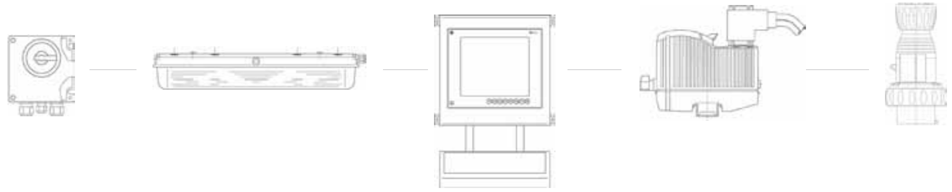
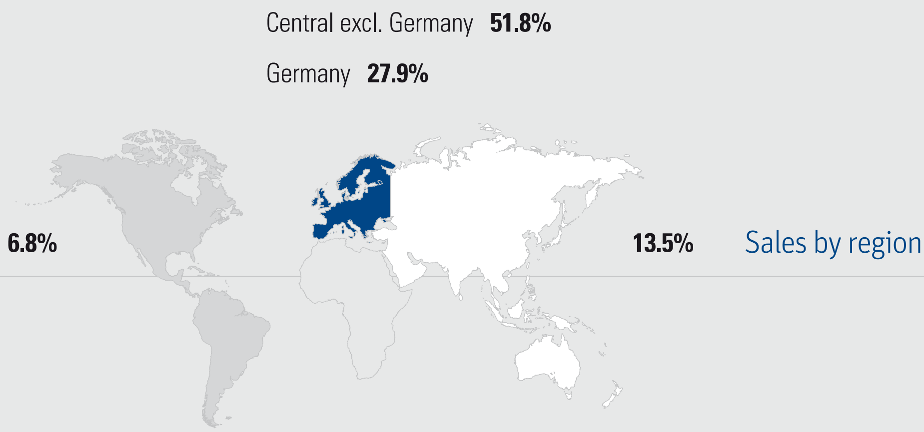
Growth in explosion protection business



Annual Report 2007

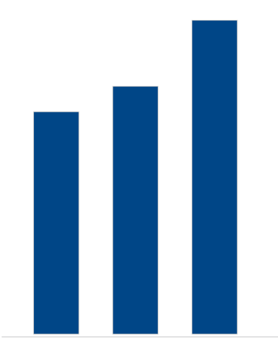
STAHL



Profitable growth...

Consolidated sales

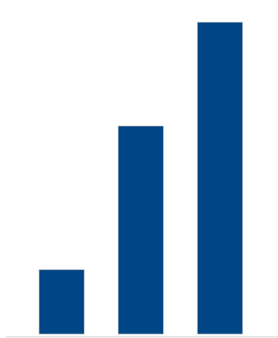
in € m



150.2[1]	167.1[1]	211.6
2005	2006	2007

Consolidated EBT

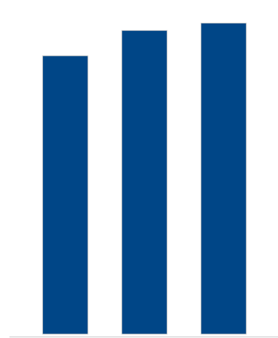
in € m



5.1	16.5	24.6
2005	2006	2007

Staff

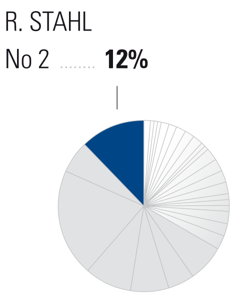
annual average without trainees



1,096	1,194	1,222
2005	2006	2007

Market share

in %



[1] *Continuing activities*

...to the top in Europe

R. STAHL has decades of experience as a leading supplier of explosion protection products, systems, and services. Our products prevent explosions wherever combustible mixtures of gas or dust and air may come up. R. STAHL ensures the safety of people and installations with utmost reliability and quality.

Management foreword

Dear Shareholders,

In our second year of focussing on explosion-protected products and systems, R. STAHL has greatly benefited from the successful growth strategy that we implemented over the past few years. While our 2007 sales surged 27% to € 212 million, our pre-tax earnings improved a disproportionate 49% to € 24.6 million. Our business got an additional boost from high demand in our core sales sectors, the oil and natural gas as well as the chemical and pharmaceutical industries, born by the strong global economic trend.

Successful strategy

In line with our strategy of cultivating new sales sectors, R. STAHL has entered the nautical outfitting market via our new Norwegian subsidiary Tranberg A.S that we acquired at the end of 2006. Although R. STAHL group has only just taken its first steps into this segment, we have already succeeded in substantially increasing sales of R. STAHL products there thanks to distribution and product synergy with Tranberg.

Building up our activities in the Asia/Pacific region and North America is another key focus of our group strategy. In both regions, we have adapted R. STAHL products to local requirements and expanded our distribution structures and capacities. We have stepped up our production in India just in time to process several large-scale original equipment orders for some new plants in Asia. Such mega orders for new plants are cyclical phenomena and allow us to build up the installed base of R. STAHL products with our customers in Asia. We are furthermore proud to report that our sales in America and the Asia/Pacific region grew 33% and 77%, respectively, last year.

Last but not least, expanding systems business as the third pillar of our growth strategy made a major contribution to our corporate growth. Moreover, we have continued to build up systems business expertise and capacities at our main Waldenburg site last year.

MARTIN SCHOMAKER

Chief Executive Officer, who holds a degree in business administration (Dipl. Betriebswirt (BA)), was born in 1956. He joined R. STAHL *in 1991 after having held various positions in the IT and accounting departments of the German company Bosch. At* R. STAHL*, he held several mid-level management positions before being appointed to the Managing Board as alternate member in 1995 and full member in 1997. In 2002, Martin Schomaker was appointed Chief Executive Officer.*

DR PETER VÖLKER

Member of the Managing Board, born in 1951, Doctor of electrical engineering, joined R. STAHL *as Chief of R&D in 1990 after having gathered extensive industry experience. In July 1999, he was appointed to the management of* R. STAHL *Schaltgeräte GmbH and in January 2002 to the Managing Board of* R. STAHL AG.

Profitability on the rise

With a 10.9% pre-tax return on sales, we have achieved a respectable profitability improvement (not including the € 1.5 million in divestment income from selling our IT service companies). The key success factors for keeping up our high earnings level over the last three years have been consistent fixed cost control, flexible handling of utilisation fluctuations, and steady growth.

In light of our company's good market position and our excellent earnings, we will propose to the annual general meeting a dividend distribution of € 1.10 per share or 20 cents more per share than the year before.

Outlook

Some 80% of our total sales stem from three growth sectors – the oil and natural gas, the chemical, and the pharmaceutical industries that are expected to expand between 5% and 9% in 2008 and the following few years. The plant builders relevant to our business have brimming order books. Of course, a recession spreading from the US and fuelled by the strong euro would also affect these sectors. However, global demand for oil, natural gas, chemicals, raw materials, and drugs is still rising strongly. We therefore assume that a slowing global business trend is not going to drastically impact capital spending behaviour in our core sales sectors. Our customers' current lively ordering activity likewise indicates that the capital spending trend remains strong.

In light of our favourable order situation, successful growth strategy, and still positive market environment we expect R. STAHL to achieve further sales growth with persistently high profitability in 2008.

A word of gratitude

Fiscal 2007 has been a challenging year for all of us. R. STAHL's staff and management deserve special recognition for their extraordinary efforts and dedication that have made our group's vigorous growth and profitability gains possible. We are counting on our staff's motivation and dedication as the backbone of our success going forward.

We furthermore thank our Supervisory Board members for their constructive cooperation and you, our shareholders, for the trust you place in our company.

The Management

Martin Schomaker
Chief Executive Officer

Dr Peter Völker
Management Board Member

Supervisory Board report

Ladies and Gentlemen,

R. STAHL group greatly surpassed its growth goals last fiscal year with sales surging 27%.

The organic growth followed logically from consistently pursuing our growth strategy. Our group's system business expansion proceeded as planned so that we are now able to offer our customers complete system solutions for various applications. R. STAHL grew externally by acquiring the Norwegian company Tranberg A.S. This business move gave R. STAHL a sound foothold in the high-growth segment of ship supply industry.

Our group furthermore substantially increased its sales in America and Asia/Pacific. As a result, our profitability measured in terms of pre-tax earnings (EBT) rose 40% not including the IT divestment.

In the year under review, the Supervisory Board reviewed management's oral and written reports and counselled management on pertinent issues. The Supervisory Board duly discussed all issues pertaining to management decisions requiring its consent. Moreover, the Supervisory Board Chair conferred with management at least once a week.

HANS-VOLKER STAHL

Based on documentation provided by management, the Supervisory Board monitored the economic situation and plan figure compliance of the company at four board meetings. Management has updated the Supervisory Board on the company's order intake, sales revenues, and earnings on a monthly basis.

The audit committee held three meetings and the administrative committee held one meeting in the year under review. To the extent that we deemed these practicable, we have complied with the recommendations of the German Corporate Governance Code. The recommendations we chose not to comply with are listed in our Declaration of Compliance as published on both our website and this report on page 21.

We think our Supervisory Board meetings discussed all material topics as they arose. To the extent that transactions required Supervisory Board consent they were fully presented and documented. Our internal control system including early risk detection is more than adequate for a medium-sized enterprise. However, we still expect further integration of information flow from the introduction of our new SAP system.

As last year, we have prepared the annual financial statements for R. STAHL AG according to German Commercial Code rules and the consolidated financial statements according to International Financial Reporting Standards (IFRS). Our auditing firm Dr. Ebner, Dr. Stolz und Partner, Wirtschaftsprüfungsgesellschaft of Stuttgart, Germany, has audited the annual financial statements of R. STAHL AG as well as our consolidated financial statements and management report and certified each of these without qualification. The auditor has attested that the consolidated financial statements and management report comply with the rules and regulations set forth in article 315a paragraph 1 of the German Commercial Code. All Supervisory Board members have received copies of the annual financial statements, the consolidated financial statements, and the consolidated management report for review and approval. On the Supervisory Board's balance sheet meeting, we have thoroughly discussed the financial statement documents in the presence of the auditor.

The audit committee has examined the annual financial statements and management report as well as the consolidated financial statements and consolidated management report and found no objection. The Supervisory Board agrees with the audit findings and approves the annual statement of accounts of R. STAHL AG as well as the consolidated financial statements of R. STAHL AG as prepared by management. The former is thus adopted. We agree with the management report and its comments on the future development of our company.

The Supervisory and Managing Boards are going to propose to the annual general meeting that it may resolve a dividend distribution of € 1.10 per share to reflect our company's gratifying development in the year under review.

We want to thank all our employees for their efforts and our shareholders for their financial commitment in the past year.

Waldenburg, April 2008

Hans-Volker Stahl

Hans-Volker Stahl
Chairman of the Supervisory Board

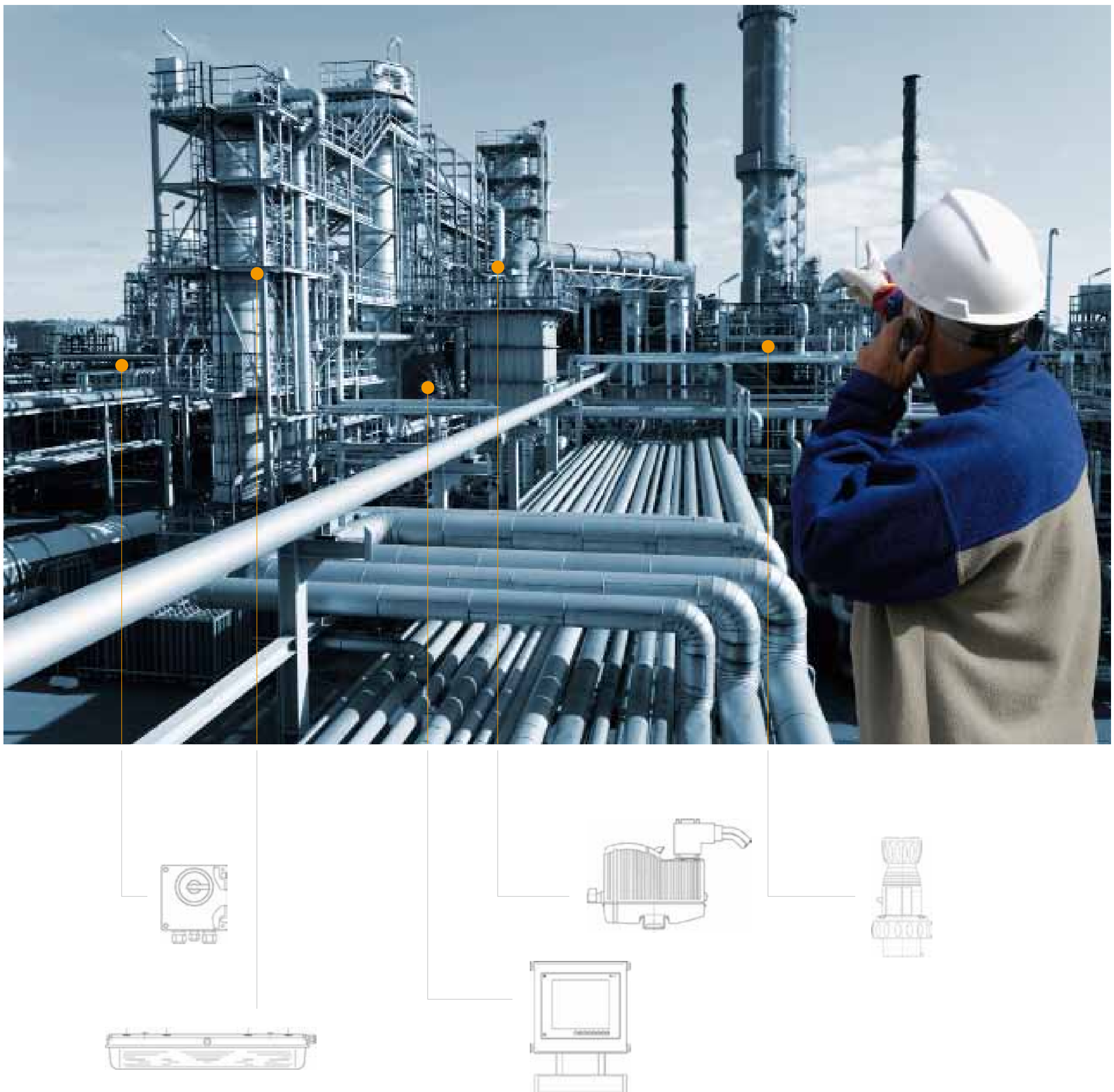
Protecting people and the environment

Preventing explosions

Standard electrical and electronic products without explosion protection can cause tremendous harm when used in a chemical factory or on oil rigs because combustible gases are commonplace there. If such gases were to mix with ambient air and there is a spark, as may easily happen in just any ordinary light switch, the resulting explosions can be impressive indeed. To ensure that this will not happen, plant operators in the chemical and pharmaceutical, oil and natural gas, and many other industries are required by law to use explosion-protected products to guarantee safe plant operation.

CUSTOMER BENEFITS ›

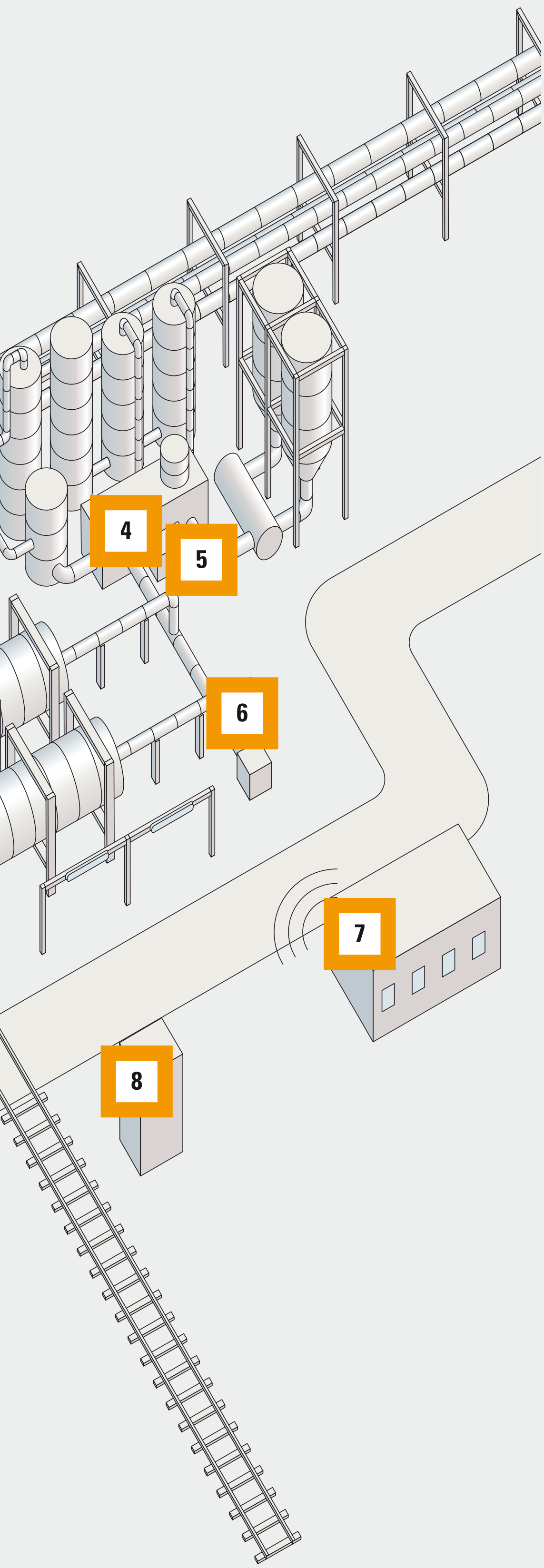
- R. STAHL *provides complete explosion protection solutions. Our broad product portfolio reflects our extensive know-how in designing custom solutions for a wide range of applications as a single-source supplier.*
- R. STAHL *products are renowned for their high quality and reliability that make them the premier choice for explosion-hazard installations.*
- *Thanks to our global distribution network with subsidiaries in 19 countries and many representations across the globe,* R. STAHL *is wherever our customers need us.*
- *Most of our products are approved under both common explosion-protection standards and can be used in Europe, North and South America, or Asia, which is a great plus for our globally-operating customers.*
- *Being a powerhouse of innovation means that many* R. STAHL *products have been on the market for less than five years. Our state-of-the-art technology ensures that our customers' plants will serve them well for a long time.*
- *Providing top-notch service is a high priority at* R. STAHL*. If our customers call us, our specialists will develop the best possible solution asap.*



R. STAHL products protect

Whatever the task at hand from switching/distributing to installing, operating, monitoring, lighting, signalling, and alerting to automating in explosion-hazard environments – R. STAHL offers the right solution: Our portfolio of products and services covers the whole range of problem solutions in explosion protection. Our extensive know-how in electromechanics and electronics allows us to develop individual solutions for and with our customers.

