of attacks in the field of cyber crime. As in previous years, we are working hard to improve IT security in order to minimize the risk of external as well as internal threats. The corresponding measures include the shortening of restore times in order to be able to return quickly to normal operations in the event of an attack, the revision of the role concept in our ERP software, as well as the revision of administrative authorizations according to the need-to-know principle. We have also further refined the IT service catalogue with a focus on business continuity. Our high safety standards have been repeatedly confirmed by external auditors.

In addition to data security, R. STAHL attaches great importance to data protection. We conduct training for all our employees around the world on recruitment as well as in the case of any changes to regulatory requirements. As of 2017, we will conduct suitable training on an annual basis as well as holding courses on specific topics. Personal data from the EU are stored exclusively on servers in the EU. There have been no violations of the German Federal Data Protection Act (BDSG) to date.

Performance-related risks

In addition to our facility in Waldenburg, we have established further international production sites over the past years. This approach enables R. STAHL to meet the growing requirements of international customers regarding the availability of local contact partners and correspondingly shorter delivery times. Moreover, our worldwide production sites are units with different product focus areas. In order to meet regional demand adequately, production capacity has been increased considerably in many cases. Whereas the majority of business was previously handled by our main base in Waldenburg, customers can now be served increasingly by our international production sites, whereby the corresponding regional circumstances and technical features can be taken more fully into account. Although this partial decentralization of our production involves an increased risk of fluctuating capacity utilization at our main base in Waldenburg, we expect that this international alignment will enable us to grow more strongly in the medium term and thus positively influence our overall business. In order to counter the risk of low capacity utilization – and the resulting squeeze on margins – R. STAHL has also introduced lean and flexible production processes.

Personnel risks

The expertise of our employees is a major competitive advantage for R. STAHL. Given the increasing shortage of skilled workers in Germany, there is a risk that the necessary specialist staff may not always be available on the job market. R. STAHL therefore offers apprenticeships in eleven different professions, as well as specialist training and the possibility to work abroad. In addition, R. STAHL supports promising students by providing scholarships, internships and interesting topics for dissertations.

Risks may also arise on the international job market due to possible fluctuations of employees in key positions. This risk is mitigated by systematic succession planning and performance-related remuneration models.

Financial risks

Our business is generally subject to currency, interest rate, credit and liquidity risks. R. STAHL counters these risks by using standard financial instruments.

We employ a number of measures to counter currency risks that may result from unpredictable changes in the exchange rates of major currencies. Our long-term, strategic approach mainly involves the targeted increase of production capacities in currency areas of importance for us, such as the USA. Changes in our sales trend due to adverse currency developments are thus offset by the corresponding advantages in terms of costs (natural hedge), making earnings less susceptible to currency fluctuations. Existing and planned foreign currency volumes are hedged opportunistically with forward exchange transactions. As exchange rate trends are generally marked by high volatility, due to the large number of factors influencing them, it is generally difficult to make reliable forecasts. Of particular importance to us is the development of the US dollar – which accounts for the major share of our foreign currency volume and also influences the development of other currencies.

As a basic principle, we borrow capital at matching maturities to finance our business activities. Our real estate is regularly financed at fixed rates of interest. Negative effects from varying interest rates may present risks which we also hedge with derivative financial instruments, if required. An interest derivative is used to hedge interest payments for one existing loan. Hedging instruments are only used to hedge against risks that arise due to fluctuations of the general market interest rate for the existing procurement of outside capital.

Generally, the duration of currency and interest hedges is aligned with the underlying transactions. The operational framework, the persons responsible, financial reporting and the control mechanisms for financial instruments are determined uniformly throughout the Group.

In September 2015, R. STAHL AG signed a syndicated loan agreement to secure the Group's funding. The contract comprises a cash credit line of EUR 80 million and a guarantee line of EUR 15 million, with an expansion option of EUR 25 million. The term is five years. The syndicated loan agreement contains standard provisions regarding the maintenance of the Group's financial strength (financial covenants). Non-compliance with these covenants would result in premature termination. There are no visible risks arising from infringements of the financial covenants at present. Due to our financial structure, the liquidity risk is low.

We limit the risk of insolvency among our customers by means of targeted monitoring. If necessary, value adjustments are made. In this context, the creditworthiness and payment behaviour of our customers are regularly monitored.

R. STAHL uses a treasury management system for cash management, liquidity planning and currency management. A detailed description of the hedging instruments held at the end of the reporting period and further information on the risks in regard to currency, interest rates, credit and liquidity are included in the notes to the consolidated financial statements under the items “Derivative financial instruments” and “Financial risk management”.

Compliance risks

As a listed company based in Germany, R. STAHL AG is subject to German legislation on corporate governance and the requirements of other legal systems. The regulatory environment has intensified significantly in recent years – especially due to more rigorous application of existing laws and the expansion and tightening of criminal offences. Examples include anti-corruption laws in Germany, the USA (Foreign Corrupt Practices Act) and the UK (Bribery Act). All these regulations are very complex. Any non-compliance with relevant laws and regulations or any accusation of violation brought against our company, whether justified or not, may have a significant negative impact on our reputation, and thus also on the share price and business activities of R. STAHL.

It is difficult to make an accurate assessment of these risks due to the large number of relevant legal and regulatory requirements, as well as the equally wide variety of potential infringements. We constantly monitor new legal requirements and new developments in the field of compliance which arise in our industry or the economy. In an international context, we are supported in part by specialized local law firms, and in part by local cooperation partners of renowned German law firms. Based on this information and other available sources, we continuously update our compliance rules. In order to ensure as effectively as possible that our employees know and comply with our Code of Conduct, we inform our managers once a year about our anti-corruption guidelines as well as their obligation to train their employees in these matters. The Group Compliance Officer coordinates all activities in this area.

Despite the existing compliance rules and the internal control systems already in place, the possibility that individuals may intentionally circumvent our control mechanisms for their personal gain cannot be ruled out. Although we regard the occurrence of this risk as unlikely, it might negatively impact the reputation of our company, our business, and our financial position and performance.

OVERALL STATEMENT ON THE RISK SITUATION

The Executive Board and Supervisory Board of R. STAHL regard the risk management system as being suitable for the detection, quantification and analysis of existing risks in order to manage them in a suitable manner. Our auditor has examined the risk management system within the scope of his audit of the annual financial statements in accordance with the German Stock Corporation Act (AktG) and raised no objections. The audit revealed that it fulfils its tasks and fully meets the mandatory requirements. After careful consideration of the overall risk assessment, those responsible have come to the conclusion that at the time of preparing the consolidated financial statements 2016, there are no risks that might jeopardize the continued existence of the company. This applies both to the individual reporting units and to the Group as a whole.

OPPORTUNITY AND FORECAST REPORT

OPPORTUNITIES

Identifying and exploiting opportunities is the task of R. STAHL's operational management. We monitor market developments continuously, analyze the trends in our sales sectors and identify new requirements in a dialogue with our customers, suppliers and partners. Together with the Executive Board, the opportunities and their potential are discussed in order to derive the appropriate strategies for the R. STAHL Group's future alignment. On this basis, a budget is set for each identified opportunity depending on its complexity and the necessary resources are allocated. At present, we do not assess opportunities to the same extent as risks. Opportunities are assessed separately to the risk management process and also not reported together with the latter.

Long-term opportunities

In the long term, the ever-growing energy needs of mankind represent a growth opportunity for R. STAHL. In addition to the ongoing industrial development in the emerging countries in particular, the improvement of living conditions in developing countries is a main factor driving the growing demand for energy. Since coal as an energy source is becoming less and less socially acceptable, power supplies are increasingly reliant on modern natural gas power plants or oil-fired plants. We also regard the politically motivated expansion of renewable energies as an opportunity. In order to ensure stable energy supplies, we need to create efficient storage possibilities. One of the most promising long-term options is currently the conversion of wind and solar energy into hydrogen, methane or methanol. As all known carrying materials are explosive, this will also lead to a corresponding need for explosion protection.

Transport costs (the so-called midstream) account for around 80% of the market price for natural gas. Conventional transport via pipelines creates high customer dependence on the supplier, which may cause problems for some operators – for example in view of the Ukraine crisis which has lasted for several years now. Due to this development, the demand for transport ships, so-called LNG tankers, is rising. R. STAHL provides the operators of these ships with a wide range of explosion-protected equipment and benefits from the increasing demand.

The ongoing expansion of the world's population will increase demand for food, which in turn will lead to increased demand in the food industry for solutions offering dust explosion protection. We also see opportunities in the increasing demand for medical care and the resulting growth in demand for pharmaceuticals – in the Western world, due above all to an aging population and increased health consciousness. In emerging markets, the growth of the middle classes is fuelling a desire for a better lifestyle – offering considerable long-term growth potential for the chemical and pharmaceutical industries.

The political and societal will to implement sufficiently high safety standards in the process industry is driving our business. Explosion accidents in countries like Taiwan have forced governments to tighten laws and regulations for explosion protection and push for compliance. In the wake of serious explosion accidents in the south of Taiwan in 2014 and in Taipei in 2015, for example, the Taiwanese government instructed the National Authority for Occupational Safety and Health (OSHA) to swiftly and comprehensively introduce the IECEx system into national law. In this way, we benefit from increasing awareness of plant safety issues.

Medium-term opportunities

Medium-term opportunities include the development of new regions and client industries, the ongoing harmonization of our IT infrastructure and continuous, targeted research and development. In the field of explosion protection, product innovations based on an accurate understanding of local customer needs are essential for ensuring competitiveness. They enable us to create added value for our customers and secure our position as a competent partner.

As our customers are increasingly demanding LED lighting, due to their numerous technical benefits, we have aligned the relevant products with this trend and are driving our technological leadership and market position with measures aimed at rapid market penetration. We see the opportunity to generate further additional business with our LED products in all client industries. We have been addressing the growth potential of LED luminaires in Asia in particular since 2016 by extending the product range.

On the product side, increased demand for integrated systems expertise also gives us the opportunity to generate additional growth with system solutions – a market potential that we want to exploit further in future based on our technological leadership and our specific expertise. In addition, we plan to supplement our product offerings with services requested by our customers due to increasing regulation and their own limited capacities. Training courses and services that facilitate the safety management of processing plants give us the opportunity to generate additional business while at the same time cementing our leading position in the Ex market.

In terms of regional expansion, the opening of further markets for the explosion protection standard IECEx provides us with new opportunities: the standard is becoming increasingly popular for international projects – for example, technology based on IECEx is already being successfully used in large-scale projects in the Middle East.

Important target markets with growth potential include Russia, Kazakhstan and sub-Saharan Africa. We aim to secure the business potential in these regions by facilitating access to these markets via increased local capacities and the stakes acquired in local companies in 2016.

We also see significant opportunities in the medium term in the development and marketing of new products that can deliver significant added value for our customers, for example by reducing costs, expanding the application possibilities, or increasing the protection features. As the technological leader, it is our goal to set new standards with regard to safety and economic efficiency on the basis of basic development and the accompanying patent applications.

Short-term opportunities

We see short-term opportunities in our operating business from further adjustments to our cost structures and targeted efficiency measures at various facilities. The restructuring measures implemented in 2015 already laid the foundation for a reduction in annual operating costs of around EUR 20 million.

Should the oil price recover faster than expected and motivate our customers in the upstream and downstream markets to invest again, there is a chance that our business may be positively impacted. A more significant improvement in the economic environment of our major markets would also have a positive effect on our business trend than currently forecast.

In the short and medium term, we see great demand potential in the automation business. Since the beginning of 2017, we have been offering this part of our product portfolio with a more streamlined, strengthened and targeted sales approach. In our opinion, the growth rate for automation applications should establish itself largely independently of macroeconomic influences. Our new sales approach may also lead to a larger sales contribution than planned in the short term.

In pursuing our opportunities, we always take account of the financial possibilities of the R. STAHL Group. Unfavourable economic conditions may mean that we cannot take full advantage of existing opportunities, or only with a certain delay. Detailed information on this and other risks can be found in the Risk Report.

FORECAST

Outlook for global economy in 2017 cautiously upbeat, but fraught with uncertainty

R. STAHL is a globally operating specialist supplier in the electronics industry whose products are valued by its clients on all continents and marketed around the world. Our business is therefore heavily influenced by global economic developments, oil prices and foreign exchange rates, especially the US dollar against the euro. In view of the fact that the main clients for our products and services are in the oil and gas industry – as well as the chemical industry which is heavily dependent on oil – changes in the price of oil can directly impact their capital spending and thus our sales potential. Since crude oil is traded predominantly in US dollars, this is a key currency for us – in addition to the euro.

The current outlook for economic growth in 2017 indicates a slight acceleration compared to the previous year. The International Monetary Fund (IMF) expects growth of 3.4% for 2017 as a whole.[2] However, this forecast is fraught with uncertainties which may result in a significant deviation – both positive and negative – in actual growth. The IMF updates its outlook for the global economy twice a year: in April and October. The forecast of 3.4% growth was made in October 2016 when key influencing factors were not yet foreseeable. As a consequence, rising oil prices in late 2016 are not included in the underlying assumptions, nor is the outcome of the US presidential election, nor the increase in Chinese producer prices in the fourth quarter of 2016.

Just as uncertain as the outlook for the global economy is the forecast for oil prices. In late November, the OPEC countries decided to curb oil production with effect from 1 January 2017 and extended the resolution to non-OPEC countries such as Russia. This initially led to an increase in oil prices. However, at the beginning of 2017, the important OPEC member Iraq announced it was already considering withdrawing from this agreement. Together with price effects from futures trading, this prevented any continuation of the oil price recovery. In addition, the OPEC agreement was initially only made for the period until May.[4] Some experts also believe that OPEC has largely lost its influence on the output volumes of North American producers, especially shale oil producers. This view is also supported by the further increase in the USA's crude oil inventories to a historic high in March 2017. According to many analysts, the recovery in oil prices is unlikely to be anything more than moderate in 2017 in view of these circumstances.[13]

The development of the US dollar against the euro was marked by a sharp increase at the end of 2016. In addition to the outcome of the US presidential election, this was partly the result of a long-announced interest rate hike by the US central bank. However, uncertainties about the future economic, fiscal and monetary policy of the USA are currently preventing more robust forecasts. In the long term, currency analysts still expect the US dollar to euro exchange rate to reach parity, thus representing a further rise in the strength of the US dollar.

In Germany, the Ifo Business Climate Index, which quantifies the expectations of selected companies based in Germany over the next six months, suffered a surprising fall in January 2017 after having risen to its highest level since February 2012 a month earlier.[14] In December 2016, manufacturing companies were still predicting increased output. This reversal in their assessment reflects the current somewhat more cautious outlook for the first half of 2017. The German economy thus got off to a less upbeat start in 2017, albeit still at a very high level. The IMF is also not too optimistic about Germany's economic prospects, forecasting GDP growth of 1.4% for 2017 (2016: 1.7%).[2]

Overall, the eurozone is one of the regions for which IMF has predicted weaker growth in 2017. Although the current easy money policy, combined with low oil prices and moderate taxes, is well suited to stimulating growth, it is being countered by reduced investor confidence in view of the UK's imminent EU exit. As a result, the IMF estimates that growth in the eurozone will fall to 1.5%.[2] By contrast, the IMF's experts anticipate a recovery of the Russian economy with a return to positive growth of 1.1%, following two negative years.[2]

As already mentioned, the assessment of economic growth in the USA is subject to major uncertainties. The IMF predicts growth of 2.2% in 2017 with a slight slowdown in the following year.[2] A key factor will be whether the planned realignment of US fiscal policy has the desired effect.

The IMF forecast for Latin America expects a robust recovery with growth of 1.6%.[2] Growth in Brazil is expected to reach a positive value of 0.5% again for the first time in two years.[2] In Asia, on the other hand, the economic trend is likely to be fairly moderate. While the IMF's forecast for India is largely unchanged from the prior-year level at 7.6%, growth in the ASEAN 5 countries is expected to rise to 5.1%.[2] For China, the IMF expects a further decline in growth to 6.2%.[2] On the other hand, the increase in producer prices in the final months of 2016 is seen as an important factor for a strengthening of Chinese industrial output and a related improvement in industrial profits.[2]

Continuation of heterogeneous and risk-burdened trend of our client industries

With regard to the development of oil prices, leading experts currently disagree about whether the OPEC will succeed in achieving a sustainable increase via its strict oil production strategy. In particular, it is impossible to gauge the specific interests of individual OPEC nations. Although oil prices are not expected to fall to the very low level of 2016 – some experts are forecasting an average price of around USD 60 per barrel in 2017, followed by an increase to USD 90 per barrel in 2020[15] – we still regard the current lack of predictability in the short-term oil price trend as a major obstacle for a significant change in the investment propensity of oil and gas producers in the upstream and downstream segments during 2017. However, since plant operators began postponing investments and maintenance work in mid-2016, we at least expect a slight rise in demand for maintenance services in the second half of 2017.

The chemical industry made moderately positive progress in Germany during 2016 and the German chemical industry association (VCI) expects further output growth at this low level in 2017.[8] In the past year, the previously negative output trend of the US chemical industry stabilized at a low level. Although this led to an improved but still moderate sales trend, the positive sales momentum of the pharmaceutical industry was offset by a weaker development in the chemical industry. An economic policy focused on national interests, as proclaimed in the run-up to the US presidential election by the former candidate and current president Donald Trump, may stimulate demand for domestic products. On the other hand, the chemical industry in particular is dependent on international trade and possible trade restrictions imposed by the USA could result in negative developments for domestic chemical companies.

Expected development of order intake and sales revenue in 2017: decline in business in oil and gas sector to be more than offset by new customer segments, innovative products and services, as well as acquisitions

We expect the business environment to remain difficult in 2017. We still regard the available growth opportunities in the oil and gas sector as limited in 2017, but see attractive potential in other industries and application areas such as automation. We already reacted to the massive spending cuts in the entire oil and gas sector with our extensive measures introduced in 2015. We will continue to drive these and supplement them with further measures.

Order intake and sales in our largest client segment, the oil and gas industry, are expected to decline further in total in 2017 due to the investment restraint of our customers described above. Nevertheless, our goal is to consolidate our market position in this sector with intensified sales activities on the one hand and on the other expansion in selected regions, such as Russia, Kazakhstan, the Near and Middle East, as well as South Africa and sub-Saharan Africa. By acquiring stakes in ZAVOD Goreltex in Russia and ESACO Pty. Ltd. in South Africa, we have established suitable structures for an increased share of the short- and medium-term growth opportunities in these regions. We have also adapted our structures in Asia in order to participate in the growth opportunities we identified there. For the first half of 2017, we – and the entire Group – expect a further decline in the total market for explosion protection compared to the previous year, whereas the second half of the year is likely to be stronger.

In general, our business is becoming increasingly project-driven and thus more volatile in terms of the order and sales trend. Even more so than in the past, this increasing reliance on projects means that demand for Ex products generally lags behind rising demand in our client industries. We have positioned ourselves well for the major projects currently available on the market in Kazakhstan, Iraq and India, as well as in Africa, and have already received initial orders. In order to participate in the opportunities offered by these projects in 2017 and beyond, we are focusing our capacities on these areas.

We will continue to expand our business with the chemical and pharmaceutical sectors. We expect increasing orders and sales in these client industries with our explosion protection products, but above all also with the monitoring, automation and control solutions that we offer. Our improved sales organization, especially in North America, but also in Asia, will help us achieve growth in these two important regions, in addition to the growth expected in Europe. We see great potential for growth in our range of automation products. At the beginning of 2017, we not only strengthened our business here by pooling our activities in a new organizational structure, but are also intensifying and expanding our sales of these applications. Equally, we expect further growth with our innovative LED luminaires. Product line extensions developed specifically for the Asian market will help us gain greater traction in this region.

We expect that the safety-oriented services for processing plants which we plan to provide for our customers in all client industries will become an increasingly important component of our business success. Due to the steady growth in regulatory requirements for our customers, as well as the resulting strong demand for systematic safety management, they are increasingly ordering R. STAHL's product-related services and training. We expect that these services will generate encouraging sales growth not only in 2017, but also in the years ahead.

Innovations remain one of the cornerstones of our leading position, especially in explosion protection. Our customers benefit from the fact that we not only develop a succession of product enhancements together with them, but also continue to set standards in basic research.

