New departures

ANNUAL REPORT 2018

STAHL

KEY FIGURES R. STAHL GROUP

€ million	2018	2017	Change in %	2016	2015	2014
Sales revenue	**280.1**	**268.5**	*+4.3*	286.6	312.9	308.5
Germany	**70.3**	**60.9**	*+15.4*	61.3	64.4	66.8
Central region [1]	**116.1**	**120.7**	*-3.8*	131.9	124.4	132.6
Americas	**31.2**	**29.0**	*+7.7*	35.8	49.1	52.8
Asia/Pacific	**62.5**	**57.9**	*+7.9*	57.6	75.1	56.4
Order backlog as of 31 December	**72.6**	**92.3**	*-21.4*	80.7	95.2	90.5
EBITDA pre exceptionals [2]	**15.2**	**5.8**	*>+100*	20.7	–	–
EBITDA	**9.5**	**2.3**	*>+100*	22.2	17.4	31.1
EBIT pre exceptionals [2]	**2.0**	**-6.7**	*n/a*	7.4	–	–
EBIT	**-4.2**	**-10.7**	*+61.1*	8.8	3.9	18.3
Net profit	**-7.0**	**-21.2**	*+67.0*	4.2	-0.1	9.8
Earnings per share in €	**-1.10**	**-3.28**	*+67.0*	0.64	-0.02	1.67
Dividend per share in €	**–** [3]	–	*n/a*	0.60	0.60	0.80
Cash flow from operating activities	**18.2**	**19.7**	*-7.7*	10.9	18.4	3.1
Depreciation & amortization	**13.6**	**13.0**	*-5.0*	13.4	13.5	12.8
Capex [4]	**10.4**	**10.4**	*0.0*	18.3	23.0	18.7
Balance sheet total as of 31 December	**227.9**	**249.6**	*-8.7*	278.6	278.8	273.9
Shareholders' equity as of 31 December	**62.3**	**69.1**	*-9.8*	94.8	101.0	74.9
Equity ratio as of 31 December	***27.3%***	***27.7%***		*34.0%*	*36.2%*	*27.3%*
Net financial liabilities as of 31 December [5]	**5.5**	**18.1**	*+69.6*	21.8	17.4	32.7
Employees as of 31 December [6]	**1,690**	**1,763**	*-4.1*	1,788	1,894	1,942

[1] Africa and Europe without Germany [2] Exceptionals: restructuring charges, non-scheduled depreciation and amortization, charges for designing and implementing IT projects, M&A costs as well as profit and loss from the disposal of assets no longer required for business operations. Exceptionals were first disclosed in the reporting year 2016. [3] Recommendation to the Annual General Meeting [4] Payments for investments in intangible assets and property, plant & equipment [5] Without pension provisions [6] Without apprentices

Percentages and figures in this report may include rounding differences. The signs used to indicate rates of change are based on economic aspects: improvements are indicated by a plus "+" sign, deteriorations by a "-" sign. Rates of change >+100% are shown as >+100%, rates of change <-100% as „n/a" (not applicable)

CONTENTS

R. STAHL is one of the world's top three suppliers of explosion protection solutions and number one in the systems business. With our outstanding quality, extensive range of offerings and first-class service, we protect people, as well as equipment and the environment. We offer our customers uncompromising safety in the most challenging locations and for the most demanding applications. Thanks to our strategic focus on innovation, we are a technological leader in explosion protection based on the IECEx standard, whose development we continue to actively drive forward.

+€12m
SALES

+€9m
EBITDA PRE EXCEPTIONALS

+€14m
NET PROFIT

TREND

2018

CEO'S LETTER

Ladies and Gentlemen,

2018 was a year of stabilization for R. STAHL. For the first time since 2015, we successfully reversed the downward trend and increased sales again to € 280.1 million – an increase of 4.3% over the previous year. In addition to the positive market environment, this growth was driven above all by our business in Germany – where we generate around a quarter of sales – with an increase of 15.4%. In the Americas, we achieved growth of 7.7% – a particularly gratifying achievement in view of the fact that R. STAHL suffered its sharpest fall in sales here in previous years. The Asia region was similarly successful with growth of 7.9%.

We also made good progress in 2018 with our efforts to stabilize the company's financial situation. R. STAHL's asset and financial position has been returned to a solid level, and our earnings situation also improved steadily and significantly over the course of the year – we are back on track again. The success of our work to date is most clearly indicated by the development of our key earnings performance measure: at € 15.2 million, EBITDA pre exceptionals more than doubled compared to the prior-year figure of € 5.8 million. Despite this encouraging success, however, our consolidated net profit for 2018 was still negative at € -7.0 million, mainly due to exceptionals of € 6.2 million. As a result, this leaves us no scope to pay a dividend at present.

2018 was also a year of new departures. With the efficiency programme R. STAHL 2020 launched at the beginning of the year, we rolled out a comprehensive package of measures to modernize the Group. Its core element is the fundamental streamlining of structures and processes in all areas of the company. In a first step, we introduced a new organizational structure for the Group with global functional responsibilities in 2018. At the same time, we began improving our business processes along the entire value chain and optimizing our product portfolio. The focus here is also on strengthening our change culture, as this is the only way we can achieve a sustainable improvement in our competitiveness. Assuming a generally favourable economic environment, we expect stable sales and a further significant year-on-year improvement in EBITDA pre exceptionals in the mid-single-digit million range for the current year 2019.

Together, we will continue to do everything in our power to make R. STAHL more robust and to achieve sustainable and profitable growth. I would like to thank you, our shareholders, for your continued loyalty and support. I would also like to take this opportunity to express my sincere gratitude to our employees for what they achieved in the past year! The tasks ahead will continue to require our complete commitment, and I look forward to taking this path together with our employees and you, our shareholders. I would also like to thank our customers and business partners for the trust they have placed in us and our products – something we regard as both an obligation and an incentive in our everyday business.

Dr. Mathias Hallmann
Chief Executive Officer

EXECUTIVE BOARD

"2018 was a year of stabilization and new departures. In 2019, we will achieve further efficiency gains and thus lay the foundation for sustainable and profitable growth.

Volker Walprecht, Chief Financial Officer, holds a degree in business administration from the Comprehensive University of Duisburg. He has many years of international management experience, particularly in the areas of finance, controlling and M&A in the automotive and commercial vehicles industry, as well as in the energy and the oil & gas sectors. His career history includes time spent with former automotive supplier Mannesmann VDO, Siemens VDO/Continental and Siemens AG. In 2012, he was appointed to the Executive Board of Grammer AG, Amberg, as Chief Financial Officer. Three years later he moved to Kelvion Holding GmbH, Bochum, as Commercial Director before joining Bonum GmbH, Essen, as a partner in 2017. Volker Walprecht was appointed Chief Financial Officer of R. STAHL AG with a contractual term of three years.

Dr.-Ing. Mathias Hallmann, Chief Executive Officer, studied Mechanical Engineering at the University of Karlsruhe where he also obtained a doctorate. He started his professional career in 1994 as a consultant for McKinsey, which he left in 2002 to join Moeller GmbH as Head of the Business Unit Automation (today: Eaton Industries GmbH). After several management positions at Böhler Welding Group and its parent company voestalpine, where Dr. Hallmann worked as of 2005, he moved to Lincoln Electric in 2013. Here, he was initially responsible for the company's international business strategy outside the Americas before taking over full business responsibility for these regions. Dr. Mathias Hallmann was appointed to the Executive Board of R. STAHL AG on 1 October 2017, and took over as CEO on 1 January 2018. His service agreement has a term of three years.

Dr.-Ing. Mathias Hallmann, CEO, is responsible for Procurement, Marketing, Production, Quality Assurance, Internal Audit, Strategy and Sales.

> "Leading positions in technology and the market for explosion protection solutions are the supporting pillars of R. STAHL. We intend to build on these strengths.

Dr. Hallmann, the efficiency programme R. STAHL 2020 was launched at the beginning of 2018. What is the current status?

With R. STAHL 2020, we are making a sustainable change to our internal Group structures and processes: in the reporting period, we completed our organizational restructuring and the ongoing efficiency measures in production have already led to significant cost reductions. With the aim of aligning ourselves even more closely with the needs of our customers, we have streamlined our product portfolio by around a third – and at the same time increased sales. All in all, we made very good progress with the implementation of our efficiency programme in 2018. We intend to at least maintain this momentum in 2019.

What were, and still are, the greatest challenges faced along the way?

New organizations and processes are always easy to design in theory. The decisive factor for success, however, is how quickly you can get team buy-in for such changes. Our excellent progress in 2018 indicates that we are succeeding in these efforts. At the same time, we are also laying the groundwork for the evolution of our corporate culture: continuous learning and change as a management approach. Sustainable success can only be achieved by constantly questioning and improving ourselves.

What makes you confident that you can get R. STAHL back on track?

We have enormous potential and everything you need for entrepreneurial success: leading positions in technology and the market, an excellent reputation with our customers, and a strong and motivated team. We have also created the right structures to be able to serve our attractive markets even more efficiently in future. These are all outstanding prerequisites for our future course: profitable growth.

Volker Walprecht, CFO, is responsible for Controlling, Accounting, Treasury, Tax, Investor Relations and Corporate Communications, M&A, HR, Legal and Compliance, and IT.

> "Our structural and procedural measures are taking effect. With the realignment of our financial organization, we have also significantly increased the level of transparency in our processes.

Mr. Walprecht, after the difficult preceding year, you were able to quickly return R. STAHL to a financially sound position in 2018. How did you manage to achieve this?

The decisive factor for the rapid stabilization was our initial focus on liquidity. By reducing inventories and receivables, we decreased net working capital and freed up cash. At the same time, by optimizing production processes and the product portfolio, we were able to steadily improve profitability over the course of the year. This meant that we could start the current year with a solid balance sheet, a comfortable financial position and significantly leaner cost structures.

What are the next milestones?

Despite the good development, our consolidated result for 2018 was still negative. The clear objective for the current year is therefore to improve margins and earnings. To this end, we will continue to streamline the Group as a whole – including our financial processes – as well as our product portfolio, and maintain our cost reduction efforts. With an optimized sales process, which we will be gradually rolling out across all our companies in 2019, we also aim to lay the foundation for further sales growth.

How do you expect this to impact the R. STAHL share price?

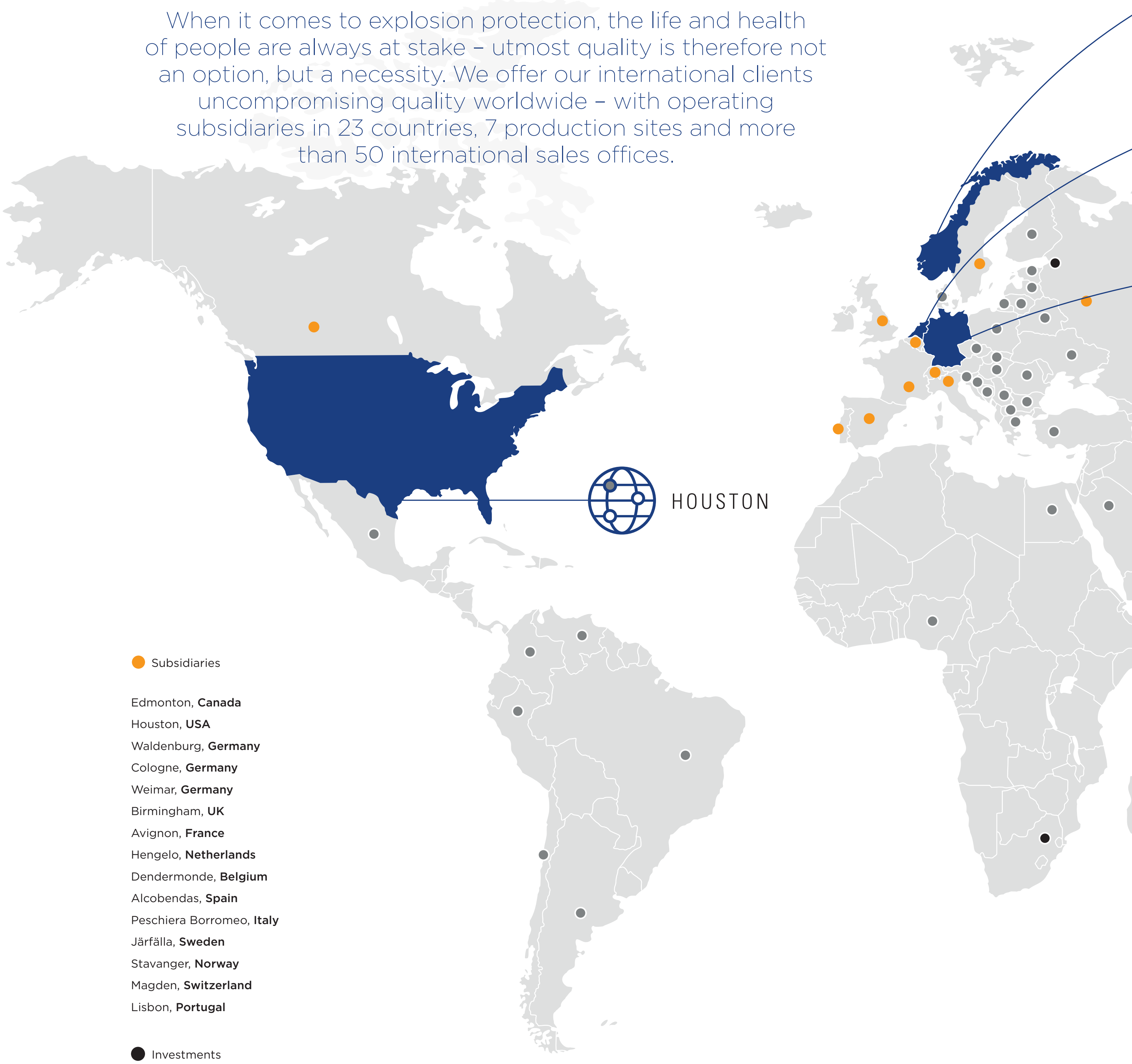
Developments on the capital market depend on a variety factors. Our task is to provide our shareholders with sound reasons to invest in R. STAHL shares. This includes adequate profitability so that we can generate growth and increase the enterprise value of R. STAHL. We have set ourselves ambitious targets, and if we make good progress, I'm sure the market will soon take notice of us.

Dr. Mathias Hallmann
Chief Executive Officer

Volker Walprecht
Chief Financial Officer

Global footprint for our international clients

When it comes to explosion protection, the life and health of people are always at stake – utmost quality is therefore not an option, but a necessity. We offer our international clients uncompromising quality worldwide – with operating subsidiaries in 23 countries, 7 production sites and more than 50 international sales offices.

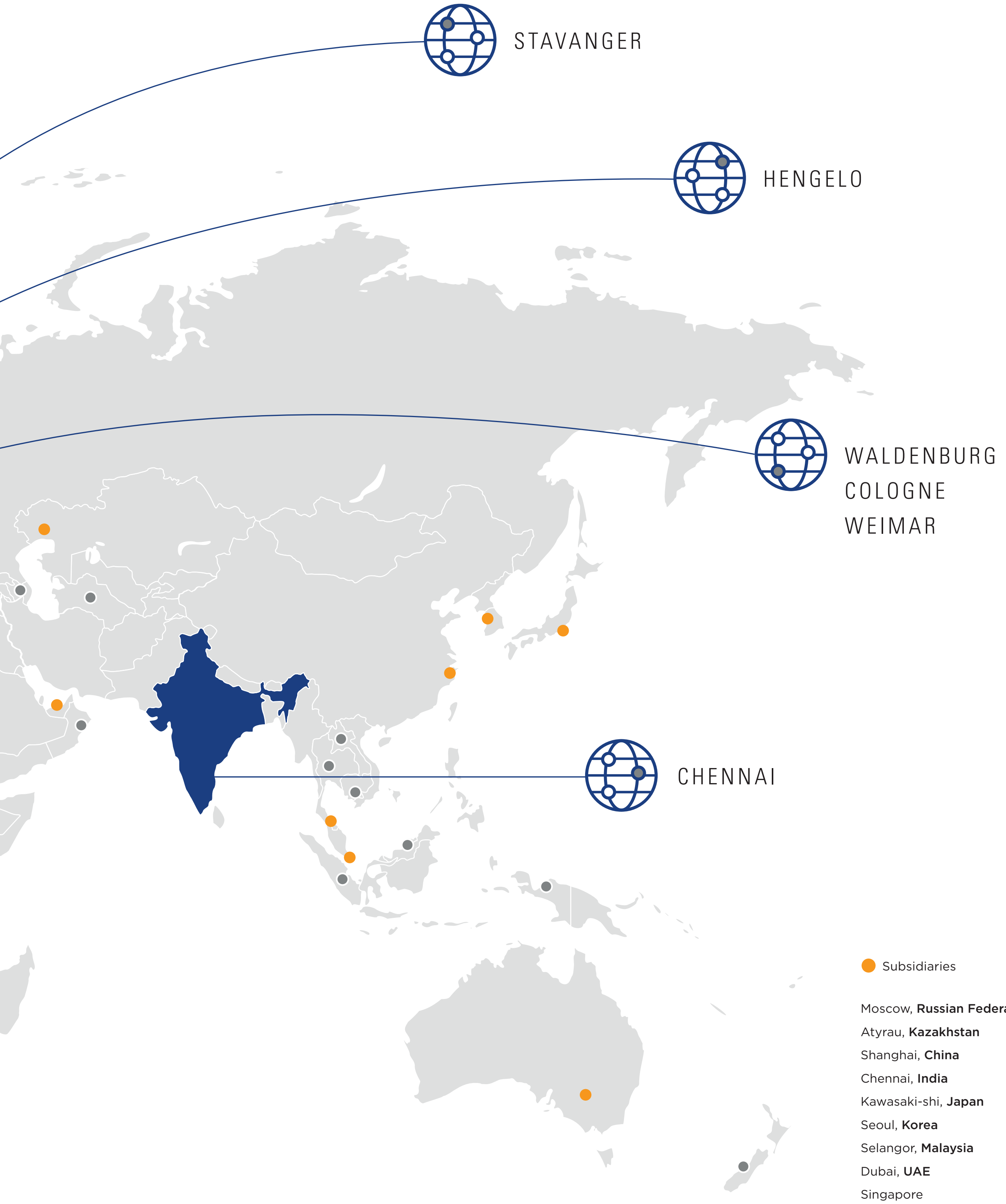


Subsidiaries

Edmonton, **Canada**
Houston, **USA**
Waldenburg, **Germany**
Cologne, **Germany**
Weimar, **Germany**
Birmingham, **UK**
Avignon, **France**
Hengelo, **Netherlands**
Dendermonde, **Belgium**
Alcobendas, **Spain**
Peschiera Borromeo, **Italy**
Järfälla, **Sweden**
Stavanger, **Norway**
Magden, **Switzerland**
Lisbon, **Portugal**

Investments

Edenvale, **South Africa**
St. Petersburg, **Russian Federation**



Subsidiaries

Moscow, **Russian Federation**
Atyrau, **Kazakhstan**
Shanghai, **China**
Chennai, **India**
Kawasaki-shi, **Japan**
Seoul, **Korea**
Selangor, **Malaysia**
Dubai, **UAE**
Singapore
Sutherland, **Australia**

Distributors and sales agents

Build a central, globally responsible Group organization

Optimize product portfolio

Professionalize project and contract management

Streamline procurement and production processes

Improve efficiency of sales structures and processes

Harmonize IT systems

SUSTAINABLE GROWTH

Foster change culture

2018 ~2020

EFFICIENCY PROGRAMME **R. STAHL 2020**

R. STAHL 2020 – sustainably leaner and more efficient

Initiated in 2018, our efficiency programme R. STAHL 2020 involves profound changes. Its objective is the sustainable streamlining of structures and processes along the entire value chain – in accordance with the philosophy of lean management.

At the beginning of 2018, we began implementing lean management as a Group-wide management philosophy with the aim of fundamentally and sustainably optimizing the Group. Its objectives and methods can be applied to all functional areas with recurring and standardizable processes – and thus to almost all functions of the R. STAHL Group. Our optimization processes are focused primarily on the areas of production, marketing, sales and selected administrative functions.

The core idea is not only to raise efficiency, but to create a permanent culture of change – in the sense of a management approach as a holistic development towards becoming a constantly learning company. As a fundamental core element of R. STAHL 2020, lean management therefore plays a pivotal role in maintaining and expanding our competitive edge.

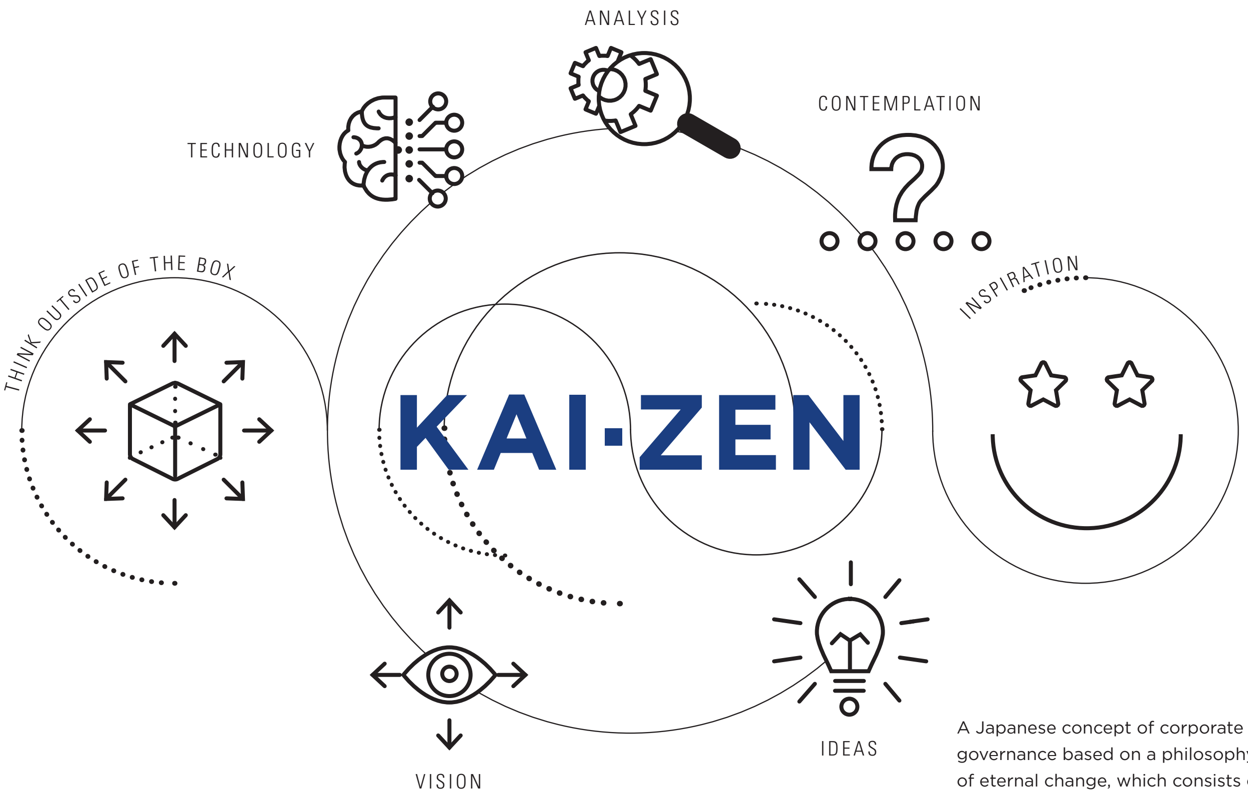
>20%

REDUCTION OF INVENTORIES IN PRODUCTION

+9%

SALES PER EMPLOYEE

Responsibility for our seven production sites worldwide has been pooled within the newly created Global Operations function. The aim is to centrally steer our Group-wide manufacturing processes via this corporate function – from incoming goods, to the various production steps, to shipping and logistics. This not only enables us to improve the availability of our products, but also to reduce manufacturing costs, e.g. by achieving quantity discounts for larger purchases of primary materials, or by avoiding capacity underutilization at individual production sites. In addition, we scrutinize each value-adding step and continuously search for ways of optimizing them.



A Japanese concept of corporate governance based on a philosophy of eternal change, which consists of maintaining a continuous improvement process.

The culture of continuous improvement

The term kaizen comes from the Japanese language. It consists of Kai (= change) and Zen (= for the better). Its aim is the continuous improvement of activities, processes, procedures or products by all employees in the company. The focus is not on the value of a single measure, but above all on the involvement of all employees, a large number of improvement suggestions and the rapid implementation and visibility of success. Kaizen's goal is to become an integral part of corporate culture.

In particular, Kaizen also includes managers. In the reporting period, Bernardo Kral, Senior Vice President Global Operations, spent a total of 112 days at our global production facilities, discussing with employees different possibilities to improve their work processes at the "place where value is created", the "Gemba".

GEMBA

Japanese: "the actual place"; in lean management "the place where value is created"

Bernardo Kral, Senior Vice President Global Operations has been involved with lean management in industrial environments for around three decades. Born in Brazil, he has been responsible for R. STAHL's global manufacturing since January 2018.

" World-class operational excellence is what every single unit of our global organization aspires to. Many of our performance metrics indicate we were already very successful in 2018. We have also set ourselves ambitious targets for the years ahead.

Lean measures taking effect

We have trained our production employees around the world to prepare them for our Group-wide lean measures. With the aim of strengthening cooperation and promoting a culture of change and ideas competition, we also began training our employees in the necessary qualitative and quantitative principles in 2018 – enabling them to at least become "Six Sigma Yellow Belts".

From the outset, we involved as many employees as possible in the training measures – and thus quickly achieved a high level of employee engagement and motivation. This has enabled us to drive forward cultural change on a broad basis. And with great success: more than 750 kaizens implemented during the reporting period helped us permanently reduce annual costs by € 2.3 million and increase sales per production employee by 8.8% year on year – and by as much as 16% compared to the average of the last three years.

The lean measures implemented so far and the streamlining of our product portfolio already initiated have also permanently reduced the amount of primary materials required for production. Moreover, by selling old inventories of discontinued products, we also reduced the level of liquidity tied up in our warehouses. In total, we reduced inventories by more than € 10 million – with a corresponding positive effect on cash flow and net liquidity. For 2019, we have identified additional significant potential to improve our production processes and material flows, which will enable us to make further inventory adjustments.

Ramakrishnan Balasubramanian, Director Operations Chennai, mechanical engineer and business graduate, has been with R. STAHL since 2011 and can draw on almost two decades of production experience in bulk product industries.

> The success of our pilot project has set in motion a competition for ideas that not only improves our processes, but also strengthens our culture of change. It is extremely motivating to be part of this dynamic team!

Productivity and safety improved

In Chennai, our largest facility for luminaire production, around 250 employees manufacture explosion-protected luminaires – using both conventional light sources and modern LED technology.

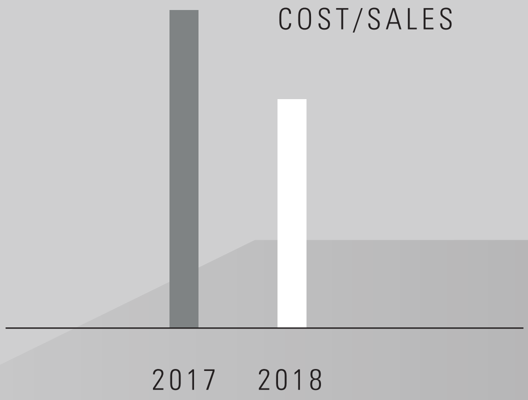
Our local lean programme started by training production staff in efficient resource management methods – also known as "3 M" in lean management. 3 M stands for the Japanese words Muda (= waste), Mura (= un-evenness) and Muri (= overburden) and describes the three production obstacles that must be avoided in efficient and stable processes. There is also a special focus on identifying and avoiding wasteful practices and non-value-creating activities. In this way, we implemented a total of 128 kaizen in the reporting period.

In a first pilot project in 2018, we analyzed the production lines for the manufacture of our linear luminaires and LED floodlights. By using value stream analyses, the visualization of paths, and time measurements, we examined the actual and target processes and adapted the production lines to the optimized value stream. On this basis, we then further coordinated the individual production steps with smaller improvements and succeeded in optimizing the entire production flow.

One particular challenge was that all this had to be achieved without any major interruption to ongoing production – after all, demand for our market-leading luminaires is high. The pilot project was extremely successful: we reduced our production space requirements by about one tenth and the workload by one third in some cases. In connection with the conversion of processes from single to flow production, we almost doubled output and thus reduced the ratio of production cost to sales by 28%. At the same time, we were able to reduce the number of days lost due to accidents by almost three quarters in 2018, compared with the previous year.

-28%

PRODUCTION COST/SALES



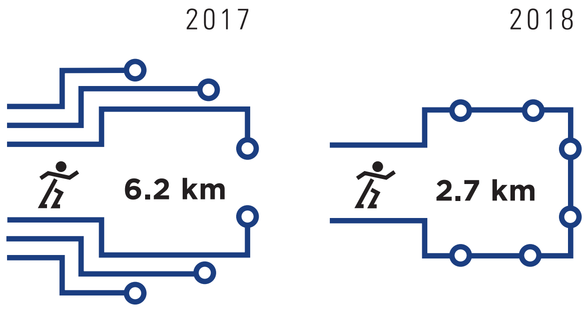
CHENNAI

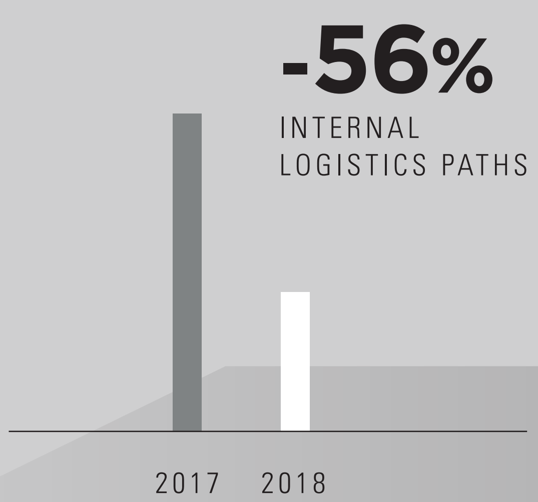
-73%

LOST DAYS

WEIMAR


Transport
Lucy
LI-ION technology
JUNGHEINRICH


2017
6.2 km
2018
2.7 km


-56%
INTERNAL
LOGISTICS PATHS
2017
2018

Oliver Schindler, Director Operations Weimar, industrial engineer and with R. STAHL since late 2017, is a production expert and has been involved in industrial process planning in manufacturing for over 17 years.