One-stop shopping for safety technology



1 *Machine distribution*

2 *Switches*

3 *PC*

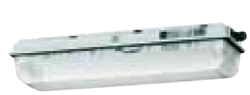
4 *IS bus field bus*

5 *IS1 remote I/O*

6 *ISpac isolators*

7 *WLAN access point*

8 *Alarm horn*



9 *Light fitting*

10 *Plug connector*

11 *Controls*

12 *Camera*

Expertise at a glance

- R. STAHL invests at least 6% of its annual sales into innovation work
- R. STAHL realises 40% of its sales from products that have been on the market for less than five years
- R. STAHL is a regular executive member of international industry organisations and holds over 70 active patents

- R. STAHL closely cooperates with customers in developing optimal solutions
- R. STAHL has expert engineers and technicians with experience in the international arena
- R. STAHL's production and distribution are tightly networked

Development work

Lab/ certification

Project planning

Production

- R. STAHL has its own lab that is certified by international standards organisations
- R. STAHL has over 3,000 international certifications in explosion protection and its nautical equipment is certified for the global market
- R. STAHL offers factory certification for national and international projects

- R. STAHL has production sites in Waldenburg, Weimar, and Cologne, Germany, in Hengelo, The Netherlands, in Stavanger, Norway, and Chennai, India
- R. STAHL has a flexible production organisation, communication-friendly centres of expertise, and its own tool production
- R. STAHL employs many specialists, master craftsmen, and technicians
- R. STAHL has a certified training operation with some 70 registered trade trainees

- R. STAHL has been certified under ISO 9001 since 1993
- R. STAHL strictly and constantly controls product quality from sourcing to final approval
- R. STAHL's quality management has been ATEX[1] certified by the PTB[2]
- R. STAHL has its own calibration lab for tuning 2,000 testing instruments

- R. STAHL offers warranties for all products and extended warranties for some
- R. STAHL offers on-site assembly
- R. STAHL offers hotline and e-mail support
- R. STAHL offers global business presence
- R. STAHL offers training classes and seminars

Quality management

On-site approval

After-sales service

Logistics

- R. STAHL uses state-of-the-art testing equipment
- R. STAHL offers extensive expert consulting with specialist staff
- R. STAHL's customers can directly contact development and product managers

- R. STAHL has a lean, economical process organisation
- R. STAHL has a modern, fully automated high shelf warehouse
- R. STAHL uses just-in-time production processes (kanban)
- R. STAHL offers 24-hour delivery service
- R. STAHL keeps its deadlines

[1] ATEX = Atmosphère explosible, European explosion protection guidelines

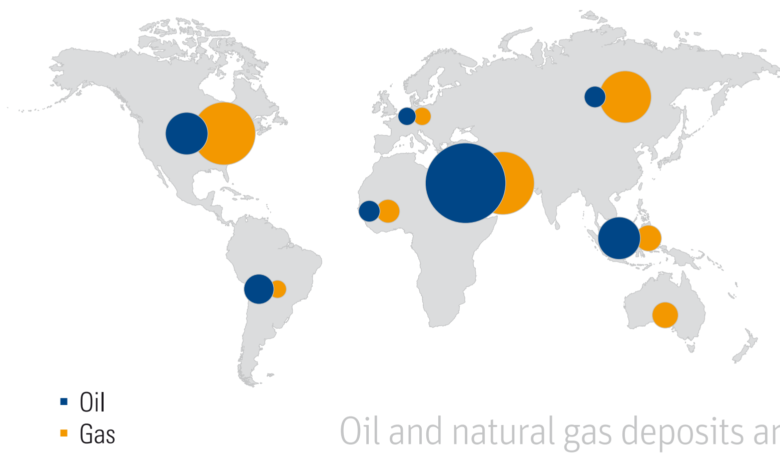
[2] PTB = Physikalisch Technische Bundesanstalt, Federal Physical and Technical Institute, Braunschweig, Germany

Well-balanced position

Forward-looking business

One of our key strategic objectives is attaining a market position that is broadly diversified in all respects and largely protects R. STAHL from economic fluctuations. Although our regional business emphasis remains in Europe, our growth strategy aims at increasingly spreading and balancing our sales base to better safeguard our business from excessive exposure in any single economy. We have also broadly diversified our risk in terms of the sectors we are serving. R. STAHL products are used in many high-growth industries like the oil and natural gas or chemical and pharmaceutical sectors. Recently, we have also begun to cultivate new customer segments like ship supply industry and alternative-energy plant builders, both of which are up-and-coming industries.

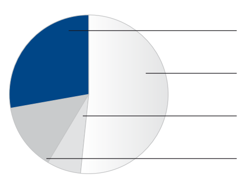
- ACTIVELY SERVING GROWTH INDUSTRIES *There are many oil and natural gas deposits all around the world that cannot do without explosion protection in production, processing, and product transport. When energy prices soar, the commodities sectors moreover tend to invest into optimising their processes.*
- ACTIVELY SERVING ALL CONTINENTS *Our foreign business share is steadily going up. In 2007, we made a special effort to build up our sales in America and Asia. As a result, our sales there grew 33% and 77%, respectively.*
- ACTIVELY SERVING THREE CORE SALES SECTORS *We primarily serve three sales sectors with contrary business trends. For instance, the business cycle in the oil and natural gas industry often shows the opposite trend to the chemical sector cycle while the pharmaceutical industry cycle bears no correlation to oil prices. These countering trends help us balance our business performance.*



Oil and natural gas deposits around the globe

Sales by region

in %



Germany	**27.9**
Central excl. Germany	**51.8**
Americas	**6.8**
Asia/Pacific	**13.5**

Our sales focus on the oil and natural gas, chemical and pharmaceutical, and the shipbuilding industries, gives R. STAHL a well-diversified customer base that shelters our activities from the vicissitudes of business cycles.

Oil & gas	Pharmaceuticals	Chemicals	Ship supply industry
31%	**18%**	**30%**	**11%**

Oil & natural gas industry

According to estimates of leading econometric institutes, oil and natural gas will still cover 60% of global energy needs in the next 20 years. Annual consumption of oil and natural gas will continue to grow in this context. Energy demand in the emerging economies of Asia is expected to skyrocket resulting in the construction of many new refineries. Exploration and exploitation of fossil fuel sources will become ever more profitable as energy prices soar. In the industrialised world, this will trigger a wave of optimising existing plants and processes but will also make the extraction of fossil fuels from harder-to-reach sources like Canada's oil sands economical. Even if there were to be a long-term trend away from fossil fuels, R. STAHL remains well positioned. Alternative energy sources like bio fuels, hydrogen-oxygen mixtures, or geothermal processes still require explosion protection at least somewhere in the processing chain.

Pharmaceutical industry

The pharmaceutical industry benefits from the global wellness trend. The life science concept encompasses topics from nutrition, to wellness, to environmental health aspects. Current research covers all these topics to improve living conditions in the future. Whether wellness products based on life science insights or the newest miracle drug from medical research, the global market place eagerly buys them all and production capacities will thus continue to grow especially in aging industrialised nations. In Asia, pharmaceutical production capacities are still being built just to ensure adequate supply for the local populace. The pharmaceutical industry will remain one of the powerhouses of global growth in 2008 as it was last year – and the industry will need explosion protection to make all the new facilities safe.

Chemical industry

The chemical industry is a supplier to many if not most other industries and its business is booming. The need to catch up to a higher standard of living in Asian countries is driving the tremendous production capacity expansion in the Far East. Capacity build-up in industrialised countries is significantly slower and mainly involves efficiency improvements of existing facilities. The German Association of the Chemical Industry (Verband der Chemischen Industrie, VCI) expects 2.5% output growth in 2008 for Germany alone. Although chemical production output growth in Europe as a whole is expected to slow slightly, the consensus estimate still remains at 2.3% output increase. R. STAHL has a large installation base in Europe, i.e. many existing plants use R. STAHL technology. When the industry changes, expands, or optimises its production processes, the explosion protection equipment will have to follow suit and usually that means going back to the supplier of the original equipment.

Ship supply industry

Beyond a transport distance of some 2,200 nautical miles, shipping liquefied natural gas becomes more economical than using regular gas pipelines. As the global market place is growing together, ever more natural gas is being shipped in compressed liquid form than pumped as gas through overland or undersea pipelines. Shipping is also a common means of transporting oil and refined fuels across the globe. Lloyd's register is forecasting that 148 LNG (liquefied natural gas) carriers will launch in the next few years. Russia intends to completely revamp its harbours and the Asian shipbuilding industry is booming already. R. STAHL explosion protection products will safeguard lives and assets on tankers and loading stations that handle explosive materials. With the acquisition of Tranberg A.S, the Norwegian explosion protection specialist for the ship supply industry, R. STAHL has made inroads in this market. We have increased our sales share from this growth market from 8% to 11% since and expect further growth potential going forward.

R. STAHL stock & corporate governance

The stock market year 2007 broke down into two distinct and divergent parts. The first half of the year was still very buoyant and prosperous with the DAX reaching an all-time high of 8,156 index points in mid-July. The Dow Jones Industrial Average also reached an all-time high just one day later. Later in July, worries about the impact of the sub-prime lending debacle in the US upset stock market sentiment. Market jitters then grew more pronounced over the rest of the year and culminated in a major market slide at the beginning of 2008 that also affected the German stock market. Nonetheless, the DAX gained more than 22% over the course of 2007. The SDAX, too, flourished first and then went into a steep and steady decline in the second half of 2007 closing the year almost 7% below its opening value.

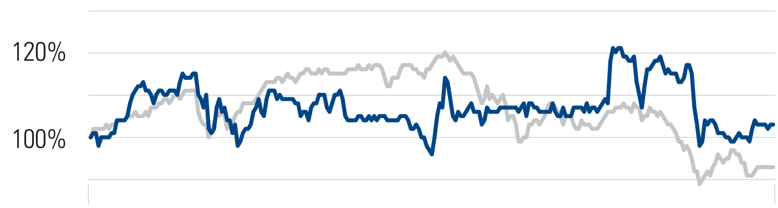
The R. STAHL share price remained relatively stable with only a few ups and downs in the first nine months of last year. After a brief dip in February/March, the publication of our preliminary figures for fiscal 2006 boosted our share price performance. R. STAHL share prices then see-sawed a bit in the summer and picked up again in October not least thanks to the fact that »Der Aktionär« magazine added R. STAHL stock to its model portfolio. On 5 October, R. STAHL stock reached a new all-time high at € 40.00 per share in XETRA trading. From mid-November to the end of the year, our share price then dropped to its year-end level at € 33.70 as second-line stocks fell into general disfavour.

Keeping our investors at home and abroad in the loop

Following our IR policy, our investor relations efforts remained in high gear last year. In the year under review, we have continued our strategy of increasingly presenting and marketing our stock in the international arena. In addition to various domestic road shows in Frankfurt, Munich, and the Rhineland, CEO Martin Schomaker paid his first visit to our French investors in Paris. We furthermore held various individual meetings at our Waldenburg headquarters including some with prospective investors from England and Holland. We even received some inquiries from US investors. The R. STAHL equity story met with lively interest at one of Germany's key capital market events, the German Equity Forum, last November.

We have maintained our high standards for open and timely communication in 2007. This includes transparent quarterly reports and regular website updates. This gives our investors access to comprehensive data and up-to-date information on R. STAHL at all times. It is a matter of course for us to quickly and exhaustively answer inquiries from any institutional or private investor.

R. STAHL share price performance



1/1/2007		31/12/2007
€ 32.75	R. STAHL share (XETRA)	**€ 33.70**
5,567.36	SDAX	**5,191.56**

Key data on the R. STAHL share

in €	2007	2006
Earnings per share	2.65	1.75
Equity per share	12.68	11.15
Dividend per share	1.10 [2)]	0.90
Dividend yield at year-end price in %	3.3 [2)]	2.7
Number of shares (in thousand)	6,440	6,440
Market capitalisation on 31 Dec. (in € m)	217.0	210.9
Free float in %	47	47
Daily trading volume (average number of shares)	5,885	8,524
Low [1)]	31.60	22.52
High [1)]	39.75	34.00
Price at the end of the fiscal year [1)]	33.70	32.75

Security ID	725772
ISIN	DE0007257727
Stock market ID	RSL1
Trading segments	Regular market/Prime Standard
Indices	CDAX, Classic All Share, Prime All Share, Prime Industrial, Prime IG Industrial Machinery
Stock markets	XETRA, Frankfurt, Stuttgart, Düsseldorf, Munich, Berlin-Bremen, Hamburg

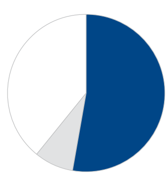
[1)] *Closing price in XETRA trading* [2)] *Proposal to the Annual General Meeting*

In July 2007, we celebrated our 10th anniversary as a listed company. Last fall, R. STAHL dropped out of Germany's index of family-owned companies, the GEX, owing to GEX bylaws. We think that this was a regrettable decision and cannot quite follow the reasoning. In our opinion, a company that has been listed on the stock exchange for more than ten years still can be managed according to the same owner-oriented principles as before.

We will maintain our customary high level of investor relations work in 2008 and go above and beyond the call of duty to keep our investors up to date on our company and its markets.

Ownership structure

in %



Founding families	**53**
Treasury stock	**8**
Free float	**39**

CORPORATE GOVERNANCE REPORT

Standards for value-oriented, transparent corporate governance and control are constantly evolving and both domestic and international investors pay ever closer attention to them. As such, the German government formed a commission in 2002 to define and codify key rules and regulations as well as standards for sound and responsible corporate governance. This code serves to build a foundation of trust for investors, employees, business partners, and the general public. The German Corporate Governance Code regulates, for instance, the cooperation between managing and supervisory boards, the protection of shareholder interests, and calls for transparent and timely corporate communication.

Paragraph 161 of the German Joint Stock Corporation Act (Aktiengesetz, AktG) requires the managing and supervisory boards of stock corporations to declare once a year what recommendations of the German Corporate Governance Code they have complied with and what recommendations they did not comply with. Our current Declaration of Compliance with the German Corporate Governance Code (GCGC) is based on the GCGC version dated 14 June 2007. We have published this declaration on our corporate website in December 2007 and you will find a copy at the end of this chapter.

Managing Board

The Managing Board of R. STAHL AG has two members: CEO Martin Schomaker and Dr Peter Völker as second member. Both have been appointed by our Supervisory Board. Our corporate bylaws regulate management cooperation and the distribution of tasks.

As of 31 December 2007, our Managing Board members held together 0.21% of R. STAHL's voting capital. Please refer to the notes to the consolidated financial statements for the statutory management compensation report. The compensation statements are broken down into fixed and variable components for each individual. You will find the management compensation statements in this Annual Report starting on page 95.

R. STAHL AG has not issued any stock option plans or other securities-based incentive systems.

Supervisory Board

R. STAHL AG's Supervisory Board composition is subject to the One-Third Participation Act and its nine members thus break down into three employee representatives and six shareholder representatives.

The Supervisory Board has formed two committees to handle its primary functions. The Audit Committee primarily handles accounting issues and risk management, determines the mandatory independence of the auditor, appoints and engages the auditor, determines audit emphases, and negotiates the audit fees. The Administration Committee prepares Supervisory Board questions to the Managing Board.

As of year's end 2007, the members of R. STAHL's Supervisory Board held together 5.77% of our company's voting capital. The compensation report starting on page 95 of this Annual Report provides a breakdown of Supervisory Board compensation into fixed and performance-based components stated per individual.

R. STAHL does not offer any stock option plans.

Annual General Meeting

Each common share of R. STAHL AG carries one vote. Shareholders may participate in the Annual General Meeting if they can document their shareholding on the statutory record day and have notified the company of their attendance pursuant to the conditions set forth in the company's bylaws.

At our Annual General Meeting on 22 June 2007, 68.18% of the voting capital was represented. The assembly resolved all agenda items with over 99% of the votes in attendance and both boards were unanimously discharged.

Accounting and auditor

R. STAHL AG has prepared its consolidated financial statements dated 31 December 2007 according to International Financial Reporting Standards (IFRS). The annual financial statements of R. STAHL AG for fiscal 2007 have been prepared according to the generally accepted accounting principles set forth in the German Commercial Code.

The Annual General Meeting held on 22 June 2007 appointed the auditing firm Dr. Ebner, Dr. Stolz und Partner, Wirtschaftsprüfungsgesellschaft of Stuttgart, Germany, as auditor for the fiscal year ending on 31 December 2007.

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

Waldenburg, December 2007

In our 2006 Annual Report, the Managing and Supervisory Boards of R. STAHL AG, Waldenburg, declared their compliance with the German Corporate Governance Code (GCGC) pursuant to paragraph 161 of the German Joint Stock Corporation Act and stated that this declaration of compliance shall be updated in the 2007 Annual Report. Over the course of fiscal 2007, the company complied with the GCGC as amended on 14 June 2007 and will continue to do so next year, albeit with the following exceptions:

4.2.5

<Management compensation> is to be reported as a separate item in the corporate governance report stating the management compensation system in detail and plain language.

R. STAHL will publish a detailed management compensation report in its notes to the consolidated financial statements.

5.1.2 paragraph 1, sentence 1 and
5.1.2 paragraph 2, sentence 3

The Supervisory Board appoints and discharges Managing Board members. Both boards are jointly responsible for long-term succession planning.

Managing board members shall be subject to set age limits.

R. STAHL has not yet defined any age limits for Managing Board members as there is no immediate need for such. The Managing Board members of R. STAHL AG are 51 and 56 years old, respectively.

5.3.3

The Supervisory Board shall form a nominating committee exclusively consisting of shareholder representatives that is to select suitable candidates to the Supervisory Board that the Board then may nominate for election to the annual general shareholders' assembly.

R. STAHL does not have a nominating committee as stated above. We are of the opinion that the scope of our Supervisory Board (six members of the capital holding side) does not justify a committee dedicated to the selection of Supervisory Board nominees.

5.4.1 sentence 2

Moreover, <...> age limits for supervisory board members are to be set and observed.

Nominations to our Supervisory Board have not been and will not be subject to age limits. Experienced retired managers have the competence and leisure to properly devote themselves to Supervisory Board issues at hand. Competence and health are more crucial factors to consider than age.

5.4.3 sentence 2

Any court-appointment of a Supervisory Board member shall be limited in time until the next annual general meeting.

As our capital-holding Supervisory Board members have been elected by our shareholders and/or their proxies at the annual general shareholders' assembly, there are no court appointed ones and thus there is no necessity for limiting such appointments in time.

5.4.3 sentence 3

Shareholders are to be informed of Supervisory Board Chair nominations.

Our capital-holding Supervisory Board members will be up for election again at the 2008 annual general shareholders' assembly. Pursuant to the company's bylaws, the constituent meeting will be held immediately after the annual general meeting. The Supervisory Board chair and vice chair will be elected at the constituent meeting. As such, we cannot publish chair nominations ahead of the meeting.

5.4.7 paragraph 3, sentence 1

Remuneration of supervisory board members are to be listed itemised and per individual in the corporate governance report.

R. STAHL first reported detailed accounts for Supervisory Board member compensation by individual member in the annual financial statements published in the 2006 Annual Report.

6.6 paragraph 2, sentence 1 and 2

In addition to mandatory immediate reporting and publication of transactions in the company's stock, the company has to report shareholdings in its stock or related financial instruments by its Managing and Supervisory Board members if the stake directly or indirectly held exceeds 1% of the company stock outstanding. If the total shareholding of all Managing and Supervisory Board members exceeds 1% of the company stock outstanding, the total shareholdings shall be reported broken down into Managing Board and Supervisory Board shareholdings.

Board member shareholdings in excess of 1% of our outstanding shares have not been and will not be disclosed.

On the one hand, no family member ever had directly or indirectly held a controlling interest in the company, and on the other, there are also family members serving on our Supervisory Board and to protect both individuals and the founding family, we abstain from explicitly stating assets by owner's name.

6.6 paragraph 3

<Directors' dealings and shareholdings of Managing and Supervisory Board members> are to be stated in the corporate governance report.

Disclosures about purchases or sales of company stock by members of the Managing or Supervisory Boards (directors) or persons related to such directors will be published in compliance with statutory requirements as well as on our corporate website. We will abstain from additionally listing these in our Corporate Governance Report.

7.1.2 sentence 2

The annual financial statements are to be published within 90 days after fiscal year's end and interim reports are to be published within 45 days after the end of the respective reporting period.

We have published our 2006 annual financial statements by the statutory deadline. Key data on the past fiscal year were published substantially earlier – in March 2006 as they became available. We will proceed similarly for our 2007 annual financial statements.

R. STAHL mostly met the 45-day deadline for preparing and publishing its interim financial reports in 2007. We will consistently meet this deadline in 2008.