Expected earnings position marked by subdued growth prospects and set-up costs

Due to the uncertain outlook for the oil and gas industry in 2017, which does not initially promise any reversal of the current trend, the competitive pressure on supplier companies and the resulting squeeze on margins is expected to continue. We assume that the prevailing intensive price competition and initially falling sales volumes will not allow us to pass cost increases on to our customers. R. STAHL already prepared for this tougher competitive environment as early as 2015. Nevertheless, we will continue our efforts to reduce costs with the necessary discipline and consistency. At the same time, we are positioning ourselves for the longer-term opportunities offered by our markets and plan targeted increases in our sales expenses and higher one-off expenditure. The latter concerns the revamping of our website, which will offer significant advantages for our customers with a new product information management system.

Expected financial position still solid with long-term viability

In accordance with our conservative financial policy, the equity ratio of the R. STAHL Group as of the balance sheet date on 31 December 2016 was 34.0%. Compared with 31 December 2015, this corresponds to a decline of 220 basis points (31 December 2015: 36.2%). The main reason for this development was the interest rate used to measure pension obligations, which was reduced by almost a third to 1.72% as of 31 December 2016 compared to the previous year (31 December 2015: 2.42%). This interest rate is regularly set by independent specialists (in this case Mercer Deutschland GmbH) on the basis of AA-rated corporate bonds, whereby their remaining maturity is also considered. The development of this interest rate is therefore entirely outside our sphere of influence and reflects solely the trend on the interest rate market. Mercer Deutschland GmbH has been producing the specialist reports used to measure our pension obligations according to IFRS since 2012.

R. STAHL continues to target a sustainably sound equity ratio in 2017 and the following years. Our cash flow development in 2017 will once again be characterized on the one hand by the increasing importance of project business and the need to pre-finance much of our work and on the other by our current limited capital spending within the Group.

Expected investments on a par with previous year, expected acquisitions as part of strategic planning

In 2015, we concluded a multi-year extensive investment program with the construction of a new production and development centre in Cologne. As a result, our investment volume returned to the much lower level of around EUR 11 million in 2016, and is expected to be at a similar level in 2017. We will focus on investments in new technologies and products in order to expand our position as an innovative technological leader in the market. For example, we continuously invest in machines and plants for our production sites as well as in tools, IT and maintenance.

In order to achieve profitable growth, we are targeting sales growth as well as a further improvement in our cost basis with the aid of continuous and tight cost management. We also want to supplement increased sales from organic growth with acquisitions. Against the backdrop of low oil prices, the market is currently undergoing a period of sustained consolidation as an increasing number of market participants are experiencing considerable pressure on profitability for different reasons. We therefore continuously assess potential acquisition targets and attach particular importance to strategic benefits: a company acquisition makes sense to us if it helps expand our product portfolio or enter new markets. These include, in particular, regulated markets in automation, the process industry and services, as well as the expansion of our business outside the oil and gas sector in general. Despite the increasing possibilities for company acquisitions with the corresponding synergy potential, we will continue to take a very selective approach. For apart from such aspects as the expansion of our product portfolio and entry into new markets and regions, our focus is predominantly on profitability.

OVERALL ASSESSMENT: STILL CAUTIOUS FOR 2017

We expect a persistently challenging environment in our established business with Ex products for the oil and gas sector in 2017. As a late-cyclical market participant, R. STAHL will only be able to benefit with some delay from a stabilization and possible – with regard to medium-term developments – ongoing recovery of the oil and gas industry. However, all forecasts for this client industry – which still accounts for the bulk of our sales – remain subject to considerable uncertainty. Nevertheless, we should benefit from the strategic foundations laid in previous years during 2017. For example, we are planning a further increase in sales to customers in the chemical and pharmaceutical sectors. In addition, we aim to expand our business in the field of automation and LED luminaires and capture market share.

All in all, we expect that we can more than offset the ongoing weakness in demand from the oil and gas industry by increasing our sales to clients in other industries. Against this backdrop, we expect a slight increase in order intake in 2017, as well as sales on a par with the previous year. We expect a slight to noticeable weakening of EBIT before exceptionals and ROCE, depending on revenue recognition and the sales mix. Our assessment is based on an annual average oil price of USD 50.00 per barrel, as currently forecast by the International Energy Agency (IEA).

Waldenburg, 20 April 2017
R. Stahl Aktiengesellschaft

Executive Board

Martin Schomaker **Bernd Marx**

LIST OF SOURCES

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8: www.vci.de, German Chemical Industry Indicators, 9 March 2017

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CONSOLIDATED INCOME STATEMENT

of R. Stahl Aktiengesellschaft, Waldenburg, for the period from 1 January to 31 December 2016

Note	EUR 000	2016	2015
06	Sales revenue	286,609	312,920
	Change in finished and unfinished products	- 6,124	- 1,315
07	Other own work capitalized	3,820	4,184
	Total operating performance	**284,305**	**315,789**
08	Other operating income	12,923	10,948
09	Cost of materials	- 101,136	- 109,196
10	Personnel costs	- 118,288	- 128,576
12	Depreciation and amortization	- 13,381	- 13,488
13	Other operating expenses	- 55,647	- 71,569
	Earnings before financial result and income taxes	**8,776**	**3,908**
04, 14	Result from companies consolidated using the equity method	103	0
15	Investment result	25	3
16	Interest and similar income	260	280
16	Interest and similar expenses	- 3,365	- 3,474
	Earnings before income taxes	**5,799**	**717**
17	Income taxes	- 1,576	- 783
	Net profit	**4,223**	**- 66**
	Non-controlling interests	87	47
	Profit share of R. STAHL	4,136	- 113
18	**Earnings per share (EUR)**	**0.64**	**- 0.02**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

of R. Stahl Aktiengesellschaft, Waldenburg, for the period from 1 January to 31 December 2016

EUR 000	2016	2015
Profit for the year	**4,223**	**- 66**
Gains/losses from currency translations of foreign subsidiaries, recognized in equity	1,118	750
Deferred taxes on gains/losses from currency translations	0	0
Currency translation differences after taxes	1,118	750
Gains/losses from the subsequent measurement of cash flow hedges, recognized in equity	- 324	- 942
Recognized in profit or loss	287	1,394
Deferred taxes on cash flow hedges	13	- 126
Cash flow hedges after taxes	- 24	326
Other comprehensive income with reclassification to profit for the period	**1,094**	**1,076**
Actuarial gains/losses from the subsequent measurement of pension obligations, recognized in equity	- 10,609	8,586
Deferred taxes from pension obligations	3,311	- 2,446
Other comprehensive income without reclassification to profit for the period	**- 7,298**	**6,140**
Other comprehensive income (valuation differences recognized directly in equity)	**- 6,204**	**7,216**
of which attributable to non-controlling interests	52	- 23
of which attributable to R. STAHL	- 6,256	7,239
Total comprehensive income after taxes	**- 1,981**	**7,150**
Total comprehensive income attributable to non-controlling interests	139	24
Total comprehensive income attributable to R. STAHL	- 2,120	7,126

CONSOLIDATED BALANCE SHEET

of R. Stahl Aktiengesellschaft, Waldenburg, as of 31 December 2016

Note	EUR 000	31/12/2016	31/12/2015
	ASSETS		
	Non-current assets		
20	Intangible assets	40,397	40,599
21	Property, plant & equipment	62,371	66,640
04, 22	Investments in associated companies	7,097	0
22	Other financial assets	110	124
22	Other assets	1,293	1,321
22	Real estate held as financial investment	7,666	7,952
17	Deferred taxes	20,714	17,271
		139,648	**133,907**
	Current assets		
23	Inventories and prepayments made	50,883	57,267
24	Trade receivables	60,190	60,364
24	Income tax claims	3,084	1,618
24, 25	Other receivables and other assets	8,642	7,287
26	Cash and cash equivalents	16,168	18,343
		138,967	**144,879**
	Total assets	**278,615**	**278,786**

Note	EUR 000	31/12/2016	31/12/2015
	EQUITY AND LIABILITIES		
27	Subscribed capital	16,500	16,500
27	Capital reserves	13,457	13,457
27	Revenue reserves	94,449	94,394
27	Accumulated other comprehensive income	- 29,875	- 23,619
27	Deduction for treasury stock	0	0
	Equity without non-controlling interests	**94,531**	**100,732**
27	Non-controlling interests	234	283
	Equity with non-controlling interests	**94,765**	**101,015**
	Non-current liabilities		
28	Pension provisions	96,683	85,692
29	Other provisions	1,926	1,724
30	Interest-bearing financial liabilities	10,370	19,238
31	Other liabilities	454	481
17	Deferred taxes	3,463	3,385
		112,896	**110,520**
	Current liabilities		
28, 29	Provisions	6,298	7,172
31	Trade payables	13,403	14,884
30	Interest-bearing financial liabilities	27,616	16,501
31	Deferred liabilities	11,609	13,959
31	Income tax liabilities	1,159	1,088
31	Other liabilities	10,869	13,647
		70,954	**67,251**
	Total equity and liabilities	**278,615**	**278,786**

CONSOLIDATED CASH FLOW STATEMENT

of R. Stahl Aktiengesellschaft, Waldenburg, for the period from 1 January to 31 December 2016

	EUR 000	2016	2015
I.	**Operating activities**		
1.	Net profit for the year	4,223	- 66
2.	Depreciation, amortization and impairment of non-current assets	13,381	13,488
3.	Changes in long-term provisions	551	633
4.	Changes in deferred taxes	- 12	- 1,765
5.	Equity valuation	- 103	0
6.	Other income and expenses without cash flow impact	457	1,454
7.	Result from the disposal of non-current assets	- 2,334	77
8.	**Cash flow**	**16,163**	**13,821**
9.	Changes in short-term provisions	- 882	1,010
10.	Changes in inventories, trade receivables and other non-capex or non-financial assets	4,174	5,385
11.	Changes in trade payables and other non-capex or non-financial liabilities	- 8,569	- 1,791
12.	**Changes in net current assets**	**- 5,277**	**4,604**
13.	**Cash flow from operating activities**	**10,886**	**18,425**
II.	**Investing activities**		
14.	Cash outflow for capex on intangible assets	- 6,182	- 6,524
15.	Cash inflow from disposals of non-current intangible assets	1,313	0
16.	Cash outflow for capex on property, plant & equipment	- 6,314	- 16,492
17.	Cash inflow from disposals of property, plant & equipment and real estate held as a financial investment	5,526	726
18.	Cash outflow for capex on non-current financial assets	- 1	0
19.	Cash inflow from disposals of non-current financial assets	19	0
20.	Increase (+)/decrease (-) in current financial assets	206	73
21.	Payments for the purchase of shares in associated companies	- 5,786	0
22.	**Cash flow from investing activities**	**- 11,219**	**- 22,217**
23.	**Free cash flow**	**- 333**	**- 3,792**

	EUR OOO	2016	2015
III.	**Financing activities**		
24.	Distribution to shareholders (dividend)	- 3,864	- 5,152
25.	Distribution to/contribution from minority shareholders	- 405	- 35
26.	Cash inflow from the sale of treasury shares	0	24,044
27.	Increase (+)/decrease (-) in current interest-bearing financial debt	3,712	- 19,180
28.	Cash inflow from non-current interest-bearing financial debt	0	9,149
29.	Cash outflow for repayment of non-current interest-bearing financial debt	- 1,453	- 2,775
30.	**Cash flow from financing activities**	**- 2,010**	**6,051**
IV.	**Cash and cash equivalents**		
31.	Changes in cash and cash equivalents	- 2,343	2,259
32.	Foreign exchange and valuation-related changes in cash and cash equivalents	168	264
33.	Cash and cash equivalents at the beginning of the period	18,343	15,820
34.	**Cash and cash equivalents at the end of the period**	**16,168**	**18,343**
	Composition of cash and cash equivalents		
	Cash and cash equivalents	16,168	18,343

The cash flow statement is explained in the notes to the consolidated financial statements on page 169.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

of R. Stahl Aktiengesellschaft, Waldenburg, for fiscal year 2016

				Shareholders
				Accumulated
	Subscribed capital	Capital reserves	Revenue reserves	Currency translation
EUR 000				
Balance on 1 Jan. 2015	**16,500**	**494**	**99,659**	**- 2,177**
Profit for the year			- 113	
Accumulated other comprehensive income			0	773
Total comprehensive income			**- 113**	**773**
Dividend distribution			- 5,152	
Purchase/sale of treasury shares		12,963		
Balance on 31 Dec. 2015	**16,500**	**13,457**	**94,394**	**- 1,404**
Balance on 1 Jan. 2016	**16,500**	**13,457**	**94,394**	**- 1,404**
Profit for the year			4,136	
Accumulated other comprehensive income			0	1,066
Total comprehensive income			**4,136**	**1,066**
Dividend distribution			- 3,864	
Change in non-controlling interests			- 217	
Balance on 31 Dec. 2016	**16,500**	**13,457**	**94,449**	**- 338**

	equity					Non-controlling interests	Consolidated equity
	other comprehensive income			Deduction for treasury shares	Total		Total
	Unrealized gains/losses from cash flow hedges	Gains/ losses from pension obligations	Total accu-mulated other comprehensive income				
	- 335	**- 28,346**	**- 30,858**	**- 11,209**	**74,586**	**294**	**74,880**
					- 113	47	**- 66**
	326	6,140	7,239		7,239	- 23	**7,216**
	326	**6,140**	**7,239**		**7,126**	**24**	**7,150**
					- 5,152	- 35	**- 5,187**
				11,209	24,172	0	**24,172**
	- 9	**- 22,206**	**- 23,619**	**0**	**100,732**	**283**	**101,015**
	- 9	**- 22,206**	**- 23,619**	**0**	**100,732**	**283**	**101,015**
					4,136	87	**4,223**
	- 24	- 7,298	- 6,256		- 6,256	52	**- 6,204**
	- 24	**- 7,298**	**- 6,256**		**- 2,120**	**139**	**- 1,981**
					- 3,864	- 105	**- 3,969**
					- 217	- 83	**- 300**
	- 33	**- 29,504**	**- 29,875**	**0**	**94,531**	**234**	**94,765**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of R. Stahl Aktiengesellschaft, Waldenburg, for fiscal year 2016

PRINCIPLES AND METHODS OF CONSOLIDATED ACCOUNTING

1. Basis of preparation

The consolidated financial statements of R. Stahl Aktiengesellschaft (hereinafter also called R. STAHL AG) as at 31 December 2016 have been prepared in accordance with Section 315a of the German Commercial Code (Handelsgesetzbuch, HGB) as well as the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) as applicable in the EU in effect on the balance sheet date, the respective interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS Interpretations Committee) and the commercial law regulations pursuant to Section 315a (1) HGB.

The consolidated financial statements are prepared using the historical cost principle. Derivative financial instruments are an exception to this rule and are recognized at fair value.

For better readability of the consolidated financial statements, we have summarized individual items of the consolidated income statement and consolidated balance sheet. These items are explained separately in the notes to the consolidated financial statements. Necessary additional disclosures on individual items are likewise made in the notes to the consolidated financial statements. In accordance with IAS 1, the consolidated balance sheet was divided into non-current and current items. The consolidated income statement has been prepared using the “nature of costs method”.

The Group’s accounting currency is the euro. All amounts are shown rounded to multiples of thousands of euros (EUR 000) unless clearly identified otherwise.

R. STAHL AG electronically submits its consolidated financial statements to the operator of the German electronic Federal Gazette.

Impact of new or revised standards

The accounting and valuation methods that have been applied basically correspond to the methods that were applied last year with the following exceptions, which result from new or revised standards.

In fiscal year 2016, the following new regulations were mandatory for the first time:

Standard/ Interpretation		Status	Mandatory as of
Amendments to IFRS 10/IFRS 12/ IAS 28	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 28)	Revised	01/01/2016
AIP (2010–2012)	Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/18 and IAS 24	Revised	01/07/2014
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions	Revised	01/07/2014
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	Revised	01/01/2016
Amendments to IAS 16/IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	Revised	01/01/2016
Amendments to IAS 16/IAS 41	Agriculture: Bearer Plants	Revised	01/01/2016
AIP (2012–2014)	Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	Revised	01/07/2016
Amendments to IAS 1	Disclosure Initiative (Amendments to IAS 1)	Revised	01/01/2016
Amendments to IAS 27	Equity Method in Separate Financial Statements	Revised	01/01/2016

All accounting standards amended in the reporting period had no significant impact on the financial position and performance nor on the notes to the consolidated financial statements.

New or revised standards that have not been applied

The IASB and IFRS Interpretations Committee have adopted the following standards, interpretations and revisions which were not yet mandatory on 31 December 2016 and in some cases have not yet been recognized by the EU. Early application of these new provisions is not intended.

Standard/ Interpretation		Mandatory as of *)	Endorsed by the EU Commission**)	Expected impact
IFRS 9	Financial Instruments	01/01/2018	Yes	See explanations
IFRS 15	Revenue from Contracts with Customers	01/01/2018	Yes	See explanations
Amendments to IFRS 10/IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed	No	None
IFRS 14	Regulatory Deferral Accounts	01/01/2016	No	None
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	01/01/2017	No	None
Amendments to IAS 7	Statement of Cash Flows	01/01/2017	No	See explanations
Amendments to IFRS 2	Clarification of Classification and Measurement of Share-based Payment Transactions	01/01/2018	No	None
Amendments to IFRS 4	Applying IFRS 9 and IFRS 4 Insurance Contracts	01/01/2018	No	None
AIP 2014–2016	Amendments to IFRS 1, IFRS 12 and IAS 28	01/01/2018	No	None
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01/01/2018	No	None
Amendments to IAS 40	Classification of Property under Development	01/01/2018	No	None
IFRS 16	Leasing	01/01/2019	No	See explanations

*) Effective date for R. STAHL AG

**) As of 31 December 2016

IFRS 9, Financial Instruments

In July 2014, the IASB completed its project to replace IAS 39, "Financial Instruments: Recognition and Measurement" by publishing the final version of IFRS 9: Financial Instruments. IFRS 9 introduces a single approach for the classification and measurement of financial assets. Subsequent measurement of financial assets is based in future on three categories with different value scales and different recognition of changes in value. Categorization depends both on the contractual cash flows of the instrument and the business model in which the instrument is held. In the case of financial liabilities, the existing categorization regulations of IAS 39 were largely adopted in IFRS 9. In addition, IFRS 9 provides a new impairment model based on expected credit losses. IFRS 9 also includes new regulations regarding the application of hedge accounting to better reflect an entity's risk management activities especially with regard to managing non-financial risks. Moreover, IFRS 9 contains additional disclosure requirements. The company is currently assessing what impact these amendments will have on the consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

The new standard replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts", as well as the related interpretations. IFRS 15 establishes a comprehensive framework for determining, whether, how much, and when revenue is recognized. The core principle of IFRS 15 is that a company should recognize revenue when goods have been delivered or services rendered. Within the scope of this standard, this core principle is implemented in a five-step model. The relevant contracts with the customer and the included performance obligations must first be identified. Revenue is then recognized in the amount of the expected consideration for each separate performance obligation, either at a particular point in time or over a period. IFRS 15 also includes detailed application guidance on a number of individual topics (e.g. contract modifications, sale with a right of return, handling of contract costs, extension options, licence revenue, principal-agent relationships, bill-and-hold arrangements, consignment agreements etc.). Moreover, the scope of the disclosures has been expanded. The new disclosure regulations are aimed at disclosing information on the nature, the amount, the timing and the uncertainty of revenue from customer contracts, including the resulting cash flows. In addition, the IASB published clarifications on IFRS 15 on 12 April 2016. The amendments address the identification of performance obligations, principal-agent considerations and licences with the aim of providing transitional regulations for modified and concluded agreements. The company is currently assessing what impact these amendments will have on the consolidated financial statements.

Amendments to IAS 7, Statement of Cash Flows

The amendments pursue the objective that companies should provide disclosures that will help users of financial statements make better evaluations about changes in liabilities arising from financing activities. Assuming the information is relevant for users of financial statements when making their decisions, a company must mainly make the following disclosures on liabilities arising from its financing activities:

- changes from financing cash flows,
- changes arising from obtaining or losing control of subsidiaries or other businesses,
- the effect of changes in foreign exchange rates,
- changes in fair values.

