EXPLOITING OPPORTUNITIES EFFICIENTLY

ANNUAL REPORT 2017

STAHL

KEY FIGURES

€ 000	2017	2016	Change in %	2015	2014	2013
Sales	**268.5**	286.6	*-6.3*	312.9	308.5	304.4
Germany	**60.9**	61.3	*-0.7*	64.4	66.8	65.0
Central region[1)]	**120.7**	131.9	*-8.5*	124.4	132.6	139.0
Americas	**29.0**	35.8	*-19.1*	49.1	52.8	50.6
Asia/Pacific	**57.9**	57.5	*+0.6*	75.1	56.4	49.9
Order backlog as of 31 December	**92.3**	80.7	*+14.5*	95.2	90.5	66.0
EBITDA pre exceptionals[2)]	**5.8**	20.7	*-72.2*	–	–	–
EBITDA	**2.3**	22.2	*-89.7*	17.4	31.1	36.9
EBIT pre exceptionals[2)]	**-6.7**	7.4	*n/a*	–	–	–
EBIT	**-10.7**	8.8	*n/a*	3.9	18.3	24.9
Net profit	**-21.2**	4.2	*n/a*	-0.1	9.8	15.4
Earnings per share in €	**-3.28**	0.64	*n/a*	-0.02	1.67	2.59
Dividend per share in €	**–**[3)]	0.60	*n/a*	0.60	0.80	1.00
Cash flow from operating activities	**19.7**	10.9	*+81.4*	18.4	3.1	27.4
Depreciation & amortization	**13.0**	13.4	*-3.1*	13.5	12.8	12.0
Capex	**11.7**	18.3	*-36.0*	23.0	18.7	24.8
Balance sheet total as of 31 December	**249.6**	278.6	*-10.4*	278.8	273.9	247.6
Shareholders' equity as of 31 December	**69.1**	94.8	*-27.1*	101.0	74.9	91.9
Equity ratio as of 31 December	***27.7%***	*34.0%*		*36.2%*	*27.3%*	*37.1%*
Net debt[4)] as of 31 December	**-18.1**	-21.8	*+17.1*	-17.4	-32.7	-6.2
Employees as of 31 December[5)]	**1,763**	1,788	*-1.4*	1,894	1,942	1,853

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

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

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Dr. Mathias Hallmann, CEO

EXPLOITING OPPORTUNITIES EFFICIENTLY

Ladies and Gentlemen,

2017 was one of the most difficult years in R. STAHL's history. Our components and system solutions for explosion protection are used wherever flammable materials are handled in industrial environments – and especially in the production and processing of crude oil and natural gas, as well as their downstream products. As a result, our business is depending to a large extent on the market price of crude oil. Although oil prices recovered from the record lows of the previous year, they were still depressed in 2017 – fluctuating between US$ 45 and US$ 65 per barrel and thus far below the US$ 100-plus prices recorded in 2014 and the preceding years. Over the past few years, the oil and gas industry has steadily adapted its business models to this "new normal" of persistently low oil prices and significantly reduced its costs. As a result, production costs for crude oil in the European North Sea region, for example, were more than halved between 2013 and 2017. These stringent cost reductions have enabled companies to operate profitably again, despite significantly lower selling prices.

This trend had significant consequences for suppliers like R. STAHL. Not only were investments in new production projects frozen, but also postponed maintenance for existing plants led to a decline in demand and volumes for our products. This resulted in overcapacity in our competitive environment, accompanied by growing pressure on prices. Our original expectations that we could at least partially offset this negative price trend with volume growth later in the year failed to materialize. Compared to the previous year, sales fell again by 6.3%, or around € 18 million, to € 268.5 million. In view of our cost structures, this meant we could no longer achieve a positive result: at € -6.7 million, earnings before interest and taxes (EBIT) pre exceptionals for 2017 were within our adjusted guidance corridor from November last year. Against this backdrop, R. STAHL will not be paying a dividend for the reporting year – for the first time since the economic crisis of 2002.

We are cautiously optimistic about the future development of our key markets. Order intake in 2017 stabilized at the prior-year level. Companies in the oil and gas industry have begun to push ahead with major projects for producing and processing oil and gas which they had previously put on hold. This is also reflected in renewed growth in our order intake during the first quarter of 2018, compared to the final quarter of the previous year. However, as with the slump in demand of the last two years, there is a certain time delay before this recovery reaches R. STAHL's top line. According to market experts, oil and gas prices are unlikely to reach their former highs in the foreseeable future. This is due in part to the changed competitive situation resulting from the availability of huge shale oil volumes in the USA, as well as a slowdown in medium- to long-term growth in demand, for example as a consequence of increasing electromobility. These trends force suppliers of the oil and gas industry to emulate their customers and significantly raise efficiency.

A detailed analysis of our current situation shows that we have many unique strengths in those areas of greatest importance for our business. In particular, this includes a strong appreciation of our products and solutions by our customers, who associate R. STAHL with superior expertise, quality and innovative strength in explosion protection solutions. This underlines the fact that we are on the right path in terms of *what* we do from a strategic point of view. However, we must significantly improve *how* we do things, in order to exploit the opportunities arising from these strengths more efficiently. We need to become more agile so we can respond more quickly to changing external requirements. We therefore intend to exploit the potential of our global organization better than before by reducing complexity, strengthening our corporate functions, implementing more efficient processes and structures, and driving digitization – an area in which we have long been supporting our customers with automation solutions: by creating a new corporate organization with global responsibilities, lean management in production, the harmonization of our IT systems, and the optimization and streamlining of our product portfolio. This will not only increase the efficiency of our processes, but also reduce their cost. And we will take the same approach with changes to our sales organization: making it leaner and more closely aligned with the needs of our international customers. "A Tradition of Innovation" – the theme of our last year's annual report was forward-looking and carefully chosen. For our clear strategic objective is to extend our technological lead in explosion protection with the aid of new and innovative solutions which offer significant added value for our customers.

In 2017, we continued to drive our pioneering developments in explosion protection – some of which are presented in this report. With efficiency gains in our sales organization and innovative new products, we expect to return to profitable sales growth regardless of the development of our key markets.

At the beginning of 2018, we introduced earnings before interest, taxes, depreciation and amortization (EBITDA) pre exceptionals as key performance indicator of profitability to steer the Group. Exceptional items refer to one-off income and expenses not related to our continued operations, such as costs incurred during the course of necessary restructuring measures. This not only makes profitability of our operating business better comparable than before, but also establishes the internal conditions for us to quickly and systematically implement the tasks that lie ahead. Based on the above mentioned measures to reduce costs and grow sales, we expect EBITDA pre exceptionals to improve in the mid to high double-digit percentage range for the current year.

2018 will be a year of change for R. STAHL. We have already implemented some of these changes, more will follow. I would like to thank you, our shareholders, for your continued loyalty and support – especially in the current challenging situation. With our measures to enhance efficiency, we believe we are well positioned to return R. STAHL to its former earnings power. We aim to achieve this goal within the next two years. I would also like to take this opportunity to express my sincere gratitude to all employees of R. STAHL! The tasks ahead will require a great deal of hard work and dedication from us all. We look forward to taking this path together with our employees and with you, dear shareholders. I would also like to thank our customers and business partners for the trust they continue to place in us and our products, which is both an obligation and an inspiration for us every day.

Dr. Mathias Hallmann
CEO

DR.-ING. MATHIAS HALLMANN, CEO, has been a member of the Executive Board of R. STAHL since 1 October 2017 and was appointed CEO as of 1 January 2018. The engineering graduate has many years of experience in business consultancy as well as in management positions for industrial companies.

DEAR SHAREHOLDERS,

A review of developments over the past three years illustrates that conditions in our most important customer industries have radically changed. Whereas R. STAHL was able to post double-digit growth in sales and earnings during boom phases and times of triple-digit crude oil prices, R. STAHL's financial figures have since been hit correspondingly hard by the reverse situation of persistently low oil prices: after business already suffered in the previous year, 2017 marked a further year of declining sales and earnings. The cost-reduction program that was successfully completed in 2016 was unable to prevent the significant earnings erosion. The changed market conditions therefore require fundamental changes to our organization and processes towards streamlining and increased efficiency. The Supervisory Board supports the measures already initiated by the Executive Board.

In the second half of the past financial year, R. STAHL laid the foundation for a change in the position of CEO. At its extraordinary meeting on 25 August 2017, the Supervisory Board resolved, with the consent of Martin Schomaker, to terminate his contract as of 31 December 2017 before the three-year contract extension agreed in 2016 was completed. His successor, Dr. Mathias Hallmann, was appointed as a member of the Executive Board as of 1 October 2017 and as CEO as of 1 January 2018. Since Bernd Marx stepped down from his position on the Executive Board with immediate effect on 9 February 2018, Dr. Mathias Hallmann has been the sole member of the Executive Board until further notice. The Supervisory Board would like to thank the two departing Executive Board members for their many years of service for the company.

Throughout the reporting period, the Supervisory Board advised the Executive Board and monitored the company's management in accordance with its legal obligations, the Articles of Association and its own rules of procedure. The success of the R. STAHL Group is based essentially on trusting cooperation between the Supervisory Board and the Executive Board. The Executive Board maintains a constant dialogue with the Supervisory Board and informs it punctually and in detail on all significant company events. The Supervisory Board monitors the work of the Executive Board on the basis of regular oral and written reports. The members of the Supervisory Board were informed at least once a month about the Group's key performance indicators. During personal meetings, as well as in verbal and written reports, the Executive Board regularly informed the Chairman of the Supervisory Board about the company's development and discussed current issues with him. The Executive Board also explained those exceptional events that were of particular importance for the Group.

Supervisory Board meetings

In the reporting period, the Supervisory Board convened on nine occasions, of which five were ordinary and four extraordinary meetings. Attendance of these Supervisory Board meetings was 100%.

Heiko Stallbörger, Chairman of the Supervisory Board

As in every year, the five ordinary meetings of the Supervisory Board were held on a regular basis. These meetings focused on the economic position and development prospects of the R. STAHL Group, as well as important business events. The Executive Board reported regularly to the Supervisory Board on the sales, earnings and financial performance of the company. The Supervisory Board meetings also dealt with questions of strategy for the Group and its business units. In particular, the following topics were discussed:

At its meeting on 20 February 2017, the Supervisory Board discussed the preliminary annual financial statements and the company's corporate governance report and risk management system. In accordance with the recommendations made by the Audit Committee following a tender procedure, the Supervisory Board approved the proposal to the Annual General Meeting for the election of the auditor for the 2017 financial statements. The results of the previously conducted efficiency audit were also presented to the Supervisory Board and subsequently discussed in detail.

At the following meeting on 20 April 2017, the Supervisory Board approved the annual financial statements. The annual financial statements and auditor's report were explained by the Executive Board and Ebner Stolz GmbH & Co. KG. At the same meeting, the Supervisory Board discussed the individual agenda items and the agenda as a whole for the Annual General Meeting 2017.

At the meeting on 1 June 2017, final preparations were made for the Annual General Meeting held on the following day.

The meeting in September focused in particular on the analysis of the operating business trend and the Group's future strategic development. The Supervisory Board was also informed about the current status of R. STAHL's implementation of the CSR guideline.

At its final meeting of the year on 12 December 2017, the Supervisory Board held its regular in-depth review of planning for the coming years and the budget for 2018, and approved both. Prior to the meeting, there was a joint training session for the Executive Board and Supervisory Board on the latest compliance requirements for executive bodies.

Focus areas of the Supervisory Board's extraordinary meetings

At the extraordinary meeting held via telephone on 7 February 2017, the Supervisory Board approved the planning and budget for the current financial year after further intensive discussions.

At the second extraordinary meeting on 28 July 2017, held once again via telephone, the Supervisory Board analyzed the business situation after completing the first half-year. In view of the persistently tense market environment the Executive Board informed the Supervisory Board about measures to reduce costs and secure earnings.

At the third extraordinary meeting on 15 August 2017, the Supervisory Board dealt with recommendations and resolutions of the Administration Committee regarding a possible successor for Martin Schomaker on the Executive Board and adopted the necessary legal decisions for the procedure. Following final negotiations of the Chairman of the Supervisory Board with Martin Schomaker and Dr. Mathias Hallmann, the Supervisory Board adopted the final resolutions regarding a successor on the Executive Board at a further extraordinary meeting held on 25 August 2017.

Meetings of the committees

The Audit Committee held four meetings in the reporting period, which were attended by all members. During the first meeting (held by telephone) at the beginning of the year, the committee discussed and evaluated in detail the results of the previously conducted tender procedure and prepared and adopted the recommendation to the full Supervisory Board regarding the proposal to the Annual General Meeting for the election of auditors for the 2017 financial statements. At its three further (regular) meetings, the committee dealt with questions of accounting, risk management and compliance, the necessary independence of the auditors, the issuing of the audit mandate to the auditors, the determination of audit focal points and the fee agreement.

The Administration Committee held four meetings in 2017, which were attended by all members. In the reporting period, the Administration Committee was largely concerned with the search for candidates to succeed Martin Schomaker. It also met twice outside of meetings to hold talks. The necessary legal steps for the procedure were decided and its decision recommendation to the Supervisory Board as a whole adopted. Insofar as still relevant, the committee prepared the compensation decisions of the full Supervisory Board and presented proposals for the respective total remuneration of the Executive Board members. It also prepared the Supervisory Board's assessment on the appropriateness of Executive Board remuneration.

The Strategy Committee was not convened in the reporting period as its activities are currently suspended (see Supervisory Board Report for the financial year 2016).

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

Annual financial statements

The annual financial statements of R. STAHL AG as of 31 December 2017, as well as the consolidated financial statements of R. STAHL AG, were audited by the auditing firm selected by the Annual General Meeting and appointed by the Audit Committee of the Supervisory Board, BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, and were granted each an unqualified auditor's opinion with reference. The reference is related to the assessment of financial risks as stated by the Executive Board in the Group Management Report and the Notes to the Consolidated Financial Statements.

In its release from 7 March 2018, the company announced that due to the changes in the Executive Board as well as the neccessary adjustments related to the recoverability of deferred taxes on loss carryforwards for fiscal year 2017 that became visible in February 2018, it felt compelled to delay the date of the release of its Annual Report 2017 and the date of its Annual General Meeting 2018 in order to re-examine all facts of the annual financial statements. As a result, at its meeting from 26 April 2018, the Supervisory Board was only able to receive detailed reports from the Executive Board and the auditor on the current status of the annual financial statements and its audit, and to discuss and approve the status and the new timeline provided by the Executive Board. With regard to the approval of the annual financial statements, the Supervisory Board postponed its examination and resolution to the next meeting on 7 June 2018 and asked the Executive Board for immediate notification in case of any unexpected deviations from the timeline. In additon, at its meeting on 26 April 2018, the Supervisory Board examined the legitimate, correct and appropriate reporting of the separate non-financial Group statement (CSR report) outside of the Group management report and critically examined the Executive Board's methods, procedures and processes used to gather the relevant data and information. As no objections were raised, the Supervisory Board approved the CSR report. Since 28 April 2018, the CSR report is available at the website www.r-stahl.com under the section corporate/corporate responsibility (see also the respective reference in the Group management report).

Following the completion of the audit of the annual financial statements within the aforementioned timeline, the auditor confirmed that the consolidated annual financial statements comply with IFRS applicable to the EU and with the supplementary commercial law requirements of section 315a (1) HGB. All members of the Supervisory Board were provided with the annual financial statements and the consolidated financial statements, the management reports and the corresponding auditor's reports.

The Audit Committee intensively discussed the financial statements and auditor reports with the auditor, particularly addressing the very important Key Audit Matters. Subsequently, at its meeting from 7 June 2018, the Supervisory Board thoroughly examined the documents of the financial statements. In this context, the Audit Committee informed all members of the Supervisory Board about its findings. During the meeting, the auditor was present and available for discussions. The Supervisory Board agreed to the auditor's results and did not raise any objections against the annual financial statements and the management reports. The Audit Committee and the Supervisory Board also intensively dealt with the facts that compelled the Executive Board to assess the company's financial risk position as stated in the management report and the notes to the financial statements. Based on the measures mentioned and already being implemented, the Audit Committee and the Supervisory Board are extremely confident that the described facts only represent a theoretical risk that does not materialize. The Supervisory Board therefore approved the annual financial statements of R. STAHL AG prepared by the Executive Board as well as the consolidated financial statements, including the management reports, in accordance with Sections 170 and 171 AktG. The annual financial statements are thus adopted.

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

Heiko Stallbörger
Chairman of the Supervisory Board

R. STAHL 2020

Inventor of numerous pioneering innovations in the field of explosion protection, almost 100 years of market experience with leading positions in Europe and the world, acclaimed for its uncompromising quality and customer orientation – R. STAHL's strengths do not immediately suggest a company in need of fundamental structural change. But what is the value of tradition when confronted by new future challenges? Is market and quality leadership an asset if adequate profitability still cannot be achieved?

STRUCTURAL REALIGNMENT OF THE GROUP

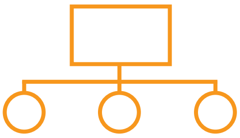
Sustainable success in dynamic markets requires more than just outstanding products, fast market access and close customer proximity – a company must also constantly question its own structures and processes. Since focusing on explosion protection in 2005, R. STAHL has steadily and systematically expanded its global market position – with innovative and value-adding new products, with its evolution from component manufacturer to systems supplier, with regional expansion in growth markets and with company acquisitions.

The dramatic slump in demand from the oil and gas sector in recent years has demonstrated that our cost and corporate structures, as well as our internal processes, are insufficiently capable of securing our profitability under adverse market conditions. Over the years, the level of complexity in many success-critical areas has not only led to high costs, but also made efficient and globally uniform processes more difficult to achieve. This is particularly true for our global organizational structure, our product portfolio, and our processes and systems. Our top priority now is therefore to reduce the high level of complexity in these areas and thereby enhance the efficiency of our processes. We aim to achieve this with the Group's global realignment programme "R. STAHL 2020", which we began to implement in early 2018. We will focus on three main areas:

1. CREATION OF A GLOBAL CORPORATE ORGANIZATION WITH STANDARDIZED GROUP-WIDE PROCESSES
2. OPTIMIZATION OF THE R. STAHL PRODUCT PORTFOLIO
3. HARMONIZATION OF OUR GLOBAL IT SYSTEMS

This will enable us to create the necessary conditions and scope to fully exploit the opportunities for sustainable and profitable growth arising in our markets. We aim to have largely completed the implementation of these measures by the end of 2019.

Flexible production line for control units at the Waldenburg facility. Thick-walled "Ex d" enclosures can be seen in the back right of the picture.



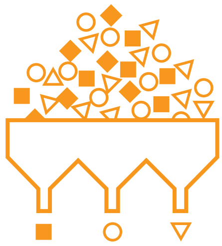
1 CREATION OF A GLOBAL CORPORATE ORGANIZATION WITH STANDARDIZED GROUP-WIDE PROCESSES

In times of high double-digit market growth, our decentralized organization with small and independently operating companies was the fastest way to serve dynamic and fast-growing local markets and capture market share. Today, ongoing globalization and far-reaching market changes in the field of explosion protection in recent years have forced us to rethink our approach. The critical success factors are no longer speed and individuality at any price, but rather a product offering that can be delivered punctually, in consistently high quality and at competitive prices to any customer site around the world. In view of the growing demands on our customers from internationalization and cost pressure, global standards in operations and processes play an increasingly key role. With this in mind, we realigned our corporate organizational structures as of 1 April 2018: away from largely independent subsidiaries and towards a group structure in which the key functions are managed centrally. This will have decisive advantages:

- Centralized and global production management will ensure consistent product quality and production standards at our facilities around the world. It will also enable more efficient management of capacity utilization throughout our global manufacturing network.
- Global responsibilities in marketing and sales will facilitate the uniform group-wide marketing of our products and lean, standardized sales processes.
- A corporate HR department responsible for all of our companies around the world will enable us to manage and develop our human resources across the entire Group.
- Quantitative management based on key financial performance indicators will be more closely steered at Group level with the aid of adjusted, function-specific value levers.

2 OPTIMIZATION OF OUR PRODUCT PORTFOLIO

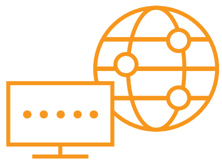
“However complex the technical challenge – we always find a way.” This sentence summarizes what made R. STAHL one of the most highly acclaimed suppliers in explosion protection: absolute customer orientation, outstanding technical expertise, uncompromising quality, bespoke solution offerings. However, offering customers such an extensive scope of choice and design inevitably leads to extremely complex, and thus costly, order processing, production and logistics processes. As our product portfolio has grown ever larger over the years, so too has the effort required to maintain each of the products in our data systems, to ensure their availability, and to guarantee their compliance with certification requirements. A closer comparison of the technical differences within individual product groups reveals that the vast majority of technical requirements can often be solved perfectly with a just few different products – and such a huge variety of parts is often not necessary. Against this backdrop, we have therefore begun to review our entire portfolio with the aim of removing products no longer in demand, and replacing those in low demand with equivalent solutions from our existing product range. In this way, we expect to achieve significant and sustainable cost reductions for the maintenance and provision of R. STAHL’s product offerings – without compromising the value proposition for our customers.



3 HARMONIZATION OF OUR GLOBAL IT SYSTEMS

Centrally managed, group-wide processes require a uniform infrastructure so they can be efficiently designed and standardized. Systems for digital data processing – IT systems – play a key role in these efforts: they ensure compatibility at all locations around the globe by using consistent data structures and interfaces, and enable standardized and automated processes that are not only less expensive, but also more robust and thus less susceptible to error.

At present, the R. STAHL Group’s IT system landscape is also highly complex: more than half a dozen different IT systems world-wide incur significantly higher costs than standard solutions, for example for the synchronization of data interfaces, system maintenance and support, or employee training. We have therefore set ourselves the target of reducing the number of IT systems and thus harmonizing our global system landscape and processes, in order to reduce costs and increase efficiency.



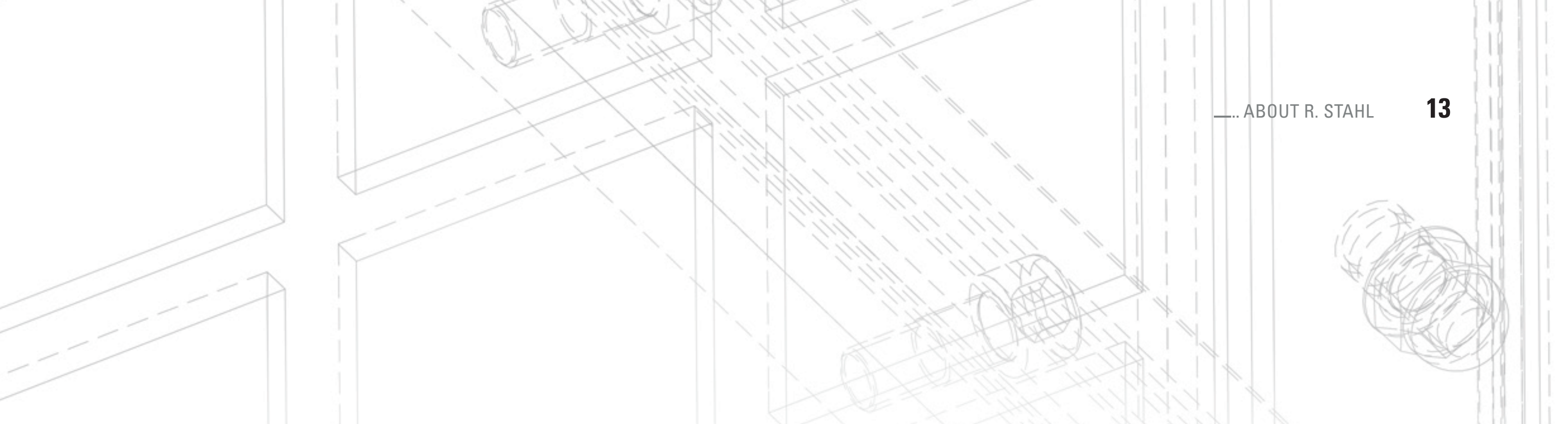
FOCUS ON INNOVATION

With the clear strategic goal of expanding our long-held position as a technology leader, we once again drove forward numerous developments in explosion protection in several product areas in 2017. The result: a market-changing enclosure technology, new highly efficient LED luminaires and improved automation solutions for Industry 4.0.