7.1.4 sentence 3

<The list of subsidiaries and affiliates> ... is to state: Name and residence of the company, equity interest held, amount of equity and earnings in the last fiscal year.

Our list of subsidiaries and affiliates states the respective names, residences, equity interest held, and amount of equity in the last fiscal year.

Since our main competitors are not listed or not required to publish their data in such detail, listing earnings for each of our subsidiaries individually would entail considerable competitive handicaps for us in the respective markets.

Our GCGC Compliance Officer is the head of our legal department, Eberhard Walter, Attorney at Law.

Financial information

Consolidated management report

of R. STAHL Aktiengesellschaft, Waldenburg, for fiscal 2007

Business and economic environment

EXPLOSION PROTECTION SYSTEMS AND COMPONENTS

R. STAHL is a global supplier of high-quality explosion protection systems and components. Wherever combustible mixtures of gas or dust and air may occur, R. STAHL products protect lives and assets. Our core sales sectors are the oil and gas, the chemical and pharmaceutical, and the high-growth ship supply industry. The food and beverage as well as bio fuel industries, too, have to use explosion protection products. R. STAHL's product portfolio ranges from simple switches to displays and light fittings to highly complex controls and bus systems that network whole plants. Our goal is to always deliver the best quality for our customers' safety needs.

Group structure and key group companies

R. STAHL Aktiengesellschaft (hereinafter also referred to as R. STAHL AG) is headquartered in Waldenburg, Germany, and serves as holding company for its domestic and foreign subsidiaries. R. STAHL AG handles all business administration functions for the group from human resources management to controlling, finances, accounting, information technology, and organisation. The central functions act as service providers to the operating units.

We ensure the global distribution of our products and services as well as our customer service on location through our subsidiaries in 19 nations and representations in over 50 countries.

Also headquartered in *Waldenburg* is R. STAHL Schaltgeräte GmbH, the global lead company for our operations. At our group headquarters, we manufacture a substantial part of our product range, for instance, control devices, terminal boxes, and serial-production devices as well as control and automation technology systems. Our in-house plastics processing plant manufactures most of the plastic parts we use in our systems and our *Weimar* factory makes explosion-protected light fittings for our customers. Our *Cologne* subsidiary, R. STAHL HMI Systems GmbH, produces input and visualisation equipment as well as systems for both general industrial applications and explosion-hazard areas. Our subsidiary, Electromach B.V. of *Hengelo* in the Netherlands makes explosion-protected master controls. Our subsidiary Tranberg A.S of *Stavanger*, Norway, produces equipment for the ship supply industry including explosion-protected spot lights for helipads. We have gradually built up our location in *Chennai*, India, last fiscal year. The site currently manufactures light fittings for the local market. Moreover, we have assembly capacities at various locations (e.g. in the US) to quickly adapt our

products to regional requirements. In January 2007, we completed the divestment of our service companies, altro consult Deutschland GmbH and SP Solution GmbH, both headquartered in Oberhausen, Germany. With this move, R. STAHL has completed its process of refocussing on explosion protection.

In the past fiscal year, we have successfully forged ahead with integrating our new Norwegian subsidiary Tranberg A.S that we acquired at the end of 2006. Tranberg offers us good access to the ship suppliers market. We have merged our product portfolios in fiscal 2007 and developed first marketing instruments for this segment. At trade fairs in Asia and Norway, we jointly presented our group as an expert partner to this industry. We have also merged the internal structures of our companies and started the first joint development projects.

SUPPLEMENTARY REPORT PURSUANT TO ARTICLE 315, PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE

With the enactment of the Takeover Guideline Implementation Act on 14 July 2006, the following additional statements in the management report have become necessary:

Capital structure

On 31 December 2007, R. STAHL AG's subscribed capital amounted to € 16,500,000.00 divided into 6,440,000 no-par bearer shares. As such, each share hypothetically represents € 2.56 of the share capital.

Members of the Stahl and Zaiser families have pooled a substantial share of the company's voting rights under a syndicate agreement in which they agree to exercise their voting rights in person or by proxy according to syndicate resolutions.

Shareholder rights and obligations

The shareholders have asset rights and management rights.

Asset rights include pursuant to article 58, paragraph 4 of the German Stock Corporation Act the right to share in the company's profits and pursuant to article 271 of the German Stock Corporation Act the right to share in liquidation proceeds as well as pursuant to article 186 of the German Stock Corporation Act the right to subscribe to shares in case the company increases its capital.

The shareholders' management rights include the right to participate in the annual general meeting, to be heard at such, to raise questions and make motions as well as to exercise voting rights.

Each no-par share carries one vote in the annual general meeting. The annual general meeting is the corporate body vested with the power to elect and/or appoint Supervisory Board members and the auditor of the annual financial statements. It decides whether or not to discharge the Managing and Supervisory Board members, resolves changes to the bylaws, and decides on capital measures, management authorisations for stock buy-backs, whether or not to conduct special audits, whether or not to prematurely dismiss Supervisory Board members, and whether or not to liquidate the company.

Supervisory Board composition

R. STAHL AG's Supervisory Board has nine members of which six shareholder representatives are to be elected by the annual general meeting and three staff representatives are to be appointed according to the German Codetermination Act. Supervisory Board resolutions require only simple majority quorum vote unless other majorities are prescribed by law. If one voting round results in a tie, the issue has to be voted on again immediately unless the majority of the Supervisory Board members decides to reopen debate on the issue. Upon revote on a previous tie, the Supervisory Board chair will have two votes pursuant to article 12, paragraph 8 of the company's bylaws.

Statutory regulations and company bylaws on the appointment and dismissal of Managing Board members and changes to the bylaws

Articles 84 and 85 of the German Stock Corporation Act regulate the appointment and dismissal of Managing Board members. According to these regulations, the Supervisory Board can only appoint Managing Board members for a maximum period of five years. Reappointments are only permissible for another maximum of five years.

Article 6 of the company's bylaws furthermore stipulates that the Managing Board has to consist of one or more persons. The Supervisory Board is the corporate body vested with the power to decide how many members the Managing Board is to have, appoint these Managing Board members or dismiss them again, and act as counterparty to the Managing Board members' employment contracts. The Supervisory Board has the power to appoint the Chairperson of the Managing Board and one or more Vice Chairperson(s).

Management authorisation in particular pertaining to the power of issuing shares or buying them back

Please refer to the notes to the consolidated financial statements, item »27. Equity«, for details on management authorisation to issue or buy back shares.

Material agreements under the condition of change of control due to a takeover offer

R. STAHL AG has not entered into any material agreements under the condition of change of control due to a takeover offer. Furthermore, no indemnities have been granted to any Managing Board or staff members in case of such takeover offer.

COMPENSATION SYSTEM FOR SUPERVISORY AND MANAGING BOARD MEMBERS

Please refer to the notes to the consolidated financial statements, item »35. Administrative Bodies of the company«, for details on the compensation system for Supervisory and Managing Board members.

STRATEGY AND CORPORATE CONTROL

Growth strategy

Two years ago, we have formulated a growth strategy that we have consistently pursued and further implemented in fiscal 2007. Our growth strategy takes the following three-tier approach:

- Cultivating new customer industries like the shipbuilding, LNG (liquefied natural gas), and bio fuel sectors
- Reinforcing our regional activities and increasing our sales in the Americas and Asia
- Expanding our systems business.

Cultivating new customer industries

By acquiring the Norwegian ship supplier Tranberg A.S, we have passed the first milestone in cultivating this high-growth segment. We have made good progress in integrating Tranberg A.S into R. STAHL group in 2007. Our joint marketing and distribution activities have met with particularly keen interest in Asia.

Sales growth in the Americas and Asia

Many of our products have been approved for the American market last year. This serves as a foundation for our market success in North America as an accepted specialist partner to our customer industries. We have also expanded our distribution structure abroad. In November 2007, we have founded a new subsidiary in Edmonton, Canada. We consider our 33% sales growth in the Americas a clear sign of business success there.

To get a foothold in Asia's emerging economies, we have started to adapt our products to local market needs and requirements. We are serving the Indian market from our location in Chennai to utilise local price advantages and have gradually built up our capacities there over the course of last year. Our representations in East and West Malaysia have opened their doors for business so that we are well set for further growth in this region. To be on the spot when the extensive Australian natural gas deposits go into production, we have entered into a cooperation agreement with a partner down under. The company is called NHP and has thus far served us well by acquiring first orders for us in 2007. Stepping up activities in the Asia/Pacific region has helped us grow our sales revenue 77% there last year.

System business expansion

R. STAHL specialises in explosion protection solutions that use both electromechanical and electronic components. This broad expertise allows us to offer custom-tailored system solutions from one source. We have been very active in expanding business in this segment in the year under review.

Intra-group control system

We prepare monthly income statements and balance sheets for each group company in our world-wide network and consolidate these centrally at our group headquarters. From these data, we derive key figures for controlling the individual units. Key data in this regard comprise order intake, sales, pre-tax earnings, and capital employed. Checking the incoming data against plan figures and analysing plan deviations make the performance of the individual group companies transparent.

DEVELOPMENT AND INNOVATION

Besides the drive to get our existing products approved for all regions world-wide, another emphasis of our development work is to design components already with global use in mind. That approach saves us the effort of having to adapt specifications to other standards.

We furthermore have made substantial progress in getting more of our products approved for nautical applications. R. STAHL is thus making a concerted effort with its Norwegian subsidiary Tranberg to build up the group's share in this high-growth market.

We have further expanded our portfolio of automation technology products in 2007, which is a great help in light of our growing systems business. For instance, we have added new field bus components including a non-explosion-protected version of our popular IS1 remote I/O system that allows our customers to use the same system in various hazard levels.

We furthermore added new explosion-protected lighting products in the year under review. We have expanded our range of pendant light fittings and rounded out our emergency lighting series with a new type of operating devices.

We have added another some 10% to our development capacity in 2007 to take account of our growing R&D needs.

OVERVIEW OF OUR BUSINESS DEVELOPMENT

Economic background

Global economic conditions

The global economy grew overall very vigorously in 2007 and the European and Germany economies were no exception. German gross domestic product (GDP) reached an inflation-adjusted 2.6% year-on-year growth with domestic equipment spending surging an impressive 7.1% while the German electrical appliance sector clocked 6% year-on-year sales growth. That means the sector outperformed gross domestic product by a factor of two.

The already lively plant construction business trend accelerated even more last year. The German industrial plant construction industry was quite prominent in the global market place with an excellent 23% year-on-year growth in order intake.

Foreign business was the main demand driver for chemical plants construction with extensive capital spending activity in the oil and natural gas refining business. The demand for bio fuel plants was also up. The principal growth regions were Asia, the Near and Middle East, Eastern Europe, Russia, and Latin America. The key growth driver was the boom in oil and natural gas prices at simultaneously rising demand.

Disproportionately strong growth and market share gains

Thanks to strong global economic growth, robust demand from key sales regions and last but not least consistently pursuing our growth strategy, R. STAHL's consolidated sales leapt 26.7% to € 211.6 million and our order intake increased 27.8% to € 220.1 million in fiscal 2007.

R. STAHL has grown its sales in the booming oil and natural gas sector not only in absolute terms but also in terms of relative market share from 28% to 31%. We also achieved above-average market share gains on the growing ship supplier market. Our sales with other key customer segments like the chemical and pharmaceutical industries also developed well.

Our regional growth measures are bearing fruit with R. STAHL sales in both North America (+33%) and the Asia/Pacific region (+77%) showing substantial progress. The key success factors in North America were the expansion of our distribution network and new product certifications for the local market. In Asia, our business blossomed as we adapted ever more of our products to local market conditions and improved our local value-added chain. Our European sales grew some 20% in the year under review.

Together with our Norwegian subsidiary, Tranberg A.S, we expanded our ship supply business in fiscal 2007. We are making great progress in integrating our new subsidiary into R. STAHL group. Our concerted marketing and distribution activities met with particularly strong interest in Asia. Our overall sales share from the ship supply industry rose from 8% to 11% in the year under review.

Our sales increase over the entire product portfolio was above average industry growth. We have made good progress in systems business by building up our capacities and capabilities in marketing and distribution. To handle our ever growing order intake, we had to substantially expand our production capacities and optimise our order processing.

Income, financial, and asset position

INCOME POSITION

R. STAHL group's profitability advanced appreciably in fiscal 2007. Our pre-tax earnings rose from € 16.5 million in 2006 to € 24.6 million in 2007 (+49.1%).

At the beginning of 2007, we have divested our IT activities at an earnings contribution of € 1.5 million. Adjusted for this one-off effect, our pre-tax earnings came to € 23.1 million representing a year-on-year increase of € 6.6 million. As such, we increased our pre-tax operating earnings by 40.0% on 26.7% sales growth. Our operating return on sales at 10.9% thus exceeded the target range of 8 to 10%.

Our consolidated earnings after taxes came to € 16.2 million (previous year: € 12.9 million). The earnings per share amount to € 2.65 (previous year: € 1.75 or € 2.13 including discontinued activities).

Development of earnings and material income statement positions

In fiscal 2007, our **sales revenues** rose € 44.5 million (+26.7%) to € 211.6 million compared to the previous year.

In Europe (excluding Germany), our sales revenues increased respectable € 28.8 million (+35.6%) to € 109.6 million.

In the Americas, we realised € 3.6 million (+33.1%) in sales growth last year. We have initiated and implemented some growth measures there that are already bearing noticeable fruit.

The Asia/Pacific region has been our poster child for sales success. On a year-on-year comparison, our sales revenues there advanced € 12.5 million or 77.3% to € 28.6 million. We already see significant sales effects from our extensive market cultivation efforts in this region.

By successfully cultivating the markets in the Asia/Pacific region and the Americas, our business there becomes less vulnerable to regional demand fluctuations and our sales become more stable and robust.

R. STAHL group now realises 72.1% (previous year: 64.5%) of its sales abroad.

German economic growth remains strong. As such, we managed to maintain our German sales volume at last year's high level with € 59.0 million in fiscal 2007.

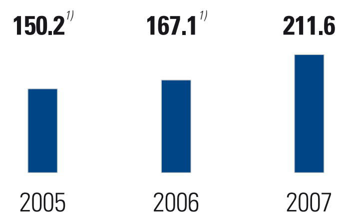
R. STAHL group's **total operating performance** increased € 46.4 million to € 218.3 million.

Our **other operating income** at € 6.5 million turned out slightly lower (previous year: € 6.6 million).

Our **cost of materials ratio** at 34.0% of total operating performance was 2.4% higher than in 2006. We attribute this mainly to our strategic move to build up systems business for which we have to source higher-value components and equipment from external suppliers.

Consolidated sales

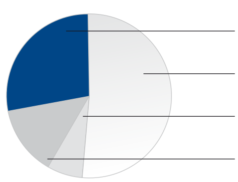
in € m



[1)] *Continuing activities*

2007 sales by region

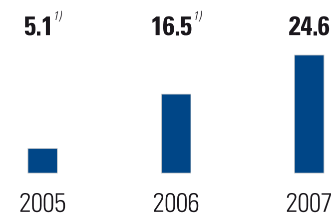
in € m



Germany	**59.0**	**(27.9%)**
Central excluding Germany	**109.6**	**(51.8%)**
Americas	**14.4**	**(6.8%)**
Asia/Pacific	**28.6**	**(13.5%)**

IFRS earnings before taxes

in € m



[1)] *Continuing activities*

Personnel costs amounted to € 72.3 million or 33.1% of total operating performance. Although this represents an increase of € 6.0 million in absolute terms, it is 5.5 percentage points less relative to total operating performance than in fiscal 2006 (previous year: 38.6%) thanks to continuous improvements of internal processes and efficiency gains due to targeted capital investments.

Our **depreciation, amortisation, and impairments** remained at last year's level of 4%.

The **other operating expense** at € 42.5 million increased on annual comparison (previous year: € 32.6 million). Our general business growth and implementation of our growth strategies have logically led to higher other operating expense. However, at 19.5% of total operating performance the relative value has remained unchanged from last year.

Our **earnings before financial income and income taxes** amounted to € 26.9 million in fiscal 2007 (previous year: € 18.5 million).

Our **net interest expense** came to € - 2.3 million consisting of € 1.1 million in interest income set against € 3.4 million in total interest expense. The interest expense position includes interest on pension obligations totalling € 2.2 million.

Income position summary

R. STAHL further improved its profitability in fiscal 2007 by focussing on explosion protection, evolving its internal structures, and making targeted investments. Our corporate strategy is already bearing fruit. Positive demand development has been another boon for our growth. We deem the income position of R. STAHL group stable and sustainable. Considering the fast growth pace, R. STAHL's management still strives to substantially improve the company's profitability to generate the necessary financial means for developing ground-breaking innovations. In addition to further expanding our business volume, we also put great emphasis on constantly analysing and improving all corporate processes.

ORDER INTAKE

Consolidated order intake increased 27.8% year-on-year to € 220.1 million.

Besides the generally favourable economic environment, the gratifying growth in order intake was prominently due to a more broadly based distribution, new product launches, and our strategic reorientation.

Regional distribution of order intake

Our order intake growth of 27.8% year-on-year broke down by region as follows:

Our German order intake remained at the preceding year's level in the year under review. The main market force here was the strong export business of German mechanical engineering and plant building companies.

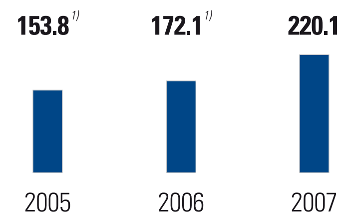
Our order intake in Europe (excluding Germany) grew 41.1% last year thanks to stepped-up activities of large engineering groups and the consistent expansion of our European business presence. Our new subsidiary Tranberg A.S also made an appreciable contribution to our European appeal.

R. STAHL's order intake in the Americas increased 30.2% year-on-year in fiscal 2007 largely thanks to having build up our distribution structure there and getting ever more products approved for the local market. Since we see promising market opportunities in the exploitation of Canadian oil sands, we have established a subsidiary there. The new subsidiary gives R. STAHL an early foothold in the market and allows us to serve Canada's emerging oil industry.

Our order intake in the Asia/Pacific region grew 63.4% year-on-year in fiscal 2007. The main growth drivers here were improvements in our local distribution as well as adapting our products to local market needs and requirements.

Order intake

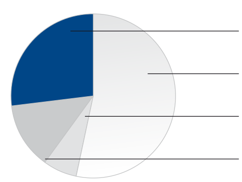
in € m



[1)] *Continuing activities*

2007 order intake by region

in € m



Germany	**59.9**	**(27.2%)**
Central excluding Germany	**116.9**	**(53.1%)**
Americas	**14.9**	**(6.8%)**
Asia/Pacific	**28.4**	**(12.9%)**

At the end of fiscal 2007, our orders on hand had increased € 8.5 million year-on-year to € 38.5 million.

FINANCIAL POSITION

Principles and objectives of our finance management

R. STAHL AG handles the entire finance management for R. STAHL group. Our central finance management organisation ensures a uniform presentation to capital providers and facilitates central risk management without undue financial risks.

We centrally control our credit, interest, and currency risks and hedge them as needed. Our preferred hedging instruments are market-typical derivative financial instruments that are always exclusively geared to the underlying transaction.

Finance analysis

Should our group need outside financing, we will obtain bank loans. The domestic group companies are financed through the German group cash pool and our foreign subsidiaries get their financing through credit lines with local banks that are guaranteed by the group parent.

Our long-term assets remain fully covered by equity. R. STAHL's liquid assets of € 29.8 million exceed short and long-term interest-bearing financial debt by € 16.6 million. Our finance structures are stable and sound.