One possible presentation of the required disclosures on liabilities from financing activities suggested by the IASB is to provide a reconciliation between the opening and closing balances in the balance sheet. The reconciliation should include at least the items listed above. It should also be prepared in such a way that users of the financial statements can link items in the statement of cash flows with those in the balance sheet.

IFRS 16, Leasing

Under IFRS 16, the previous distinction between operating and finance leases is eliminated for the lessee. For all leases, the lessee now accounts for the right of use of an asset and for a lease liability. The right of use is amortized over the contract term according to the provisions for intangible assets. The lease liability is carried in accordance with the provisions for financial instruments under IAS 39 and in future IFRS 9. In the income statement, a separate disclosure is made for amortization of the asset and interest on the liability. Simplified accounting is possible for short-term leases and low-value leased assets. Disclosures in the notes will be more detailed and enable the addressee to assess the amount, time and uncertainties associated with leases. By contrast, the provisions in the new standard concerning the lessor are similar to those in the previous regulations of IAS 17. As in the past, leases are classified either as finance or operating leases.

2. Company data

Name and legal structure:	R. Stahl Aktiengesellschaft (parent company and senior group entity)
Registered office:	Waldenburg (Germany)
Address:	Am Bahnhof 30, 74638 Waldenburg, Germany
Business and main activities:	Supplier of explosion-protected devices and systems for measuring, controlling and operating

3. Release date for publication of financial statements

The Executive Board of R. STAHL AG released the 2016 consolidated financial statements and the 2016 Group management report for forwarding to the Supervisory Board on 4 April 2017.

4. Consolidation principles

Scope of consolidation

In addition to R. STAHL AG, the consolidated financial statements include 34 (previous year: 34) domestic and foreign subsidiaries over which R. STAHL AG can exercise a direct or indirect controlling influence. A controlling influence is defined as being when R. STAHL AG has power over the subsidiary due to voting rights or other rights, may participate in positive or negative returns of the subsidiary and can affect these returns through its decisions.

Companies in which R. STAHL AG can exert a substantial influence – generally with an equity stake of between 20% and 50% – are consolidated as associated enterprises in the consolidated financial statements using the equity method. ZAVOD Goreltex Co. Ltd. and ESACO Pty. Ltd. were included in the consolidated financial statements as associated companies using the equity method for the first time in the reporting period. For reasons of materiality, certain companies were not consolidated in the consolidated financial statements using the equity method.

R. STAHL AG acquired a 25% stake in the Russian company ZAVOD Goreltex in 2016. The investment was made in the form of a capital increase.

R. STAHL AG acquired a 35% stake in the South African company ESACO Pty. Ltd. in 2016.

Financial information for ZAVOD Goreltex	EUR 000
Non-current assets*)	5,622
Current assets*)	19,838
Balance sheet total	**25,460**
Equity capital*)	21,683
Sales revenue**)	3,863
Result for the year**)	413

*) As of 31 December 2016
**) Generated as of the acquisition date

Financial information for ESACO Pty. Ltd.	EUR 000
Current assets*)	48
Current assets*)	1,284
Balance sheet total	**1,332**
Equity capital*)	965
Sales revenue**)	286
Result for the year**)	19

*) As of 31 December 2016
**) Generated as of the acquisition date

In April 2016, the remaining 25% of shares in R. STAHL Camera Systems GmbH were acquired from Orlaco Products B.V.. The purchase price amounted to EUR 300 thousand.

Breakdown of domestic and foreign consolidated companies:

	Domestic 31/12/2016	Foreign 31/12/2016	**Total 31/12/2016**	**Total 31/12/2015**
Number of fully consolidated companies	9	26	**35**	35
Number of companies consolidated using the equity method	0	2	**2**	0

The list of shareholdings is an integral component of these notes to the consolidated financial statements.

Non-consolidated structured companies

R. STAHL AG is a limited partner of Abraxas Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz (hereinafter also called Abraxas), with an equity interest of 49.58% (nominal EUR 25,564.59). As the other limited partner, DAL Beteiligungsgesellschaft mbH, Mainz, holds an equity interest of 50.42% (nominal EUR 26,000.00). The management and representation of Abraxas is the responsibility of the general partner Abraxas Grundstücksverwaltungsgesellschaft mbH, Mainz, which holds no equity interests. R. STAHL AG participates in the profit and loss of Abraxas according to its share of the capital. However, its liability is limited to its capital contribution.

In notarized deeds dated 5 December 2000, R. STAHL AG and Abraxas concluded a property leasing transaction consisting of a building lease, real estate lease and purchase option agreement for the ground lease to the property entered in the land register of Waldenburg, District Court of Kupferzell – Sheet 2025 – district of Waldenburg plot 2006/14. There followed various contractual arrangements of a notarized and privately documented nature, which are noted in the last notarized collective certificate dated 27 March 2015. The owner of the ground lease site is R. STAHL AG. The ground lease has a term of 60 years, the ground rent amounts to approx. EUR 112 thousand p.a. and is charged as an ancillary rental cost to R. STAHL AG. The lessor took on the planning and construction of an administration building and logistics building with an initial investment volume of EUR 28.4 million. In fiscal year 2013, the logistics building was extended by R. STAHL AG as the general contractor with an investment volume of approx. EUR 3.1 million and in fiscal year 2014 the administration building was extended with the addition of a company restaurant and a newly built development centre involving an investment volume of approx. EUR 10.7 million.

Abraxas grants R. STAHL AG, as lessee, the right to use the administration and logistics building. The leasing relationship is to be classified as an operating lease. Under the terms of the lease, R. STAHL AG is obliged to conduct maintenance but has been granted the right to sublet. On expiry of the lease (30 September 2023), R. STAHL AG has the option to purchase the property at fair value.

Abraxas has forfeited its future lease receivables and only the amount of the remaining residual values, secured by mortgages, is financed by debt.

As of 31 December, the following balances refer to the R. STAHL Group's arrangements with Abraxas.

Carrying amounts IN EUR 000	2016	2015
Other financial assets		
Shares held by R. STAHL AG in Abraxas	26	26
Maximum loss risk	**26**	**26**

All in all, R. STAHL AG has no control over the relevant activities of the property leasing company. There is no consolidation obligation pursuant to IFRS 10.

Currency translation

The functional currency is the currency of the primary economic environment in which a consolidated company operates. The primary economic environment a company operates in is the environment in which it generates and spends most of its funds. The criteria set forth in IAS 21.9 et seq. are to be heeded in determining functional currency.

The presentation currency of a company is its reporting currency. The presentation currency of R. STAHL AG's consolidated financial statements is the euro.

The separate financial statements of consolidated companies prepared in local currency recognize monetary positions in foreign currencies (liquid funds, receivables and liabilities) at the spot rate on the balance sheet date in their income statements. Non-monetary positions in foreign currencies are recognized at their respective historical exchange rates.

As our subsidiaries conduct their business financially, economically, and organizationally at arm's length, their functional currencies correspond to the respective currency of their countries. Foreign-currency financial statements of consolidated companies are converted using the modified closing rate method for functional currency conversion. Thus, income and expense in subsidiaries' financial statements denominated in foreign currencies are converted at annual average exchange rates, while assets and liabilities are converted at the exchange rates effective on the balance sheet date, and equity is converted at historical exchange rates. Goodwill attributable to foreign subsidiaries is also translated at the exchange rates effective on the balance sheet date. Differences arising from currency translation are recognized in the item "Currency translation" in "Accumulated other comprehensive income".

The underlying exchange rates for currency translation with material impact on the consolidated financial statements have changed relative to the euro (EUR) as follows:

	Year-end spot rate		Average exchange rate	
	31/12/2016	**31/12/2015**	**2016**	**2015**
US dollar	1.05410	1.08870	1.10690	1.10923
British pound	0.85618	0.73395	0.81948	0.72584
Norwegian krone	9.08630	9.60300	9.29060	8.94919
Indian rupee	71.59350	72.05000	74.37871	71.14137
Russian rouble	64.3000	80.67360	74.14457	68.05314

Consolidation principles
For all types of company acquisitions, we consolidate capital using the purchase method (IFRS 3) by offsetting acquisition costs against the Group's share of the consolidated subsidiaries' net assets taken over at the time of purchase. Net assets are generally recognized at the fair value of all identifiable assets, debts, and contingent liabilities at the time of purchase.

Residual positive differences are capitalized as goodwill. Capitalized goodwill is checked for impairment annually and restated through profit and loss in case of impairment. In the case of reasonable impairment indication, additional impairment tests are performed during the period and likewise recognized through profit and loss in the case of actual impairment.

Negative differences are not expensed as goodwill but stated as additional purchaser's share in the net applicable fair value of identifiable assets, debts, and contingent liabilities beyond acquisition costs. If there is a negative difference on first-time consolidation, a reassessment is made. The process critically reassesses the valuation of assets, debts, and contingent liabilities taken over as well as the determination of purchase costs. Residual negative differences are immediately recognized through profit and loss.

Changes in the parent company's shareholding in a subsidiary that do not lead to a loss of control are accounted for as an equity transaction. Differences from such transactions have to be set off against equity. A subsidiary is deconsolidated at the time the parent company loses control of the subsidiary.

Shares in a subsidiary's equity that are not allocable to the parent company are stated as "non-controlling interests".

Intra-group receivables, liabilities, provisions, income and expense as well as earnings from intra-group transactions (intra-group results) are eliminated in the consolidation process.

The consolidation principles have remained unchanged compared to last year.

5. Accounting and valuation methods

Uniform group methods

The annual financial statements of the consolidated companies have been prepared according to uniform accounting and valuation principles.

To this end, we have adjusted the financial statements prepared according to country-specific standards to the uniform Group accounting and valuation principles of R. STAHL AG in the case of any deviation from IFRS.

The reporting date for the separate financial statements of the consolidated companies is the same as the date of the consolidated financial statements, as at 31 December, except for the financial statements of R. STAHL PRIVATE LIMITED, Chennai (India). The balance sheet date for the separate financial statements in India is 31 March, insofar, interim financial statements have been prepared for the date of the consolidated financial statements.

Estimates and assumptions

Preparing consolidated financial statements according to IFRS requires estimates and assumptions that affect the amount and recognition of stated assets, debts, income, expense, and contingent liabilities. The respective assumptions and estimates are based on premises which represent the most recent knowledge. The estimates and the underlying assumptions are examined on an ongoing basis. Actual developments may result in amounts differing from these estimates. Such differences, if impacting on the accounting, are recognized in the period of change where the change affects this period only. If changes in estimates affect both the current period and future periods, these are recognized accordingly in the periods in question.

Such estimates and assumptions mainly pertain to the following assets and liabilities:

Impairment of goodwill
The R. STAHL Group examines at least once a year if goodwill is impaired. This requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. Management has to estimate the expected future cash flows of the cash-generating units and furthermore select a suitable discount factor to determine the cash value of these cash flows. On 31 December 2016, the carrying values of goodwill amount to EUR 12.1 million (2015: EUR 11.7 million). For further information please refer to section 20.

Capitalized development costs
Development costs are capitalized according to the accounting and valuation methods presented in this section. In order to determine the amounts to be capitalized, management has to make assumptions about the amount of the expected future cash flows from assets, the interest rates to be applied and the period of time for the influx of expected future cash flows that the assets generate. On 31 December 2016, the carrying value of capitalized development costs amounts to EUR 24.6 million (2015: EUR 23.2 million).

Provisions for pension obligations
Expenses for defined benefit plans are determined using actuarial calculations based on assumptions in regard to discount factors, expected income from plan assets, future wage and salary increases, mortality and future pension increases. The applied discount factors are based on the yield of first-class, fixed-interest bearing company bonds. The expected long-term interest of the fund assets is determined on the basis of historical long-term yields and the structure of the portfolio. Pursuant to the long-term orientation of these plans, those assumptions are subject to essential uncertainties. The impact of changes in parameters applied as of the balance sheet date on the present value of the DBO is presented in section 28. Any discrepancy between the parameters assumed and the actual conditions on the balance sheet date has no impact on consolidated net profit, as gains and losses resulting from the discrepancies based on the remeasurement of the net defined benefit liability are recognized directly in equity. On 31 December 2016, provisions for pension obligations amounted to EUR 99.8 million (2015: EUR 88.7 million). For further information please refer to section 28.

Deferred taxes

The carrying value of deferred tax assets as of 31 December 2016 amounts to EUR 20.7 million (2015: EUR 17.3 million). Determination of future tax advantages reflected in the balance sheet are based on assumptions and estimates on the development of tax income and tax legislation in those countries where Group companies are located.

Furthermore, estimates and assumptions are used for purchase price allocations, the determination of economic lifetimes of intangible and tangible assets, accounting and valuation of inventories, receivables, provisions and the assessment of legal risks. Individual actual values may deviate from the estimates and assumptions. Pursuant to IAS 8, changes will be recognized through profit and loss at the time of gaining better knowledge.

Revenue recognition

Revenue from product sales is recognized according to IAS 18 (Revenue) criteria at the time of ownership or liability transfer to the customer, purchase price agreement, or when the purchase price can be determined and its payment can be reasonably assumed. To the extent that business transactions have been agreed to only be effective upon customer approval, the respective sales revenue will only be realized upon receipt of the corresponding approval notice or expiration of the approval period.

Sales revenue from service transactions is recognized at the time the service is rendered if the income amount can be reliably estimated and the inflow of the economic benefit from the transaction is reasonably probable.

Sales revenue is recognized net of cash and price discounts, customer bonuses and rebates.

Research and development expenses

Research costs may not be capitalized under IAS 38.42 et seq. and are thus immediately expensed in the income statement.

Development costs are capitalized if they meet the criteria of IAS 38. The respective depreciation and amortization uses the straight-line method.

Earnings per share

Earnings per share are calculated according to IAS 33 (Earnings per Share).

Basic earnings per share are consolidated earnings – net of non-controlling interests – divided by the average number of common shares.

As we have no potential common shares and no option or subscription rights outstanding, we did not have to calculate diluted earnings per share in 2015 nor in 2016.

Intangible assets and property, plant & equipment

Intangible assets include goodwill, development costs, software, licenses and similar rights. Only development costs qualify as self-generated intangible assets.

Purchased and self-generated intangible assets excluding goodwill are recognized at acquisition or manufacturing cost less straight-line depreciation and amortization. The respective items are depreciated and amortized over their contractual or estimated service lives. Service lives range between three and 10 years.

Capitalized goodwill is checked for impairment on an annual basis and, in case of impairment, restated through profit and loss.

Development costs are capitalized at manufacturing cost according to the criteria set forth in IAS 38 to the extent that the expense can be unambiguously allocated and both technical feasibility and marketing are assured. Furthermore, it has to be reasonably probable that development activities will generate future economic benefit. Capitalized development costs comprise all directly allocable costs and appropriate shares of development-related overhead. Capitalized development costs are amortized using the straight line method from production start over the expected product life cycle of usually five to seven years. Development projects not yet completed are subjected to annual impairment tests.

Property, plant & equipment is recognized at acquisition or manufacturing cost less scheduled depreciation and amortization over the projected service lives.

In addition to directly allocable costs, manufacturing costs also include appropriate shares of production-related overhead. The latter also includes production-related depreciation and amortization, prorated administrative costs, and prorated social benefit expense.

Financial expenses are not recognized as part of acquisition or manufacturing cost for reasons of materiality.

Property, plant & equipment is depreciated using the straight-line method.

Scheduled depreciation and amortization is based on the following group-wide service lives:

IN YEARS	
Buildings	15 to 50
Technical equipment and machinery	8 to 20
Other plants, operating, and office equipment	3 to 15

If particular events or market developments indicate value impairment, the capitalized book values of property, plant & equipment and of intangible assets (including capitalized development costs and goodwill) are checked for impairment. This involves comparing the carrying values with the recoverable value. The recoverable value is defined as the higher value of sales price minus disposal costs and value in use of the asset. Value in use is the capital value of future cash flows to be expected from the continued use of an asset and its sale at the end of its service live. The recoverable value of an asset is determined individually and, should that not be possible, for the cash-generating unit it has been allocated to. Basic assumptions have to be made to determine the expected cash flows of each cash-generating unit. This includes making assumptions for financial plans and the interest rates used for discounting cash flows.

Leasing

The R. STAHL Group primarily leases buildings and land. IAS 17 (Leases) defines parameters by which to judge risks and opportunities of the leasing partners, and whether the economic ownership of the leasing object rests with the lessee (finance leases) or the lessor (operating leases). The R. STAHL Group only has operating leases. The pertinent payments are spread using the straight-line method over the term of the lease agreement.

Financial instruments

A financial instrument is based on a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The first-time recognition of financial instruments occurs at fair value. Ancillary acquisition costs are included unless the financial instrument is measured at fair value in sub-sequent periods. Financial instruments are recognized for the first time on the settlement date.

After initial recognition, available for sale and held for trading financial assets are stated at fair value. If no market values can be determined, the fair values of available for sale financial assets are calculated using appropriate valuation methods, such as discounted cash flow models, taking into account market data available on the balance sheet date.

Loans granted by the company and receivables not held for trading (loans and receivables), held-to-maturity financial investments, and all financial assets with set maturities, but for which there are no regular price quotes in active markets so that their fair values cannot be reasonably determined, are recognized at amortized cost using the effective interest rate method. Financial assets without set maturities are recognized at historical costs.

Unless measured at fair value through profit or loss, financial liabilities are recognized at amortized cost using the effective interest rate method where applicable.

Pursuant to IAS 39, it must be regularly determined whether there are objective, reasonable impairment indications for financial assets or asset portfolios. In case of impairment, the respective impairment loss is to be recognized through profit and loss.

Profits and losses from available for sale financial assets are booked directly under equity until the financial asset has been divested or the impairment recognized. In case of impairment, IAS 39 requires removing the cumulative net loss from equity and expensing it.

Equity interests are recognized at quoted prices or fair value. If neither one of these are available or cannot be reliably determined, they are stated at historical costs.

Securities and loans stated under non-current assets are accounted for depending on their respective allocable financial asset category. These items do not include financial assets held for trading.

Real estate held as a financial investment

Real estate held as a financial investment is stated as an asset if it is probable that the company will incur future economic benefit from such real estate held as a financial investment, and the acquisition or manufacturing costs can be reliably valued. Real estate held as a financial investment is valued using the purchase cost method.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are formed pursuant to IAS 12 (Income Taxes) using the balance-sheet-based liability method for all temporary differences between tax and commercial balance sheet values as well as for earnings-impacting consolidation measures. Moreover, deferred tax assets are formed for future asset gains from tax loss carryforwards. Deferred tax assets for all deductible temporary differences and tax loss carryforwards may, however, only be formed to the extent of likely future taxable income available for offsetting such temporary differences or as yet unused tax loss carryforwards. Tax deferrals are determined pursuant to IAS 12 based on the respective countries' effective or already resolved to become effective income tax rates at the time of income realization.

Deferred tax assets are netted against deferred tax liabilities if there is an enforceable right to offset these balance sheet items. This is usually the case for identical tax subjects, tax types and due dates. Deferred tax assets and liabilities are not discounted pursuant to IAS 12.

Inventories

Raw materials and supplies, as well as merchandise, are recognized at the lower of average cost or net realizable value.

Unfinished and finished goods are recognized at the lower of manufacturing cost and net realizable value. The item encompasses all costs directly allocable to the manufacturing process and appropriate shares of production-related overhead. The latter includes production-related depreciation and amortization, prorated administrative expense, and prorated social insurance costs (total production-related cost approach). Manufacturing costs are determined on a normal capacity utilization basis.

Financing costs are not included in acquisition or manufacturing cost.

As soon as the reasons for inventory impairment cease to exist and thus net realizable value increases, the resulting value adjustment is recognized as a reduction in cost of materials.

Receivables and other assets

Receivables and other assets, excluding derivative financial instruments and current-asset securities, are loans granted by the Group and receivables not held for trading. These items are recognized at amortized cost. Non- or low-interest-bearing receivables with maturities in excess of one year are discounted.

Appropriate allowances are recognized to take account of all identifiable risks.