NEXT-GENERATION ENCLOSURE TECHNOLOGY: EXpressure®

The aim of explosion protection is quite simple really: to safely prevent explosions in technical installations. Reliable explosion protection solutions are based on the fundamental principle that four things need to occur simultaneously to trigger an explosion: there must be a combustible substance, an oxidizing agent, a source of ignition and a suitable ratio between the combustible substance and the oxidizing agent. The primary goal of explosion protection is to effectively avoid at least one of these conditions and thereby exclude the possibility of an explosion.

There are various technical approaches – known as explosion protection types – to achieving this aim. Most of them are geared towards preventing combustible and oxidizing substances from coming into contact, avoiding the specific mixture required for explosion, or keeping any source of ignition out of the way (primary explosion protection). However, there are some application fields where this cannot always be guaranteed with the necessary reliability. In these cases, the explosion protection concept is based on limiting the potential explosion to a small space and preventing it from spreading to the surrounding areas (secondary explosion protection). This is the basis of the protection type "Flameproof Enclosure" or "Ex d". In order to keep extremely high explosion pressures of up to 15 bar completely inside the enclosure, both during and after the explosion, the standard materials used to produce enclosures have long been stainless steel, aluminium or – for small enclosures – plastic. In the case of larger metal enclosures, such as those used for low-voltage switches and control or power distributions systems, the walls are up to three centimetres thick – leading to enormous enclosure weights and causing high costs for transport and installation. For the construction of more complex solutions, several enclosures may need to be connected in an explosion-protected and costly way.



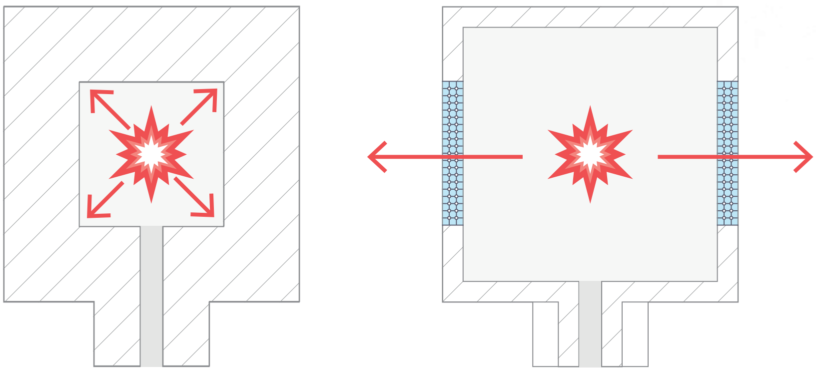
Already some years ago, R. STAHL therefore began to look for an alternative enclosure technology which overcomes these disadvantages while guaranteeing the same uncompromising level of explosion protection safety. After more than eight years of intensive research and development work, we succeeded in writing the next chapter in the history of major explosion protection innovations: in 2017, we received approval from the independent test and certification bodies DEKRA EXAM GmbH (Bochum) and PTB (National Metrology Institute of Germany, Braunschweig) for our completely new type of enclosure technology EXpressure®. It offers users the same level of explosion protection as previous flameproof enclosure designs, but with the significant advantages of weight savings, space savings and larger enclosure shapes.

For applications in which the transport and installation of large, heavy parts has significant cost disadvantages, our EXpressure® enclosures are clearly superior – for example on ships and oil rigs, but also in the chemical and pharmaceutical industry.

20%
SPACE SAVING

50%
WEIGHT SAVING

>100%
LARGER



Comparison of the functional principles of conventional "Ex d" enclosure with EXpressure®: Left: Thick-walled enclosures keep the resulting explosion pressure completely within the enclosure. This requires high wall thicknesses. Right: The explosion pressure is already released during the explosion via a special lattice structure.

The explosion pressure is already released during the explosion via a special lattice structure.

The benefits of EXpressure® are mainly based on its significantly thinner enclosure walls, which are just a few millimetres thick. This is made possible by the controlled release of explosion pressure over the course of the explosion inside the enclosure. The resulting maximum pressures are therefore within a range of just a few tenths of a bar – and thus up to a hundred times lower than in a conventional enclosure. At the same time, the ignition of an explosive atmosphere outside the enclosure is reliably prevented like it is with conventional solutions, by cooling the explosion gas to completely safe temperatures via lattices serving as heat exchangers.

New LED luminaires with emergency lighting function: the products we developed in 2017 closed a gap in this field. We now also offer our most powerful product portfolio of LED lights with an emergency lighting function: these either have their own rechargeable batteries on board or can be connected to central emergency lighting systems. As a result, safety-critical lighting stays operational even during power failures.

LEADING LED LIGHTING TECHNOLOGY EXPANDED

Modern luminaires using light-emitting diodes (LEDs) have considerably improved the design possibilities for intelligent and efficient lighting solutions in recent years. Due to their numerous technical benefits, sales of LED-based luminaires have enjoyed double-digit annual growth rates, while sales of conventional luminaires have steadily declined. And progress in this field remains rapid. Also at R. STAHL: within just a few years, we have become the market leader in highly efficient LED lighting solutions for areas exposed to explosion hazards. And we are continuing to expand this strong position with further developments.

LED luminaires optimize power consumption and maintenance costs: whereas LED technology initially focused on reducing power consumption, numerous other requirements were soon added. Modern lighting solutions have to meet high demands, especially with regard to service life and switch cycle stability. This not only saves energy costs but also maintenance costs, as defective bulbs need to be exchanged much less frequently – which also reduces downtime. In terms of life span, we soon recognized the importance for LEDs of heat dissipation and optimized their enclosures and control electronics in order to maximize the service lives of LED luminaires used in areas exposed to explosion hazards.

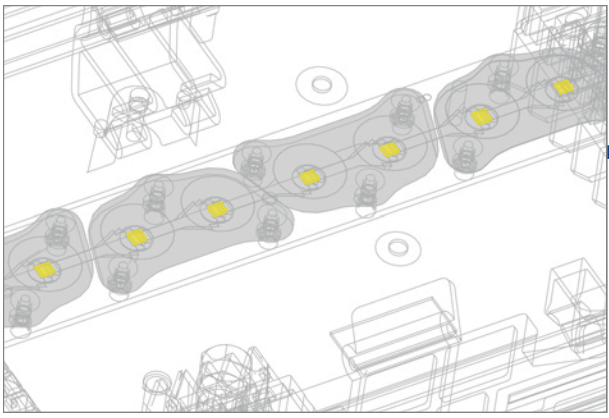
Besides to economic aspects, additional technical requirements are driving the demand for innovations in the field of LED-based lighting solutions. These include the colour of light, whose effects are even used in wildlife conservation: white light, which inherently also contains blue, attracts turtles in industrial plants along the Australian coast. This may lead to dangerous situations if the animals wander into areas which not only endanger their own lives but also the safety of the plant as a whole. For such application areas, R. STAHL has developed LED luminaires with a yellow colour that provide sufficient lighting for the plant personnel, but have no blue component so that turtles are not attracted.

R. STAHL's solution expertise not only includes a complete lighting portfolio, but also tailored lighting installations and customized planning offers, as well as powerful software for customer in-house planning.

UP TO
40%
LOWER ENERGY CONSUMPTION

ALREADY
50%
SHARE OF OUR LIGHTING SALES AFTER 6 YEARS

UP TO
70%
LONGER LIFE SPAN



Details of the new LED linear luminaire 6009. The explosion protection begins with the encapsulation of the LEDs (highlighted in yellow in the diagram) in a polycarbonate jacket (highlighted in grey in the diagram). This effectively prevents any explosive atmosphere which may be inside the luminaire from coming into contact with the electric arc created if an LED burns out. Other proactive safety features include current limiters and shutdown devices to prevent uncontrolled conditions within the luminaire in the event of a fault.

R. STAHL'S AUTOMATION TECHNOLOGY: EXPLOSION PROTECTION IN INDUSTRY 4.0

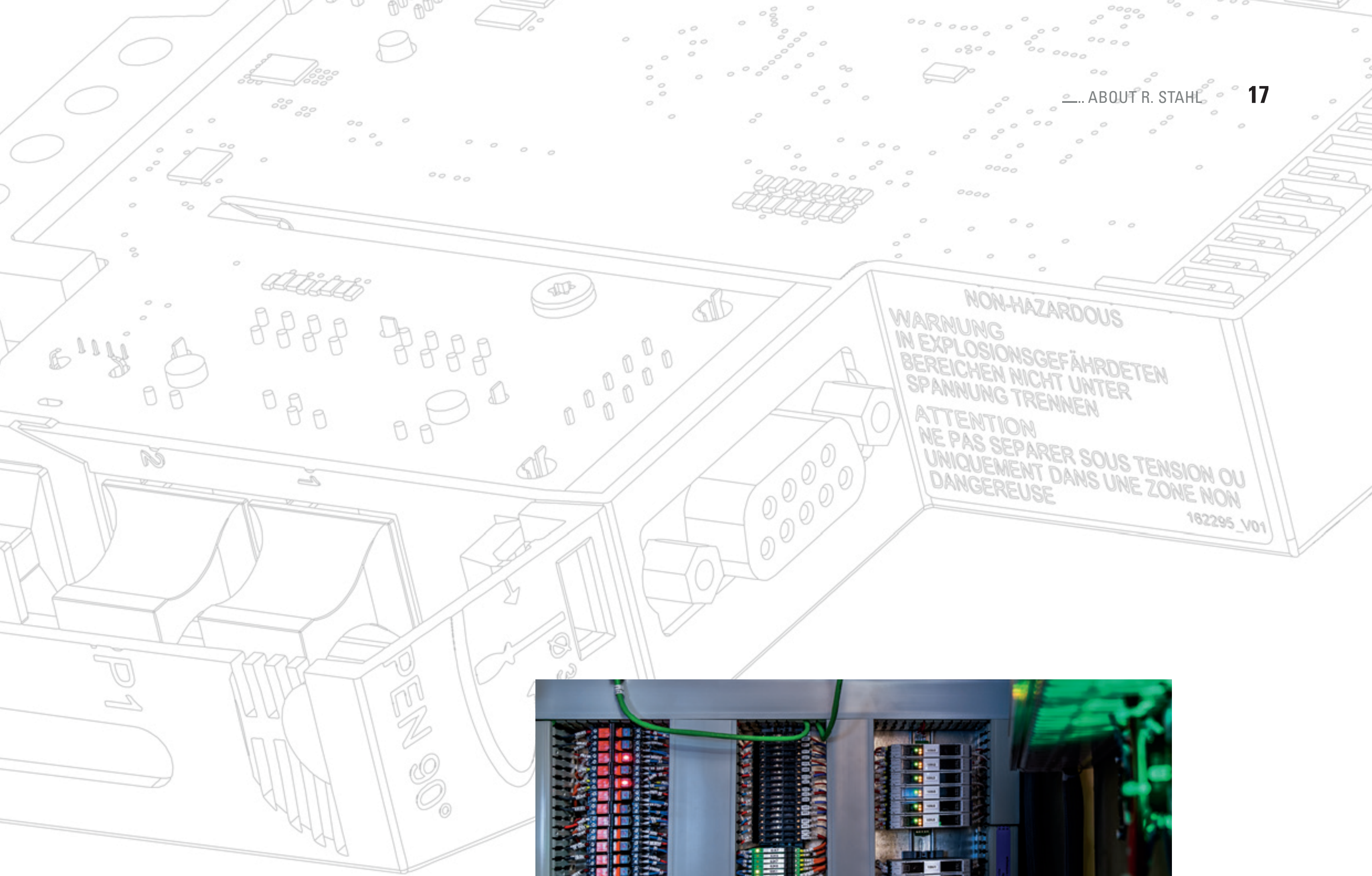
Advances in digital technology over the past few decades have fundamentally changed our lives: data and information have never been captured, processed and distributed as quickly as they are today. And this trend is set to continue. At the same time, automation and networking – and thus the smart control of industrial processes – are becoming increasingly important. Similar to the changes brought about by the invention of the steam engine, mass manufacturing or computer technology, dramatic progress is expected in all areas of society. Experts believe that the current fourth industrial revolution, or "Industry 4.0", will change entire industries and become a central lever for future competitiveness.

From the "Digital Oil Field" to working groups on "Modular Automation" – the optimization of processes via connections to the "Industrial Internet of Things" (IIoT) and the productive use of "Big Data" is becoming increasingly important for all areas of industry.

R. STAHL plays a leading role in shaping this trend – with its innovative, efficient interfaces and system solutions for use in process automation and network technology for Ex areas. In 2017, we strengthened our portfolio with the addition of further new products. The main focus was on the development of network components for wireless, wired and optical data transmission. With our Ethernet switches, media converters, terminals and access points, we now supply all components needed to set up complete digital IP-based infrastructures in Ex areas.

In addition, we expanded our market-leading remote I/O system with new communication modules and power supplies offering further value-adding features. Remote I/O systems are located at the very beginning of the digital data stream – they convert measurement and control signals from the process plant into digital data, which is then fed via plant-wide networks to complex control systems which manage the processes and analyze the process data.

The "9442" CPU modules and "9445" power modules we developed in 2017 are not only much smaller and capable of being used in even more extreme temperature ranges than their predecessors, they are also the first to provide all common communication protocols used in process automation in a single device.



Explosion-protected plant control solution taylor-made with key components from R. STAHL.

In addition, the new modules are equipped with preventive diagnostics to capture the stress on the devices throughout their entire life span. This means that possible outages can be flagged up early on, before they actually occur. The captured diagnostic data can be integrated into plant asset management systems which enable the planned and timely replacement of devices. This significantly reduces expensive downtime due to sudden, unplanned device failures – thus helping our customers to optimize their processes and costs.

TO
-40–75°C
EXPANDED
TEMPERATURE RANGE

BY
360°
ROTATABLE
MOUNTING

UP TO
100%
PROTOCOL SUPPORT
IN THE DEVICE

THE R. STAHL SHARE

Record stock market levels around the world

Strong global economic growth and rising company profits led to new highs on the international stock markets in 2017. Although markets were still cautious in the early part of the year amid uncertainty about the political course in the USA and parliamentary elections in Europe, fundamental data began to dominate sentiment as the year progressed. The European economy in particular displayed remarkably dynamic growth over the course of the year, contrary to initial expectations. Buoyed by these positive economic conditions and persistently low interest rates in the eurozone, the DAX passed the 13,000 mark for the first time on 12 October – despite strong appreciation of the euro since the beginning of the year. The SDAX also mirrored this trend with growth of around 28% over the year and an all-time high of 12,142 on 3 November.

New records were also set on the US stock exchanges. The Dow Jones already passed the 20,000 mark for the first time in late January and reached its year-high of 24,876 on 18 December. In addition to the robust economic trend, this surge was driven by expectations of an economic policy under President Trump which put US interests first. This sentiment was not even dampened by the initially restrictive monetary policy pursued by the US Federal Reserve.

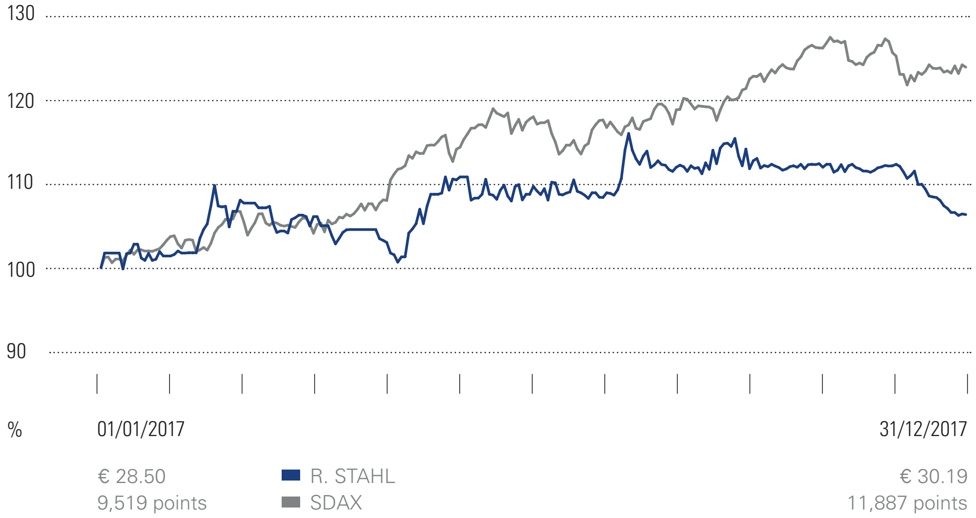
The R. STAHL share started the year at a price of € 28.50. Although its relative performance largely mirrored the SDAX in the first quarter, it began to lag behind increasingly as the year progressed. However, the share soon recovered from its year-low of € 28.40 on 25 April and made up lost ground on the SDAX almost completely, reaching a year-high of € 33.50 on 26 July. As a result of the downgraded full-year sales and earnings guidance on 9 November, the share price fell strongly, but was able to defend the € 30.00 line. The R. STAHL share closed the year at € 30.19 with growth over the year of 5.9%. During the same period, the SDAX grew by 24.9%.

Founding families hold majority of R. STAHL shares

More than 50% of shares in R. STAHL AG are held by shareholders from the extended circle of the founding families Stahl and Zaiser. Over 10% of share capital is held by RAG-Stiftung Beteiligungsgesellschaft mbH and a further 10% or so by Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte. In sum, institutional investors with voting rights subject to mandatory reporting requirements of 3% or more held around 26% of share capital at year-end.

Regular dialogue with our shareholders is very important to us. For this reason, the Executive Board attended several capital market conferences in 2017 and held discussions with individual investors. We publish additional information as interim, half-yearly and annual reports on our website. In addition, we give all interested investors access to our conference calls, which are held regularly by the Executive Board. Further detailed information, also on the R. STAHL share, can be found on our website www.r-stahl.com in the section Corporate/Investor Relations.

PERFORMANCE OF THE R. STAHL SHARE VS. SDAX 2017 [1)]



Key figures of the R. STAHL share [2)]

€	2017	2016
Number of shares (in thousands)	6,440	6,440
Market capitalization on 31 December (€ million)	194.4	183.5
Year-low (25 April 2017/7 June 2016)	28.40	27.00
Year-high (26 July 2017/4 January 2016)	33.50	33.60
Year-end price (31 December)	30.19	28.50
Average daily trading volume (number of shares)	1,201	1,304
Earnings per share	-3.28	0.64
Dividend per share	– [3)]	0.60
Dividend yield at year-end (%)	n/a	2.1

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

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

CONSOLIDATED FINANCIAL INFORMATION

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

GROUP MANAGEMENT REPORT

BASIC PRINCIPLES OF THE GROUP

BUSINESS MODEL

Standards and regulations for explosion protection

We encounter combustible gases, liquids and solids in many areas of our daily lives and working activities: as fuel for vehicles, as energy sources to generate electricity and heating, as raw materials in the chemical industry. These substances all require careful handling in order to minimize the dangers they present to humans and the environment. One particular danger is when combustible substances mix with specific ratios of oxygen in the air, the so-called explosion limits. Any ignition of such mixtures does not lead to burning, but to an immediate explosion – with potentially grave personal injuries and damage to property. In particular, the risk posed by combustible dusts has long been underestimated – hardly anyone assumes that, for example, meal dust used in the food industry or sawdust accumulating in wood processing companies can actually explode. However, when mixed with oxygen in a suitable ratio, the danger posed by such dusts is in no way inferior to that of liquid fuels such as petrol or combustible gases such as natural gas. Just how impressive such dust explosions can be is illustrated by the film industry, which uses them in a controlled manner for their pyrotechnic effects.

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

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

Market with high entry barriers

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

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

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

Our electrotechnical products and complex systems are designed to protect people, machines and the environment from the dangers of undesired explosion events with the highest possible degree of reliability. They are mainly used in the oil and gas industry, as well as in the chemical and pharmaceutical industry. On the basis of the products and services we offer, we are the clear market leader in Europe and rank second worldwide. Our solutions cover the entire value chain in explosion protection: individual components such as switches and signalling devices for simple applications, to control boxes and system controls for the distribution of electrical energy, to complex systems for large-scale projects in the field of oil and gas production or the (petro-) chemical industry, for example. We are the global market leader for lighting solutions in areas exposed to explosion hazards – from hand-held spotlights to dedicated helideck lighting systems for oil rigs. In addition, we offer a strong portfolio of automation solutions for controlling and monitoring technical facilities, including the market-leading remote I/O system, IS1+, as well as operating units and camera systems. Moreover, our expertise in the systems business – one-stop solutions for complex individual problems and customer requirements – is unique throughout the world. A major pillar here is our engineering and consulting expertise, which we are continually enhancing with further services. All of our products and services meet the highest safety standards, reflecting almost 100 years of experience in the field of explosion protection.

Global sales organization and production facilities of the R. STAHL Group

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

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

At the end of 2017, R. STAHL's 29 subsidiaries were active in 24 countries on all continents with a further 50-plus representative offices around the world and seven production sites with different core competencies. Lighting and signalling devices are produced mainly in Weimar, Germany, and Chennai, India, while automation technology products are developed and manufactured in Cologne and our main base in Waldenburg. Most of the components for installation, such as switches, terminal boxes and connectors, are also produced in Waldenburg. Customized equipment and more complex explosion protection systems are produced in Waldenburg, as well as by the subsidiaries Electromach B. V. (Hengelo, the Netherlands), R. STAHL TRANBERG AS (Stavanger, Norway) and R. STAHL Inc. (Houston, USA). A particular area of expertise of the Hengelo facility is also the production of large container solutions, while in Stavanger the main focus is on products for shipbuilding and the oil and gas industry.

Skilled and motivated staff

Skilled and motivated employees are a major success factor for a globally operating, leading technology company like R. STAHL. In the competition for top-performing specialists, we take a variety of approaches to ensure we remain an attractive employer for our existing employees and successfully attract new staff. This starts with our efforts to provide schoolchildren and school leavers with initial orientation on possible future careers. In the past financial year, for example, we played a leading role in organizing a career information day at our Waldenburg site, together with 15 other employers offering apprenticeships in the region, which was attended by more than 200 young people. Our apprenticeship programme is also highly acclaimed: in 2016, our site in Waldenburg received the DUALIS seal of the Heilbronn-Franconian Chamber of Commerce (IHK) for a further five years. One of the reasons is that we attach great importance to in-depth, comprehensive and best-in-class quality in our vocational training. For example, we also offer staff the possibility to spend time at our international subsidiaries. We also offer special support for women interested in choosing technology-oriented careers. To ensure employees are given the best possible conditions for achieving their personal career goals, we offer extensive training opportunities and flexible working time models for a healthy work-life balance. These offerings are rounded off by numerous sports and healthcare programmes.

As of 31 December 2017, the R. STAHL Group employed 1,763 people (31 December 2016: 1,788). In addition, there were 80 apprentices and students (31 December 2016: 89) and 30 employees completed their apprenticeship or dual study course in the reporting period. The decrease in employees with unlimited contracts was mainly at our American and Asian sites due to the adverse market environment.

OBJECTIVES AND STRATEGIES

We have set ourselves the goal of achieving sustainable and profitable growth, thereby steadily raising our company value. To this end, we continue to develop our existing product and service portfolio in line with the needs of our customers. We strive to generate earnings with strong products and services in all our business segments and client industries, regardless of the trend in individual markets. Our focus is on an attractive product portfolio, a diversified customer base and competitive cost structures.