> „We examined the entire value chain in our plant – and were able to achieve double-digit percentage improvements in productivity and warehousing in 2018 by optimizing our storage, logistics and manufacturing processes.

Logistics perfected

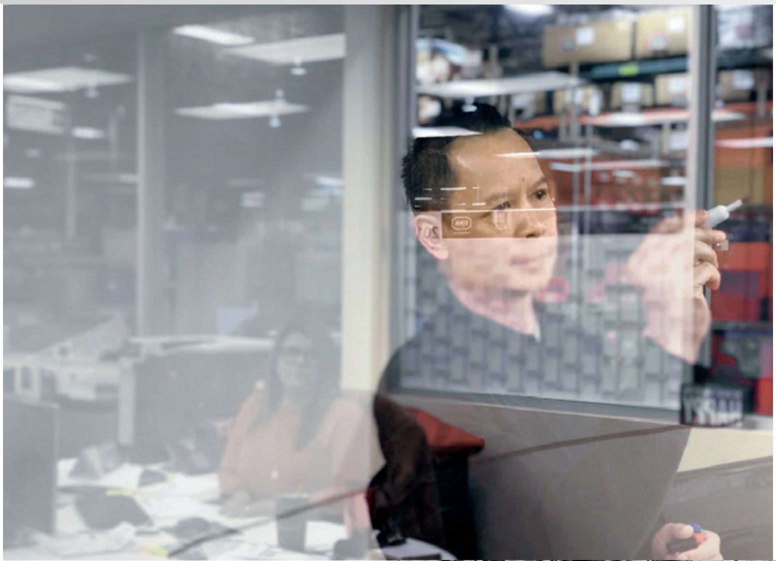
+24%
SALES/EMPLOYEE

In Weimar, the second production facility for luminaires, we closely examined our internal logistics processes in 2018. In the past, a specially assigned logistics employee was responsible for supplying his colleagues in the assembly department with the materials they needed – using either a forklift truck or a hand cart. Even under ideal conditions, he covered a distance of at least 6.2 km every day – and still had plenty of empty runs as the vehicle used was not always suitable for the subsequent transport.

By using a tugger train based on the "Milk Run" concept, this work is now handled much more efficiently: the basic idea and name are based on the principle of the traditional American milkman, who supplied households with milk according to a fixed route. Replenishment was based on the available empties, so that the milkman always delivered as much milk as was consumed. The empties were immediately collected and returned to the depot.

Our new tugger train consists of a tractor unit with a flexible number and design of trolleys. The annoying search for a free lift truck and the detailed logistics previously required by the assembly worker are no longer necessary. Several trolleys can be transported at the same time to reduce empty runs. As the tugger train is the only vehicle in the production area, the risk of accidents is also reduced. The result: a 56% shorter route, a simplified assembly process and lower costs due to fewer vehicles in circulation.

We also examined our warehousing. Whereas a large proportion of stored goods still had to be parked in a specially rented external warehouse in 2017, we were able to significantly reduce the space required at our production site by optimizing space utilization in 2018. Once again, the portfolio streamlining measures implemented last year played a vital role in these efforts. Further ongoing measures – the relocation of a production facility for plastic foaming is also planned – will make it possible to completely dispense with the external warehouse and thus save annual costs in the six-figure range in 2019. In total, more than 60 kaizens implemented in the reporting period at our Weimar site led to an impressive 24% increase in sales per employee.



HOUSTON

60%
SHORTER PATHS

Brandon Chitpanya, Director Operations Houston, has been responsible for the planning and implementation of lean management in a wide range of functions, including production, purchasing and quality control, since 2002. He joined R. STAHL in Houston in 2010.

> Thanks to our lean measures, we were able to reduce material inventories for production by almost a third – while at the same time increasing sales. By enhancing productivity and reducing tied-up capital, we have been able to significantly improve our key financial figures.

Shorter paths, greater safety

At our production facility in the USA, around 50 employees are engaged in designing and manufacturing mainly switch cabinets and control boxes according to customer-specific requirements. Our local presence in one of the USA's most important industrial regions ensures short delivery routes and fast availability.

Literally at the centre of our initial lean measures were our efforts to optimize the paths used by staff in production. To this end, we analyzed the distances our employees had to walk every day between the spatially separated assembly stations and the material warehouse. It quickly became apparent that a central location of the material store in the assembly area would result in significant potential savings with regard to distance and time – by almost two thirds as it turned out after implementation of the measures.

In order to target further lean activities, we defined additional parameters in 2018 with which we can monitor the success of our measures – as improvement requires measurability. We focused in particular on our warehousing processes. By developing a strategic procurement plan and modern replenishment processes, we were able to reduce inventories of primary materials by a third and thus free up the funds tied up in inventories by an almost seven-digit amount – while at the same time increasing sales. Together with the optimization of work processes, we reduced the ratio of labour costs to sales by 28% in 2018.

-28%

LABOUR COSTS TO SALES

R. STAHL Share

Share price influenced by company's situation and market environment

Solid global economic data and good corporate figures in the final quarter of 2017 resulted in an upbeat start to the new year for the international stock markets. In the USA, the package of tax cuts for companies and private households introduced by the Trump administration in December 2017 had an additional stimulating effect on stock markets. However, the capital markets were clearly unsettled when they learnt about plans for import tariffs, which the US government had first specifically announced in the first quarter. By the end of the quarter, the world's most important stock indices had fallen by double-digit percentage rates. As the year progressed, changing assessments of the possible outcome of an ongoing trade dispute shaped developments on the global stock markets. While expectations of a quick settlement initially prevailed until mid-2018, concerns about a further escalation dominated in particular in the final quarter. In addition, assessments of the future outlook for the global economy became increasingly gloomy over the course of the year. For the year as a whole, this led to double-digit price falls on the most important global stock markets, whereby the capital markets in Europe and the USA drifted increasingly apart. While strong economic and corporate data drove the American stock markets to new all-time highs until October, share prices in Europe fell steadily from the middle of the year onwards. In addition to strongly varying regional growth trends and political uncertainties in key countries of the European Union, the reasons for this negative sentiment include the further increase in interest rate disparity between the two economic regions over the course of the year.

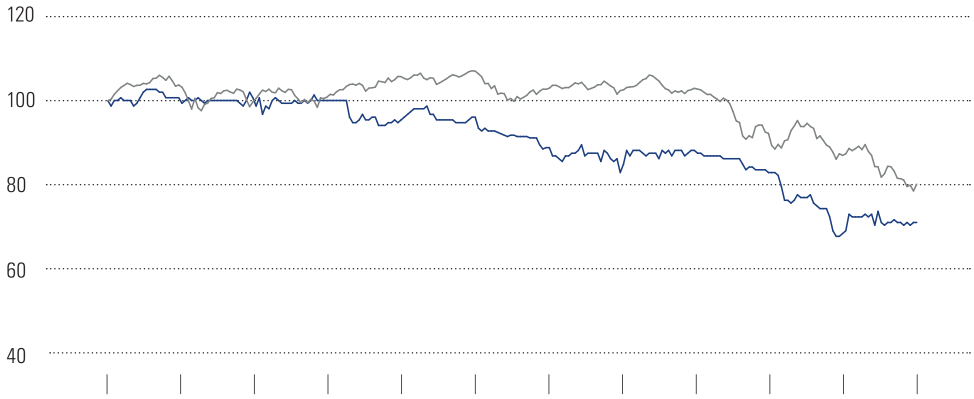
The R. STAHL share started 2018 at a price of € 30.19. In the first three months of the year, the share price initially followed the sideways trend of the SDAX benchmark index to a large extent. The increasingly challenging company situation from March onwards put the R. STAHL share under considerable pressure as the year progressed. By the end of the third quarter, the price had fallen to € 26.00. Over the comparative period, it therefore underperformed the SDAX by around 15%. The SDAX had been able to maintain its level from the beginning of the year in a market environment with a comparatively low degree of volatility. The R. STAHL share was also unable to escape the overall market downturn that began in the second half of the year: on 20 November it reached its year-low of € 20.40, but recovered slightly to € 21.40 by the end of the year. By contrast, the decline of the SDAX accelerated in December and resulted in a low of 9,509 points. Compared to the beginning of the year, the SDAX thus fell by 19.5%, while the R. STAHL share declined by 29.1%. Trading volumes also decreased with an average daily turnover of 1,017 shares (2017: 1,201 shares).

Founding families still hold majority of R. STAHL shares

More than 50% of R. STAHL shares are held by shareholders from the extended circle of the founding families Stahl and Zaiser. Over 10% of share capital is held by RAG-Stiftung Beteiligungsgesellschaft mbH, over 5% by Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte and more than 3% by Investmentaktiengesellschaft für langfristige Investoren TGV. At year-end, institutional investors with voting rights subject to mandatory reporting requirements of 3% or more held around 27% of share capital. Around 98% of R. STAHL's share capital is held by shareholders in Germany, more than 1% is held by shareholders in Switzerland, Austria and Luxembourg.

Regular dialogue with our shareholders is very important to us. In 2018, we were represented at several capital market conferences and held individual and group discussions with our investors. We publish comprehensive and up-to-date information in the form of interim, half-yearly and annual reports, as well as presentation materials, on our corporate website. In addition, we give all interested investors access to our conference calls, which are held regularly by the Executive Board. Further detailed information, also on the R. STAHL share, can be found on our website www.r-stahl.com in the section Corporate/Investor Relations.

PERFORMANCE OF R. STAHL SHARE VS. SDAX 2018 [1)]



Key figures of R. STAHL share [2)]

€	2018	2017
Number of shares (in thousands)	6,440	6,440
Market capitalization on 31 December (€ million)	137.8	194.4
Year-low (20 November 2018/25 April 2017)	20.40	28.40
Year-high (18 January 2018/26 July 2017)	31.00	33.50
Year-end price (31 December)	21.40	30.19
Average daily trading volume (number of shares)	1,017	1,201
Earnings per share	-1.10	-3.28
Dividend per share	– [3)]	–
Dividend yield at year-end (%)	n/a	n/a

Security ID	1PHBB
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 Products and Services, DAXsubsector Industrial Products and Services, Prime All Share
Stock markets	XETRA, Frankfurt, Stuttgart, Düsseldorf, Munich, Berlin, Hamburg

1) Basis: closing prices of XETRA trading platform.
2) All stock exchange figures are based on the XETRA trading platform.
3) Proposal to the Annual General Meeting

Consolidated financial information

pursuant to Section 315a HGB in accordance with International Financial Reporting Standards

COMBINED MANAGEMENT REPORT

OF R. STAHL AKTIENGESELLSCHAFT AND THE R. STAHL GROUP

BASIC PRINCIPLES OF THE GROUP

BUSINESS MODEL

Standards and regulations for explosion protection

We encounter combustible gases, liquids and solids in many areas of our daily lives and working activities: as fuel for vehicles, as energy sources to generate electricity and heating, as raw materials in the chemical industry. These substances all require careful handling in order to minimize the dangers they present to humans and the environment. One particular danger is when combustible substances mix with specific proportions of oxygen in the air, the so-called explosion limits. Any ignition of such mixtures leads to an immediate explosion – often with grave personal injuries and damage to property. In particular, the risk posed by combustible dusts has long been underestimated – hardly anyone expects that, for example, meal dust used in the food industry or sawdust accumulating in wood processing companies can actually explode. However, when mixed with oxygen, the danger posed by such dusts is in no way inferior to that of liquid fuels such as petrol or combustible gases such as natural gas or hydrogen. Just how impressive such dust explosions can be is illustrated by the film industry, which uses them in a controlled manner for their pyrotechnic effects.

Due to the serious consequences that insufficient explosion protection can have, the technical requirements for the commercial handling of combustible materials are highly regulated. However, these regulations differ greatly from region to region. For example, the member states of the European Union are governed by the guidelines 2014/34/EU and 1999/92/EC (ATEX directives), whereas the dominant regulation for the construction of electrical systems – including explosion-protected equipment – in the USA is the National Electrical Code (NEC) and in Canada the Canadian Electrical Code (CEC). The two standards differ considerably in their technical details; one reason for this is that the NEC system was originally geared towards the construction of water and gas pipelines. Further national regulations increase the variety of applicable standards and guidelines. With the aim of facilitating the free movement of goods worldwide, the International Electrotechnical Commission (IEC) – which is responsible for global standardization in the field of electrical engineering – is therefore working on internationally valid approval conditions for electrical equipment in the field of explosion protection. And is enjoying considerable success in these efforts: the IEC 60079 standards and related compliance assessment system IECEx based on its work, which is technically very similar to the EU's ATEX directives, have established themselves as the increasingly accepted standard with global validity. For some years now, the US Coast Guard – responsible for US offshore installations – has also accepted IECEx-certified products for offshore facilities.

R. STAHL is one of the world's leading suppliers of explosion protection products and solutions based on the relevant IEC and European standards. As the technology leader, we actively shape their ongoing development and thus contribute to the global harmonization and improvement of safety standards. One of our core competencies is the certification of components and systems, which is so important in explosion protection.

Market with high entry barriers

Unfortunately, the importance of the highest possible safety standards and uncompromising reliability in explosion protection becomes particularly evident when they are not adopted. A single spark on an oil rig or in a chemical facility is enough to cause explosions with fatal consequences. There is therefore strong demand throughout society for safe, environmentally friendly and sustainable industrial processes. This is leading to increasing requirements for all areas of safety technology around the world, especially in the field of explosion protection.

On the one hand, this offers further growth potential for R. STAHL – and a further increase in the importance of the IECEx certification system around the world. On the other hand, these growing requirements represent significant entry barriers for new potential competitors, as the expertise and reputation of suppliers of safety-critical explosion protection products and systems play a major role for customers: anyone seeking to establish themselves in this market must first build up trust in their expertise and product reliability over many years. In the case of large-scale projects with relatively low costs for explosion protection in relation to total cost, clients therefore prefer internationally renowned and experienced suppliers with a solid track record of their overall systems expertise. At the same time, complex certification regulations present a further barrier for new suppliers. The significant bureaucratic effort required to prove compliance with various requirements and standards in explosion protection therefore promotes a high level of customer loyalty and retention.

R. STAHL – explosion protection products and solutions offering utmost quality and safety

Our electrotechnical products and complex systems are designed to protect people, equipment and the environment from the dangers of undesired explosions with the highest possible degree of reliability. They are mainly used in the oil and gas industry, as well as in the chemical and pharmaceutical industry. On the basis of the products and services we offer, we are one of the world's top three suppliers of explosion protection solutions and number one in the systems business. Our solutions cover the entire value chain in explosion protection: individual components such as switches and signalling devices for simple applications, to control boxes and system controls for the distribution of electrical energy, to complex systems for large-scale projects in the field of oil and gas production or the (petro-) chemical industry, for example. We are the global market leader for lighting solutions in explosion-protected areas based on energy-efficient LED technology – from hand-held spotlights to dedicated lighting systems for helidecks on oil rigs. In addition, we offer a strong portfolio of automation solutions for controlling and monitoring technical facilities, including the market-leading remote I/O system, IS1+, as well as operating units and camera systems. Demand for these products is being driven by the increasing digitalization and automation of industrial processes: Industry 4.0. Moreover, our expertise in the systems business – one-stop solutions for complex individual problems and customer requirements – is unique throughout the world. A major pillar here is our engineering and consulting expertise, which we are continually enhancing with further services. All of our products and services meet the highest safety standards, reflecting almost 100 years of experience in the field of explosion protection.

Seven production facilities and global sales organization of the R. STAHL Group

The parent company of the R. STAHL Group is R. Stahl Aktiengesellschaft in Waldenburg, Germany (in the following R. STAHL AG); it sets the strategic alignment of the Group's subsidiaries and performs corporate management functions. It also acts as a service provider within the Group and advises the subsidiaries. An overview of the Group's various locations can be found in the list of shareholdings.

R. STAHL AG is subject to German law and governed by the two-tier system of Executive Board and Supervisory Board. The Executive Board comprises the CEO, Dr. Mathias Hallmann, and Volker Walprecht. The Supervisory Board of R. STAHL AG has nine members, three of which are staff representatives in accordance with the German One-Third Participation Act. The tasks of the Supervisory Board include appointing and dismissing members of the Executive Board, monitoring and advising the Executive Board, and adopting the annual financial statements. Detailed information on corporate governance and the cooperation between the Executive Board and the Supervisory Board are provided in this Annual Report in the Report of the Supervisory Board and on our website www.r-stahl.com in the section Corporate/Investor Relations/Corporate Governance.

At the end of 2018, the R. STAHL Group comprised 34 companies in all important regions of Europe, the Asia-Pacific region and in North and South America. In addition, we are represented by approximately 50 sales offices around the world. Our production capacities are pooled at seven sites with varying core competencies: lighting and signalling devices are produced mainly in Weimar, Germany, and Chennai, India, while automation technology products are developed and manufactured in Cologne and our main base in Waldenburg. Most of the components for installation, such as switches, terminal boxes and connectors, are also produced in Waldenburg. Customized equipment and more complex explosion protection systems are produced in Waldenburg, as well as by the subsidiaries Electromach B. V. (Hengelo, the Netherlands), R. STAHL TRANBERG AS (Stavanger, Norway) and R. STAHL Inc. (Houston, USA). A particular area of expertise of the Hengelo facility is also the production of large container solutions, while in Stavanger the main focus is on products for shipbuilding and the oil and gas industry.

Skilled and motivated staff

Skilled and motivated employees are a major success factor for a globally operating, leading technology company like R. STAHL. In the competition for top-performing specialists, we offer attractive conditions in order to maintain our appeal for existing employees and successfully attract new staff. This starts with our efforts to provide schoolchildren and school leavers with initial orientation on possible future careers. In 2018, for example, we played a leading role in organizing a career information day at our Waldenburg site, together with 15 other employers offering apprenticeships in the region, which was attended by more than 200 young people. Our apprenticeship programme is also highly acclaimed: in 2017, our vocational training at the Waldenburg site once again received the DUALIS seal for particular excellence of the Heilbronn-Franconian Chamber of Commerce (IHK). One of the reasons is that we attach great importance to in-depth, comprehensive and best-in-class quality in our vocational training. For example, we offer staff the possibility to spend time at our international subsidiaries. We also offer special support for women interested in choosing technology-oriented careers. To ensure employees are given the best possible conditions for achieving their personal career goals, we offer extensive training opportunities and flexible working time models for a healthy work-life balance. These offerings are rounded off by numerous sports and healthcare programmes.

As of 31 December 2018, the R. STAHL Group employed 1,690 people (31 December 2017: 1,763). In addition, there were 89 apprentices and students (31 December 2017: 80) and 23 employees completed their apprenticeship or dual study course in the reporting period (2017: 30). The adjustment to headcount was mainly due to our efficiency programme R. STAHL 2020 launched at the beginning of 2018, which we will be presenting in detail on the following pages.

OBJECTIVES AND STRATEGIES

We have set ourselves the goal of achieving sustainable and profitable growth, thereby steadily raising our enterprise value. To this end, we continue to develop our existing product and service portfolio in line with the needs of our customers with the aid of innovations. The most recent example of this is the EXpressure® enclosure series, which is based on a revolutionary technological principle and opens up application areas for explosion protection products that could previously only be served with considerably more effort. We started marketing EXpressure® in 2018. At the same time, we are expanding our presence in growth markets and also considering non-organic growth. Another important goal is to further diversify our customer base and establish more competitive cost structures.

R. STAHL 2020

Over the past few years, it became increasingly evident that our Group structures and processes were not sufficiently robust to generate adequate profitability, especially in difficult market phases. At the beginning of 2018, we therefore launched our efficiency programme R. STAHL 2020. With this package of measures, we want to make the Group more modern and leaner in all areas. The aim is to reduce the high degree of complexity throughout the company, to realign the Group's global organizational structure with centrally managed functions, and to raise the efficiency of our processes and systems. This will provide the necessary conditions and scope to exploit the opportunities for sustainable and profitable growth arising from our markets more fully in future.

The core elements of R. STAHL 2020 are:

- Build a central, globally responsible Group organization

  We introduced the new organizational structure developed at the beginning of 2018 on 1 April and in the reporting period filled the management positions of the first and second management levels. This completes the restructuring of the organization. All divisions are managed by the corporate divisional managers at our Group headquarters in Waldenburg with global functional responsibility.

- Optimize the product portfolio

  A lean and efficient product portfolio offers clear benefits for both customers and suppliers. While suppliers achieve cost advantages through economies of scale and reduced complexity along the entire value chain, customers benefit from higher availability and improved service, for example.

  When adapting an existing portfolio, due consideration must be given to both the supplier's interest in a streamlined range of offerings and the customer's desire for a wide variety of solutions. In the first phase, we identified products with a weak sales history and took them out of the portfolio. This enabled us to remove around one third of the products from our distribution systems which were still available at the end of 2017 – while at the same time increasing sales. We expect the further measures already initiated, which we intend to complete by the end of 2019, to result in further streamlining of a similar magnitude.

- Professionalize project and contract management

  Particularly in the case of high-volume contracts, customers often invite suppliers to submit bids as part of a tendering process. In addition to margin requirements, the supplier's decision as to whether and how to bid for such contracts also involves strategic considerations. In the course of R. STAHL 2020, we introduced a new systematic and Group-wide bidding process that takes account of our customers' desire for attractive offers on the one hand and our own operational and strategic objectives on the other. We are pursuing the same objectives in our development of contract management. The core element of the bidding process is a specific risk assessment, including such criteria as price demand, history of the customer relationship, and a comparison of desired delivery time and our available production capacity.

- Modernize procurement and production processes

  Our seven production sites with their respective core competencies form the basis of our global production network. As part of the central alignment of Group functions, we pooled global responsibility and management of this network in the newly created Global Operations function at the beginning of 2018. Its objective is to drive the standardization and streamlining of our production-relevant processes along the entire value chain – from procurement, which we have also pooled in the new Global Procurement function, along the individual production steps to logistics. For this purpose, we employ the powerful and established methods of lean management. The streamlining of our product portfolio, which additionally reduces complexity, also has a positive effect on these efforts.

EFFICIENCY PROGRAMME **R. STAHL 2020**

- **Improve efficiency of our sales structures and processes**

  We have also fundamentally redesigned the Group function Global Sales, which now has central responsibility for worldwide sales. The efficiency measures currently being implemented in this field have several objectives: by standardizing sales processes and the competencies of our sales units across the Group, we aim to align ourselves more closely with our customers. In this way, we can ensure that we meet the requirements of our customers around the world more fully in future, with the same high level of reliability. At the same time, we are pressing ahead with the strategic expansion of our customer base and qualifying ourselves as a supplier for customers with high demand for explosion protection solutions. We also want to reduce the lead times for orders. A prerequisite for this is that the necessary technical clarification has already been completed at the time of order acceptance. A streamlined portfolio also increases efficiency in this respect.

- **Harmonize our IT systems**

  Powerful data processing systems play a key role in the ongoing digitalization of industrial environments, as processes can only be set up robustly and automated reliably by means of standardized and continuous data flows. We have therefore begun to reduce the excessive diversity and complexity of our IT structures in an effort to harmonize our system landscape. In addition to the introduction of a uniform hardware environment, a major focus area is the Group-wide implementation of standardized systems for enterprise resource planning (ERP) and computer-aided engineering (CAE). The optimization of our IT structures is expected to be completed by 2022. At the interface with our customers, we will continue to drive digitalization by providing powerful configuration tools. This will accelerate the entire order process – from technical clarification to production and shipping. Moreover, we will continue to offer our customers the highest level of consulting and problem-solving expertise for more complex issues.

The Project Management Office (PMO) attached to the Corporate Strategy function is responsible for monitoring and ensuring the successful implementation of R. STAHL 2020. At the same time, we are also driving cultural change throughout the Group: continuously striving for improvement and change – the fundamental principle of lean management – is to become the new and enduring normality of all our actions.

MANAGEMENT SYSTEM

We manage the R. STAHL Group with the aid of selected performance indicators. The Executive Board bases its decisions and measures for steering the Group on both financial and non-financial indicators. On the basis of budget figures, as well as any resulting deviations in actual and targeted figures, we determine the extent to which our objectives have been achieved and which measures can be derived from them.

Financial and non-financial indicators for the R. STAHL Group and R. Stahl Aktiengesellschaft

Our business success in financial terms is mainly reflected in our earning power and the generation of additional liquidity – our financial management system is therefore guided by the financial performance indicator EBITDA pre exceptionals. In addition, we use other measures which serve as indicators of the expected financial trend: these include sales revenue, and the development of order backlog and net working capital.

The earnings indicator EBITDA pre exceptionals is calculated from earnings before interest, taxes, depreciation and amortization (EBITDA), without consideration of special items (exceptionals). Such special items include all effects on earnings which are not generally a regular component of our business model, such as restructuring charges, charges for designing and implementing IT projects, M&A costs, as well as profit and loss from the disposal of assets no longer required for business operations. As part of the annual planning process, we define targets for these performance indicators. These are then continuously monitored on the basis of monthly plan/actual comparisons and, as an integral part of monthly reporting, form the basis for the timely steering of the Group's overall performance.

We believe that sustainable and profitable growth also requires the consideration of non-financial performance indicators. As a manufacturer of electromechanical components, occupational safety and resource efficiency play a particularly important role for us. We measure these aspects, for example, by the number of work accidents, the ratio of sales revenue to energy used, and our recycling rates. The performance measures used throughout the Group are presented in more detail in our Consolidated Non-Financial Declaration, which is available together with this report on our website www.r-stahl.com in the section Corporate/Corporate Responsibility.

Planning process for the R. STAHL Group and R. Stahl Aktiengesellschaft

In the final quarter of each reporting year, we prepare a plan for the next three years based on the Group's strategic objectives, which is subsequently submitted to the Supervisory Board. The main component of this planning is an estimation of the expected development of our individual subsidiaries, which is also based on general economic and sector-specific forecasts. The Group planning process is coordinated by our central Controlling division. Budget figures of Group companies are consolidated and monthly deviations from these figures are analyzed and discussed with the Executive Board. For its assessment of these findings and the measures to be derived from them, the Executive Board also includes a review of the current and future development of order intake.

RESEARCH AND DEVELOPMENT

Our technological expertise is a major cornerstone of our market-leading position in explosion protection – and the basis for both our continuous product enhancements and the development of new safety solutions. In order to translate the latest technological findings into marketable products as quickly as possible, we work together with specialist universities in the core technology fields of our business, especially in the field of electrical engineering and materials research.

Due to the central importance of innovation for our strategic positioning, we developed new and value-adding solutions for explosion protection once again in 2018. Our R&D activities focused on the further expansion of our product range in the field of LED luminaires, automation and enclosure systems. Our most significant new development in recent years, the revolutionary enclosure technology EXpressure®, was rolled out during the reporting period and we have already received our first orders. At the same time, we are further expanding our product range on the basis of EXpressure® technology.

Our expenses for research and development in the reporting period amounted to € 19.3 million (2017: € 17.5 million) and thus represented 6.9% of sales revenue (2017: 6.5% of sales revenue).

ECONOMIC REPORT

GENERAL CONDITIONS

Macroeconomic conditions

Global economic growth stagnating

After a positive start to 2018, the global economy gradually lost some of its momentum as the year progressed. In its January 2019 outlook, the International Monetary Fund (IMF) downgraded its April forecast for the growth of global gross domestic product (GDP) for 2018 from 3.9% to 3.7%. The IMF believes that the main reasons for the change were the increased restrictions for global trade and rising capital outflows from emerging markets due to weak fundamentals and higher political risks.

From a regional perspective, growth was again above average in the emerging markets. At 4.6% (2017: 4.7%), emerging markets grew twice as fast as the group of industrialized countries, for which growth of 2.3% is anticipated (2017: 2.4%).

The growth rates within these two groups also differ considerably. With growth of 2.9%, and thus an increase of 0.7 percentage points over the previous year (2017: 2.2%), the US economy performed strongly and recorded the highest growth rate of the industrialized countries. According to the IMF, the US government's broad-based tax reduction programme, which came into effect at the beginning of the year, played a major role in this development. Due primarily to lower exports of the major member countries Germany, France, Italy and Spain, GDP growth in the eurozone fell to 1.8% (2017: 2.4%). France and Germany were hit hardest, with growth declining by 1.0 percentage point to 1.5% (Germany) and by 0.8 percentage points to 1.5% (France). Growth rates were also down in Japan at 0.9% (2017: 1.9%), the United Kingdom at 1.4% (2017: 1.8%) and Canada at 2.1% (2017: 3.0%).

Year-on-year change in GDP (%)	2018	2017
World	**+3.7**	**+3.8**
Industrialized countries	**+2.3**	**+2.4**
USA	+2.9	+2.2
Eurozone	+1.8	+2.4
Germany	+1.5	+2.5
France	+1.5	+2.3
Italy	+1.0	+1.6
Spain	+2.5	+3.0
Japan	+0.9	+1.9
United Kingdom	+1.4	+1.8
Canada	+2.1	+3.0
Emerging markets	**+4.6**	**+4.7**
Asia	+6.5	+6.5
China	+6.6	+6.9
India	+7.3	+6.7
Russia	+1.7	+1.5
Latin America	+1.1	+1.3

Source: World Economic Outlook Update, International Monetary Fund, January 2019

Growth of 6.5% in Asia was driven in particular by the high growth rates of the emerging markets: the Chinese economy grew by 6.6% – again slightly down on the previous year – while India increased its growth rate to 7.3%. Russia also performed better than in the previous year, but at the much lower growth rate of 1.7%. Growth in Latin America slowed slightly to 1.1%.