Derivative financial instruments and hedge accounting

The R. STAHL Group only uses derivative financial instruments to hedge currency, interest rate and fair value risks from operating activities, and to reduce the resulting financing risks. According to IAS 39, all derivative financial instruments, such as interest rate and currency swaps as well as currency futures, are to be recognized at fair value independently of the purpose and intent of entering into such contracts.

The prerequisite for hedge accounting is that the definite hedging relation between underlying transaction and hedging instrument is documented and the effectiveness is proven. The R. STAHL Group principally documents all relations between hedges and related underlying transactions in compliance with IAS 39. Underlying transactions are related to hedges.

The R. STAHL Group uses derivative financial instruments for hedging of planned foreign currency payments and to limit interest payable for existing procurement of outside capital (cash flow hedge).

In the case of cash flow hedging, market value changes of that part of the hedging instrument classified as effective are first disclosed directly in equity as part of the overall result not affecting net income, taking deferred taxes into account, until the assured future cash flow eventuates. The transfer to the income statement coincides with the effect on net profit of the hedged underlying transaction. The part of the market value changes not covered by the underlying transaction is recognized directly in profit or loss.

Hedging the fair value of recognized assets or recognized liabilities is a fair value hedge. In the reporting period, the R. STAHL Group did not use fair value hedges.

Changes in the fair value of derivative financial instruments that do not fulfil the prerequisites for being accounted as hedges according to IAS 39 are recognized directly in the income statement.

The market values of derivative financial instruments are shown under “Other financial assets” or “Other financial liabilities”. According to the settlement date, short-term and long-term derivatives are classified as current or non-current.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations comprise the R. STAHL Group's pension obligations from defined benefit pension schemes.

In the case of defined benefit pension schemes (such as direct commitments (direct pension obligations in the form of pension provisions) and support funds (indirect pension obligations)), the actuarial valuation of the pension provisions is based on the projected unit credit method prescribed by IAS 19 (Employee Benefits). This approach not only considers pensions and unit credits known on the balance sheet date but also forecast future pension and salary increases. The calculation follows the actuarial tables including biometric calculation principles.

In Germany, the age of employees at the end of the agreed partial retirement period was set as the end financing age for employees in partial retirement programs. In the case of other staff without individual contractual provisions regulating the retirement age, the earliest possible retirement age of 64 was applied. This corresponds to the average retirement age in the past and coming years within the company.

Actuarial gains and losses arising from changes in actuarial assumptions, or differences between previous actuarial assumptions and actual developments, are recognized directly in equity (Accumulated other comprehensive income) at the time of creation and under consideration of deferred taxes. Actuarial gains and losses recognized in the equity item "Accumulated other comprehensive income" and the respective deferred taxes are not reversed through profit or loss in subsequent periods. The actuarial gains and losses recognized in the reporting period and the respective deferred taxes are disclosed separately in the statement of comprehensive income.

The expense of funding pension obligations is recognized under personnel expenses while the interest portion of pension obligations is stated in the interest result.

The amount to be recognized as a liability from defined benefit pension plans is to be subtracted from the plan asset at fair value as at the balance sheet date.

In the case of defined contribution plans, the respective companies do not incur further obligations beyond making contributions to special purpose funds.

Discount factors for determining the present value of defined benefit pension obligations are established on the basis of yields achieved on the balance sheet date with high-quality, fixed interest-bearing company bonds in the respective market.

Other provisions

Other provisions pursuant to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) have been included to the extent that they represent a present obligation based on past events and the amount required is both probable and can be reliably estimated. The event probability has to be greater than 50%. Provisions are only made for legal or factual obligations to third parties. The provision carried is the best estimated value on the reporting date for the service to be rendered to meet the current commitment. The valuation of other provisions – particularly for warranties and expected losses from pending transactions – also includes all cost components that are also capitalized in inventories (production-related total costs).

Restructuring provisions have been made to the extent that they meet the criteria of IAS 37 in conjunction with IAS 19.

Non-current provisions with residual maturities of more than one year are discounted if the interest effect is material.

Liabilities

Liabilities are first recognized at historical costs corresponding to the fair value of the goods or services received including transaction costs.

With the exception of derivative financial instruments, liabilities are subsequently recognized at amortized cost.

The R. STAHL Group has no liabilities held for trading. The exception are derivatives not included in hedge accounting.

Contingent liabilities

Contingent liabilities are possible obligations based on past events that have yet to be validated by one or more uncertain future events outside the R. STAHL Group's power of influence. Moreover, present obligations may be deemed contingent liabilities if the probability of cash outflows is not high enough to justify the formation of a provision and/or the obligation amount cannot be reliably estimated. The recognized contingent liability amounts correspond to the legal liability volume existing at the end of the reporting period.

Cash flow statement

The cash flow statement shows the cash inflows and outflows of the R. STAHL Group in the reporting period.

In accordance with IAS 7 (Statement of Cash Flows), we distinguish between cash flows from operating, investing and financing activities.

The effects of acquisitions, divestments, and other changes in the scope of consolidation are presented separately pursuant to IAS 7.39 and classified as investing activities.

Cash and cash equivalents shown in the cash flow statement comprise cash on hand, cheques, and credit balances with banks. The item also includes securities with original maturities of up to three months. Liquid funds are unrestricted cash. Cash and cash equivalents as recognized in the balance sheet correspond to liquid funds. For details on the composition of cash and cash equivalents, please refer to the explanations on "Cash and cash equivalents".

Segment reporting

According to IFRS 8, companies must disclose individual financial data on business segments. IFRS 8 adopts the so-called "management approach", according to which segment reporting only discloses financial information used by the company's decision-makers for internal control of the company. The internal reporting and organizational structure is decisive here as well as such financial values as are used for decision-making in regard to the allocation of resources and evaluation of profitability.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

6 Sales revenue

A breakdown of sales revenue by region is shown below:

EUR 000	2016	2015
Breakdown by region		
Central (Europe, Africa)	193,250	188,750
thereof Germany	(61,340)	(64,370)
Americas	35,812	49,110
Asia/Pacific	57,547	75,060
	286,609	**312,920**

7 Other own work capitalized

Other own work capitalized results in particular from capitalizing development costs pursuant to IAS 38. In the year under review, this came to EUR 3,336 thousand (2015: EUR 3,633 thousand).

In the reporting period, total research and development costs of EUR 16,563 thousand (2015: EUR 17,235 thousand) were recognized.

8 Other operating income

Other operating income includes the following items:

EUR 000	2016	2015
Income from asset disposals	2,486	20
Income from the reversal of provisions	1,473	210
Income from the market valuation of derivatives	0	475
Gains from currency translation	4,545	7,671
Other income	4,419	2,572
	12,923	**10,948**

9 Cost of materials

The cost of materials comprises the following items:

EUR 000	2016	2015
Expense for raw materials and supplies	- 95,433	- 100,896
Services received	- 5,703	- 8,300
	- 101,136	**- 109,196**

10 Personnel costs

Personnel costs consist of the following:

EUR 000	2016	2015
Wages and salaries	- 98,307	- 106,186
Social insurance contributions, as well as pension and support expense	- 19,981	- 22,390
	- 118,288	**- 128,576**

11 Annual average number of staff

The average number of employees and trainees of consolidated companies in the year under review as compared to the previous year was as follows:

NUMBER	2016	2015
Employees	1,824	1,952
Trainees	90	96
	1,914	**2,048**

12 Depreciation and amortization

Scheduled depreciation and amortization of intangible assets and property, plant & equipment amounts to EUR 13,381 thousand (2015: EUR 13,488 thousand).

13 Other operating expenses

Other operating expenses mainly comprise the following items:

EUR 000	2016	2015
Expenses from market valuation of derivatives	- 545	- 74
Losses from currency translation	- 4,695	- 8,974
Other taxes	- 589	- 1,195
Services	- 9,591	- 12,783
Rental expense for premises	- 6,903	- 8,899
Legal, consulting, licensing and inventor fees	- 4,845	- 5,873
Travel and entertainment expenses	- 3,911	- 5,146
General transport costs	- 3,506	- 4,470
Other	-21,062	- 24,155
	- 55,647	**- 71,569**

14 Result from companies consolidated using the equity method

Income from companies consolidated using the equity method includes an amount of EUR 103 thousand from ZAVOD Goreltex and EUR 0 thousand from ESACO Pty. Ltd..

15 Investment result

There was investment income of EUR 25 thousand (2015: EUR 3 thousand) in the reporting period.

16 Interest result

The interest result comprises the following items:

EUR 000	2016	2015
Interest and similar income	260	280
Interest and similar expense	- 3,365	- 3,474
	- 3,105	**- 3,194**

The interest result includes the net interest portion from the allocation to pension provisions in the amount of EUR 2,115 thousand (2015: EUR 1,923 thousand).

17 → Income taxes

This item shows the following current and deferred tax assets and liabilities:

EUR 000	2016	2015
Current taxes	- 1,588	- 2,548
Deferred taxes	12	1,765
	- 1,576	**- 783**

For domestic Group companies, current taxes comprise corporation tax including the solidarity surcharge and trade tax, while for foreign Group companies it comprises comparable income-dependent taxes. Taxes are calculated according to the respective tax regulations of the various companies.

In the year under review, we claimed previously unused tax loss carryforwards resulting in tax credits of EUR 0 thousand (2015: EUR 9 thousand) that we netted against income tax liabilities.

Deferred taxes are calculated on the basis of applicable tax rates in effect or known to become effective in the respective countries at the time these taxes fall due. Following the 2008 Corporate Tax Reform Act, the German corporate tax rate is 15.0%. At an average corporate tax collection rate of 390.5% and a solidarity surcharge of 5.5%, the total tax rate for our domestic companies comes to 29.5% (2015: 29.0%). The tax rates for our foreign activities range from 0.0% to 34.0% (2015: 0.0% and 38.0%).

We have written down EUR 3,666 thousand (2015: EUR 3,491 thousand) for deferred tax assets on tax loss carryforwards because we do not exactly know the amounts to which they may be realized given the information available at this time. Total writedowns include EUR 3,363 thousand corporate tax (2015: EUR 3,062 thousand) and EUR 303 thousand trade tax (2015: EUR 429 thousand).

Cumulated corporate tax loss carryforwards as yet unused came to EUR 40,191 thousand (2015: EUR 36,925 thousand) while cumulated trade tax loss carryforwards as yet unused amounts to EUR 23,331 thousand (2015: EUR 22,820 thousand). The tax loss carryforwards are not limited in time. Tax loss carryforwards cannot be offset with taxable income of other Group companies.

There were no income tax consequences from the distribution of dividends to shareholders of R. STAHL AG in 2016, nor in 2015.

Both in the reporting period and the previous year, there were no deferred tax assets or deferred tax liabilities due to acquisitions carried without effect on profit or loss.

From the current perspective, the retained earnings of subsidiaries are mainly to be invested for an indefinite period. In accordance with IAS 12, no deferred tax liabilities are recognized for retained earnings of subsidiaries.

Accumulated deferred tax assets and liabilities as at 31 December 2016 were as follows:

EUR 000	31/12/2016	31/12/2015
Deferred tax assets, gross		
Tax loss carryforwards	11,240	10,286
Intangible assets	49	20
Property, plant & equipment	153	136
Other financial assets	1	6
Inventories	3,159	2,697
Receivables and other assets	218	172
Equity	128	128
Long-term interest-bearing financial debts	0	1
Other long-term liabilities	0	58
Long-term provisions	15,471	12,086
Short-term interest-bearing financial debts	0	1
Other short-term liabilities and debts	752	506
Short-term provisions	1,576	1,669
Net of value adjustments	- 3,666	- 3,491
Total deferred tax assets, gross	**29,081**	**24,275**
Less netting	- 8,367	- 7,004
Total deferred tax assets acc. to balance sheet	**20,714**	**17,271**

EUR 000	31/12/2016	31/12/2015
Deferred tax liabilities, gross		
Intangible assets	6,778	6,480
Property, plant & equipment	2,812	2,599
Other financial assets	220	201
Investment property	418	431
Inventories	247	8
Receivables and other assets	950	409
Prepaid expenses	0	197
Long-term provisions	178	4
Short-term interest-bearing financial debts	156	4
Other short-term liabilities and debts	71	56
Total deferred tax liabilities, gross	**11,830**	**10,389**
Less netting	- 8,367	- 7,004
Total deferred tax liabilities acc. to balance sheet	**3,463**	**3,385**
Net balance of deferred taxes	**17,251**	**13,886**

Deferred tax assets of EUR 20,714 thousand (2015: EUR 17,271 thousand) include EUR 17,898 thousand (2015: EUR 7,767 thousand) for companies with a negative result in the reporting period or in the previous year. The recognition of the respective deferred tax assets is based on the positive results of the five-year planning.

The following table shows the reconciliation of the expected tax expense for the respective fiscal year and the corresponding reported tax expense. The expected tax expense has been calculated by multiplying pre-tax earnings by the applicable total tax rate of 29.0% (2015: 29.0%). Pre-tax earnings amount to EUR 5,799 thousand (2015: EUR 717 thousand).

EUR 000	2016	2015
Expected tax expense	**- 1,682**	**- 208**
Taxation differences between domestic and foreign operations	671	756
Non-tax-deductible expenses	- 268	- 622
Tax-free income	-7	47
Changes in write-downs on deferred tax assets	- 175	- 1,079
Utilization of tax loss carryforwards	0	9
Taxes for prior years	- 23	187
Other	- 92	127
Actual tax expense	**- 1,576**	**- 783**
Tax expense shown in the consolidated income statement	- 1,576	- 783

A total of EUR 3,324 thousand of deferred taxes was recognized in the balance sheet increasing equity (2015: EUR 2,572 thousand decreasing equity), without influence on the income statement. Tax effects on income and expense recognized in other comprehensive income are as follows:

	2016			2015		
EUR 000	Earnings before income taxes	Income taxes	Earnings after income taxes	Earnings before income taxes	Income taxes	Earnings after income taxes
Currency translation differences	1,118	0	1,118	750	0	750
Cash flow hedges	- 37	13	- 24	452	- 126	326
Pension obligations	- 10,609	3,311	- 7,298	8,586	- 2,446	6,140
Income and expense recognized directly in equity	- 9,528	3,324	- 6,204	9,788	- 2,572	7,216

Deferred tax assets of EUR 0 thousand (2015: EUR 128 thousand) are recognized directly in equity.

18 Earnings per share

	2016	2015
Net profit for the year without non-controlling interests (in EUR 000)	4,136	- 113
Number of shares (weighted average)	6,440,000	6,440,000
Earnings per share in EUR	**0,64**	**- 0,02**

Undiluted or basic earnings per share are calculated according to IAS 33 by dividing consolidated earnings – excluding non-controlling interests – by the weighted average number of shares outstanding in the fiscal years.

Thus, so-called potential shares can dilute earnings per share. As we had no potential common shares and no options or subscription rights outstanding, we did not have to calculate diluted earnings per share for either 2015 or 2016.

19 Dividend of R. STAHL AG

Subject to the approval of the Supervisory Board, the Executive Board and Supervisory Board will propose a dividend of EUR 0.60 per dividend-bearing, no-par value share at the Annual General Meeting. The total dividend payment of EUR 3,864,000.00 will be distributed from the balance sheet profit of R. Stahl Aktiengesellschaft, Waldenburg, Germany, for the fiscal year 2016 amounting to EUR 8,931,926.74. The remaining balance sheet profit of EUR 5,067,926.74 is to be carried forward.

R. STAHL distributed an ordinary dividend of EUR 0.60 (2015: EUR 0.80) per dividend-entitled share to its shareholders in fiscal year 2016.

The dividend payout was made in accordance with the profit distribution resolution adopted under Agenda Item 2 of the Annual General Meeting of 3 June 2016. Legal challenges against this resolution have been filed at the District Court of Stuttgart and are still pending.

Legal challenges against the resolutions adopted under Agenda Items 2 to 5 of the Annual General Meeting of 3 June 2016 are still pending. After the Annual General Meeting rejected a corresponding proposed resolution as part of a request for supplements under Agenda Item 6, there is also a pending application at the District Court of Stuttgart for the court appointment of a special auditor for various topics.

NOTES TO THE CONSOLIDATED BALANCE SHEET

NON-CURRENT ASSETS

20 Intangible assets

As of 31 December 2016, the development was as follows:

EUR 000	Industrial property and similar rights	Goodwill	Development costs	Other	Total
Acquisition costs					
Balance on 01/01/2016	25,954	11,879	34,520	10,181	82,534
Currency differences	133	408	43	452	1,036
Additions	547	0	4,690	944	6,181
Disposals	- 2,336	0	- 228	- 424	- 2,988
Reclassifications	0	0	0	0	0
Balance on 31/12/2016	**24,298**	**12,287**	**39,025**	**11,153**	**86,763**
Accumulated amortization and impairment					
Balance on 01/01/2016	22,451	219	11,314	7,951	41,935
Currency differences	112	12	28	415	567
Additions	1,718	0	3,279	621	5,618
Disposals	- 1,550	0	- 203	- 1	- 1,754
Reclassifications	0	0	0	0	0
Balance on 31/12/2016	**22,731**	**231**	**14,418**	**8,986**	**46,366**
Carrying amounts Balance on 31/12/2016	**1,567**	**12,056**	**24,607**	**2,167**	**40,397**

As of 31 December 2015, the development was as follows:

EUR 000	Industrial property and similar rights	Goodwill	Development costs	Other	Total
Acquisition costs					
Balance on 01/01/2015	25,917	12,263	29,448	10,062	77,690
Currency differences	- 103	- 384	- 46	- 498	- 1,031
Additions	587	0	5,282	655	6,524
Disposals	- 447	0	0	- 202	- 649
Reclassifications	0	0	- 164	164	0
Balance on 31/12/2015	**25,954**	**11,879**	**34,520**	**10,181**	**82,534**
Accumulated amortization and impairment					
Balance on 01/01/2015	20,772	231	8,858	7,696	37,557
Currency differences	- 77	- 12	- 30	- 448	- 567
Additions	2,201	0	2,508	883	5,592
Disposals	- 445	0	0	- 202	- 647
Reclassifications	0	0	- 22	22	0
Balance on 31/12/2015	**22,451**	**219**	**11,314**	**7,951**	**41,935**
Carrying amounts Balance on 31/12/2015	**3,503**	**11,660**	**23,206**	**2,230**	**40,599**

The item Other includes prepayments of EUR 1.5 million (2015: EUR 0.9 million).

Intangible assets mainly comprise IT software, capitalized development costs for various R&D projects and goodwill. Impairment of goodwill is checked by calculating the realizable value of cash-generating units based on their value in use. This calculation uses cash flow projections based on management-approved, three-year financial plans. The cash flow projections are discounted at pre-tax interest rates of 7.69–11.82% (2015: 9.52–13.93%).

Goodwill of EUR 12.1 million (2015: EUR 11.7 million) was allocated to the following cash-generating units:

R. STAHL HMI Systems GmbH (Germany) EUR 4.6 million (2015: EUR 4.6 million), R. Stahl Schaltgeräte GmbH (Germany) EUR 1.1 million (2015: EUR 1.1 million), R. STAHL Nissl GmbH (Austria) EUR 0.5 million (2015: EUR 0.5 million), sub-group (Norway) EUR 4.4 million (2015: EUR 4.1 million), OOO R. Stahl (Russia) EUR 0.5 million (2015: EUR 0.4 million) and R. STAHL LTD. (Canada) EUR 1.0 million (2015: EUR 1.0 million).

Changes to goodwill are due exclusively to currency translation rates and especially result from the revaluation of the Norwegian krone on the balance sheet date.

Impairment tests according to the discounted cash flow method of the cash-generating units led to fair values above the carrying amounts. No amortization is thus required.

Cash flows after a period of three years are fixed for another two years. The cash flows are then extrapolated unaltered with a growth rate of 1%.

Planned sales revenues and gross profit margins: The average annual growth in external sales (compound annual growth rate) in the detailed planning period for the cash-generating units is between -7.9% and 32.8% (weighted 6.1%), depending on the market position and region. Gross profit margins are calculated as part of the bottom-up planning of Group companies using average gross profit margins achieved in the directly preceding year and are possibly raised under consideration of expected increases in efficiency.

Price increase in material and personnel costs: The forecast price indices are used to determine the price increase in material and personnel costs. Salary increases are considered for the respective planning period according to country.