The past few years have shown that our existing corporate structures and processes were insufficiently capable of securing our profitability under adverse market conditions. Our top priority at present is therefore to restore profitability. We intend to achieve this with a number of measures aimed at realigning the Group's activities, focusing on three core areas:

1. Creation of a global corporate organization with uniform group-wide processes
2. Optimization of the R. STAHL product portfolio
3. Harmonization of our global IT systems

Aimed at significantly reducing complexity while at the same time raising the efficiency of our processes, these measures are to be largely completed by the end of 2019. In this way, we can create the necessary conditions and scope to fully exploit the opportunities for sustainable and profitable growth arising in our markets:

Leverage strong market position in the oil and gas sector

For suppliers of explosion protection products, the oil and gas sector is by far the largest and most important market. Demand for fossil fuels and raw materials will continue to grow in future. We aim to leverage our strong standing in this sector, especially in the systems business and the handling of large-scale projects, in order to benefit more than average from the emerging recovery in this sector. Our regional focus will be on Russia, the Middle East and Africa.

Drive diversification of customer base

The huge importance of the oil and gas sector for explosion protection involves both opportunities and risks. Changes in supply and demand can significantly impact price trends in both directions. The resulting volatility in sales and earnings presents a considerable challenge for suppliers – including R. STAHL. In order to reduce the influence of the oil and gas industry on R. STAHL's economic development, we want to expand our business in industrial sectors outside the oil and gas sector. Our focus is mainly on the chemical and pharmaceutical industries, but also on the areas of food production and general plant construction.

Develop product portfolio along customers' needs

Technical progress also brings changes in the regulatory requirements for explosion protection products. As a leading supplier in this field, we jointly shape the ongoing development of our markets and provide the necessary cutting-edge products and solutions. In line with our strategic objective of maintaining innovation leadership in explosion protection, we channel a significant proportion of our resources into developing new products that provide a high degree of added value to our customers.

At the same time, we have set ourselves the goal of expanding our range of training courses and support during the commissioning process with new safety-relevant services and planning support. In this way, we can offer our customers solutions for the systematic maintenance of operational safety and the safety management of their plants and processes.

MANAGEMENT SYSTEM

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

Financial and non-financial indicators

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

The key earnings indicator EBITDA pre exceptionals is calculated from earnings before interest, taxes, depreciation and amortization (EBITDA), without consideration of exceptional items. Such exceptional items include all effects on earnings which are not regular components of our business model, such as restructuring charges, non-scheduled depreciation and amortization, charges for design and implementation of IT-projects, M&A costs, as well as profit and loss from the disposal of non-current assets no longer required for business operations. As part of the annual planning process, we set targets for EBITDA pre exceptionals that are also an important basis for measuring the variable income components of our employees. Each of our Group's companies submits a monthly income statement and balance sheet, which we use to prepare the Group's consolidated figures and steer the overall performance of the Group.

We believe that sustainable and profitable growth also requires the consideration of non-financial performance indicators. Our non-financial Group statement, which we published in April 2018 under https://r-stahl.com/en/global/corporate/corporate-responsibility/, describes the indicators used by the Group.

Planning process

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

RESEARCH AND DEVELOPMENT

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

In view of the central importance of innovation for our strategic alignment, we continued to drive the further development of our product portfolio in 2017 with new, value-adding solutions – despite the persistently adverse market conditions. Our R&D activities focused on the further expansion of our product range in the field of enclosure systems, LED luminaires and automation.

We achieved a major breakthrough with the development of a completely new enclosure technology for explosion protection, EXpressure®. After passing the approval tests of PTB (Germany's national metrology institute) and DEKRA EXAM GmbH, the certificates for the first model sizes provide both evidence of unrestricted explosion protection as well as the necessary documents for market launch. The first field tests of EXpressure® enclosures with selected customers were started during the reporting period. The market roll-out and presentation to industry experts at trade fairs is planned for the first half of 2018. During the development of EXpressure®, we continuously secured our findings with the aid of patents.

We expanded our range of LED linear luminaires with versions that feature innovative emergency lighting functions, thereby closing an important gap in our portfolio. We now offer luminaires for all application areas in areas exposed to explosion hazards.

We are actively driving the topic of "Industry 4.0" and the integration of electronic components in networked structures with our new and improved products in the field of automation. In the reporting year, we developed new remote I/O systems, including new processor units and power supplies for the Ex Zone 2 which can now also be used in an extended temperature range of -40 to +75 degrees Celsius. For the connection of the individual system components with each other, we also rolled out cable and fibre optic-based, as well as wireless, network technology components. In addition, we added new isolators to our portfolio: with a width of just 12.5 mm, they require 30% less space than their predecessors but, as usual, are fully compatible with the previous systems.

Our expenses for research and development in the reporting period amounted to € 17.5 million (2016: € 16.6 million) and thus represented 6.5% of sales (2016: 5.8% of sales). 31.0% of development costs were capitalized in the reporting period (2016: 28.3%), and capitalized development costs were depreciated by € 3.3 million (2016: € 3.3 million).

ECONOMIC REPORT

GENERAL CONDITIONS

Macroeconomic conditions

Increasingly robust growth of global economy, strong decline in US dollar

Following a slight slowdown in the previous year, global economic growth picked up pace again in 2017. In its assessment of January 2018, the International Monetary Fund (IMF) puts the year-on-year increase in global gross domestic product at 3.7% (2016: 3.2%). With year-on-year growth of 4.7%, the strongest increase in 2017 was recorded in the emerging markets – led by the Asian nations with growth of 6.5%. Whereas Asia's largest economy, China, posted a further slight increase to 6.8% compared to the previous year (2016: 6.7%), the rate of growth in India slowed to 6.7% (2016: 7.1%). However, the IMF calculates that both Russia and Brazil – whose economies had shrunk in the previous year – returned to positive growth in the reporting year, with increases of 1.8% and 1.1%, respectively.

Robust growth of 2.3% is assumed for the USA – and for the entire group of industrialized nations. According to IMF estimates, the eurozone as a whole grew by 2.4% (2016: 1.8%), albeit with significant differences between the major economies. Whereas the Italian economy brought up the rear with growth of 1.6%, Spain posted an increase of 3.1%. Growth in Germany is thought to have reached 2.5% (2016: 1.9%). The IMF believes that the UK economy is suffering increasingly from unresolved problems associated with its exit from the European Union, resulting in a further slowdown of economic growth to 1.7% (2016: 1.9%). With growth of 1.0%, the Swiss economy posted its lowest rate of the last five years (2016: 1.4%).

Given the initial forecasts at the beginning of 2017, the development of the euro against the US dollar – the world's leading currency – was surprising. An expected rise in US interest rates had driven the exchange rate up to 1.0341 US$/€ as of 3 January, and market observers were already predicting the imminent achievement of parity (an exchange rate of one euro for one US dollar). In March, however, the trend began to move in the opposite direction. The US dollar fell against the euro to 1.2093 US$/€ as of 8 September, and thus returned to its level of January 2015. The main reasons for this unexpected change were thought to be the uncertainty surrounding US economic policy, which had weakened the dollar on the one hand. On the other hand, worries about a potential collapse of the eurozone at the beginning of the year had subsided over the course of the year, leading to greater political stability in the eurozone and thus a strengthening of the euro.

Sector-specific conditions

Oil price recovered from low levels of previous year, but still comparatively low

While the price of crude oil was still at its lowest level since September 2003 at the beginning of the previous year, the recovery that began in the first quarter of 2016 continued in the course of 2017 – albeit at a low level. Following a sideways trend in Brent crude oil prices at around the US$ 55 per barrel mark in the period up to March, an initial decline to around US$ 45 per barrel by mid-2017 was followed by an increase to around US$ 65 per barrel by year-end. The annual average oil price of US$ 54.74 per barrel in 2017 was 21% higher than in the previous year (2016: US$ 45.26 per barrel).

In its monthly report on the oil market of November 2017, the Organization of the Petroleum Exporting Countries (OPEC) noted that global crude oil stockpiling had increased rapidly from 2014 to February 2016 and reached a five-year high in the OPEC countries. At the end of 2016, OPEC and certain non-OPEC oil producing countries had therefore signed a Declaration of Cooperation with the aim of reducing their high inventories and returning to sustainable stability of the oil market. As OPEC noted in its monthly report on the oil market of February 2018, the increase in global demand in 2017 of 1.6 million barrels a day was well above the expansion of global production of just 0.8 million barrels a day. Although the non-OPEC countries had increased daily production by 1.0 million barrels, the OPEC countries countered with production cuts of around 0.2 million barrels per day. The resulting significant reduction in inventories here led to rising oil prices on the world market. OPEC has announced its intention to continue this stabilization of the oil market in the current year.

Crude oil production costs continue to decline – supplier industry still under pressure

In response to the accelerated price decline in early 2016, the oil production and processing industry continued to adapt its business and production processes to the changed crude oil price situation during the reporting period. According to an analysis of the consultancy firm Rystad Energy in February 2017, the cost of producing crude oil from shale in the USA was more than halved to less than US$ 30 per barrel between 2012 and 2016.

Similarly, oil producers in the European North Sea region reduced their production costs from over US$ 80 per barrel to less than US$ 35 a barrel in the period 2013 to 2017. In addition to efficiency gains, these savings were achieved in part by lengthening maintenance intervals and delaying new investments. This in turn has led to a significant fall in sales for suppliers to this sector as a result of reduced volumes and increased price pressure. In a report published in September 2017, Rystad Energy predicted a return to increased investment in the oil production industry in the low single-digit range for 2017, following double-digit cuts in the last two years. However, most suppliers were unable to benefit from this recovery in the reporting period, as it will only be reflected in rising orders and sales after a certain time delay. As oil and gas are more or less in direct competition as fossil fuels and raw materials, the trend for the gas production and processing industry was largely identical.

Robust sales growth for chemical and pharmaceutical industry

According to data for 2017 published by the German chemical industry association (VCI) in February 2018, German chemical and pharmaceutical producers increased output by 3.8% compared to the previous year. At 6.2%, growth was more than twice as high for pharmaceutical than for chemical products, whose output rose by 2.5%. The largest contribution to the strong growth in chemical products came from sales of detergents and toiletries, which grew by 4.7%. According to VCI estimates, global production in the chemical and pharmaceutical industry grew by 3.9% in 2017. We estimate that global sales of explosion-protected equipment in the chemical industry were around US$ 0.9 billion and in the pharmaceutical industry around US$ 0.7 billion in 2017.

Growth in order intake of German electrical industry reaches double-digit figures in some cases

As a supplier of electrical and electronic safety technology for Ex areas, the economic data collected by the German Electrical and Electronic Manufacturers' Association (ZVEI) is the most important sector indicator for R. STAHL. According to the ZVEI report of February 2018, order intake in Germany rose by 9.7% in 2017. The 8.5% increase in domestic demand was exceeded even by 10.6% growth in foreign orders. The 10.5% rise in orders from customers in the eurozone was comparable to that of non-EU countries, which increased by 10.7%. Growth in sales was slightly slower, but still climbed 7.2% to a record € 191.2 billion in 2017. With growth of 8.8% to € 99.7 billion, exports fared better than domestic sales, which rose by 5.3% to € 91.5 billion. Adjusted for price changes, output of the German electrical industry rose by 4.7%.

BUSINESS DEVELOPMENT

Disappointing business development despite signs of recovery in demand

2017 was a disappointing financial year for R. STAHL: there were decreases in both sales and earnings. Despite signs of a slight recovery as the year progressed, with an increase in order intake of 0.4% to € 284.1 million (2016: € 282.9 million) and significant growth in the order backlog of 14.5% to € 92.3 million at year-end (2016: € 80.7 million), sales fell by 6.3% year on year to € 268.5 million (2016: € 286.6 million). There are two main reasons for this trend: firstly, order backlog at the beginning of the year was comparatively low at € 80.7 million. Secondly, the lag between order intake and sales in the capital goods sector during changes in economic trends is not uncommon as large orders, especially in plant construction, are always awarded long before the goods are delivered and revenue can be recognized. In the reporting period, however, this problem was compounded by the fact that the average period between contract award and order delivery was much longer than in the previous years. This was largely due to delays in the final technical clarifications needed for production launch, especially in the systems business. The decline in sales had a significant impact on earnings: at € -6.7 million, there was also a decline in earnings before interest and taxes (EBIT) pre exceptionals (2016: € 7.4 million).

Target achievement 2017

Following the strong decline in business in our previous financial year, we initially anticipated a slight recovery in demand and sales at the beginning of 2017, as both the macroeconomic and sector-specific forecasts indicated economic growth. With this in mind, we forecast order intake for the reporting period in the range of € 295 million to € 305 million in April. Due to our low order backlog position, we initially anticipated a weak first half-year for sales, followed by a stronger second-half as we expected order intake to pick up over the course of the year. The full-year sales guidance issued in April was therefore in the range of € 285 million to € 295 million with EBIT pre exceptionals of between € 3.5 million and € 7.5 million.

Although our assessment of a recovery in demand and rising orders was confirmed in the following months, sales recognition became increasingly delayed. As a result, we were able to confirm our guidance for order intake on publication of our half-yearly financial report in August, but had to downgrade sales guidance to a range of € 270 million to € 280 million and EBIT pre exceptionals to a range of € -4 million to € 0 million. In addition to weak demand, the sales trend was also affected by unfavourable exchange rate effects among our major foreign currencies.

On publication of our interim report for the third quarter in November, order intake guidance had to be reduced slightly to between € 290 million and € 300 million as it became apparent that part of the expected orders for the reporting period would not be received until the following year. The adjustment to sales guidance was more pronounced. Technical clarifications required for certain large-scale projects had resulted in further delays and production plans had to be pushed back to the following year. Against this backdrop, we downgraded our sales guidance in November to a range between € 262 million and € 267 million with EBIT pre exceptionals of between € -8 million and € -4 million for the reporting period. Although order intake of € 284.1 million at year-end fell slightly short of expectations, sales of € 268.5 million were slightly above the expected range. EBIT pre exceptionals of € -6.7 million was within the guidance range.

€ million	Fiscal Year 2016	Guidance April 2017	Guidance August 2017	Guidance November 2017	**Fiscal Year 2017**
Order intake	282.9	295 to 305	295 to 305	290 to 300	284.1
Sales	286.6	285 to 295	270 to 280	262 to 267	268.5
EBIT pre exceptionals [1)]	7.4	3.5 to 7.5	-4 to 0	-8 to -4	-6.7
ROCE (in %)	4.1	slight to noticeable decline	–	–	-5.8

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

HIGHLIGHTS 2017

In the year under review, we achieved a number of important strategic goals. The main focus was on the expansion of our range of value-adding solutions for our customers.

Cooperation agreed with AGU for expansion of business with services

Holistic solutions have long been a strength of R. STAHL – and one of the key factors which have helped us quickly achieve market leadership in the systems business. In future, we not only want to provide our customers with market-leading devices and systems, but increasingly also offer them a wider range of services.

In 2017, we took an important strategic step towards expanding our service offerings. Functional and legal requirements, cost pressure and the prevention of danger in explosion-protected plants ("Ex plants") represent growing organizational and technical challenges for plant operators. At the same time, new technological concepts demand rapidly available information about technical systems and system parts at the installation site via mobile devices, such as tablets and smartphones. Our cooperation agreement with AGU Planungsgesellschaft für Automatisierungs-, Gebäude- und Umwelttechnik mbH, Leverkusen, Germany, which we signed in June 2017, has expanded our range of services to include innovative industrial software solutions for the holistic inspection and maintenance support of Ex plants as well as plant safety. The move pools the software and solution expertise of AGU with R. STAHL's market-leading position in plant safety and explosion protection.

AGU's own globally unique software solution, PEC, offers technical plant operators completely new possibilities to comply with legal requirements in the three central inspection areas: explosion protection, functional safety, and operational safety and quality. PEC replaces the often heterogeneous data storage solutions of companies, thus ensuring the quality and reliability of the data. PEC combines all relevant requirements in a single system that provides data and process interfaces to the industry-standard ERP, documentation, CAE and engineering systems. In this way, PEC connects the hitherto isolated and heterogeneous world of plant audits with the networked enterprise environment – an essential factor for meeting and ensuring plant requirements for which compliance with the highest safety standards has top priority. With the aid of the coordinated modules PEC-EX, PEC-FS and PEC-SQ, all relevant tests – such as those according to German Health and Safety at Work Regulations (BetrSichV), IEC 60079-17, IEC 61508, IEC 61511 or VDE – can be completed in a carefully planned, paperless and resource-saving manner. During the development of the system, great importance was already attached to a simple, practical and easy-to-learn operating concept. PEC thus offers plant operators unique possibilities to monitor the status of their operations and successfully manage the necessary audits.

As part of our cooperation with AGU, we market the software solution PEC via R. STAHL's sales organization and can thus quickly expand its market penetration. We also provide various services connected with the implementation and use of the database, such as the migration of the customer's existing machine data to the PEC database. In addition, we see the possibility of swifter and more targeted provision of maintenance-relevant products for our customers so they can further enhance the operational safety of their equipment. In 2017, we created the necessary organizational structures for the expansion of our service business and the marketing of PEC.

New products to extend our technological lead in explosion protection

Innovations play a key role in R. STAHL's strategic alignment: with new products, we help our customers operate their processes and systems even more safely and efficiently. At the same time, we are extending our technological lead and strengthening our market position, competitiveness and growth opportunities over the long term. In the reporting period, we once again developed numerous innovative new products, the most important of which are described more closely in the front section of this report in the chapter Research and Development of the section Basic principles of the Group.

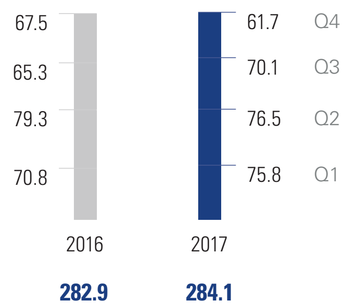
FINANCIAL POSITION AND PERFORMANCE

EARNINGS POSITION

Slight year-on-year increase in order intake, double-digit growth in orders from Germany

At € 284.1 million, we achieved a slight year-on-year increase in order intake of 0.4% in 2017 (2016: € 282.9 million). A strong performance in the first three quarters of the year, in which orders rose by 3.2%, was dampened by a comparatively weak final quarter.

ORDER INTAKE BY QUARTER (€ MILLION)



From a regional perspective, there were significant differences in the development of order intake: whereas demand in Germany improved strongly, orders in Asia and the Central region declined. Order intake in the Americas remained at the low prior-year level.

Due to targeted sales initiatives and resulting major orders with general contractors for the construction of chemical plants, order intake in **Germany** rose by 13.1% to € 69.6 million (2016: € 61.5 million). Final orders for a newly constructed liquid gas plant in eastern Europe also contributed to to this trend.

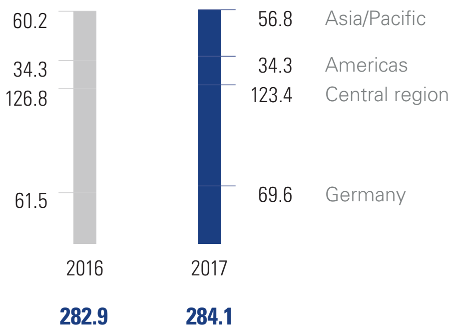
In the **Central region** – comprising Africa and Europe without Germany – order intake of € 123.4 million was 2.8% below the prior-year figure (2016: € 126.8 million). This was largely due to weak demand in northern Europe, which was only partially offset by projects in the Middle East.

At € 34.3 million, orders received in the **Americas** were unchanged from the previous year (2016: € 34.3 million) and driven by the oil and gas sector as well as the chemical and pharmaceutical industry.

The strongest percentage decline was in the region **Asia**, where orders fell by 5.5% to € 56.8 million (2016: € 60.2 million). Although the number of enquiries increased once again, the order situation remained sluggish – especially in our project business.

At year-end 2017, the order backlog of € 92.3 million was 14.5% up on the previous year (2016: € 80.7 million).

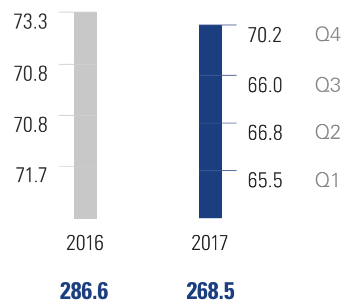
ORDER INTAKE BY REGION (€ MILLION)



Sales trend down, Central region and Americas weak

Compared to the previous year, sales fell by 6.3% to € 268.5 million (2016: € 286.6 million). As with order intake, there were differences in the regional trends: in Germany and Asia, sales were largely on a par with the previous year, while sales in the Central region and the Americas fell sharply. In addition to falling volumes and pressure on prices, this trend was exacerbated by adverse exchange rate fluctuations. Sales in all quarters failed to reach the corresponding prior-year figures.

SALES BY QUARTER (€ MILLION)



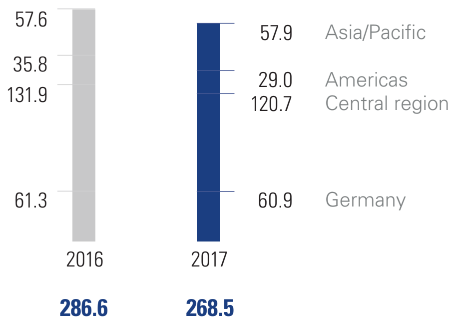
In **Germany**, there was a moderate year-on-year decline in sales of 0.7% to € 60.9 million in 2017 (2016: € 61.3 million). This significantly weaker trend compared to the double-digit growth in order intake illustrates the longer lead times of orders received in the reporting period, many of which will be delivered in 2018 only.

Sales in the **Central region** fell by 8.5% to € 120.7 million (2016: € 131.9 million), due in particular to the very strong previous year: deliveries in 2016 for our biggest-ever project order to equip a gas production and processing plant in northern Russia had led to high sales. As there were no deliveries of this scale in the reporting period, sales were down on the previous year.

As in 2016, we suffered the strongest percentage decline in sales of 19.1% to € 29.0 million in the **Americas** region (2016: € 35.8 million). This was once again due to weak order intake in the preceding period – above all in our project business and with companies serving the oil production industry. Further contributing factors included delays in the technical clarification of orders.

In the reporting period, **Asia** was the only region to report slight growth. Compared to the previous year, we raised sales by 0.6% to € 57.9 million (2016: € 57.6 million). The strong order backlog position at the beginning of the year was processed and brought to delivery according to plan.

SALES BY REGION (€ MILLION)



Low sales weigh heavily on earnings

The weak sales trend in 2017 had a significant impact on earnings: at € -10.7 million, earnings before interest and taxes (EBIT) were around € 20 million below the prior-year figure (2016: € 8.8 million). In addition to the fall in sales, this was also due to exceptionals of € -4.0 million, compared to a positive contribution from exceptionals of € 1.4 million in the previous year.

With a decline of 5.2%, total operating performance fared slightly better than sales. Other operating income fell by 37.9% to € 8.0 million (2016: € 12.9 million), mostly due to lower positive exceptionals in the reporting period. In the previous year, exceptionals from the sale of a plot of land in Waldenburg had generated profit of € 2.3 million.

With a decrease of 1.0% to € 100.1 million (2016: € 101.1 million), material expenses fell much more slowly than sales in the reporting period. This trend mainly reflects detrimental changes in the product mix and increased pressure on prices. Compared to the previous year, personnel expenses rose by 2.4% to € 121.1 million (2016: € 118.3 million). Depreciation and amortization decreased by 3.1% to € 13.0 million (2016: € 13.4 million), mainly due to reduced capital expenditure in the last two years. There was a 3.0% decline in other operating expenses to € 54.0 million (2016: € 55.6 million), resulting largely from the reduced use of temporary staff at the Waldenburg site.