Our equity ratio improved further to 41.7% in fiscal 2007 (previous year: 39.4%).

in € m	2007	2006
Cash flow from ongoing business activity	17.7	3.3
Capex cash flow	- 10.5	- 13.0
Net cash flow (free cash flow)	7.2	- 9.7
Finance cash flow	- 9.8	- 6.0
Liquidity at the end of the period	29.8	32.9

This equity ratio gives R. STAHL group a solid balance sheet structure and ample means to finance its future organic and external growth.

Capital expenditure analysis

In fiscal 2007, R. STAHL spent € 8.9 million on property, plant & equipment, which was appreciably more than the € 4.6 million the year before. One of the larger items in this position was the property purchased by our Dutch subsidiary. We also invested into tools and equipment to improve the efficiency and economy of our factories and capitalised development expense to the tune of € 2.3 million (previous year: € 1.8 million). Depreciation, amortisation, and impairment of non-current assets came to € 8.8 million.

Liquidity analysis (cash flow statement)

At € 17.7 million (previous year: € 3.3 million), we realised substantially more operating cash flow from ongoing operations in 2007 than the year before. The main reasons for this increase were higher profits for the year and lower capital needs from changes in net current assets.

Cash outflows for capital spending on intangible and property, plant & equipment asset came to € 13.9 million (previous year: € 8.9 million) in the period under review. Adding the divestment proceeds of our IT activities as the main capex income position brought the net cash outflow on capex down to € 10.5 million.

This resulted in positive free cash flow of € 7.2 million (previous year: € - 9.7 million) in the period under review.

The distribution of € 5.3 million in dividends to shareholders likewise falls under the finance header. Under the item distributions to minority shareholders we furthermore state the purchase price payment of € 2.1 million for the remaining shares in STAHL-Syberg A.S of Oslo, Norway. Another cash outflow item under this position is the repayment of short and long-term loans.

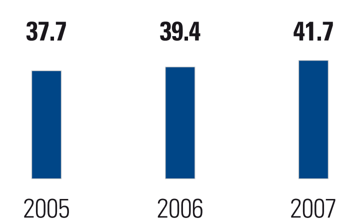
ASSET POSITION

Asset structure analysis

R. STAHL's consolidated total assets increased from € 167.6 million to € 180.2 million in the period under review. On the asset side, the share of long-term assets in the balance sheet total remained virtually unchanged due to capital spending. Deferred taxes declined not least due to the 2008 corporate tax reform. In contrast, our business expansion and generally faster pace of activities have raised the share of short-term assets. On the equity and liabilities side of the balance sheet, the share of long-term debt decreased in line with the higher equity ratio. These structures show that R. STAHL has a solid financial base and balance sheet ratios.

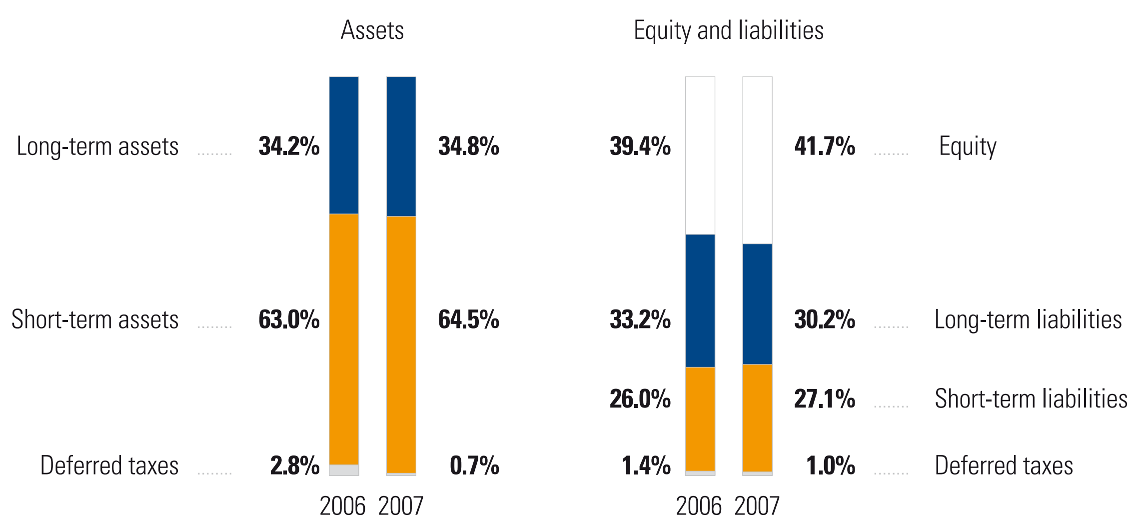
Equity ratio

in %



Asset and financial structure

as of 31 December



PERSONNEL

The introduction of the Remuneration Framework Agreement (Entgelt-Rahmen-Abkommen, ERA) was the key topic for personnel issues in fiscal 2007. On 1 October 2007 Germany introduced the Remuneration Framework Agreement that replaces previous collective bargaining agreements for clerical and trade employees. Their new remuneration ratings and thus wages and salaries will now be based on an entirely new performance rating system. We have introduced the new agreement on a mutually constructive basis and with full support by our works' council and staff.

Our domestic professional training ratio of 7.5% puts R. STAHL well ahead of the national average. The fact that we regularly have a large applicant base shows that R. STAHL is a sought-after training venue in our region. Our group offers alternative concepts like joint programmes with other training institutions in our region. The new trainees thus benefit from broadening their personal and professional horizons by experiencing different corporate cultures in their professional training.

We have maintained our close contacts to professional academies and local technical colleges in the period under review. This helps us ensure that R. STAHL will always be able to find qualified new staff.

PRODUCTION REPORT

Last year, all R. STAHL production sites had lively order intake and sales growth. As a result, we had to greatly expand our capacities especially at our main factory in Waldenburg. We have outsourced some simple production steps to suppliers in the immediate vicinity to ease the burden on our main site. At peak times, we employed outside manpower well in excess of 100 persons at a time and did quite a bit of new hiring.

We also had to expand our capacities at our location in Chennai, India.

OTHER PROJECTS

We have made good progress last year with our project of introducing a group-wide uniform ERP system that we launched in 2006. User training is a key factor in this regard, which requires intensive preparation work. We intend to minimise ERP start-up risks by making extensive test runs.

There were no significant events between the balance sheet date and the writing of this report that materially affect our business.

Risk report

RISK AND OPPORTUNITY MANAGEMENT

R. STAHL compiles all material risks and opportunities reported by group members on a quarterly basis in a joint data base. The central risk and opportunity management then organises these data into risk and opportunity reports by company. The reports describe not only the nature of and type of risk but also put a potential value on it, rate its event probability, and state a plan of measures. Our risk category system ensures that material and especially existential risks are detected early and management is alerted right away. By making quarterly analyses of risks and opportunities, we can respond to critical situations with appropriate measures early on and thus minimise the chances of risk escalation. In addition to their quarterly reporting of risks and opportunities, our group companies also have to immediately notify management of time-sensitive risks.

DERIVATIVE FINANCIAL INSTRUMENTS

As a global player, R. STAHL group is making business transactions in a host of currencies. We use derivative financial instruments to hedge foreign exchange risks from bank balances denominated in foreign currencies, receivables, liabilities, and debt as well as from pending and forecast transactions abroad. We exclusively use such derivative financial instruments to hedge existing underlying, pending, or forecast transactions. In fiscal 2007, we predominantly used foreign exchange futures as hedging instruments.

We have set group-wide uniform standards for the scope of action, responsibilities, financial reporting, and control mechanisms for financial instruments. A key feature in this regard is a clear separation of function between trading and settlement. The maturities of such foreign exchange derivatives typically relate to cash flows forecast for the current and subsequent fiscal years. If necessary, they can be prolonged to best cover the expected cash flows until payment has been received or effected.

INDIVIDUAL RISKS

Market and sector risks

Despite the economic uncertainties in the US, the economic environment in which R. STAHL operates remains very favourable to our business. High oil prices ensure high demand on the side of our petrochemical-industry customers. However, political events may bring about changes in capital spending behaviour. This particularly applies to regions where oil production or chemical or petrochemical processing is a major industry. Such political changes may pose sales risks for R. STAHL. However, we also generate substantial sales shares with the chemical and pharmaceutical industries, with the mechanical engineering and plant building sectors, and the ship supply industry. Especially the chemical industry increases its capital spending propensity when oil prices tumble, which could somewhat offset business shortfalls from the petrochemical sector. If the US economy were to drag down global business trend more than currently anticipated, this may not leave our operations unscathed.

Risks from corporate strategy

In line with our corporate strategy, we are investing into the expansion of our systems business in particular and our activities in the Americas and Asia in general. Changes in our cost structures go hand in hand with that and higher fixed costs figure prominently here. If our sales were not to develop as planned, this may result in earnings shortfalls. We keep a close watch on our capital spending so that it remains on an appropriate scale for the group as a whole and will not cause existential risks.

Economic performance risk

R. STAHL's product portfolio largely consists of complex, safety-related components. To meet our customers' quality standards, we manufacture a substantial share of our products in Germany. Unforeseen events may impede our domestic production. However, we do not foresee any particular economic performance risks of this kind at present.

Personnel risk

Thanks to the overall high qualification level of our staff, we rarely depend on key individuals in certain positions. We currently see no indication of risk in this area.

Information technology risk

We are in the process of switching our existing production, planning, and control systems to a leaner and more efficient SAP solution to anchor and support our group's strategic orientation in a more suitable IT infrastructure. Any switch in IT systems harbours fundamental risks that can affect factory and process performance. Moreover, such projects also come with the inherent risk of budget overruns.

Financial risk

We have hedged the low exchange rate for the US dollar versus the euro to a large extent. A further weakening of the greenback would impede our competitiveness in the markets of Asia and the Americas and thus impact our sales and income position. However, our sales shares in Asia and the US are still relatively small. Moreover, we do not expect the euro-dollar exchange rate to remain as exaggerated as it is at present.

Other risks

The economic environment and the company itself as well as supplier, customer, and competition structures all harbour additional risk potential that at the time of report preparation have not or not yet been discernible. Our regular risk management system is geared to continuously monitoring as well as quickly and flexibly reacting to changes and thus allows us to recognise and counteract such potential risks in good time.

Forecast

OVERALL ECONOMIC OUTLOOK

Notwithstanding the economic troubles in the US, experts are assuming that the global market place will still be going strong in 2008. The emerging economies will probably show disproportionate growth again and even many EU countries are set for further expansion. Kiel University's Institute for Global Economic Research expects 4.0% global output growth thanks to the strong momentum of emerging economies. China and India are supposed to keep up their economic miracles at 10.2% and 7.9% growth, respectively, and the new EU members will probably grow at around 5.3%. The market watchers remain optimistic for 2009 with economic growth forecasts along similar lines.

OUTLOOK FOR THE PLANT CONSTRUCTION AND CAPITAL GOODS INDUSTRIES

The German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau, VDMA) expects some 5% real sales growth for the mechanical engineering and plant construction sector in 2008. This figure applies both to Europe and worldwide as the forecasters assume that China's economic miracle will offset the slump in the US and Japan.

SALES REVENUE OUTLOOK

We had a good start into fiscal 2008. The growth prospects for all our customer industries remain positive thanks to the burgeoning economies of India and China as well as the accelerating chemical business in Europe. Moreover, the capital spending coffers of resource-rich countries around the Persian Gulf, in North America, and in the Russian Federation are well filled. We thus expect to realise ever more sales revenues especially from business with the oil and natural gas industries. Our other key customer sectors like the chemical, pharmaceutical, ship supply, food, and beverage industries also do not seem to be in any immediate cyclical danger on an international scale. We expect extensive capital spending here particularly in Asia, the Near East, and the Russian Federation. All this business activity will have a positive effect on demand for our components and systems and thus our business in general.

R. STAHL's management sees rather little danger to our sales prospects from the financial market crisis in the US. Our US market share is not yet very substantial so that we can still achieve sales growth even on stagnating demand. It is furthermore safe to assume that projects already underway will continue notwithstanding the economic ups and downs in North America and that the overdue modernisation of many plants will still keep our market niche growing.

We expect additional business impetus from further implementing our growth strategy and the products newly launched in 2007.

INCOME OUTLOOK

In the past fiscal year, we focused strongly on handling our enormous order volume growth and the resulting friction in coordinating capacities and logistics. Nonetheless, our pre-tax return on sales reached 10.9%. We see further room for optimisation and internal efficiency enhancement projects in 2008. Overall, we think that our group will be able to maintain a profitability level of at least 10% return on sales this year.

FINANCIAL OUTLOOK

R. STAHL's capital employed in working capital is relatively high owing to our strong growth. Since we are going to introduce our new SAP system in 2008, we will not appreciably lower our inventory levels but rather play it safe to ensure our ability to meet delivery obligations during the switchover. Our fast-paced capacity expansion requires some investment into buildings. We will also be able to finance the growth expected for 2008 but that will at least consume our cash flow from ongoing operations.

EXTERNAL GROWTH THROUGH EXPECTED ACQUISITIONS

We intend to reinforce R. STAHL's market position with acquisitions. Our focus here is to acquire additional products, expand our systems business, and bolster our presence in select regions.

CAPITAL SPENDING OUTLOOK

As already discussed under »financial outlook«, we will probably continue to expand our capacities in fiscal 2008 and 2009.

RISKS AND OPPORTUNITIES

Our target markets are unlikely to see any material weakening of capital goods demand in 2008 and 2009 and we thus remain well on our growth course. Over the course of the last few years, our staff and management have developed substantial know-how in realising our corporate goals by consistently following through with their tasks and measures. By including our staff in the workplace and process design stages, we have established change management know-how on a broad base in our group. We consider this a good basis from which to realise our ambitious strategic objectives in the next few years. We already discussed the underlying risks in detail in our risk report above.

OVERALL ASSESSMENT

The overall business environment for our sector remains positive. Our sound equity ratio and net liquidity surplus represent a good starting base for our group's development going forward. Our highly qualified and motivated staff, clear strategy, and already implemented measures form a solid foundation for our future growth.

Waldenburg, 4 April 2008

R. STAHL Aktiengesellschaft
The Management

Martin Schomaker Dr Peter Völker

Consolidated financial statements

Consolidated income statement

from 1 January to 31 December 2007

in € 000	Note	2007	2006
Sales revenue	(6)	211,616	167,056
Change in finished and unfinished products		3,860	3,013
Other own work capitalised	(7)	2,864	1,904
Total operating performance		**218,340**	**171,973**
Other operating income	(8)	6,503	6,593
Cost of materials	(9)	-74,269	-54,292
Personnel costs	(10)	-72,343	-66,300
Depreciation, amortisation and impairments on intangible and property, plant & equipment assets	(12)	-8,794	-6,913
Other operating expense	(13)	-42,503	-32,561
Earnings before financial earnings and income taxes		**26,934**	**18,500**
Investment income/expense	(14)	11	-16
Interest and similar income	(15)	1,057	1,004
Interest and similar expense	(15)	-3,398	-2,985
Earnings before income taxes from continuing activities		**24,604**	**16,503**
Taxes on income	(16)	-8,422	-5,885
Earnings from continuing activities		**16,182**	**10,618**
Operating earnings from discontinued activities	(17)	0	-13
Disposal income from discontinued activities	(17)	0	2,248
Earnings from discontinued activities		**0**	**2,235**
Net income for the year		**16,182**	**12,853**
Minority interests		500	267
Profit share of R. STAHL		15,682	12,586
Earnings per share			
Continuing activities *(in €)*	(18)	2.65	1.75
Discontinued activities *(in €)*	(18)	0.00	0.38
Total *(in €)*	(18)	2.65	2.13

Consolidated balance sheet

as of 31 December

in € 000	*Note*	2007	2006
ASSETS			
Long-term assets			
Intangible assets	*(20)*	21,366	18,029
Property, plant & equipment	*(21)*	29,109	26,364
Equity interests in associated enterprises	*(22)*	0	205
Other financial investments	*(22)*	176	711
Other financial assets	*(22)*	1,190	806
Real estate held as a financial investment	*(22)*	10,966	11,261
Deferred taxes	*(16)*	1,218	4,579
		64,025	**61,955**
Short-term assets			
Inventories and prepayments made	*(23)*	37,668	29,300
Trade receivables	*(24)*	41,479	37,504
Income tax refund claims	*(24)*	3,310	2,217
Other receivables and other assets	*(24, 25)*	4,000	3,751
Cash and cash equivalents	*(26)*	29,747	32,886
		116,204	**105,658**
Total assets		**180,229**	**167,613**

in € 000	Note	2007	2006
EQUITY AND LIABILITIES			
Subscribed capital	(27)	16,500	16,500
Capital reserve	(27)	522	522
Profit reserves	(27)	18,010	18,044
Cumulated other equity	(27)	44,528	35,286
Deduction for treasury stock	(27)	-5,596	-5,596
Equity without external interests		**73,964**	**64,756**
External interests	(27)	1,121	1,299
Equity including external interests		**75,085**	**66,055**
Long-term debt			
Accruals for pension obligations	(28)	45,141	44,085
Other accruals	(29)	3,192	3,673
Interest-bearing loans	(30)	6,209	7,941
Deferred taxes	(16)	1,793	2,320
		56,335	**58,019**
Short-term liabilities			
Accruals	(29)	10,387	6,621
Trade liabilities	(31)	11,925	11,671
Interest-bearing loans	(30)	6,990	7,467
Deferred debt	(31)	10,688	8,660
Income tax liabilities	(31)	4,435	5,228
Other liabilities and deferred items	(31)	4,384	3,892
		48,809	**43,539**
Total equity and liabilities		**180,229**	**167,613**

Consolidated cash flow statement

in € 000	2007	2006
I. Operating activities		
1. Net income for the year	16,182	12,853
2. Profit/loss from the Material Handling divestment (previous year: discontinued activities)	- 1,489	- 2,248
3. Depreciation, amortisation and impairment of non-current assets	8,794	7,006
4. Changes in long-term provisions	785	2,231
5. Changes in deferred taxes	2,766	- 137
6. Income from equity valuation	0	-5
7. Other income and expenses without cash flow impact	58	- 435
8. Income/expense from the disposal of non-current assets	- 130	- 173
9. Cash flow	**26,966**	**19,092**
10. Changes in short-term provisions	3,921	- 773
11. Changes in inventories, trade receivables and other non-capex or non-financial assets	- 15,757	- 15,360
12. Changes in trade liabilities and other non-capex or non-financial liabilities	2,555	366
13. Changes in net current assets	**- 9,281**	**- 15,767**
14. Cash flow from ongoing business operation	**17,685**	**3,325**
II. Capex cash flow		
15. Cash outflow for capex on intangible assets	- 4,975	- 4,365
16. Cash inflow from disposals of intangible property, plant & equipment assets	9	5
17. Cash outflow for capex on property, plant & equipment assets	- 8,912	- 4,576
18. Cash inflow from disposals of property, plant & equipment assets as well as real estate held as a financial asset	735	1,358
19. Cash outflow for capital spending in financial assets	- 392	- 1,428
20. Cash inflow from disposals of financial assets	560	95
21. Cash outflow for acquisitions net of acquired cash and cash equivalents	0	- 8,633

in € 000	2007	2006
22. Cash inflows from the sale of discontinued activities net of cash divested	2,514	4,502
23. Capex cash flow	**-10,461**	**-13,042**
24. Free cash flow	**7,224**	**-9,717**
III. Finance cash flow		
25. Distribution to shareholders (dividend)	-5,331	-4,739
26. Distribution to minority shareholders	-2,318	-400
27. Increase (+)/decrease (-) in short-term, interest-bearing financial debt	-424	1,338
28. Cash outflow for repayment of long-term, interest-bearing financial debt	-1,762	-2,235
29. Finance cash flow	**-9,835**	**-6,036**
IV. Financial fund assets		
30. Cash flow-impacting changes in financial funds	-2,611	-15,753
31. Consolidation-related changes in financial funds	0	0
32. Foreign exchange and valuation-related changes in financial funds	-528	-320
33. Financial funds at the beginning of the period	32,886	48,959
34. Financial funds at the end of the period	**29,747**	**32,886**
Composition of financial funds held		
Cash and cash equivalents	29,747	32,886