Sector-specific conditions

Oil and gas sector continues its recovery

In 2018, the oil and gas sector continued to recover from its weakness in recent years. In its monthly report on the oil market in January 2019, the Organization of Petroleum Exporting Countries (OPEC) noted that global demand for crude oil increased by 1.5 million barrels per day last year. The non-OPEC oil producers significantly increased their volumes by 2.6 million barrels/day, while the OPEC states continued their contradictory course started in the previous year of stabilizing the oil market by cutting production by 0.2 million barrels/day. Against this backdrop, the price of Brent crude rose by about one third, from around US$ 66 per barrel at the beginning of the year to over US$ 85 per barrel by September. However, increasing concerns about a cooling of the global economy due to the escalation of the trade conflict between the USA and China put oil prices under considerable pressure again in the last quarter. As a result, the price increase of the first nine months was more than offset and the price of Brent crude fell to about US$ 54 per barrel at the end of the year – a decline of about 20% over the year as a whole.

Accelerated growth in the chemical and pharmaceutical industry

According to data published by the German Chemical Industry Association (Verband der chemischen Industrie – VCI) in December 2018, German chemical and pharmaceutical producers continued their strong performance of the previous year during the reporting period and increased sales by an estimated 4.5% to € 204 billion (2017: 3.8%). However, the economic momentum slowed in the second half of the year. Higher sales volumes accounted for around 2.5 percentage points and price increases for 2.0 percentage points of increased sales revenues, whereby volume growth was mainly driven by very strong pharmaceuticals sales. The global chemical industry is thought to have grown by a similar rate in 2018.

Much weaker momentum in the German electrical industry

In addition to the trends described above, an important sector indicator for R. STAHL is the development of the electrical and electronic industry. According to the economic barometer of the German Electrical and Electronic Manufacturers' Association (Zentralverband Elektrotechnik und Elektroindustrie e. V. –ZVEI) published in February 2019, order intake in Germany was virtually unchanged from the previous year at minus 0.3% in 2018 – a significant decline compared to the very strong development of the previous year with 11.0% growth in order intake. Sales growth also slowed year-on-year in 2018, but at plus 1.9% (2017: 7.3%) the slowdown was not quite as pronounced.

Year-on-year economic growth by sector (%)	**2018**	**2017**
Chemical and pharmaceutical, Germany	+4.5	+3.8
Electrical, Germany	+1.9	+7.3

COMBINED BUSINESS DEVELOPMENT

2018 dominated by growth and efficiency measures

After a moderate start, the financial year 2018 became increasingly better for R. STAHL – we were able to break the trend of declining sales that had prevailed since 2015 and achieved growth of 4.3% to € 280.1 million (2017: € 268.5 million). We therefore grew slightly faster than the global economy. In line with macroeconomic regional developments, we achieved robust sales growth of around 8% in both America and Asia, while growth in the Central region was somewhat weaker. In contrast to the general economic trend, we achieved our highest growth rate of 15% in Germany during the reporting period.

As described in the Business Model section, our most important client industries are the oil and gas sector, as well as the chemical and pharmaceutical industry, and the favourable conditions in these sectors described above were also reflected in our sales performance in 2018. In the reporting period, we created the necessary systems and procedures for quantitative reporting by individual sector. As of fiscal 2019, we will therefore be able to show the development of sales revenue by individual sector.

Order intake of € 270.0 million (2017: € 284.1 million) also made good progress, despite the expected year-on-year decline of 5.0%. The high prior-year figure was mainly attributable to large orders – some of which were low-margin – while in 2018 the focus was on suitable profitability also for large orders.

The success of our R. STAHL 2020 efficiency programme launched at the beginning of the year became increasingly apparent over the course of the year. At € 15.2 million, EBITDA pre exceptionals more than doubled in 2018 compared with the previous year (2017: € 5.8 million). Negative exceptionals of € 8.2 million in the form of restructuring expenses (2017: € 3.5 million) were offset by positive exceptionals of € 2.5 million from the sale of properties not required for operations. Net profit improved significantly by more than € 14 million compared to the previous year, but remained within the guidance range at € -7.0 million due to the efficiency measures initiated and the resulting exceptionals.

The measures to restore our financial solidity were also very successful. Since the middle of 2018, the syndicated loan agreement concluded in 2015 has been continued on a regular basis again with amended contractual terms. We reduced the total volume of € 95 million agreed at the beginning of the contract to € 65 million by terminating a partial volume of € 30 million in August 2018.

Target achievement 2018 for the R. STAHL Group

Against the backdrop of our weak business performance in recent years and the upcoming efficiency programme, we started the new year with cautious expectations. A number of partially contradictory aspects had to be included in the forecast. In general, the macroeconomic and sector-specific indicators signalled a potential recovery of our sales markets. However, in light of the far-reaching restructuring of the Group about to commence, we also had to take appropriate account of the fact that such fundamental change generally involves the risk of temporary slowdowns in operational processes during the transition phase which may impact our business trend. On the other hand, the gradual improvement in efficiency over the course of the year was expected to steadily reduce costs. In our initial forecast for 2018, we therefore assumed an increase in sales revenue for the R. STAHL Group, with anticipated growth in EBITDA pre exceptionals in the mid to high double-digit percentage range, from € 5.8 million in 2017 to between € 8.1 million and € 11.6 million.

The positive trend of the first six months gained further momentum in the second half of the year. In the first nine months of 2018, sales increased by 3.9% while EBITDA pre exceptionals improved strongly to € 12.8 million. This prompted us to raise our 2018 guidance for EBITDA pre exceptionals to more than € 15 million on publication of the interim report for the third quarter in November.

We closed the financial year 2018 with an increase in sales of 4.3% and EBITDA pre exceptionals of € 15.2 million, thus achieving our sales target and the last upgrade of our earnings guidance.

For R. STAHL AG, we forecast a decline in EBITDA pre exceptionals in the high single-digit to low double-digit range percentage range for 2018 – based on € -8.4 million in 2017. However, with EBITDA pre exceptionals of € -7.3 million for the reporting period, we were also well above guidance for this performance measure.

€ million	Full-year 2017	Guidance 2018 June	Guidance 2018 November	**Full-year 2018**
Order intake	**284.1**	increase	–	**270.0**
Sales	**268.5**	increase	increase	**+4.3%**
EBIT pre exceptionals[1)]	**5.8**	**8.1 to 11.6**	>15	**15.2**

[1)] Exceptionals: restructuring charges, non-scheduled depreciation and amortization, charges for designing and implementing IT projects, M&A costs as well as profit and loss from the disposal of assets no longer required for business operations

FINANCIAL POSITION AND PERFORMANCE

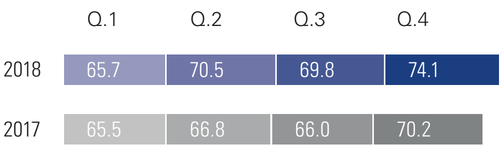
R. STAHL GROUP

EARNINGS POSITION

Strong sales trend driven by Germany, Americas and Asia

In the reporting period, we increased sales to € 280.1 million – representing year-on-year growth of 4.3% (2017: € 268.5 million). While percentage growth in Germany reached double digits and the regions Asia and the Americas recorded high single-digit growth, sales in the Central region fell slightly. On the one hand, the good overall performance benefited from the comparatively high order backlog from major orders at the beginning of the year, which we gradually worked through over the course of the year. On the other hand, strategic measures to widen our customer base, with the aim of reducing our reliance on individual major orders, began to bear fruit – particularly in the growth markets of Asia and the Americas. Sales revenue was above the corresponding prior-year figure in every quarter of the past financial year.

SALES BY QUARTER (€ MILLION)



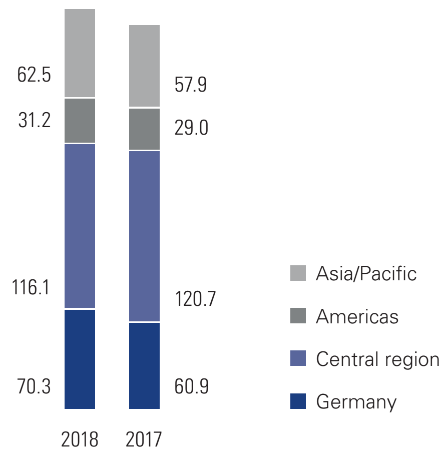
In **Germany**, sales rose by 15.4% to € 70.3 million (2017: € 60.9 million), mainly due to further deliveries relating to a major order for a liquefied gas plant in Eastern Europe.

In the **Central region**, we achieved sales of € 116.1 million (2017: € 120.7 million). While our main focus for major orders in 2017 was primarily on securing sales and in some cases accepting lower margins, our higher margin requirements in 2018 led to a 3.8% decline in sales.

For the first time since 2014, we achieved growth again in the **Americas** region and increased sales by 7.7% to € 31.2 million (2017: € 29.0 million). This gratifying trend was driven in particular by a major order to equip a new chemical plant under construction in the USA.

There was also solid growth in the **Asia** region with an increase in sales of 7.9% to € 62.5 million (2017: € 57.9 million). We successfully expanded our customer base in the field of plant and machine construction in this region. We performed particularly well in India and the Middle East.

SALES BY REGION (€ MILLION)



Sales growth and efficiency gains significantly improve earnings

Thanks to the positive sales trend and the successful implementation of R. STAHL's efficiency programme, earnings improved significantly in the reporting period. EBITDA pre exceptionals was more than € 9 million higher than in the preceding year, while net profit improved by more than € 14 million but remained negative.

In 2018, the Group generated a total performance of € 277.0 million, corresponding to year-on-year growth of 2.8% (2017: € 269.5 million). The proportionately lower increase compared to sales reflects the significant reduction of € 6.7 million in finished and unfinished goods in the reporting period. Other operating income rose by 71.5% to € 13.8 million (2017: € 8.0 million), mainly due to exceptionals from the sale of two properties not required for operations, which generated income of € 2.5 million.

Positive changes in the product mix led to a decline in the cost of materials ratio to 35.9% (2017: 37.2%). The personnel expense ratio also improved, falling to 43.1% (2017: 44.9%) due to the reduction in headcount from 1,763 on 31 December 2017 to 1,690 at the end of the reporting period. Depreciation and amortization of tangible and intangible assets increased by 5.0% to € 13.6 million (2017: € 13.0 million). Other operating expenses rose by 15.9% to € 62.6 million (2017: € 54.0 million), due in part to restructuring exceptionals of € 4.7 million (2017: € 0.8 million). All in all, R. STAHL generated EBIT of € -4.2 million in 2018 (2017: € -10.7 million) and EBIT pre exceptionals of € 2.0 million (2017: € -6.7 million). EBITDA amounted to € 9.5 million (2017: € 2.3 million) and EBITDA pre exceptionals to € 15.2 million (2017: € 5.8 million).

The following table presents an overview of exceptionals and a reconciliation of EBIT with EBIT pre exceptionals, as well as EBITDA with EBITDA pre exceptionals, for the reporting period and the previous year:

€ million	2018	2017	Change	in income statement contained in:
EBIT	**-4.2**	**-10.7**	**+6.5**	
Exceptionals [1)]	**-6.2**	**-4.0**	**-2.2**	
Restructuring charges	**-8.6**	**-3.0**	**-5.6**	
Writedown and scrapping of inventories	-0.5	0	-0.5	Changes in inventories/ cost of materials
Severance pay	-3.0	-2.2	-0.8	Personnel expenses
Goodwill writedown [2)]	-0.4	-0.5	+0.1	Depreciation and amortization
Legal and consultancy costs	-4.1	-0.7	-3.4	Other operating expenses
Other	-0.5	-0.1	-0.4	Other operating expenses
M&A costs	**0**	**-0.5**	**+0.5**	Other operating expenses
Disposal of assets no longer required for business operations	**2.5**	**0**	**+2.5**	Other operating income
EBIT pre exceptionals	**2.0**	**-6.7**	**+8.7**	
EBITDA	**9.5**	**2.3**	**+7.2**	
Exceptionals [2)]	**-5.7**	**-3.5**	**-2.3**	
EBITDA pre exceptionals [2)]	**15.2**	**5.8**	**+9.4**	

[1)] Exceptionals: restructuring charges, non-scheduled depreciation and amortization, charges for designing and implementing IT projects, M&A costs as well as profit and loss from the disposal of assets no longer required for business operations

[2)] Goodwill writedowns disclosed as exceptionals are not to be considered in the reconciliation of EBITDA to EBITDA pre exceptionals

Financial result burdened by higher interest expenses, net profit still significantly improved

Primarily as a result of the adjusted conditions for the syndicated loan agreement, there was an increase in interest expenses in the reporting period which led to a financial result of € -2.8 million (2017: € -1.9 million). Earnings before taxes (EBT) amounted to € -7.0 million (2017: € -12.6 million). Income taxes netted for the Group were virtually zero in the reporting period (2017: € 8.5 million). In total, net profit amounted to € -7.0 million (2017: € -21.2 million) with earnings per share of € -1.10 (2017: € -3.28).

FINANCIAL POSITION

Principles and objectives of financial management

The principal aim of our financial management is to secure the financial independence of the R. STAHL Group. To this end, the liquidity of the Group as a whole is monitored and managed centrally by R. STAHL AG. In addition to optimizing our available internal liquidity, external credit lines with banks ensure that sufficient liquidity is available at all times to carry out our operating business. In addition, financial management aims to make a positive contribution to the Group's earnings power. Credit, interest and currency risks are monitored centrally and reduced by using suitable derivative financial instruments. By efficiently managing internal liquidity, the capital structure and contractual conditions, financing costs are reduced as far as possible.

Financial analysis

The Group's funding requirements are managed centrally from our headquarters in Waldenburg. There is a cash pooling system for R. STAHL AG and the German subsidiaries to balance out financial requirements, which we expanded to the entire eurozone in 2019. The surplus liquidity of companies outside the cash pool is used for funding by means of a targeted internal Group dividend policy and internal Group lending.

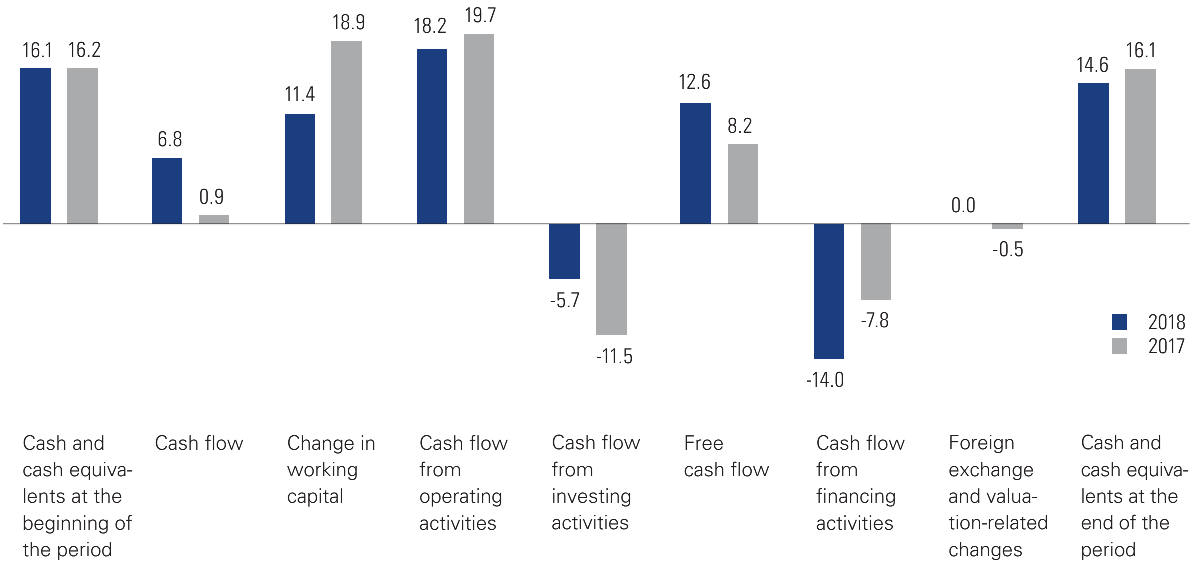
Our funding requirements are covered by a syndicated loan agreement as well as by bilateral loan agreements. In September 2015, R. STAHL AG concluded a syndicated loan agreement for Group funding with a term of five years and an initial cash line of € 95 million (adjusted by R. STAHL to € 65 million in August 2018 by terminating a partial volume of € 30 million) with an expansion option of € 25 million for acquisitions. Additional agreements on this loan were made with the respective banks in 2017 and 2018 with adjustments to the interest and guarantee conditions. Detailed disclosures on these agreements are presented in the risk report section of this annual report 2017. There are bilateral loan agreements in the form of cash lines totalling € 12.1 million and guarantee lines totalling € 1.9 million, which amounted to € 8.5 million in total at the end of the reporting period. At € 10.8 million, the existing facility of the syndicated loan agreement totalling € 65 million had only been drawn to a minor extent, and exclusively for guarantees, at the end of the reporting period. Of the total interest-bearing financial liabilities of € 20.1 million, no significant amounts were attributable to loans in foreign currencies.

Cash flow statement

Due to the improved earnings situation, cash flow rose strongly by around € 6 million to € 6.8 million in 2018 (2017: € 0.9 million). Cash flow from operating activities declined year-on-year by 7.7% to € 18.2 million in 2018 (2017: € 19.7 million). The high prior-year level was significantly influenced by an increase in trade payables. By contrast, the improvement in working capital of € 11.4 million in 2018 (2017: € 18.9 million) was mainly attributable to a reduction in inventories as part of the lean production measures already implemented, as well as to portfolio optimization and changes in short-term provisions. Investments in property, plant & equipment and intangible assets remained unchanged year-on-year at € 10.4 million in the reporting period (2017: € 10.4 million). A total of € 4.6 million was received from the sale of two properties not required for operations in 2018. As a result, cash flow from investing activities improved to € -5.7 million (2017: € -11.5 million) and free cash flow to € 12.6 million (2017: € 8.2 million).

Due to the negative net profit for 2017, there was no proposal for a resolution on the appropriation of profit at the 2018 Annual General Meeting and consequently no dividend was distributed in the reporting period. Free cash flow generated in 2018 was used in full to reduce financial debt. At the end of the reporting period, R. STAHL had cash and cash equivalents of € 14.6 million (31 December 2017: € 16.1 million).

RECONCILIATION OF CASH AND CASH EQUIVALENTS AT THE BEGINNING AND END OF THE PERIOD (€ MILLION)



Rating

As in the previous years, we did not commission any credit ratings from external rating agencies in the reporting period.

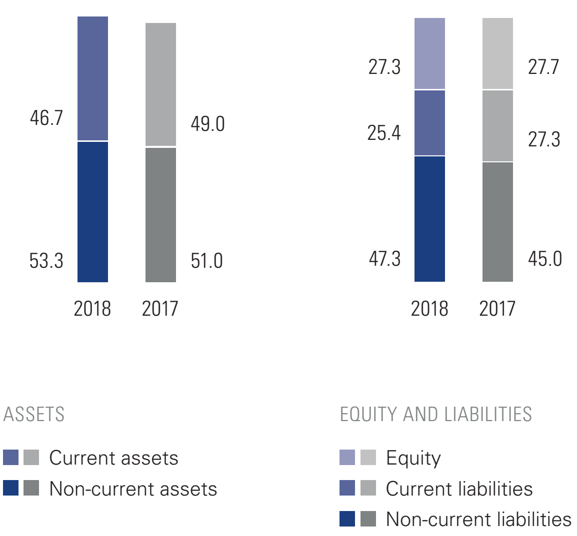
ASSET POSITION

As of 31 December 2018, R. STAHL's balance sheet total amounted to € 227.9 million (31 December 2017: € 249.6 million). The decrease of € 21.7 million is reflected in the reduction of working capital and the significant redemption of financial liabilities by € 14.0 million. As a result, net debt (without pension obligations) was reduced to € 5.5 million at the end of the reporting period (31 December 2017: € 18.1 million).

Development of assets

Non-current assets decreased to € 121.5 million at the end of the reporting period (31 December 2017: € 127.3 million), primarily due to the sale of properties as well as to depreciation and amortization in excess of capital expenditure in 2018. As a result of the overall decline in the balance sheet total, the ratio of non-current assets to total assets still increased year on year to 53.3% at the end of the reporting period (31 December 2017: 51.0%).

BALANCE SHEET STRUCURE (% OF BALANCE SHEET TOTAL)



There was also a decline in current assets, which fell by € 15.8 million to € 106.5 million (31 December 2017: € 122.3 million). This was due in particular to the € 10.5 million reduction in inventories and € 2.3 million reduction in trade receivables. At the end of the reporting period, current assets as a proportion of total assets had fallen to 46.7% (31 December 2017: 49.0%).

Development of liabilities

Due to the negative result for the year, shareholders' equity of the R. STAHL Group fell to € 62.3 million as of the reporting date (31 December 2017: € 69.1 million). At 27.3%, the equity ratio at the end of the year was on a par with the previous year (31 December 2017: 27.7%).

Non-current liabilities decreased to € 107.7 million (31 December 2017: € 112.2 million). In addition to the € 1.6 million reduction of financial liabilities, the decrease was also a result of a € 2.5 million decline in pension provisions due to a higher discount rate and the conversion from defined benefit to defined contribution plans. The ratio of non-current liabilities to total assets increased to 47.3% as of the reporting date (31 December 2017: 45.0%).

Current liabilities also fell to € 57.9 million as of the reporting date (31 December 2017: € 68.3 million). This was mainly due to the repayment of interest-bearing financial liabilities amounting to € 12.4 million. A decrease in trade payables of € 4.7 million was offset by an increase in short-term provisions of approximately the same amount. At 25.4%, the ratio of current liabilities to the balance sheet total was slightly lower than in the previous year (31 December 2017: 27.3%).

R. STAHL AKTIENGESELLSCHAFT

R. STAHL AG primarily serves as a strategic holding company for the R. STAHL Group. The key management functions of the company as a whole are the responsibility of the Executive Board. The Executive Board defines Group strategy and steers the organization and the Group's allocation of resources. In addition, the corporate management company determines finance and communication with the key target groups of the corporate environment. The economic development of R. STAHL AG is essentially determined by the operating units of the R. STAHL Group. The investment income resulting from profit transfers and profit distributions of the Group companies is of central importance for the future dividend potential of R. STAHL AG. For this reason, the statements in the Opportunities and Risk Report in particular essentially also apply to R. STAHL AG.

The annual financial statements of R. STAHL AG have been prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) for large limited companies and the German Stock Corporation Act (Aktiengesetz – AktG).

EARNINGS POSITION

R. STAHL AG generates revenue from rentals and from the invoicing of commercial and organizational services provided for its subsidiaries. In 2018, R. STAHL AG generated revenue of € 9.6 million (2017: € 9.3 million). The increase is due to the expansion of corporate services provided. Other operating income rose to € 2.9 million (2017: € 1.3 million), mainly due to a write-up of investment carrying amounts as well as income from the sale of a property. As a result of provisions formed for bonus payments, personnel expenses rose to € 8.0 million (2017: € 6.8 million). Higher legal and consulting expenses led to an increase in other operating expenses to € 16.3 million in the reporting period (2017: € 13.8 million). As a result, earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to € -11.8 million (2017: € -9.9 million).

Amortization and depreciation of intangible and tangible assets rose slightly to € 0.4 million (2017: € 0.3 million) in connection with the scheduled amortization of the new corporate website. The investment result fell to € 3.3 million in 2018 (2017: € 9.7 million). In the reporting period, income from profit transfer agreements of € 5.1 million (2017: € 0) was generated, which also for the first time included income from the companies GGF – Gesellschaft für Grundstücksvermietung und Finanzierungsvermittlung mbH, Waldenburg, R. STAHL SUPERA Gmbh, Waldenburg, and R. STAHL LECTIO GmbH, Waldenburg. On 30 August 2018, the Annual General Meeting approved the conclusion of the corresponding profit transfer agreements with effect from 1 January 2018. Other interest and similar income increased to € 1.3 million (2017: € 0.4 million), due largely to interest received as part of a tax refund. Depreciation on financial assets of € 3.5 million (2017: € 3.2 million) mainly refer to loans to affiliated companies. At € 3.2 million (2017: € 1.4 million), there was also an increase in interest expenses. In addition to the adjusted interest conditions of the syndicated loan agreement, the rise in interest expenses was also due to tax arrears.

Completed opposition proceedings resulted in positive income taxes of € 0.8 million. Overall, this led to a result after taxes of € -10.7 million (2017: € -9.0 million) and a net loss for the year of € 10.8 million (2017: € 9.0 million). As of 31 December 2018, this resulted in a balance sheet loss of € 14.7 million (31 December 2017: € 4.0 million).

FINANCIAL POSITION

The cash and cash equivalents of the German subsidiaries are pooled with R. STAHL AG by means of a cash pooling system. The inflow of funds mainly results from R. Stahl Schaltgeräte GmbH, Waldenburg, and R. STAHL HMI Systems GmbH, Cologne. At the end of the reporting period, cash and cash equivalents amounted to € 2.8 million (31 December 2017: € 0.3 million). No dividend was paid to shareholders in the reporting period (2017: € 3.9 million).

ASSET POSITION

On 31 December 2018, the balance sheet total of R. STAHL AG amounted to € 97.1 million (31 December 2017: € 98.8 million).

Development of assets

At € 80.9 million, non-current assets as of the reporting date were roughly on a par with the previous year (31 December 2017: € 80.2 million). Current assets decreased to € 9.0 million (31 December 2017: € 12.9 million) due to the aforementioned reduction in receivables from affiliated companies. Other assets were reduced to € 0.0 million (31 December 2017: € 1.3 million). Cash and cash equivalents rose to € 2.8 million as of the end of the reporting period (31 December 2017: € 0.3 million).

Development of liabilities

Due to the net loss for the year, equity of R. STAHL AG fell to € 38.9 million as of the reporting date (31 December 2017: € 49.7 million). The equity ratio fell accordingly to 40.1% at the end of the year (31 December 2017: 50.2%).

Provisions increased to € 18.3 million (31 December 2017: € 16.6 million), in particular in connection with bonus payments and increased pension obligations. Liabilities rose to € 39.9 million (31 December 2017: € 32.6 million). While bank liabilities were more than halved to € 10.0 million (31 December 2017: € 21.4 million), liabilities to affiliated companies increased significantly to € 28.3 million (31 December 2017: € 10.0 million).

SUSTAINABILITY

Responsible and sustainable company management, in the sense of transparent and best-practice corporate governance, requires integrity and legally compliant behaviour from all our employees. It forms the essential basis for long-term and sustainable corporate success.

At R. STAHL, we understand corporate responsibility as a long-term commitment to improving the quality of life of people around the world. Our objective is to create sustainable added value for our stakeholders and to make a tangible contribution to the environmental and social development of society as a whole. This includes an ongoing examination of our actions and their impact on society. The high sustainability standards which listed companies domiciled in Germany must meet are set by the respective legal regulations, and in particular by the German Corporate Governance Code. In addition, we have implemented further group-wide guidelines, e.g. our Code of Conduct which is binding for all employees, and we ensure adherence with these guidelines by means of our group-wide compliance management system.

In line with its profit-oriented business activities, the R. STAHL Group is managed primarily according to financial goals. These may also be supplemented by non-financial objectives. In this way we take account of our corporate responsibility, which we interpret in the joint context of our economic, ecological and social actions (CSR, Corporate Social Responsibility). Responsible cooperation with our stakeholders – above all our customers, suppliers, employees and investors – and ecological awareness are given high priority in our organization and our processes. As entrepreneurial success is inextricably linked with the commitment of creative and motivated employees, our HR strategy attaches great importance to attractive terms of employment with healthy and safe working conditions, fair compensation, targeted training offerings and equal opportunities. Our customers rely on the outstanding quality of our products, which are renowned for their uncompromising safety and reliability, as well as for their excellent workmanship and durability. We aim to continuously earn this trust in future with the technical excellence and sustainable added value of our products. We therefore not only place high demands on ourselves, but also on our suppliers. As well as complying with all legal regulations, as well as work-related and environmental standards, we set ourselves the target of achieving the high quality standards of our products with the efficient use of resources.

With the introduction of the German CSR Directive Implementation Act on 11 April 2017, and in accordance with Section 315b HGB, R. STAHL is required to include a “consolidated non-financial declaration” in its Group Management Report for the first time as of the financial year 2017. Pursuant to Section 315c in conjunction with Section 289c HGB, the company must provide details on the five aspects Environmental Matters, Employee Matters, Social Matters, Respect of Human Rights, and Anti-Corruption and Bribery Matters. These aspects are fundamental elements of our sustainability-relevant activities and we have already reported on them for many years in our past Group Management Reports. For the preparation of a consolidated non-financial declaration, R. STAHL is utilizing the option under Section 315b (3) HGB of alternatively publishing a separate consolidated non-financial report for the financial year 2018 outside of its Group Management Report, as in the previous year. The Consolidated Non-Financial Report for the reporting year 2018 was published in March 2019 on our website www.r-stahl.com in the section Corporate/Corporate Responsibility.

EXECUTIVE BOARD'S OVERALL ASSESSMENT OF THE ECONOMIC SITUATION OF THE GROUP

The business trend in 2018 makes us confident for the future. For the first time since 2015, we were able to achieve growth again and increase sales revenue by 4.3% to € 280.1 million – while still being in the middle of far-reaching structural changes first implemented at the beginning of 2018 as part of our efficiency programme R. STAHL 2020. Our business in Germany performed very well with an increase in sales of 15.4%. In the Asia and Americas regions, we also achieved year-on-year sales growth of 7.7% and 7.9%, respectively, following a number of weak years.

The introduction of our efficiency measures during the reporting period was also highly promising. As part of the new corporate structures we implemented, we have created global divisional responsibilities and eliminated duplicated functions at the individual companies. The resulting reduction in personnel expenses in particular, coupled with sales growth, led to a significant year-on-year improvement in EBITDA pre exceptionals, which more than doubled to € 15.2 million – thus meeting our most recent guidance. Exceptionals of € 5.7 million included restructuring expenses in connection with R. STAHL 2020 of € 8.2 million and one-off income from property sales of € 2.5 million with an opposing effect. As expected, the Group's net profit of € -7.0 million was still negative in the reporting period due to exceptionals.