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

€ million	2017	2016	Change	included in income statement under
EBIT	**-10.7**	**8.8**	**-19.5**	
Exceptionals [1]	**-4.0**	**1.4**	**-5.4**	
Restructuring charges	**-3.5**	**-0.3**	**-3.2**	
Severance pay	-2.2	-0.3	-1.9	Personnel costs
Goodwill impairment [2]	-0.5	0	-0.5	Depreciation and amortization
Other	-0.8	0	-0.8	Other operating expenses
M&A costs	**-0.5**	**-0.6**	**0.1**	Other operating expenses
Disposal of non-current assets no longer required for business operations	**0**	**2.3**	**-2.3**	Other operating income
EBIT pre exceptionals	**-6.7**	**7.4**	**-14.0**	
EBITDA	**2.3**	**22.2**	**-19.9**	
Exceptionals [2]	**-3.5**	**1.4**	**-4.9**	
EBITDA pre exceptionals [2]	**5.8**	**20.7**	**-15.0**	

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

2) Goodwill impairment of € -0.5 million disclosed as an exceptional is not to be considered in the reconciliation of EBITDA to EBITDA pre exceptionals.

Financial result significantly improved, net profit burdened by one-off value adjustments to tax balance sheet items

There was a significant improvement in the financial result of 34.6% to € -1.9 million compared to the previous year (2016: € -3.0 million). This trend was influenced by the first full-year inclusion of income from the investments made in ZAVOD Goreltex and Esaco Pty. Ltd. in the second half of 2016. In total, earnings before taxes (EBT) amounted to € -12.6 million (2016: € 5.8 million). The unexpectedly weak net profit of € -21.2 million (2016: € 4.2 million) includes adjustments to the recoverability of deferred taxes on loss carryforwards which led to an additional burden of around € 11 million. In sum, this resulted in earnings per share of € -3.28 for 2017 (2016: € 0.64).

FINANCIAL POSITION

Principles and objectives of financial management

The aim and task of our financial management is to secure the sound financial position of the R. STAHL Group and provide sufficient funds for the Group's companies in order to carry out their business operations. Moreover, we ensure that the funds required for investment projects are available. To this end, we have established monthly rolling liquidity planning. This includes the funds required for activities of our individual subsidiaries, which we cover by means of internal Group loans or external bank loans. As part of our cash management, we manage the Group's credit, interest rate and currency risks. We hedge against such risks by using standard derivative financial instruments based exclusively on our underlying core business.

Financial analysis

The Group's funding requirements are managed centrally from our headquarters in Waldenburg. There is a cash pooling system for R. STAHL AG and the main German subsidiaries to balance out financial requirements: surplus liquidity of individual Group companies is used to cover the funding requirements of other subsidiaries. This reduces our borrowing needs and thus our interest expenses. If external funds are necessary, foreign subsidiaries finance themselves via R. STAHL AG or local banks. The parent company provides guarantees for these credit lines.

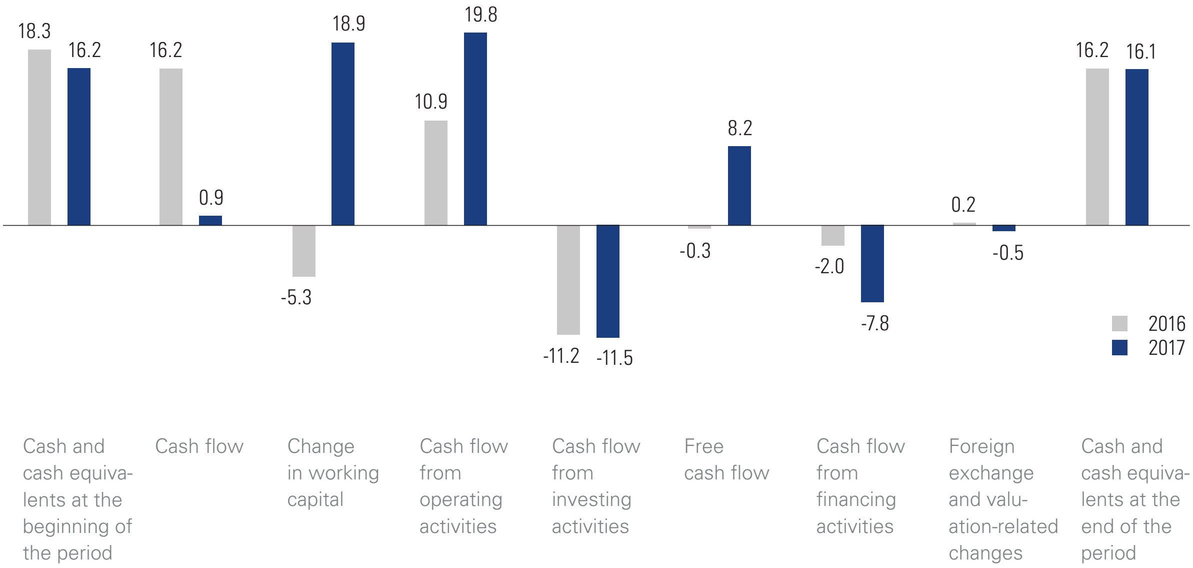
Our funding requirements are covered by a syndicated loan agreement as well as bilateral loan agreements. The syndicated loan agreement concluded in September 2015 has a term of five years comprising a cash credit line of € 95 million with an expansion option of € 25 million for acquisitions. Additional agreements on this loan were made with the respective banks in December 2017. Detailed disclosures on these agreements are presented in the risk report section of this Group Management Report. There are bilateral loan agreements in the form of cash lines totalling € 12.1 million and guarantee lines totalling € 4.8 million. In addition, there are several bilateral loans with a value of € 15.4 million as of the end of the reporting period.

Cash flow statement

As a result of the negative earnings trend, there was a year-on-year decline in cash flow of 94.6% to € 0.9 million in 2017 (2016: € 16.2 million). By contrast, we raised cash flow from operating activities by 81.4% to € 19.7 million (2016: € 10.9 million) due to a strong year-on-year improvement in working capital of € 24.2 million to € 18.9 million. This resulted from a reduction in receivables and increased trade payables as well as from lower inventories due to the fall in sales. Despite a 16.6% decrease in capital expenditure to € -10.4 million (2016: € -12.5 million), there was an overall increase in cash flow from investing activities of 2.9% to € -11.5 million (2016: € -11.2 million) due to the final payment for the investment in ZAVOD Goreltex made in the first quarter. Free cash flow improved strongly year on year to € 8.2 million in the reporting period (2016: € -0.3 million).

At the Annual General Meeting 2017, R. STAHL's shareholders approved a dividend payment of € 0.60 per voting share. This corresponds to a total cash outflow of € 3.9 million. In addition, we reduced net financial liabilities by € 3.8 million. There was a corresponding decline in cash flow from financing activities to € -7.8 million (2016: € -2.0 million). At the end of the reporting period, R. STAHL had cash and cash equivalents of € 16.1 million (2016: € 16.2 million).

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



Rating

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

ASSET POSITION

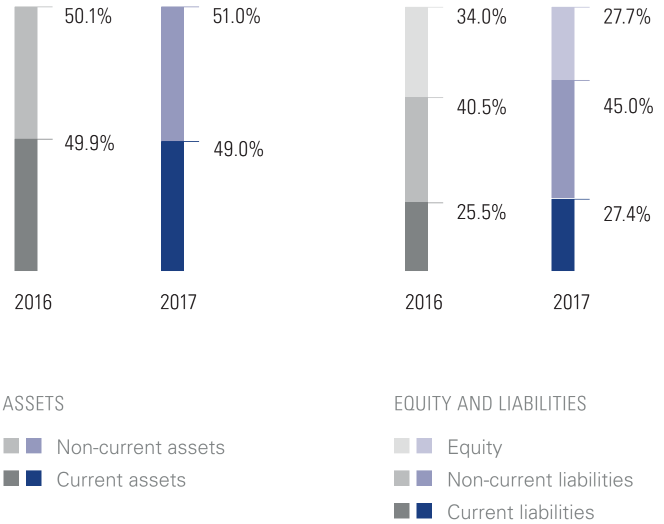
As of 31 December 2017, R. STAHL's balance sheet total was € 29.0 million down on the previous year at € 249.6 million (31 December 2016: € 278.6 million). The reduced total is mainly due to the strong improvement in working capital, an adjustment to the value of deferred taxes and the depreciation of non-current assets, which was reflected on the liabilities side by a decrease in equity and the reduction of financial liabilities. Net financial liabilities (without pension obligations) decreased to € 18.1 million (31 December 2016: € 21.8 million).

Development of assets

Compared to the end of the previous year, non-current assets declined to € 127.3 million as of the end of the reporting period (31 December 2016: € 139.6 million). This was mainly the result of adjustments to the value of deferred tax assets totalling € 7.1 million, as well as regular depreciation of property, plant & equipment amounting to € 7.7 million. There was a slight increase in intangible assets of € 1.4 million. At the end of 2017, non-current assets accounted for 51.0% of the balance sheet total (31 December 2016: 50.1%).

The year-on-year decline in current assets to € 122.3 million (31 December 2016: € 139.0 million) as of 31 December 2017 was due in particular to a reduction in inventories of € 5.4 million and a decrease in trade receivables of € 10.2 million. At the end of the reporting period, current assets therefore accounted for 49.0% of the balance sheet total (31 December 2016: 49.9%).

BALANCE SHEET STRUCTURE (% OF BALANCE SHEET TOTAL)



Development of liabilities

Due to the net loss, shareholders' equity of the R. STAHL Group fell to € 69.1 million as of 31 December 2017 (31 December 2016: € 94.8 million). At the end of the reporting period, the equity ratio amounted to 27.7% (31 December 2016: 34.0%).

At € 112.2 million, non-current liabilities were on a par with the previous year (31 December 2016: € 112.9 million) and accounted for 45.0% of the balance sheet total (31 December 2016: 40.5%). The decline in pension provisions of € 2.9 million resulting from an increased interest rate was opposed by an increase in non-current financial liabilities of € 2.7 million.

There was a slight decrease in current liabilities, which fell to € 68.3 million (31 December 2016: € 71.0 million). As a result, they accounted for 27.4% of the balance sheet total (31 December 2016: 25.5%). The main drivers were a € 6.5 million reduction in current financial liabilities, which were opposed by a € 4.8 million increase in trade payables.

SUSTAINABILITY

Responsible and sustainable company management, in the sense of transparent and best-practice corporate governance, requires integrity and legally compliant behaviour from all our employees. It is a mandatory prerequisite to ensure long-term and sustainable corporate success in real life.

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

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

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

EXECUTIVE BOARD'S OVERALL ASSESSMENT OF THE ECONOMIC SITUATION

2017 was a very difficult year for R. STAHL. Sales and earnings were down once again, whereby the weak first half of the year resulted mainly from the low order backlog position at the beginning of the year. Although stronger order intake in the first six months raised expectations of rising sales in the second half of 2017, delays in technical clarification meant that part of these sales was postponed to the following year. As a result, we had to downgrade our guidance three times during the reporting period. At € 268.5 million, sales in 2017 were slightly above our most recently published guidance, while order intake of € 284.1 million was slightly below it.

There were strong differences in order intake and sales in terms of both volumes and regional distribution in 2017: whereas strong demand from the chemical industry led to double-digit order growth in Germany, weak project business resulted in downward trends in Asia and the Central region in particular. In terms of sales, the weak order backlog at the beginning of the year was felt above all in the Americas region, which suffered double-digit losses. In the Central region, we were unable to match the high level of the previous year, when we benefited from deliveries for a major project: the sales decline here was in the high single-digit range. The regions Germany and Asia were on a par with the previous year.

At € -6.7 million, earnings before interest and taxes (EBIT) pre exceptionals were within our most recently adjusted guidance corridor. Targeted management of our working capital helped counteract the negative earnings trend and led to a significant improvement in free cash flow to € 8.2 million.

In the short and medium term, we expect the slow recovery of our main sales markets to continue. Irrespective of this trend, however, the decline in sales and earnings over the last few years has underlined the need to make fundamental structural adjustments to our processes and organizational structure in order to achieve a sustainable and significant improvement in R. STAHL's profitability. To this end, we have developed a package of measures which we have already begun to implement in 2018 and that we intend to have largely completed over the next two years.

DECLARATION ON COMPANY MANAGEMENT

The declaration on company management which all listed stock companies in Germany are required to submit pursuant to Sections 289f and 315d HGB is publicly available on our website www.r-stahl.com under Corporate/Investor Relations/Corporate Governance.

REPORTING PURSUANT TO SECTIONS 289A (1) AND 315A (1) HGB

Capital structure

On 31 December 2017, the subscribed capital of R. STAHL AG amounted to € 16,500,000.00, consisting of 6,440,000 no-par value registered shares. Theoretically, therefore, one share corresponds to € 2.56 of the capital stock.

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

With a notification according to Section 21 (1) WpHG dated 18 August 2015, RAG-Stiftung Beteiligungsgesellschaft informed us that its share of voting rights in R. STAHL AG had exceeded the 10% threshold on 17 August 2015.

Shareholder rights and obligations

Every shareholder has economic and administrative rights.

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

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

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

Composition of the Supervisory Board

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

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

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

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

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

In the reporting period, there was no authorization for authorized capital – and thus to acquire or sell treasury shares.

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

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

Remuneration system for the Supervisory Board and Executive Board

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

SUBSEQUENT EVENTS

On 9 February 2018, Bernd Marx, member of the Executive Board of R. STAHL AG and Chief Financial Officer, and the Supervisory Board agreed to terminate his service agreement as of 30 June 2018. On the same day, Bernd Marx stepped down from his position on the Executive Board. Until a successor is appointed, Dr. Mathias Hallmann, member of the Executive Board of R. STAHL AG and CEO, will assume the responsibilities of the CFO.

In March 2018, additional agreements were made with the respective banks concerning the syndicated loan agreement concluded in September 2015. Detailed disclosures on these agreements are presented in the risk report section of the Group Management Report. In the course of these agreements, adjustments were made to the interest and guarantee conditions.

A resolution to close R. STAHL Nissl GmbH, Vienna, was adopted on 26 April 2018.

RISK REPORT

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

Description of risk management system

The risk management system (RMS) included in the operational and organizational structure of the R. STAHL Group is an integral part of our business processes and corporate decisions for all companies and central functions. It includes the entirety of the installed IT systems, processes, activities, instructions and rules of conduct that are implemented in all our companies world-wide as applicable standards and it is subject to a constant process of improvement and further development. Part of the risk management system especially is a group-wide risk reporting on the basis of the law on control and transparency in businesses (KonTraG), a uniform planning and controlling process and the internal monitoring system consisting of the internal controlling system with guidelines that are applicable across the Group and internal auditing.

Furthermore, compliance management supplements the risk management system. The entirety of the implemented systems makes it possible for the Group's management to identify risks at an early stage to be able to take countermeasures in time. The effectiveness and efficiency of the risk management system is also continuously checked and enhanced and also examined by the auditor in accordance with statutory requirements.

Risk reporting/early warning system

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

The risk owners in the subsidiaries and the managers of the corporate functions are included in this early warning system and report risks once a quarter. The risk management process is supported by an IT tool.

The risk management officer prepares a risk report for each company which describes, besides the risks themselves, also the potential risk value, its probability of occurrence and the action plan to avoid or reduce the risk.

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

Risk assessment

As part of the risk reporting process, the gross and net risk of the respective reporting units is stated. The gross risk describes the maximum loss potential without consideration of hedging and risk reduction measures. The residual risk after countermeasures is the net risk. To determine which risks pose a threat to the company's continued existence, they are classified according to their estimated probability of occurrence and the extent of their damage. The scales used to measure these two indicators at divisional and individual company level are shown in the tables below.

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

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

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

According to their estimated probability of occurrence and their possible impact on operations, financial position and performance and cash flows, net risks are aggregated at Group level and classified as "high", "medium" or "low". This classification is based on the following value intervals for net expected damage (net risk x probability of occurrence):

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

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

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

Significant risks to the company and in particular those which pose a threat to the company's continued existence are reported immediately to the Executive Board and Group management. The reporting units are obliged to inform the Executive Board without delay about time-critical or significant risks. The quarterly evaluation of risks serves as a basis for management to react swiftly to critical situations and take the appropriate countermeasures. A summary of all risks of the Group companies – in which all reported and assessed risks are aggregated – is regularly prepared in order to determine the overall risk for the Group. Regular reporting also provides continuous information to the Supervisory Board and its Audit Committee about the current risk situation of the R. STAHL Group and its development over time. As part of its monitoring of the Executive Board, the Supervisory Board examines the effectiveness of the risk management system.

Controlling

Group Controlling staff are the contacts for our subsidiaries in Germany and abroad. The Group Controlling department provides the IT systems needed to collect and evaluate business data. The financial position and performance and cash flows of the companies are analyzed during monthly reporting, whereby a special focus is placed on the comparison of planned vs. actual figures. Once a month, Controlling prepares a forecast review for this purpose. This ensures a constant flow of information to the Executive Board on current budget deviations and any resulting risks.

Internal monitoring system

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

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

The internal audit department regularly checks compliance with these objectives.

Internal control system based on the consolidated accounting process

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

Further key instruments for controlling the accounting process are:

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

These measures and processes are constantly monitored by the staff responsible for these tasks in the Group companies and by the Group's internal audit department.

Internal audit

The internal audit department provides independent and objective auditing and advisory services aimed at creating added value and improving business processes. It serves the organization's objectives by evaluating the effectiveness and efficiency of the internal management and monitoring processes with a systematic and targeted approach and thus helps to continuously improve them. The department reports directly to the CEO of R. STAHL AG. Audits are held on the basis of an annual risk-oriented audit plan.

Compliance Management, Code of Conduct (CoC)

In order to avoid violations of anti-corruption, anti-trust or data protection laws and prevent business crimes, we have introduced the corresponding regulations as part of our existing compliance management. Our compliance organization reports directly to the Executive Board and the Compliance Officer is integrated into business processes as well as reporting and controlling. Compliance is part of our company culture and is a self-evident component of our daily activities.

GROUP'S RISK POSITION

Macro environment and country risks

Due to the international alignment of our business activities, risks may arise as a result of political and economic instability in individual regions or countries. This may affect the sales and earnings position of the R. STAHL Group.

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

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

Market and competition

With its range of attractive products and services, R. STAHL operates in dynamic markets. Our business depends heavily on the investment climate in our client sectors. To counter the increasing competition also from new entrants in the components business, we seek to consolidate our market position by continuously expanding our technological leadership, by driving our horizontal and regional diversification, and by developing products which our clients appreciate due to their efficiency-enhancing and cost-saving characteristics.

Although the entry barriers are higher in our systems business and the risk of competition correspondingly lower, the possibility of new competitors appearing on the market cannot be generally excluded. Existing competitors may also gain a market advantage by forging alliances. We respond to market challenges with our excellent know-how and many years of experience.

In order to save costs and thus at least partially cushion the effects of lower oil prices, many energy companies are increasing the price pressure on their suppliers. This stricter pricing policy represents a risk for our business, in particular with regard to reaching our profit targets.

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

Strategic risks

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

In addition, there are procurement risks. Depending on the market situation, purchase prices may fluctuate and affect our cost structures. There is also the fundamental risk of a temporary unavailability of raw materials. We counter these risks with our strict cost management approach and international procurement. Nevertheless, we currently foresee bottlenecks in the availability of certain electronic components and plastics used in our production processes. Irrespective of this, falling demand among our suppliers may also raise the general risk of their insolvency and thus increase our procurement risk. We minimize this risk by actively monitoring the financial data of our main suppliers and by observing price behaviour and delivery service. In addition, we reduce our reliance on individual suppliers by using second source releases. We continue to assess the risk of product and brand piracy as minor. Continuous improvement of our core products and production technologies, our specialist knowledge and our experience reduce the risk that R. STAHL products can be replicated in comparable quality. In the field of explosion protection, quality and certification reliability are among the most important purchase criteria.

Risks from supporting processes

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

In view of the growing competitive pressure in all sectors of the electronics industry, delivery times and reliability are becoming ever more important for our dealings with customers. Excessive delivery times or non-compliance with delivery dates pose general risks for customer loyalty and thus our further business trend. Following various measures to optimize logistics, manufacturing and handling processes in the past years, we systematically implemented further improvements in our delivery reliability in 2017.

Risks in connection with information technologies

In international trade and industrial production, the digitization of processes is steadily increasing. This also involves an increased risk of attacks in the field of cyber crime. We are working hard on our IT security in order to minimize the risk of external as well as internal threats. The corresponding measures include the shortening of restore times in order to be able to return quickly to normal operations in the event of such an attack. In addition, we constantly check the role concepts of our ERP software and adapt administrative authorizations according to the need-to-know principle.

Despite the growing risk of cybercrime attacks around the world, R. STAHL has so far been able to avoid damaging security incidents. Thanks to our comprehensive IT security and business continuity concept, supported by clear guidelines in the field of payment and financial processes, all attempted attacks have been discovered or averted so far. The effects of the vulnerabilities in microprocessors, which became known at the beginning of 2018, can be controlled by our active IT security management. Security updates can be distributed in a timely and largely automated manner to the affected systems without impeding the IT-supported business processes. In 2017, external auditors once again confirmed our high safety standards.

In addition to information security, R. STAHL attaches great importance to data privacy. We give our employees around the world corresponding training on recruitment as well as event-driven, e.g. in the case of any changes to regulatory requirements. Personal data from the EU are stored exclusively on servers in the EU. There have been no violations of the German Federal Data Protection Act (BDSG) to date.

The enforcement of the EU's General Data Protection Regulation (GDPR) on 25 May 2018 will harmonize the collection, processing and use of personal data throughout Europe. R. STAHL already installed a project team at an early stage, which analyzes and evaluates the extended requirements of the GDPR and derives the necessary measures for implementation. The protection of personal data has always been one of the principles of R. STAHL's business policy and we therefore face the GDPR's enforcement with confidence.

Performance-related risks

R. STAHL's international production sites enable it to meet the growing requirements of international customers regarding the availability of local contact partners and correspondingly shorter delivery times. Although this partial decentralization of our production involves an increased risk of fluctuating capacity utilization at our main base in Waldenburg, we expect that this international alignment will enable us to grow more strongly in the medium term and thus positively influence our overall business. In order to counter the risk of low capacity utilization – and the resulting squeeze on margins – we have also introduced lean and flexible processing and production processes.

Personnel risks

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

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

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

Financial risks

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

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

As a basic principle, we borrow capital at matching maturities to finance our business activities. If necessary, we hedge any risk arising from varying interest rates via derivative financial instruments. Our real estate is regularly financed at fixed rates of interest. Generally, the duration of currency and interest hedges is aligned with our underlying core busines. The operational framework, the persons responsible, financial reporting and the control mechanisms for financial instruments are determined uniformly throughout the Group.

In September 2015, R. STAHL AG signed a syndicated loan agreement with a term of five years to secure the Group's funding. It comprises a cash credit line of € 95 million, with an expansion option of € 25 million for acquisitions. The agreement contains standard provisions regarding the maintenance of the Group's financial strength (financial covenants). Non-compliance with these covenants may result in an adjustment of the contract terms or premature termination by the banks involved.

Following indications that R. STAHL would not be able to comply with these financial covenants in view of the expected annual result as of 31 December 2017, the banking syndicate accepted an application from R. STAHL in December 2017 to temporarily reformulate the financial covenants. The company complied to the financial covenants that were reformulated temporarily for 31 December 2017.

Moreover, the banks involved also agreed in March 2018 to renounce their termination rights until 31 July 2018.

This supplementary agreement to the syndicated loan agreement included a commitment from R. STAHL not to use € 30 million of the available lines until 30 September 2018. In addition, R. STAHL was obliged to prepare a detailed plan of measures regarding the targeted improvements in earnings until 31 May 2018. These measures are primarily aimed at optimizing the supply chain (cleaning of product portfolio, optimization of prodcution (lean), procurement), as well as the sales structures and processes (e. g. standardization). Moreover, as agreed with the banking syndicate, R. STAHL's financial planning was subjected to an Independent Business Review (IBR) conducted by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The IBR includes an explanation of the measures in detail as well as an assessment of the future earnings situation as a result of these measures. The results of the IBR, whose content is in line with the requirements of the banks involved, were provided to them in a timely mannner until 31 May 2018. The IBR would be used as a basis for a renegotiation of contract terms. In sum, the IBR confirms the objective restructuring ability of R. STAHL if the defined and already started measures are consequently implemented. Should the syndicated loan agreement not be continued, this would represent a high risk with regard to our risk classification, which may endanger the company as a going concern.