Consolidated statement of changes in equity

for fiscal 2007

in € 000	Shareholders'		
	Subscribed capital	Capital reserve	Profit reserve
Balance on 1 Jan. 2006	**16,500**	**522**	**17,973**
Dividend distribution			0
Consolidation changes			0
Net income for the year			0
Changes in reserves			71
Foreign exchange differences			0
Other changes			0
Balance on 31 Dec. 2006	**16,500**	**522**	**18,044**
Balance on 1 Jan. 2007	**16,500**	**522**	**18,044**
Dividend distribution			0
Consolidation changes			-34
Net income for the year			0
Changes in reserves			0
Foreign exchange differences			0
Other changes			0
Balance on 31 Dec. 2007	**16,500**	**522**	**18,010**

Changes in fixed assets of the group

for fiscal 2007

in € 000	Historical and manufacturing costs					
	01/01/2007	Forex differences	Additions	Disposals	Disposals consoli-dation	Restate-ment
I. Intangible assets						
1. Industrial property and similar rights	8,731	-15	1,427	-24	-309	1,174
2. Goodwill	3,955	11	1,650	-387	-112	0
3. Development costs	5,107	5	2,348	0	0	0
4. Prepayments made	1,229	0	1,154	0	0	-1,174
5. Other intangible assets	6,872	207	46	-20	0	0
	25,894	**208**	**6,625**	**-431**	**-421**	**0**
II. Property, plant & equipment						
1. Properties, property-like rights and buildings including buildings on third-party properties	17,696	-6	457	-677	-73	0
2. Technical equipment and machinery	17,009	13	2,218	-161	0	62
3. Other plants as well as operating and office equipment	32,403	-70	2,700	-1,232	-1,850	29
4. Prepayments made and plants under construction	133	0	3,537	0	0	-91
	67,241	**-63**	**8,912**	**-2,070**	**-1,923**	**0**
III. Financial assets						
1. Equity interests in associated companies	259	0	0	0	-259	0
2. Other investment interests	51	0	0	0	0	0
3. Loans to companies in which equity interests are held	90	0	0	0	0	0
4. Other loans	263	-4	6	-158	0	0
5. Securities	399	-39	0	-340	0	0
	1,062	**-43**	**6**	**-498**	**-259**	**0**
IV. Real estate held as financial investment	**14,163**	**0**	**0**	**0**	**0**	**0**
	108,360	**102**	**15,543**	**-2,999**	**-2,603**	**0**

Changes in fixed assets of the group

for fiscal 2007

in € 000	Historical and manufacturing costs					
	01/01/2006	Forex differences	Additions	Disposals	Additions to the consoli-dation	Restate-ment
I. Intangible assets						
1. Industrial property and similar rights	7,504	-14	1,266	-25	0	0
2. Goodwill	826	-9	0	0	3,138	0
3. Development costs	3,291	0	1,816	0	0	0
4. Prepayments made	0	0	1,229	0	0	0
5. Other intangible assets	397	-11	54	-45	6,477	0
	12,018	**-34**	**4,365**	**-70**	**9,615**	**0**
II. Property, plant & equipment						
1. Properties, property-like rights and buildings including buildings on third-party properties	33,511	-8	184	-42	0	-15,949
2. Technical equipment and machinery	14,362	-31	1,552	-117	1,100	143
3. Other plants as well as operating and office equipment	30,373	-86	2,739	-1,190	382	185
4. Prepayments made and plants under construction	533	0	101	-173	0	-328
	78,779	**-125**	**4,576**	**-1,522**	**1,482**	**-15,949**
III. Financial assets						
1. Equity interests in associated companies	54	0	266	-61	0	0
2. Other investment interests	49	0	2	0	0	0
3. Loans to companies in which equity interests are held	0	0	90	0	0	0
4. Other loans	321	-11	2	-93	44	0
5. Securities	4	0	379	-2	18	0
	428	**-11**	**739**	**-156**	**62**	**0**
IV. Real estate held as financial investment	**0**	**0**	**0**	**-1,786**	**0**	**15,949**
	91,225	**-170**	**9,680**	**-3,534**	**11,159**	**0**

Notes to the consolidated financial statements

of R. STAHL Aktiengesellschaft for fiscal 2007

A. Principles and methods of group accounting

[1] Presentation principles

The consolidated financial statements of R. STAHL Aktiengesellschaft (hereinafter also called R. STAHL AG) as of 31 December 2007 have been prepared in accordance with article 315a of the German Commercial Code (Handelsgesetzbuch, HGB) as well as the rules and regulations of the International Financial Reporting Standards (IFRS) by the International Accounting Standards Board (IASB) in effect on the balance sheet date.

Our consolidated financial statements generally apply the historical cost principle. Derivative financial instruments are an exception to this rule and are recognised at their current applicable fair value.

For better readability of the consolidated financial statements, we have summarised individual items of the consolidated income statement and balance sheet. These items are explained separately in the notes to the consolidated financial statements. Necessary additional disclosures on individual items are likewise made in the notes to the consolidated financial statements. The consolidated income statement has been prepared using the total expenditure format.

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

Impact of new or changed standards

In fiscal 2007, R. STAHL group first applied IFRS 7 (Financial Instruments: Disclosures) and IAS 1 (Capital Disclosures). Both standards entail extended disclosure requirements. The first-time application of these standards does not necessitate changes to the classification or valuation of financial assets or debts.

In the current fiscal year, we will have to observe the following interpretations for the first time:

– IFRIC 7 Applying the Restatement Approach under IAS 29 (Financial Reporting in Hyperinflationary Economies)
– IFRIC 8 Scope of IFRS 2
– IFRIC 9 Reassessment of Embedded Derivatives
– IFRIC 10 Interim Financial Reporting and Impairment

The first-time application of these interpretations had no or no appreciable impact on the presentation of data in the consolidated financial statements.

New or changed standards not applied

We did not consider the following accounting principles already adopted or changed by the IASB in our consolidated financial statements for fiscal 2007 as their application has not yet become mandatory:

Standard/ Interpretation		To be applied from	Adoption by the EU Commission*	Probable impact
IFRS 8	Operating Segments	01/01/2009	yes	Segment reports
IAS 1	Presentation of Financial Statements	01/01/2009	no	Reclassification of annual financial statement components
IAS 23	Borrowing Costs	01/01/2009	no	Higher balance sheet values of qualifying assets
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	01/03/2007	yes	None
IFRIC 12	Service Concession Arrangements	01/01/2008	no	None
IFRIC 13	Customer Loyalty Programmes	01/07/2008	no	None
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01/01/2008	no	Not apparent

** as of 31 December 2007*

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

[2] Company data

Name and legal structure: R. STAHL Aktiengesellschaft (parent company and senior group entity)

Headquarter: Waldenburg, Germany

Address: Am Bahnhof 30, D-74638 Waldenburg, Germany

Business model and main activities: R. STAHL is a supplier of explosion-protected devices and systems for measuring, controlling, and dosing.

[3] Time of financial statement release for publication

The Managing Board of R. STAHL AG released the 2007 consolidated financial statements and 2007 consolidated management report to the Supervisory Board on 4 April 2008.

[4] Consolidation principles

Scope of consolidation

In addition to R. STAHL AG, the consolidated financial statements include 28 (previous year: 28) domestic and foreign companies in which R. STAHL AG can exercise a controlling influence. A controlling influence typically exists if the parent company owns directly or indirectly via a subsidiary 50% or more of the respective entity's voting rights. As in the previous year, we also included two special purpose entities for leasing objects. These companies have to be consolidated as Special Purpose Entities pursuant to SIC-12 in conjunction with IAS 27.

Companies in which R. STAHL AG can exert a substantial influence are consolidated at equity as associated enterprises in the consolidated financial statements.

Breakdown of consolidated domestic and foreign enterprises in the financial statements:

	Domestic 31/12/2007	Foreign 31/12/2007	Total 31/12/2007	Total 31/12/2006
Number of fully consolidated companies	8	21	**29**	29
Number of companies consolidated at equity	0	0	**0**	2

The scope of consolidation has changed from the previous year as follows:

The companies listed below have been consolidated for the first time in the year under review:

– R. STAHL Ltd. of Edmonton, Canada, newly founded (fully consolidated)

We have consolidated this company for the first time in August 2007. The exploration of Canadian oil sands offers future market opportunities in this region. Our Canadian company will establish R. STAHL in this market early on.

– R. STAHL Norge A.S of Oslo, Norway, newly founded (fully consolidated)

We have consolidated this company for the first time in December 2007. The company serves as a holding for the activities of our Norwegian subsidiaries STAHL-Syberg A.S of Oslo and Tranberg A.S of Stavanger.

In the context of our refocussing on explosion protection business, altro consult Deutschland GmbH and SP Solution GmbH both domiciled in Oberhausen, Germany, have been deconsolidated since 31 December 2006. Furthermore, hlw Consulting GmbH of Bielefeld, Germany, that still qualified as an associated enterprise on 31 December 2006 has been deconsolidated. The divestment of these IT service companies yielded income of € 1.5 million for R. STAHL. With the sale of these companies, R. STAHL group has concluded its refocussing on the safety technology of explosion protection.

To redesign our distribution activities in Australia, we have sold in the first half of 2007 all our shares in CSE EX Pty Ltd. of Sydney, Australia, that we had still listed as an associated enterprise as of 31 December 2006. The divestment of these shares had no appreciable impact on our group's asset, financial, or income position.

Associated enterprises

As last year, we show under this position our equity interests in CSE EX Pty Ltd. of Sydney, Australia, and hlw Consulting GmbH of Bielefeld, Germany. Since these investments are of subordinate importance, we abstain from presenting supplementary details and disclosures.

Currency translation

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

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

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

As our subsidiaries conduct their business financially, economically, and organisationally at arm's length, their functional currencies correspond to the respective legal tender of their domicile countries. Foreign-currency financial statements of consolidated companies are converted using the modified balance-sheet-date spot rate method for functional currency conversion. Thus, income and expense in subsidiaries' financial statements denominated in foreign currencies are converted at annual average exchange rates while assets and liabilities are converted at the exchange rates effective on the balance sheet date and equity is converted at historical exchange rates. Differences arising from currency translation are recognised under the »other comprehensive income« position.

In preparing the opening balance sheet as of 1 January 2004, we opted for restating currency translation differences in full under profit reserves pursuant to IFRS 1.22. The currency translation differences were set at naught at that time. As such, there was no need for retroactively determining currency translation differences.

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

	Year-end spot rate		Average exchange rate	
	31/12/2007	31/12/2006	2007	2006
US dollar (USD)	**1.47290**	1.32030	**1.37074**	1.25622
British pound (GBP)	**0.73790**	0.67430	**0.68479**	0.68205
Swiss franc (CHF)	**1.65870**	1.60960	**1.64318**	1.57331
Norwegian kroner (NOK)	**7.97550**	8.24090	**8.02019**	8.05093
United Arab Emirates dirham (AED)	**5.41150**	4.85050	**5.03455**	4.61506

Consolidation principles

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

Residual positive differences are capitalised as goodwill. Capitalised goodwill is impairment tested annually and restated through profit and loss in case of impairment. In case of reasonable impairment indication, additional impairment tests will be performed and likewise recognised through profit and loss in case of actual impairment.

Negative differences are not expensed as goodwill but stated as additional purchaser's share in the net applicable fair value of identifiable assets, debts, and contingent liabilities beyond acquisition costs. The process critically reassesses the valuation of assets, debts, and contingent liabilities taken over as well as the determination of purchase costs. Residual negative differences are immediately recognised through profit and loss.

Shares in a subsidiary's equity that are not allocable to the parent company are shown as minority interests.

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

Equity interests are included at equity if the group can exert a significant influence. This is generally the case if 20% to 50% of voting rights are held (associated enterprise). Equity interests included at equity are recognised at pro-rated current fair values of the associated enterprise's assessed net assets at the time of purchase. Differences to the historical acquisition costs of the interest are recognised using the purchase cost method.

As a result, the interests' book values rise and fall depending on purchase costs corresponding to the shareholder's interest in the period earnings of the respective company.

The consolidation principles have remained unchanged from last year.

All mergers and acquisitions made after 1 January 2004 have been accounted for according to IFRS 3.

For all mergers and acquisitions made prior to 1 January 2004, we exercised the IFRS 1 option to continue capital consolidation according to German Commercial Code rules. Assets and debts have been carried on to the date of the IFRS opening balance sheet pursuant to general IFRS rules. All valuation differences between the closing balance sheet according to German Commercial Code rules and the opening balance sheet according to IFRS have been netted against consolidated profit reserves.

For all mergers and acquisitions accounted for in R. STAHL AG's consolidated financial statements according to German Commercial Code rules, all positive goodwill was not capitalised but rather netted against equity. Negative differences were stated as a separate item under equity. All differences that arose from mergers and acquisitions prior to 1 January 2004 have been carried at their values stated according to German Commercial Code rules pursuant to the corresponding IFRS 1 option.

[5] Accounting and valuation methods

Uniform group methods

The annual financial statements of consolidated companies have been prepared according to uniform accounting and valuation principles pursuant to IAS 27.28.

To this end, we have adjusted financial statements prepared according to country-specific standards to the uniform group accounting and valuation principles of R. STAHL AG to the extent that deviations from IFRS occurred.

Estimates and assumptions

Preparing consolidated annual financial statements according to IFRS requires making estimates and assumptions that affect the amount and recognition of stated assets, debts, income, expense, and contingent liabilities. Such estimates and assumptions mainly pertain to determining economic service lives as well as the accounting for and valuation of receivables and provisions and the realisation of future tax relief. Individual actual values may deviate from the estimates and assumptions made. Pursuant to IAS 8, changes will be recognised through profit and loss at the time of gaining better knowledge.

Sales revenue recognition

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

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

Sales revenues are recognised net of cash and price discounts, customer bonuses, and rebates.

Research and development expense

Research costs may not be capitalised under IAS 38.42 ff and are thus immediately expensed in the income statement.

Development costs are capitalised if they meet the criteria of IAS 38. The respective depreciation and amortisation is to follow the straight line method.

Earnings per share

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

Undiluted earnings per share are consolidated earnings – net of minority interests – divided by the average number of common shares.

As we have no potential common shares and no option or subscription rights outstanding, we did not have to calculate diluted earnings per share in 2007 nor did we the year before.

Intangible assets and property, plant & equipment assets

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

Purchased-for-money and self-generated intangible assets excluding goodwill are recognised at historical costs or cost of manufacture minus linear depreciation and amortisation. The respective items are depreciated and amortised over their contractual or estimated service lives. Service lives range between three and seven years.

Capitalised goodwill is impairment tested on an annual basis and, in case of impairment, restated through profit and loss.

Development costs are capitalised at cost of manufacture 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. Capitalised development costs comprise all directly allocable costs and appropriate shares of development-related overhead. Capitalised development costs are amortised using the straight line method from production start over the expected product life cycle of usually five to seven years.

Property, plant & equipment assets are recognised at historical or manufacturing costs minus scheduled depreciation and amortisation over their projected service lives.

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

Depreciation and amortisation on property, plant & equipment assets follow the straight line method.

Depreciation and amortisation scheduling is based groupwide on the following service lives:

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

If particular events or market developments indicate value impairment, the capitalised book values of property, plant & equipment assets and capitalised development costs are impairment tested. This involves comparing the assets' book values to the attainable sale value defined as the higher of applicable fair value minus cost of sale and use value. The use value 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 life. The attainable sale value of an asset is to be determined individually and, should that not be possible, for the cash flow generating unit it has been allocated to. One has to make basic assumptions for determining the future cash flows of each cash flow generating unit. This includes making assumptions for financial plans and the interest rates used for discounting the cash flows.

Leasing

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). R. STAHL group only has operating leases. The pertinent payments are spread linearly over the term of the lease agreement.

Financial assets

Financial assets are generally recognised on their settlement date. If they are recognised for the first time, financial assets are stated at their historical costs including transaction costs.

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

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

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

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

Equity interests are recognised at market quote or applicable fair value. If neither one of these are available or cannot be reliably determined, they will be stated at historical costs.

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

Real estate held as a financial investment

Real estate held as a financial investment has to be stated as assets 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 generally 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 realisation.

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 to be discounted pursuant to IAS 12.

Inventories

Inventories of raw material, supplies, and merchandise are generally recognised at the lower of average historical costs or net realisable value.

Unfinished and finished goods are recognised at the lower of manufacturing costs and net realisable 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 amortisation, prorated administrative expense, and prorated social insurance costs (total production-related cost approach). Manufacturing costs are determined on a normal capacity utilisation basis.

Financing costs do not figure into historical or manufacturing costs.

As soon as the reasons for inventory impairment cease to exist and thus net realisable value increases, the resulting value adjustment is recognised 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 recognised at amortised historical costs. Non- or low-interest-bearing receivables with maturities in excess of one year are discounted.

All discernible risks are recognised as impairments.

Derivative financial instruments

R. STAHL group uses derivative financial instruments only for hedging currency, interest rate, and fair value risks from operating activities and to reduce the resulting financing needs. According to IAS 39, all derivative financial instruments like interest rate, currency, and combined interest rate and currency swaps as well as currency futures are to be recognised at fair value independently of the purpose and intent of entering into such contracts.

The R. STAHL group companies have recognised the fair value changes in all derivative financial instruments through profit and loss in the period under review, as the hedge accounting requirements of IAS 39 have not been met.

Fair values of derivative financial instruments are shown under other financial assets or other financial liabilities.

Treasury shares

Treasury shares have their own balance sheet position where they are stated at historical costs and are openly netted against equity.

Purchases, sales, issues, or call-backs of own equity instruments are not recognised through profit and loss.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations comprise R. STAHL group's support obligations from both earned and paid-in pension systems.

For the earned pension systems (for instance, direct commitments, direct pension obligations in the form of pension provisions, and indirect pension obligations like support funds), 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.

Actuarial profits and losses are only set against income if they exceed a range of 10% of the obligation volume. In that case, they will be prorated over the future average residual staff service time. The expense of funding pension obligations is recognised under personnel expense while the interest portion of pension obligations is stated under interest income/expense.

The amount to be recognised as liability from earned pension plans is to be subtracted from the plan assets' applicable fair value as of the balance sheet date.

Pursuant to IFRS 1.20, pension provisions for the IFRS opening balance sheet as of 1 January 2004, have been recognised at their actuarial obligation amount with the range set at naught. We exercised the option to set the ranges at naught for all plans.

For paid-in plans, the respective companies do not incur further obligations beyond making contributions to special purpose funds.

Other provisions

Other provisions pursuant to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) have been included to the extent that they incur a present obligation based on past events and the availment amount 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 provisions are valued based on the settlement amount with the highest event probability. The valuation of other provisions – particularly for warranties and expected losses from pending transactions – furthermore includes all cost components that are also capitalised in inventories (production-related total costs).

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

Long-term provisions with residual maturities of more than one year are recognised at their settlement amount discounted to the balance sheet date if the interest effect is material.

Liabilities

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

Subsequent accounts recognise liabilities except derivative financial instruments at amortised historical costs.

R. STAHL group has no liabilities held for trading.

Contingent liabilities

Contingent liabilities are putative liabilities based on past events that have yet to be validated by one or more uncertain future events outside the power of influence by R. STAHL group. Moreover, present obligations may be deemed contingent liabilities of resulting cash outflows that are not reasonably probable enough to justify accruing for this and/or the obligation amount cannot be reliably estimated. The recognised contingent liability amounts correspond to the legal liability volume existing on the balance sheet date.

Cash flow statement

The cash flow statement shows the cash inflows and outflows of R. STAHL group in the year under review.

In accordance with IAS 7 (Cash Flow Statements), we distinguish between operating, capex, and finance cash flows.