Capital costs: Capital costs are calculated from the weighted average cost of equity and external capital before taxes. The beta factor for the calculation of equity costs is determined from capital market data and the capital structure of companies comparable to R. STAHL. Borrowing costs are calculated on the basis of quasi-safe government bonds and an additional mark-up, derived from the rating of comparable companies.

Sensitivity analyses showed that from the current perspective, there is no requirement for impairment of goodwill even if we assumed that planned EBIT as of plan year 2017 would fall by 10% or that capital costs would rise by another 0.5 percentage points. Changes outside this range are regarded as unlikely.

21 → Property, plant & equipment

As of 31 December 2016, the development was as follows:

EUR 000	Properties, property-like rights and buildings	Technical equipment and machinery	Other plant as well as operating and office equipment	Prepayments made and plant under construction	Total
Acquisition costs					
Balance on 01/01/2016	50,907	31,919	52,212	1,369	136,407
Currency differences	87	254	92	- 3	430
Additions	673	2,689	2,708	244	6,314
Disposals	- 3,055	- 555	- 3,224	- 125	- 6,959
Reclassifications	369	144	540	- 1,053	0
Balance on 31/12/2016	**48,981**	**34,451**	**52,328**	**432**	**136,192**
Accumulated amortization and impairment					
Balance on 01/01/2016	10,346	22,167	37,254	0	69,767
Currency differences	18	175	72	0	265
Additions	1,136	2,112	4,229	0	7,477
Disposals	- 265	- 459	- 2,964	0	- 3,688
Reclassifications	0	0	0	0	0
Balance on 31/12/2016	**11,235**	**23,995**	**38,591**	**0**	**73,821**
Carrying amounts Balance on 31/12/2016	**37,746**	**10,456**	**13,737**	**432**	**62,371**

As of 31 December 2015, the development was as follows:

EUR 000	Properties, property-like rights and buildings	Technical equipment and machinery	Other plant as well as operating and office equipment	Prepayments made and plant under construction	Total
Acquisition costs					
Balance on 01/01/2015	39,347	30,520	50,172	3,965	124,004
Currency differences	333	72	- 27	130	508
Additions	8,764	1,263	5,432	1,033	16,492
Disposals	- 82	- 628	- 3,544	- 343	- 4,597
Reclassifications	2,545	692	179	- 3,416	0
Balance on 31/12/2015	**50,907**	**31,919**	**52,212**	**1,369**	**136,407**
Accumulated amortization and impairment					
Balance on 01/01/2015	9,584	20,469	35,995	0	66,048
Currency differences	11	- 66	- 40	0	- 95
Additions	843	2,161	4,605	0	7,609
Disposals	- 63	- 559	- 3,173	0	- 3,795
Reclassifications	- 29	162	- 133	0	0
Balance on 31/12/2015	**10,346**	**22,167**	**37,254**	**0**	**69,767**
Carrying amounts Balance on 31/12/2015	**40,561**	**9,752**	**14,958**	**1,369**	**66,640**

With regard to property, plant & equipment, collateral has been provided for liabilities amounting to EUR 10,794 thousand (2015: EUR 11,050 thousand).

At the end of the reporting period, order commitments for property, plant & equipment amounted to EUR 974 thousand (2015: EUR 2,336 thousand).

22 Other non-current assets

Shares in associated companies

In 2016, R. STAHL AG acquired a 25% stake in the Russian company ZAVOD Goreltex and a 35% stake in the South African company ESACO Pty. Ltd.. Of the total additions of EUR 6,994 thousand, ZAVOD Goreltex accounted for EUR 6,311 thousand and ESACO Pty. Ltd. for EUR 683 thousand.

Other financial assets

Other financial assets totalling EUR 110 thousand (2015: EUR 124 thousand) comprise other equity interests and securities, and in the previous year also included other loans.

Other non-current assets

Other non-current assets comprise receivables and other assets as well as deferred items totalling EUR 1,293 thousand (2015: EUR 1,321 thousand). Total other non-current assets comprise a restricted amount of EUR 1,098 thousand (2015: EUR 976 thousand) which serves as collateral for obligations arising from partial retirement contracts.

Real estate held as a financial investment

Real estate held as a financial investment refers to two properties with buildings and improvements.

As of 31 December 2016, the development was as follows:

EUR 000	Total
Acquisition costs	
Balance on 01/01/2016	13,928
Additions	0
Disposals	0
Reclassifications	0
Balance on 31/12/2016	**13,928**
Accumulated amortization and impairment	
Balance on 01/01/2016	5,976
Additions	286
Disposals	0
Write-ups	0
Balance on 31/12/2016	**6,262**
Carrying amounts Balance on 31/12/2016	**7,666**

As of 31 December 2015, the development was as follows:

EUR 000	Total
Acquisition costs	
Balance on 01/01/2015	13,928
Additions	0
Disposals	0
Reclassifications	0
Balance on 31/12/2015	**13,928**
Accumulated amortization and impairment	
Balance on 01/01/2015	5,689
Additions	287
Disposals	0
Write-ups	0
Balance on 31/12/2015	**5,976**
Carrying amounts Balance on 31/12/2015	**7,952**

The R. STAHL Group differentiates between real estate used by third parties and property it uses mostly itself. Real estate is used overwhelmingly by third parties if it is rented in excess of 90% by non-Group companies.

After selling the Material Handling division in 2005, these buildings were let to the buyer. Since self-use ceased to apply after the divestment, the properties were reclassified from non-current assets to Real estate held as a financial investment.

The R. STAHL Group measures this real estate held as a financial investment using the acquisition cost model.

The buildings and improvements are depreciated in scheduled amounts over economic useful lives for buildings of 33 and 50 years using the straight-line method.

The fair value of real estate amounted to EUR 11.1 million as of 31 December 2016 (2015: EUR 11.1 million) and is allocated to the fair value hierarchy Level 3. An external assessor was used to determine values at the end of the reporting period. The value for the previous year was determined in October 2014 on the basis of discounted cash flow calculations. Fair value amounts were determined using the capitalized earnings of real estate based on standard market rents. Furthermore, adequate management costs (loss of rent risk, maintenance and administrative costs) and other value-influencing factors were considered. Property yields of 7.0% and 7.5% as well as an adequate remaining life expectancy were used for the calculation.

Rental income from "Real estate held as a financial investment" recognized in the income statement amounts to EUR 1,296 thousand (2015: EUR 1,296 thousand). Expenses directly allocable to these properties of EUR 581 thousand (2015: EUR 657 thousand) were incurred. Rental income in 2017 is expected to amount to EUR 1,263 thousand.

CURRENT ASSETS

23 → Inventories and prepayments made

Inventories comprise the following:

EUR 000	31/12/2016	31/12/2015
Raw materials and supplies	21,419	21,541
Unfinished goods and unfinished services	9,452	14,004
Finished goods and merchandise	19,729	21,483
Prepayments made	283	239
	50,883	**57,267**

In the reporting period, scheduled inventory impairments for slow-moving products of EUR 12,229 thousand (2015: EUR 11,195 thousand) were made, of which EUR 1,034 thousand was recognized in the income statement in the current period.

With regard to inventories, collateral of EUR 6,740 thousand (2015: EUR 6,182 thousand) has been provided for liabilities.

24 Receivables and other assets

Receivables and other assets consist of the following items:

EUR 000	31/12/2016 Total	31/12/2016 Thereof due within one year	31/12/2015 Total	31/12/2015 Thereof due within one year
Trade receivables	60,190	60,190	60,364	60,364
Income tax claims	3,084	3,084	1,618	1,618
Other receivables	7,144	5,864	5,526	4,218
Other financial assets	479	479	852	852
	70,897	**69,617**	**68,360**	**67,052**

Of the capitalized total, EUR 69,617 thousand (2015: EUR 67,052 thousand) is due within one year, the remainder totalling EUR 1,280 thousand (2015: EUR 1,308 thousand) is disclosed under other non-current assets. In the previous year, other receivables included tax prepayments of EUR 895 thousand.

Bad debt allowances of EUR 2,911 thousand (2015: EUR 4,111 thousand) were recognized on trade receivables.

Other current financial assets include derivative financial instruments of EUR 339 thousand (2015: EUR 376 thousand).

At the end of 2016, the Company entered into a factoring agreement according to which the factoring company is obliged to purchase trade receivables with a monthly revolving nominal volume of EUR 25 million for receivables denominated in euro and EUR 5 million for receivables denominated in USD or GBP. The agreement can be terminated by both contractual partners with a notice period of six months for the first time on 30 November 2019. Thereafter, termination is only possible on 30 November of each year with a six-month notice period. The relevant risk for risk assessment with regard to receivables sold is mainly the credit risk. The maximum loss is limited to the variable purchase price discount or security retention, which is retained by the factoring company when the receivables are sold and is reimbursed in the amount of the non-consumed proportion. The remaining credit risk-related payment defaults represent the majority of all risks and opportunities associated with the receivables and are borne by the factoring company. The maximum loss risk for R. STAHL from the receivables sold on

31 December 2016 (nominal value EUR 5,995 thousand) amounts to EUR 1,495 thousand. The fair value of the expected reimbursement of the variable purchase price discount was capitalized in other receivables and other assets during the derecognition period. As of 31 December 2016, the carrying and fair value of the Company's entire ongoing factoring activities amounted to EUR 1,495 thousand. The residual maturity of the corresponding other receivables and other assets is less than one year.

25 → Prepaid expenses

Of total prepaid expenses, EUR 2,300 thousand (2015: EUR 2,217 thousand) are due within one year; EUR 13 thousand (2015: EUR 13 thousand) qualify as long-term and are disclosed under other non-current assets.

26 → Cash and cash equivalents

Cash and cash equivalents changed year-on-year as follows:

EUR 000	31/12/2016	31/12/2015
Cash on hand	31	44
Cheques	86	33
Credit balances with banks, payable on demand	15,876	18,097
Credit balances with banks, originally payable at 3 months' notice	175	169
	16,168	**18,343**

27 → Equity

The consolidated statement of changes in equity shows the development of the R. STAHL Group's consolidated equity.

Subscribed capital

The Company's subscribed capital remained unchanged from last year at EUR 16,500,000.00 divided into 6,440,000 no-par shares with a notional share capital interest of EUR 2.56 per share. The shares are fully paid.

The Annual General Meeting of R. STAHL AG resolved on 25 May 2012 to convert the individual share certificates, payable to bearer, to registered shares in a ratio of 1:1 and also resolved to amend the company's Articles of Association accordingly.

Capital reserves

This item mostly comprises shareholders' paid-up premiums net of transaction costs incurred. R. STAHL AG's consolidated financial statements under German Commercial Code (HGB) rules still openly netted goodwill from capital consolidations against capital reserves until 31 December 2003. When a subsequent write-back of capital reserves rendered the offsetting impossible, the respective amount was netted against profit carryforwards. For all differences that arose from business combinations prior to the opening IFRS balance sheet date on 1 January 2004, HGB accounting was maintained. In connection with the sale of all treasury shares, an amount of EUR 12,963 thousand was credited to capital reserves in fiscal year 2015. Transaction costs of EUR 440 thousand recognized directly in equity and deferred taxes of EUR 128 thousand were already deducted from the amount of EUR 12,963 thousand.

Revenue reserves

Revenue reserves comprise the retained earnings of consolidated companies from before 1 January 2004, insofar as they were not used for dividend payments. Moreover, value differences from all business combinations made prior to 1 January 2004 were offset against revenue reserves. From preparation of the opening IFRS balance sheet, the item also includes negative differences from business combinations (formerly shown as a separate item under equity in the HGB financial statements up to 31 December 2003) and currency translation differences reclassified as of 1 January 2004. Furthermore, the item includes all remaining adjustments without impact on profit or loss recognized in the opening IFRS balance sheet on initial adoption of IFRS as of 1 January 2004 as well as equity generated since 1 January 2004 less dividends to shareholders.

The shareholders have a claim to the balance sheet profit of R. STAHL AG unless such distribution to shareholders is excluded by law or the company's articles, by a resolution adopted by the Annual General Meeting or due to transfer to revenue reserves.

Accumulated other comprehensive income

This position comprises differences from currency translation of the financial statements of foreign subsidiaries from 1 January 2004 forward, changes in unrealized gains and losses from cash flow hedges, as well as actuarial gains/losses from pension obligations. For detailed information, please refer to the consolidated statement of changes in equity.

Non-controlling interests

Non-controlling interests relate to OOO R. Stahl, Moscow (Russia).

Additional disclosures on capital management

The R. STAHL Group's capital management aims to ensure the company's continued existence, realize an adequate return on equity and maintain an acceptable capital structure.

The capital structure may change as a result of dividend distributions, the purchase of treasury shares, the issue of new shares, and the borrowing or repayment of debt, depending on requirements.

These objectives are monitored with the aid of key performance indicators (KPIs), such as the return on sales and equity ratio.

The pre-tax operating return on sales amounted to 2.0% (2015: 0.2%).

Equity net of non-controlling interests and interest-bearing debt changed from the previous year as follows:

EUR 000	31/12/2016	31/12/2015
Equity net of non-controlling interests	**94,531**	**100,732**
Long-term interest-bearing loans	10,370	19,238
Short-term interest-bearing loans	27,616	16,501
Interest-bearing debt	**37,986**	**35,739**
Total capital	**132,517**	**136,471**
Equity ratio for capital management (in %)	**71.3**	**73.8**

At the end of the reporting period 2016, the equity ratio for capital management decreased to 71.3%. The rise in pension provisions played a major role in the decrease in equity of EUR 6,201 thousand. Long-term loans fell by EUR 8,868 thousand while short-term loans rose by EUR 11,115 thousand.

PROVISIONS

28 Pension provisions

Provisions for pensions and similar obligations include the following items:

EUR 000	31/12/2016	31/12/2015
Long-term pension provisions	96,683	85,692
Short-term pension provisions	3,114	2,968
	99,797	**88,660**

Pension provisions are accrued for obligations from pension commitments (unit credits) and on-going payments to entitled current and former employees of R. STAHL Group companies and their survivors. Depending on legal, economic and tax regulations of the respective countries, pension plans take different forms that are typically based on service duration and remuneration of the respective individuals.

Company pension schemes distinguish between defined benefit and defined contribution plans.

In the case of defined contribution plans, the respective company does not commit to any further obligations beyond making contributions to a special-purpose fund. In the reporting period, employer pension contributions for domestic employees amounted to around EUR 5.2 million (2015: EUR 5.5 million). In addition, the company concluded individual defined contribution plans. The annual contribution amounted to EUR 261 thousand in 2016 (2015: EUR 235 thousand).

For defined benefit pension plans, the company is obliged to make payments to current and former employees as agreed. Such pension plans may be financed via provisions or funds.

The R. STAHL Group mostly finances its pension commitments by forming corresponding provisions. In Germany, there are defined benefit pension schemes for the Executive Board, management and employees. There are individual contractual arrangements concerning pension, disability and widow's, widower's and orphan's pensions for (former) Executive Board members and (former) executives. Pension schemes for entitled employees provide for the granting of old-age and disability pensions, as well as widow's, widower's and orphan's pensions, after a certain vesting period. The pension amount depends on the respective salary and service years.

In Norway and Switzerland, there are pension obligations for employees and managers that are financed by employee and employer contributions to pension funds. The contributions depend on salary and age.

We calculated our 2016 pension obligations based on the 2005 G actuarial tables of Prof. Dr. Klaus Heubeck. The pension obligation amount (defined benefit obligation = DBO) was determined using actuarial methods including estimates for relevant impact factors. In addition to life expectancy assumptions, the following actuarial projections were also made:

	Germany		Abroad	
%	**2016**	**2015**	**2016**	**2015**
Interest rate	1.72	2.42	0.60 – 2.60	1.00 – 2.70
Salary trend	3.00	3.00	1.50 – 2.50	1.50 – 2.50
Pension trend	1.75	1.75	0.00	0.00

The salary trend encompasses anticipated future salary increases that are estimated on an annual basis depending on inflation and service duration.

Increases and decreases in the present value of defined benefit obligations can result in actuarial gains or losses due to, amongst other factors, changes in calculation parameters and estimates of the pension obligations' risk development. These are recognized in equity in the period of their creation after consideration of deferred taxes.

Sensitivity analyses

Changes of 0.25 percentage points to the above mentioned assumptions used to calculate the DBO as at 31 December 2016 would increase or decrease the DBO as follows:

EUR 000	Increase	Decrease
Interest rate	- 4,523	+ 4,838
Salary trend	+ 1,243	- 1,188
Pension trend	+ 3,419	- 3,125

To determine the sensitivity of longevity, it was assumed that the life expectancy for all beneficiaries increased by one year. The DBO as at 31 December 2016 would increase by EUR 4,665 thousand with a life expectancy of one more year.

Changes of 0.25 percentage points to the above mentioned assumptions used to calculate the DBO as at 31 December 2015 would increase or decrease the DBO as follows:

EUR 000	Increase	Decrease
Interest rate	- 3,860	+ 4,120
Salary trend	+ 801	- 1,427
Pension trend	+ 2,916	- 2,638

To determine the sensitivity of longevity, it was assumed that the life expectancy for all beneficiaries increased by one year. The DBO as at 31 December 2015 would increase by EUR 3,903 thousand with a life expectancy of one more year.

Sensitivity analyses consider changes to one assumption, whereby all other assumptions remain unchanged from their original calculation.

The following defined benefit pension plans are recognized in the balance sheet:

EUR 000	31/12/2016	31/12/2015
Present values of fund-financed pension claims	8,574	8,414
Fund assets at market values	- 7,687	- 7,430
Financial status (net)	**887**	**984**
Present values of provision-based pension claims	98,910	87,676
Balance sheet value as at 31/12	**99,797**	**88,660**

Of total pension provisions amounting to EUR 99,797 thousand (2015: EUR 88,660 thousand), domestic group companies account for EUR 98,910 thousand (2015: EUR 87,676 thousand). Foreign companies account for fund assets of EUR 7,687 thousand (2015: EUR 7,430 thousand).

The projected benefit obligations developed as follows:

EUR 000		2016	2015
Projected benefit obligations on 01/01		**96,090**	**103,207**
+	Current service cost	+ 1,853	+ 2,369
+	Interest expense	+ 2,269	+ 2,059
+/-	Actuarial gains (-) and losses (+) from changes in demographic assumptions	- 10	+ 150
+/-	Actuarial gains (-) and losses (+) from changes in financial assumptions	+ 11,115	- 7,197
+/-	Actuarial gains (-) and losses (+) from changes based on experience adjustments	- 747	- 1,608
-	Benefits paid	- 2,815	- 2,827
+/-	Past service cost	0	- 29
+/-	Changes in exchange rate	+ 371	- 234
+/-	Other	- 642	+ 200
=	**Projected benefit obligations on 31/12**	**107,484**	**96,090**

Due to a change in Norwegian law, there was a decline in projected benefit obligations in Norway. The effect totalling EUR 597 thousand is disclosed in "Other".

The present value of defined benefit pension obligations is divided between the following members of the plan:

EUR 000	2016	2015
Beneficiaries in active employment	54,928	49,890
Beneficiaries no longer with the company	5,387	4,270
Pensioners	47,169	41,930
Projected benefit obligations on 31/12	**107,484**	**96,090**

The defined benefit pension obligations have the following maturities:

EUR 000	
Due in fiscal year 2017	3,114
Due in fiscal years 2018 – 2021	13,315
Due in fiscal years 2022 – 2026	18,573

From the current perspective, the average weighted term over which the defined benefit pension obligation will exist amounts to 18 years for the R. STAHL Group.

The defined benefit pension obligations have the following maturities:

EUR 000	
Due in fiscal year 2016	2,968
Due in fiscal years 2017 – 2020	12,958
Due in fiscal years 2021 – 2025	18,275

From the current perspective, the average weighted term over which the defined benefit pension obligation will exist amounted to 18 years for the R. STAHL Group in the previous year.