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

A detailed description of the hedging instruments held at the end of the reporting period and further information on the risks in regard to currency, interest rates, credit and liquidity are included in the notes to the consolidated financial statements under the items "Derivative financial instruments" and "Financial risk management".

Compliance risks

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

It is difficult to make an accurate assessment of these risks due to the large number of relevant legal and regulatory requirements, as well as the wide variety of potential infringements. We constantly monitor the current legal requirements and new developments in the field of compliance which arise in our industry or the economy. In an international context, we are supported in part by specialized local law firms, and in part by local cooperation partners of renowned German law firms or the local offices of international law firms. Based on this information and other available sources, we continuously update our compliance rules. In order to ensure as effectively as possible that our employees know and comply with our Code of Conduct, we inform our managers once a year about our anti-corruption guidelines as well as their obligation to train their employees in these matters. In the case of new employees, the receipt and acceptance of our Code of Conduct is part of the onboarding process. The Group Compliance Officer coordinates all activities in this area. Despite the existing compliance rules and the internal control systems already in place, the possibility that individuals may intentionally circumvent our control mechanisms for their personal gain cannot be ruled out. Although we regard the occurrence of this risk as unlikely, it might negatively impact the reputation of our company, our business, and our financial position and performance.

OVERALL STATEMENT ON THE RISK SITUATION

The Executive Board and Supervisory Board of R. STAHL regard the risk management system as being suitable for the detection, quantification and analysis of existing risks in order to manage them in a suitable manner. After careful consideration of the overall risk assessment, those responsible have come to the conclusion that at the time of preparing this Group Management Report, the existing risks are limited both individually and cumulatively with the exception of the situation described in the financial risks section.

OPPORTUNITY AND FORECAST REPORT

OPPORTUNITIES

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

Long-term opportunities

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

In addition to the rising demand for energy, global population growth also leads to greater demand for products from all other areas of life, such as food, housing, clothing and mobility. This will benefit both the food industry and the chemical industry, for whose production facilities R. STAHL offers tailored explosion protection solutions. An even greater increase in demand is expected for pharmaceutical products, as not only the world's population is growing but also their life expectancy and health awareness.

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

Medium-term opportunities

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

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

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

We see opportunities to increase our productivity and profitability in the medium term by optimizing our internal structures and processes. These include, in particular, the measures to raise efficiency described in the front section of this Annual Report.

Short-term opportunities

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

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

OUTLOOK FOR 2018

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

Further global economic growth predicted

In its outlook of January 2018, the International Monetary Fund (IMF) forecast a further increase in global economic growth to 3.9% for the current year. This forecast reflects both the current strong momentum in global growth and the significant cut in the US corporate tax rate at the beginning of the year, which the IMF believes should result in a further increase in economic growth to 2.7% in the USA. A slight decline to 2.2% is expected for the eurozone, due in part to a moderate slowdown in growth momentum in Germany to 2.3%. The IMF expects the emerging economies to achieve the strongest growth rate with an overall 4.9%, led by India (+7.4%) and China (+6.6%).

US dollar exchange rate and oil price expected to remain at current levels in 2018

With regard to the development of the US dollar, most market experts expect a persistently low rate of between 1.15 and 1.25 US$/€ – despite several interest rate hikes expected by the US Federal Reserve in the reporting year. The reasons for this trend include solid economic growth in the eurozone as well as its continued strengthening as a political community.

With regard to oil market developments, OPEC's monthly market report of February 2018 predicts a sustained increase in global demand for the current year. With expected growth of 1.6 million barrels a day, the rate of increase is on a par with the previous year. According to the report, OPEC aims to continue its strategy of stabilizing and raising oil prices in 2017 by avoiding oversupply and adjusting its own production volumes to those of non-OPEC countries. Against this backdrop, an expected annual average oil price of around US$ 60 per barrel for 2018 seems plausible, and is also shared by the IMF. This trend is likely to prompt a continuation of the recovery in capital spending on new and existing oil and gas production and processing facilities started in the reporting period, with a resulting increase in demand for explosion protection solutions.

Growth momentum in the chemical, pharmaceutical and electronics industries set to continue

In its forecast for the current year published in December 2017, the German chemical industry association (VCI) estimates that production of chemical and pharmaceutical products will grow by 3.3%. The main drivers will be India with growth of 7.0% and China with 5.5%. Growth of 2.0% is predicted for both Germany and the USA.

For the electronics industry in Germany, the Electrical and Electronic Manufacturers' Association (ZVEI) forecasts an increase in price-adjusted output of 3% for the year in its economic barometer of February 2018. At the beginning of the year, capacity utilization rose further to reach an average of 89.0%, while the order backlog range increased from 2.7 to 3.1 production months.

Increases in order intake and sales expected for 2018

Against the backdrop of robust macroeconomic and sector-specific growth forecasts, we also anticipate increasing demand for our products and solutions in 2018. A growing number of orders are expected from both the oil and gas sector, and the chemical and pharmaceutical industries. Rising production volumes in these sectors are likely to prompt both increased maintenance spending and investment in the construction of new facilities. We expect this to translate into growing demand for our components and systems, as well as an increase in project orders.

In principle, the increased proportion of projects in our business raises the volatility of our order and sales trend. Moreover, it should be noted that demand for explosion protection products generally lags behind any rise in demand from our client industries. Nevertheless, we assume that the expected increase in order intake in 2018 will also benefit our sales trend. The solid order backlog of € 92.3 million as of 31 December 2017 – well above the level at the beginning of 2017 (1 January 2017: € 80.7 million) – provides a firm foundation for this expected growth.

The restructuring of our sales organization in April is also expected to have a first positive impact on sales in 2018. By establishing clear regional responsibilities in our new globally aligned corporate sales organization, we aim to exploit the specific opportunities in our markets more efficiently. Similar objectives are being pursued with the realignment of our marketing organization, which will be organized by product class and also work with global responsibility in future. Above all, we expect increasing orders and sales from our range of automation solutions and from the further expansion of our LED lighting business. By 2019 at the latest, our new EXpressure® enclosure types are also expected to make a contribution to sales growth.

Earnings situation will benefit from more buoyant demand

The anticipated growth in order intake and sales is expected to have a positive impact on earnings. We therefore expect growth in the medium to high double-digit percentage range for EBITDA pre exceptionals in 2018 – based on a level of € 5.8 million in 2017. The exceptionals planned for the current year are mainly in connection with the efficiency enhancement measures already initiated or still to be introduced.

Financial and asset position to remain stable

At the end of the reporting period on 31 December 2017, the equity ratio of the R. STAHL Group amounted to 27.7%. Based on the expected earnings trend, we anticipate a slightly reduced but consistently solid level of equity in 2018. Strong fluctuations in the interest rate used to calculate pensions – which in the past had led to increased volatility in the valuation of pension obligations with an impact on equity – are not expected in the current year.

In 2018, the development of our free cash flow will be influenced on the one hand by an expected improvement in earnings and on the other hand by the cash impact of planned exceptionals. Irrespective of this trend, we will continue to drive the measures introduced in the previous year to improve working capital, although we anticipate certain opposing effects from the expansion of business and the associated increase in inventories and trade receivables. We do not therefore expect to reach the high level of the previous year and anticipate a year-on-year decline in cash flow from operating activities in the current year.

Capex on a par with previous year, no significant effects from financing activities

Capital expenditure in 2018 will be on a par with the previous year. As no significant inflows or outflows of funds are planned for equity or external liabilities in the current year, we assume that our net indebtedness at year-end will be largely unchanged from the previous year.

OVERALL ASSESSMENT: SIGNIFICANT IMPROVEMENT IN EARNINGS

We started our financial year 2018 with a solid order backlog. The positive outlook for the global economy and our main sales markets and sectors make us confident that demand for explosion protection products will also pick up in 2018. With regard to external factors with a direct or indirect impact on our business, especially oil prices and exchange rates, we do not expect any developments that will significantly influence our earnings.

For 2018, we expect a year-on-year increase in EBITDA pre exceptionals in the mid to high double-digit percentage range.

In 2017, we developed a package of measures for the Group as a whole – as described in the financial risk section of the "Risk report" – with the objective of significantly enhancing the efficiency of our organization and processes. We aim to have completed the implementation of these measures by the end of 2019. The resulting efficiency gains will also reduce our cost structures and lead to a further improvement in earnings from 2019 onwards.

Waldenburg, 31 May 2018
R. Stahl Aktiengesellschaft

Dr. Mathias Hallmann
CEO

CONSOLIDATED INCOME STATEMENT R. STAHL GROUP

NOTE	€ 000	2017	2016
6	**Sales**	**268,462**	**286,609**
	Change in finished and unfinished products	-3,498	-6,124
7	Other own work capitalized	4,501	3,820
	Total operating performance	**269,465**	**284,305**
8	Other operating income	8,026	12,923
9	Cost of materials	-100,116	-101,136
10	Personnel costs	-121,112	-118,288
12	Depreciation and amortization	-12,972	-13,381
13	Other operating expenses	-53,979	-55,647
	Earnings before financial result and income taxes (EBIT)	**-10,688**	**8,776**
4, 14	Result from companies consolidated using the equity method	977	103
15	Investment result	17	25
16	Interest and similar income	238	260
16	Interest and similar expenses	-3,179	-3,365
	Financial result	**-1,947**	**-2,977**
	Earnings before income taxes	**-12,635**	**5,799**
17	Income taxes	-8,542	-1,576
	Net profit/loss	**-21,177**	**4,223**
	thereof attributable to other shareholders	-41	87
	thereof attributable to shareholders of R. STAHL AG	-21,136	4,136
18	**Earnings per share (€)**	**-3.28**	**0.64**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME R. STAHL GROUP

€ 000	2017	2016
Net profit/loss	**-21,177**	**4,223**
Gains/losses from currency translations of foreign subsidiaries, recognized in equity	-2,406	1,118
Deferred taxes on gains/losses from currency translations	0	0
Currency translation differences after taxes	**-2,406**	**1,118**
Gains/losses from the subsequent measurement of cash flow hedges, recognized in equity	59	-324
Recognized in profit or loss	-20	287
Deferred taxes on cash flow hedges	-12	13
Cash flow hedges after taxes	27	-24
Other comprehensive income with reclassification to profit for the period	**-2,379**	**1,094**
Gains/losses from the subsequent measurement of pension obligations, recognized in equity	2,741	-10,609
Deferred taxes from pension obligations	-930	3,311
Other comprehensive income without reclassification to profit for the period	**1,811**	**-7,298**
Other comprehensive income (valuation differences recognized directly in equity)	**-568**	**-6,204**
thereof attributable to other shareholders	-3	52
thereof attributable to shareholders of R. STAHL AG	-565	-6,256
Total comprehensive income after taxes	**-21,745**	**-1,981**
thereof attributable to other shareholders	-44	139
thereof attributable to shareholders of R. STAHL AG	-21,701	-2,120

CONSOLIDATED BALANCE SHEET R. STAHL GROUP

NOTE	€ 000	31 Dec. 2017	31 Dec. 2016
	ASSETS		
20	Intangible assets	41,796	40,397
21	Property, plant & equipment	57,203	62,371
4, 22	Investments in associated companies	7,750	7,097
22	Other financial assets	50	110
22	Other assets	1,206	1,293
22	Real estate held as financial investments	7,383	7,666
17	Deferred taxes	11,905	20,714
	Non-current assets	**127,293**	**139,648**
23	Inventories and prepayments made	45,501	50,883
24	Trade receivables	49,961	60,190
24	Income tax claims	3,166	3,084
24, 25	Other receivables and other assets	7,568	8,642
26	Cash and cash equivalents	16,085	16,168
	Current assets	**122,281**	**138,967**
	Total assets	**249,574**	**278,615**

Note	€ 000	31 Dec. 2017	31 Dec. 2016
	EQUITY AND LIABILITIES		
27	Subscribed capital	16,500	16,500
27	Capital reserves	13,457	13,457
27	Retained earnings	69,449	94,449
27	Accumulated other comprehensive income	-30,440	-29,875
27	Deduction for treasury stock	0	0
	Equity attributable to shareholders of R. STAHL AG	**68,966**	**94,531**
27	Non-controlling interests	86	234
	Equity	**69,052**	**94,765**
28	Pension provisions	93,736	96,683
29	Other provisions	1,850	1,926
30	Interest-bearing financial liabilities	13,095	10,370
31	Other liabilities	353	454
17	Deferred taxes	3,208	3,463
	Non-current liabilities	**112,242**	**112,896**
28, 29	Provisions	6,061	6,298
31	Trade payables	18,212	13,403
30	Interest-bearing financial liabilities	21,073	27,616
31	Deferred liabilities	11,135	11,609
31	Income tax liabilities	609	1,159
31	Other liabilities	11,190	10,869
	Current liabilities	**68,280**	**70,954**
	Total equity and liabilities	**249,574**	**278,615**

CONSOLIDATED CASH FLOW STATEMENT R. STAHL GROUP

€ 000	2017	2016
Net profit/loss	**-21,177**	**4,223**
Depreciation and amortization	12,972	13,381
Changes in long-term provisions	13	551
Changes in deferred taxes	7,510	-12
Equity valuation	-586	-103
Other income and expenses without cash flow impact	1,996	457
Result from the disposal of non-current assets	139	-2,334
Cash flow	**867**	**16,163**
Changes in short-term provisions	-221	-882
Changes in inventories, trade receivables and other non-capex or non-financial assets	12,173	4,174
Changes in trade payables and other non-capex or non-financial liabilities	6,927	-8,569
Changes in working capital	**18,879**	**-5,277**
Cash flow from operating activities	**19,746**	**10,886**
Cash outflow for capex on intangible assets	-7,117	-6,182
Cash inflow from disposals of non-current intangible assets	0	1,313
Cash outflow for capex on property, plant & equipment	-3,308	-6,314
Cash inflow from disposals of property, plant & equipment and real estate held as a financial investment	94	5,526
Cash outflow for capex on non-current financial assets	0	-1
Cash inflow from disposals of non-current financial assets	58	19
Increase (+)/decrease (-) in current financial assets	0	206
Cash outflow for the purchase of shares in associated companies	-1,274	-5,786
Cash flow from investing activities	**-11,547**	**-11,219**
Free cash flow	**8,199**	**-333**

€ 000	2017	2016
Distribution to shareholders (dividend)	-3,864	-3,864
Distribution to/contribution from minority shareholders	-104	-405
Cash inflow from interest-bearing financial debt	4,704	9,179
Cash outflow for repayment of interest-bearing financial debt	-8,495	-6,920
Cash flow from financing activities	**-7,759**	**-2,010**
Changes in cash and cash equivalents	440	-2,343
Foreign exchange and valuation-related changes in cash and cash equivalents	-523	168
Cash and cash equivalents at the beginning of the period	16,168	18,343
Cash and cash equivalents at the end of the period	**16,085**	**16,168**

The cash flow statement is explained in the notes to the consolidated financial statements on page 128.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY R. STAHL GROUP

				Equity attributable
				Accumulated
	Subscribed capital	Capital reserves	Retained earnings	Currency translation
€ 000				
1 January 2016	**16,500**	**13,457**	**94,394**	**-1,404**
Net profit/loss			4,136	
Accumulated other comprehensive income			0	1,066
Total comprehensive income			**4,136**	**1,066**
Dividend distribution			-3,864	
Changes in minority interests			-217	
31 December 2016	**16,500**	**13,457**	**94,449**	**-338**
1 January 2017	**16,500**	**13,457**	**94,449**	**-338**
Net profit/loss			-21,136	
Accumulated other comprehensive income			0	-2,403
Total comprehensive income			**-21,136**	**-2,403**
Dividend distribution			-3,864	
Changes in minority interests			0	
31 December 2017	**16,500**	**13,457**	**69,449**	**-2,741**

to shareholders				Non-controlling interests	Equity
other comprehensive income			Total		Total
Unrealized gains/ losses from cash flow hedges	Gains/losses from pension obligations	Total accumulated other comprehensive income			
-9	**-22,206**	**-23,619**	**100,732**	**283**	**101,015**
			4,136	87	**4,223**
-24	-7,298	-6,256	-6,256	52	**-6,204**
-24	**-7,298**	**-6,256**	**-2,120**	**139**	**-1,981**
			-3,864	-105	**-3,969**
			-217	-83	**-300**
-33	**-29,504**	**-29,875**	**94,531**	**234**	**94,765**
-33	**-29,504**	**-29,875**	**94,531**	**234**	**94,765**
			-21,136	-41	**-21,177**
27	1,811	-565	-565	-3	**-568**
27	**1,811**	**-565**	**-21,701**	**-44**	**-21,745**
			-3,864	-104	**-3,968**
			0	0	**0**
-6	**-27,693**	**-30,440**	**68,966**	**86**	**69,052**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PRINCIPLES AND METHODS OF CONSOLIDATED ACCOUNTING

1. BASIS OF PREPARATION

The consolidated financial statements of R. Stahl Aktiengesellschaft (District Court of Stuttgart, HRB 581087), hereinafter also called R. STAHL AG, as at 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS), as applicable in the European Union (EU), and the commercial law regulations pursuant to Section 315a (1) HGB. The binding interpretations for the current year of the International Financial Reporting Interpretations Committee (IFRIC) were observed.

The financial year corresponds to the calendar year. Assets and liabilities are reported in the balance sheet in line with their maturities. The Group classifies assets and liabilities as current if it expects to realize or settle them within twelve months of the reporting date. The consolidated income statement is prepared using the "nature of costs method". To improve the readability of the consolidated financial statements, we have summarized individual items of the consolidated income statement and consolidated balance sheet. These items are explained separately in the notes to the consolidated financial statements. Necessary additional disclosures on individual items are also made in the notes to the consolidated financial statements.

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

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

Going concern

During the preparation of these consolidated financial statements, the Executive Board of R. STAHL AG assumed the company's continued status as a going concern in view of the background described below.

R. STAHL AG and its subsidiaries had sufficient liquidity at all times during the reporting year 2017. In September 2015, R. STAHL AG signed a syndicated loan agreement with a term of five years to secure the Group's funding. It comprises a cash credit line of € 95 million, with an expansion option of € 25 million for acquisitions. The agreement contains standard provisions regarding the maintenance of the Group's financial strength (financial covenants). Non-compliance with these covenants may result in an adjustment of the contract terms or premature termination by the banks involved.

Following indications that R. STAHL would not be able to comply with these financial covenants in view of the expected annual result as of 31 December 2017, the banking syndicate accepted an application from R. STAHL in December 2017 to temporarily reformulate the financial covenants. The company complied to the financial covenants that were reformulated temporarily for 31 December 2017.

Moreover, the banks involved also agreed in March 2018 to renounce their termination rights until 31 July 2018.

This supplementary agreement to the syndicated loan agreement included a commitment from R. STAHL not to use € 30 million of the available lines until 30 September 2018. In addition, R. STAHL was obliged to prepare a detailed plan of measures regarding the targeted improvements in earnings until 31 May 2018. These measures are primarily aimed at optimizing the supply chain (cleaning of product portfolio, optimization of prodcution (lean), procurement), as well as the sales structures and processes (e. g. standardization). Moreover, as agreed with the banking syndicate, R. STAHL's financial planning was subjected to an Independent Business Review (IBR) conducted by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The IBR includes an explanation of the measures in detail as well as an assessment of the future earnings situation as a result of these measures. The results of the IBR, whose content is in line with the requirements of the banks involved, were provided to them in a timely mannner until 31 May 2018. The IBR will be used as a basis for a renegotiation of contract terms. In sum, the IBR confirms the objective restructuring ability of R. STAHL if the defined and already started measures are consequently implemented. Should the syndicated loan agreement not be continued, this would represent a high risk with regard to our risk classification, which may endanger the company as a going concern.

On the basis of the current facts and discussions held so far, the Executive Board believes it is certain that the syndicated loan agreement will be continued, thereby also securing the funding of the R. STAHL Group and the separate company R. STAHL AG beyond 31 July 2018 and thus permitting the preparation of the consolidated and financial statements as of 31 December 2017 under the assumption of a continuation of business actitities.

Impact of new or revised standards

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

The following new regulations were mandatory for the first time in the financial year 2017:

Standard/ Interpretation		Mandatory as of	Status
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	01/01/2017	Revised
Amendments to IAS 7	Statement of Cash Flows – Disclosure Initiative	01/01/2017	Revised
AIP (2014–2016)	IFRS 12: Disclosure of Interests in Other Entities – Relationship of Regulations in IFRS 12 and IFRS 5	01/01/2017	Revised

The new mandatory regulations to be applied in the EU for the first time as of 1 January 2017 had no significant impact on the consolidated financial statements.

New or revised standards that have not been applied

The IASB and IFRS Interpretations Committee have adopted the following standards, interpretations and revisions which were not yet mandatory on 31 December 2016 and in some cases have not yet been endorsed by the EU. Early application of these new provisions is not intended. With the exception of IFRS 16, these amendments are not expected to have any significant impact on the consolidated financial statements of R. STAHL AG.

Standard/ Interpretation		Mandatory as of [1]	Endorsed by EU Commission [2]	Expected impact
IFRS 9	Financial Instruments	01/01/2018	Yes	See explanations
IFRS 15	Revenue from Contracts with Customers	01/01/2018	Yes	See explanations
Amendments to IAS 15	Clarification of IFRS 15 Revenue from Contracts with Customers	01/01/2018	Yes	See explanations
IFRS 16	Leases	01/01/2019	Yes	See explanations
Amendments to IFRS 2	Clarification of Classification and Measurement of Share-based Payment Transactions	01/01/2018	No	None
Amendments to IAS 40	Classification of Property under Development	01/01/2018	No	None
Amendments to IFRS 4	Applying IFRS 9 and IFRS 4 Insurance Contracts	01/01/2018	Yes	None
AIP (2014–2016)	Amendments to IFRS 1 and IAS 28	01/01/2018	Yes	None
Amendments to IFRS 10/ IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed	No	None
Amendments to IFRS 9	Clarification of IFRS 9 Financial Instruments – Termination Agreement with Negative Compensation	01/01/2019	No	None
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01/01/2018	No	None
IFRIC 23	Uncertainty over Income Tax Treatments	01/01/2019	No	None
IFRS 17	Insurance Contracts	01/01/2021	No	None
Amendments to IAS 28	Investments in Associates and Joint Ventures	01/01/2019	No	None
AIP (2015–2017)	Amendments to IFRS 1 and IAS 28, amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	01/01/2019	No	None
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	01/01/2019	No	None

[1] Effective date for R. STAHL AG
[2] As of 31 December 2017

IFRS 9, Financial Instruments

In July 2014, the IASB completed its project to replace IAS 39, "Financial Instruments: Recognition and Measurement" by publishing the final version of IFRS 9: Financial Instruments. IFRS 9 introduces a single approach for the classification and measurement of financial assets.

Subsequent measurement of financial assets is based in future on three categories with different value scales and different recognition of changes in value. Categorization depends both on the contractual cash flows of the instrument and the business model in which the instrument is held. In the case of financial liabilities, the existing categorization regulations were largely adopted in IFRS 9.

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

IFRS 9 also includes new regulations regarding the application of hedge accounting to better reflect an entity's risk management activities especially with regard to managing non-financial risks.

Moreover, IFRS 9 contains additional disclosure requirements.

Changes in comparison to IFRS 7 "Financial Instruments: Disclosures" result mainly from the provisions on impairment.

In future, expected losses on trade receivables at R. STAHL will mainly be calculated on the basis of internal or external customer ratings and the associated probability of default.

With regard to new hedge accounting regulations, R. STAHL assumes that, in principle, all existing hedge accounting relationships can be continued under IFRS 9.