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

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

Segment reporting

Pursuant to the rules of IAS 14 (Segment Reporting), individual financial data are to be presented by business activity and region. The segmentation is to be based on internal reporting practises that allow reliable assessment of group risks and earnings. Segment reporting is to make the profitability and business success prospects of individual group activities transparent. R. STAHL group primarily reports by its only Explosion Protection segment. The secondary segment reporting is done by region.

Discontinued activities

A discontinued activity is a corporate component that has been sold or classified as being for sale. A corporate component is a business activity including its cash flows that can be clearly distinguished from the rest of the company in terms of its operations and accounting.

Long-term assets and entities available for sale are to be stated separately in the balance sheet pursuant to IFRS 5 if they can be sold as is and the sale is probable. Such assets are to be recognised at the lower of their book value or the applicable fair value after costs of sale. Depending on their classification, these assets are to be shown separately in direct conjunction with their respective liabilities under equity and liabilities.

B. Notes to the consolidated income statement

The notes to the consolidated income statement are generally presented following the income statement structure after earnings from discontinued activities. Additional disclosures to the earnings before discontinued activities referring to the previous year are identified as such.

[6] Sales revenue

Sales revenue broke down by region as follows:

in € 000	**2007**	**2006**
Breakdown by region		
Central (Europe, Africa, Near and Middle East)	168,601	140,105
– *thereof Germany*	*(59,020)*	*(59,280)*
Americas	14,368	10,793
Asia/Pacific	28,647	16,158
	211,616	**167,056**

[7] Other own work capitalised

Other own work capitalised resulted in particular from capitalising development costs pursuant to IAS 38. In the year under review, this came to € 2,348,000 (previous year: € 1,816,000).

In the year under review, we recognised a total of € 5,570,000 (previous year: € 5,572,000) in research and development costs.

[8] Other operating income

Other operating income includes the following items:

in € 000	2007	2006
Income from asset disposals	149	265
Income from provision write-backs	643	2,316
Income from fair value changes in derivatives	1,167	414
Exchange rate gains from currency translation	1,074	211
Other income	3,470	3,387
	6,503	**6,593**

[9] Cost of materials

Cost of materials comprised the following items:

in € 000	2007	2006
Expense for raw materials, consumables, and supplies	-69,841	-51,727
Services hired	-4,428	-2,565
	-74,269	**-54,292**

[10] Personnel costs

Personnel costs broke down as follows:

in € 000	2007	2006
Wages and salaries	- 59,410	- 54,123
Social insurance contributions and pension and support expense	- 12,933	- 12,177
	- 72,343	**- 66,300**

[11] Staff on annual average

The consolidated companies employed the following numbers of persons on annual average in the year under review as compared to the year before:

Number of employees	2007	2006
Trade employees	486	440
Clerical staff and leadership	736	754
Trainees	72	68
	1,294	**1,262**

[12] Depreciation, amortisation, and impairments

Scheduled depreciation, amortisation, and impairment on intangible non-current assets and property, plant & equipment assets amounted to € 8,076,000 (previous year: both before and after discontinued activities: € 6,913,000).

[13] Other operating expense

Other operating expense included in particular the following items:

in € 000	2007	2006
Expense from fair value changes in derivatives	0	- 23
Exchange losses from currency translation	- 757	- 527
Other taxes	- 265	- 159
Services	- 9,403	- 4,572
Rental expense for premises	- 4,676	- 4,363
Legal, consulting, licensing, and inventor fees	- 3,018	- 3,516
Travel and entertainment expense	- 3,182	- 2,849
General transport costs	- 3,062	- 2,796
Other	- 18,140	- 13,756
	- 42,503	**- 32,561**

[14] Investment income/expense

Our 2007 investment income amounted to € 11,000 (previous year: € - 16,000).

[15] Interest income/expense

Interest income/expense comprised the following items:

in € 000	2007	2006
Interest and similar income	1,057	1,004
Interest and similar expense	- 3,398	- 2,985
	- 2,341	**- 1,981**

The position interest and interest-like expense includes the interest portion from the allocation to pension provisions in the amount of € 2,178,000 (previous year: € 2,136,000).

[16] Taxes on income

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

Taxes on income from continuing activities comprised the following items:

in € 000	2007	2006
Current taxes	- 5,647	- 6,042
Deferred taxes	- 2,775	157
	- 8,422	**- 5,885**

Taxes on income including those on discontinued activities were as follows:

in € 000	2007	2006
Current taxes	- 5,647	- 6,135
Deferred taxes	- 2,775	157
	- 8,422	**- 5,978**

Under the position current taxes, domestic group companies show corporation tax including solidarity surcharge and trade tax while foreign group companies show comparable income-dependent taxes. The tax load is calculated from the respective individual tax declarations according to national tax law.

In the year under review, we claimed previously unused tax loss-carryforwards resulting in tax credits of € 634,000 (previous year: € 265,000) that we netted against income tax liabilities.

Deferred taxes are calculated based on the applicable tax rates as in effect or known to become effective in the respective countries at the time these taxes fall due. On 6 July 2007, the upper house of German parliament (Deutscher Bundesrat) approved the 2008 Corporate Tax Reform Act. The new German corporate tax regulations took effect on 1 January 2008. The new law caused us to revalue our domestic deferred tax assets and liabilities in fiscal 2007 resulting in a net tax asset of € 385,000. Under the 2008 Corporate Tax Reform Act the new German corporate tax rate is 15.0%. At a corporate tax collection rate of 366.0% and a solidarity surcharge of 5.5%, the total tax rate for our domestic companies comes to 29.0% (previous year: 38.0%). The tax rates for our foreign activities range from 0.0% to 41.0% as last year.

We have written down € 1,905,000 (previous year: € 1,465,000) for deferred tax assets on temporary differences and tax loss-carryforwards because we so not exactly know the amounts to which they may be realised given the information available at this time.

Cumulated tax loss-carryforwards not yet unused came to € 6,406,000 (previous year: € 11,196,000). The tax loss-carryforwards are not limited in time.

Cumulated deferred tax assets and liabilities as of 31 December 2007 broke down as follows compared to the year before.

in € 000	31/12/2007	31/12/2006
Gross deferred tax assets		
Tax loss-carryforwards	1,905	1,741
Property, plant & equipment	74	66
Other financial assets	1	1
Inventories	799	1,032
Receivables and other assets	221	91
Deferred assets	6	143
Long-term interest-bearing financial debt	0	851
Long-term provisions	3,447	10,550
Short-term interest-bearing financial debt	0	66
Other short-term liabilities and debt	1,780	1,347
Short-term provisions	78	140
Net of impairments	- 1,905	- 1,465
Total gross deferred tax assets	**6,406**	**14,563**
After netting	- 5,188	- 9,984
Total deferred tax assets as shown in the balance sheet	**1,218**	**4,579**
Gross deferred tax liabilities		
Intangible assets	2,842	3,070
Property, plant & equipment	1,711	3,023
Other financial assets	157	0
Real estate held as a financial investment	341	114
Inventories	70	39
Receivables and other assets	231	99
Cash and cash equivalents	0	10
Other long-term liabilities	0	672
Short-term interest-bearing financial debt	0	111
Other short-term liabilities and debt	0	10
Short-term provisions	1,629	5,156
Total gross deferred tax liabilities	**6,981**	**12,304**
After netting	- 5,188	- 9,984
Total deferred tax liabilities as shown in the balance sheet	**1,793**	**2,320**
Net balance of deferred taxes	**- 575**	**2,259**

The following table shows the reconciliation of the expected tax expense for the respective fiscal year and the corresponding reported tax expense. The expected tax expense has been calculated by multiplying pre-tax earnings by the applicable total tax rate of 38.0% (previous year: 38.0%). The pre-tax earnings before discontinued activities amounted to € 24,604,000 (previous year: € 18,831,000 including discontinued activities).

in € 000	2007	2006
Forecast tax expense	**- 9,349**	**- 7,156**
Taxation differences between domestic and foreign operations	1,120	540
Non-tax-deductible expenses	- 707	- 657
Tax-free income	572	24
Changes in write-downs on deferred taxes	0	2,031
Utilisation of tax loss-carryforwards	634	265
Taxes for prior years	- 948	- 994
Tax effects from the 2008 corporate tax reform	385	0
Other	- 129	- 31
Actual tax expense	**- 8,422**	**- 5,978**
Tax expense shown in the consolidated income statement	- 8,422	- 5,885
Actual income taxes allocable to discontinued activities	0	- 93
Deferred taxes allocable to discontinued activities	0	0

[17] Earnings from discontinued activities

Since 1 January 2005, IFRS 5 has to be applied to discontinued activities. The sale of Material Handling as of 31 December 2005 has rendered the activity discontinued. After the sale was completed in 2006, no more earnings are to be shown under this position for fiscal 2007.

The following table provides a breakdown of the operating earnings last year:

in € 000	**2007**	2006
Sales revenues	0	4,241
Changes in goods inventories	0	0
Other own work capitalised	0	0
– *thereof development costs pursuant to IAS 38*	(0)	(0)
Total operating performance	**0**	**4,241**
Other operating income	0	154
Cost of materials	0	- 3,465
Personnel costs	0	- 362
Depreciation, amortisation, and impairment	0	0
Other operating expense	0	- 570
Earnings before financial earnings and income taxes	**0**	**-2**
Financial earnings	0	- 11
Earnings before income taxes	**0**	**- 13**
Taxes on income	0	0
Operating earnings from discontinued activities	**0**	**- 13**

Divestment income from discontinued activities came to € 2.2 million in 2006. This figure includes actual income taxes of € 93,000.

[18] Earnings per share

	2007	2006
Net earnings for the year without minority interests *(in € 000)*	15,682	12,586
Number of shares (weighted average)	5,923,709	5,923,709
Earnings per share in €	**2.65**	**2.13**

Undiluted or basic earnings per share are calculated according to IAS 33 by dividing consolidated earnings excluding minority interests by the weighted average number of shares outstanding in the fiscal year.

Thus, so-called potential shares can dilute earnings per share. As we had no potential common shares and no options or subscription rights outstanding, we did not have to calculate diluted earnings per share for either 2006 or 2007.

The following table shows our earnings per share from continuing activities:

	2007	2006
Earnings from continuing activities excluding minority interests *(in € 000)*	15,682	10,351
Number of shares (weighted average)	5,923,709	5,923,709
Earnings per share in €	**2.65**	**1.75**

IAS 33.68 requires stating diluted and undiluted earnings per share upon discontinuing activities. With the sale of Material Handling as of 31 December 2005, this activity has been discontinued. This did not result in diluted earnings per share.

The following table shows earnings per share for the discontinued activity Material Handling including sale proceeds:

	2007	2006
Earnings from discontinued activities *(in € 000)*	0	2,235
Number of shares (weighted average)	5,923,709	5,923,709
Earnings per share in €	**0.00**	**0.38**

[19] Dividend paid by R. STAHL AG

By the release date of these financial statements, no proposal for using the balance sheet profit as of 31 December 2007 has been made.

R. STAHL distributed an ordinary dividend of € 0.90 per share to its shareholders in fiscal 2007.

C. Notes to the consolidated balance sheet

LONG-TERM ASSETS

[20] Intangible assets

The intangible assets position primarily comprises IT software, capitalised development costs for various R&D projects, and goodwill. We determined goodwill value by calculating the realisable value of cash flow generating units based on their use value. The calculation uses cash flow projections based on management-approved, three-year financial plans. The cash flow projections are discounted at a pre-tax interest rate of 10%.

Goodwill of € 4.9 million (previous year: € 3.4 million) has been allocated to the following cash-generating units: Tranberg A.S € 3.1 million, STAHL-Syberg A.S € 1.8 million. In the year under review, STAHL-Syberg A.S added goodwill of € 1.6 million and the sale of SP Solution GmbH led to a goodwill disposal of € 0.1 million.

In the period under review, we had to recognise one-off impairment charges pursuant to IAS 36 amounting to € 718,000 on a capitalised development project owing to changed circumstances.

Please refer to the consolidated asset analysis for the value development of intangible assets.

[21] Property, plant & equipment

The consolidated asset analysis provides a breakdown of the property, plant & equipment assets summarised under PP&E position in the balance sheet including their development in the year under review.

[22] Financial assets

The consolidated asset analysis provides a breakdown of the financial assets summarised under the financial asset position in the balance sheet including their development in the year under review. The list of equity interests is a constituent part of the notes to the consolidated financial statements.

Equity interests in associated enterprises

In our 2006 notes to the consolidated financial statements we showed here our stakes in CSE EX Pty Ltd. of Sydney, Australia, and hlw Consulting GmbH of Bielefeld, Germany.

Other financial assets

Our financial assets totalling € 176,000 comprise other equity interests, other loans, and securities.

For details on the development of other financial assets please refer to the consolidated asset analysis.

Other long-term financial assets

Our other long-term financial assets comprise receivables and other assets as well as deferred items totalling € 1,190,000 (previous year: € 806,000).

Real estate held as a financial investment

R. STAHL owns two properties with buildings and improvements that are held as financial investments. Upon the Material Handling divestment in 2005, these have been leased to the buyer. Since self-use ceased to apply after the divestment, the properties have been reclassified to long-term assets under real estate held as a financial investment.

Both properties are recognised at historical costs.

The buildings and improvements are amortised linearly over economic service lives of 33 and 50 years, respectively.

Rental income from the real estate held as a financial investment has been recognised in the income statement in the amount of € 1,424,000. Expenses directly allocable to these properties have been incurred in about the same amount. Both properties have generated income in the year under review. The applicable fair value of the properties amounts to € 14.4 million.

The position furthermore includes a special purpose entity for a lease object at a book value of € 8,156,000. The lease object may not be sold until the lease expires on 31 December 2012. Upon expiration of the lease, the lessor has a buy option and thus the possibility to sell the object thereafter. The lessor's contractual obligations are typical for real estate leases of this kind.

SHORT-TERM ASSETS

[23] Inventories and prepayments made

The stated inventories break down as follows:

in € 000	31/12/2007	31/12/2006
Raw materials, consumables, and supplies	15,826	12,147
Unfinished goods and unfinished services	13,829	11,951
Finished goods and merchandise	7,890	5,154
Prepayments made	123	48
	37,668	**29,300**

In the year under review, we recognised € 3,906,000 (previous year: € 3,667,000) in inventory impairments.

[24] Receivables and other assets

Receivables and other assets break down as follows:

in € 000	31/12/2007		31/12/2006	
	Total	Thereof due within one year	Total	Thereof due within one year
Trade receivables	41,479	41,479	37,504	37,504
Income tax claims	3,310	3,310	2,217	2,217
Other receivables	2,944	1,787	3,518	2,721
Other financial assets	1,492	1,492	410	410
	49,225	**48,068**	**43,649**	**42,852**

Of the capitalised total, € 48,068,000 (previous year: € 42,852,000) are due within one year, the remainder totalling € 1,157,000 (previous year: € 797,000) is recognised under other long-term financial assets. In addition to the above items, we also recognised € 33,000 (previous year: € 9,000) of capitalised long-term deferred items under long-term assets.

We recognised € 1,599,000 (previous year: € 1,408,000) of impairments on our trade receivables in fiscal 2007.

Our other short-term financial assets include derivative financial instruments in the amount of € 1,102,000 (previous year: € 39,000).

Our net loss on receivables came to € - 1,046,000 (previous year: € 235,000) in fiscal 2007. This figure included impairment changes, write-back losses, and payments received on receivables already written down.

[25] Prepayments made and deferred income

Of our prepayments made and deferred income, € 721,000 (previous year: € 620,000) are due within one year; € 33,000 (previous year: € 9,000) qualify as long-term and are shown as other long-term financial assets.

[26] Cash and cash equivalents

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

in € 000	31/12/2007	31/12/2006
Cash on hand	55	44
Credit balances with banks, payable on demand	18,224	14,695
Credit balances with banks, payable on 3-months notice	11,468	18,147
	29,747	**32,886**

[27] Equity

The equity analysis shows R. STAHL group's equity evolution.

Subscribed capital

The company's subscribed capital remained unchanged from last year at € 16,500,000.00 divided into 6,440,000 no-par shares at a theoretical share capital interest of € 2.56 per share. The capital has been paid up in full.

As of the balance sheet date, the company's authorised capital stood at € 3,300,000.00. The authorisation expires on 16 June 2010. Existing shareholders are to be given priority subscription rights. Management has been authorised to put a cap on subscription rights and to exclude subscription rights with Supervisory Board consent if the capital increase has been funded through contributions in kind for the purpose of acquiring companies, parts of companies, or equity interests in companies. Moreover, management may with Supervisory Board consent exclude subscription rights if the capital increase has been paid up in cash and the issue price is not substantially below the stock market value of already listed shares of the same kind and entitlement and the prorated share capital allocable to the shares issued under subscription right exclusion does not exceed 10% of the registered share capital at the time of the share issue. Treasury stock sold during the term of this authorisation under subscription right exclusion pursuant to article 71, paragraph 1, item 8 of the German Stock Corporation Act in conjunction with article 186, paragraph 3, sentence 4 of the German Stock Corporation Act falls under said 10% limit. Management has moreover been authorised to decide on the scope of share entitlements and the further details of how to proceed with the capital increase from authorised capital upon Supervisory Board approval.

Capital reserves

This item mostly comprises shareholders' paid-up premiums net of transaction costs incurred. The cost of going public in fiscal 1997 came to € 2,140,000. According to IFRS, capital increase costs are to be taken out of capital reserves. The amount was netted – due to lack of available capital reserves – against profit reserves after taking into account income tax benefits of € 805,000 as of 1 January 2004. R. STAHL AG's consolidated financial statements under German Commercial Code 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 have arisen from mergers and acquisitions prior to the opening IFRS balance sheet date on 1 January 2004, we have maintained the German Commercial Code accounting.

Profit reserves

Profit reserves comprise past retained earnings of consolidated companies. Moreover, value differences from all mergers and acquisitions made prior to 1 January 2004 are netted against profit reserves.

As a result of the first-time accounting according to IFRS, profit reserves now also include negative differences from mergers and acquisitions formerly shown as a separate item under equity in German Commercial Code accounting until 31 December 2003 and the currency translation differences that have been reclassified as of 1 January 2004.

Furthermore, all non-earnings-impacting adjustments arising from the restated opening balance sheet according to IFRS as of 1 January 2004 are recognised here.

Other comprehensive income

This position comprises balance sheet profits and losses and the differences from non-earnings-impacting currency translation of foreign subsidiaries' financial statements from 1 January 2004 forward.

In the preparation of our IFRS opening balance sheet as of 1 January 2004, we exercised the option under IFRS 1.22 to restate currency translation differences in full into profit reserves. The currency translation item under equity was thus set at naught. As such, we did not have to retroactively determine currency translation differences.

Other comprehensive income comprised the following items:

in € 000	31/12/2007	31/12/2006
Balance sheet profit/loss	45,864	35,513
Currency translation differences	-1,336	-227
Total	**44,528**	**35,286**

Deduction for treasury stock

The Annual General Meeting held on 22 June 2007 resolved to authorise R. STAHL AG's management to purchase R. STAHL stock up to 10% of the company's share capital by 22 December 2008. The AGM, furthermore, authorised management to sell the thus acquired treasury stock with Supervisory Board consent, for instance, to use these as transaction currency in the acquisition of companies or equity stakes in certain cases. The AGM, moreover, authorised management to call in own shares with Supervisory Board consent without this requiring an additional AGM resolution.

Treasury stock is valued at historical costs and openly netted against equity as a separate item.

The company holds treasury stock of 516,291 shares (previous year: 516,291 shares). As in the year before, this corresponds to 8.02% (= € 1,323,000) of total share capital.

The future use of the shares has not yet been resolved.