Reconciliation to the fair value of fund assets was as follows:

EUR 000		2016	2015
Fund assets on 01/01		**7,430**	**6,669**
+	Expected income from fund assets	154	136
+	Employer's pension contributions	402	719
+	Employee's pension contributions	50	54
-	Administrative expenses	0	0
+/-	Pension payments made and refunds	- 52	+ 135
-	Income from fund assets without interest	- 38	- 9
+/-	Other	- 602	- 16
+/-	Foreign exchange rate changes	+ 343	- 258
=	**Fund assets on 31/12**	**7,687**	**7,430**

Expected income from fund assets is considered when calculating the fair value of fund assets as at the balance sheet date. This expected income is based on historic and future average earnings expectations of the respective investment categories. In the following fiscal year, employer contributions to fund assets of EUR 456 thousand (2015: EUR 607 thousand) are expected.

Due to a change in Norwegian law, there was a decline in fund assets in Norway. The effect totalling EUR -558 thousand is disclosed in "Other".

The breakdown of fund assets according to categories is as follows:

EUR 000	31/12/2016	31/12/2015
Quoted market price in an active market		
Shares	492	361
Fixed interest-bearing securities	0	0
Real estate	436	811
Investment fund	4,888	4,482
Other	74	195
Total quoted market price in an active market	**5,890**	**5,849**
No quoted market price in an active market		
Shares	0	0
Fixed interest-bearing securities	0	0
Real estate	0	0
Investment fund	0	0
Other	1,797	1,581
Total no quoted market price in an active market	**1,797**	**1,581**
Total	**7,687**	**7,430**

The item “Other” includes an investment of R. STAHL Schweiz AG in a collective pension institution.

In the reporting period, the following balance resulted from amounts recognized in profit or loss for pension obligations:

EUR 000		2016	2015
Current service cost		1,853	2,369
+/-	Past service cost	0	- 29
+	Net interest expense	2,115	1,923
+/-	Other amounts	- 250	- 33
=	**Balance of amounts recognized in profit or loss for pension obligations**	**3,718**	**4,230**

Net interest expense consists of the interest expense from the defined benefit obligation and the expected income from plan assets.

In the reporting period, the following balance resulted from amounts recognized in equity for pension obligations:

EUR 000		2016	2015
+/-	Actuarial gains (-) and losses (+) from changing demographic assumptions	- 10	+ 150
+/-	Actuarial gains (-) and losses (+) from changing financial assumptions	+ 11,115	- 7,197
+/-	Actuarial gains (-) and losses (+) from changes based on experience adjustments	- 747	- 1,608
+	Income from plan assets without interest	210	9
+/-	Other	+ 41	+ 60
=	**Balance of amounts recognized in equity for pension obligations**	**+ 10,609**	**- 8,586**

Pension provisions have changed as follows:

EUR 000		2016	2015
Pension provisions as of 01/01		**88,660**	**96,538**
+/-	Amounts recognized in profit or loss for pension obligations	+ 3,718	+ 4,230
+/-	Amounts recognized in equity for pension obligations	+ 10,609	- 8,586
-	Pension payments made	- 2,815	- 2,827
-	Employer contributions	- 402	- 719
+/-	Currency changes	+ 27	+ 24
=	**Pension provisions as of 31/12**	**99,797**	**88,660**

The risks associated with defined benefit pension obligations refer firstly to the actuarial risks, such as longevity, and secondly to the financial risks, such as market price risks which influence the interest rate used. There are also inflation risks which may impact the salary or pension trend. We do not intend to hedge these risks.

29 → Other provisions

Other provisions comprise the following items:

EUR 000	31/12/2016 Total	31/12/2016 Thereof due within one year	31/12/2015 Total	31/12/2015 Thereof due within one year
Personnel provisions	2,728	802	2,670	946
Warranty obligations	1,364	1,364	1,145	1,145
Other provisions	1,018	1,018	2,113	2,113
	5,110	**3,184**	**5,928**	**4,204**

Of the total amount expensed, EUR 3,184 thousand (2015: EUR 4,204 thousand) is due within one year. The remainder of EUR 1,926 thousand (2015: EUR 1,724 thousand) pertains to personnel provisions (partial retirement and anniversary obligations) and is recognized in non-current debt as Other long-term provisions.

Short-term provisions disclosed in the balance sheet comprise the following items:

EUR 000	31/12/2016	31/12/2015
Short-term pension provisions	3,114	2,968
Other short-term provisions	3,184	4,204
	6,298	**7,172**

Other short- and long-term provisions developed as follows:

EUR 000	01/01/2016	Currency change	Addition	Usage	Reversal	31/12/2016
Personnel provisions	2,670	+ 5	+ 1,013	- 863	- 97	2,728
Warranty obligations	1,145	0	+ 1,171	- 463	- 489	1,364
Other	2,113	+ 8	+ 859	- 1,075	- 887	1,018
Total	**5,928**	**+ 13**	**+ 3,043**	**- 2,401**	**- 1,473**	**5,110**

EUR 000	01/01/2015	Currency change	Addition	Usage	Reversal	31/12/2015
Personnel provisions	2,409	+ 7	+ 900	- 637	- 9	2,670
Warranty obligations	1,277	0	+ 521	- 596	- 57	1,145
Other	1,201	+ 74	+ 1,755	- 773	- 144	2,113
Total	**4,887**	**+ 81**	**+ 3,176**	**- 2,006**	**- 210**	**5,928**

LIABILITIES

30 Interest-bearing financial liabilities

Interest-bearing financial liabilities include amounts due to banks of EUR 37,986 thousand (2015: EUR 35,739 thousand).

Of the expensed total, EUR 27,616 thousand (2015: EUR 16,501 thousand) is due within one year and the remaining EUR 10,370 thousand (2015: EUR 19,238 thousand) is disclosed as "Interest-bearing loans" under non-current liabilities.

As at 31 December 2016, interest-bearing liabilities had the following maturities:

EUR 000	31/12/2016	31/12/2015
Maturities of interest-bearing liabilities		
Up to one year	27,616	16,501
One to five years	6,607	14,131
More than five years	3,763	5,107
Short- and long-term interest-bearing liabilities	**37,986**	**35,739**

Liabilities to banks with residual maturities of more than one year amount to EUR 10,370 thousand (2015: EUR 19,238 thousand) and pertain to six loans (2015: eight) with the following features:

	31/12/2016 EUR 000	31/12/2015 EUR 000	Maturity	Interest rate %
Loan 1	250	750	01/04/2018	3.40
Loan 2	0	5,000	30/10/2017	2.90
Loan 3	0	1,250	30/11/2017	2.45
Loan 4	700	1,100	01/07/2019	2.00
Loan 5	281	656	30/09/2018	1.95
Loan 6	977	1,156	30/06/2023	2.00
Loan 7	4,081	4,663	30/12/2024	1.25
Loan 8	4,081	4,663	30/12/2024	1.25
	10,370	**19,238**		

31 → Other liabilities

The other liabilities position comprises the following items:

EUR 000	31/12/2016 Total	31/12/2016 Thereof due within one year	31/12/2015 Total	31/12/2015 Thereof due within one year
Prepayments received	2,514	2,514	6,931	6,931
Trade payables	13,403	13,403	14,884	14,884
Income tax liabilities	1,159	1,159	1,088	1,088
Other liabilities	7,941	7,487	6,872	6,403
Deferred liabilities	11,609	11,609	13,959	13,959
Other financial liabilities	869	869	325	313
	37,495	**37,041**	**44,059**	**43,578**

Of the expensed total, EUR 37,041 thousand (2015: EUR 43,578 thousand) is due within one year and the remaining EUR 454 thousand (2015: EUR 481 thousand) is disclosed under "Other non-current liabilities".

On 31 December 2016, non-current other financial liabilities comprise market values of derivative financial instruments amounting to EUR 0 thousand (2015: EUR 12 thousand).

On 31 December 2016, current other financial liabilities contain market values of derivative financial instruments amounting to EUR 840 thousand (2015: EUR 284 thousand).

Deferred liabilities break down as follows:

EUR 000	31/12/2016 Total	31/12/2016 Thereof due within one year	31/12/2015 Total	31/12/2015 Thereof due within one year
Employer's liability insurance premiums	496	496	587	587
Bonuses	4,437	4,437	3,456	3,456
Holiday entitlement	1,737	1,737	2,381	2,381
Time unit credits	1,432	1,432	1,332	1,332
Missing supplier invoices	1,138	1,138	1,125	1,125
Other deferred liabilities	2,369	2,369	5,078	5,078
	11,609	**11,609**	**13,959**	**13,959**

32 Contingent liabilities and other financial obligations

Contingent liabilities

No provisions were formed for the following contingent liabilities stated at nominal value as the probability of their occurrence is regarded as low:

EUR 000	31/12/2016	31/12/2015
Sureties	1,609	2,246
Guarantees	609	681
Other obligations	1,284	606
	3,502	**3,533**

Other financial obligations

In addition to liabilities, provisions and contingent liabilities, there are also “Other financial obligations” pertaining especially to rental and lease agreements for land, buildings, and other tangible assets. The respective contractual rental and leasing obligations have the following terms:

EUR 000	31/12/2016	31/12/2015
Up to one year	6,748	6,370
More than one up to five years	19,405	19,433
More than five years	6,031	9,729
	32,184	**35,532**

In the reporting period, expenses for renting business premises as well as for office and operating equipment disclosed in the income statement amounted to EUR 9,458 thousand (2015: EUR 11,250 thousand).

33 Derivative financial instruments

As a global player, the R. STAHL Group conducts its business transactions in a number of foreign currencies. The R. STAHL Group strives to limit the foreign exchange risk inherent in the underlying transactions. To hedge foreign exchange risk from bank account balances, receivables, liabilities, debt, pending transactions, and anticipated transactions, we use derivative financial instruments. We only use derivative financial instruments to hedge underlying existing, pending, and planned transactions.

Currency risks are mainly due to exchange rate fluctuations of the Australian dollar, the British pound, the Canadian dollar, the Norwegian krone, the Russian rouble, the Swedish krona, the Swiss franc and the US dollar, for bank balances, receivables, liabilities, and debts as well as from pending transactions and anticipated cash flows.

To hedge currency risks, derivative financial instruments for the currencies Australian dollar, British pound, Canadian dollar, Norwegian krone, Russian rouble, Swedish krona, Swiss franc and US dollar were held in the form of forward foreign exchange contracts on 31 December 2016.

The maturities of these currency derivatives are usually pegged to cash flows in the respective current and subsequent fiscal years. If necessary, they can be prolonged correspondingly to ensure the best possible coverage of forecast cash flows until their actual occurrence.

The R. STAHL Group borrows capital to finance investments and to cover short-term liquidity requirements. The objective is to limit the interest payable for these loans. For the limitation and hedging of risks arising from fluctuations in general market interest rates, the Group principally uses derivative financial instruments. We only use derivative financial instruments to hedge existing borrowing.

Interest-rate risks mainly result from varying market interest rates.

For the interest-rate risks, one payer swap for fixing interest expenses on existing borrowing was held as of 31 December 2016.

Conditions, the persons responsible, financial reporting, and control mechanisms for financial instruments are defined uniformly throughout the Group. Part of this is a clear separation of functions between trade and settlement.

R. STAHL AG and R. Stahl Schaltgeräte GmbH in particular enter into the respective contracts with banks of outstanding credit rating.

If the prerequisites for hedge accounting according to IAS 39 are fulfilled, changes in the fair value of derivative financial instruments, deemed effective, are initially recognized directly in equity, taking deferred taxes into account. Otherwise, changes in the market value of derivative financial instruments in the reporting period are recognized in the income statement.

Derivative financial instruments are fully recognized as assets or liabilities under "Other financial assets" or "Other financial liabilities" at their corresponding market values.

We held the following derivative financial instruments at the end of the reporting period:

	Nominal volume		Market value	
EUR 000	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Positive fair values				
Currency derivatives, qualified as cash flow hedges	3,786	1,987	206	85
Currency derivatives without hedging relationship	7,625	4,976	133	291
	11,411	**6,963**	**339**	**376**
Negative fair values				
Currency derivatives, qualified as cash flow hedges	3,991	1,274	- 206	- 65
Currency derivatives without hedging relationship	12,099	6,363	- 627	- 168
Interest derivatives, qualified as cash flow hedges	750	3,000	- 7	- 63
	16,840	**10,637**	**- 840**	**- 296**

Market values correspond to fictitious gains and losses if the derivative financial instrument positions had been closed out on the balance sheet date. The fair values have been calculated using standard valuation models.

R. STAHL AG concludes derivative transactions in accordance with the German Master Agreement for Financial Futures. However, these agreements do not meet the criteria for offsetting in the consolidated balance sheet pursuant to IAS 32.42, as it only grants the right to offset in the case of future events, such as the failure or insolvency of R. STAHL AG or the counterparties.

The following table sets out the carrying amounts of the recognized derivative financial instruments which are subject to the described agreement and shows the potential financial impact of offsetting in accordance with the existing global netting agreements:

31/12/2016 EUR 000	Gross and net amounts of financial instruments in the consolidated balance sheet	Amounts from global netting agreements	Net amounts
Other financial assets (derivatives)	339	- 171	168
Other financial liabilities (derivatives)	840	- 171	669
31/12/2015			
Other financial assets (derivatives)	376	- 32	344
Other financial liabilities (derivatives)	296	- 32	264

34 Management of financial risks

Principles of risk management

The R. STAHL Group's assets, liabilities and planned transactions are subject to exchange rate and interest rate risks as well as default and liquidity risks.

The aim of risk management is to limit these risks by means of ongoing operating and finance-oriented activities.

Depending on the assessment of the respective risk, derivative financial instruments are used to hedge existing underlying transactions, pending transactions, or planned transactions.

Risk categories according to IFRS 7

Default risk (credit risk)
The operating activities of the R. STAHL Group are subject to the risk of debtor default.

Outstanding accounts from operating activities are constantly monitored on a local basis. Specific valuation allowances are recognized to take account of the default risk.

The maximum default risk is mostly defined by the carrying values of financial assets as recognized in the balance sheet, including derivative financial instruments with positive market values.

At the end of the reporting period, there were no material agreements (e.g. offsetting agreements) that would lower the maximum default risk.

The following table illustrates the credit quality of financial assets:

EUR 000	**Gross carrying amount 31/12/2016**	Neither overdue nor value-adjusted	Overdue but not value-adjusted	Value adjustments
Trade receivables	63,101	31,167	29,023	2,911
	(64,475)	(40,681)	(19,683)	(4,111)

The figures in brackets represent the 2015 values.

The R. STAHL Group regularly monitors its trading partners and debtors. All receivables that are neither overdue nor value-adjusted are allocable to customers with good credit ratings.

The following table provides a maturity analysis of gross carrying amounts for financial assets that are overdue but not value-adjusted:

EUR 000	Overdue but not value-adjusted 31/12/2016	Up to 30 days overdue	30 to 90 days overdue	More than 90 days overdue
Trade receivables	29,023	10,355	10,735	7,933
	(19,683)	(9,075)	(6,890)	(3,718)

The figures in brackets represent the 2015 values.

The majority of financial assets that are overdue but have not been value-adjusted have been overdue for a short time – mostly as a result of customers' invoice processing and payment procedures. It was necessary to change contract terms to avoid financial instruments falling overdue.

Allowances for trade receivables developed as follows:

EUR 000	2016	2015
As at 1 January	**4,111**	**3,622**
Currency differences	130	- 204
Utilization	- 620	- 567
Reversal	- 1,952	- 735
Addition	+ 1,242	+ 1,995
As at 31 December	**2,911**	**4,111**

Liquidity risk

To ensure that the R. STAHL Group is always able to pay its bills and has the necessary financial flexibility for business operations, liquidity planning is regularly prepared to reflect liquidity in- and outflows.

The following table provides a breakdown of financial liabilities (undiscounted cash flows) with residual contract maturities:

EUR 000	**Carrying amount 31/12/2016**	Cash flows 2017	Cash flows 2018 – 2021	Cash flows as of 2022
(previous year values)	(31/12/2015)	(2016)	(2017 – 2020)	(as of 2021)
Interest-bearing loans	37,986	28,650	6,971	3,839
	(35,739)	(17,735)	(14,746)	(5,243)
Trade liabilities	13,403	13,403	0	0
	(14,884)	(14,884)	(0)	(0)
Derivative financial instruments				
Forward exchange transactions				
– without hedging relationship	627	627	0	0
	(168)	(168)	(0)	(0)
– with hedging relationship	206	206	0	0
	(65)	(65)	(0)	(0)
Interest derivatives				
– with hedging relationship	7	2	0	0
	(63)	(20)	(2)	(0)
	52,229	**42,888**	**6,971**	**3,839**
	(50,919)	**(32,872)**	**(14,748)**	**(5,243)**

The figures in brackets represent the values as at 31 December 2015.

The liquidity risk can be rated as being rather low. In September 2015, R. STAHL AG signed a syndicated loan agreement to finance the Group's activities. The banking consortium consists of Deutsche Bank, HSBC Trinkaus & Burkhardt, Baden-Württembergische Bank and Commerzbank. The contract comprises a cash credit line of EUR 80 million and a guarantee line of EUR 15 million. The total volume of the syndicated loan agreement is thus EUR 95 million with an expansion option of EUR 25 million. The term is five years.

The syndicated loan agreement contains standard provisions regarding the maintenance of the Group's financial strength (financial covenants). Non-compliance with these covenants would result in premature termination. There are no visible risks arising from infringements of the financial covenants. The syndicated loan strengthens the company's scope for investments and acquisitions. In addition to the syndicated loan finance, R. STAHL has two bilateral credit lines with a total volume of EUR 7.0 million. The agreements were made with terms until the end of June 2017 (EUR 2.0 million) and the end of September 2018 (EUR 5.0 million).

Market price risks

The R. STAHL Group is subject to market price risks in the form of currency risks, interest rate risks, and other price risks.

Currency risks

The R. STAHL Group's exposure to currency risks primarily arises from operating activities. We hedge foreign exchange rate risks if these materially impact Group cash flows.

Our foreign exchange rate risks in operating activities mainly stem from forecast transactions denominated in currencies other than the group's functional currency. Such forecast transactions in particular pertain to sales revenues denominated in Australian dollar, the British pound, the Canadian dollar, the Norwegian krone, the Russian rouble, the Swedish krona, the Swiss franc and the US dollar.

The R. STAHL Group principally uses foreign exchange futures to hedge foreign exchange rate risks.

Interest-rate risks

The R. STAHL Group has a solid financing structure. Negative effects from varying interest rates are minor risks for the R. STAHL Group. Nevertheless, the Group safeguards against existing interest-rate risks with one interest rate swap.

Price risks

IFRS 7 requires disclosures on the effects of hypothetical changes in other price risk variables for financial instruments in the presentation of market price risks. The main risk variables in this regard are stock market prices and indices.

As at 31 December 2016 and 31 December 2015, the R. STAHL Group had no material financial instruments in its portfolio that are subject to other price risks.

Sensitivity analyses

Pursuant to IFRS 7, the R. STAHL Group prepares sensitivity analyses for market price risks to determine the effects on earnings and equity of hypothetical changes in relevant risk variables. We determine periodic effects by calculating hypothetical changes in risk variables on our portfolio of financial instruments back to the balance sheet date. In this process, we assume that the portfolio on the balance sheet date is representative for the year as a whole.

Our sensitivity analyses for foreign exchange rate developments are based on the following assumptions:

- Material originated financial instruments (securities, receivables, liquidity, and debt) are either denominated directly in our functional currency or have been transposed into functional currency by means of derivatives. Changes in foreign exchange rates thus have no effect on our earnings or equity.
- Interest income and expense from or on financial instruments are likewise either directly recognized in functional currency or have been transposed into functional currency by means of derivatives. Thus, there are also no effects on our earnings and equity from this side.
- Foreign exchange rate-related changes in the fair values of currency derivatives that are neither in a hedging relation pursuant to IAS 39 nor in a hedging relation with balance-sheet-impacting underlying transactions (natural hedges) may impact our currency translation income/expense and thus are included in our earnings-related sensitivity analysis.
- Foreign exchange rate-related changes in the market values of currency derivatives that are in an effective cash flow hedge relation for hedging payment fluctuations resulting from exchange rate movements pursuant to IAS 39 have an impact on the equity and are thus included in our equity-related sensitivity analysis.

If the euro had appreciated 10% relative to all currencies relevant to our operating activities as at 31 December 2016, earnings before income tax would have been higher by EUR 1,585 thousand (as at 31 December 2015: EUR 974 thousand) and the direct unrealized profits from financial instruments would have been higher by EUR 410 thousand (as at 31 December 2015: EUR 126 thousand).