IFRS 9 is mandatory no later than the first business year beginning on or after 1 January 2018. Earlier adoption is possible. The company will apply IFRS 9 for the first time for the financial year beginning on 1 January 2018. In accordance with the transitional regulations, R. STAHL will not adjust the prior-year figures and disclose transitional effects cumulatively in revenue reserves. An examination of the effects from application of IFRS 9 on the consolidated financial statements indicates no significant impact on the financial position and performance.

IFRS 15, Revenue from Contracts with Customers

The new standard on revenue recognition replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts", as well as the related interpretations. IFRS 15 establishes a comprehensive framework for determining, whether, how much, and when revenue is recognized. IFRS 15 must be applied for all contracts with customers.

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

IFRS 15 must be applied for all business years beginning on or after 1 January 2018. Earlier adoption is possible. With regard to the comparative periods, there is an option to apply the standard retrospectively in accordance with IAS 8 or to adopt a modified approach, whereby the prior-year figures are not adjusted, but the cumulative effect of first-time application of IFRS 15 is recognized as an adjustment in retained earnings as of the date of initial application. It is planned to adopt the modified retrospective approach on first-time application.

The application of IFRS 15 is not expected to have any significant impact on the financial position and performance of the Group. The low impact of IFRS 15 is due to the fact that the contracts with customers usually only result in a performance obligation which is fulfilled at a certain point in time. However, the calculation of effects for the comparative period 2017 has not yet been finalized at the time of publishing the consolidated financial statements.

IFRS 16, Leasing

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

The new standard must be applied for all business years beginning on or after 1 January 2019. R. STAHL will not apply IFRS 16 prematurely. R. STAHL has begun to assess the possible effects on the consolidated financial statements. The company plans to make use of the practical expedients and to recognize the adjustments resulting from the transition by applying the modified retrospective method as a cumulative effect in other revenue reserves.

2. COMPANY DATA

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

3. RELEASE DATE FOR PUBLICATION OF FINANCIAL STATEMENTS

The Executive Board of R. STAHL AG released the 2017 consolidated financial statements and 2017 Group Management Report for forwarding to the Supervisory Board on 31 May 2018. It was presented to the Supervisory Board at its meeting on 7 June 2018.

4. CONSOLIDATION PRINCIPLES

Scope of consolidation

In addition to R. STAHL AG, the consolidated financial statements include 34 (2016: 34) domestic and foreign subsidiaries over which R. STAHL AG can exercise a direct or indirect controlling influence. A controlling influence is defined as being when R. STAHL AG has power over the subsidiary due to voting rights or other rights, may participate in positive or negative returns of the subsidiary and can affect these returns through its decisions.

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

In the previous year, ZAVOD Goreltex Company Limited, Saint Petersburg, Russia, and ESACO Proprietary Ltd., Edenvale, South Africa, were consolidated as associated companies using the equity method for the first time. For reasons of materiality, certain companies are not consolidated in the consolidated financial statements using the equity method.

ZAVOD Goreltex Company Limited is a supplier of Ex products in Russia. In addition to its own products, the company markets R. STAHL's products on the Russian market. ESACO Proprietary Ltd. markets R. STAHL products in the South African region.

Financial information on ZAVOD Goreltex, Saint Petersburg, Russia:

€ 000	2017	2016
Non-current assets	9,409	5,622
Current assets	18,556	19,838
Balance sheet total	**27,965**	**25,460**
Equity	23,624	21,683
Non-current liabilities	157	191
Current liabilities	4,184	3,586
Sales [1)]	33,758	3,863
Result for the year [1)]	3,860	413

[1)] Previous year: generated as of the acquisition date

Financial information on ESACO Pty. Ltd., Edenvale, South Africa:

€ 000	2017	2016
Non-current assets	41	48
Current assets	1,081	1,284
Balance sheet total	**1,122**	**1,332**
Equity	971	965
Non-current liabilities	5	10
Current liabilities	146	357
Sales[1)]	2,060	286
Result for the year [1)]	34	19

[1)] Previous year: generated as of the acquisition date

Breakdown of domestic and foreign consolidated companies:

	Domestic 31/12/2017	Foreign 31/12/2017	**Total 31/12/2017**	**Total 31/12/2016**
Number of fully consolidated companies	9	26	**35**	35
Number of companies consolidated using the equity method	0	2	**2**	2
Number of non-consolidated companies	1	2	**3**	3

E.M. Stahl B.V., Hengelo, the Netherlands, and R. Stahl LLP., Atyrau, Kazakhstan, were not included in the consolidated financial statements due to their minor relevance for the Group.

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

Non-consolidated structured companies

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

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

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

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

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

Carrying amounts in € 000	2017	2016
Other financial assets		
Shares held by R. STAHL AG in Abraxas	26	26
Maximum loss risk	**26**	**26**

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

Translation of foreign currency items

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

Translation of foreign currency financial statements

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

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

	Year-end rate		Average exchange rate	
€	31/12/2017	31/12/2016	2017	2016
US dollar	1.19930	1.05410	1.12968	1.10690
British pound	0.88723	0.85618	0.87668	0.81948
Norwegian kroner	9.84030	9.08630	9.32704	9.29060
Indian rupee	76.60550	71.59350	73.53242	74.37871
Russian rouble	69.39200	64.30000	65.93825	74.14457

Consolidation principles

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

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

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

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

The consolidation principles have remained unchanged compared to last year.

5. ACCOUNTING AND VALUATION METHODS

Uniform Group methods

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

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

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

Estimates and assumptions

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

Impairment of goodwill

The R. STAHL Group examines at least once a year if goodwill is impaired. This requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. Management has to estimate the expected future cash flows of the cash-generating units and furthermore select a suitable discount factor to determine the cash value of these cash flows. On 31 December 2017, the carrying values of goodwill amount to € 11.1 million (2016: € 12.1 million). For further information please refer to section 20.

Capitalized development costs

Development costs are capitalized according to the accounting and valuation methods presented in this section. In order to determine the amounts to be capitalized, management has to make assumptions about the amount of the expected future cash flows from assets, the interest rates to be applied and the period of time for the influx of expected future cash flows that the assets generate. On 31 December 2017, the carrying value of capitalized development costs amounts to € 26.2 million (2016: € 24.6 million).

Provisions for pension obligations

Expenses for defined benefit plans are determined using actuarial calculations based on assumptions with regard to discount factors, expected income from plan assets, future wage and salary increases, mortality and future pension increases. The applied discount factors are based on the yield of first-class, fixed-interest bearing company bonds. The expected long-term interest of the fund assets is determined on the basis of historical long-term yields and the structure of the portfolio. Pursuant to the long-term orientation of these plans, those assumptions are subject to essential uncertainties. The impact of changes in parameters applied as of the balance sheet date on the present value of the DBO is presented in section 28. Any discrepancy between the parameters assumed and the actual conditions on the balance sheet date has no impact on consolidated net profit, as gains and losses resulting from the discrepancies based on the remeasurement of the net defined benefit liability are recognized directly in equity. On 31 December 2017, provisions for pension obligations amount to € 96.9 million (2016: € 99.8 million). For further information please refer to section 28.

Deferred taxes

The carrying value of deferred tax assets as of 31 December 2017 amounts to € 11.9 million (2016: € 20.7 million). Determination of future tax advantages reflected in the balance sheet are based on assumptions and estimates on the development of tax income and tax legislation in those countries where Group companies are located.

Further assumptions

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

Recognition of sales

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

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

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

Research and development expenses

Research costs may not be capitalized under IAS 38.42 et seq. and are immediately expensed. Development costs are capitalized if the capitalization criteria pursuant to IAS 38 are met. Development expenses are stated at cost less accumulated depreciation and impairments. The respective depreciation and amortization uses the straight-line method.

Earnings per share

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

Basic earnings per share are calculated by dividing consolidated earnings after taxes, attributable to the shareholders of R. STAHL AG, by the average number of common shares outstanding during the financial year.

As we have no potential common shares and no option or subscription rights outstanding, we did not have to calculate diluted earnings per share in 2016 nor in 2017.

Goodwill

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

Development costs

Development costs are capitalized at manufacturing cost according to the criteria set forth in IAS 38 to the extent that the expense can be unambiguously allocated and both technical feasibility and marketing are assured. Furthermore, it has to be reasonably probable that development activities will generate future economic benefit. Capitalized development costs comprise all directly allocable costs and appropriate shares of development-related overhead. Capitalized development costs are amortized using the straight-line method from production start over the expected product life cycle of usually five to seven years. Capitalized development projects are subjected to annual impairment tests.

Other intangible assets

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

Property, plant & equipment

Property, plant & equipment is recognized at cost less cumulative scheduled depreciation and writedowns over the projected useful life.

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

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

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

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

Impairment of property, plant & equipment and other intangible assets

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

Leasing

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

Financial instruments

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

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

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

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

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

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

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

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

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

Real estate held as a financial investment

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

Deferred tax assets and liabilities

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

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

Inventories

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

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

Financing costs are not included in acquisition or manufacturing cost.

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

Receivables and other assets

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

Provisions for pensions and similar obligations

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

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

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

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

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

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

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

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

Other provisions

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

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

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

Liabilities

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

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

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

Contingent liabilities

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

Cash flow statement

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

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

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

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

Segment reporting

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

NOTES TO THE CONSOLIDATED INCOME STATEMENT

6 Sales

A breakdown of sales by region is shown below:

€ 000	2017	2016
Breakdown by region		
Central region (Europe, Africa)	181,604	193,250
thereof Germany	60,928	61,340
Americas	28,973	35,812
Asia/Pacific	57,885	57,547
Total	**268,462**	**286,609**

7 Other own work capitalized

Other own work capitalized results in particular from capitalizing development costs pursuant to IAS 38. In the reporting period, this came to € 3,840 thousand (2016: € 3,336 thousand).

In the reporting period, total expenses of € 17,525 thousand (2016: € 16,563 thousand) were recognized for research and development.

8 Other operating income

Other operating income includes the following items:

€ 000	2017	2016
Income from asset disposals	11	2,486
Income from the reversal of provisions	627	1,473
Income from the reversal of valuation allowances	1,198	0
Income from the market valuation of derivatives	876	0
Gains from currency translation	3,786	4,545
Other income	1,528	4,419
Total	**8,026**	**12,923**

9 Cost of materials

The cost of materials comprises the following items:

€ 000	2017	2016
Expense for raw materials and supplies	-94,443	-95,433
Services received	-5,673	-5,703
Total	**-100,116**	**-101,136**

10 Personnel costs

Personnel costs consist of the following:

€ 000	2017	2016
Wages and salaries	-100,678	-98,307
Social insurance contributions, as well as pension and support expense	-20,434	-19,981
thereof for pensions	-3,092	-2,654
Total	**- 121,112**	**-118,288**

11 Annual average number of staff

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

Number	2017	2016
Employees	1,776	1,824
Trainees	73	90
Total	**1,849**	**1,914**

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

12 Depreciation and amortization

Depreciation and amortization of intangible assets and property, plant & equipment amounts to € 12,972 thousand (2016: € 13,381 thousand).

13 Other operating expenses

Other operating expenses mainly comprise the following items:

€ 000	2017	2016
Services	-8,173	-9,591
Rental expense for premises	-6,750	-6,903
Legal, consulting, licensing and inventor fees	-5,069	-4,845
Maintenance costs	-4,239	-4,032
Travel and entertainment expenses	-4,047	-3,911
General transport costs	-3,073	-3,506
Losses from currency translation	-4,963	-4,695
Other taxes	-715	-589
Expenses from market valuation of derivatives	0	-545
Other	-16,950	-17,030
Total	**-53,979**	**-55,647**

14 Result from companies consolidated using the equity method

The result from companies consolidated using the equity method includes an amount of € 965 thousand from ZAVOD Goreltex, Saint Petersburg, Russia, and € 12 thousand from ESACO Pty. Ltd., Edenvale, South Africa.

15 Investment result

The investment result amounted to € 17 thousand (2016: € 25 thousand).

16 Interest result

The interest result comprises the following items:

€ 000	2017	2016
Interest and similar income	238	260
Interest and similar expense	-3,179	-3,365
Total	**-2,941**	**-3,105**

The interest result includes the net interest portion from the allocation to pension provisions in the amount of € -1,851 thousand (2016: € -2,115 thousand).

17 Income taxes

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

€ 000	2017	2016
Current taxes	-1,032	-1,588
Deferred taxes	-7,510	12
Total	**-8,542**	**-1,576**

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

In the year under review, we claimed previously unused tax loss carryforwards resulting in tax credits of € 0 thousand (2016: € 0 thousand) hat we netted against income tax liabilities.

Deferred taxes are calculated on the basis of applicable tax rates in effect or known to become effective in the respective countries at the time these taxes fall due. In Germany, corporate tax rate is 15.0% with a solidarity surcharge of 5.5%. In addition to corporate tax, a trade income tax is payable on profits made in Germany. This varies depending on the communities in which the company is located. With an average trade tax collection rate of 390.5%, the total tax rate for the Group's domestic companies amounts to 29.5% (2016: 29.5%). The profits earned by the Group's foreign companies are taxed at the rates applicable in the respective country of their registered office. These are also used to determine deferred taxes, provided that future tax rate adjustments have not yet been resolved. The tax rates for our foreign activities range from 0.0% to 34.0% (2016: 0.0% and 34.0%).

Deferred tax assets on tax loss carryforwards of € 15,073 thousand (2016: € 11,240 thousand) were written down by € 14,627 thousand (2016: € 3,666 thousand) as we do not know exactly the amounts to which they may be realized given the information available at this time. Total writedowns include € 9,964 thousand corporate tax (2016: € 3,363 thousand) and € 4,663 thousand trade tax (2016: € 303 thousand).

Cumulated corporate tax loss carryforwards as yet unused amount to € 55,271 thousand (2016: € 40,191 thousand), while cumulated trade tax loss carryforwards as yet unused amount to € 33,979 thousand (2016: € 23,331 thousand). The loss carryforwards are not limited in time. Tax losses cannot be offset with taxable income of other Group companies.

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

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

Accumulated deferred tax assets and liabilities as at 31 December 2017 were as follows:

€ 000	31/12/2017	31/12/2016
Deferred tax assets, gross		
Tax loss carryforwards	15,073	11,240
Intangible assets	47	49
Property, plant & equipment	159	153
Other financial assets	1	1
Inventories	2,753	3,159
Receivables and other assets	447	218
Cash and cash equivalents	1	0
Equity	165	128
Long-term provisions	14,401	15,471
Other short-term liabilities and debts	359	752
Short-term provisions	1,376	1,576
Net of value adjustments	-14,627	-3,666
Total deferred tax assets, gross	**20,155**	**29,081**
Less netting	-8,250	-8,367
Total deferred tax assets acc. to balance sheet	**11,905**	**20,714**

€ 000	31/12/2017	31/12/2016
Deferred tax liabilities, gross		
Intangible assets	7,352	6,778
Property, plant & equipment	2,391	2,812
Other financial assets	205	220
Investment property	406	418
Inventories	187	247
Receivables and other assets	525	950
Prepaid expenses	4	0
Long-term provisions	173	178
Short-term interest-bearing financial debts	114	156
Other short-term liabilities and debts	101	71
Total deferred tax liabilities, gross	**11,458**	**11,830**
Less netting	-8,250	-8,367
Total deferred tax liabilities acc. to balance sheet	**3,208**	**3,463**
Net balance of deferred taxes	**8,697**	**17,251**

Deferred tax assets of € 11,905 thousand (2016: € 20,714 thousand) include € 8,904 thousand (2016: € 17,898 thousand) for companies with a negative result in the reporting period or in the previous year. The recognition of the respective deferred tax assets is based on the positive future results of planning and the reverse effect of temporary differences.

The following table shows the reconciliation of the expected tax expense for the respective financial year and the corresponding reported tax expense. The expected tax expense has been calculated by multiplying pre-tax earnings by the applicable total tax rate of 29.0% (2016: 29.0%). Pre-tax earnings amount to € -12,109 thousand (2016: € 5,799 thousand).

€ 000	2017	2016
Expected tax expense	3,664	-1,682
Taxation differences between domestic and foreign operations	-361	671
Non-tax-deductible expenses	-441	-268
Tax-free income	423	-7
Changes in write-downs on deferred tax assets	-10,961	-175
Utilization of tax loss carryforwards	0	0
Taxes for prior years	121	-23
Other	-987	-92
Effective income taxes	**-8,542**	**-1,576**
Tax expense shown in the consolidated income statement	-8,542	-1,576

A total of € -942 thousand of deferred taxes was recognized in the balance sheet decreasing equity (2016: € 3,324 thousand increasing equity) without influence on the income statement.

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

€ 000	2017			2016		
	Earnings before income taxes	Income taxes	Earnings after income taxes	Earnings before income taxes	Income taxes	Earnings after income taxes
Currency translation differences	-2,406	0	-2,406	1,118	0	1,118
Cash flow hedges	39	-12	27	-37	13	-24
Pension obligations	2,741	-930	1,811	-10,609	3,311	-7,298
Income and expense recognized directly in equity	374	-942	-568	-9,528	3,324	-6,204

18 Earnings per share

€ 000	2017	2016
Net profit for the year without non-controlling interests	-21,136	4,136
Number of shares (weighted average)	6,440,000	6,440,000
Earnings per share in €	**-3.28**	**0.64**

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

So-called potential shares can dilute earnings per share. As we have no potential common shares and no options or subscription rights outstanding, there was no need to calculate diluted earnings per share in 2016 or 2017.

19 Appropriation of profit/equity

The annual financial statements as at 31 December 2017 of R. STAHL AG show a balance sheet loss. In accordance with legal regulations, no resolution on the appropriation of profit must therefore be adopted.

In the financial year 2017, a dividend of € 0.60 (2016: € 0.60) per dividend-entitled share was distributed to shareholders.

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

Legal challenges against the resolutions adopted under Agenda Items 2 to 5 of the Annual General Meeting of 3 June 2016 were filed at the District Court of Stuttgart. These lawsuits were dismissed in the first instance. The Higher Regional Court of Stuttgart indicated to those who subsequently appealed the decision that the chances of such an appeal succeeding are not promising. The further progress of this case remains to be seen.

After the Annual General Meeting rejected a corresponding proposed resolution as part of a request for supplements under Agenda Item 6, an application was also made at the District Court of Stuttgart for the court appointment of a special auditor for various topics. The District Court of Stuttgart rejected the application as unfounded and also rejected the resulting appeal filed against it. The case has been referred to the Higher Regional Court of Stuttgart.

NOTES TO THE CONSOLIDATED BALANCE SHEET

NON-CURRENT ASSETS

20 Intangible assets

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

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

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

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

The item Other intangible assets includes prepayments of € 1.6 million (2016: € 1.5 million).

Intangible assets mainly comprise IT software, capitalized development costs for various development projects, and goodwill. Impairment of goodwill is checked by calculating the realizable value of cash-generating units based on their value in use. This calculation uses cash flow projections based on management-approved, three-year financial plans. The cash flow projections are discounted at pre-tax interest rates of 7.70–18.16% (2016: 7.69–11.82%).

Goodwill of € 11.1 million (2016: € 12.1 million) was allocated to the following cash-generating units:

R. STAHL HMI Systems GmbH (Germany) € 4.6 million (2016: € 4.6 million), R. Stahl Schaltgeräte GmbH (Germany) € 1.1 million (2016: € 1.1 million), R. STAHL Nissl GmbH (Austria) € 0.0 million (2016: € 0.5 million), sub-group (Norway) € 4.0 million (2016: € 4.4 million), OOO R. Stahl (Russia) € 0.5 million (2016: € 0.5 million) and R. STAHL LTD. (Canada) € 0.9 million (2016: € 1.0 million).

Changes to goodwill are due in particular to the revaluation of the Norwegian krone on the balance sheet date and the write-down on goodwill of R. STAHL Nissl GmbH, Vienna, amounting to € 0.5 million.

Impairment tests according to the discounted cash flow method of the cash-generating units led to fair values above the carrying amounts. With the exception of the Austrian company, no amortization was required.

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

Planned sales and gross profit margins: The average annual growth in external sales (compound annual growth rate) in the detailed planning period for the cash-generating units is between -6.8% and 11.1% (weighted 4.0%), depending on the market position and region. Gross profit margins are calculated as part of the bottom-up planning of Group companies using average gross profit margins achieved in the directly preceding year and are possibly raised under consideration of expected increases in efficiency.

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

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

Sensitivity analyses showed that from the current perspective, there is no requirement for impairment of goodwill even if we assumed that planned EBIT as of plan year 2018 would fall by 10% or that capital costs would rise by another 0.5%-points. Changes outside this range are regarded as unlikely.

21 Property, plant & equipment

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

€ 000	Properties, property-like rights and buildings	Technical equipment and machinery	Other plant as well as operating and office equipment	Prepayments made and plant under construction	Total
Acquisition costs					
1 January 2017	48,981	34,451	52,328	432	136,192
Currency differences	-505	-644	-357	-1	-1,507
Additions	57	749	2,182	316	3,304
Disposals	-5	-572	-1,574	0	-2,151
Reclassifications	7	21	128	-156	0
31 December 2017	**48,535**	**34,005**	**52,707**	**591**	**135,838**
Cumulative depreciation and impairment					
1 January 2017	11,235	23,995	38,591	0	73,821
Currency differences	-57	-390	-268	0	-715
Additions	1,186	2,191	4,069	0	7,446
Disposals	-4	-576	-1,337	0	-1,917
Reclassifications	0	0	0	0	0
31 December 2017	**12,360**	**25,220**	**41,055**	**0**	**78,635**
Carrying amounts 31 December 2017	**36,175**	**8,785**	**11,652**	**591**	**57,203**

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

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

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

With regard to property, plant & equipment, collateral has been provided for liabilities amounting to € 11,814 thousand (2016: € 10,794 thousand). At the end of the reporting period, order commitments for property, plant & equipment amounted to € 1,271 thousand (2016: € 974 thousand).

22 Other non-current assets

Shares in associated companies

In 2016, R. STAHL AG acquired a 25% stake in the Russian company ZAVOD Goreltex Co. Ltd., Saint Petersburg, Russia, and a 35% stake in the South African company ESACO (Pty.) LTD, Edenvale, South Africa. Of the total increase in the carrying amount of shares in associated companies as at 31 December 2017 amounting to € 653 thousand, ZAVOD Goreltex Co. Ltd. accounted for € 641 thousand and ESACO (Pty.) LTD for € 12 thousand. Additions of € 66 thousand are included for ZAVOD Goreltex Co. Ltd. as a result of a capital increase.

Other financial assets

Other financial assets totalling € 50 thousand (2016: € 110 thousand) comprise other equity interests and securities.

Other non-current assets

Other non-current assets comprise receivables and other assets as well as deferred items totalling € 1,206 thousand (2016: € 1,293 thousand). Total other non-current assets comprise a restricted amount of € 1,050 thousand (2016: € 1,098 thousand) which serves as collateral for obligations arising from partial retirement contracts.

Real estate held as a financial investment

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

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

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

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

€ 000	Total
Acquisition costs	
1 January 2016	13,928
Additions	0
Disposals	0
Reclassifications	0
31 December 2016	**13,928**
Cumulative depreciation and impairment	
1 January 2016	5,976
Additions	286
Disposals	0
Reclassifications	0
31 December 2016	**6,262**
Carrying amounts 31 December 2016	**7,666**

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

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

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

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

The fair value of real estate amounted to € 11.1 million as of 31 December 2017 (2016: € 11.1 million) and is allocated to the fair value hierarchy Level 3. An external assessor was used to determine values. Values were determined in October 2014 on the basis of discounted cash flow calculations. Fair value amounts were determined using the capitalized earnings of real estate based on standard market rents. Furthermore, adequate management costs (loss of rent risk, maintenance and administrative costs) and other value-influencing factors were considered. Property yields of 7.0% and 7.5% as well as an adequate remaining life expectancy were used for the calculation. There are no indications of any changes in the value of land.

Rental income from “Real estate held as a financial investment” recognized in the income statement and all received in the reporting period amounts to € 1,298 thousand (2016: € 1,296 thousand). Expenses directly allocable to these properties of € 588 thousand (2015: € 581 thousand) were incurred. Rental income in 2018 is expected to amount to € 1,263 thousand.