At € 12.6 million, free cash flow made encouraging progress. This reflects the improvement in earnings and the initial success of the portfolio optimization programme, which resulted in a significant reduction in inventories and made a strong contribution to the positive change in working capital. As a result of the inflow of funds, net debt decreased steadily over the course of the year and amounted to € 5.5 million at the end of the reporting period. At 27.3% as of the reporting date, the equity ratio remained at the solid level of the previous year. The measures taken to restore long-term financial security also made successful progress. Since the middle of 2018, the syndicated loan agreement concluded in 2015 has been continued on a regular basis again with amended contractual conditions. We reduced the total volume of € 95 million initially agreed at the beginning of the contract to € 65 million by terminating a partial volume of € 30 million in August 2018.

With regard to its net assets and financial position, including in particular its stable equity ratio and low net debt, R. STAHL is in good shape. In the current year, our work will focus primarily on further increasing profitability, which we intend to achieve by consistently implementing our efficiency measures. The prerequisite for this is that further robust demand in our main sales markets in 2019 will result in at least a stable development of our sales revenue.

OVERALL ASSESSMENT OF THE ECONOMIC SITUATION OF R. STAHL AKTIENGESELLSCHAFT

R. STAHL AG primarily serves as a strategic holding company for the R. STAHL Group. The key management functions of the company as a whole are the responsibility of the Executive Board. The Executive Board defines Group strategy and steers the organization and the Group's allocation of resources. In addition, the corporate management company determines finance and communication with the key target groups of the corporate environment. The economic development of R. STAHL AG is essentially determined by the operating units of the R. STAHL Group. The investment income resulting from profit transfers and profit distributions of the Group companies is of central importance for the future dividend potential of R. STAHL AG. For this reason, the statements in the Opportunities and Risk Report in particular essentially also apply to R. STAHL AG.

DECLARATION ON COMPANY MANAGEMENT

Since the financial 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 our website www.r-stahl.com under Corporate/Investor Relations/Corporate Governance.

ADDITIONAL DISCLOSURES

Shareholder rights and obligations

Every shareholder has economic and administrative rights.

According to Section 58 (4) AktG, economic rights are the right to participate in the profits and, according to Section 271 AktG, in the 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, as well as the right to talk, submit questions and table motions at the Annual General Meeting, and to exercise 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 the 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 by the workforce pursuant to the German One-Third Participation Act. Resolutions of the Supervisory Board are passed with a simple majority of the votes cast, unless there is a mandatory legal requirement stipulating a different majority. 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 with regard to the possibility of issuing or buying back shares

With a resolution of the Annual General Meeting on 30 August 2018, the Executive Board was authorized, with the approval of the Supervisory Board, to increase share capital on one or more occasions until 29 August 2021 by issuing new no-par value bearer shares against cash and/or non-cash contributions up to a maximum total of € 3,300,000.00 (authorized capital). Shareholders are to be granted subscription rights. This statutory subscription right may also be granted in such a way that the new shares are fully or partially taken over by a bank or banking consortium determined by the Executive Board with the obligation to offer them to the company's shareholders for subscription. Furthermore, with a resolution of the Annual General Meeting on 30 August 2018, the Executive Board was authorized, with the approval of the Supervisory Board, to exclude the statutory subscription right of shareholders:

- for fractional amounts,
- in the case of a capital increase against contributions in kind, in particular for the purpose of acquiring companies, parts of companies or interests in companies,
- if capital is increased against cash contributions, the issue price is not significantly lower than the market price of the already listed shares of the same class and features and the pro rata amount of the share capital attributable to the shares issued under exclusion of subscription rights does not exceed 10% of the share capital existing at the time this authorization becomes effective and at the time this authorization is exercised. The aforementioned 10% limit shall take into account:
  a) treasury shares if they are sold during the term of this authorization under exclusion of subscription rights in accordance with Section 186 (3) Sentence 4 AktG,

  b) shares issued or to be issued on the basis of a possible future authorization to service bonds with conversion and option rights or a conversion obligation, insofar as the bonds are issued during the term of this authorization under exclusion of subscription rights in corresponding application of Section 186 (3) Sentence 4 AktG.

Moreover, with a resolution of the Annual General Meeting on 30 August 2018, the Executive Board was authorized, with the approval of the Supervisory Board, to determine the further details of the capital increase and its implementation, in particular the content of the share rights and the conditions of the share issue, including any profit participation deviating from Section 60 (2) AktG.

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

Significant events after 31 December 2018 which are expected to have a material effect on the financial position and performance of the R. STAHL Group or R. STAHL AG are described under Other notes and disclosures/Events after the balance sheet date in the notes to the financial statements and the notes to the consolidated financial statements.

RISK REPORT

This report considers risks as internal and external events or developments that may adversely affect the achievement of objectives and budgeted figures of the R. STAHL Group.

Description of risk management system

The risk management system (RMS) 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 German Law on Control and Transparency in Businesses (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – 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, compliance management supplements the risk management system. The entirety of the implemented systems makes it possible for the Group's management to be able to take countermeasures against identified risks at an early stage. 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.

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 identified, existing and eliminated risks once a quarter. The risk management process is supported by an IT tool.

Based on the information provided by the risk owners, the risk management officer prepares a risk report which describes, besides the risks themselves, also the potential risk values, their probability of occurrence and the action plan to avoid or reduce the risks.

The risk assessment period is identical to the reporting period of the management report.

Risk assessment

As part of the risk reporting process, the gross and 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, they 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 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 for net expected damage (net risk x probability of occurrence):

- Low < € 1.5 million
- Medium € 1.5 million to € 5.0 million
- High > € 5.0 million

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

Risk area	Probability of occurrence	Net expected damage
Macro environment/ country risks	Possible	Low
Market/ competition	Possible	Low
Supporting processes	Possible	Low
Strategy	Unlikely	Low
Performance-related risks	Unlikely	Medium
Personnel	Likely	Low
Financial risks	Possible	Low
Compliance	Unlikely	Low

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 risk owners of 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. Regular reporting ensures that the Supervisory Board and its Audit Committee are also permanently informed about the current risk situation of the R. STAHL Group and its development over time. As part of its monitoring of the Executive Board, the Supervisory Board examines the effectiveness of the risk management system.

Controlling

Group Controlling staff are the contacts for our subsidiaries in Germany and abroad. The Group Controlling department provides the IT systems needed to collect and evaluate business data. The financial position and performance 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 and thus ensures a constant flow of information to the Executive Board on current and projected budget deviations as well as any resulting risks.

Internal monitoring system

A further 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 the Executive Board 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 Audit division regularly checks compliance with these objectives.

Internal control system based on the consolidated accounting process

A key element of the internal control system with regard to the consolidated accounting process is the IFRS accounting guideline which applies throughout the Group and describes the standard accounting and measurement principles for all companies included in the consolidated financial statements. The preparation of the consolidated financial statements is supported by standardized reporting and consolidation software. All companies belonging to the consolidated group report in the same way to the parent company.

Further key instruments for controlling the accounting process are:

- the group-wide standards applicable for financial and administrative areas,
- the clear separation of functions and assignment of responsibilities,
- the use of uniform ERP systems and standard software, as well as
- 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. Internal Audit reports directly to the CEO of R. STAHL AG. Audits are held on the basis of an annual risk-oriented audit plan.

Compliance management, Code of Conduct

In order to avoid violations of anti-corruption, anti-trust or data protection laws and prevent business crimes, we have introduced the corresponding regulations as part of our existing compliance management. 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 and 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. This may have an influence on the sales and earnings position of the R. STAHL Group.

In particular, the situation in the Middle East, Russia and Ukraine, as well as the ongoing economic restructuring and realignment in the USA and UK, or the intensified trade conflict between China and the USA, may pose risks for individual subsidiaries. Thanks to our international diversification, we are able to respond flexibly and locally to regional market developments and thus offset adverse developments. Against the backdrop of challenging economic and political conditions, we pay attention to our cost structures in order to ensure the long-term competitiveness of the R. STAHL Group.

Finally, our international alignment 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, and where necessary we take account of an impending cost risk by forming appropriate provisions. At present, however, we do not expect any material adverse effects on the financial position and performance of the R. STAHL Group.

Market and 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 developing products which our clients appreciate due to their efficiency-enhancing and cost-saving characteristics, and by achieving regional diversification.

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 or other measures. We respond to market challenges with our excellent know-how and many years of experience.

We have an excellent position in the worldwide market for explosion protection solutions, in which above all the safety of the products used has the highest priority. In relation to the total investment cost of explosion-protected equipment, the costs for explosion protection are often only in the low single-digit percentage range. Against the backdrop of the high added value which our solutions offer for our customers, our business is therefore only driven by price to a comparatively small extent. Nevertheless, depending on the economic situation of our client industries and the market activities of our competitors, there is still a fundamental risk of price pressure, which could have a negative impact on our sales and earnings performance. On the one hand, we counter this risk by continuously developing technically differentiated solutions which offer our customers unique added value. In addition, as part of our ongoing efficiency programme R. STAHL 2020, we are working on the sustainable creation of market-leading cost structures which will ensure sufficient profitability even during periods of weak economic growth.

Last but not least, R. STAHL's international alignment 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 business strategy, the establishment of brand awareness and reputation is critical. We therefore employ an appropriate number of highly qualified sales experts, are represented at trade fairs all over the world, and also offer our own seminars to provide customers with the relevant information on explosion protection and to train them in handling our products. This also helps us to strengthen our position vis-à-vis local competitors.

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. There is also the fundamental risk of a temporary unavailability of source materials. We counter these risks with our strict cost management approach and international procurement. Nevertheless, we currently foresee bottlenecks in the availability of certain electronic components and plastics we use. Irrespective of this, falling demand among our suppliers may also raise the general risk of their insolvency and thus increase our procurement risk. 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, as well as 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, as well as functional and certification reliability are among the most important purchase criteria.

Risks from supporting processes

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

In view of the growing competitive pressure in almost 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. Further expanding our competitiveness, as well as our logistics, manufacturing and handling processes in order to achieve market-leading delivery reliability is an essential component of our lean management measures within the framework of R. STAHL 2020.

The efficiency measures included in R. STAHL 2020 have far-reaching effects on our structures and processes and include all key functional areas of the Group. Such extensive changes generally entail the risk of temporary disruptions in operational processes with negative effects on sales and earnings. We counter this risk by closely monitoring and steering individual measures and regularly comparing the targeted and actual conditions within the framework of a specially created function (Project Management Office). The progress of the aforementioned measures is reported to the Executive Board on a quarterly basis as well as on a case-by-case basis. If necessary, appropriate actions are derived.

Risks in connection with information technologies

In international trade and industrial production, the digitization of processes is steadily increasing. Consequently, the amount of data essential for the processing of our business processes which is digitally recorded, processed and stored is also rising. In order to ensure availability at all times, appropriate security measures must be taken against the risk of technical failure of data storage devices and networks due to both technical fatigue and external influences (e.g. fire, flood, theft). We counter this risk by storing data centrally on redundant data storage devices in separate locations.

Increasing digitization also involves a growing risk of attacks in the field of cyber crime. We are working hard on our IT security in order to minimize the risk of such external and internal threats. Our measures include the shortening of restore times in order to be able to return quickly to normal operations in the event of such an attack. In addition, we constantly check the authorization concept of our IT systems and adapt administrative rights according to the need-to-know principle.

Despite the growing risk of cybercrime attacks around the world, R. STAHL has so far been able to avoid damaging security incidents. Thanks to our comprehensive IT security and business continuity concept, supported by clear guidelines in the field of payment and financial processes, all attempted attacks have been discovered or averted so far. Security updates can be distributed in a timely and largely automated manner to the affected systems without impeding the IT-supported business processes.

In addition to information security, R. STAHL attaches great importance to data privacy. We train our employees at the time of recruitment and in the case of specific events, e.g. a change in the regulatory requirements. 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.

The enforcement of the EU's General Data Protection Regulation (GDPR) on 25 May 2018 harmonized the collection, processing and use of personal data throughout Europe. R. STAHL has analyzed and evaluated the extended requirements of the GDPR and derived the necessary measures for implementation. The protection of personal data has always been one of the basic principles of our business policy.

Performance-related risks

R. STAHL's international production sites enable it to meet the growing requirements of customers around the world regarding the availability of local contact partners and short delivery times. We counter the risk of fluctuations in local capacity utilization and costs resulting from the decentralization of production with a central production control system (Global Operations) with global responsibility for efficient resource management across all manufacturing sites. In the reporting period, the Global Operations unit began introducing lean management methods at all production sites aimed at improving our processes and costs.

Personnel risks

The expertise and dedication of our employees are a key prerequisite for economic success. The increasing shortage of skilled workers and current fierce competition on the job market may lead to risks in the recruitment of skilled employees and the long-term retention of staff at our company.

In order to counteract these risks and ensure the sustainable management of our human resources, we attach particular importance to vocational education and training. With a clear focus on technical skills, R. STAHL offers apprenticeships in twelve professions which fill the gaps created by the shortage of skilled workers.

Risks may also arise due to the fluctuation of employees in key positions. We mitigate these risks with personnel development measures aimed at keeping top performers at the company.

Financial risks

In the course of our business activities, various currency, interest rate, credit and liquidity risks may arise, which we counter by using customary financial instruments.

As exchange rate trends are often marked by high volatility, due to the large number of factors influencing them, it is generally difficult to make reliable forecasts. We therefore 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 measures mainly comprise ensuring 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 local cost advantages (natural hedge), making R. STAHL less susceptible to currency fluctuations. Existing and planned foreign currency volumes are hedged opportunistically with forward exchange transactions. Of particular relevance for us is the development of the US dollar – which accounts for the major share of our foreign exchange volume and also influences the development of other currencies.

As a basic principle, we borrow capital at matching maturities to finance our business activities. If necessary, we hedge any risk arising from varying interest rates via derivative financial instruments. Our real estate is regularly financed at fixed rates of interest. 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 with a term of five years to secure the Group's funding. It comprises a cash credit line of initially € 95 million (adjusted by R. STAHL to € 65 million in August 2018 with the termination of a partial volume of € 30 million), with an expansion option of € 25 million for acquisitions. The agreement contains standard provisions regarding the maintenance of the Group's financial strength (financial covenants). Non-compliance with these covenants results in an adjustment of the contract terms or premature termination by the banks involved.

We limit the risk of insolvency among our customers by means of targeted monitoring of their payment behaviour. If necessary, value adjustments are made.

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 public limited company based in Germany, R. STAHL 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 R. STAHL's share performance and business activities.

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 wide variety of potential infringements. We constantly monitor the current 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 or the local offices of international 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. In the case of new employees, the receipt and acceptance of our Code of Conduct is part of the onboarding process. 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 OF R. STAHL AKTIENGESELLSCHAFT AND THE R. STAHL GROUP

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. After careful consideration of the overall risk assessment, those responsible have come to the conclusion that at the time of preparing this Group Management Report, the existing risks are limited both individually and cumulatively.

RISK REPORTING WITH REGARD TO THE USE OF FINANCIAL INSTRUMENTS IN THE ANNUAL FINANCIAL STATEMENTS OF THE PARENT COMPANY AND THE GROUP

The Group's main risks arising from financial instruments include cash flow risks, as well as liquidity, currency, credit and interest rate risks. Corporate policy is to avoid or limit these risks as far as possible. The handling of currency, liquidity, credit and interest rate risks was already described in detail in the Risk Report in the Financial risks section. In addition, the company uses derivative financial instruments whose purpose is to hedge against interest rate and currency risks. On commencement of the hedge, both the hedging relationships and the Group's risk management objectives with regard to the hedge are formally defined and documented. A detailed description can be found in the Notes to the Consolidated Financial Statements under Derivative financial instruments.

OPPORTUNITY AND FORECAST REPORT

OPPORTUNITIES

In order to identify and exploit opportunities, we continuously monitor developments in our markets. By maintaining a dialogue with our customers, suppliers and partners, we also receive valuable information at an early stage regarding sector trends and the rising demands which customers place on our products. The resulting opportunities and potential are used to derive the R. STAHL Group's strategic alignment as well as the allocation of the company's resources. Opportunities are assessed separately to the risk management process.

Long-term opportunities

Global population growth and rising needs for energy offer long-term growth opportunities 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 in western industrial nations, power supplies are increasingly reliant on natural gas power plants or oil-fired plants. We also regard the politically motivated demand for greater use of renewable energies as an opportunity. In order to ensure stable energy supplies via these volatile sources, efficient technical possibilities must be created that can store weather-dependent and daytime-dependent electrical energy from wind and solar power for longer periods. One of the most promising opportunities for the future is the conversion and storage of electrical energy in the form of hydrogen, methane or methanol and their re-conversion into electricity as required. As all these carrying materials are highly explosive, this may lead to a corresponding need for explosion protection solutions, not only for their production but also for transportation and re-conversion. In order to avoid the dependencies of pipeline transportation by land, shipping by means of LNG tankers is becoming increasingly important and R. STAHL offers a wide range of explosion-protected equipment for such vessels.

In addition to the rising demand for energy, global population growth also leads to greater demand for products from all other areas of life, such as food, housing, clothing and mobility.

This will benefit both the food and chemical industry, for whose production facilities R. STAHL offers tailored explosion protection solutions. We expect an even greater increase in demand for pharmaceutical products, as not only the world's population is growing but also their life expectancy and health awareness.

Finally, the political and societal will to establish and implement sufficiently high safety standards in the process industry is leading to growing demand for explosion protection solutions around the world.

Medium-term opportunities

In the medium term, R. STAHL sees opportunities from the expansion of our market position and the tapping of new markets. Our continuous and targeted research and development work, which has enabled us to establish market-leading positions in numerous product areas, will continue to play a key role.

Due to the increasing safety requirements for operators of technical equipment, we also see the opportunity to generate growth with our range of holistic and tailored system solutions. R. STAHL is already a global leader in this field. We plan to take a similar direction with the expansion of our offerings to include services that our customers are requesting as a result of increasing regulation and their own limited capacities. In addition, opportunities will arise as our customers focus increasingly on their core business and thus seek to outsource engineering and maintenance functions. Training courses and services that facilitate the safety management of processing plants also offer attractive growth opportunities for us.

In terms of regional expansion, the ongoing opening of further markets for IECEx-certified products and solutions – which are becoming increasingly popular also for international projects – offers additional growth potential. Important regional target markets for us include Eastern Europe and sub-Saharan Africa. We have established improved access to these regions with the company investments made in 2016.

We see significant opportunities to increase our productivity and profitability in the medium term by optimizing our operational structures and processes as part of our efficiency programme R. STAHL 2020.

Short-term opportunities

We see short-term opportunities from rising global investment in facilities for the production and processing of oil and gas and their downstream products. We regard the enormous demand potential for automation solutions, which we believe is largely independent of economic influences, as being a short- to medium-term opportunity.

In pursuing our opportunities, we always take account of our financial possibilities. 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

As a globally aligned specialist supplier in the electronics industry, our products and solutions are manufactured and marketed world-wide. Our business therefore depends on global economic trends as well as the development of certain major foreign currencies, particularly the US dollar. In addition to the oil and gas industry, the most important sectors for our business include the chemical and pharmaceutical industry.

Outlook for global economic growth slightly clouded

In its January 2019 outlook, the International Monetary Fund (IMF) forecasts a decline in global economic growth to 3.5% for the current year. However, the growth estimates for various regions vary: growth in the industrial countries is expected to slow to 2.0% – with the exception of the UK, for which the IMF forecasts a slight increase in growth to 1.5%. The decline is expected to be particularly pronounced in the USA, where growth is likely to fall to 2.5%. The IMF's economists believe that the tax cuts introduced in late 2017 will have no long-term stimulating effect on the economy. Growth in the eurozone is expected to decrease to 1.6%, with falling rates in all economies – with the exception of France with unchanged growth of 1.5% – according to the IMF. Economic growth in Germany is expected to decline to 1.3%. A slight increase in growth to 1.1% is forecast for Japan.

Year-on-year change in GDP in 2019 (%)

World	**+3.5**
Industrialized countries	**+2.0**
USA	+2.5
Eurozone	+1.6
Germany	+1.3
France	+1.5
Italy	+0.6
Spain	+2.2
Japan	+1.1
United Kingdom	+1.5
Canada	+1.9
Emerging markets	**+4.5**
Asia	+6.3
China	+6.2
India	+7.5
Russia	+1.6
Latin America	+2.0

Source: World Economic Outlook, International Monetary Fund, January 2019

For the emerging markets as a whole, the IMF anticipates a slight decline in growth to 4.5% – for China this means a reduction to 6.2%, for India an unbroken trend of rising growth rates with an increase to 7.5%. A slight decline to 1.6% is expected for Russia, while growth in Latin America is likely to rise significantly to 2.0%, driven primarily by the strong trend in Brazil with an increase to 2.5%.

Further increase in capital expenditure expected for oil and gas sector

In its monthly report on the development of the oil market published in January 2019, OPEC forecasts a further increase in demand for crude oil of 1.3 million barrels/day for the current year. Global demand is thus expected to exceed the 100 million barrel/day mark for the first time. According to a study by GlobalData in November 2018, investments in new major projects in the oil and gas sector will probably continue to rise in 2019. Consequently, demand for explosion protection solutions is also expected to increase.

Slower growth in the chemical, pharmaceutical and electronics industries

In its forecast for the current year published in December 2018, the German Chemical Industry Association (VCI) estimates that production of chemical and pharmaceutical products will grow by 3.6%. This is 0.4 percentage points below the growth rate of the reporting period. In addition to the uncertain outcome of trade disputes between the USA and China, as well as tension between the USA and the EU, the causes are also to be found in numerous other regional uncertainties. Examples include crises in the emerging markets of Turkey and Argentina, as well as the uncertain outcome of the UK's Brexit negotiations with the EU. The VCI only expects rising growth of 3.5% for Brazil, while further above-average growth of 5.0% is forecast for China – albeit slightly below the prior-year rate. According to VCI estimates, India will maintain its prior-year growth of 4.0%, while growth in the USA and Germany is expected to slow by 1.0 percentage point to 2.5% and 1.5%, respectively.

In its outlook for the global electrical market in 2019 published in July 2018, ZVEI forecasts sales growth of 4% – assuming constant exchange rates. Growth of 3% is anticipated in Germany. At the beginning of the year, average capacity utilization in the German electrical and electronic industry remained at the high level of 87.6%, and the order backlog increased from 3.3 to 3.8 months of production, following a decline in the last three quarters.

Stable sales and further noticeable improvement in earnings for R. STAHL in 2019

The macroeconomic and industry-specific forecasts for the current year indicate economic growth, albeit at a slower pace than in the previous year. Against this backdrop, we expect continued demand for our products and solutions in 2019 with sales revenue on a par with the previous year. We aim to achieve further significant improvements in our cost structures, especially in connection with the optimization of our business processes and product portfolio. This is expected to result in a year-on-year increase in EBITDA pre exceptionals in the mid single-digit million euro range in 2019.

The new accounting standard IFRS 16, which standardizes lease accounting, came into force at the beginning of the financial year 2019. This means that as of 1 January 2019, the value in use of leases must be capitalized in full and amortized over the lease term. The quantitative effects on the income statement, balance sheet and statement of changes in equity will be disclosed for the first time in the interim financial statements for the first quarter of 2019 on 9 May 2019.

Whereas the success of ongoing efficiency measures in particular is measured by EBITDA pre exceptionals for the R. STAHL Group, the ability of R. STAHL AG to pay dividends is largely determined by net profit. For 2019, we expect a net loss for R. STAHL AG in the low to medium single-digit million range. Should this be the case, no dividend payout is anticipated for 2019.

Stable financial and asset position

At the end of the reporting period on 31 December 2018, the equity ratio of the R. STAHL Group stood at 27.3%. The effects resulting from IFRS 16 described above will be reflected, among other things, in an increase in the balance sheet total in the current year. The quantitative effects on the income statement, balance sheet and statement of changes in equity will be disclosed for the first time in the interim financial statements for the first quarter of 2019 on 9 May 2019. Against this backdrop, it is not yet possible to make a precise forecast with regard to the development of the equity ratio. Strong fluctuations in the interest rate used to calculate pensions – which in the past had led to increased volatility in the valuation of pension obligations with an impact on equity – are not expected in the current year.

In the reporting period, increased profitability and focused management of working capital had a positive effect on the development of free cash flow. We expect this to continue in 2019.

Capex 2019 expected to be on a par with depreciation, further fall in net financial liabilities

Capital expenditure in 2019 will be on a par with the level of scheduled depreciation. As no dividend payments or equity measures are planned at present for the current year, we expect a further reduction in net financial liabilities over the course of the year due to the expected positive free cash flow.

OVERALL ASSESSMENT: FINANCIAL POSITION TO REMAIN SOLID, FURTHER IMPROVEMENT IN PROFITABILITY

Our main sales markets are expected to remain stable in 2019, even through macroeconomic indicators suggest growth will be less dynamic than in the previous year. For our business, we expect sales revenue in 2019 to reach the level of the previous year. Further scheduled progress in the implementation of our efficiency programme R. STAHL 2020 is expected to improve earnings over the course of the year. For 2019, we therefore expect a year-on-year increase in EBITDA pre exceptionals in the mid single-digit million euros range and our financial position to remain solid.

This guidance is based on the anticipated development of our markets from the current perspective. Changes in the framework conditions due to geopolitical developments, such as the intensification of the trade conflict between China and the USA, may have a negative impact on our markets and thus on our business trend.

CONSOLIDATED INCOME STATEMENT R. STAHL GROUP

NOTE	€ 000	2018	2017
6	**Sales revenue**	**280,114**	**268,462**
	Change in finished and unfinished products	-6,727	-3,498
7	Other own work capitalized	3,621	4,501
	Total operating performance	**277,008**	**269,465**
8	Other operating income	13,764	8,026
9	Cost of materials	-99,408	-100,116
10	Personnel costs	-119,334	-121,112
12	Depreciation and amortization	-13,617	-12,972
13	Other operating expenses	-62,575	-53,979
	Earnings before financial result and income taxes (EBIT)	**-4,162**	**-10,688**
4, 14	Result from companies consolidated using the equity method	956	977
15	Investment result	0	17
16	Interest and similar income	1,150	238
	Interest and similar expenses	-4,922	-3,179
	Financial result	**-2,816**	**-1,947**
	Earnings before income taxes	**-6,978**	**-12,635**
17	Income taxes	-18	-8,542
	Net profit/loss	**-6,996**	**-21,177**
	thereof attributable to other shareholders	63	-41
	thereof attributable to shareholders of R. STAHL AG	-7,059	-21,136
18	**Earnings per share (€)**	**-1.10**	**-3.28**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME R. STAHL GROUP

€ 000	2018	2017
Net profit/loss for the year	**-6,996**	**-21,177**
Gains/losses from currency translations of foreign subsidiaries, recognized in equity	-833	-2,406
Deferred taxes on gains/losses from currency translations	0	0
Currency translation differences after taxes	**-833**	**-2,406**
Gains/losses from the subsequent measurement of cash flow hedges, recognized in equity	0	59
Recognized in profit or loss	8	-20
Deferred taxes on cash flow hedges	-2	-12
Cash flow hedges after taxes	**6**	**27**
Other comprehensive income with reclassification to profit for the period	**-827**	**-2,379**
Gains/losses from the subsequent measurement of pension obligations, recognized in equity	1,401	2,741
Deferred taxes from pension obligations	-410	-930
Other comprehensive income without reclassification to profit for the period	**991**	**1,811**
Other comprehensive income (valuation differences recognized directly in equity)	**164**	**-568**
thereof attributable to other shareholders	-16	-3
thereof attributable to shareholders of R. STAHL AG	180	-565
Total comprehensive income after taxes	**-6,832**	**-21,745**
thereof attributable to other shareholders	47	-44
thereof attributable to shareholders of R. STAHL AG	-6,879	-21,701

CONSOLIDATED BALANCE SHEET R. STAHL GROUP

NOTE	€ 000	31/12/2018	31/12/2017
	ASSETS		
20	Intangible assets	40,905	41,796
21	Property, plant & equipment	54,520	57,203
4, 22	Investments in associated companies	8,284	7,750
22	Other financial assets	32	50
22	Other assets	1,012	1,206
22	Real estate held as a financial investment	5,122	7,383
17	Deferred taxes	11,587	11,905
	Non-current assets	**121,462**	**127,293**
23	Inventories and prepayments made	35,043	45,501
24	Trade receivables	47,636	49,961
24	Contract receivables	1,052	0
24	Income tax claims	1,133	3,166
24, 25	Other receivables and other assets	6,977	7,568
26	Cash and cash equivalents	14,629	16,085
	Current assets	**106,470**	**122,281**
	Total assets	**227,932**	**249,574**

NOTE	€ 000	31/12/2018	31/12/2017
	EQUITY AND LIABILITIES		
27	Subscribed capital	16,500	16,500
27	Capital reserves	13,457	13,457
27	Revenue reserves	62,216	69,449
27	Accumulated other comprehensive income	-30,048	-30,440
	Equity attributable to shareholders of R. STAHL AG	**62,125**	**68,966**
27	Non-controlling interests	133	86
	Equity	**62,258**	**69,052**
28	Pension provisions	91,222	93,736
29	Other provisions	1,748	1,850
30	Interest-bearing financial liabilities	11,451	13,095
31	Other liabilities	233	353
17	Deferred taxes	3,094	3,208
	Non-current liabilities	**107,748**	**112,242**
28, 29	Provisions	11,235	6,061
31	Trade payables	13,470	18,212
30	Interest-bearing financial liabilities	8,680	21,073
31	Deferred liabilities	13,386	11,135
31	Income tax liabilities	1,117	609
31	Other liabilities	10,038	11,190
	Current liabilities	**57,926**	**68,280**
	Total equity and liabilities	**227,932**	**249,574**

CONSOLIDATED CASH FLOW STATEMENT R. STAHL GROUP

€ 000	2018	2017
Net profit/loss for the year	**-6,996**	**-21,177**
Depreciation, amortization and impairment of non-current assets	13,620	12,972
Changes in long-term provisions	-1,267	13
Changes in deferred taxes	-230	7,510
Equity valuation	-535	-586
Other income and expenses without cash flow impact	4,618	1,996
Result from the disposal of non-current assets	-2,441	139
Cash flow	**6,769**	**867**
Changes in short-term provisions	5,203	-221
Changes in inventories, trade receivables and other non-capex or non-financial assets	9,597	12,173
Changes in trade payables and other non-capex or non-financial liabilities	-3,352	6,927
Changes in working capital	**11,448**	**18,879**
Cash flow from operating activities	**18,217**	**19,746**
Cash outflow for capex on intangible assets	-5,827	-7,117
Cash inflow from disposals of non-current intangible assets	0	0
Cash outflow for capex on property, plant & equipment	-4,602	-3,308
Cash inflow from disposals of property, plant & equipment and real estate held as a financial investment	4,772	94
Cash outflow for capex on non-current financial assets	0	0
Cash inflow from disposals of non-current financial assets	0	58
Cash outflow for the purchase of shares in associated companies	0	-1,274
Cash flow from investing activities	**-5,657**	**-11,547**
Free Cash flow	**12,560**	**8,199**

€ 000	2018	2017
Distribution to shareholders (dividend)	0	-3,864
Distribution to/contribution from minority shareholders	0	-104
Cash inflow from interest-bearing financial debt	147	4,704
Cash outflow for repayment of interest-bearing financial debt	-14,166	-8,495
Cash flow from financing activities	**-14,019**	**-7,759**
Changes in cash and cash equivalents	-1,459	440
Foreign exchange and valuation-related changes in cash and cash equivalents	3	-523
Cash and cash equivalents at the beginning of the period	16,085	16,168
Cash and cash equivalents at the end of the period	**14,629**	**16,085**

The cash flow statement is explained in the notes to the consolidated financial statements on page 130.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY R. STAHL GROUP

				Equity attributable
				Accumulated
€ 000	Subscribed capital	Capital reserves	Revenue reserves	Currency translation
1 January 2017	**16,500**	**13,457**	**94,449**	**-338**
Net profit/loss for the year			-21,136	
Accumulated other comprehensive income			0	-2,403
Total comprehensive income			**-21,136**	**-2,403**
Dividend distribution			-3,864	
31 December 2017	**16,500**	**13,457**	**69,449**	**-2,741**
1 January 2018	**16,500**	**13,457**	**69,449**	**-2,741**
Net profit/loss for the year			-7,059	
Accumulated other comprehensive income			-212	-817
Total comprehensive income			**-7,271**	**-817**
Dividend distribution			0	
Initial application of IFRS 9 and IFRS 15			38	
31 December 2018	**16,500**	**13,457**	**62,216**	**-3,558**

to shareholders				**Non-controlling interests**	**Equity**
other comprehensive income			Total		
Unrealized gains/ losses from cash flow hedges	Unrealized gains/ losses from pensions	Total accumulated other comprehensive income			
-33	**-29,504**	**-29,875**	**94,531**	**234**	**94,765**
			-21,136	-41	**-21,177**
27	1,811	-565	-565	-3	**-568**
27	**1,811**	**-565**	**-21,701**	**-44**	**-21,745**
			-3,864	-104	**-3,968**
-6	**-27,693**	**-30,440**	**68,966**	**86**	**69,052**
-6	**-27,693**	**-30,440**	**68,966**	**86**	**69,052**
			-7,059	63	**-6,996**
6	1,203	392	180	-16	**164**
6	**1,203**	**392**	**-6,879**	**47**	**-6,832**
			0	0	**0**
0			38	0	**38**
0	**-26,490**	**-30,048**	**62,125**	**133**	**62,258**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF R. STAHL AKTIENGESELLSCHAFT, WALDENBURG, FOR THE FINANCIAL YEAR 2018

PRINCIPLES AND METHODS OF CONSOLIDATED ACCOUNTING

1. BASIS OF PREPARATION

The consolidated financial statements of R. Stahl Aktiengesellschaft (District Court of Stuttgart, HRB 581087) (hereinafter also called R. STAHL AG) as of 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS), as applicable in the European Union (EU), and the commercial law regulations pursuant to Section 315a (1) HGB. The binding interpretations for the current year of the International Financial Reporting Interpretations Committee (IFRS IC) were observed.