If the euro had devalued 10% relative to all currencies relevant to our operating activities as at 31 December 2016, earnings before income tax would have been lower by EUR 1,941 thousand (as at 31 December 2015: EUR 1,190 thousand) and the direct unrealized profits from financial instruments would have been lower by EUR 502 thousand (as at 31 December 2015: EUR 155 thousand).

The following assumptions are the basis for the interest rate sensitivity analyses:

- Changes in market interest rates of primary financial instruments with a fixed interest rate only have an effect on earnings when they are calculated at their fair value. So all financial instruments carried at amortized cost, with a fixed interest rate, are not subject to interest-rate risk pursuant to IFRS 7.
- Changes in market interest rates affect the interest income of the original financial instruments with a variable interest rate, if the interest payment of these financial instruments is not intended as basic transaction within cash flow hedges against interest changes, and are thus included in the result-related sensitivity calculations.
- Changes in market interest rates of interest derivatives that are intended as hedging instruments within a cash flow hedge for hedging of interest-rate related payment fluctuations have an effect on the equity, and are thus included in the equity-related sensitivity analysis.

If the market interest rate level had been higher by 100 basis points on 31 December 2016, earnings before income taxes would have been lower by EUR 28 thousand (as at 31 December 2015: EUR 37 thousand) and the direct unrealized gains from financial instruments would have been higher by EUR 5 thousand (as at 31 December 2015: EUR 24 thousand).

If the market interest rate level had been lower by 100 basis points on 31 December 2016, earnings before income taxes would have been higher by EUR 136 thousand (as at 31 December 2015: EUR 129 thousand) and the direct unrealized gains from financial instruments would have been lower by EUR 5 thousand (as at 31 December 2015: EUR 24 thousand).

Additional disclosures on financial instruments stated in the balance sheet

Carrying amount and fair value of financial instruments

The following table shows a reconciliation of the book and fair values of balance sheet items to their individual categories:

EUR 000	Balance sheet amount as at 31/12/2016	Carrying amounts of financial instruments			Carrying amounts of others	Fair Value
		Stated at fair value	Stated at amortized cost	Not subject to IFRS 7		
Non-current assets						
Shares in associated companies	7,097	0	0	7,097	0	7,097
Other financial assets	110	0	5	105	0	110
Other non-current assets	1,293	0	31	1,235	27	1,293
Current assets						
Trade receivables	60,190	0	60,190	0	0	60,190
Other receivables and other assets	9,483	339	2,771	0	6,373	9,483
Cash and cash equivalents	16,168	0	16,168	0	0	16,168
Non-current liabilities						
Interest-bearing loans	10,370	0	10,370	0	0	10,370
Other liabilities	454	0	0	0	454	454

EUR 000	Balance sheet amount as at 31/12/2016	Carrying amounts of financial instruments			Carrying amounts of others	Fair value
		Stated at fair value	Stated at amortized cost	Not subject to IFRS 7		
Current liabilities						
Trade payables	13,403	0	13,403	0	0	13,403
Interest-bearing loans	27,616	0	27,616	0	0	27,616
Other liabilities	9,662	840	2,287	0	6,535	9,662
Thereof aggregated acc. to IAS 39						
Loans and receivables	79,165	0	79,165	0	0	79,165
At fair value through profit or loss	133	133	0	0	0	133
Available for sale	0	0	0	0	0	0
Liabilities measured at amortized cost	53,676	0	53,676	0	0	53,676
Liabilities at fair value through profit or loss	627	627	0	0	0	627

EUR 000	Balance sheet amount as at 31/12/2015	Carrying amounts of financial instruments			Carrying amounts of others	Fair value
		Stated at fair value	Stated at amortized cost	Not subject to IFRS 7		
Non-current assets						
Other financial assets	124	0	124	0	0	124
Other non-current assets	1,321	0	24	1,233	64	1,321
Current assets						
Trade receivables	60,364	0	60,364	0	0	60,364
Other receivables and other assets	7,287	376	1,500	0	5,411	7,287
Cash and cash equivalents	18,343	0	18,343	0	0	18,343
Non-current liabilities						
Interest-bearing loans	19,238	0	19,238	0	0	19,238
Other liabilities	481	12	0	0	469	481

EUR 000	Balance sheet amount as at 31/12/2015	Carrying amounts of financial instruments			Carrying amounts of others	Fair value
		Stated at fair value	Stated at amortized cost	Not subject to IFRS 7		
Current liabilities						
Trade payables	14,884	0	14,884	0	0	14,884
Interest-bearing loans	16,501	0	16,501	0	0	16,501
Other liabilities	13,647	284	668	0	12,695	13,647
Thereof aggregated acc. to IAS 39						
Loans and receivables	80,249	0	80,249			80,249
At fair value through profit or loss	291	291	0			291
Available for sale	106	0	106			106
Liabilities measured at amortized cost	51,291	0	51,291			51,291
Liabilities at fair value through profit or loss	168	168	0			168

The historical cost approach is used for preparing the consolidated financial statements. Accounting for derivative financial instruments is the exception to this rule, as these must be accounted for at fair value. The positive fair values of the derivative financial instruments at the end of the reporting period amounted to EUR 339 thousand (2015: EUR 376 thousand). Negative fair values of EUR -840 thousand (2015: EUR -296 thousand) were recognized.

The carrying amounts of cash and cash equivalents, as well as current account loans closely approximate their fair value given the short maturity of these financial instruments. The carrying values of receivables and liabilities are based on historical costs, subject to usual trade credit terms, and also closely approximate their fair value.

The fair value of non-current liabilities is based on currently available interest rates for borrowing with the same maturity and credit rating profiles. The fair value of external liabilities is currently about the same as the carrying amounts.

In order to present the reliability of the valuation of financial instruments at fair value in a comparable manner, IFRS introduced a fair value hierarchy with the following three steps:

- Valuation on the basis of exchange price or market price for identical assets or liabilities (Level 1)
- Valuation on the basis of exchange price or market price for similar instruments or on the basis of assessment models that are based on market observable input parameters (Level 2)
- Valuation on the basis of assessment models with significant input parameters that are not observable on the market (Level 3)

The derivative financial instruments measured at fair value of the R. STAHL Group are rated exclusively according to the fair value hierarchy Level 2.

In fiscal year 2016, there were no reclassifications between different fair value hierarchies.

The following total proceeds and total expenses arose from valuation at fair value of the derivative financial instruments of Level 2 held on 31 December 2016:

EUR 000	2016	2015
Recognized in the income statement		
Derivatives	- 545	401
Recognized in equity		
Derivatives in a hedging relationship	- 37	452

There was no ineffectiveness that would have to be recognized in the income statement.

The net result according to valuation categories is as follows:

EUR 000	From interest	From subsequent measurement				Net result
		Fair value	Currency translation	Value adjustment	Others	
Loans and receivables	93	0	- 29	710	72	846
	(132)	(0)	(114)	(- 1,260)	(54)	(- 960)
Assets and liabilities at fair value through profit or loss	0	- 545	0	0	0	- 545
	(0)	(401)	(0)	(0)	(0)	(401)
Liabilities measured at amortized cost	- 722	0	51	0	0	- 671
	(- 1,397)	(0)	(161)	(0)	(0)	(- 1,236)
2016	**- 629**	**- 545**	**22**	**710**	**72**	**- 370**
2015	(- 1,265)	(401)	(275)	(- 1,260)	(54)	(- 1,795)

The figures for fiscal year 2015 are shown in brackets.

OTHER DISCLOSURES

35 → Executive bodies of R. STAHL AG

Members of the Supervisory Board

- Heiko Stallbörger, engineering graduate, Stuttgart
  Chair
  Freelance engineering consultant

- Heike Dannenbauer, M.A., Empfingen
  Deputy Chair
  Stage manager of Apollo Theater Produktionsgesellschaft mbH

- Klaus Erker, Dörzbach*)
  Works Council Chair

- Heinz Grund, Braunsbach*)
  Agricultural technician/mechanic

- Waltraud Hertreiter, Neubeuern
  Independent financial advisor (as defined by Section 100 (5) AktG)/ freelance consultant
  - Chair of Supervisory Board of Hoftex Group AG, Hof
  - Chair of Advisory Board of Südbayerisches Portland-Zementwerk Gebr. Wiesböck & Co. GmbH, Rohrdorf
  - Member of Regionalbeirat Süd (regional advisory board south) of Commerzbank AG (until 31 December 2016)
  - Member of Supervisory Board of ERWO Holding AG, Schwaig

- Peter Leischner, business graduate, Frankfurt
  Company officer, director, Head of Treasury Management of Gutmark, Radtke & Company AG

- Rudolf Meier, engineering graduate, Nuremberg
  Former Head of Production Machinery, Factory Automation of Siemens AG

- Nikolaus Simeonidis, Bretzfeld*)
  Production planning

- Jürgen Wild, Vaucresson, France
  - Chairman of the Management Board of RAG-Stiftung Beteiligungsgesellschaft mbH
  - Member of Supervisory Board of SAG Group GmbH, Langen
  - Member of Supervisory Board of SolarWorld AG, Bonn

*) Staff representative

Members of the Executive Board

- Martin Schomaker, business graduate (BA), Murr
  CEO
  responsible for Sales/Marketing, Operations, Quality Management, Product Management, Human Resources, Internal Audit and Risk Management

- Bernd Marx, business graduate, Brühl
  responsible for Controlling, Finance, IT, Legal and Compliance, Investor Relations and M&A

Compensation report

Total Executive Board compensation

The compensation system for Executive Board members is regulated in their respective service agreements. In addition to fixed compensation, the CEO receives a performance-based bonus based on the moving average of the current and two preceding years. This bonus is limited to no more than 80% of fixed compensation. The other Executive Board member receives performance-based variable compensation comprising both a short-term and a long-term component. The short-term component is limited to no more than 66% of fixed compensation. The long-term component is limited to no more than 57% of fixed compensation. In addition, both members of the Executive Board receive benefits in kind. These mostly comprise expenses for company cars.

In the reporting period and the two preceding years, the CEO Martin Schomaker received the following total compensation:

Total compensation for Martin Schomaker

EUR 000	2016	2015	2014
Fixed compensation	340.0	340.0	340.0
Performance-based bonus*)	52.4	116.3	182.7
Pension contribution**)	170.0	170.0	0
Compensation in kind	43.4	39.0	39.0
Total	**605.8**	**665.3**	**561.7**

*) Payment in the following fiscal year
**) Defined contribution pension scheme under which not the later payments are guaranteed but the contribution amounts

Mr Martin Schomaker received fixed compensation of EUR 340.0 thousand in the reporting period as well as a performance-based bonus of EUR 52.4 thousand. Compensation in kind amounted to EUR 43.4 thousand.

Following a resolution of the Supervisory Board of 21 May 2015, the Company also entered into a reinsurance policy in the form of a defined contribution plan with a pension fund for Mr Martin Schomaker in 2015. The annual contribution amounted to EUR 170.0 thousand in 2016 and is an additional compensation component.

Individual pension commitments exist for the CEO. According to these commitments, Mr Martin Schomaker will receive a pension when he leaves the company after attaining the age of 60 or an incapacity pension in the amount of 100% of the pension entitlement in case of premature retirement due to incapacity. The monthly pension on retirement on the regular commencement date is unaltered and amounts to EUR 9.6 thousand for Mr Martin Schomaker. At the end of the reporting period, the present value of pension provisions pursuant to IFRS for Mr Martin Schomaker amount to EUR 3,276.8 thousand (2015: EUR 3,023.6 thousand). In the reporting period, no personnel expenses but interest expenses of EUR 71.8 thousand were recognized in profit or loss. The underlying interest rate for fiscal year 2016 was 1.72%.

Mr Bernd Marx received the following total compensation for financial year 2016:

Total compensation for Bernd Marx

EUR 000	2016	2015	2014
Fixed compensation	250.0	220.0	220.0
Long-term variable compensation*)	39.0	69.8	109.6
Short-term variable compensation*)	14.8	–	–
Pension contribution**)	91.0	65.0	65.0
Compensation in kind	14.6	14.1	11.4
Total	**409.4**	**368.9**	**406.0**

*) Payment in the following fiscal year

**) Defined contribution pension scheme under which not the later payments are guaranteed but the contribution amounts

At its meeting of 21 May 2015, the Supervisory Board had decided to extend the contract of Mr Bernd Marx by a further five years for the period from 1 January 2016 to 31 December 2020. One component of this extension was an increase in fixed remuneration to EUR 250.0 thousand as well as an adjustment of the defined contribution pension plan, each as of the beginning of the reporting period. In addition, long-term variable compensation, which was previously only based on the long-term development of the Group, was supplemented by a short-term Group development component based on the Group's development during the reporting period.

In the reporting period, long-term variable compensation amounted to EUR 39.0 thousand and the short-term variable compensation to EUR 14.8 thousand. With regard to the defined contribution pension plan, the Company entered into a reinsurance policy in the form of a defined contribution plan with a pension fund for Mr Bernd Marx. The annual contribution amounts to EUR 91.0 thousand and is an additional compensation component. In addition, Mr Bernd Marx received compensation in kind of EUR 14.6 thousand.

Mr Bernd Marx will receive a gross monthly pension of EUR 3.3 thousand when he leaves the Company's Executive Board after attaining the age of 65. Should Mr Bernd Marx leave at an earlier time, the amount of the monthly pension is based on the respective monthly pension entitlement earned up to this date. In the case of premature termination of the service agreement due to incapacity, Mr Bernd Marx has the right to receive an incapacity pension. At the end of the reporting period, the present value of pension obligations pursuant to IFRS for Mr Bernd Marx amounted to EUR 481.7 thousand (2015: EUR 370.2 thousand). In the reporting period, a regular amount of EUR 26.5 thousand personnel expenses and EUR 9.0 thousand interest expenses were recognized in profit or loss. The underlying interest rate for fiscal year 2016 was 1.72%.

Total Supervisory Board compensation

The Annual General Meeting resolved at its meeting on 22 June 2007 to raise the fixed annual compensation for Supervisory Board members to EUR 18,000.00 and the compensation for Supervisory Board members' committee membership to EUR 3,650.00 with effect from 1 July 2007. Also effective 1 July 2007, committee chairs receive twice the compensation of other committee members for their committee activities and the Supervisory Board Chair receives twice the amount of the compensation due according to the above formula.

The variable part of the Supervisory Board members' compensation depends on the dividend distributed in the respective fiscal period. For each full per cent dividend distributed in excess of 20% of share capital, Supervisory Board members receive EUR 800.00. With a resolution of the Annual General Meeting of 27 June 2008, it was decided that effective 1 July 2008 this additional compensation should be limited to a maximum of twice the fixed annual compensation for a member of the Supervisory Board, or the fixed annual compensation for the Supervisory Board Chair, and twice the fixed annual compensation for committee members or the committee chair.

In the year under review, the Supervisory Board received fixed compensation totalling EUR 253 thousand (2015: EUR 253 thousand), and variable compensation totalling EUR 24 thousand (2015: EUR 88 thousand).

Supervisory Board EUR 000	Fixed compensation	Committee compensation	Variable compensation	**Total**
Stallbörger, Heiko	36.0	36.4	3.8	**76.2**
Dannenbauer, Heike	18.0	7.3	2.4	**27.7**
Erker, Klaus	18.0	3.7	2.4	**24.1**
Grund, Heinz	18.0	7.3	2.4	**27.7**
Hertreiter, Waltraud	18.0	7.3	2.4	**27.7**
Leischner, Peter	18.0	7.3	2.4	**27.7**
Meier, Rudolf	18.0	3.7	2.4	**24.1**
Simeonidis, Nikolaus	18.0	0.0	2.4	**20.4**
Wild, Jürgen	18.0	0.0	1.4	**19.4**
Stahl, Hans-Volker	0.0	0.0	2.0	**2.0**
Total	**180.0**	**73.0**	**24.0**	**277.0**

R. STAHL AG does not have any stock option plans or similar securities-based incentive systems for members of the Executive Board or Supervisory Board.

Total compensation of former Executive Board members and former Managing Directors

Former members of the Executive Board, as well as former Managing Directors, and their survivors received a total of EUR 280 thousand (2015: EUR 355 thousand) in the reporting period.

As at 31 December 2016, the present value of pension obligations for former members of the Executive Board, as well as former Managing Directors, and their survivors amounted to EUR 4,578 thousand (2015: EUR 4,272 thousand).

Shares in R. STAHL AG held by members of the Executive Board and Supervisory Board

At the end of the reporting period, Executive Board members held 16,760 company shares and Supervisory Board members held 138,958 shares.

36 Related party disclosures

Pursuant to IAS 24 (Related Party Disclosures), legal or natural persons exerting a controlling influence on the R. STAHL Group or vice versa have to be disclosed unless they are being consolidated in the financial statements of the R. STAHL Group. A controlling influence is deemed to exist if a shareholder holds more than half of the voting rights in R. STAHL AG or has the option pursuant to the Articles of Association or contractual provisions to control the financial or business policy of the R. STAHL Group's management.

Moreover, the disclosure requirement according to IAS 24 also pertains to transactions with associated enterprises and transactions with related natural persons that have a substantial influence on the financial and business policy of the R. STAHL Group including close relatives or intermediary companies. A substantial influence on the financial and business policy of the R. STAHL Group is deemed to exist for individual R. STAHL AG shareholding of 20% or more and persons holding a position on the Executive or Supervisory Boards of R. STAHL AG or another key management position.

In fiscal year 2016, the disclosure requirements of IAS 24 only affected the R. STAHL Group in respect to business relations with members of the Executive Board and members of the Supervisory Board. Total compensation of the Supervisory Board amounted to EUR 509 thousand in the reporting period (2015: EUR 535 thousand). These amounts include the statutory compensation amounts for worker representatives. Please refer to section 35 "Executive bodies of R. STAHL AG, subsection Compensation Report". No significant reportable transactions were carried out in 2016 with the company TRANBERG SYSTEMS A/S, Vejle (Denmark), which was deconsolidated on 19 November 2009 and in which the R. STAHL Group still holds 48% of shares at the end of the reporting period, nor with ZAVOD Goreltex Co. Ltd. nor ESACO Pty. Ltd..

We have made all disclosures pursuant to Section 160 (1), subsec. 8 of the German Stock Corporation Act.

DECLARATION PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT CONCERNING COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

We complied with the code of conduct recommended by the German Government Commission on the German Corporate Governance Code in the past fiscal year with few, individual exceptions. We will continue to comply with most of the recommendations in the future. We have made a corresponding declaration of compliance that may be viewed on our website (www.stahl.de under Investor Relations/Corporate Governance) at any time.

NOTES TO THE CASH FLOW STATEMENT

The cash flow statement shows the R. STAHL Group's flow of funds as it developed over the year under review.

The cash flows are classified according to their nature as cash flows from operating, investing, and financing activities.

For the purpose of indirect calculation, we adjust the relevant changes in items of the balance sheet for consolidation effects. This approach causes differences in the changes of the respective balance sheet items as shown in the published consolidated balance sheet.

The flow of funds from operations includes the following items:

EUR 000	2016	2015
Interest received	260	280
Interest paid	- 721	- 1,090
Dividends received	25	3
Income tax refunds/credits	1,618	2,301
Income tax payments	- 4,534	- 5,333

NOTES TO SEGMENT REPORTING

Pursuant to IRFS 8, external segment reporting is based on the intra-group organization and management structures, as well as internal financial reporting to key decision-makers. In the R. STAHL Group, the Executive Board is responsible for assessing and controlling business success and is regarded as the top management body pursuant to IFRS 8.

The Group develops, manufactures, assembles, and distributes devices and systems for measuring, controlling, distribution of energy, securing, and lighting in potentially explosive environments. R. STAHL AG serves as the holding company for the different subsidiaries. The subsidiaries submit a monthly income statement and balance sheet. Monthly consolidated financial statements are then created at Group level which are used to steer the Group's overall development and that of the individual companies.

The key performance indicator for the R. STAHL Group is earnings before interest and taxes (EBIT). Internal reporting corresponds to external IFRS reporting. As a result, no reconciliation is required.