CURRENT ASSETS

23 Inventories and prepayments made

Inventories comprise the following:

€ 000	31/12/2017	31/12/2016
Raw materials and supplies	19,543	21,419
Unfinished goods and unfinished services	8,574	9,452
Finished goods and merchandise	17,196	19,729
Prepayments made	188	283
Total	**45,501**	**50,883**

In the reporting period, scheduled inventory impairments for slow-moving products of € 12,429 thousand (2016: € 12,229 thousand) were made, of which € 1,306 thousand was recognized in the income statement in the current period.

With regard to inventories, collateral of € 5,287 thousand (2016: € 6,740 thousand) has been provided for liabilities.

24 Receivables and other assets

Receivables and other assets consist of the following items:

	31/12/2017		31/12/2016	
€ 000	Total	Thereof due within one year	Total	Thereof due within one year
Trade receivables	49,961	49,961	60,190	60,190
Income tax claims	3,166	3,166	3,084	3,084
Other receivables	5,736	4,542	7,144	5,864
Other financial assets	649	649	479	479
Total	**59,512**	**58,318**	**70,897**	**69,617**

Of the capitalized total, € 58,318 thousand (2016: € 69,617 thousand) is due within one year, the remainder totalling € 1,194 thousand (2016: € 1,280 thousand) is disclosed under other non-current assets.

Bad debt allowances of € 3,028 thousand (2016: € 2,911 thousand) were recognized on trade receivables.

Other current financial assets include derivative financial instruments of € 514 thousand (2016: € 339 thousand).

At the end of 2016, two Group companies entered into a factoring agreement according to which the factoring company is obliged to purchase trade receivables with a monthly revolving nominal volume of € 25 million for receivables denominated in euro and € 5 million for receivables denominated in USD or GBP. The agreement can be terminated by both contractual partners with a notice period of six months for the first time on 30 November 2019. Thereafter, termination is only possible on 30 November of each year with a six-month notice period. The relevant risk for risk assessment with regard to receivables sold is mainly the credit risk. The maximum loss is limited to the variable purchase price discount or security retention, which is retained by the factoring company when the receivables are sold and is reimbursed in the amount of the non-consumed proportion. The remaining credit risk-related payment defaults represent the majority of all risks and opportunities associated with the receivables and are borne by the factoring company. The maximum loss risk for R. STAHL from the receivables sold on 31 December 2017 (nominal value € 10,469 thousand) amounts to € 1,658 thousand. The fair value of the expected reimbursement of the variable purchase price discount was capitalized in other receivables and other assets during the derecognition period. As of 31 December 2017, the carrying and fair value of the company's entire ongoing factoring activities amounted to € 1,658 thousand. The residual maturity of the corresponding other receivables and other assets is less than one year.

25 Prepaid expenses

Of total prepaid expenses, € 2,377 thousand (2016: € 2,300 thousand) are due within one year; € 12 thousand (2016: € 13 thousand) qualify as long-term and are disclosed under other non-current assets.

26 Cash and cash equivalents

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

€ 000	31/12/2017	31/12/2016
Cash on hand	32	31
Cheques	81	86
Credit balances with banks, payable on demand	15,721	15,876
Credit balances with banks, originally payable at 3 months' notice	251	175
Total	**16,085**	**16,168**

27 Equity

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

Subscribed capital

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

Capital reserves

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

Revenue reserves

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

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

Accumulated other comprehensive income

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

Non-controlling interests

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

Additional disclosures on capital management

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

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

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

The pre-tax operating return on sales amounted to -4.7% (2016: 2.0%).

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

€ 000	31/12/2017	31/12/2016
Equity net of non-controlling interests	**68,966**	**94,531**
Long-term interest-bearing loans	13,095	10,370
Short-term interest-bearing loans	21,073	27,616
Interest-bearing debt	**34,168**	**37,986**
Total capital	**103,134**	**132,517**
Equity ratio for capital management (%)	**66.9**	**71.3**

At the end of the reporting period 2017, the equity ratio for capital management decreased to 66.9%. The decrease in equity of € 25,565 thousand is mainly due to the negative result for the year. Long-term loans rose by € 2,725 thousand and short-term loans fell by € 6,543 thousand.

PROVISIONS

28 Pension provisions

Provisions for pensions and similar obligations include the following items:

€ 000	31/12/2017	31/12/2016
Long-term pension provisions	93,736	96,683
Short-term pension provisions	3,201	3,114
Total	**96,937**	**99,797**

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

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

In the case of defined contribution plans, the respective company does not commit to any further obligations beyond making contributions to a special-purpose fund. In the reporting period, employer pension contributions for domestic employees amounted to around € 5.0 million (2016: € 5.2 million). In addition, the company concluded individual defined contribution plans. The annual contribution amounted to € 261 thousand in 2017 (2016: € 261 thousand).

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

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

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

We calculated our 2017 pension obligations based on the 2005 G actuarial tables of Prof. Dr. Klaus Heubeck. The pension obligation amount (defined benefit obligation = DBO) was determined using actuarial methods including estimates for relevant impact factors. In addition to life expectancy assumptions, the following actuarial projections were also made:

	Germany		Abroad	
%	**2017**	**2016**	**2017**	**2016**
Interest rate	1.93	1.72	0.60–2.40	0.60–2.60
Salary trend	3.00	3.00	1.50–2.50	1.50–2.50
Pension trend	1.75	1.75	0.00	0.00

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

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

Sensitivity analyses

Changes of 0.25%-points to the above mentioned assumptions used to calculate the DBO as at 31 December 2017 would increase or decrease the DBO as follows:

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

To determine the sensitivity of longevity, it was assumed that the life expectancy for all beneficiaries increased by one year. The DBO as at 31 December 2017 would increase by € 4,474 thousand with a life expectancy of one more year.

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

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

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

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

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

€ 000	**31/12/2017**	**31/12/2016**
Present values of fund-financed pension claims	10,466	8,574
Fund assets at market values	-8,882	-7,687
Financial status (net)	**1,584**	**887**
Present values of provision-based pension claims	95,354	98,910
Balance sheet value as at 31 December	**96,938**	**99,797**

The revaluation of a disability pensioner of R. STAHL Schweiz AG led to an increase in the present value of fund-financed pension claims and of fund assets at market values of € 1,820 thousand each without affecting income.

Of total pension provisions amounting to € 96,938 thousand (2016: € 99,797 thousand), domestic Group companies account for € 95,354 thousand (2016: € 98,910 thousand). Foreign companies account for fund assets of € 8,882 thousand (2016: € 7,687 thousand).

The projected benefit obligations developed as follows:

€ 000		2017	2016
Projected benefit obligations on 1 January		**107,484**	**96,090**
+	Current service cost	+1,947	+1,853
+	Interest expense	+1,851	+2,269
+/-	Actuarial gains (-) and losses (+) from changes in demographic assumptions	-15	-10
+/-	Actuarial gains (-) and losses (+) from changes in financial assumptions	-2,844	+11,115
+/-	Actuarial gains (-) and losses (+) from changes based on experience adjustments	-691	-747
-	Benefits paid	-2,926	-2,815
+/-	Past service cost	0	0
+/-	Changes in exchange rate	-807	+371
+/-	Other	+1,821	-642
=	**Projected benefit obligations on 31 December**	**105,820**	**107,484**

Due to a change in legislation in Norway, the projected benefit obligations in Norway declined in the previous year. The effect amounting to € 597 thousand is disclosed in the development of projected benefit obligations 2016 under "Other".

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

€ 000	2017	2016
Beneficiaries in active employment	51,861	54,928
Beneficiaries no longer with the company	6,846	5,387
Pensioners	47,113	47,169
Projected benefit obligations on 31 December	**105,820**	**107,484**

The defined benefit pension obligations have the following maturities:

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

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

In the previous year, defined benefit pension obligations had the following maturities:

€ 000	
Due in the financial year 2017	3,114
Due in the financial years 2018–2021	13,315
Due in the financial years 2022–2026	18,573

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

€ 000		2017	2016
Fund assets on 1 January		**7,687**	**7,430**
+	Expected income from fund assets	151	154
+	Employer's pension contributions	631	402
+	Employee's pension contributions	52	50
-	Administrative expenses	0	0
+/-	Pension payments made and refunds	1,764	-52
-	Income from fund assets without interest	-35	-38
+/-	Other	-675	-602
+/-	Foreign exchange rate changes	-693	+343
=	**Fund assets on 31 December**	**8,882**	**7,687**

Expected income from fund assets is considered when calculating the fair value of fund assets as at the balance sheet date. This expected income is based on historic and future average earnings expectations of the respective investment categories. In the following financial year, employer contributions to fund assets of € 627 thousand (2016: € 456 thousand) are expected.

Due to a change in legislation in Norway, fund assets in Norway declined in the previous year. The effect amounting to € -558 thousand is disclosed in the development of fair value of fund assets 2016 under "Other".

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

€ 000	31/12/2017	31/12/2016
Quoted market price in an active market		
Shares	0	492
Fixed interest-bearing securities	0	0
Real estate	0	436
Investment fund	0	4,888
Other	5,307	74
Total quoted market price in an active market	**5,307**	**5,890**
No quoted market price in an active market		
Shares	0	0
Fixed interest-bearing securities	0	0
Real estate	0	0
Investment fund	0	0
Other	3,575	1,797
Total no quoted market price in an active market	**3,575**	**1,797**
Total	**8,882**	**7,687**

The item "Other – quoted market price in an active market" includes the investments of the Norwegian companies R. STAHL NORGE AS and R. STAHL TRANBERG AS (formerly TRANBERG AS) under pension fund. In the previous year, a breakdown of the fair value of fund assets according to categories was made based on the investment of the pension fund. As the plan assets of these companies consist exclusively of fund shares of the insurance companies, the carrying amount was changed compared to the previous year and no further breakdown was made.

The item "Others – no quoted market price in an active market" includes the investment of R. STAHL Schweiz AG in a collective foundation. The revaluation of a disability pensioner of R. STAHL Schweiz AG led to an increase in the present value of fund-financed pension claims and of fund assets at market values of € 1,820 thousand each without affecting income.

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

€ 000	2017	2016
Current service cost	1,947	1,853
+/- Past service cost	74	0
+ Net interest expense	1,681	2,115
+/- Other amounts	20	-250
= Balance of amounts recognized in profit or loss for pension obligations	**3,722**	**3,718**

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

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

€ 000	2017	2016
+/- Actuarial gains (-) and losses (+) from changing demographic assumptions	-15	-10
+/- Actuarial gains (-) and losses (+) from changing financial assumptions	-2,845	+11,115
+/- Actuarial gains (-) and losses (+) from changes based on experience adjustments	-691	-747
+ Income from plan assets without interest	600	210
+/- Other	+41	+41
= Balance of amounts recognized in equity for pension obligations	**-2,910**	**+10,609**

Pension provisions have changed as follows:

€ 000	2017	2016
Pension provisions as of 1 January	**99,797**	**88,660**
+/- Amounts recognized in profit or loss for pension obligations	+3,722	+3,718
+/- Amounts recognized in equity for pension obligations	-2,910	+10,609
- Pension payments made	-2,927	-2,815
- Employer contributions	-630	-402
+/- Currency changes	-113	+27
= Pension provisions as of 31 Decemberr	**96,938**	**99,797**

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

29 Other provisions

Other provisions comprise the following items:

€ 000	31/12/2017		31/12/2016	
	Total	Thereof due within one year	Total	Thereof due within one year
Personnel provisions	2,645	990	2,728	802
Warranty obligations	1,248	1,248	1,364	1,364
Other provisions	817	622	1,018	1,018
Total	**4,710**	**2,860**	**5,110**	**3,184**

Of the total amount expensed, € 2,860 thousand (2016: € 3,184 thousand) is due within one year. The remainder of € 1,850 thousand (2016: € 1,926 thousand) pertains to personnel provisions (partial retirement and anniversary obligations) and is recognized in non-current debt as Other long-term provisions.

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

€ 000	31/12/2017	31/12/2016
Short-term pension provisions	3,201	3,114
Other short-term provisions	2,860	3,184
Total	**6,061**	**6,298**

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

€ 000	01/01/2017	Currency change	Addition	Interest expense	Usage	Reversal	31/12/2017
Personnel provisions	2,728	-12	+784	+24	-879	0	2,645
Warranty obligations	1,364	0	+813	0	-639	-290	1,248
Other	1,018	-15	+844	0	-693	-337	817
Total	**5,110**	**-27**	**+2,441**	**+24**	**-2,211**	**-627**	**4,710**

€ 000	01/01/2016	Currency change	Addition	Interest expense	Usage	Reversal	31/12/2016
Personnel provisions	2,670	+5	+982	+31	-863	-97	2,728
Warranty obligations	1,145	0	+1,171	0	-463	-489	1,364
Other	2,113	+8	+859	0	-1,075	-887	1,018
Total	**5,928**	**+13**	**+3,012**	**+31**	**-2,401**	**-1,473**	**5,110**

LIABILITIES

30 Interest-bearing financial liabilities

Interest-bearing financial liabilities include amounts due to banks of € 34,168 thousand (2016: € 37,986 thousand).

Of the expensed total, € 21,073 thousand (2016: € 27,616 thousand) is due within one year and the remaining € 13,095 thousand (2016: € 10,370 thousand) is disclosed as “Interest-bearing loans” under non-current liabilities.

As at 31 December 2017, interest-bearing liabilities had the following maturities:

€ 000	31/12/2017	31/12/2016
Maturities of interest-bearing liabilities		
Up to one year	21,073	27,616
One to five years	10,675	6,607
More than five years	2,420	3,763
= **Short- and long-term interest-bearing liabilities**	**34,168**	**37,986**

Liabilities to banks with residual maturities of more than one year amount to € 13,095 thousand (2016: € 10,370 thousand) and pertain to five loans (2016: six) with the following features:

	31/12/2017 € 000	31/12/2016 € 000	Maturity	Interest rate %
Loan 1	0	250	01/04/2018	3.40
Loan 2	5,000	0	30/10/2022	1.90
Loan 3	300	700	01/07/2019	1.90
Loan 4	0	281	30/09/2018	1.95
Loan 5	800	977	30/06/2023	2.00
Loan 6	3,498	4,081	30/12/2024	1.25
Loan 7	3,498	4,081	30/12/2024	1.25
Total	**13,095**	**10,370**		

31 Other liabilities

The other liabilities position comprises the following items:

	31/12/2017		31/12/2016	
€ 000	Total	Thereof due within one year	Total	Thereof due within one year
Prepayments received	4,411	4,411	2,514	2,514
Trade payables	18,212	18,212	13,403	13,403
Income tax liabilities	609	609	1,159	1,159
Other liabilities	7,003	6,650	7,941	7,487
Deferred liabilities	11,135	11,135	11,609	11,609
Other financial liabilities	129	129	869	869
Total	**41,499**	**41,146**	**37,495**	**37,041**

Of the expensed total, € 41,146 thousand (2016: € 37,041 thousand) is due within one year and the remaining € 353 thousand (2016: € 454 thousand) is disclosed under “Other non-current liabilities”.

On 31 December 2017, current other financial liabilities contain market values of derivative financial instruments amounting to € 100 thousand (2016: € 840 thousand).

Deferred liabilities break down as follows:

€ 000	31/12/2017 Total	31/12/2017 Thereof due within one year	31/12/2016 Total	31/12/2016 Thereof due within one year
Employer's liability insurance premiums	512	512	496	496
Bonuses	4,351	4,351	4,437	4,437
Holiday entitlement	1,468	1,468	1,737	1,737
Time unit credits	1,768	1,768	1,432	1,432
Missing supplier invoices	805	805	1,138	1,138
Other deferred liabilities	2,231	2,231	2,369	2,369
Total	**11,135**	**11,135**	**11,609**	**11,609**

32 Contingent liabilities and other financial obligations

Contingent liabilities

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

€ 000	31/12/2017	31/12/2016
Sureties	380	1,609
Guarantees	606	609
Other obligations	1,353	1,284
Total	**2,339**	**3,502**

Other financial obligations

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

€ 000	31/12/2017	31/12/2016
Up to one year	7,216	6,748
More than one up to five years	17,005	19,405
More than five years	2,455	6,031
Total	**26,676**	**32,184**

In the reporting period, rental expenses for business premises as well as rent for office and operating equipment disclosed in the income statement amounted to € 9,758 thousand (2016: € 9,458 thousand).

33 Derivative financial instruments

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

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

To hedge currency risks, derivative financial instruments for the currencies Australian dollar, British pound, Canadian dollar, Russian rouble, Swedish krona, Swiss franc and US dollar were held in the form of forward foreign exchange contracts on 31 December 2017.

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

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

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

For the interest-rate risks, one payer swap for fixing interest expenses on existing borrowing was held as of 31 December 2017.

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

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

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

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

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

	Nominal volume		Market value	
€ 000	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Positive market values				
Currency derivatives, qualified as cash flow hedges	2,436	3,786	9	206
Currency derivatives without hedging relationship	15,604	7,625	505	133
Total	**18,040**	**11,411**	**514**	**339**
Negative market values				
Currency derivatives, qualified as cash flow hedges	2,142	3,991	-16	-206
Currency derivatives without hedging relationship	2,861	12,099	- 84	-627
Interest rate derivatives, qualified as cash flow hedges	250	750	0	-7
Total	5,254	16,840	-100	-840

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

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

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

€ 000	Gross and net amounts of financial instruments in the consolidated balance sheet	Amounts from global netting agreements	Net amounts
31/12/2017			
Other financial assets (derivatives)	514	-30	484
Other financial liabilities (derivatives)	100	-30	70
31/12/2016			
Other financial assets (derivatives)	339	-171	168
Other financial liabilities (derivatives)	840	-171	669

34 Management of financial risks

Principles of risk management

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

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

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

Risk categories according to IFRS 7

Default risk (credit risk)

The operating activities of the R. STAHL Group are subject to the risk of debtor default.

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

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

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

The following table illustrates the credit quality of financial assets:

€ 000	**Gross carrying amount 31/12/2017**	Neither overdue nor value-adjusted	Overdue but not value-adjusted	Value adjustments
Trade receivables	52,990	33,318	16,643	3,029
	(63,101)	(31,167)	(29,023)	(2,911)

The figures in brackets represent the 2016 values.

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

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

€ 000	Overdue but not value-adjusted 31/12/2017	Up to 30 days overdue	30 to 90 days overdue	More than 90 days overdue
Trade receivables	16,643	6,667	5,951	4,025
	(29,023)	(10,355)	(10,735)	(7,933)

The figures in brackets represent the 2016 values.

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

Allowances for trade receivables developed as follows:

€ 000	2017	2016
1 January	**2,911**	**4,111**
Currency differences	-115	130
Utilization	-436	-620
Reversal	-1,198	-1,952
Addition	+1,867	+1,242
31 December	**3,029**	**2,911**

Liquidity risk

To ensure that the R. STAHL Group is always able to pay its bills and has the necessary financial flexibility for business operations, the liquidity trend is regularly monitored.

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

€ 000	**Carrying amount 31/12/2017**	Cash flows 2018	Cash flows 2019–2022	Cash flows as of 2023
(previous year values)	(31/12/2016)	(2017)	(2018–2021)	(as of 2022)
Interest-bearing loans	34,168	21,483	11,334	2,454
	(37,986)	(28,650)	(6,971)	(3,839)
Trade liabilities	18,212	18,212	0	0
	(13,403)	(13,403)	(0)	(0)
Derivative financial instruments				
Forward exchange transactions				
- without hedging relationship	84	84	0	0
	(627)	(627)	(0)	(0)
- with hedging relationship	16	16	0	0
	(206)	(206)	(0)	(0)
Interest rate derivatives				
- with hedging relationship	0	0	0	0
	(7)	(2)	(0)	(0)
	52,480	39,795	11,334	2,454
	(52,229)	**(42,888)**	**(6,971)**	**(3,839)**

The figures in brackets represent the values as at 31 December 2016.

The liquidity risk can be rated as being rather low. In September 2015, R. STAHL AG signed a syndicated loan agreement with a term of five years comprising a cash credit line of € 95 million with an expansion option of € 25 million for acquisitions. The agreement contains standard provisions regarding the maintenance of the Group's financial strength (financial covenants). Non-compliance with these covenants may result in termination of the agreement by the participating banks. During the reporting period, R. STAHL recognized the risks which might arise from non-compliance with the financial covenants. The respective details are provided in the risk report section of the Group Management Report.

Market price risks

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

Currency risks

The R. STAHL Group's exposure to currency risks primarily arises from operating activities. We hedge foreign exchange rate risks if these materially impact Ggroup 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 denominated in Australian dollar, the British pound, the Canadian dollar, the Russian rouble, the Swedish krona, the Swiss franc and the US dollar.

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

Interest rate risks

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

Price risks

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

As at 31 December 2017 and 31 December 2016, the R. STAHL Group had no material financial instruments in its portfolio that are subject to other price risks.

Sensitivity analyses

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

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

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

If the euro had appreciated 10% relative to all currencies relevant to our operating activities as at 31 December 2017, earnings before income tax would have been higher by € 1,639 thousand (31 December 2016: € 1,585 thousand) and the direct unrealized profits from financial instruments would have been higher by € 417 thousand (31 December 2016: € 410 thousand).

If the euro had devalued 10% relative to all currencies relevant to our operating activities as at 31 December 2017, earnings before income tax would have been lower by € 2,006 thousand (31 December 2016: € 1,941 thousand) and the direct unrealized profits from financial instruments would have been lower by € 509 thousand (31 December 2016: € 502 thousand).

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

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

If the market interest rate level had been higher by 100 basis points on 31 December 2017, earnings before income taxes would have been lower by € 117 thousand (31 December 2016: € 28 thousand) and the direct unrealized gains from financial instruments would have been higher by € 1 thousand (31 December 2016: € 5 thousand).

If the market interest rate level had been lower by 100 basis points on 31 December 2017, earnings before income taxes would have been higher by € 193 thousand (31 December 2016: € 136 thousand) and the direct unrealized gains from financial instruments would have been lower by € 0 thousand (31 December 2016: € 5 thousand).

ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS STATED IN THE BALANCE SHEET

Carrying amount and fair value of financial instruments

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

€ 000	Balance sheet amount as at 31/12/2017	Carrying amounts of financial instruments			Carrying amounts of others	Fair value
		Stated at fair value	Stated at amortized cost	Not subject to IFRS 7		
Non-current assets						
Shares in associated companies	7,750	0	0	7,750	0	7,750
Other financial assets	50	0	5	45	0	5
Other non-current assets	1,206	0	0	152	1,054	1,206
Current assets						
Trade receivables	49,961	0	49,961	0	0	49,961
Other receivables and other assets	7,569	514	2,676	0	4,379	7,569
Cash and cash equivalents	16,085	0	16,085	0	0	16,085
Non-current liabilities						
Interest-bearing loans	13,095	0	13,095	0	0	13,095
Other liabilities	353	0	0	0	353	353

€ 000	Balance sheet amount as at 31/12/2017	Carrying amounts of financial instruments			Carrying amounts of others	Fair value
		Stated at fair value	Stated at amortized cost	Not subject to IFRS 7		
Current liabilities						
Trade payables	18,212	0	18,212	0	0	18,212
Interest-bearing loans	21,073	0	21,073	0	0	21,073
Other liabilities	11,190	100	1,050	0	10,040	11,190
Thereof aggregated acc. to IAS 39						
Loans and receivables	68,727	0	68,727	0	0	68,727
At fair value through profit or loss	514	514	0	0	0	514
Available for sale	0	0	0	0	0	0
Liabilities measured at amortized cost	53,430	0	53,430	0	0	53,430
Liabilities at fair value through profit or loss	100	100	0	0	0	100

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

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

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

The historical cost approach is used for preparing the consolidated financial statements. Accounting for derivative financial instruments is the exception to this rule, as these must be accounted for at fair value. The positive fair values of the derivative financial instruments at the end of the reporting period amounted to € 514 thousand (2016: € 339 thousand). Negative fair values of € -100 thousand (2016: € -840 thousand) were recognized.