The financial year corresponds to the calendar year. Assets and liabilities are reported in the balance sheet in line with their maturities. The Group classifies assets and liabilities as current if it expects to realize or settle them within twelve months of the reporting date. The consolidated income statement is prepared using the "nature of costs method". To improve the 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 also made in the notes to the consolidated financial statements.

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

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

Going concern

In September 2015, R. STAHL AG signed a syndicated loan agreement with a term of five years to secure the Group's funding. It comprises a cash credit line of initially € 95 million (adjusted by R. STAHL to € 65 million in August 2018 with the termination of a partial volume of € 30 million), with an expansion option of € 25 million for acquisitions. The agreement contains standard provisions regarding the maintenance of the Group's financial strength (financial covenants). Non-compliance with these covenants results in an adjustment of the contract terms or premature termination by the banks involved. Further details are provided in the Annual Report 2017.

Due to the positive development of all key financial indicators in the reporting period, the financial covenants of the syndicated loan agreement were again within the range stipulated at the time the agreement was concluded by the middle of the year. At the end of 31 July 2018, the conditions for terminating the agreement were no longer met and the syndicated loan agreement will be continued. Consequently, the further funding of the R. STAHL Group and the separate company R. STAHL AG is secured and the previous – albeit unlikely – risk of the company not being able to continue as a going concern no longer exists.

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.

The following new regulations were mandatory for the first time in the financial year 2018:

Standard/Interpretation		Mandatory as of	Status
IFRS 9	Financial Instruments	1 January 2018	New
IFRS 15	Revenue from Contracts with Customers	1 January 2018	New
Amendments to IAS 40	Transfers of Investment Property	1 January 2018	Revised
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018	Revised
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018	Revised
Clarifications to IFRS 15	Revenue from Contracts with Customers	1 January 2018	New
AIP (2014–2016)	Amendments to IFRS 1 and IAS 28	1 January 2018	Revised
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	New

FRS 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 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 were largely adopted by IFRS 9.

Impairments are to be recognized for financial assets not measured at fair value through profit or loss in the amount of the expected losses. The impairment approach generally adopts a three-stage model to calculate impairment losses. For certain financial instruments, such as trade receivables, a simplified approach with a two-stage model is used to assess impairment losses. R. STAHL applies the simplified approach for the measurement of trade receivables and contract receivables.

IFRS 9 also includes new regulations regarding the application of hedge accounting to reflect an entity’s risk management activities especially with regard to managing non-financial risks. In its accounting of hedges, R. STAHL exercises the option of IFRS 9.7.2.21 and maintains the previous hedge accounting regulations of IAS 39.

Moreover, IFRS 9 contains additional disclosure requirements. Changes in comparison to IFRS 7 “Financial Instruments: Disclosures” result mainly from the provisions on impairment.

R. STAHL applies an impairment matrix for the measurement of expected credit losses on trade receivables and contract receivables (allowance for credit losses).

In accordance with the transitional provisions, R. STAHL does not adjust its figures for previous years. The cumulative effect of first-time application of IFRS 9 is recognized as an adjustment in retained earnings as of the date of initial application. The transition did not have any significant impact.

IFRS 15, Revenue from Contracts with Customers

The new standard on revenue recognition 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. IFRS 15 must be applied for all contracts with customers.

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 performance obligations included 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.

R. STAHL has adopted the modified approach for IFRS 15, whereby figures for the previous years are not adjusted, but the cumulative effect of first-time application of IFRS 15 is recognized as an adjustment in retained earnings as of the date of initial application.

The other standards required to be applied in the EU for the first time as of 1 January 2018 had no material impact on 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 amendments which were not yet mandatory on 31 December 2018 and in some cases have not yet been endorsed by the EU. Early application of these new provisions is not intended. With the exception of IFRS 16, these amendments are not expected to have any significant impact on the consolidated financial statements of R. STAHL AG.

Standard/ Interpretation		Mandatory as of [1]	Endorsed by EU Commission [2]	Expected impact
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	Yes	Still being examined
Amendments to IFRS 9	Financial Assets Prepayment Features with Negative Compensation	1 January 2019	Yes	None
IFRS 16	Leases	1 January 2019	Yes	See explanations
IFRS 17	Insurance Contracts	1 January 2021	No	None
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019	Yes	None
AIP (2015–2017)	Annual Improvements of IFRS	1 January 2019	Yes	None
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019	Yes	None
	Changes in references to conceptual framework in IFRS standards	1 January 2020	No	None
Amendment to IFRS 3	Business Combinations: Definition of a Business	1 January 2020	No	None
Amendments to IAS 1 and IAS 8	Definition of Material in Financial Statements	1 January 2020	No	None

[1] Mandatory initial application date for R. STAHL AG
[2] As of 31 December 2018

IFRS 16, Leases

Under IFRS 16, the previous distinction between operating and finance leases is eliminated for the lessee. Instead, IFRS 16 introduces a standard accounting model that requires lessees to recognize a right of use to an asset and a lease liability. As a result, previously unrecognized leases will have to be recognized in the balance sheet – largely in line with current accounting for finance leases. For all leases, the lessee recognizes a lease liability in the balance sheet for the obligation to make future lease payments. At the same time, the lessee capitalizes a right to use the underlying asset that corresponds to the present value of the future lease payments plus directly attributable costs. During the term of the lease, the lease liability is updated while the right of use is amortized. This results in higher expenses at the beginning of the term than the current lease expenses of a lease agreement. 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 of up to twelve months and low-value leased assets.

The new standard must be applied for all business years beginning on or after 1 January 2019. R. STAHL did not apply IFRS 16 prematurely in 2018.

R. STAHL will take advantage of the relief for short-term leases of up to twelve months and for the recognition of low-value leased assets and will recognize the adjustments resulting from the transition by applying the modified retrospective method as a cumulative effect in other revenue reserves.

In 2018, R. STAHL conducted an impact assessment on IFRS 16. A summary of the effects is presented below:

Impact on the balance sheet as of 31 December 2018:

€ 000	
Property, plant & equipment (rights of use for lease item)	+42,814
Prepaid expenses	-465
Lease liabilities	+42,349
Net impact on equity	0

Impact on the income statement for 2019:

Other operating expenses	Decrease
Depreciation and amortization	Increase
Earnings before financial result and income taxes (EBIT)	Decrease
Interest and similar income	Increase
Earnings before income taxes (EBT)	Decrease
Income taxes	No change
Net profit	Decrease

2. COMPANY DATA

Name and legal structure:	R. Stahl Aktiengesellschaft (parent company, and at the same top-level parent company of the Group)
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 2018 consolidated financial statements and 2018 Group management report for forwarding to the Supervisory Board on 12 April 2019. It will be presented to the Supervisory Board at its meeting on 25 April 2019.

4. CONSOLIDATION PRINCIPLES

Scope of consolidation

In addition to R. STAHL AG, the consolidated financial statements include 33 (2017: 33) 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.

Associated companies are included in the consolidated financial statements using the equity method. Companies are deemed to be associated if significant influence can be exerted on their business and financial policy but they are not subsidiaries. There is generally an equity stake of between 20% and 50%. The result from companies consolidated using the equity method is disclosed as part of the financial result.

ZAVOD Goreltex Co. Ltd., Saint Petersburg (Russian Federation), and ESACO (Pty.) LTD, Edenvale (South Africa), have been consolidated as associated companies using the equity method since 2016.

ZAVOD Goreltex Co. Ltd. is a supplier of Ex products in Russia. In addition to its own products, the company markets R. STAHL products on the Russian market. ESACO (Pty.) LTD markets R. STAHL products in the South African region.

Financial information on ZAVOD Goreltex Co. Ltd., Saint Petersburg (Russian Federation):

€ 000	2018	2017
Non-current assets	9,566	9,409
Current assets	18,155	18,556
Balance sheet total	**27,721**	**27,965**
Equity	22,695	23,624
Non-current liabilities	503	157
Current liabilities	4,523	4,184
Sales revenue	37,630	33,758
Result for the year	3,829	3,860

Financial information on ESACO (Pty.) LTD, Edenvale (South Africa):

€ 000	2018	2017
Non-current assets	23	41
Current assets	1,032	1,081
Balance sheet total	**1,055**	**1,122**
Equity	870	971
Non-current liabilities	0	5
Current liabilities	185	146
Sales revenue	1,604	2,060
Result for the year	-4	34

Breakdown of domestic and foreign consolidated companies (incl. R. STAHL AG):

	Domestic 31/12/2018	Foreign 31/12/2018	**Total 31/12/2018**	**Total 31/12/2017**
Number of fully consolidated companies	9	25	**34**	34
Number of companies consolidated using the equity method	0	2	**2**	2
Number of non-consolidated companies	1	1	**2**	3

The composition of fully consolidated companies has changed as follows since the previous year: STAHL EQUIPAMENTOS INDUSTRIAIS LTDA-ME, Sao Paulo (Brazil) was closed in April 2018. Furthermore, R. STAHL Gulf FZCO, Dubai (United Arab Emirates), in which R. STAHL AG holds a 100% stake, was founded in the financial year 2018.

The non-consolidated company E.M.-Stahl B.V., Hengelo (Netherlands) was closed in December 2018.

R. STAHL LLP., Atyrau, Kazakhstan, was not included in the consolidated financial statements due to its minor relevance for the Group.

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 € 25,564.59). As the other limited partner, DAL Beteiligungsgesellschaft mbH, Mainz, holds an equity interest of 50.42% (nominal € 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. 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 Heilbronn – 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. € 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 € 28.4 million. In the financial year 2013, the logistics building was extended by R. STAHL AG as the general contractor with an investment volume of approx. € 3.1 million and in the financial 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. € 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 sub-let. 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 € 000	2018	2017
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.

Translation of foreign currency items

The cost of assets acquired in foreign currencies and revenue from sales in foreign currencies are determined using the exchange rates valid on the date of the transactions. Monetary items (cash and cash equivalents, receivables and liabilities) in foreign currencies are valued at the exchange rates on the balance sheet date. Changes in assets and liabilities arising from foreign currency translation are recognized in the income statement, and disclosed under other operating expenses or income, other financial result, and in the case of available-for-sale financial assets, in other comprehensive income.

Translation of foreign currency financial statements

The translation of foreign currency financial statements depends on the functional currency of the consolidated companies. For companies whose functional currency is not the euro but their local currency, translation into the reporting currency is based on the "modified closing rate method": balance sheet items are translated into euro using closing rates on the balance sheet date, equity is translated at historical rates, and expenses and income are translated at the annual average rates. The difference between equity of the companies translated at historical rates at the time of acquisition or retention and equity translated at closing rates on the balance sheet date is disclosed separately as "translation adjustments" in other comprehensive income and only recognized in the income statement on disposal of a company.

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

	Year-end rate		Average exchange rate	
€	**31/12/2018**	**31/12/2017**	**2018**	**2017**
US dollar	1.14500	1.19930	1.18096	1.12968
British pound	0.89453	0.88723	0.88471	0.87668
Norwegian krone	9.94830	9.84030	9.59749	9.32704
Indian rupee	79.72980	76.60550	80.73324	73.53242
Russian rouble	79.71530	69.39200	74.04160	65.93825

Consolidation principles

Capital consolidation is conducted at the acquisition date according to the purchase method (IFRS 3). First, all assets, liabilities and additional intangible assets to be capitalized are measured at fair value. The acquisition cost of the investments is then netted with the proportional share of acquired and restated equity. The resulting positive differences are capitalized as goodwill. Negative differences are reviewed once more and then recognized directly in the income statement.

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 relationships, as well as intra-group results from deliveries and services among consolidated companies, are fully eliminated in the consolidation process.

The consolidation principles have remained unchanged compared to last year.

5. ACCOUNTING AND MEASUREMENT METHODS

Uniform group methods

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

To this end, we have adjusted the financial statements prepared according to country-specific standards to the uniform Group accounting and measurement 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 of 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 reporting 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 whether 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 2018, the carrying amounts of goodwill totalled € 10.6 million (2017: € 11.1 million). For further information please refer to section 20.

Capitalized development costs

Development costs are capitalized according to the accounting and measurement 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 2018, the carrying amount of capitalized development costs stood at € 26.0 million (2017: € 26.2 million).

Provisions for pension obligations

Expenses for defined benefit plans are determined using actuarial calculations based on assumptions with 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 2018, provisions for pension obligations amount to € 94.5 million (2017: € 96.9 million). For further information please refer to section 28.

Deferred taxes

The carrying amount of deferred tax assets as of 31 December 2018 came to € 11.6 million (2017: € 11.9 million). Determination of future tax advantages reflected in the balance sheet is based on assumptions and estimates of the development of tax income and tax legislation in those countries where Group companies are located.

Further assumptions

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.

Recognition of sales revenue

IFRS 15 stipulates whether, in what amount and at what time revenue is to be recognized. IFRS 15 applies to all contracts with customers.

The IFRS 15 concept provides for a so-called 5-step model. The core principle of IFRS 15 is that revenue recognition should reflect the transfer of goods and services to customers promised in contracts (performance obligation) at an amount which the entity expects from the customer in exchange for the performance obligation.

With regard to the identification of contracts, the treatment is not generally different to the previous regulation.

The company object of R. STAHL is essentially the manufacture of products in the field of explosion protection. The overwhelming content of customer contracts is the transfer of products to the customer.

In addition to product deliveries transferred according to the same model, the company also offers optional training, Factory Acceptance Tests (FAT), the provision of storage space and extended warranties. According to internal surveys, the demand for the provision of storage space and extended warranties is of secondary importance as of the reporting date. However, R. STAHL checks at each reporting date whether separate performance obligations can be identified.

As a rule, the final documentation associated with the provision of the respective product is not a performance obligation, as it is part of the overall service package.

For each identified performance obligation, an assessment is made as to whether the service is rendered on a period-related or time-related basis. Revenue is recognized when control over the good or service is transferred to the customer. Product sales are recognized as sales upon transfer of risk and the services described are recognized after they have been rendered. Accounting for services over a period of time is not possible due to the short-term nature of the service provision. In the case of a performance for a customer for which the degree of customer-specific design is so high that an alternative use within the meaning of IFRS 15.35 (c) can be ruled out, revenue is recognized over a specific period. To determine the stage of completion, R. STAHL uses the input-oriented method, which corresponds to the value of the work performed from the contracts.

The regulations governing the determination of the transaction price and the allocation of the transaction price do not lead to any significant change in accounting practice for R. STAHL compared with the previous legal situation under IAS 18, as standalone sales prices are already recognized for the performance obligations to be identified. When determining the transaction price, only contractual penalties or contractual incentives (for earlier product delivery) are to be determined in practice. Other variable components of transaction prices are of minor significance. At the end of the reporting period, there were no special sales with a right of return, repurchase agreement, option to purchase additional goods or services, significant financing component or similar features. R. STAHL works mainly as a principal, as it controls the service or product before it is handed over to the customer.

In 2018, there were no significant items with terms of payment of over 12 months.

After evaluation of an internal analysis, it was determined that contract costs are only incurred to a minor extent. If incurred, R. STAHL applies the simplification rule of not capitalizing contract costs in the case of those contracts with terms of less than one year.

R. STAHL applied the modified retrospective method for the transition to IFRS 15, according to which the cumulative adjustment amounts are recognized as of 1 January 2018. As a result, the comparative information for 2017 has not been adjusted, i.e. the prior-year figures are presented in accordance with IAS 18.

The following table shows the effects of the transition to IFRS 15 on retained earnings as of 1 January 2018 after taxes.

€ 000	Effect from the application of IFRS 15 as of 1 January 2018
Change from time-based to period-based recognition	+147
Tax effect	-48
Total effect as of 1 January 2018	+99

The following overview shows the effects of the application of IFRS 15 on the affected items of the consolidated balance sheet as at 31 December 2018 and the consolidated income statement for the financial year 2018.

Impact on the consolidated balance sheet:

31 December 2018 € 000	As stated	Adjustment according to IFRS 15	Amounts without application of IFRS 15
Non-current assets	**121,462**	**0**	**121,462**
Inventories and prepayments made	35,043	-254	35,297
Trade receivables	47,636	-76	47,712
Contract receivables	1,052	1,052	0
Other receivables and other assets	6,977	-629	7,606
Current assets	**106,470**	**93**	**106,377**
Retained earnings	62,216	63	62,153
Equity	**62,258**	**63**	**62,195**
Deferred taxes	3,094	30	3,064
Non-current liabilities	**107,748**	**30**	**107,718**
Current liabilities	**57,926**	**0**	**57,926**
Balance sheet total	**227,932**	**93**	**227,839**

Impact on the consolidated income statement:

1 January 2018–31 December 2018 € 000	As stated	Adjustment according to IFRS 15	Amounts without application of IFRS 15
Sales	280,114	-158	280,272
Change in finished and unfinished products	-6,727	104	-6,831
Total operating performance	**277,008**	**-54**	**277,062**
Earnings before financial result and income taxes	**-4,162**	**-54**	**-4,108**
Financial result	**-2,816**	**0**	**-2,816**
Earnings before income taxes	**-6,978**	**-54**	**-6,924**
Income taxes	-18	18	-36
Net profit/loss	**-6,996**	**-36**	**-6,960**

Research and development expenses

Research costs may not be capitalized under IAS 38.42 et seq. and are immediately expensed. Development costs are capitalized if the capitalization criteria pursuant to IAS 38 are met. Development expenses are stated at cost less accumulated depreciation and impairments. 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 calculated by dividing consolidated earnings after taxes, attributable to the shareholders of R. STAHL AG, by the average number of common shares outstanding during the financial year.

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 2017 nor in 2018.

Goodwill

Goodwill is not amortized but is tested for impairment once a year by means of an impairment test. This test is also conducted if events or circumstances occur that indicate that the carrying amount may not be recoverable. Goodwill is recognized at cost less accumulated impairment losses.

Development costs

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. Capitalized development projects are subjected to annual impairment tests.

Other intangible assets

Intangible assets with definite useful lives are recognized at cost less straight-line amortization over their contractual or estimated useful life. The useful lives are between 3 and 10 years.

Property, plant & equipment

Property, plant & equipment is recognized at cost less cumulative scheduled depreciation and writedowns over the projected useful life. The cost of an item of property, plant & equipment is recognized as an asset if it is probable that a future economic benefit associated with the item will flow to the entity and if the cost of the item can be measured reliably. Acquisition or production costs only include those amounts which can be directly allocated.

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.

Valuation is based on the following group-wide useful lives:

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

Impairment of tangible and other intangible assets

The company tests for impairment of tangible and intangible assets (including capitalized development costs and goodwill) if events or changed circumstances indicate that it may not be possible to recover the carrying amount of an asset. This involves comparing the carrying amounts 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.

Leases

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 has mainly operating leases. The existing finance leases are of minor significance. The payments connected with operating leases are spread over the term of the lease agreement using the straight-line method.

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 subsequent periods. Financial instruments are recognized for the first time on the settlement date.

At the time of initial recognition, financial assets must be classified into the categories “at amortized cost” or “at fair value” which are relevant for subsequent measurement.

Irrespective of this, a financial asset may be designated as "at fair value through profit or loss" (fair value option) on initial recognition. This option was not exercised by R. STAHL.

Under IFRS 9, there are three categories for the classification and subsequent measurement of financial assets. The options are:

- measurement at amortized cost,
- measurement at fair value through other comprehensive income (OCI) and
- measurement at fair value through profit or loss.

A financial asset is allocated to the (measurement) category "at amortized cost" if it cumulatively meets the business model and cash flow criteria and no fair value option has been exercised. Subsequent measurement is at amortized cost using the effective interest method. In the case of R. STAHL, this primarily includes all trade receivables and contract receivables.

The objectives of the business model may include both the receipt of contractual cash flows from financial assets and the generation of income from their sale. If financial assets also meet the cash flow criterion, they are accounted for in the category "fair value through OCI". Subsequent measurement is at fair value. Interest is recognized in the income statement using the effective interest method. Changes in fair value in excess of cost are recognized directly in OCI. If the conditions are met, fair value fluctuations recognized and amortized in OCI must be recycled through profit or loss. At present, no application cases of this have been identified for R. STAHL.

If the objective of the respective business model is not to hold, or hold and sell, the financial assets are recognized in the category "fair value through profit or loss". This applies regardless of compliance with the cash flow criterion. These financial assets include those held for trading. A financial asset is held for trading if it

- was acquired primarily for the purpose of short-term sale/repurchase,
- is part of a jointly managed portfolio on initial recognition and there have been short-term profit withdrawals within this portfolio in the recent past, or
- fulfils the characteristics of a derivative.

However, derivatives classified as either a financial guarantee or an effective hedging instrument must be excluded.

If there is no contractual interest claim for equity instruments, but only a residual claim, the cash flow criterion is not fulfilled and the consequence is allocation to the category "fair value through profit or loss". However, if an equity instrument is not held in the trading portfolio, it may be accounted for within the category "fair value through OCI" by exercising the fair value option. Only dividends continue to be recognized through profit or loss. R. STAHL does not exercise the fair value through OCI option.

The general impairment model of IFRS 9 provides for three levels of risk provision. However, there is an option to use a simplified model for certain assets instead of the general one. R. STAHL exercises this option.

If the option is exercised, the respective financial assets must be allocated exclusively to (valuation allowance) levels 2 and 3 and a risk provision in the amount of the lifetime expected loss must be recognized.

The formation of a provision in the amount of expected credit loss is aimed at anticipating expected losses attributable to debtor default. When estimating the expected losses, the discounted expected values must be calculated. Information available to the company must be taken into account. This includes past experience, information on the current economic situation and expected economic developments.

Financial assets must always be derecognized on settlement or transfer. In the event of the transfer of a financial asset, the asset is derecognized if all material opportunities and risks have been transferred. If all material opportunities and risks remain with the transferor, the asset cannot be derecognized. If neither all material opportunities and risks of an asset are transferred nor all material risks retained, it must be determined whether the accounting entity has relinquished control of the asset or not. If the entity no longer holds the asset, it is derecognized. However, if the entity has retained control of the asset, it must continue to recognize the asset.

Initial application of IFRS 9 did not have any material effect on the classification of financial instruments:

Measurement categories according to IAS 39/€ 000/1 January 2018

Loans and receivables	68,727
At fair value through profit or loss	514
Liabilities measured at amortized cost	53,430
Liabilities at fair value through profit or loss	100

Measurement categories according to IFRS 9/€ 000/1 January 2018

Financial assets (hold to collect) – amortized cost	68,727
Financial assets (hold to collect) – fair value through profit or loss	514
Financial liabilities – amortized cost	53,430
Financial liabilities – fair value through profit or loss	100

Effects result from initial application of the expected credit loss model. In the year of initial application of IFRS 9, the value adjustments for credit losses pursuant to IAS 39 must be reconciled to the amounts pursuant to IFRS 9 on a one-off basis. These are shown below:

	Trade receivables		Contract assets acc. to IFRS 15	
€ 000	2018	2017	2018	2017
31 December acc. to IAS 39	3,029	2,911	0	–
Amounts adjusted retroactively through retained earnings	85	0	0	–
Opening balance sheet amount as of 1 January acc. to IFRS 9	3,114	2,911	0	–
Currency difference	-48	-115	0	–
Increase in credit losses recognized through profit or loss	+1,732	+1,867	0	–
Amounts written off	-332	-436	0	–
Amounts reversed	-1,444	-1,198	0	–
31 December	3,022	3,029	0	–

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 cost. Non- or low-interest-bearing receivables with maturities in excess of one year are discounted.

Appropriate allowances using the expected credit loss model are recognized to take account of all identifiable risks.

All foreign currency receivables are translated at the closing rate on each balance sheet date. Changes in value are reported in the income statement under other operating income or other operating expenses.

Derivative financial instruments and hedge accounting

When accounting for derivative financial instruments, R. STAHL exercises the option provided by IFRS 9.7.2.21 and applies the regulations for hedge accounting pursuant to IAS 39.

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. All derivative financial instruments as specified by IAS 39.88 are to be recognized at their market value, irrespective of the purpose or 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 in accordance with IFRS 9.

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 programmes. 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).

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

Liabilities

Financial liabilities are measured at fair value plus directly attributable incidental costs at the time of addition. As a rule, fair value is the acquisition cost.

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.

All foreign currency liabilities are translated at the closing rate on each balance sheet date. Changes in value are reported in the income statement under other operating income or other operating expenses.

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:

€ 000	2018	2017
Breakdown by region		
Germany	70,335	60,928
Central region without Germany	116,132	120,676
Americas	31,194	28,973
Asia/Pacific	62,453	57,885
Total	**280,114**	**268,462**

A breakdown of sales revenue by time of recognition is shown below:

€ 000	2018	2017
Revenue recognition		
At a specific time	269,884	259,960
Over a specific period	10,230	8,502
Total	**280,114**	**268,462**

Revenues are recognized "over a specified period" with a high probability of occurrence within a period of one to two months.

7 Other own work capitalized

Other own work capitalized results in particular from capitalizing development costs pursuant to IAS 38. In the reporting period, this came to € 3,284 thousand (2017: € 3,840 thousand).

In the reporting period, total expenses of € 19,268 thousand (2017: € 17,525 thousand) were recognized for research and development.

8 Other operating income

Other operating income includes the following items:

€ 000	2018	2017
Income from asset disposals	2,556	11
Income from the reversal of provisions	2,455	627
Income from the reversal of valuation allowances	1,444	1,198
Income from the market valuation of derivatives	13	876
Gains from currency translation	4,694	3,786
Other income	2,602	1,528
Total	**13,764**	**8,026**

9 Cost of materials

The cost of materials comprises the following items:

€ 000	2018	2017
Expense for raw materials and supplies	-94,201	-94,443
Services received	-5,207	-5,673
Total	**-99,408**	**-100,116**

10 Personnel costs

Personnel costs consist of the following:

€ 000	2018	2017
Wages and salaries	-98,908	-100,678
Social insurance contributions, as well as pension and support expense	-20,426	-20,434
thereof for pensions	-3,567	-3,092
Total	**-119,334**	**-121,112**

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	2018	2017
Employees	1,724	1,776
Trainees	73	73
Total	**1,797**	**1,849**

The average number of employees does not include employees of associated companies carried in the consolidated financial statements using the equity method.