Furthermore, the Executive Board regularly monitors the following financial and economic parameters: sales revenues, order intake and order backlog, as well as earnings before taxes (EBT).

As a whole, the Group is managed according to the following parameters:

EUR 000	2016	2015
Order backlog	80,674	95,153
Order intake	282,868	317,279
Sales revenues	286,609	312,920
Total operating performance	284,305	315,789
Other operating income	12,923	10,948
Material costs	- 101,136	- 109,196
Personnel costs	- 118,288	- 128,576
Depreciation and amortization of tangible and intangible assets	- 13,381	- 13,488
Other operating expenses	- 55,647	- 71,569
Earnings before financial result and income taxes	**8,776**	**3,908**
Interest income	260	280
Interest expenses	- 3,365	- 3,474
Other financial result	128	3
Financial result	**- 2,977**	**- 3,191**
Earnings before income taxes	**5,799**	**717**
Segment assets	254,818	259,897
Segment liabilities	179,228	173,298
Annual average number of employees	1,824	1,952
Associated companies		
Share in associated companies	7,097	0
Result from associated companies	103	0
Non-current assets		
Carrying amounts of non-current assets	110,434	115,191
Additions to non-current assets	12,496	23,016

The following table provides a breakdown by region:

EUR 000	Central region	Americas	Asia/Pacific	**Total**
Sales revenues from sales to external customers	193,250	35,812	57,547	286,609
	(188,750)	(49,110)	(75,060)	(312,920)
Carrying amounts of non-current assets	99,046	3,552	7,836	110,434
	(102,876)	(4,147)	(8,168)	(115,191)
Additions to non-current assets	12,120	29	347	12,496
	(21,749)	(646)	(621)	(23,016)

The figures in brackets refer to the prior-year values for 2015. The regional breakdown shows sales revenues on the basis of customer locations. Assets of the R. STAHL Group are assigned according to the location of the respective subsidiary that carries this asset in the balance sheet. Pursuant to IFRS 8.33, assets comprise all non-current Group assets with the exception of financial instruments, deferred tax assets, post-service benefits and rights from insurance agreements.

Segment assets correspond to total assets less deferred tax assets and income tax claims. Segment liabilities correspond to total liabilities less deferred tax liabilities, income tax payables, and provisions for taxation.

In the reporting period and in the previous year, no individual external customer accounted for more than 10% of total sales revenues.

ADDITIONAL NOTES AND DISCLOSURE REQUIREMENTS

The following table shows fees paid to the auditor of the consolidated financial statements for services to the parent company and its subsidiaries.

EUR 000	2016	2015
Financial statement audits	280	346
of which relating to other periods	0	53
Other certification and valuation services	0	0
Tax consultancy services	0	0
Other services	44	32
	327	**378**

R. Stahl Schaltgeräte GmbH, Waldenburg, and R. STAHL HMI Systems GmbH, Cologne, fulfilled the requirements of Section 264 (3) HGB and have thus made use of the exemption clause with regard to the preparation of notes to the annual financial statements and a management report as well as the disclosure of their annual financial statements for fiscal year 2016. With reference to Section 264 (3) HGB, use is made of the exemption clause with regard to the disclosure of annual financial statements for fiscal year 2016 of the companies GGF – Gesellschaft für Grundstücksvermietung und Finanzierungsvermittlung mbH, Waldenburg, R. Stahl Services GmbH, Waldenburg, R. Stahl Beteiligungsgesellschaft mbH, Waldenburg, R. STAHL LECTIO GmbH, Waldenburg, R. STAHL SUPERA GmbH, Waldenburg, and R. STAHL Camera Systems GmbH, Cologne. The necessary requirements pursuant to Section 264 (3) HGB are fulfilled.

OTHER NOTES AND DISCLOSURES

EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There were no significant events subsequent to the balance sheet date.

Waldenburg, 20 April 2017
R. Stahl Aktiengesellschaft
Executive Board

Martin Schomaker	**Bernd Marx**
Chief Executive Officer	Chief Financial Officer

RESPONSIBILITY STATEMENT

We attest – to the best of our knowledge – that the Consolidated Financial Statements according to applicable accounting standards present a true and fair view of the Group's asset, financial, and income position and that the Group Management Report accurately presents the Group's business development including economic results, state of affairs, material risks and opportunities and probable development going forward.

Waldenburg, 20 April 2017
R. Stahl Aktiengesellschaft

Martin Schomaker
Chief Executive Officer

Bernd Marx
Chief Financial Officer

AUDITOR'S REPORT ON THE COMPLETE CONSOLIDATED FINANCIAL STATEMENTS OF R. STAHL AKTIENGESELLSCHAFT

We have audited the Consolidated Financial Statements prepared by **R. Stahl Aktiengesellschaft, Waldenburg, Germany** – consisting of the income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and the notes – as well as the Group Management Report for the fiscal year from 1 January to 31 December 2016. The preparation of Consolidated Financial Statements and the Group Management Report according to IFRS as mandated for EU companies, and the supplementary accounts prepared according to Section 315a (1) of the German Commercial Code (HGB) as well as further stipulations made in the company's Articles of Association are the responsibility of the company's legal representatives. Our task is to give an opinion on the Consolidated Financial Statements and Group Management Report based on our audit.

We conducted our audit of these Consolidated Financial Statements pursuant to Section 317 HGB and the generally accepted auditing standards established by the German Institute of Certified Public Accountants (Institut der Wirtschaftsprüfer, IDW). These standards require that we plan and perform audits in such a way that misstatements materially affecting the presentation of the financial position and performance in the Consolidated Financial Statements and the Group Management Report in accordance with the principles of proper accounting are detected with reasonable assurance. In planning the audit, we also take into consideration knowledge of the business activity, economic and legal environment as well as expectations of possible errors. The audit includes examining the efficacy of the internal controlling system as well as evidence, primarily on a test basis, supporting the amounts and disclosures in the Consolidated Financial Statements and Group Management Report. An audit also includes reviewing the scope of companies included in consolidation, the definition of the consolidated group, assessing the accounting, valuation and consolidation principles used and significant estimates made by the company's legal representatives, as well as evaluating the overall presentation of the Consolidated Financial Statements and Group Management Report. We believe that our audits provide a reasonable basis for our opinion.

Our audits did not give rise to any objections.

In our opinion, based on the audit findings, the Consolidated Financial Statements comply with IFRS, as mandated for EU companies, the supplementary commercial law regulations of Section 315a (1) HGB and the further stipulations made in the company's Articles of Association, and give a true and fair picture of the Group's financial position and performance. On the whole, the Group Management Report corresponds to the Consolidated Financial Statements, meets the statutory requirements and conveys an accurate picture of the Group's position as well as accurately presenting the opportunities and risks of its future development.

Stuttgart, 20 April 2017

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Wolfgang Russ	**Annette Lang**
Auditor	Auditor

LIST OF SHAREHOLDINGS

of R. Stahl Aktiengesellschaft, Waldenburg, Germany, as of 31 December 2016

Name and headquarters of the company	Consolidation status	Capital stake in %
Domestic companies		
R. Stahl Beteiligungsgesellschaft mbH, Waldenburg	F; c	100.00
R. STAHL Camera Systems GmbH, Cologne	F; c	75.00
GGF – Gesellschaft für Grundstücksvermietung und Finanzierungsvermittlung mbH, Waldenburg	F; c	100.00
R. STAHL HMI Systems GmbH, Cologne	F; c	100.00
R. Stahl Schaltgeräte GmbH, Waldenburg	F; c	100.00
R. Stahl Services GmbH, Waldenburg	F; c	100.00
Abraxas Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	I; n. c.	49.58
R. STAHL LECTIO GmbH, Waldenburg	F; c	100.00
R. STAHL SUPERA GmbH, Waldenburg	F; c	100.00
Foreign companies		
R. STAHL MIDDLE EAST FZE, Dubai (United Arab Emirates)	F; c	100.00
R. STAHL Nissl GmbH, Vienna (Austria)	F; c	100.00
R. STAHL AUSTRALIA PTY LTD, Wollongong (Australia)	F; c	100.00
Stahl N.V., DENDERMONDE (BELGIUM)	F; c	100.00
STAHL EQUIPAMENTOS INDUSTRIAIS LTDA, SÃO PAULO (BRAZIL)	F; c	100.00
R. STAHL do Brasil Ltda., São Paulo (Brazil)	F; c	100.00
R. STAHL, LTD., Edmonton (Canada)	F; c	100.00
R. STAHL Schweiz AG, Magden (Switzerland)	F; c	100.00
R. STAHL (HONGKONG) CO., LIMITED, Hong Kong (China)	F; c	100.00
R. STAHL EX-PROOF (SHANGHAI) CO., LTD., Shanghai (China)	F; c	100.00

Name and headquarters of the company	Consolidation status	Capital stake in %
Foreign companies		
TRANBERG SYSTEMS A/S, Vejle (Denmark)	I; n. c.	48.00
INDUSTRIAS STAHL, S.A., Madrid (Spain)	F; c	100.00
ST SOLUTIONS ATEX, Courtine (R. STAHL France, Avignon) (France)	F; c	100.00
R. STAHL Limited, Birmingham (Great Britain)	F; c	100.00
R. STAHL PRIVATE LIMITED, Chennai (India)	F; c	100.00
R. STAHL S.r.l., Milan (Italy)	F; c	100.00
R. STAHL Kabushiki Kaisha, Kawasaki (Japan)	F; c	100.00
R. STAHL CO., LTD, Seoul (Korea)	F; c	100.00
R. STAHL ENGINEERING & MANUFACTURING SDN. BHD., Selangor (Malaysia)	F; c	100.00
E.M. Stahl B.V., Hengelo (Netherlands)	I; n. c.	100.00
Electromach B.V., Hengelo (Netherlands)	F; c	100.00
ESACO (Pty.) LTD, Edenvale (South Africa)	A; c	35.00
R. STAHL NORGE AS, Oslo (Norway)	F; c	100.00
Stahl-Syberg A/S, Oslo (Norway)	F; c	100.00
TRANBERG AS, Stavanger (Norway)	F; c	100.00
OOO R. Stahl, Moscow (Russia)	F; c	60.00
R. Stahl Svenska Aktiebolag, Järfälla (Sweden)	F; c	100.00
R. STAHL PTE LTD, Singapore (Singapore)	F; c	100.00
R. STAHL, INC., Houston/Texas (USA)	F; c	100.00
ZAVOD Goreltex Co. Ltd., Saint Petersburg (Russia)	A; c	25.00

The companies are identified by their respective Group-relevant status as either fully consolidated enterprise (F) associated enterprise (A) or other investment (I) stating whether it is consolidated (c) or not consolidated (n.c.).

FINANCIAL STATEMENTS OF R. STAHL AKTIENGESELLSCHAFT

These complete financial statements of R. Stahl Aktiengesellschaft prepared pursuant to the rules and regulations of the German Commercial Code and Stock Corporation Act have been given approval without reservations by the appointed auditor Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, Germany, and will be published in the German Federal Gazette. Interested shareholders may request copies of the parts of our annual financial statements not published here from the company.

INCOME STATEMENT

of R. Stahl Aktiengesellschaft, Waldenburg, Germany, for the period 1 January to 31 December 2016

	EUR 000	2016	2015
1.	**Sales revenue**	**13,311**	**19,232**
2.	Other operating income	3,656	1,901
		16,967	**21,133**
3.	Cost of materials		
	Cost of raw materials, consumables and supplies and for purchased goods	6	4
4.	Personnel costs		
	a) Wages and salaries	5,349	8,830
	b) Social insurance contributions and pension	571	3,053
		5,920	**11,883**
5.	Depreciation, amortization and impairment of intangible non-current assets and tangible fixed assets	741	1,634
6.	Other operating expenses	15,584	14,324
		- 5,283	**- 6,711**
7.	Investment income	9,157	13,961
8.	Income from profit transfer agreements	5,888	1,357
9.	Other interest and similar income	594	547
10.	Depreciation on financial assets	0	2,700
11.	Expenses from transfer of losses	0	13,380
12.	Interest and similar income	1,291	1,478
13.	Income taxes paid (previous year: income taxes refunded)	93	- 103
		14,255	**- 1,589**
14.	**Profit after taxes**	**8,972**	**- 8,301**
15.	Other taxes	40	40
16.	**Net profit for the year (previous year: net loss for the year)**	**8,932**	**- 8,340**
17.	Profit carryforward	0	3,684
18.	Transfer from other revenue reserves	0	8,520
19.	**Balance sheet profit**	**8,932**	**3,864**

BALANCE SHEET

of R. Stahl Aktiengesellschaft, Waldenburg, Germany, as of 31 December 2016

	EUR 000	31/12/2016	31/12/2015
	ASSETS		
A.	**Non-current assets**		
I.	**Intangible assets**		
	1. Industrial property and similar rights, acquired for a consideration	0	1,154
	2. Prepayments made	1,438	495
		1,438	**1,649**
II.	**Property, plant & equipment**		
	1. Properties and buildings, including buildings on third-party properties	2,040	5,167
	2. Technical equipment and machinery	14	89
	3. Other plant as well as operating and office equipment	30	1,036
		2,084	**6,291**
III.	**Financial assets**		
	1. Equity interests in affiliated companies	71,574	71,274
	2. Loans to affiliated companies	3,842	4,755
	3. Equity investments	5,811	26
		81,228	**76,055**
B.	**Current assets**		
I.	**Receivables and other assets**		
	1. Trade receivables	62	43
	2. Receivables from affiliated companies	19,495	15,024
	3. Other assets	536	1,788
		20,093	**16,855**
II.	**Cash and cash equivalents**	**303**	**541**
C.	**Prepaid expenses and deferred income**	**351**	**409**
		105,498	**101,800**

	EUR 000	31/12/2016	31/12/2015
	EQUITY & LIABILITIES		
A.	**Equity**		
I.	**Issued capital**		
	Subscribed capital	16,500	16,500
II.	**Capital reserves**	**18,666**	**18,666**
III.	**Revenue reserves**		
	Other revenue reserves	18,447	18,447
IV.	**Balance sheet profit**	**8,932**	**3,864**
		62,546	**57,478**
B.	**Provisions**		
	1. Pension provisions	15,315	16,570
	2. Other provisions	1,323	1,869
		16,638	**18,439**
C.	**Liabilities**		
	1. Liabilities to banks	21,269	17,188
	2. Trade payables	403	1,276
	3. Liabilities to affiliated companies	3,903	7,132
	4. Other liabilities	739	287
		26,314	**25,883**
		105,498	**101,800**

GLOSSARY

IMPORTANT FINANCIAL AND ECONOMIC TERMS

Cash flow
Surplus of money that is generated from ordinary business activities, shows a company's financial power.

Compliance
Generic term for measures to ensure abidance by law and intra-company guidelines

Corporate Governance
Responsible company management and control of long-term value creation

Derivative, derivative financial instruments
Financial instrument whose valuation depends on the price development of underlying transactions (base value)

Directors' dealings
Transactions of members of the Executive or Supervisory Board of a listed stock corporation and associated persons or companies with shares of their own company

Dividend yield
This key figure shows the annual yield the shareholder gets for his stock investment through profit distribution, assessed at the year-end price.

EBIT (Earnings Before Interest and Taxes)
Generally used for the assessment of the earnings situation of companies, especially in international comparison. EBIT margin is the relation between EBIT and sales.

EBT (Earnings Before Tax)
EBT margin is the relation between EBT and sales.

Equity ratio
Ratio between equity and total capital, gives information on the stability of a company

Forward exchange transaction
Obligation to buy or sell foreign currencies at a predetermined date and price

Free float
Number of shares owned by diverse shareholders

Goodwill
It corresponds to the amount a potential buyer would be willing to pay for the company as a whole, exceeding the value of the individual assets, taking all debts into account.

IAS (International Accounting Standards)/ IFRS (International Financial Reporting Standards)
Internationally applicable standards for accounting to ensure international comparability of consolidated financial statements, and to fulfil the information requirements of investors and other users of financial statements through higher transparency

Market capitalization
This means the market price of a listed company. It is calculated from the market value of the share multiplied by the number of shares.

P/B ratio (price-to-book ratio)
Share price divided by book value per share

P/E ratio (price-earnings ratio)
Share price divided by earnings per share

ROCE (Return on Capital Employed)
Measures the profitability of a company based on the amount of capital used.

IMPORTANT COMPANY-RELEVANT TERMS

Automation
This is a field that involves automatic control, monitoring and optimization of technical processes.

Certification
Measure, where a neutral body, accredited for this purpose, examines, evaluates and confirms in writing (certificate) that products, services, systems, processes, companies or persons correspond to certain acknowledged fixed criteria, stipulated in regulations or standards.

Degree of protection
On the one hand, degree of protection is the suitability of electrical equipment for different environmental conditions, on the other hand it is the protection of man against potential hazard when using this equipment.

Downstream
In the oil and gas industry, downstream refers to those stages of production in which the oil or gas is processed and delivered to the end customer, e.g. the refining process.

EPC (Engineering, Procurement and Construction)
Means the common form of project execution in plant construction and the corresponding forms of contract where the contractor is the general contractor. He commits himself to supplying a turnkey plant to the client.

Explosion protection
Special field that deals with the protection against the development of explosions and their effects. It is part of safety technology and serves as a prevention against damages caused by explosions.

FPSO (Floating Production Storage and Offloading Unit)
Specialist ship used for the offshore production, storage and offloading of oil and gas

HMI (Human machine interface)
Equipment technology for operating and monitoring of processes

IECEx
System of the International Electrotechnical Commission for certifying equipment used in an explosive atmosphere

LED
Light-emitting diode

LNG
Liquefied natural gas

Midstream
In the oil and gas industry, midstream refers to the storage and transport of crude oil and gas, for example via pipelines or tankers. Midstream is thus the link between the upstream and downstream segments.

NEC
National Electrical Code of the USA for certifying electrical installations

OEM (Original Equipment Manufacturer)
Company which resells another company’s products

Petrochemistry
Production of chemical products from natural gas and suitable fractions of crude oil

Production costs
Cost of producing oil; mostly stated in US dollars per barrel

Upstream
In the oil and gas industry, upstream refers to those stages of production which involve the exploration and extraction of the oil or gas.

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KEY FIGURES

EUR 000	2016	2015	2014	2013	2012
Sales revenue	286,609	312,920	308,532	304,383	290,887
Germany	61,340	64,370	66,760	64,966	60,914
Central (excl. Germany)	131,910	124,380	132,573	138,957	132,103
Americas	35,812	49,110	52,751	50,603	45,532
Asia/Pacific	57,547	75,060	56,448	49,857	52,338
Foreign share in %	79	79	78	79	79
Order intake	282,868	317,279	335,224	304,145	297,078
Germany	61,487	68,710	65,679	66,645	60,397
Central (excl. Germany)	126,790	129,431	140,340	141,295	135,708
Americas	34,346	42,465	57,616	47,864	50,447
Asia/Pacific	60,245	76,673	71,589	48,341	50,526
Order backlog	80,674	95,153	90,486	65,997	70,653
EBIT	8,776	3,908	18,300	24,895	24,943
EBT	5,799	717	14,709	21,311	21,129
Net profit	4,223	- 66	9,840	15,418	14,277
Earnings per share in EUR	0.64	- 0.02	1.67	2.59	2.43
Total dividend	3,864*)	3,864	5,152	5,796	5,924
Dividend per share in EUR	0.60*)	0.60	0.80	1.00	1.00
Capex	12,496	23,016	18,682	24,693	20,077
Depreciation & amortization	13,381	13,488	12,814	12,026	11,785
EBIT margin (in % of sales)	3.1	1.2	5.9	8.2	8.6
EBT margin (in % of sales)	2.0	0.2	4.8	7.0	7.3
Sales per employee	157	160	162	173	181
Employees, yearly average (without apprentices)	1,824	1,952	1,906	1,756	1,603
Employees (as of 31 Dec. without apprentices)	1,788	1,894	1,942	1,853	1,658

*) Proposal to the Annual General Meeting

FINANCIAL CALENDAR 2017

Interim statement as of 31 March 2017 **9 May 2017**

Annual Shareholder's Meeting in Neuenstein **2 June 2017**

Interim statement as of 30 June 2017 **3 August 2017**

Interim statement as of 30 September 2017 **9 November 2017**

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