Third-party interests (minority interests)

The following group companies account for minority equity shares:

in € 000	31/12/2007	31/12/2006
STAHL-Syberg A.S of Oslo, Norway	317	589
SP Solution GmbH of Oberhausen, Germany	0	9
altro consult Deutschland GmbH of Oberhausen, Germany	0	18
Tranberg A.S of Stavanger, Norway	740	640
Tranberg Systems A.S of Vejle, Denmark	64	43
	1,121	**1,299**

Additional disclosures concerning capital management

R. STAHL group's capital management objectives are to ensure the company's continued existence, realise adequate returns on equity, and maintain an acceptable capital structure.

The capital structure may change as a result of dividend distributions, stock buy-backs, and borrowing or principal repayments, as the case may be.

We are controlling these objectives using key ratios like return on sales and equity ratio.

Our target range for the pre-tax operating return on sales is 8 to 10%. We managed to exceed this target range in the year under review at 10.9% return on sales (previous year: 9.9%).

Our equity net of minority interests and interest-bearing outside capital changed from the previous year as follows:

in € 000	31/12/2007	31/12/2006
Equity net of minority interests	**73,964**	**64,756**
Long-term interest-bearing loans	6,209	7,941
Short-term interest-bearing loans	6,990	7,467
Interest-bearing outside capital	**13,199**	**15,408**
Total capital	**87,163**	**80,164**
Equity ratio to capital management (in %)	**84.9**	**80.8**

As of the 2007 balance sheet date, our equity ratio to capital management increased to 84.9%. This was mainly the result of higher equity thanks to our 2007 earnings and scheduled loan reduction.

PROVISIONS

[28] Pension provisions

Provisions for pensions and similar obligations include the following items:

in € 000	31/12/2007	31/12/2006
Long-term pension provisions	45,141	44,085
Short-term pension provisions	2,225	2,150
	47,366	**46,235**

Pension provisions are accrued for obligations from pension commitments (unit credits) and ongoing 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 seniority of employment and remuneration levels of the respective individuals.

Company pension plans distinguish between premium plans and performance-based systems.

For premium-based pension plans, the respective company does not incur further obligations beyond making contributions to a special purpose fund.

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

R. STAHL group mostly finances its pension commitments by accruing corresponding provisions.

We calculated our 2007 pension obligations based on the 2005 G actuarial tables by Prof. Dr Klaus Heubeck. The pension obligation amount (Defined Benefit Obligation) has been determined using actuarial methods including estimates for relevant impact factors. In addition to life expectancy assumptions, we also made the following actuarial projections:

in %	Germany		Abroad	
	2007	2006	2007	2006
Calculatory interest rate	5.50	4.50	4.35 – 4.70	4.35
Salary trend	3.00	2.25	4.50	4.50
Pension trend	2.00	1.50	1.60	1.60
Forecast return on assets	–	–	5.40 – 5.75	5.40

The salary trend encompasses forecast future salary increases that are estimated on an annual basis depending on inflation and seniority of employment.

Gains and impairments in the present value of performance-based obligations can result in actuarial profits or losses due to, amongst other factors, changes in calculation parameters and estimates of the pension obligations' risk development. The net value of pension provisions is based on the following parameters:

in € 000	31/12/2007	31/12/2006
Present values of provision-based pension claims	48,779	50,054
+ Present values of fund-financed pension claims	+ 5,171	+ 4,681
= Defined benefit obligation (DBO)	53,950	54,735
- Fair value of fund assets	- 3,180	- 2,622
= Net obligation	**50,770**	**52,113**
Adjustments due to actuarial profits (+) or losses (-)	- 3,404	- 5,878
= Balance sheet value as of 31 December	**47,366**	**46,235**

Domestic group companies accounted for € 45,173,000 (previous year: € 43,868,000) of our pension provisions totalling € 47,366,000 (previous year: € 46,235,000). Foreign group companies accounted for € 3,180,000 (previous year: € 2,622,000) of our pension fund assets.

In fiscal 2007, we spent € 4,066,000 (previous year: € 3,451,000) on pension obligations that broke down into the following components:

in € 000		2007	2006
	Ongoing service-time expense	2,008	1,239
+	Interest expense	+ 2,178	+ 2,136
-	Forecast income from plan assets	- 170	- 35
+	Service-time expense to be offset retroactively	0	+ 54
+/-	Actuarial profits (+) and losses (-)	+ 50	+ 57
+	Effects of plan settlements or reductions	0	0
=	**Pension obligation expense**	**4,066**	**3,451**

Actual income from plan assets amounted to € 154,000 (previous year: € 36,000).

The balance sheet evolution of pension provisions breaks down as follows:

in € 000		2007	2006
	Balance sheet values on 1 January	**46,235**	**43,625**
+	Pension obligation expense	+ 4,066	+ 3,451
-	Effects of plan settlements	- 505	- 640
-	Pension payments made	- 2,223	- 2,088
+/-	Changes in the scope of consolidation	- 264	+ 1,802
+	Foreign exchange rate changes	+ 57	+ 85
=	**Balance sheet value on 31 December**	**47,366**	**46,235**

[29] Other provisions

Other provisions involved in particular the following items:

in € 000	31/12/2007		31/12/2006	
	Total	Thereof due within one year	Total	Thereof due within one year
Personnel provisions	4,201	1,009	4,173	500
Litigation risks	900	900	192	192
Tax provisions	1,031	1,031	698	698
Other provisions	5,222	5,222	3,081	3,081
	11,354	**8,162**	**8,144**	**4,471**

Of the total amount expensed, € 8,162,000 (previous year: € 4,471,000) are due within one year. The remainder of € 3,192,000 (previous year: € 3,673,000) mostly pertains to personnel provisions (partial retirement and hallmark service anniversary obligations) that are recognised under long-term liabilities as other long-term provisions.

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

in € 000	31/12/2007	31/12/2006
Short-term pension provisions	2,225	2,150
Other short-term provisions	8,162	4,471
	10,387	**6,621**

Other short and long-term provisions developed as follows:

in € 000	01/01/2007	Forex change	Decon-solidation	Alloc-ation	With-drawals	Write-back	31/12/2007
Personnel provisions	4,173	0	- 79	862	- 507	- 248	4,201
Litigation risks	192	- 20	0	900	- 145	- 27	900
Tax provisions	698	6	- 4	1,430	- 591	- 508	1,031
Other	3,081	- 47	0	3,467	- 911	- 368	5,222
	8,144	**- 61**	**- 83**	**6,659**	**- 2,154**	**- 1,151**	**11,354**

LIABILITIES AND DEFERRED ITEMS

[30] Interest-bearing loans

The interest-bearing loans position exclusively pertains to liabilities to banks in the amount of € 13,199,000 (previous year: € 15,408,000).

Of the expensed total, € 6,990,000 (previous year: € 7,467,000) are due within one year and the remaining € 6,209,000 (previous year: € 7,941,000) are shown as interest-bearing loans under long-term liabilities.

As of 31 December 2007, our interest-bearing loans broke down into the following maturities:

in € 000	31/12/2007	31/12/2006
Interest-bearing loans		
– Due within one year	6,990	7,467
– Due within one to five years	6,209	5,374
– Due within more than five years	0	2,567
= **Short and long-term interest-bearing loans**	**13,199**	**15,408**

Liabilities to banks with residual maturities of more than one year amounted to € 6,209,000 (previous year: € 7,941,000) and pertain to four loans with the following features:

	31/12/2007	31/12/2006	Maturity	Interest rate
	€ 000	*€ 000*		*in %*
1. Loan	2,049	2,223	31/12/2012	6.20
2. Loan	294	882	31/12/2009	4.75
3. Loan	3,134	3,926	31/12/2012	5.58
4. Loan	732	910	21/06/2011	5.33
	6,209	**7,941**		

[31] Other liabilities

The other liabilities position comprises the following items:

in € 000	31/12/2007		31/12/2006	
	Total	Thereof due within one year	Total	Thereof due within one year
Prepayments received	371	371	391	391
Trade liabilities	11,925	11,925	11,671	11,671
Income tax liabilities	4,435	4,435	5,228	5,228
Other short-term liabilities	3,915	3,915	3,281	3,281
Deferred liabilities	10,688	10,688	8,660	8,660
Other financial liabilities	98	98	220	220
	31,432	**31,432**	**29,451**	**29,451**

The expensed total is due within one year as in the previous year.

Our deferred liabilities break down as follows:

in € 000	31/12/2007 Total	31/12/2007 Thereof due within one year	31/12/2006 Total	31/12/2006 Thereof due within one year
Employer's liability insurance premiums	342	342	311	311
Bonuses	3,552	3,552	2,284	2,284
Vacation claims	2,170	2,170	1,634	1,634
Time unit credits	874	874	635	635
Missing supplier invoices	491	491	682	682
Other deferred liabilities	3,259	3,259	3,114	3,114
	10,688	**10,688**	**8,660**	**8,660**

The position other deferred liabilities does not include fair value changes in derivative financial instruments (previous year: € 104,000) as of 31 December 2007.

Additional disclosures on liabilities

R. STAHL had no liabilities with residual maturities of more than five years (previous year: € 2,567,000) as of year's end 2007.

We have provided collateral for € 883,000 (previous year: € 1,470,000) of our liabilities.

[32] Legal liability and other financial obligations

Legal liability

We did not accrue provisions for the following contingent liabilities stated at nominal value because we deem their event probability as not very high:

in € 000	31/12/2007	31/12/2006
Sureties	2,490	609
Guarantees	272	0
Discounted bills of exchange	116	185
Other obligations	49	237
	2,927	**1,031**

As part of the Material Handling divestment in 2005, we assumed some usual legal liabilities relative to the buyer. Excluding tax risk and environmental liability, these legal liabilities are limited to € 5.0 million.

Other financial obligations

In addition to liabilities, provisions, and legal liabilities, we also have other financial obligations particularly pertaining to rental and lease agreements for land, buildings, and other property, plant & equipment items. The respective rental and leasing contract obligations have the following terms:

in € 000	31/12/2007	31/12/2006
Up to one year	2,535	2,366
More than one up to five years	6,003	7,548
More than five years	66	60
	8,604	**9,974**

In the year under review, our income statement shows € 6,110,000 (previous year: € 5,843,000) in rental expense for business premises as well as office and operating equipment.

[33] Derivative financial instruments

As a global player, R. STAHL group conducts its business transactions in a host of foreign currencies. 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 forecast transactions, we use derivative financial instruments. We only use derivative financial instruments to hedge underlying existing, pending, and forecast transactions.

The companies of R. STAHL group have recognised fair value changes of all derivative financial instruments through profit and loss in the year under review because the accounting conditions pursuant to IAS 39 have not been met.

The scope of actions, responsible parties, financial reporting, and control mechanisms for financial instruments are group-wide uniformly defined. In particular, this involves a clear segregation of trading and settlement.

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

We enter into the respective contracts with banks of outstanding credit rating exclusively using R. STAHL Schaltgeräte GmbH as counterparty on the R. STAHL side. We regularly check the credit ratings of our bank counterparties.

On 31 December 2007, R. STAHL held derivative financial instruments denominated in US dollars (USD), Canadian dollars (CAD), British pounds (GBP), and Swedish kroners (SEK) to hedge currency risks.

Positive and negative fair values of derivative financial instruments are set against contrary value developments in the underlying transactions. Derivative financial instruments are fully recognised as assets or liabilities under other financial assets or other financial liabilities at their corresponding fair values.

The main sources of currency risk are foreign exchange rate fluctuations relative to the euro that affect our US dollar, Canadian dollar, British pound, and Swedish kroner denominated bank account balances, receivables, liabilities, debt, pending transactions, and forecast cash flows.

We held the following derivative financial instruments as of the balance sheet date:

in € 000	Nominal volume		Fair values	
	31/12/2007	31/12/2006	**31/12/2007**	31/12/2006
Positive fair values				
Foreign exchange futures	16,583	3,860	1,102	39
Negative fair values				
Foreign exchange futures	0	8,702	0	- 104

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

Our financial instruments not stated at fair value mainly comprise cash equivalents, trade receivables and liabilities, other liabilities, current account loans, and long-term loans.

The book value of cash equivalents and current account loans closely approximates their fair value due to the short-term nature of these financial instruments. For receivables and debt based on normal trade credit terms, the book value based on historical costs also closely approximates their fair value.

[34] Financial risk management

Principles of risk management

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

Our risk management objective is to limit these risks through ongoing operating and finance-oriented activities.

Depending on our assessment of the respective risks, we use select derivative financial instruments to hedge existing underlying transactions, pending transactions, or planned transactions.

Risk categories according to IFRS 7

Credit risk

R. STAHL group's operating activities are subject to debt- or default risk.

We are constantly and decentrally monitoring outstanding accounts in our operating activities. We take account of default risk by recognising specific and lump-sum individual impairments.

The maximum default risk is mostly defined by the book values of financial assets as recognised in the balance sheet including derivative financial instruments with positive fair values.

As of the balance sheet date, we had no material agreements (e.g. offsetting agreements) that would lower the maximum default risk.

The following table illustrates the credit quality of our financial assets broken down by category:

in € 000	Gross book value 31/12/2007	Neither overdue nor impaired	Overdue but not impaired	Impaired
Trade receivables	43,078	30,105	11,374	1,599
	(38,912)	(27,003)	(10,501)	(1,408)
Other receivables	2,990	2,944	0	46
	(3,518)	(3,518)	(0)	(0)
Total	**46,068**	**33,049**	**11,374**	**1,645**
	(42,430)	**(30,521)**	**(10,501)**	**(1,408)**

The parenthetical figures represent the 2006 values.

R. STAHL group regularly monitors its trading partners and debtors. All receivables that are neither overdue nor impaired are allocable to customers with good credit ratings.

Maturity analysis of gross book values for financial assets that are overdue but not impaired:

in € 000	Overdue but not impaired 31/12/2007	Up to 30 days overdue	30 to 90 days overdue	More than 90 days overdue
Trade receivables	11,374	5,830	4,677	867
	(10,501)	(5,356)	(4,305)	(840)
Other receivables	0	0	0	0
	(0)	(0)	(0)	(0)
Total	**11,374**	**5,830**	**4,677**	**867**
	(10,501)	**(5,356)**	**(4,305)**	**(840)**

The parenthetical figures represent the 2006 values.

The vast majority of financial assets that are overdue but have not been impaired have been overdue for a very short time – mostly as a result of customers' invoice processing and payment procedures. We did not have to change contract terms to avoid financial instruments falling overdue.

Liquidity risk

To ensure that R. STAHL is always able to pay its bills and has the necessary financial flexibility for business operations, we prepare daily liquidity charts that reflect our liquidity in- and outflows.

The following table provides a breakdown of our financial liabilities with residual contract maturities:

in € 000	Total volume 31/12/2007	Residual maturity of up to 1 year	Residual maturity of 1 to 5 years	Residual maturity of over 5 years
Interest-bearing loans	13,199	6,990	6,209	0
	(15,408)	(7,467)	(5,374)	(2,567)
Prepayments received	371	371	0	0
	(391)	(391)	(0)	(0)
Trade liabilities	11,925	11,925	0	0
	(11,671)	(11,671)	(0)	(0)
Other short-term liabilities	3,915	3,915	0	0
	(3,281)	(3,281)	(0)	(0)
	29,410	**23,201**	**6,209**	**0**
	(30,751)	**(22,810)**	**(5,374)**	**(2,567)**

The parenthetical figures represent the 2006 values.

We have brought down the residual maturity of our interest-bearing debt to up to five years by 31 December 2007 through scheduled repayment.

Market risk

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

Foreign exchange rate risk

R. STAHL group's exposure to foreign exchange rate 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 US dollars (USD), Canadian dollars (CAD), British pounds (GBP), and Swedish kroners (SEK) (previous year: US dollars, British pounds, and Swedish kroners).

R. STAHL group uses foreign exchange futures to hedge foreign exchange rate risks. As of the balance sheet date, R. STAHL group was not subject to material exchange rate risks in operating activities due to such currency hedges.

Sensitivity analyses

Pursuant to IFRS 7, 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 originary 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 recognised 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 foreign exchange rate derivates 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 analyses.

If the euro had appreciated 10% relative to all currencies relevant to our operating activities on 31 December 2007, our earnings would have turned out € 1,376,000 (as of 31 December 2006: € 1,130,000) higher.

If the euro had devalued 10% relative to all currencies relevant to our operating activities on 31 December 2007, our earnings would have turned out € 1,680,000 (as of 31 December 2006: € 1,380,000) lower.

Interest rate risk

R. STAHL group is not exposed to material interest rate risk thanks to its financing structure. When necessary, we take out short-term bank loans with variable interest rates that can be repaid at any time. As such, we do not use interest rate derivatives (interest rate swaps and caps) to counter risks from interest rate changes.

Price risk

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

As of 31 December 2007 and 31 December 2006, R. STAHL group had no material financial instruments in its portfolio that are subject to other price risks.

Book values and fair values

We generally use the historical cost approach in preparing our consolidated financial statements. The accounting for derivative financial instruments is one of the exceptions to this rule, as these must be accounted for at their applicable fair value. The positive fair values on the balance sheet date amounted to € 1,102,000 (previous year: € 39,000). We recognised further negative fair values of € 104,000 in fiscal 2006. We state derivative financial instruments under other financial assets or other financial liabilities and show financial assets and liabilities at fair value through profit and loss pursuant to the respective valuation categories of IAS 39. Our other financial assets are loans and receivables. The other financial liabilities are recognised at residual book value.

Our group's financial instruments that are not recognised at fair value primarily comprise cash equivalents, trade receivables, trade liabilities, other receivables and liabilities, prepayments received, current account loans, and long-term loans.

The book value of cash equivalents and current account loans closely approximates their fair value given the short maturity of these financial instruments. The historical-cost-based book values of receivables and liabilities subject to usual trade credit terms also closely approximate their fair value.

The fair value of long-term debt is based on currently available interest rates for external financing with the same maturity and credit rating profiles. The fair value of external capital is currently about the same as its book value.

D. Other disclosures

[35] Administrative bodies of the company

Members of the Supervisory Board

Hans-Volker Stahl, Dipl.-Kfm.,
resident of Münsing-Ammerland, Germany
Chairman
Asset trustee, private asset management

Hermann Eisele, Dr.-Ing.,
resident of Vaihingen/Enz, Germany
Vice Chairman
Supervisory Board member of REM AG

Ernst Kern, resident of Künzelsau[1)], Germany
Power appliance technician

Eberhard Knoblauch, Dipl.-Kfm.,
resident of Böblingen, Germany

Josef Kurth, Dipl.-Volkswirt,
resident of Ingelfingen, Germany

Heinz Grund, resident of Braunsbach[1)], Germany
Agricultural technician/mechanic

Günter Müller, resident of Rösrath, Germany
Managing Partner of
Express-Spedition Ludwig Müller GmbH & Co. KG

Gerold Schmid, Dipl.-Ing., resident of Stuttgart, Germany
Managing Partner of Ulrich Frey Verwaltungs-GmbH,
Managing Partner of Ulrich Frey GmbH & Co. Grundstücks-KG

Monika Weidmann, Dipl.-Betriebswirt,
resident of Künzelsau[1)], Germany
Technical draftsperson

[1)] *Staff representative*

Members of the Managing Board

Martin Schomaker Dipl.-Betriebswirt,
resident of Murr, Germany
CEO

Peter Völker, Dr.-Ing.,
resident of Künzelsau, Germany

Compensation report

Total Managing Board compensation

The compensation system for our Managing Board members is regulated in their respective employment contracts. The contracts stipulate a Managing Board member compensation consisting of a fixed salary and a performance-based royalty. The performance-dependent royalty is limited to at most 80% of the fixed compensation. For fiscal 2007, the Managing Board members received the following total compensation:

in € 000 Total Managing Board compensation	Fixed compensation	Performance-dependent royalty	Compensation in kind	Total
Martin Schomaker	300	228	25	**553**
Dr Peter Völker	220	176	11	**407**

Total Supervisory Board compensation

The annual general meeting resolved at its meeting on 22 June 2007 to raise the fixed annual compensation for Supervisory Board members to € 18,000.00 (until 30 June 2007: € 12,800.00) and the compensation for Supervisory Board members' committee membership to € 3,650.00 (until 30 June 2007: € 2,600.00) effective 1 July 2007. The variable part of the Supervisory Board members' compensation depends on the dividend distributed in the respective fiscal period. For each full percent dividend distributed in excess of 20% of our share capital, Supervisory Board members receive € 800.00. Effective 1 July 2007, committee chairs shall receive twice the compensation of other committee members for their committee participations and the Supervisory Board Chair shall receive twice the amount of the compensation due according to the above formula.