12 Depreciation and amortization

Depreciation and amortization of intangible assets and property, plant & equipment amounts to € 13,617 thousand (2017: € 12,972 thousand).

13 Other operating expenses

Other operating expenses mainly comprise the following items:

€ 000	2018	2017
Services	-8,769	-8,173
Rental expense for premises	-6,920	-6,750
Rent for office and operating equipment	-2,947	-3,008
Legal, consulting, licensing and inventor fees	-8,298	-5,069
Office, postal and communication costs	-2,053	-2,105
Voluntary social security contributions and ancillary personnel expenses	-2,790	-2,776
Maintenance costs	-4,457	-4,239
Travel and entertainment expenses	-3,156	-4,047
General transport costs	-2,928	-3,073
Losses from currency translation	-4,236	-4,963
Other taxes	-690	-715
Expenses from market valuation of derivatives	-673	0
Other	-14,658	-9,061
Total	**-62,575**	**-53,979**

14 Result from companies consolidated using the equity method

The result from companies consolidated using the equity method includes an amount of € 957 thousand from ZAVOD Goreltex Co. Ltd., Saint Petersburg (Russian Federation), and € -1 thousand from ESACO (Pty.) LTD, Edenvale (South Africa).

15 Investment result

The investment result amounted to € 0 thousand (2017: € 17 thousand).

16 Interest result

The interest result comprises the following items:

€ 000	2018	2017
Interest and similar income	1,150	238
Interest and similar expense	-4,922	-3,179
Total	**-3,772**	**-2,941**

The interest result includes the net interest portion from the allocation to pension provisions in the amount of € -1,837 thousand (2017: € -1,700 thousand).

17 Income taxes

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

€ 000	2018	2017
Current taxes	-248	-1,032
Deferred taxes	230	-7,510
Total	**-18**	**-8,542**

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 € 306 thousand (2017: € 0 thousand).

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. In Germany, the corporate tax rate is 15.0% with a solidarity surcharge of 5.5%. In addition to corporate tax, a trade income tax is payable on profits made in Germany. This varies depending on the communities in which the company is located. With an average trade tax collection rate of 392.7% (2017: 390.5%) the total tax rate for the Group's domestic companies amounts to 29.5% (2017: 29.5%). The profits earned by the Group's foreign companies are taxed at the rates applicable in the respective country of their registered office. These are also used to determine deferred taxes, provided that future tax rate adjustments have not yet been resolved. The tax rates for our foreign activities range from 0.0% to 34.0% (2017: 0.0% and 34.0%).

Deferred tax assets on tax loss carryforwards of € 16,371 thousand (2017: € 15,073 thousand) were written down by € 15,943 thousand (2017: € 14,627 thousand) as we do not know exactly the amounts to which they may be realized given the information available at this time. Total writedowns include € 10,207 thousand corporate tax (2017: € 9,964 thousand) and € 5,736 thousand trade tax (2017: € 4,663 thousand). In addition, deferred tax assets on temporary differences whose recoverability is uncertain were written down by € 635 thousand.

Cumulated corporate tax loss carryforwards as yet unused amount to € 57,561 thousand (2017: € 55,271 thousand), while cumulated trade tax loss carryforwards as yet unused amount to € 41,525 thousand (2017: € 33,979 thousand). The loss carryforwards are mostly not limited in time. Tax losses cannot be offset with taxable income of other Group companies.

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 2018 were as follows:

€ 000	31/12/2018	31/12/2017
Deferred tax assets, gross		
Tax loss carryforwards	16,371	15,073
Intangible assets	8	47
Property, plant & equipment	62	159
Other financial assets	1	1
Inventories	2,422	2,753
Receivables and other assets	415	447
Prepaid expenses	28	0
Cash and cash equivalents	1	1
Equity	165	165
Long-term provisions	13,571	14,401
Other short-term liabilities and debts	336	359
Short-term provisions	2,438	1,376
Net of value adjustments	-16,578	-14,627
Total deferred tax assets, gross	**19,240**	**20,155**
Less netting	-7,653	-8,250
Total deferred tax assets acc. to balance sheet	**11,587**	**11,905**

€ 000	31/12/2018	31/12/2017
Deferred tax liabilities, gross		
Intangible assets	7,289	7,352
Property, plant & equipment	2,325	2,391
Other financial assets	157	205
Investment property	81	406
Inventories	4	187
Receivables and other assets	252	525
Prepaid expenses	0	4
Long-term provisions	168	173
Short-term interest-bearing financial debts	74	114
Other short-term liabilities and debts	397	101
Total deferred tax liabilities, gross	**10,747**	**11,458**
Less netting	-7,653	-8,250
Total deferred tax liabilities acc. to balance sheet	**3,094**	**3,208**
Net balance of deferred taxes	**8,493**	**8,697**

Deferred tax assets of € 11,587 thousand (2017: € 11,905 thousand) include € 2,537 thousand (2017: € 8,904 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 future results of planning and the reverse effect of temporary differences.

The following table shows the reconciliation of the expected tax expense for the respective financial 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% (2017: 29.0%). Pre-tax earnings amount to € -6,978 thousand (2017: € -12,635 thousand).

€ 000	2018	2017
Expected tax expense	**2,024**	**3,664**
Taxation differences between domestic and foreign operations	+218	-361
Non-tax-deductible expenses	-1,205	-441
Tax-free income	108	423
Changes in write-downs on deferred tax assets	-1,951	-10,961
Utilization of tax loss carryforwards	306	0
Taxes for prior years	895	121
Other	-413	-987
Effective income taxes	**-18**	**-8,542**
Tax expense shown in the consolidated income statement	-18	-8,542

In the reporting period, the conclusion of an objection procedure resulted in tax income in Germany of € 971 thousand for previous years.

A tax audit of domestic Group companies was largely completed in the reporting period. Tax provisions of € 188 thousand and interest provisions of € 55 thousand were formed for expected tax back payments. In addition, the adjustments resulting from the tax audit led to the utilization of loss carryforwards of € 930 thousand for corporate income tax and € 683 thousand for trade tax and thus to the utilization of deferred tax assets, which were fully written down, amounting to around € 240 thousand. Tax relief of around € 165 thousand is expected from corrections.

A total of € -412 thousand of deferred taxes was recognized in the balance sheet with a decreasing effect on equity (2017: € -942 thousand decreasing equity) without affecting the income statement.

Tax effects on income and expense recognized in other comprehensive income are as follows:

	2018			2017		
€ 000	Earnings before income taxes	Income taxes	Earnings after income taxes	Earnings before income taxes	Income taxes	Earnings after income taxes
Currency translation differences	-833	0	-833	-2,406	0	-2,406
Cash flow hedges	8	-2	6	39	-12	27
Pension obligations	1,401	-410	991	2,741	-930	1,811
Income and expense recognized directly in equity	576	-412	164	374	-942	-568

18 Earnings per share

	2018	2017
Net profit for the year without non-controlling interests in € 000	-7,059	-21,136
Number of shares (weighted average)	6,440,000	6,440,000
Earnings per share in €	**-1.10**	**-3.28**

Undiluted or basic earnings per share shown above are calculated according to IAS 33 by dividing consolidated net profit attributable to ordinary shareholders of R. STAHL AG by the average number of shares outstanding in the financial year.

So-called potential shares can dilute earnings per share. As we have no potential common shares and no options or subscription rights outstanding, there was no need to calculate diluted earnings per share in 2017 or 2018.

19 Appropriation of profit/equity

The annual financial statements as at 31 December 2018 of R. STAHL AG show a balance sheet loss. In accordance with legal regulations, no resolution on the appropriation of profit must therefore be adopted.

In the financial year 2018, no dividend was distributed to shareholders (2017: € 0.60 per dividend-entitled share).

The dividend payout in the financial year 2016 was made in accordance with the profit distribution resolution adopted under Agenda Item 2 of the Annual General Meeting of 3 June 2016.

As announced in the Federal Gazette (Bundesanzeiger) on 4 August 2016, the shareholders Metropol Vermögensverwaltungs- und Grundstücks-GmbH, Karl-Walter Freitag, Riebeck-Brauerei von 1862 AG and Caterina Steeg filed actions for rescission and nullity in respect of the resolutions of R. STAHL AG adopted at the Annual General Meeting on 3 June 2016. The Stuttgart Regional Court dismissed the actions in their entirety in its ruling of 20 June 2017. The appeals lodged by some of the plaintiffs against this verdict had been dismissed by the Stuttgart Higher Regional Court (Case No. 20 U 5/17) in its ruling of 4 May 2018. The Stuttgart Higher Regional Court did not allow the appeal. The complaints for non-admission filed by these plaintiffs were withdrawn by them in a written submission dated 18 October 2018. The proceedings were last pending before the Federal Court of Justice under Case No. II ZR 180/18. The dispute has thus been brought to a legally binding conclusion. The costs of the proceedings, including the extrajudicial costs of R. STAHL AG, will be borne by the plaintiffs within the framework of the statutory provisions. No agreements were reached between the parties to the dispute. Performance of R. STAHL AG was neither rendered nor promised. In accordance with statutory provisions, the end of the legal dispute was announced in the Federal Gazette on 31 October 2018.

At the Annual General Meeting of R. STAHL AG on 3 June 2016, some shareholders also filed an “Application for the appointment of a special auditor for the purpose of reviewing management transactions in connection with the takeover offer of Weidmüller Beteiligungsgesellschaft mbH and the acquisition and sale of treasury shares” under agenda item 6, which was rejected by a majority of the shareholders at the Annual General Meeting. As announced in the 2016 Annual Report, some shareholders subsequently pursued this request and applied to the Stuttgart Regional Court for the judicial appointment of a special auditor. In a ruling dated 29 September 2017, the competent Chamber rejected this application in its entirety. The applicants lodged an appeal against this ruling on 30 October 2017, which the Chamber did not remedy in its ruling of 27 February 2018 and referred to the Stuttgart Higher Regional Court (Case No.: 20 W 6/18) for a decision. In its ruling of 25 October 2018, the 20th Civil Senate of the Stuttgart Higher Regional Court dismissed the applicants’ appeal against the ruling of the Stuttgart Regional Court and did not allow a further appeal. The dispute has thus been brought to a legally binding conclusion. The costs of the proceedings, including the extrajudicial costs of R. STAHL AG, are to be borne by the applicants within the framework of the statutory provisions. No agreements were reached between the parties to the proceedings. Performance of R. STAHL AG was neither rendered nor promised.

With the conclusion of the two aforementioned proceedings, all legal disputes of material importance for R. STAHL AG have been terminated with the best possible judicial outcome for the company.

NOTES TO THE CONSOLIDATED BALANCE SHEET

NON-CURRENT ASSETS

20 Intangible assets

As of 31 December 2018, the development was as follows:

€ 000	Industrial property rights and similar rights	Goodwill	Development costs	Other	Total
Acquisition costs					
1 January 2018	26,105	11,317	43,876	10,721	92,019
Currency differences	-46	-108	-13	-141	-308
Additions	631	0	4,826	370	5,827
Disposals	-109	-430	-390	-38	-967
Reclassifications	33	0	0	-33	0
31 December 2018	**26,614**	**10,779**	**48,299**	**10,879**	**96,571**
Cumulative amortization and impairment					
1 January 2018	23,669	213	17,631	8,710	50,223
Currency differences	-48	-2	-9	-140	-199
Additions	1,010	430	5,054	111	6,605
Disposals	-105	-430	-390	-38	-963
Reclassifications	0	0	0	0	0
31 December 2018	**24,526**	**211**	**22,286**	**8,643**	**55,666**
Carrying amounts 31 December 2018	**2,088**	**10,568**	**26,013**	**2,236**	**40,905**

As of 31 December 2017, the development was as follows:

€ 000	Industrial property rights and similar rights	Goodwill	Development costs	Other	Total
Acquisition costs					
1 January 2017	24,298	12,287	39,025	11,153	86,763
Currency differences	-159	-444	-67	-571	-1,241
Additions	1,010	0	5,438	669	7,117
Disposals	-48	-526	0	-46	-620
Reclassifications	1,004	0	-520	-484	0
31 December 2017	**26,105**	**11,317**	**43,876**	**10,721**	**92,019**
Cumulative amortization and impairment					
1 January 2017	22,731	231	14,418	8,986	46,366
Currency differences	-145	-18	-49	-550	-762
Additions	1,131	526	3,262	320	5,239
Disposals	-48	-526	0	-46	-620
Reclassifications	0	0	0	0	0
31 December 2017	**23,669**	**213**	**17,631**	**8,710**	**50,223**
Carrying amounts 31 December 2017	**2,436**	**11,104**	**26,245**	**2,011**	**41,796**

The item “Other intangible assets” includes prepayments of € 1.9 million (2017: € 1.6 million).

Intangible assets mainly comprise IT software, capitalized development costs for various development projects, and goodwill. In 2018, intangible assets were written down by € 1,199 thousand (2017: € 0 thousand).

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. Goodwill is allocated to the respective legal entity.

Goodwill of € 10.6 million (2017: € 11.1 million) was allocated to the following cash-generating units:

€ million	31/12/2018 Carrying amounts	31/12/2018 Pre-tax discount rates	31/12/2017 Carrying amounts	31/12/2017 Pre-tax discount rates
R. STAHL HMI Systems GmbH (Germany)	4.6	10.1%	4.6	10.2%
R. Stahl Schaltgeräte GmbH (Germany)	1.1	9.7%	1.1	9.6%
Sub-group (Norway)	4.0	8.9%	4.0	9.4%
OOO R. Stahl (Russian Federation)	0.0	15.7%	0.5	15.7%
R. STAHL, LTD. (Canada)	0.9	9.1%	0.9	9.4%
Total	**10.6**		**11.1**	

The recoverable amounts are greater than the carrying amounts. Changes to goodwill are due in particular to the writedown on goodwill of OOO R. Stahl (Russian Federation) amounting to € 0.5 million due to reduced earnings prospects.

Impairment tests according to the discounted cash flow method of the cash-generating units led to fair values above the carrying amounts. With the exception of the company in the Russian Federation, no amortization was therefore 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%.

The average annual growth in external sales (compound annual growth rate) in the detailed planning period for the cash-generating units is between -12.3% and 28.9%, 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.

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 2019 would fall by 10% or that capital costs would rise by another 0.5 percentage points. Changes outside this range are regarded as unlikely.

In the case of R. STAHL HMI Systems GmbH (Germany), there is a requirement for impairment if EBIT falls in a range of 0% to 10% or the interest rises in a range of 0% to 1% p.a..

In the case of R. STAHL, LTD. (Canada), there is a requirement for impairment if EBIT falls in a range of 0% to 20% or the interest rises in a range of 0% to 2% p.a..

21 Property, plant & equipment

As of 31 December 2018, the development was as follows:

€ 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					
1 January 2018	48,535	34,005	52,707	591	135,838
Currency differences	-101	-103	-60	0	-264
Additions	92	550	3,255	705	4,602
Disposals	-578	-560	-2,218	-2	-3,358
Reclassifications	2	35	480	-517	0
31 December 2018	**47,950**	**33,927**	**54,164**	**777**	**136,818**
Cumulative depreciation and impairment					
1 January 2018	12,360	25,220	41,055	0	78,635
Currency differences	10	-27	-27	0	-44
Additions	1,185	2,020	3,550	0	6,755
Disposals	-459	-484	-2,105	0	-3,048
Reclassifications	0	0	0	0	0
31 December 2018	**13,096**	**26,729**	**42,473**	**0**	**82,298**
Carrying amounts 31 December 2018	**34,854**	**7,198**	**11,691**	**777**	**54,520**

As of 31 December 2017, the development was as follows:

€ 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					
1 January 2017	48,981	34,451	52,328	432	136,192
Currency differences	-505	-644	-357	-1	-1,507
Additions	57	749	2,182	316	3,304
Disposals	-5	-572	-1,574	0	-2,151
Reclassifications	7	21	128	-156	0
31 December 2017	**48,535**	**34,005**	**52,707**	**591**	**135,838**
Cumulative depreciation and impairment					
1 January 2017	11,235	23,995	38,591	0	73,821
Currency differences	-57	-390	-268	0	-715
Additions	1,186	2,191	4,069	0	7,446
Disposals	-4	-576	-1,337	0	-1,917
Reclassifications	0	0	0	0	0
31 December 2017	**12,360**	**25,220**	**41,055**	**0**	**78,635**
Carrying amounts 31 December 2017	**36,175**	**8,785**	**11,652**	**591**	**57,203**

No revaluations were made in the financial year or the previous year.

With regard to property, plant & equipment, collateral has been provided for liabilities amounting to € 11,489 thousand (2017: € 11,814 thousand). At the end of the reporting period, order commitments for property, plant & equipment amounted to € 2,052 thousand (2017: € 1,271 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 Co. Ltd., Saint Petersburg (Russian Federation), and a 35% stake in the South African company ESACO (Pty.) LTD, Edenvale (South Africa). Of the total increase in the carrying amount of shares in associated companies amounting to € 534 thousand, an amount € 956 thousand relates to the annual result less amortization charges (€ 422 thousand).

Other financial assets

Other financial assets totalling € 32 thousand (2017: € 50 thousand) comprise other equity interests and securities.

Other non-current assets

Other non-current assets comprise receivables and other assets as well as deferred items totalling € 1,012 thousand (2017: € 1,206 thousand). Total other non-current assets comprise a restricted amount of € 880 thousand (2017: € 1,050 thousand) which serves as collateral for obligations arising from partial retirement contracts.

Real estate held as a financial investment

During the reporting period, a property not required for operations in Ettlingen was sold for a price of € 4,050 thousand. The sale of the property generated income of € 2,046 thousand.

Real estate held as a financial investment refers to a property with buildings.

As of 31 December 2018, the development was as follows:

€ 000	Total
Acquisition costs	
1 January 2018	13,932
Additions	0
Disposals	-5,248
Reclassifications	0
31 December 2018	**8,684**
Cumulative depreciation and impairment	
1 January 2018	6,549
Additions	257
Disposals	-3,244
Reclassifications	0
31 December 2018	**3,562**
Carrying amounts 31 December 2018	**5,122**

As of 31 December 2017, the development was as follows:

€ 000	Total
Acquisition costs	
1 January 2017	13,928
Additions	4
Disposals	0
Reclassifications	0
31 December 2017	**13,932**
Cumulative depreciation and impairment	
1 January 2017	6,262
Additions	287
Disposals	0
Reclassifications	0
31 December 2017	**6,549**
Carrying amounts 31 December 2017	**7,383**

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, the respective 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 € 8.0 million as of 31 December 2018 (2017: € 11.1 million incl. the property in Ettlingen) and is allocated to the fair value hierarchy Level 3. The fair value of the property in Ettlingen amounted to € 3.1 million. An external assessor was used to determine values. Values were 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. There are no indications of any changes in the value of land.

Rental income from "Real estate held as a financial investment" recognized in the income statement and received in the reporting period amounts to € 1,214 thousand (2017: € 1,298 thousand). Expenses directly allocable to the property of € 432 thousand (2017: € 558 thousand) were incurred. Rental income in 2019 is expected to amount to € 1,014 thousand.

CURRENT ASSETS

23 Inventories and prepayments made

Inventories comprise the following:

€ 000	31/12/2018	31/12/2017
Raw materials and supplies	16,907	19,543
Unfinished goods and unfinished services	6,538	8,574
Finished goods and merchandise	11,005	17,196
Prepayments made	593	188
Total	**35,043**	**45,501**

In the reporting period, scheduled inventory impairments for slow-moving products of € 12,486 thousand (2017: € 12,429 thousand) were made, of which € 3,900 thousand was recognized in the income statement in the current period.

With regard to inventories, collateral of € 3,652 thousand (2017: € 5,287 thousand) has been provided for liabilities.

24 Receivables and other assets

Receivables and other assets consist of the following items:

	31/12/2018		31/12/2017	
€ 000	Total	Thereof due within one year	Total	Thereof due within one year
Trade receivables	47,636	47,636	49,961	49,961
Contract receivables	1,052	1,052	0	0
Income tax claims	1,133	1,133	3,166	3,166
Other receivables	5,412	4,413	5,736	4,542
Other financial assets	205	205	649	649
Total	**55,438**	**54,439**	**59,512**	**58,318**

Of the capitalized total, € 54,439 thousand (2017: € 58,318 thousand) is due within one year, the remainder totalling € 999 thousand (2017: € 1,194 thousand) is disclosed under other non-current assets.

Bad debt allowances of € 3,022 thousand (2017: € 3,029 thousand) were recognized on trade receivables.

Other current financial assets include derivative financial instruments of € 75 thousand (2017: € 514 thousand).

At the end of 2016, with a supplement in June 2018, two Group companies entered into a factoring agreement according to which the factoring company is obliged to purchase trade receivables with a monthly revolving nominal volume of € 14 million for receivables denominated in euro and € 5 million for receivables denominated in USD. 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 2018 (nominal value € 11,156 thousand) amounts to € 1,513 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 2018, the carrying and fair value of the company's entire ongoing factoring activities amounted to € 1,513 thousand. The residual maturity of the corresponding other receivables and other assets is less than one year.

25 Prepaid expenses

Of total prepaid expenses, € 2,359 thousand (2017: € 2,377 thousand) are due within one year; € 12 thousand (2017: € 12 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:

€ 000	31/12/2018	31/12/2017
Cash on hand	39	32
Cheques	135	81
Credit balances with banks, payable on demand	14,183	15,721
Credit balances with banks, payable at 3 months' notice	272	251
Total	**14,629**	**16,085**

27 Equity

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

Subscribed capital

The subscribed capital of R. Stahl Aktiengesellschaft amounting to € 16,500,000.00 is divided into 6,440,000 no-par registered shares, each with a prorated notional share of capital of € 2.56. The shares are fully paid.

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 € 12,963 thousand was credited to capital reserves in the financial year 2015. Transaction costs of € 440 thousand recognized directly in equity and deferred taxes of € 128 thousand were already deducted from the amount of € 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 external shareholders of OOO R. Stahl, Moscow (Russian Federation).

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, secure the servicing of financial liabilities 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 -2.5% (2017: -4.7%).

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

€ 000	31/12/2018	31/12/2017
Equity net of non-controlling interests	**62,125**	**68,966**
Long-term interest-bearing loans	11,451	13,095
Short-term interest-bearing loans	8,680	21,073
Interest-bearing debt	**20,131**	**34,168**
Total capital	**82,256**	**103,134**
Equity ratio for capital management (%)	**75.5**	**66.9**

At the end of the reporting period 2018, the equity ratio for capital management increased to 75.5%. The decrease in equity of € 6,841 thousand is mainly due to the negative result for the year. Interest-bearing debt fell by € 14,037 thousand.

PROVISIONS

28 Pension provisions

Provisions for pensions and similar obligations include the following items:

€ 000	31/12/2018	31/12/2017
Long-term pension provisions	91,222	93,736
Short-term pension provisions	3,244	3,201
Total	**94,466**	**96,937**

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 € 4.9 million (2017: € 5.0 million). In addition, there were individual defined contribution plans. The annual contribution amounted to € 46 thousand in 2018 (2017: € 261 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 Switzerland, there are defined benefit pension obligations for employees and managers that are financed by employee and employer contributions to pension funds. The contributions depend on salary and age. In order to implement the pension plan, the employer must have its own pension fund or join a pension fund (foundation/collective foundation/joint foundation/cooperative/institution under public law). R. STAHL Schweiz AG joined the collective foundation Swiss Life for the implementation of its pension plan.

We calculated our 2018 pension obligations based on the 2018 G actuarial tables (2017: actuarial tables 2005 G) 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	
%	**2018**	**2017**	**2018**	**2017**
Interest rate	2.07	1.93	1.00–2.60	0.60–2.40
Salary trend	3.00	3.00	1.50–2.75	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 2018 would increase or decrease the DBO as follows:

€ 000	Increase	Decrease
Interest rate	-3,872	+4,125
Salary trend	+804	-785
Pension trend	+3,090	-2,952

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 2018 would increase by € 4,225 thousand with a life expectancy of one more year.

There were the following changes in the previous year. Changes of 0.25 percentage points to the above mentioned assumptions used to calculate the DBO as at 31 December 2017 would increase or decrease the DBO as follows:

€ 000	Increase	Decrease
Interest rate	-4,345	+4,639
Salary trend	+1,169	-1,113
Pension trend	+3,369	-3,144

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 2017 would increase by € 4,474 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:

€ 000	**31/12/2018**	**31/12/2017**
Present values of fund-financed pension claims	3,979	10,466
Fund assets at market values	-3,509	-8,882
Financial status (net)	**470**	**1,584**
Present values of provision-based pension claims	93,996	95,354
Balance sheet value as at 31 December	**94,466**	**96,938**

Of total pension provisions amounting to € 94,466 thousand (2017: € 96,938 thousand), domestic group companies account for € 93,996 thousand (2017: € 95,354 thousand). Foreign companies account for fund assets of € 3,509 thousand (2017: € 8,882 thousand).

The projected benefit obligations developed as follows:

€ 000	2018	2017
Projected benefit obligations on 1 January	**105,820**	**107,484**
+ Current service cost	+1,762	+1,947
+ Interest expense	+1,979	+1,851
+/- Actuarial gains (-) and losses (+) from changes in demographic assumptions	+756	-15
+/- Actuarial gains (-) and losses (+) from changes in financial assumptions	-2,075	-2,844
+/- Actuarial gains (-) and losses (+) from changes based on experience adjustments	-452	-691
- Benefits paid	-3,141	-2,926
+/- Past service cost	-7	0
+/- Changes in exchange rate	+311	-807
+/- Other	-6,978	+1,821
= **Projected benefit obligations on 31 December**	**97,975**	**105,820**

In Norway, defined benefit pension obligations were converted to defined contribution obligations in the financial year 2018. The effects are contained in the item "Other".

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

€ 000	2018	2017
Beneficiaries in active employment	41,309	51,861
Beneficiaries no longer with the company	7,549	6,846
Pensioners	49,117	47,113
= **Projected benefit obligations on 31 December**	**97,975**	**105,820**

The defined benefit pension obligations have the following maturities:

€ 000	
Due in the financial year 2019	3,244
Due in the financial years 2020–2023	13,867
Due in the financial years 2024–2028	19,555

From the current perspective, the average weighted term over which the defined benefit pension obligation will exist amounted to 17 years for the R. STAHL Group in the previous year.

The defined benefit pension obligations in the previous year had the following maturities:

€ 000	
Due in the financial year 2018	3,202
Due in the financial years 2019–2022	13,669
Due in the financial years 2023–2027	19,017

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

€ 000		2018	2017
Fund assets on 1 January		**8,882**	**7,687**
+	Expected income from fund assets	142	151
+	Employer’s pension contributions	370	631
+	Employee’s pension contributions	50	52
-	Administrative expenses	-21	0
+/-	Pension payments made and refunds	-278	1,764
-	Income from fund assets without interest	-200	-35
+/-	Other	-5,703	-675
+/-	Foreign exchange rate changes	+267	-693
=	**Fund assets on 31 December**	**3,509**	**8,882**

In Norway, defined benefit pension obligations were converted to defined contribution obligations in the financial year 2018. The effects are contained in the item “Other”.

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 financial year, employer contributions to fund assets of € 52 thousand (2017: € 627 thousand) are expected.

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

€ 000	31/12/2018	31/12/2017
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	0	5,307
Total quoted market price in an active market	**0**	**5,307**
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	3,509	3,575
Total no quoted market price in an active market	**3,509**	**3,575**
Total	**3,509**	**8,882**

The item "Other – no quoted market price in an active market" includes the investment of R. STAHL Schweiz AG in a collective foundation.

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

€ 000	2018	2017
Current service cost	1,762	1,947
+/- Past service cost	-7	74
+ Net interest expense	1,837	1,681
+/- Other amounts	-1,196	20
= **Balance of amounts recognized in profit or loss for pension obligations**	**2,396**	**3,722**

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:

€ 000		2018	2017
+/-	Actuarial gains (-) and losses (+) from changing demographic assumptions	756	-15
+/-	Actuarial gains (-) and losses (+) from changing financial assumptions	-2,075	-2,845
+/-	Actuarial gains (-) and losses (+) from changes based on experience adjustments	-451	-691
+	Income from plan assets without interest	369	600
+/-	Other	0	+41
=	**Balance of amounts recognized in equity for pension obligations**	**-1,401**	**-2,910**

Pension provisions changed as follows:

€ 000		2018	2017
Pension provisions as of 1 January		**96,938**	**99,797**
+/-	Amounts recognized in profit or loss for pension obligations	+2,396	+3,722
+/-	Amounts recognized in equity for pension obligations	-1,401	-2,910
-	Pension payments made	-3,141	-2,927
-	Employer contributions	-370	-630
+/-	Currency changes	+44	-113
=	**Pension provisions as of 31 December**	**94,466**	**96,938**

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:

€ 000	31/12/2018		31/12/2017	
	Total	Thereof due within one year	Total	Thereof due within one year
Personnel provisions	2,461	713	2,645	990
Warranty obligations	2,102	2,102	1,248	1,248
Impending losses	2,694	2,694	622	622
Other provisions	2,483	2,483	195	0
Total	**9,740**	**7,992**	**4,710**	**2,860**

Of the total amount expensed, € 7,992 thousand (2017: € 2,860 thousand) is due within one year. The remainder of € 1,748 thousand (2017: € 1,850 thousand) pertains to personnel provisions (partial retirement and anniversary obligations) and is recognized in non-current debt as “Other long-term provisions”.

Warranty obligations mainly relate to sold products. Provisions for impending losses are formed for expected losses and risks from commitments resulting from bids submitted and production orders not completed.

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

€ 000	31/12/2018	31/12/2017
Short-term pension provisions	3,243	3,201
Other short-term provisions	7,992	2,860
Total	**11,235**	**6,061**

Other short and long-term provisions developed as follows:

€ 000	01/01/2018	Currency change	Addition	Interest expense	Usage	Reversal	31/12/2018
Personnel provisions	2,645	+8	+777	+23	-987	-5	2,461
Warranty obligations	1,248	0	+1,719	0	-818	-47	2,102
Impending losses	622	0	+2,719	0	0	-647	2,694
Other provisions	195	-31	+2,465	0	-117	-29	2,483
Total	**4,710**	**-23**	**+7,680**	**+23**	**-1,922**	**-728**	**9,740**

€ 000	01/01/2017	Currency change	Addition	Interest expense	Usage	Reversal	31/12/2017
Personnel provisions	2,728	-12	+784	+24	-879	0	2,645
Warranty obligations	1,364	0	+813	0	-639	-290	1,248
Impending losses	504	0	+649	0	-452	-79	622
Other provisions	514	-15	+195	0	-241	-258	195
Total	**5,110**	**-27**	**+2,441**	**+ 24**	**- 2,211**	**-627**	**4,710**

LIABILITIES

30 Interest-bearing financial liabilities

Interest-bearing financial liabilities include amounts due to banks of € 20,131 thousand (2017: € 34,168 thousand).

Of the expensed total, € 8,680 thousand (2017: € 21,073 thousand) is due within one year and the remaining € 11,451 thousand (2017: € 13,095 thousand) is disclosed as “Interest-bearing loans” under non-current liabilities.

As of 31 December 2018, interest-bearing liabilities had the following maturities:

€ 000	31/12/2018	31/12/2017
Interest-bearing liabilities		
Up to one year	8,680	21,073
One to five years	10,285	10,675
More than five years	1,166	2,420
= Short and long-term interest-bearing liabilities	**20,131**	**34,168**

Liabilities to banks with residual maturities of more than one year amounting to € 11,451 thousand (2017: € 13,095 thousand) comprise the following loans:

	31/12/2018 € 000	31/12/2017 € 000	Maturity	Interest rate %
Loan 1	5,000	5,000	30/10/2022	1.90
Loan 2	621	800	30/06/2023	2.00
Loan 3	2,915	3,498	30/12/2024	1.25
Loan 4	2,915	3,498	30/12/2024	1.25
Loan 5	0	300	01/07/2019	1.90
Total	**11,451**	**13,095**		

31 Other liabilities

The other liabilities position comprises the following items:

€ 000	31/12/2018 Total	31/12/2018 Thereof due within one year	31/12/2017 Total	31/12/2017 Thereof due within one year
Prepayments received	3,936	3,936	4,411	4,411
Trade payables	13,470	13,470	18,212	18,212
Income tax liabilities	1,117	1,117	609	609
Other liabilities	6,003	5,770	7,003	6,650
Deferred liabilities	13,386	13,386	11,135	11,135
Other financial liabilities	332	332	129	129
Total	**38,244**	**38,011**	**41,499**	**41,146**

Of the expensed total, € 38,011 thousand (2017: € 41,146 thousand) is due within one year and the remaining € 233 thousand (2017: € 353 thousand) is disclosed under “Other non-current liabilities”.

On 31 December 2018, current other financial liabilities contain market values of derivative financial instruments amounting to € 315 thousand (2017: € 100 thousand).

Deferred liabilities break down as follows:

€ 000	31/12/2018 Total	31/12/2018 Thereof due within one year	31/12/2017 Total	31/12/2017 Thereof due within one year
Employer’s liability insurance premiums	558	558	512	512
Bonuses	5,886	5,886	4,351	4,351
Holiday entitlement	1,321	1,321	1,468	1,468
Time unit credits	1,868	1,868	1,768	1,768
Missing supplier invoices	1,180	1,180	805	805
Other deferred liabilities	2,573	2,573	2,231	2,231
Total	**13,386**	**13,386**	**11,135**	**11,135**

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:

€ 000	31/12/2018	31/12/2017
Sureties	504	380
Guarantees	8,304	606
Other obligations	1,146	1,353
Total	**9,954**	**2,339**

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:

€ 000	31/12/2018	31/12/2017
Up to one year	7,222	7,216
More than one up to five years	17,142	17,005
More than five years	0	2,455
Total	**24,364**	**26,676**

In the reporting period, rental expenses for business premises as well as rent for office and operating equipment disclosed in the income statement amounted to € 9,867 thousand (2017: € 9,758 thousand).

There are no contingent rents or subleases as of 31 December 2018.

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 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, Swiss franc and US dollar were held in the form of forward foreign exchange contracts on 31 December 2018.

The maturities of these currency derivatives are usually pegged to cash flows in the respective current and subsequent financial 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.

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 39.88 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.

Hedges pursuant to IAS 39.88 are recognized as assets or liabilities under “Other financial assets” or “Other financial liabilities” at their corresponding market values.

The following hedges pursuant to IAS 39.88 were held at the end of the reporting period:

	Nominal volume		Market value	
€ 000	**31/12/2018**	**31/12/2017**	**31/12/2018**	**31/12/2017**
Positive market values				
Currency derivatives, qualified as cash flow hedges	0	2,436	0	9
Currency derivatives without hedging relationship	8,608	15,604	75	505
Total	**8,608**	**18,040**	**75**	**514**
Negative market values				
Currency derivatives, qualified as cash flow hedges	418	2,142	-1	-16
Currency derivatives without hedging relationship	8,187	2,861	-314	-84
Interest rate derivatives, qualified as cash flow hedges	0	250	0	0
Total	**8,605**	**5,254**	**-315**	**-100**

Market values correspond to fictitious gains and losses if the derivative financial instrument positions had been closed out on the balance sheet date. The market values are 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.

€ 000	Gross and net amounts of financial instruments in the consolidated balance sheet	Amounts from global netting agreements	Net amounts
31/12/2018			
Other financial assets (derivatives)	75	-11	64
Other financial liabilities (derivatives)	315	-11	304
31/12/2017			
Other financial assets (derivatives)	514	-30	484
Other financial liabilities (derivatives)	100	-30	70

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 amounts of financial assets as recognized in the balance sheet, including derivative financial instruments with positive market values.

Apart from the factoring agreements described in receivables and other assets, there were no material agreements (e.g. offsetting agreements) that would lower the maximum default risk at the end of the reporting period.

The following table illustrates the credit quality of financial assets:

€ 000	**Gross carrying amount 31/12/2018**	Not due	Up to 30 days overdue	31 to 90 days overdue	91 to 180 days overdue	More than 180 days overdue
Trade receivables	50,659	32,135	8,756	4,488	2,501	2,779
Contract receivables	1,052	1,052	0	0	0	0
Total	**51,711**	**33,187**	**8,756**	**4,488**	**2,501**	**2,779**

€ 000	**Gross carrying amount 31/12/2017**	Not due	Up to 30 days overdue	31 to 90 days overdue	91 to 180 days overdue	More than 180 days overdue
Trade receivables	52,990	33,319	6,669	5,961	1,334	5,707
Contract receivables	–	–	–	–	–	–
Total	**52,990**	**33,319**	**6,669**	**5,961**	**1,334**	**5,707**

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 not necessary to change contract terms to avoid financial instruments falling overdue.

R. STAHL applied an impairment matrix for the measurement of expected credit defaults on trade receivables (risk provision). Risk provisions take into account historical value adjustments, the current situation and future estimates. An average default rate was determined for risk provisions. Valuation allowances are formed if the customer is insolvent or facing a liquidity bottleneck, or does not respond to reminders.

The impairment matrix for determining risk provisions is composed as follows:

€ 000	Gross carrying amount 31/12/2018	Not due	Up to 30 days overdue	31 to 90 days overdue	91 to 180 days overdue	More than 180 days overdue
Trade receivables (gross)	50,659	32,135	8,756	4,488	2,501	2,779
Contract receivables (gross)	1,052	1,052	0	0	0	0
Sales tax or other taxes and duties	3,441	2,359	738	166	114	64
Netted prepayments received	5,438	5,438	0	0	0	0
Calculation basis (I)	53,708	36,266	8,018	4,322	2,387	2,715
Valuation allowances	2,886	19	9	280	353	2,225
Calculation basis (II)	50,822	36,247	8,009	4,042	2,034	490
Average default rate in %	0.3	0.3	0.2	0.0	0.0	0.0
Risk provision	**136**	**119**	**17**	**0**	**0**	**0**

Allowances for trade receivables developed as follows:

€ 000	Total	Valuation allowance	Risk provision
Opening balance sheet as of 1 January 2018 (IFRS 9)	**3,114**	**3,028**	**86**
Currency differences	-48	-48	0
Written off amounts	-332	-332	0
Reversed amounts	-1,444	-1,444	0
Increase in credit losses recognized through profit or loss	+1,732	+1,682	+50
Closing balance sheet as of 31 December 2018 (IFRS 9)	**3,022**	**2,886**	**136**

In the previous year, allowances for trade receivables developed as follows:

€ 000	Total	Valuation allowance	Risk provision
Opening balance sheet as of 1 January 2017 (IAS 39)	**2,911**	**2,911**	**–**
Currency differences	-115	-115	–
Written off amounts	-436	-436	–
Reversed amounts	-1,198	-1,198	–
Increase in credit losses recognized through profit or loss	+1,867	+1,867	–
Closing balance sheet as of 31 December 2017 (IAS 39)	**3,029**	**3,029**	**–**

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, the liquidity trend is regularly monitored.

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

€ 000	**Carrying amount 31/12/2018**	Cash flows 2019	Cash flows 2020 – 2023	Cash flows as of 2024
(previous year values)	(31/12/2017)	(2018)	(2019–2022)	(as of 2023)
Interest-bearing loans	20,131	8,943	10,776	1,175
	(34,168)	(21,483)	(11,334)	(2,454)
Trade liabilities	13,470	13,470	0	0
	(18,212)	(18,212)	(0)	(0)
Derivative financial instruments				
Forward exchange transactions				
without hedging relationship	314	314	0	0
	(84)	(84)	(0)	(0)
with hedging relationship	1	1	0	0
	(16)	(16)	(0)	(0)
Interest rate derivatives				
with hedging relationship	0	0	0	0
	(0)	(0)	(0)	(0)
	33,916	22,728	10,776	1,175
	(52,480)	**(39,795)**	**(11,334)**	**(2,454)**

The figures in brackets represent the prior-year amounts as of 31 December 2017.

The liquidity risk can be rated as being rather low. In September 2015, R. STAHL AG signed a syndicated loan agreement with a term of five years to secure the Group's funding. It comprises a cash credit line of initially € 95 million (adjusted by R. STAHL to € 65 million in August 2018 with the termination of a partial volume of € 30 million), with an expansion option of € 25 million for acquisitions. The agreement contains standard provisions regarding the maintenance of the Group's financial strength (financial covenants). Non-compliance with these covenants results in an adjustment of the contract terms or premature termination by the banks involved.

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 Russian rouble, the Swedish krona, the Swiss franc and the US dollar.

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

Interest rate risks

The R. STAHL Group is exposed to customary interest risks. Negative effects from varying interest rates present only minor risks. Where necessary, the Group uses hedging instruments such as interest rate swaps.

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 of 31 December 2018 and 31 December 2017, 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 of 31 December 2018, earnings before income tax would have been higher by € 1,551 thousand (31 December 2017: € 1,639 thousand) and the direct unrealized profits from financial instruments would have been higher by € 38 thousand (31 December 2017: € 417 thousand).

If the euro had devalued 10% relative to all currencies relevant to our operating activities as of 31 December 2018, earnings before income tax would have been lower by € 1,892 thousand (31 December 2017: € 2,006 thousand) and the direct unrealized profits from financial instruments would have been lower by € 47 thousand (31 December 2017: € 509 thousand).

The interest rate sensitivity analyses are based on the following assumptions:

- 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 2018, earnings before income taxes would have been lower by € 76 thousand (31 December 2017: € 117 thousand) and the direct unrealized gains from financial instruments would have been higher by € 0 thousand (31 December 2017: € 1 thousand).

If the market interest rate level had been lower by 100 basis points on 31 December 2018, earnings before income taxes would have been higher by € 138 thousand (31 December 2017: € 193 thousand) and the direct unrealized gains from financial instruments would have been unchanged (31 December 2017: unchanged).

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 carrying amounts and fair values of balance sheet items to their individual categories:

€ 000	Balance sheet amount as at 31/12/2018	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	8,284	0	0	8,284	0	8,284
Other financial assets	33	0	5	27	0	33
Other non-current assets	1,012	0	79	0	933	1,012
Current assets						
Trade receivables	47,636	0	47,636	0	0	47,636
Other receivables and other assets	8,029	75	3,544	0	4,410	8,029
Cash and cash equivalents	14,629	0	14,629	0	0	14,629
Non-current liabilities						
Interest-bearing loans	11,451	0	11,451	0	0	11,451
Other liabilities	233	0	0	0	233	233

€ 000	Balance sheet amount as at 31/12/2018	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	13,470	0	13,470	0	0	13,470
Interest-bearing loans	8,680	0	8,680	0	0	8,680
Other liabilities	10,038	315	1,110	0	8,613	10,038
Thereof aggregated acc. to IFRS 9						
Financial assets (hold to collect) – at amortized cost	68,864	0	65,893	0	2,971	68,864
Financial assets (hold to collect) – at fair value	75	75	0	0	0	75
Financial liabilities – at amortized cost	39,604	0	34,711	0	4,893	39,604
Financial liabilities – at fair value	315	315	0	0	0	315

In the previous year, the reconciliation table showing the carrying amounts and fair values of balance sheet items to their individual categories was as follows:

€ 000	Balance sheet amount as at 31/12/2017	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	7,750	0	0	7,750	0	7,750
Other financial assets	50	0	5	45	0	5
Other non-current assets	1,206	0	0	152	1,054	1,206
Current assets						
Trade receivables	49,961	0	49,961	0	0	49,961
Other receivables and other assets	7,569	514	2,676	0	4,379	7,569
Cash and cash equivalents	16,085	0	16,085	0	0	16,085
Non-current liabilities						
Interest-bearing loans	13,095	0	13,095	0	0	13,095
Other liabilities	353	0	0	0	353	353

€ 000	Balance sheet amount as at 31/12/2017	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	18,212	0	18,212	0	0	18,212
Interest-bearing loans	21,073	0	21,073	0	0	21,073
Other liabilities	11,190	100	1,050	0	10,040	11,190
Thereof aggregated acc. to IAS 39						
Loans and receivables	68,727	0	68,727	0	0	68,727
At fair value through profit or loss	514	514	0	0	0	514
Available for sale	0	0	0	0	0	0
Liabilities measured at amortized cost	53,430	0	53,430	0	0	53,430
Liabilities at fair value through profit or loss	100	100	0	0	0	100

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 € 75 thousand (2017: € 514 thousand). Negative fair values of € -315 thousand (2017: € -100 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 the financial year 2018, 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 2018:

€ 000	2018	2017
Recognized in the income statement		
Derivatives	-660	+876
Recognized in equity		
Derivatives in a hedging relationship	+8	+39

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

OTHER DISCLOSURES

35 Executive bodies of R. STAHL AG

Members of the Supervisory Board

- Peter Leischner, business graduate, Frankfurt
  Chair (as of 30 August 2018)
  Freelance business consultant, Frankfurt
  formerly Authorized Officer, Director, Head of Treasury Management at Gutmark, Radtke & Company AG, Frankfurt am Main (until July 2018)
- Heiko Stallbörger, engineering graduate, Stuttgart (until 30 August 2018)
  Chair
  Freelance engineering consultant
- Heike Dannenbauer, M.A., Empfingen
  Deputy Chair
  Stage manager of Apollo Theater Produktionsgesellschaft mbH, Stuttgart
- Klaus Erker, Dörzbach [1)]
  Chair of the Site Works Council Waldenburg
  Deputy Chair of Group Works Council of R. Stahl Schaltgeräte GmbH, Waldenburg
- Heinz Grund, Braunsbach [1)]
  Planner/Production Planning of R. Stahl Schaltgeräte GmbH, Waldenburg
- Waltraud Hertreiter, Neubeuern (until 30 August 2018)
  Independent financial advisor (as defined by Section 100 (5) AktG)/
  Freelance business consultant
  Chair of Supervisory Board of Hoftex Group AG, Hof (until 6 July 2018)
  Chair of Advisory Board of Südbayerischen Portland-Zementwerk Gebr. Wiesböck & Co. GmbH, Rohrdorf
  Member of Supervisory Board of ERWO Holding AG, Schwaig (until 6 July 2018)
- Rudolf Meier, engineering graduate, Nuremberg
  Former Head of Production Machinery, Factory Automation of Siemens AG, Munich
- Andreas Müller, Rösrath (as of 30 August 2018)
  Global Head of Controlling, KHD Humboldt Wedag International AG, Cologne
- Dr. Renate Neumann-Schäfer, Überlingen (as of 30 August 2018)
  Freelance business consultant, Überlingen
  Member of Supervisory Board, Chair of Audit Committee and Member of Finance Committee of Sto SE and Sto SE & Co. KGaA, Stühlingen
  Member of Administrative Board and Member of Finance Committee of Samariterstiftung, Nürtingen
  Member of Foundation Board of ZEIT FÜR MENSCHEN, Nürtingen
- Nikolaus Simeonidis, Bretzfeld [1)]
  Deputy Chair of the Site Works Council Waldenburg
  Chair of Group Works Council of R. Stahl Schaltgeräte GmbH
- Jürgen Wild, Vaucresson (France)
  Chair of the Management Board of RAG-Stiftung Beteiligungsgesellschaft mbH, Essen

[1)] Staff representative

Members of the Executive Board

- Dr. Mathias Hallmann, Karlsruhe
  CEO (as of 1 January 2018)
  responsible for Procurement, Marketing, Production, Quality Assurance, Internal Audit, Strategy and Sales
- Volker Walprecht, Essen (as of 1 July 2018)
  responsible for Controlling, Accounting, Treasury, Tax, Investor Relations and
  Corporate Communications, M&A, HR, Legal and Compliance, and IT
- Bernd Marx, Brühl (until 9 February 2018)
  responsible for Controlling, Finance, IT, Legal and Compliance, Investor Relations and M&A

Compensation report

Executive Board compensation

The compensation system for Executive Board members in office during the financial year 2018 is regulated in their respective service agreements. According to these agreements, the Executive Board members receive (or received) variable, performance-based compensation comprising both a short-term and a long-term component in addition to their fixed compensation. The short-term component is limited to € 312 thousand for Dr. Hallmann and to € 257.4 thousand for Mr Walprecht (for Mr Marx it was € 165 thousand). The basis for assessment is a percentage of the adjusted annual result. Upon completion of the financial year, the Supervisory Board assesses the performance of each Executive Board member and sets a factor for each member of the Executive Board within a defined range. This factor is multiplied with the basis for assessment and can therefore move up or down. The long-term component is limited to € 185.9 thousand for Dr. Mathias Hallmann and to € 160.6 thousand for Mr Volker Walprecht (for Mr Marx it was € 143 thousand). In the case of Dr. Hallmann and Mr Walprecht, the Supervisory Board sets additional non-earnings-related (long-term) targets for the long-term component. Depending on the degree of achievement, the Supervisory Board can also adjust the resulting calculated amount up or down by setting the respective factor.

Contract change in 2019 with one-off adjustment payment

Following an analysis of the company's situation in the reporting period, the Supervisory Board and Executive Board jointly came to the conclusion that the current variable compensation system for the Executive Board members required adjustment with regard to sustainable and corporate objectives. In March 2019, both sides therefore approved a corresponding revision of the existing service agreements with retroactive effect from the beginning of 2019. The details are provided in the compensation report for the current year. In summary, however, it can already be stated that the weighting of the long-term component has been increased and that a mandatory personal investment in R. STAHL shares has been introduced during the term of the contract. The short-term element was switched from a purely performance-dependent component to a target bonus system. As the accounting principles of IFRS 16 (Leases) are mandatory as of the current year and the ROCE targets for financial years prior to 1 January 2019 are therefore no longer comparable with those for fiscal years beginning on or after 1 January 2019, the Supervisory Board and Executive Board agreed, as part of the revision of the service agreements, to redesign the system of long-term variable compensation from the beginning of 2019 and to pay out the result of the long-term component calculated for 2018 on a one-off basis. In addition to fixed and variable compensation, the members of the Executive Board receive, or received, compensation in kind. This mainly relates to expenses for company vehicles and temporary reimbursement of accommodation expenses.

Executive Board compensation Dr. Mathias Hallmann

Dr. Hallmann received the following compensation for the financial year 2018:

€ 000	2018	as of 1 Oct. 2017
Fixed compensation	400.0	100.0
Long-term variable compensation [1]	110.0	0.0
Short-term variable compensation [1]	120.0 (guaranteed)	0.0
Special bonus	140.0	0.0
Subsidy [2]	11.4	2.8
Compensation in kind	16.9	6.3
Total	**798.3**	**109.1**

[1] Payment of short-term variable remuneration only in the following financial year; payment of long-term variable remuneration only after three years. A one-off payment was made for 2018 (see explanation in the text).
[2] Subsidy for health, long-term care and pension insurance in the amount which the employer would incur if Dr. Hallmann had the status of an employee

With a resolution of the Supervisory Board adopted on 25 August 2017, Dr. Hallmann was appointed initially as a member of the Executive Board with effect from 1 October 2017 and as CEO with effect from 1 January 2018.

The service agreement concluded with Dr. Hallmann at this time stipulates annual fixed compensation of € 400 thousand. Variable compensation comprises a short-term and a long-term element in accordance with the system described above.

For the 2018 financial year, Dr. Hallmann was guaranteed a minimum amount of € 120 thousand for short-term variable compensation in 2017. The one-time amount paid for the long-term variable compensation component amounts to € 110 thousand. This arithmetically calculated value corresponds to 100% of the target achievement.

Furthermore, the Supervisory Board made use of the option provided in the service agreement of Dr. Hallmann to grant a special bonus and granted Dr. Hallmann a special bonus of € 140 thousand for the past fiscal year. The special bonus was granted because Dr. Hallmann managed the company alone for five months after the CFO Bernd Marx stepped down from his office. Moreover, Dr. Hallmann designed and implemented a new Group structure with global matrix responsibility during this period.

The company grants Dr. Hallmann a subsidy for his health, long-term care and pension insurance in the amount which the employer would incur if Dr. Hallmann had the status of an employee. In the reporting period, this subsidy amounted to € 11.4 thousand. The company has no further commitments for the retirement pension and/or invalidity pension of Dr. Hallmann.

Dr. Hallmann received benefits in kind of € 16.9 thousand. These refer to the costs of the leased car provided for him.

Executive Board compensation Volker Walprecht

Mr Walprecht received the following compensation for the financial year 2018 as of 1 July 2018:

€ 000	as of 1 July 2018
Fixed compensation	165.0
Fixed bonus (only provided for 2018)	130.0
Long-term variable compensation[1]	47.5
Short-term variable compensation[1]	0.0
Subsidy[2]	5.9
Compensation in kind	10.9
Total	**359.3**

[1] Payment of short-term variable remuneration only in the following financial year; payment of long-term variable remuneration only after three years. A one-off payment was made for 2018 (see explanation in the text).
[2] Subsidy for health, long-term care and pension insurance in the amount which the employer would incur if Mr Walprecht had the status of an employee

Mr Walprecht was appointed to the Executive Board with effect from 1 July 2018 by a resolution of the Supervisory Board adopted on 27 June 2018. The service agreement concluded at the same time provides for a fixed annual salary of € 330 thousand. Variable compensation consists of a short-term and a long-term component according to the system described above.

For the (prorated) year 2018, a one-time fixed bonus of € 130 thousand was agreed with Mr Walprecht as compensation for the short-term element of variable compensation that no longer applies. The one-off amount paid for the long-term variable compensation component amounts to € 47.5 thousand. This calculated amount corresponds to 100% of target achievement.

The company grants Mr Walprecht a subsidy for his health, long-term care and pension insurance in the amount that the company would incur if Mr Walprecht had the status of an employee. This subsidy amounted to € 5.9 thousand in the reporting period (prorated from 1 July 2018). The company has no further commitments for a retirement and/or disability pension for Mr Walprecht.

Mr Walprecht received benefits in kind worth € 10.9 thousand relating to the cost of a leased vehicle and the cost of hotel accommodation or rent for a second apartment, which the company must bear at an appropriate rate for a period up to 30 June 2019.

Executive Board compensation Bernd Marx

Mr Marx received the following compensation for the financial year 2018 up to 30 June 2018:

€ 000	until 30 June 2018	2017	2016
Fixed compensation	125.0	250.0	250.0
Long-term variable compensation [1]	0.0	0.0	39.0
Short-term variable compensation [1]	0.0	0.0	14.8
Severance pay	500.0	0.0	0.0
Pension contribution [2]	45.5	91.0	91.0
Compensation in kind	5.9	14.6	14.6
Total	**676.4**	**355.6**	**409.4**

1) According to the termination agreement of 9 February 2018, there are no claims to variable compensation for the reporting period.
2) Defined contribution pension scheme under which not the later payments are guaranteed but the contribution amounts

Pursuant to the termination agreement concluded with Mr Marx on 9 February 2018, the employment relationship was to be settled by 30 June 2018 in accordance with the terms of the agreement. In addition, a severance payment of € 500 thousand was agreed as of the date of departure. It was also agreed that there were no claims to payment of variable remuneration for 2018. The annual contribution to the defined contribution plan of a pension fund for Mr Marx amounted to € 91.0 thousand (additional salary component) and was borne pro rata temporis by the company until the end of the employment relationship on 30 June 2018. As part of the individual commitment, Mr Marx would have received a gross monthly pension of € 3.3 thousand on leaving the company's Executive Board after attaining the age of 65. After the departure of Mr Marx on 30 June 2018, the contractually agreed amount of his monthly pension is based on the fixed entitlement earned as of 31 December 2018. At the end of the reporting period, the present value of pension obligations pursuant to IFRS for Mr Marx amounted to € 338 thousand (2017: € 495 thousand). In the reporting period, a regular amount of € 31 thousand (2017: € 32 thousand) personnel expenses and € 9.5 thousand (2017: € 8.3 thousand) interest expenses were recognized in profit or loss. The underlying interest rate for fiscal year 2018 was 2.07%. In addition, Mr Marx received remuneration in kind of € 5.9 thousand.

Total compensation of the Supervisory Board

The Annual General Meeting resolved at its meeting on 22 June 2007 to raise the fixed annual compensation for each Supervisory Board member to € 18,000.00 and the compensation for Supervisory Board members' committee membership to € 3,650.00 with effect from 1 July 2007. Since 1 July 2007, committee chairs have received 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 € 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 € 227.5 thousand (2017: € 227.5 thousand), and variable compensation of € 0 thousand (2017: € 24.0 thousand).

Supervisory Board

€ 000	Fixed compensation	Committee compensation	Variable compensation	**Total**
Peter Leischner	24.0	9.7	0.0	**33.7**
Heiko Stallbörger	24.0	14.6	0.0	**38.6**
Heike Dannenbauer	18.0	3.7	0.0	**21.7**
Klaus Erker	18.0	3.7	0.0	**21.7**
Heinz Grund	18.0	3.7	0.0	**21.7**
Waltraud Hertreiter	12.0	4.8	0.0	**16.8**
Rudolf Meier	18.0	3.7	0.0	**21.7**
Andreas Müller	6.0	1.2	0.0	**7.2**
Dr. Renate Neumann-Schäfer	6.0	2.4	0.0	**8.4**
Nikolaus Simeonidis	18.0	0.0	0.0	**18.0**
Jürgen Wild	18.0	0.0	0.0	**18.0**
Total	**180.0**	**47.5**	**0.0**	**227.5**

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 € 412.3 thousand in the financial year 2018 (2017: € 287.5 thousand).

As of 31 December 2018, the present value of pension obligations for former members of the Executive Board, as well as former Managing Directors, and their survivors amounted to € 7,725 thousand (2017: € 4,422 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 6,400 company shares and Supervisory Board members held 150,408 shares.

35 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 2018, 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 € 227.5 thousand in the reporting period (2017: € 251.5 thousand). These amounts do not 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 with the companies ZAVOD Goreltex Co. Ltd., Saint Petersburg (Russian Federation), and ESACO (Pty.) LTD, Edenvale (South Africa) in 2018.

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 a few exceptions in individual items. We will continue to comply with the majority of its recommendations in future. We have made a corresponding declaration of compliance which is accessible to the public on our website www.r-stahl.com in the section Corporate/Investor Relations/Corporate Governance/Corporate Governance Declaration.

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.

Using the indirect method, the relevant changes in balance sheet items are adjusted 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 operating activities includes the following items:

€ 000	2018	2017
Interest received	1,010	239
Interest paid	-2,921	-812
Dividends received	424	407
Income tax refunds/credits	3,068	3,084
Income tax payments	-1,862	-4,914

NOTES TO SEGMENT REPORTING

Pursuant to IFRS 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 meets the demand for electrical explosion protection. Sales are geared to the customer's needs as a whole; whether these are for components, products or customer-specific solutions. The bidding and order processing processes are standardized.

R. STAHL has defined the product development process as a core process. This core process is basically the same for all product types. Moreover, the development process is implemented as a standard process (milestone process) and cross-departmental development conferences are held. R. STAHL's core competences apply to all product types and ideas, as well as development results, are exchanged across all product types.

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.

The key performance indicator for the R. STAHL Group is earnings before interest, taxes, depreciation and amortization (EBITDA) pre exceptionals. 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).

The following table provides a breakdown by region:

€ 000	Germany	Central-Region without Germany	Americas	Asia/Pacific	**Total**
Revenue from sales to external customers	70,335	116,132	31,194	62,453	**280,114**
	(60,928)	(120,676)	(28,973)	(57,885)	**(268,462)**
Carrying amounts of non-current assets	75,030	13,074	6,008	6,435	**100,547**
	(78,893)	(17,974)	(2,505)	(7,009)	**(106,381)**
Additions to non-current assets	9,433	671	0	324	**10,428**
	(9,775)	(334)	(0)	(316)	**(10,425)**

The figures in brackets refer to the prior-year amounts for 2017. The regional breakdown shows sales revenue 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.