In the year under review, the Supervisory Board received fixed compensation totalling € 191,000 and variable compensation totalling € 120,000.

in € 000 Supervisory Board	Fixed compensation	Committee compensation	Variable compensation	Total
Hans-Volker Stahl	30.8	16.2	24.0	71.0
Dr Hermann Eisele	15.4	3.1	12.0	30.5
Eberhard Knoblauch	15.4	8.1	12.0	35.5
Ernst Kern	15.4	3.1	12.0	30.5
Monika Weidmann	15.4	0.0	12.0	27.4
Heinz Grund	15.4	3.1	12.0	30.5
Günter Müller	15.4	0.0	12.0	27.4
Gerold Schmid	15.4	0.0	12.0	27.4
Josef Kurth	15.4	3.1	12.0	30.5
Total	**154.0**	**36.7**	**120.0**	**310.7**

R. STAHL AG does not offer any stock option plans or similar, securities-based incentive systems.

Total compensation of former Managing Board members, Managing Directors

R. STAHL paid to former members of the Managing Board as well as former Directors and their survivors support totalling € 379,000 (previous year: € 451,000) in the year under review.

We have accrued pension provisions for former members of the Managing Board as well as former Directors and their survivors in full for a total of € 3,626,000 (previous year: € 3,623,000) as of 31 December 2007.

R. STAHL AG shareholdings by members of the Managing Board and Supervisory Board

As of the balance sheet date, Managing Board members held 12,360 shares of R. STAHL AG and Supervisory Board members held 341,570 shares.

[36] Related party disclosures

Pursuant to IAS 24 (Related Party Disclosures), legal or natural persons exerting a controlling influence on R. STAHL group or vice versa have to be disclosed unless they are being consolidated in the financial statements of 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 Articles of Incorporation or contractual provisions to control the financial or business policy of R. STAHL group 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 R. STAHL group including close relatives or intermediary companies. A substantial influence on the financial and business policy of R. STAHL group is deemed to exist for individual R. STAHL AG shareholding of 20% or more and persons holding a position on the Managing or Supervisory Boards of R. STAHL AG or another key management position.

In fiscal 2007, the disclosure requirements of IAS 24 only affected R. STAHL group in respect to business relations with associated enterprises and members of the Managing Board.

Group company transactions with associated enterprises involved only CSE EX Pty Ltd. of Sydney, Australia, and hlw Consulting GmbH of Bielefeld, Germany. They exclusively pertained to the ordinary business activity of the companies involved and were made at transaction terms that are usual in the market.

Pension provisions for Managing Board members and their survivors have been accrued in full and amounted as of 31 December 2007 to € 1,199,000 (previous year: € 1,162,000). The fund allocation in the year under review came to € 127,000 (previous year: € 135,000).

We have made all disclosures pursuant to article 160, paragraph 1, item 8 of the German Stock Corporation Act.

[37] Declaration pursuant to article 161 of the German Stock Corporation Act concerning compliance with the Corporate Governance Code

We complied with the code of conduct recommended by the German Government Commission on the German Corporate Governance Code in the past fiscal year with few, individual exceptions. We will continue to comply with most of the recommendations in the future. We have made a corresponding declaration of compliance that shareholders may view on our website at any time. Moreover, our 2007 annual report includes a separate corporate governance report.

E. Notes to the cash flow statement

The cash flow statement shows 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 operating, capex, and finance cash flows.

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

The flow of funds from ongoing operations includes the following items:

in € 000	2007	2006
Interest received	1,057	1,004
Interest paid	- 1,153	- 749
Dividends received	3	3
Income tax refunds/credits	2,217	376
Income tax payments	- 8,911	- 5,845

The capex cash flow includes cash inflow from the sale of subsidiaries in the amount of € 2,514,000 (previous year: € 4,502,000).

In the year under review, we divested our IT services companies at a total sale price of € 2,755,000. This sale was settled entirely in cash. The amount of cash and cash equivalents paid out by R. STAHL in the context of this divestment amounted to € 287,000.

Assets and liabilities sold classified by main categories excluding cash and cash equivalents break down as follows:

in € 000	Book values
Long-term assets	637
Short-term assets	1,326
Long-term debt	268
Short-term debt	603

We furthermore divested our equity interest in the associated enterprise CSE EX Pty Ltd. of Sydney, Australia, for a sale price of € 62,000 in fiscal 2007. This transaction was settled entirely in cash.

In May 2007, R. STAHL acquired an additional stake amounting to some 22% of the company's share capital in STAHL-Syberg A.S of Oslo, Norway, for a purchase price of € 2,052,000 that has been accounted for as payment to a minority shareholder. The transaction was entirely settled in cash. This acquisition resulted in goodwill of € 1,635,000.

F. Notes to the segment report

R. STAHL group now only has the operating segment of Explosion Protection. The secondary segment reporting is done by region. The differentiation follows internal reporting practises for best assessment of group risks and earnings prospects.

R. STAHL group's **Explosion Protection** segment develops, manufactures, assembles, and distributes devices and systems for measuring, controlling, dosing, powering, securing, and lighting in explosion-hazard environments.

In line with our internal practises, we distinguish the **geographical region** segments **Central, Americas,** and **Asia.** In our regional segment reports, we state external sales by our customers' corporate domicile. Assets and capex are allocated to regional segments based on asset locations.

The segment information is generally based on the same accounting and valuation methods as the consolidated financial statements. The accounting and valuation methods remained unchanged from the previous year.

Receivables, liabilities, provisions, income, expense, and earnings resulting from intra-group transactions have been eliminated in the reconciliation/consolidation process. Offsetting prices for intra-group sales revenues are in line with market pricing (arm's length principle).

Last year's segment reporting was based on continuing activities.

The primary segment yielded the following picture in a year-on-year comparison.

in € 000	**2007**	**2006**
Sales revenues	211,616	167,056
Earnings before financial earnings and income taxes	26,934	18,500
Segment assets	173,944	158,724
Interests in associated enterprises	0	205
Non-allocable assets	6,285	8,684
Total assets	**180,229**	**167,613**
Segment liabilities	85,717	78,603
Non-allocable liabilities	19,427	22,955
Total liabilities	**105,144**	**101,558**
Property, plant & equipment capex	8,912	5,374
Capex on intangible assets	6,625	13,980
Depreciation, amortisation, and impairment on property, plant & equipment assets	5,511	5,425
Depreciation, amortisation, and impairment on intangible assets	3,283	1,489

The following table provides a breakdown by region:

in € 000	Central	Americas	Asia/Pacific	Total
Sales revenues	168,601	14,368	28,647	211,616
	(140,105)	(10,793)	(16,158)	(167,056)
Segment assets	157,170	5,228	11,546	173,944
	(148,684)	(3,371)	(6,669)	(158,724)
Interests in associated enterprises	0	0	0	0
	(205)	(0)	(0)	(205)
Non-allocable assets	–	–	–	6,285
	(–)	(–)	(–)	(8,684)
Total assets	**157,170**	**5,228**	**11,546**	**180,229**
	(148,889)	**(3,371)**	**(6,669)**	**(167,613)**
Property, plant & equipment capex	8,224	608	80	8,912
	(5,035)	(308)	(31)	(5,374)
Capex on intangible assets	6,544	35	46	6,625
	(13,940)	(40)	(0)	(13,980)

The parenthetical figures refer to the 2006 values.

G. Additional note and disclosure requirements

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

in € 000	2007	2006
Financial statement audits	209	164
Other certification and valuation services	0	2
Other services	37	19
	246	**185**

H. Other notes and disclosures

Events subsequent to the balance sheet date

There were no material events affecting our business between the balance sheet date and the writing of this report.

Waldenburg, 4 April 2008

R. STAHL Aktiengesellschaft
The Management

Auditor’s report on the complete consolidated financial statements of R. STAHL Aktiengesellschaft

We have audited the consolidated financial statements prepared by and for R. STAHL Aktiengesellschaft of Waldenburg, Germany, consisting of balance sheet, income statement, notes, cash flow, and equity statement as well as the consolidated management report for the fiscal year from 1 January to 31 December 2007. The preparation of consolidated financial statements and the consolidated management report according to IFRS as mandated for EU companies and the supplementary accounts prepared according to article 315a paragraph 1 of the German Commercial Code as well as further stipulations made in the company’s bylaws are the responsibility of the respective company’s legal representatives. Our task is to state our opinion on the consolidated financial statements and consolidated management report based on our audit.

We have conducted our audit of these consolidated financial statements pursuant to article 317 of the German Commercial Code and the generally accepted auditing standards as formulated by the German auditors’ institute (Institut der Wirtschaftsprüfer, IDW). These standards require that we plan and perform audits such that misstatements materially affecting the presentation of the asset, financial, and income position in the consolidated financial statements and the consolidated management report in accordance with international principles of proper accounting are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the books and records, the consolidated financial statements, and the consolidated management report are examined primarily on a spot check basis within the framework of the audit. We have furthermore audited and judged the annual financial statements of the consolidated companies, the scope of consolidation, assessed the accounting principles used and significant estimates made by the legal representatives, as well as evaluated the overall presentation of the consolidated financial statements and consolidated management report. We believe that our audit has provided a reasonable basis for our opinion.

Our audit has not yielded any objections.

In our opinion based on our audit findings, the consolidated financial statements as presented comply with IFRS as mandated for EU companies and supplementary applicable provisions as set forth in article 315a paragraph 1 of the German Commercial Code as well as the further stipulations made in the company's bylaws and give a true and fair view of the asset, financial, and income position of the group. The consolidated management report accords with the consolidated financial statements and conveys an overall accurate picture of the group's state of affairs and accurately represents the risks and opportunities the group is facing in the future.

Stuttgart, 7 April 2008

Dr. Ebner, Dr. Stolz und Partner GmbH
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Dr Wolfgang Russ	Christoph Lehmann
Auditor	*Auditor*

Responsibility Statement

We attest – to the best of our knowledge – that the consolidated financial statements according to applicable accounting standards present a true and fair view of the group's asset, financial, and income position and that the consolidated management report accurately presents the group's business development including economic results, state of affairs, material risks and opportunities, and probable development going forward.

Waldenburg, 4 April 2008

R. STAHL Aktiengesellschaft
The Management

Disclosure of equity investments as of 31 December 2007

Name and headquarters of the company	Consolidation status	Capital stake in %
Domestic companies		
R. STAHL Beteiligungsgesellschaft mbH, Waldenburg	F; c	100.00
GGF – Gesellschaft für Grundstücksvermietung und Finanzierungsvermittlung mbH, Waldenburg	F; c	100.00
R. STAHL Services GmbH, Oberhausen	F; c	100.00
R. STAHL Schaltgeräte GmbH, Waldenburg	F; c	100.00
R. STAHL HMI Systems GmbH, Cologne	F; c	100.00
Abraxas Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	I; n.c.	49.58
Lectio Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Weimar KG, Düsseldorf	F; c	0.00
Supera Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Künzelsau KG, Düsseldorf	F; c	99.00

Name and headquarters of the company	Consolidation status	Capital stake in %
Foreign companies		
R. STAHL Middle East FZE, Dubai (United Arab Emirates)	F; c	100.00
STAHL N.V., Dendermonde (Belgium)	F; c	100.00
STAHL Equipamentos Industriais Ltda., São Paulo (Brazil)	F; c	100.00
R. STAHL Ltd., Edmonton (Canada)	F; c	100.00
R. STAHL Schweiz AG (formerly: STAHL-Fribos AG), Magden (Switzerland)	F; c	100.00
R. STAHL Ex-Proof (Shanghai) Co. Ltd., Shanghai (China)	F; c	100.00
Tranberg Systems A.S, Vejle (Denmark)	F; c	58.85
Industrias STAHL S.A., Madrid (Spain)	F; c	100.00
R. STAHL France S.A.S., Nanterre (France)	F; c	100.00
R. STAHL Ltd., Birmingham (Great Britain)	F; c	100.00
R. STAHL d.o.o., Sveti Kriz Zacretje (Croatia)	I; n.c.	90.00
R. STAHL (P) Limited, Chennai (India)	F; c	100.00
R. STAHL S.R.L., Milan (Italy)	F; c	100.00
R. STAHL Kabushiki Kaisha, Kawasaki (Japan)	F; c	100.00
R. STAHL Co. Ltd., Seoul (Korea)	F; c	100.00
Interstate STAHL SDN.BHD., Selangor (Malaysia)	I; n.c.	30.00
Electromach B.V., Hengelo (The Netherlands)	F; c	100.00
R. STAHL Norge A.S, Oslo (Norway)	F; c	84.07
STAHL-Syberg A.S, Oslo (Norway)	F; c	84.07
Tranberg A.S, Stavanger (Norway)	F; c	84.07
R. STAHL Svenska AB, Järfälla (Sweden)	F; c	100.00
R. STAHL Pte. Ltd., Singapore (Singapore)	F; c	100.00
R. STAHL Inc., Houston/Texas (USA)	F; c	100.00

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

Financial statements of R. STAHL Aktiengesellschaft

These complete financial statements of R. STAHL Aktiengesellschaft prepared pursuant to the rules and regulations of the German Commercial Code and Stock Corporation Act have been given approval without reservations by the appointed auditor Dr. Ebner, Dr. Stolz und Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, Germany, will be published in the Federal eGazette and filed with the district court of Stuttgart under HRB 581087. Interested shareholders may request copies of the parts of our annual financial statements not published here from the company.

Income statement

for the period from 1 January to 31 December 2007

in € 000	**2007**	2006
1. Sales revenue	**11,838**	**10,944**
2. Other own work capitalised	127	0
3. Other operating income	7,340	4,039
	19,305	**14,983**
4. Cost of materials		
Cost of raw materials, consumables and supplies	19	10
5. Personnel costs		
a) Wages and salaries	6,526	6,756
b) Social insurance contributions and pension	2,025	2,089
	8,570	**8,845**
6. Depreciation, amortisation and impairment of intangible non-current assets and property, plant & equipment assets	939	739
7. Other operating expense	8,775	7,785
	1,021	**- 2,396**
8. Interest income/expense	3,768	6,234
9. Investment income/expense	5,909	10,845
10. Interest and similar income	1,008	392
11. Depreciation on financial assets	0	113
12. Interest and similar expense	1,671	783
	9,014	**16,575**
13. Income/expense from ordinary business activity	**10,035**	**14,179**
14. Extraordinary income	0	405
15. Extraordinary expense	1,130	0
16. Extraordinary income/expense	- 1,130	405
17. Taxes on income	1,654	3,442
18. Other taxes	24	30
	1,678	**3,472**
19. Net profit for the year	**7,227**	**11,112**
20. Profit carry-forward	31,930	26,150
21. Balance sheet profit	**39,157**	**37,262**

Balance sheet

as of 31 December

in € 000	2007	2006
ASSETS		
A. Non-current assets		
I. Intangible assets		
1. Industrial property and similar rights	2,193	324
2. Goodwill	0	0
3. Prepayments made	1,209	1,229
	3,402	**1,553**
II. Property, plant & equipment		
1. Properties, property-like rights and buildings including buildings on third-party properties	5,305	5,687
2. Technical equipment and machinery	54	0
3. Other plants as well as operating and office equipment	352	356
4. Prepayments made and plants under construction	10	65
	5,721	**6,108**
III. Financial assets		
1. Equity interests in affiliated companies	40,761	65,820
2. Loans to affiliated companies	0	203
3. Equity investments	59	59
4. Loans to companies in which equity interests are held	3,315	2,894
	44,135	**68,976**
B. Current assets		
I. Receivables and other assets		
1. Trade receivables	29	104
2. Receivables from affiliated companies	15,715	10,223
3. Other assets	3,740	1,429
	19,484	**11,756**
II. Securities		
Treasury shares	**5,597**	**5,597**
III. Cash on hand and credit balances with banks	**13,762**	**12,153**
C. Prepaid expenses and deferred income	**86**	**225**
	92,187	**106,368**

in € 000	2007	2006
EQUITY & LIABILITIES		
A. Equity		
I. Subscribed capital	**16,500**	**16,500**
II. Capital reserve	**5,083**	**5,083**
III. Profit reserves		
1. Reserve for treasury shares	5,597	5,597
2. Other profit reserves	1,679	1,679
IV. Balance sheet profit	**39,157**	**37,262**
	68,016	**66,121**
B. Provisions		
1. Pension provisions	11,312	8,934
2. Tax provisions	3,138	3,388
3. Other provisions	4,466	4,612
	18,916	**16,934**
C. Liabilities		
1. Liabilities to banks	78	0
2. Trade liabilities	1,182	1,528
3. Liabilities to affiliated companies	2,919	20,673
4. Liabilities to enterprises in which equity interests are held	10	10
5. Other liabilities	1,066	1,102
	5,255	**23,313**
	92,187	**106,368**

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Financial calendar 2008

Financial press conference in Stuttgart, Germany	**25 April 2008**
DVFA analyst conference in Frankfurt, Germany	**25 April 2008**
Interim report as of 31 March 2008	**15 May 2008**
Annual General Meeting in Neuenstein, Germany	**27 June 2008**
Interim report as of 30 June 2008	**11 August 2008**
Interim report as of 30 September 2008	**11 November 2008**

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To the extent that this annual report contains mandatory disclosures please refer to our complete audited annual financial statements available upon request from our investor relations department.

Key figures

in € 000	2007	2006
Sales revenue	211,616	167,056
Germany	59,020	59,280
Central excl. Germany	109,581	80,825
Americas	14,368	10,793
Asia/Pacific	28,647	16,158
Foreign share in %	72	65
Order intake	220,078	172,139
Germany	59,856	60,423
Central excl. Germany	116,940	82,897
Americas	14,917	11,455
Asia/Pacific	28,365	17,364
Order backlog	38,480	29,999
EBIT	26,934	18,500
EBT	24,604	16,503
Year's net profit	16,182	12,853
Earnings per share in € (continuing activities)	2.65	1.75
Earnings per share in € (total)	2.65	2.13
Total dividend	6,516 1)	5,331
Dividend per share in €	1.10 1)	0.90
Capex on tangible and intangible assets	13,887	8,941 2)
Depreciation & amortisation on tangible and intangible assets	8,794	6,913
EBIT margin (in % of sales)	12.7	11.1
EBT margin (in % of sales)	11.6	9.9
Sales per employee	173	140
Employees, yearly average (without apprentices)	1,222	1,194
Employees (as of 31 Dec. without apprentices)	1,274	1,210

1) proposal to the Annual General Meeting

2) excluding additions from the first time consolidation of Tranberg

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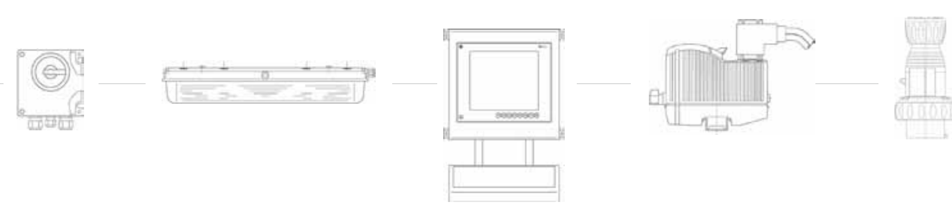

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