The following table provides a breakdown by product segment:

2018/€ 000	Components	Systems	Services and rent	**Total**
Revenue from sales to external customers	108,029	169,072	3,013	**280,114**
	(38.6%)	(60.3%)	(1.1%)	**(100.0%)**

2017/€ 000	Components	Systems	Services and rent	**Total**
Revenue from sales to external customers	94,891	170,371	3,200	**268,462**
	(35.3%)	(63.5%)	(1.2%)	**(100.0%)**

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

In the reporting period and in the previous year, no individual country (with the exception of Germany) accounted for more than 10% of total sales revenue.

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:

€ 000	2018	2017
Financial statement audits	404	305
of which relating to other periods	144	45
Other certification and valuation services	0	0
Tax consultancy services	0	0
Other services	0	0
Total	**404**	**305**

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 2018. With reference to Section 264 (3) HGB, use is made of the exemption clause with regard to the preparation of notes and the disclosure of annual financial statements for fiscal year 2018 of the companies GGF – Gesellschaft für Grundstücksvermietung und Finanzierungsvermittlung mbH, Waldenburg, R. Stahl Services GmbH, Waldenburg, R. STAHL LECTIO GmbH, Waldenburg, R. STAHL SUPERA GmbH, Waldenburg, R. Stahl Beteiligungsgesellschaft mbH, Waldenburg, and R. STAHL Camera Systems GmbH, Cologne. The necessary prerequisites pursuant to Section 264 (3) HGB are fulfilled.

OTHER NOTES AND DISCLOSURES

EVENTS AFTER THE BALANCE SHEET DATE

The following subsequent events after the balance sheet date had no effect on the financial position:

In the financial year 2018, R. STAHL Gulf FZCO, Dubai (United Arab Emirates) was founded, in which R. STAHL AG holds a 100% stake. Following relocation to a different free trade zone as of 1 January 2019, the company took over the business activities of R. STAHL MIDDLE EAST FZE, Dubai (United Arab Emirates).

With effect from 1 January 2019, R. STAHL HMI Systems GmbH, Cologne was merged with R. STAHL Camera Systems GmbH, Cologne. The remaining company continues to trade under the name R. STAHL HMI Systems GmbH, Cologne.

Waldenburg, 4 April 2019
R. Stahl Aktiengesellschaft

Dr. Mathias Hallmann	**Volker Walprecht**
Chief Executive Officer	Chief Financial Officer

RESPONSIBILITY STATEMENT

We attest – to the best of our knowledge – that the Consolidated Financial Statements according to applicable reporting principles give a true and fair view of the Group's asset, financial, and income position, and that the Group Management Report, which is combined with the Management Report of R. Stahl Aktiengesellschaft, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Waldenburg, 4 April 2019

R. Stahl Aktiengesellschaft

Dr. Mathias Hallmann
Chief Executive Officer

Volker Walprecht
Chief Financial Officer

AUDIT OPINION OF THE INDEPENDENT AUDITOR

To R. Stahl Aktiengesellschaft, Waldenburg

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

AUDIT OPINIONS

We have audited the consolidated financial statements of R. Stahl Aktiengesellschaft, Waldenburg, Germany and its subsidiaries (the Group) – consisting of the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January 2018 to 31 December 2018, as well as the notes to the consolidated financial statements, including a summary of significant accounting methods. In addition, we also audited the combined management report of R. Stahl Aktiengesellschaft and the R. Stahl Group for the fiscal year from 1 January 2018 to 31 December 2018. In accordance with German legal requirements, we have not audited the contents of the components of the combined management report referred to under "Other information".

In our opinion, on the basis of the knowledge obtained in the audit,

- the attached consolidated financial statements comply in all material respects with those IFRSs adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) of the German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2018 and of its financial performance for the fiscal year from 1 January 2018 to 31 December 2018, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with the German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not extend to the contents of the components of the combined management report referred to under "Other information".

Pursuant to Section 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014, hereinafter referred to as "EU Audit Regulation") and in compliance with German generally accepted accounting standards established by the German Institute of Certified Public Accountants (Institut der Wirtschaftsprüfer, IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the combined management report" section of our audit opinion. In accordance with the requirements of European law and German commercial and professional law, we are independent of the Group entities and have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, and in accordance with Article 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters which, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our auditor's opinion thereon; we do not provide a separate audit opinion on these matters.

We identified the following as key audit matters:

1. Impairment of goodwill
2. Recognition and recoverability of deferred tax assets

IMPAIRMENT OF GOODWILL

Description of issue

Goodwill of EUR 10.6 million, corresponding to 4.6% of the consolidated balance sheet total, is disclosed in the consolidated financial statements of R. Stahl Aktiengesellschaft under the balance sheet item "Intangible Assets". Goodwill was allocated to cash-generating units.

The Company tests its cash-generating units (CGU) with goodwill for impairment at least once a year, and additionally if there is any indication of impairment, by means of a so-called impairment test. The basis for measurement is a valuation model using the so-called discounted cash flow method. If the carrying amount of a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized in the amount of the difference.

An assessment of the recoverability of goodwill is complex and requires the legal representatives to make numerous estimates and discretionary decisions, in particular with regard to the amount of future cash flows, the growth rate used for forecasting cash flows beyond the detailed planning period, and the discount rate to be used. Due to the significant uncertainties associated with measurement, the impairment test for goodwill required our special attention and was therefore identified as a key audit matter.

The disclosures of R. Stahl Aktiengesellschaft regarding goodwill impairment are included in sections (5) Accounting and Valuation Methods and (20) Intangible Assets of the notes on the consolidated financial statements.

Auditor's response

In the course of our audit, we assessed the appropriateness of the key assumptions and discretionary parameters, as well as the calculation methods used in the impairment tests. We have gained an understanding of the planning system and planning process, as well as the significant assumptions made by the legal representatives during planning. We checked the forecast of future cash flows in the detailed planning period with the planning approved by the Supervisory Board and reviewed the planning accuracy of the companies on the basis of an analysis of actual and planned deviations in the past and in the current fiscal year. We checked the underlying assumptions for the planning and the growth rates assumed in forecasting the cash flows beyond the detailed planning period by comparing them with past developments and current industry-specific market expectations. In the cases of significant goodwill whose CGUs showed a low degree of planning accuracy, the assumed revenue growth and expected cost structures in particular were critically examined with regard to accuracy. As even small changes in the discount rate used can have a significant effect on the calculated size of the recoverable amount of the respective CGU, we checked the discount rate with our measurement specialists, who assessed the appropriateness of the parameters used, including market risk premiums and beta factors, with the aid of market data. Our audit also included the sensitivity analyses used by R. Stahl Aktiengesellschaft, especially with regard to the effect of possible changes in the cost of capital, the assumed revenue growth rates and the expected cost structures.

RECOGNITION AND RECOVERABILITY OF DEFERRED TAX ASSETS

Description of issue

Deferred tax assets of EUR 11.6 million, of which EUR 0.4 million (prior year: EUR 0.4 million) for loss carryforwards, are disclosed in the consolidated financial statements of R. Stahl Aktiengesellschaft. In accordance with IAS 12.34, a deferred tax asset may only be recognized to the extent to which it is probable that future taxable profit will be available. This assessment requires taxable income planning for future taxation periods, which in turn is based on reliable corporate planning. The assessment of whether future taxable earnings can be generated despite the existence of past losses is heavily discretionary. The auditing of deferred tax assets on loss carryforwards was therefore of particular importance and thus identified as a key audit matter.

The disclosures of R. Stahl Aktiengesellschaft regarding deferred taxes are included in sections [5] Accounting and Valuation Methods and [17] Income Taxes of the notes on the consolidated financial statements.

Auditor's response

We have assessed the recognition and recoverability of deferred tax assets based on corporate planning and the related taxable profit planning of the respective companies or domestic fiscal unity. In doing so, we critically assessed the appropriateness of the assumptions made by the legal representatives and the planning system – especially for those companies with a history of losses – and compared company planning with the group planning approved by the Supervisory Board. Together with our tax specialists, we checked the derivation of taxable earnings planning included in corporate planning and assessed the underlying tax issues.

OTHER INFORMATION

The legal representatives are responsible for the other information. The other information comprises:

- the separately published non-financial statement referred to in the section "Financial and non-financial indicators" of the combined management report
- the separately published "Declaration on Company Management" referred to in the section "Declaration on Company Management" of the combined management report
- the other parts of the combined management report, with the exception of the audited consolidated financial statements and combined management report, as well as our audit opinion

Our audit opinions on the consolidated financial statements and the combined management report do not cover the other information and we do not therefore express an opinion or any other form of audit conclusion on this information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the combined management report or our knowledge obtained during the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITY OF THE LEGAL REPRESENTATIVES AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

The legal representatives are responsible for the preparation of consolidated financial statements which comply, in all material respects, with those IFRSs adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the financial position and performance of the Group. In addition, the legal representatives are responsible for such internal controls as they have deemed necessary to enable the preparation of consolidated financial statements which are free from – intentional or unintentional – material misstatement.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility to disclose, if applicable, matters related to continuing as a going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or discontinue operations, or there is no realistic alternative.

Moreover, the legal representatives are responsible for the preparation of the combined management report which, as a whole, provides an accurate picture of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) which they deem necessary to enable the preparation of a combined management report in accordance with the applicable German legal requirements, and to enable the provision of sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the combined management report.

RESPONSIBILITY OF THE AUDITOR FOR THE AUDITING OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from – intentional or unintentional – material misstatement, and whether the combined management report as a whole provides an accurate picture of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained during the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an audit opinion which includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance but no guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and pursuant to German generally accepted accounting standards as established by the German Institute of Certified Public Accountants (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are deemed material if, individually or as a whole, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise due discretion and maintain a critical attitude throughout the audit. We also

- identify and assess the risks of – intentional or unintentional – material misstatement of the consolidated financial statements and the combined management report, plan and perform audit procedures as a response to these risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal controls;
- obtain an understanding of the internal control system of relevance to the audit of the consolidated financial statements and of the relevant provisions and measures for the auditing of the combined management report in order to plan audit procedures which are appropriate for the circumstances, but not with the aim of expressing an audit opinion on the effectiveness of these systems;
- evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and the related disclosures;
- make conclusions about the appropriateness of the going concern basis of accounting used by the legal representatives and, based on the audit evidence obtained, about whether a material uncertainty exists related to events or conditions which may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s opinion to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are not appropriate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s opinion. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in such a way that the consolidated financial statements give a true and fair picture of the Group’s financial position and performance in compliance with those IFRSs adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB;

- obtain sufficient appropriate audit evidence regarding the accounting information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We bear sole responsibility for our audit opinions;
- assess the consistency of the combined management report with the consolidated financial statements, its compliance with the legal provisions and the view it gives of the Group's position;
- perform procedures on the prospective information presented by the legal representatives in the combined management report. In particular, we obtain sufficient appropriate audit evidence to evaluate the underlying significant assumptions used by the legal representatives for forward-looking statements and evaluate the proper derivation of the forward-looking statements from these assumptions. We do not express a separate opinion on the forward-looking statements nor on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the forward-looking statements.

We discuss with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system which we identify during our audit.

We issue a statement to those charged with governance that we have complied with the relevant independence requirements, and discuss with them all relationships and other matters which may reasonably be assumed to have a bearing on our independence and the safeguards put in place.

Of the matters discussed with those charged with governance, we determine which matters were of most significance for the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our audit opinion unless laws or other regulations preclude public disclosure of the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

FURTHER DISCLOSURES PURSUANT TO ARTICLE 10 EU AUDIT REGULATION

We were elected as group auditor by the Annual General Meeting of 30 August 2018. We were hired by the Audit Committee of the Supervisory Board on 13 December 2018. We have been the group auditor of R. Stahl Aktiengesellschaft without interruption since the fiscal year 2017.

We declare that the opinions expressed in this audit opinion are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (audit report).

RESPONSIBLE AUDITOR

The German Public Auditor responsible for the audit is Markus Will.

Stuttgart, 5 April 2019

BDO AG
Wirtschaftsprüfungsgesellschaft

Andreas Müller	Markus Will
Auditor	Auditor

SUPERVISORY BOARD REPORT

Dear shareholders,

2018 was a very eventful year for R. STAHL. At the beginning of the reporting period, the high annual loss for 2017 meant that the Supervisory Board was forced to discuss topics not previously experienced in the company's long and successful history. Top priority was initially given to restoring the company's financial security. The Supervisory Board provided extensive support for the Executive Board on this issue. With success: after the first nine months of the reporting period, the company had already returned to a solid balance sheet position with easily sufficient liquidity. The efficiency programme R. STAHL 2020, launched at the beginning of the year and consistently driven forward by the Executive Board, made a decisive contribution to this success. The measures it contains will make the Group significantly more modern in terms of its organizational structures, processes and technology.

Changes in the Supervisory Board and Executive Board

As scheduled, new elections to the Supervisory Board were held by the Annual General Meeting in the reporting period. As of 30 August 2018, the Supervisory Board members representing the shareholders continue to be Heike Dannenbauer, Rudolf Meier, Peter Leischner and Jürgen Wild, as well as the new members Andreas Müller and Dr. Renate Neumann-Schäfer. The three staff representatives Klaus Erker, Heinz Grund and Nikolaus Simeonidis were already re-elected in May 2018 by the workforce in Germany. At its constituent meeting on 30 August 2018, the company's Supervisory Board elected Peter Leischner as its new Chair and confirmed Heike Dannenbauer's position as Deputy Chair. The term of office of the newly elected members of the Supervisory Board is until the end of the Annual General Meeting which formally approves the actions of Board members for the 2022 financial year. The former Chair Heiko Stallbörger and Waltraud Hertreiter did not stand for re-election to the Supervisory Board. The Supervisory Board would like to express its sincere gratitude and appreciation for the work of both former members of the Supervisory Board, whose terms of office were marked by enormous challenges for the company.

On 1 January 2018, the change in the Executive Board initiated in the preceding year was completed. Dr. Mathias Hallmann, member of the Executive Board since 1 October 2017, took over as CEO from Martin Schomaker, who stepped down from the Executive Board on 31 December 2017. There was a further change on 9 February 2018 with the departure from the Executive Board of Bernd Marx, who was previously CFO. With the appointment of Volker Walprecht on 1 July 2018 as the new CFO, the restructuring of the Executive Board was completed. The service agreements of both current Executive Board members have a term of three years.

Work of the Supervisory Board

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 the 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). The Executive Board also explained those exceptional events that were of particular importance for the Group. During personal meetings, as well as in verbal and written reports, the Executive Board regularly informed the Chair of the Supervisory Board about the company's development and discussed current issues with him.

Peter Leischner, Chairman of the Supervisory Board,
Peter Leischner graduated in business administration at the Johannes Gutenberg University in Mainz. He began his career at BfG Bank AG as a money market, foreign exchange and derivatives trader. In this position he advised companies and investors on currency and interest rate management. In 1998, he took over the position of Risk Manager in the Corporate Finance division of Wella AG. From there he moved to Gutmark, Radtke & Company AG in 2005, where he was an Authorized Officer and Director for Treasury, Corporate Management and Risk Management and worked in an advisory capacity as well as in project development and management for international financial institutions. Since August 2018, he has been a freelance management consultant. Peter Leischner joined the Supervisory Board of R. STAHL in 2008 and took over as Chair in August 2018.

Supervisory Board meetings

In the reporting period, the Supervisory Board convened on eleven occasions (incl. the constituent meeting), of which seven were ordinary and four extraordinary meetings. With the exception of two excused absences of Jürgen Wild from one ordinary and one extraordinary meeting, attendance of these Supervisory Board meetings was 100%.

As in every year, five of the seven 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 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 on 6 March 2018, the Supervisory Board discussed the preliminary annual financial statements and the company's corporate governance report and risk management system. The necessary organizational changes from the efficiency programme already launched were also discussed.

Due to the changes in the Executive Board and the necessary adjustments to the recoverability of deferred taxes on loss carryforwards for the 2017 reporting year, which became known in February 2018, the company felt compelled to postpone the dates for the presentation of the 2017 annual financial statements to the Annual General Meeting, and thus the 2018 Annual General Meeting, in order to re-examine all facts relevant to the financial statements. At its meeting on 26 April 2018, the Supervisory Board was therefore only able to obtain detailed reports from the Executive Board and chief auditor on the current status of the annual financial statements and the audit process, and to discuss and approve the status and new timetable provided by the Executive Board. With regard to the adoption/approval of the annual financial statements, the Supervisory Board postponed its review and resolution on them to the following meeting on 7 June 2018 and asked the Executive Board to inform it without delay of any unexpected deviations from the schedule. Against this backdrop, the Supervisory Board approved the necessary update to the Declaration of Compliance with the German Corporate Governance Code (GCGC) 2018. Finally, following receipt of the report on the Supervisory Board's internal audit, the Supervisory Board approved the CSR report for the financial year 2017.

At the following meeting on 7 June 2018, the Supervisory Board approved the annual financial statements. The annual financial statements and auditor's report were explained by the Executive Board and BDO AG Wirtschaftsprüfungsgesellschaft. At the same meeting, the Supervisory Board discussed the individual agenda items and the agenda as a whole for the Annual General Meeting 2018. The resolution on this was adopted soon after the meeting by circulation procedure.

The meeting on 29 August 2018 served as the final preparation for the Annual General Meeting on the following day. In its constituent meeting immediately after the Annual General Meeting on 30 August 2018, the Chair of the Supervisory Board, the Deputy Chair and the members of the Supervisory Board's committees were all elected.

The focus of the meeting on 27 September 2018 was an analysis of the trend in operating business. The Supervisory Board discussed with the Executive Board the steps and timetable for presenting a revised corporate strategy. In addition, the Supervisory Board was informed about the development and status of the new EXpressure® enclosure technology.

At its last meeting on 11 December 2018, the Supervisory Board held its scheduled discussion of corporate planning for the coming years and the budget for 2019. Both were approved immediately after the meeting by circulation procedure. Prior to the meeting, the Supervisory Board received training on current developments in stock corporation law. The efficiency audit of the Supervisory Board recommended by the German Corporate Governance Code (GCGC) was also discussed.

Focus areas of the Supervisory Board's extraordinary meetings

At the extraordinary meetings held via telephone on 29 and 31 January 2018, as well as on 9 February 2018, the Supervisory Board discussed the future of Bernd Marx as the company's CFO and his eventual stepping down from the Executive Board, as well as a resolution on the conditions of his departure from the company.

In the following extraordinary meeting, also held via telephone, on 27 June 2018, the Supervisory Board dealt in particular with the appointment of Volker Walprecht as the new CFO and the terms and conditions of his service agreement with the company.

Meetings of the committees

The Audit Committee held three scheduled 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.

The Administration Committee held seven meetings in 2018, which were attended by all members. In addition, the committee met several times outside meetings, or coordinated by telephone, in the course of regulating Executive Board matters. In the reporting period, the Administration Committee was largely concerned with the departure of Bernd Marx and the search for a suitable successor for him. The necessary legal steps for the procedure were decided and the decision recommendations of the Supervisory Board as a whole were adopted. Insofar as still relevant, the committee 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.

The Strategy Committee was not convened in the reporting period as its activities are currently suspended (see Supervisory Board Report for the financial year 2016). Corporate strategy is currently being discussed by the Supervisory Board as a whole.

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 2018, 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, BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, and were both certified without qualification. The auditor's declaration of independence was provided.

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 and dealt in particular with the key audit matters. At its balance sheet meeting on 25 April 2019, 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. In accordance with Sections 170, 171 AktG, the Supervisory Board therefore approved the annual financial statements of R. STAHL AG and the consolidated financial statements, together with the management reports as prepared by the Executive Board. The former is thus adopted.

At its meeting on 12 March 2019, the Supervisory Board also inspected the lawful, proper and appropriate issuing of the separate non-financial report outside the management report (CSR report) and critically reviewed the approach taken by the Executive Board with regard to the methods, processes and procedures used to collect the necessary information and data. No objections were raised. The Supervisory Board therefore approved the CSR report by means of a circular resolution. As of 5 April 2019, the CSR report is available on the website www.r-stahl.com in the section Corporate/Corporate Responsibility.

Thanks to Executive Board and employees

On behalf of the Supervisory Board, I would like to thank the members of the Executive Board, the employees, and the staff representatives of R. STAHL, in Germany and abroad, for their hard work and dedication, as well as for their constructive and successful cooperation during the past year. The Supervisory Board will continue to advise the Executive Board in the challenging quarters ahead and carefully examine its proposals and decisions in the interests of the company.

P. Leischner

Peter Leischner
Chair of the Supervisory Board of R. STAHL AG

LIST OF SHAREHOLDINGS

Name and registered offices 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	100.00
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 Gulf FZCO, Dubai (United Arab Emirates)	F; c	100.00
R. STAHL Nissl GmbH, Vienna (Austria)	F; c	100.00
R. STAHL AUSTRALIA PTY LTD, Sutherland (Australia)	F; c	100.00
STAHL NV, Dendermonde (Belgium)	F; c	100.00
R. STAHL do Brasil Ltda, Sao Caetano (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
R. STAHL France S.A.S., Avignon (France)	F; c	100.00
R. STAHL LIMITED, Birmingham (Great Britain)	F; c	100.00

Name and registered offices of the company	Consolidation status	Capital stake in %
Foreign companies		
R. STAHL PRIVATE LIMITED, Chennai (India)	F; c	**100.00**
R. STAHL SRL, Peschiera Borromeo (Italy)	F; c	**100.00**
R. Stahl Kabushiki Kaisha, Kawasaki (Japan)	F; c	**100.00**
R. Stahl LLP., Atyrau (Kazakhstan)	I; n. 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**
Electromach B.V. Hengelo (Netherlands)	F; c	**100.00**
R. STAHL NORGE AS, Stavanger (Norway)	F; c	**100.00**
R. STAHL TRANBERG AS, Stavanger (Norway)	F; c	**100.00**
OOO R. Stahl, Moscow (Russian Federation)	F; c	**60.00**
ZAVOD Goreltex Co. Ltd., Saint Petersburg (Russian Federation)	A; c	**25.00**
R. Stahl Svenska Aktiebolag, Järfälla (Sweden)	F; c	**100.00**
R. STAHL PTE LTD, Singapore (Singapore)	F; c	**100.00**
INDUSTRIAS STAHL, S.A., Madrid (Spain)	F; c	**100.00**
ESACO (Pty.) LTD, Edenvale (South Africa)	A; c	**35.00**
R. STAHL, INC., Houston/Texas (USA)	F; c	**100.00**

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.).

ANNUAL 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 BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, Germany, and will be published in the German electronic 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

€ 000	2018	2017
1. Sales	**9,645**	**9,326**
2. Other operating income	2,896	1,341
	12,541	**10,667**
3. Cost of materials		
Cost of raw materials, consumables and supplies and for purchased goods	2	0
4. Personnel costs		
a) Wages and salaries	6,349	5,224
b) Social insurance contributions and pension	1,653	1,529
	8,002	**6,753**
5. Depreciation and amortization of intangible assets and property, plant & equipment	398	306
6. Other operating expenses	16,305	13,829
	-12,166	**-10,221**
7. Investment income	3,320	9,713
8. Income from profit transfer agreements	5,103	0
9. Other interest and similar income	1,292	384
10. Depreciation on financial assets	3,517	3,248
11. Expenses from transfer of losses	2,322	4,181
12. Interest and similar income	3,199	1,363
13. Income taxes	-770	79
	1,447	**1,226**
14. Result after taxes	**-10,718**	**-8,995**
15. Other taxes	35	35
16. Net loss for the year	**-10,754**	**-9,030**
17. Loss carryforward (Profit carryforward)	-3,962	5,068
18. Balance sheet loss	**-14,716**	**-3,962**

BALANCE SHEET

of R. Stahl Aktiengesellschaft, Waldenburg

€ 000	31/12/2018	31/12/2017
ASSETS		
A. Non-current assets		
I. Intangible assets		
1. Industrial property and similar rights, acquired for a consideration	761	779
2. Prepayments made	1,440	1,236
	2,202	**2,015**
II. Property, plant and equipment		
1. Properties and buildings, including buildings on third-party properties	1,748	1,890
2. Technical equipment and machinery	9	12
3. Other plant as well as operating and office equipment	39	39
	1,796	**1,941**
III. Financial assets		
1. Equity interests in affiliated companies	67,231	67,050
2. Loans to affiliated companies	6,557	6,030
3. Equity investments	7,086	7,086
	80,874	**80,166**
B. Current assets		
I. Receivables and other assets		
1. Trade receivables	35	35
2. Receivables from affiliated companies	9,026	12,899
3. Other assets	45	1,273
4. Prepayments made	139	24
	9,245	**14,231**
II. Cash in hand and bank deposits	**2,837**	**300**
C. Prepaid expenses and deferred income	**149**	**187**
	97,102	**98,840**

€ 000	31/12/2018	31/12/2017
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 loss	-14,716	-3,962
	38,898	**49,652**
B. Provisions		
1. Pension provisions	15,862	15,569
2. Provisions for tax	145	0
3. Other provisions	2,336	994
	18,343	**16,653**
C. Liabilities		
1. Liabilities to banks	10,000	21,442
2. Trade payables	975	823
3. Liabilities to affiliated companies	28,316	9,993
4. Other liabilities	571	367
	39,861	**32,625**
	97,102	**98,840**

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 Tax)
Generally used for the assessment of the earnings situation of companies, especially in international comparison. EBIT margin is the relation between EBIT and sales

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)
another very typical indicator used to assess the earnings situation of companies in an international comparison.

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
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

Exceptionals
one-off, non-recurring costs and income, especially restructuring charges, non-scheduled write-downs, expenses for the design and implementation of IT projects, M&A expenses, as well as income and losses from the disposal of non-operating assets.

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

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 produces parts and equipment that may be marketed by another manufacturer

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

LOCATIONS

EUROPE

Germany
R. Stahl Aktiengesellschaft/
R. Stahl Schaltgeräte GmbH
Waldenburg (Württ.)
Phone: +49 7942 943 0
E-mail: info@stahl.de

R. STAHL HMI Systems GmbH
Cologne
Phone: +49 221 76 806 1000
E-mail: office@stahl-hmi.de

Belgium
Stahl N.V.
Dendermonde
Phone: +32 52 21 13 51
E-mail: info@stahl.be

France
R. STAHL France SAS
Avignon
Phone: +33 4 32 40 46 46
E-mail: info@stahl.fr

Great Britain
R. STAHL LIMITED
Birmingham
Phone: +44 121 767 64 00
E-mail: enquiries@rstahl.co.uk

Italy
R. STAHL SRL
Peschiera Borromeo
Phone: +39 02 55 30 80 24
E-mail: info@stahl.it

Netherlands
Electromach B.V.
Hengelo
Phone: +31 74 247 24 72
E-mail: info@electromach.nl

Norway
R. STAHL TRANBERG AS
Stavanger
Phone: +47 51 57 89 00
E-mail: info@stahl-tranberg.com

Portugal
INDUSTRIAS STAHL S.A.
Sucursal em Portugal
Porto Salvo – Oeiras
Phone: +351 21 414 53 15
E-mail: stahl@stahl.pt

Russian Federation
OOO R. Stahl
Moscow
Phone: +7 495 615 04 73
E-mail: info@stahl.ru.com

Sweden
R. Stahl Svenska Aktiebolag
Järfälla
Phone: +46 8 38 91 00
E-mail: info@rstahl.se

Switzerland
R. STAHL Schweiz AG
Magden
Phone: +41 61 855 40 60
E-mail: info@stahl-schweiz.ch

Spain
INDUSTRIAS STAHL S.A.
Madrid
Phone: +34 916 61 55 00
E-mail: stahl@stahl.es

AMERICAS

Canada

R. STAHL, LTD.
Edmonton, Alberta
Phone: +1 877 416 43 02
E-mail: sales@rstahl.com

USA

R. STAHL, INC.
Houston/Texas
Phone: +1 800 782 43 57
E-mail: sales@rstahl.com

ASIA

China

R. STAHL EX-PROOF (SHANGHAI) CO., LTD.
Shanghai
Phone: +86 21 64 85 00 11
E-mail: benjamin@rstahl.com.cn

India

R. STAHL PRIVATE LIMITED
Chennai
Phone: +91 44 30 600 600
E-mail: sales@rstahl.net

Japan

R. Stahl Kabushiki Kaisha
Kawasaki
Phone: +81 44 959 26 12
E-mail: sakae-nishimine@stahl.jp

Korea

R. STAHL CO., LTD.
Seoul
Phone: +82 2 470 88 77
E-mail: info@stahl.co.kr

Malaysia

R. STAHL ENGINEERING & MANUFACTURING SDN. BHD.
Selangor
Phone: +60 3 78 48 58 50
E-mail: sales@stahl.my

Singapore

R. STAHL PTE LTD
Singapore
Phone: +65 62 71 95 95
E-mail: sales@rstahl.com.sg

United Arab Emirates

R. STAHL Gulf FZCO
Dubai
Phone: +971 4 80 66 400
E-mail: info@stahl.ae

AUSTRALIA

R. STAHL AUSTRALIA PTY LTD
Sutherland
Phone: +61 2 42 54 47 77
E-mail: info@stahl.com.au

FINANCIAL CALENDAR 2019

Interim statement as of 31 March 2019 **9 May 2019**

Annual General Meeting in Künzelsau-Gaisbach **7 June 2019**

Interim statement as of 30 June 2019 **8 August 2019**

Interim statement as of 30 September 2019 **7 November 2019**

IMPRINT

Publisher

R. Stahl Aktiengesellschaft
Am Bahnhof 30, 74638 Waldenburg (Württ.)
Germany
www.r-stahl.com

Information

Investor Relations
Tel.: +49 7942 943 13 95
Fax: +49 7942 943 40 13 95
investornews@stahl.de

Consulting, concept and design

Impacct Communication GmbH, Hamburg
www.impacct.de

Print

Elanders GmbH

Photography

Jürgen Altmann; R. STAHL

ID-Nr. 272642 en-04/2019

R. Stahl Aktiengesellschaft
Am Bahnhof 30
74638 Waldenburg (Württ.)
Germany
www.r-stahl.com