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

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

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

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

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

In the financial year 2017, there were no reclassifications between different fair value hierarchies.

The following total proceeds and total expenses arose from valuation at fair value of the derivative financial instruments of Level 2 held on 31 December 2017:

€ 000	2017	2016
Recognized in the income statement		
Derivatives	+876	-545
Recognized in equity		
Derivatives in a hedging relationship	**+39**	**-37**

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

The net result according to valuation categories is as follows:

		From subsequent measurement				
€ 000	From interest	Fair value	Currency translation	Value adjustment	Other	Net result
Loans and receivables	77	0	-20	-669	23	-589
	(93)	(0)	(-29)	(710)	(72)	(846)
Assets and liabilities at fair value through profit or loss	0	876	0	0	0	876
	(0)	(-545)	(0)	(0)	(0)	(-545)
Liabilities measured at amortized cost	-812	0	82	0	0	-730
	(-722)	(0)	(51)	(0)	(0)	(-671)
2017	**-735**	**876**	**62**	**-669**	**23**	**- 443**
2016	(-629)	(-545)	(22)	(710)	(72)	(-370)

The figures for the financial year 2016 are shown in brackets.

OTHER DISCLOSURES

35 Executive bodies of R. STAHL AG

Members of the Supervisory Board

- Heiko Stallbörger, engineering graduate, Stuttgart
  Chair
  Freelance engineering consultant
- Heike Dannenbauer, M.A., Empfingen
  Deputy Chair
  Stage manager of Apollo Theater Produktionsgesellschaft mbH, Stuttgart
- Klaus Erker, Dörzbach [1)]
  Chair of the Site Works Council Waldenburg
  Deputy Chair of Group Works Council
  R. Stahl Schaltgeräte GmbH, Waldenburg
- Heinz Grund, Braunsbach [1)]
  Planner/Production Planning
  R. Stahl Schaltgeräte GmbH, Waldenburg
- Waltraud Hertreiter, Neubeuern
  Independent financial advisor (as defined by Section 100 (5) AktG)/freelance consultant
  Chair of Supervisory Board of Hoftex Group AG, Hof
  Chair of Advisory Board of Südbayerisches Portland-Zementwerk Gebr. Wiesböck & Co. GmbH, Rohrdorf
  Member of Supervisory Board of ERWO Holding AG, Schwaig
- Peter Leischner, business graduate, Frankfurt am Main
  Company officer, director, Head of Treasury Management of Gutmark, Radtke & Company AG, Frankfurt am Main
- Rudolf Meier, engineering graduate, Nuremberg
  Former Head of Production Machinery, Factory Automation of Siemens AG, Munich
- Nikolaus Simeonidis, Bretzfeld [1)]
  Deputy Chair of the Site Works Council Waldenburg
  Chair of Group Works Council
  R. Stahl Schaltgeräte GmbH, Waldenburg
- Jürgen Wild, Vaucresson, France
  Chairman of the Management Board of RAG-Stiftung Beteiligungsgesellschaft mbH, Essen
  Member of Supervisory Board of SAG Group GmbH, Langen (until March 2017)
  Member of Supervisory Board of SolarWorld AG, Bonn (until September 2017)

[1)] Staff representative

Members of the Executive Board

- Dr. Mathias Hallmann, Karlsruhe (since 1 October 2017)
  CEO (as of 1 January 2018)
- Martin Schomaker, Murr (until 31 December 2017)
  CEO
  responsible for Sales/Marketing, Operations, Quality Management, Product Management, Human Resources, Internal Audit and Risk Management
- Bernd Marx, Brühl (until 9 February 2018)
  responsible for Controlling, Finance, IT, Legal and Compliance, Investor Relations and M&A

Compensation report

Total Executive Board compensation

The compensation system for Executive Board members in office during the financial year 2017 is regulated in their respective service agreements. In addition to compensation, the Executive Board members receive (or received) variable, performance-based compensation comprising both a short-term and a long-term component.

The short-term component is limited to € 231 thousand per year for Mr Schomaker, to € 312 thousand for Dr. Hallmann and to € 165 thousand for Mr Marx. The basis for assessment is a percentage of the adjusted annual result. Upon completion of the financial year, the Supervisory Board assesses the performance of each Executive Board member and sets a factor for each member of the Executive Board within a defined range. This factor is multiplied with the basis for assessment and can therefore move up or down.

The long-term component is limited to € 143 thousand per year for both Mr Martin Schomaker and Mr Bernd Marx, and to € 186 thousand for Dr. Mathias Hallmann. In the case of Dr. Hallmann, the Supervisory Board sets additional non-earnings-related (long-term) targets for the long-term component. Depending on the degree of achievement, the Supervisory Board can also adjust the resulting calculated amount for Dr. Hallmann by setting the respective factor.

In addition, the members of the Executive Board receive (or received) benefits in kind. These mostly comprise expenses for company cars.

Total compensation of Martin Schomaker

Mr Schomaker received the following total compensation for the financial year:

€ 000	2017	2016	2015
Fixed compensation	350.0	340.0	340.0
Severance pay	350.0	–	–
Long-term variable compensation [1)]	0.0	52.4	116.3
Short-term variable compensation [1)]	0.0	0.0	0.0
Pension contribution [2)]	170.0	170.0	170.0
Compensation in kind	43.4	43.4	39.0
Total	**913.4**	**605.8**	**665.3**

1) Payment in the following financial year

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

At its meeting of 25 February 2016, the Supervisory Board appointed Mr Schomaker as a member of the Executive Board and CEO for a further three years with effect from 1 January 2017. The resulting prolonged service agreement with Mr Schomaker included an increase in annual fixed compensation from € 340 thousand to € 350 thousand. The variable compensation model was also adjusted to bring it in line with the structure of the model already agreed with Mr Marx. In the financial year 2017, there was no entitlement to the payment of long-term or short-term variable compensation.

In the course of the prolongation of his service agreement, the target pension from the existing individual commitment was fixed at € 9.93 thousand per month. Since leaving the company on 1 January 2018, Mr Schomaker has started drawing this pension. At the end of the reporting period, the present value of pension provisions pursuant to IFRS for Mr Schomaker amounted to € 3,174 thousand (2016: € 3,276.8 thousand). In the reporting period, no personnel expenses but interest expenses of € 55.4 thousand were recognized in profit or loss. The underlying interest rate for fiscal year 2017 was 1.93%.

In the course of the prolongation of Mr Schomaker's service agreement with effect from 1 January 2017, the defined contribution benefit in favour of Mr Schomaker, which existed as of 1 January 2015 on the basis of a resolution of the Supervisory Board on 21 May 2015, was continued at the existing amount of € 170 thousand per year. This annual contribution was an additional salary component. Due to Mr Schomaker's departure from the company as of 31 December 2017, it was due for payment for the last time during the reporting period.

In connection with Mr Schomaker's departure from the company as of 31 December 2017, the company concluded a termination agreement with him on 25 August 2017. It stipulates that the previous mutual rights and obligations should be continued until the date of departure. This meant that Mr Schomaker still received the contractual compensation due to him in full in the financial year 2017. As compensation for the premature departure of Mr Schomaker as a member of the Executive Board and the resulting loss of future income, the termination agreement included a severance payment of € 350.0 thousand due as of 31 December 2017.

In the financial year 2017, Mr Schomaker received benefits in kind of € 43.4 thousand.

Total compensation of Dr. Mathias Hallmann

Dr. Hallmann received the following total compensation for the financial year 2017 as of his appointment as member of the Executive Board on 1 October 2017:

€ 000	2017
Fixed compensation	100.0
Long-term variable compensation [1]	0.0
Short-term variable compensation [1]	0.0
Subsidy [2]	2.8
Compensation in kind	6.3
Total	**109.1**

[1] Payment in the following financial year
[2] Subsidy for health, long-term care and pension insurance in the amount which the employer would incur if Dr. Hallmann had the status of an employee

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

The service agreement concluded with Dr. Hallmann at this time stipulates annual fixed compensation of € 400 thousand, which was paid on a pro rata basis for the financial year 2017 as of October 2017. Variable compensation comprises a short-term and a long-term element as well as the same system last agreed with the other members of the Executive Board. Pursuant to the contractual regulations, Dr. Hallmann had no claim to variable compensation for the period from 1 October 2017 to 31 December 2017.

The company grants Dr. Hallmann a subsidy for his health, long-term care and pension insurance in the amount which the employer would incur if Dr. Hallmann had the status of an employee. In the reporting period, this subsidy amounted to € 0.93 thousand per month. The company has no further commitments for the retirement pension and/or invalidity pension of Dr. Hallmann.

Dr. Hallmann received benefits in kind of € 6.3 thousand. In addition to costs for a rented car, this amount includes costs for overnight stays in Waldenburg which the company granted for the first three months of his engagement.

Total compensation of Bernd Marx

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

€ 000	2017	2016	2015
Fixed compensation	250.0	250.0	220.0
Long-term variable compensation[1)]	0.0	39.0	69.8
Short-term variable compensation[1)]	0.0	14.8	–
Pension contribution[2)]	91.0	91.0	65.0
Compensation in kind	14.6	14.6	14.1
Summe	**355.6**	**409.4**	**368.9**

1) Payment in the following financial year
2) Defined contribution pension scheme under which not the later payments are guaranteed but the contribution amounts

At its meeting of 21 May 2015, the Supervisory Board had decided to extend the service agreement of Mr Marx by a further five years for the period from 1 January 2016 to 31 December 2020. One component of this extension was an increase in fixed annual remuneration to € 250.0 thousand as well as an adjustment of the defined contribution pension plan, each with effect from 1 January 2016. In addition, long-term variable compensation, which was previously only based on the long-term development of the Group, was supplemented by a short-term Group development component based on the Group's development during the reporting period. In the financial year 2017, there was no entitlement to the payment of long-term or short-term variable compensation.

With regard to the defined contribution pension plan, the company entered into a reinsurance policy in the form of a defined contribution plan with a pension fund for Mr Marx. The annual contribution amounts to € 91.0 thousand and is an additional compensation component of Mr Marx. As part of the individual commitment, Bernd Marx would have received a gross monthly pension of € 3.3 thousand on leaving the company's Executive Board after attaining the age of 65. After stepping down from his seat on the Executive Board with immediate effect on 9 February 2018 and the termination of his service agreement with effect from 30 June 2018, the amount of his monthly pension is based on the fixed entitlement earned as of 31 December 2018. At the end of the reporting period, the present value of pension obligations pursuant to IFRS for Mr Marx amounted to € 495 thousand (2016: € 481.7 thousand). In the reporting period, a regular amount of € 32 thousand personnel expenses and € 8.3 thousand interest expenses were recognized in profit or loss. The underlying interest rate for fiscal year 2017 was 1.93%.

In addition, Mr Marx received compensation in kind of € 14.6 thousand.

Total compensation of the Supervisory Board

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

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

In the year under review, the Supervisory Board received fixed compensation totalling € 227.5 thousand (2016: € 253 thousand), and variable compensation of € 24 thousand (2016: € 24 thousand).

Supervisory Board € 000	Fixed compensation	Committee compensation	Variable compensation	**Total**
Heiko Stallbörger	**36.0**	**21.9**	**4.8**	**62.7**
Heike Dannenbauer	**18.0**	**3.7**	**2.4**	**24.1**
Klaus Erker	**18.0**	**3.7**	**2.4**	**24.1**
Heinz Grund	**18.0**	**3.7**	**2.4**	**24.1**
Waltraud Hertreiter	**18.0**	**7.3**	**2.4**	**27.7**
Peter Leischner	**18.0**	**3.7**	**2.4**	**24.1**
Rudolf Meier	**18.0**	**3.7**	**2.4**	**24.1**
Nikolaus Simeonidis	**18.0**	**0.0**	**2.4**	**20.4**
Jürgen Wild	**18.0**	**0.0**	**2.4**	**20.4**
Total	**180.0**	**47.5**	**24.0**	**251.5**

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

Total compensation of former Executive Board members and former Managing Directors

Former members of the Executive Board, as well as former Managing Directors, and their survivors received a total of € 287.5 thousand (2016: € 280 thousand) in the financial year 2017.

As at 31 December 2017, the present value of pension obligations for former members of the Executive Board, as well as former Managing Directors, and their survivors amounted to € 4,422 thousand (2016: € 4,578 thousand).

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

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

36 Related party disclosures

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

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

In fiscal year 2017, the disclosure requirements of IAS 24 only affected the R. STAHL Group in respect to business relations with members of the Executive Board and members of the Supervisory Board. Total compensation of the Supervisory Board amounted to € 490 thousand in the reporting period (2016: € 509 thousand). These amounts include the statutory compensation amounts for worker representatives. Please refer to section 35 "Executive bodies of R. STAHL AG, subsection Compensation Report".

No significant reportable transactions were carried out with TRANBERG SYSTEMS A/S, Vejle (Denmark) and the companies ZAVOD Goreltex, Saint Petersburg (Russia), and ESACO Pty. Ltd., Edenvale (South Africa) in 2017. As of 31 December 2016, R. STAHL Group still held 48% of shares in TRANBERG SYSTEMS A/S. These shares were sold in the financial year 2017.

Disclosures pursuant to Section 160 (1), subsec. 8 German Stock Corporation Act (AktG) were made.

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

We complied with the Code of Conduct recommended by the German Government Commission on the German Corporate Governance Code in the past fiscal year with a few exceptions in individual items. We will continue to comply with the majority of its recommendations in future. We have made a corresponding declaration of compliance which is accessible to the public on our website www.r-stahl.com in the section Corporate/Investor Relations/Corporate Governance/Corporate Governance Declaration.

NOTES TO THE CASH FLOW STATEMENT

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

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

Using the indirect method, the relevant changes in balance sheet items are adjusted for consolidation effects. This approach causes differences in the changes of the respective balance sheet items as shown in the published consolidated balance sheet.

The flow of funds from operating activities includes the following items:

€ 000	2017	2016
Interest received	239	260
Interest paid	-812	-721
Dividends received	407	25
Income tax refunds/credits	3,084	1,618
Income tax payments	-4,914	-4,534

NOTES TO SEGMENT REPORTING

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

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

The key performance indicator for the R. STAHL Group is earnings before interest, taxes, depreciation and amortization (EBITDA) pre exceptionals. Internal reporting corresponds to external IFRS reporting. As a result, no reconciliation is required. Furthermore, the Executive Board regularly monitors the following financial and economic parameters: sales, order intake and order backlog, as well as earnings before taxes (EBT).

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

€ 000	2017	2016
Order backlog	92,337	80,674
Order intake	284,098	282,868
Sales	268,462	286,609
Total operating performance	269,465	284,305
Other operating income	8,026	12,923
Material costs	-100,116	-101,136
Personnel costs	-121,112	-118,288
Depreciation and amortization of tangible and intangible assets	-12,972	-13,381
Other operating expenses	-53,979	-55,647
Earnings before financial result and income taxes	**-10,688**	**8,776**
Interest income	238	260
Interest expenses	-3,179	-3,365
Other financial result	994	128
Financial result	**-1,947**	**-2,977**
Earnings before income taxes	**-12,635**	**5,799**
Segment assets	234,503	254,818
Segment liabilities	176,705	179,228
Annual average number of employees	1,776	1,824
Associated companies		
Share in associated companies	7,750	7,097
Result from associated companies	977	103
Non-current assets		
Carrying amounts of non-current assets	106,382	110,434
Additions to non-current assets	10,425	12,496

The following table provides a breakdown by region:

€ 000	Central region	Americas	Asia/ Pacific	**Total**
Sales from sales to external customers	181,604	28,973	57,885	**268,462**
	(193,250)	(35,812)	(57,547)	**(286,609)**
Carrying amounts of non-current assets	96,868	2,505	7,009	**106,382**
	(99,046)	(3,552)	(7,836)	**(110,434)**
Additions to non-current assets	10,109	0	316	**10,425**
	(12,120)	(29)	(347)	**(12,496)**

The figures in brackets refer to the prior-year values for 2016. The regional breakdown shows sales on the basis of customer locations. Assets of the R. STAHL Group are assigned according to the location of the respective subsidiary that carries this asset in the balance sheet. Pursuant to IFRS 8.33, assets comprise all non-current Group assets with the exception of financial instruments, deferred tax assets, post-service benefits and rights from insurance agreements.

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

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

ADDITIONAL NOTES AND DISCLOSURE REQUIREMENTS

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

€ 000	2017	2016
Financial statement audits	305	280
of which relating to other periods	45	0
Other certification and valuation services	0	0
Tax consultancy services	0	0
Other services	0	44
Total	**305**	**327**

R. Stahl Schaltgeräte GmbH, Waldenburg, and R. STAHL HMI Systems GmbH, Cologne, fulfilled the requirements of Section 264 (3) HGB and have thus made use of the exemption clause with regard to the preparation of notes to the annual financial statements and a management report as well as the disclosure of their annual financial statements for fiscal year 2017. With reference to Section 264 (3) HGB, use is made of the exemption clause with regard to the preparation of notes and the disclosure of annual financial statements for fiscal year 2017 of the companies GGF – Gesellschaft für Grundstücksvermietung und Finanzierungsvermittlung mbH, Waldenburg, R. Stahl Services GmbH, Waldenburg, R. STAHL LECTIO GmbH, Waldenburg, R. STAHL SUPERA GmbH, Waldenburg, R. Stahl Beteiligungsgesellschaft mbH, Waldenburg, and R. STAHL Camera Systems GmbH, Cologne. The necessary prerequisites pursuant to Section 264 (3) HGB are fulfilled.

OTHER NOTES AND DISCLOSURES

EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On 9 February 2018, Bernd Marx, member of the Executive Board of R. STAHL AG and Chief Financial Officer, and the Supervisory Board agreed to terminate his service agreement as of 30 June 2018. On the same day, Bernd Marx stepped down from his position on the Executive Board. Until a successor is appointed, Dr. Mathias Hallmann, member of the Executive Board of R. STAHL AG and CEO, will assume the responsibilities of the CFO.

In March 2018, additional agreements were made with the respective banks concerning the syndicated loan agreement concluded in September 2015. Detailed disclosures on these agreements are presented in note 1, basis of preparation, subsection going concern as well as in the risk report section of the Group Management Report. In the course of these agreements, adjustments were made to the interest and guarantee conditions.

A resolution to close R. STAHL Nissl GmbH, Vienna, was adopted on 26 April 2018.

Waldenburg, 31 May 2018
R. Stahl Aktiengesellschaft

Dr. Mathias Hallmann
CEO

RESPONSIBILITY STATEMENT

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

Waldenburg, 31 May 2018

R. Stahl Aktiengesellschaft

Dr. Mathias Hallmann
CEO

REPRODUCTION OF THE AUDIT OPINION

We have issued the following unqualified audit opinion, signed in Stuttgart on 4 June 2018, on the consolidated financial statements and group management report of R. Stahl Aktiengesellschaft, Waldenburg, Germany, for the fiscal year from 1 January 2017 to 31 December 2017 in the versions attached to this report as Annex I (Consolidated Financial Statements) and II (Group Management Report):

„Audit opinion of the independent auditor

To R. Stahl Aktiengesellschaft, Waldenburg

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

AUDIT OPINIONS

We have audited the consolidated financial statements of R. Stahl Aktiengesellschaft, Waldenburg, Germany and its subsidiaries (the Group) – consisting of the consolidated balance sheet as at 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 January 2017 to 31 December 2017, as well as the notes to the consolidated financial statements, including a summary of significant accounting methods. In addition, we also audited the group management report of R. Stahl Aktiengesellschaft for the fiscal year from 1 January 2017 to 31 December 2017.

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

- the attached consolidated financial statements comply in all material respects with those IFRSs adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) of the German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2017 and of its financial performance for the fiscal year from 1 January 2017 to 31 December 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with the German legal requirements and appropriately presents the opportunities and risks of future development.

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

BASIS FOR THE AUDIT OPINIONS

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

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

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

MATERIAL UNCERTAINTY IN CONNECTION WITH THE COMPANY'S ABILITY TO CONTINUE AS A GOING CONCERN

We refer to the details provided in the section "Accounting and Valuation Methods", subsection "Going Concern" of the notes, and the section "Risk Report – Group's Risk Position", subsection "Financial Risks" of the management report, in which the legal representatives explain events and circumstances which refer to the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and constitute a risk which jeopardizes the existence of the Group as a going concern within the meaning of Section 322 (2) Sentence 3 HGB.

Our audit opinions on the consolidated financial statements and group management report have not been modified with respect to this matter.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters which, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our auditor's opinion thereon; we do not provide a separate audit opinion on these matters.

We identified the following as key audit matters:

1. Impairment of goodwill
2. Deferred taxes on loss carryforwards

IMPAIRMENT OF GOODWILL

Description of issue

Goodwill of EUR 11.1 million, corresponding to 4.4% of the consolidated balance sheet total, is disclosed in the consolidated financial statements of R. Stahl Aktiengesellschaft under the balance sheet item "Intangible Assets". Goodwill was allocated to cash-generating units.

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

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

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

Auditor's response

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

RECOGNITION AND RECOVERABILITY OF DEFERRED TAX ASSETS ON LOSS CARRYFORWARDS

Description of issue

Deferred tax assets of EUR 11.9 million, of which EUR 0.4 million (prior year: EUR 7.6 million) for loss carryforwards, are disclosed in the consolidated financial statements of R. Stahl Aktiengesellschaft. The carrying amount for deferred tax assets on loss carryforwards was reduced by EUR 7.2 million in the reporting period and deferred taxes on loss carryforwards of EUR 3.8 million were not recognized. In accordance with IAS 12.34, a deferred tax asset for loss carryforwards may only be recognized to the extent to which it is probable that future taxable profit will be available. This assessment requires taxable income planning for future taxation periods, which in turn is based on reliable corporate planning. The assessment of whether future taxable earnings can be generated despite the existence of past losses is heavily discretionary. The auditing of deferred tax assets on loss carryforwards was therefore of particular importance and thus identified as a key audit matter.

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

Auditor’s response

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

OTHER INFORMATION

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

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

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

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

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

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

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

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility to disclose, if applicable, matters related to continuing as a going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless actual or legal circumstances require otherwise.

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

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

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

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

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

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

- identify and assess the risks of – intentional or unintentional – material misstatement of the consolidated financial statements and the group management report, plan and perform audit procedures as a response to these risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal controls;
- obtain an understanding of the internal control system of relevance to the audit of the consolidated financial statements and of the relevant provisions and measures for the auditing of the group management report in order to plan audit procedures which are appropriate for the circumstances, but not with the aim of expressing an audit opinion on the effectiveness of these systems;
- evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and the related disclosures;
- make conclusions about the appropriateness of the going concern basis of accounting used by the legal representatives and, based on the audit evidence obtained, about whether a material uncertainty exists related to events or conditions which may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's opinion to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are not appropriate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's opinion. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in such a way that the consolidated financial statements give a true and fair picture of the Group's financial position and performance in compliance with those IFRSs adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB;
- obtain sufficient appropriate audit evidence regarding the accounting information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We bear sole responsibility for our audit opinions;
- assess the consistency of the group management report with the consolidated financial statements, its compliance with the legal provisions and the view it gives of the Group's position;
- perform procedures on the prospective information presented by the legal representatives in the group management report. In particular, we obtain sufficient appropriate audit evidence to evaluate the underlying significant assumptions used by the legal representatives for forward-looking statements and evaluate the proper derivation of the forward-looking statements from these assumptions. We do not express a separate opinion on the forward-looking statements nor on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the forward-looking statements.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

FURTHER DISCLOSURES PURSUANT TO ARTICLE 10 EU AUDIT REGULATION

We were elected as group auditor by the Annual General Meeting of 2 June 2017. We were hired by the Supervisory Board on 2 October 2017. We have been the group auditor of R. Stahl Aktiengesellschaft without interruption since the fiscal year 2017.

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

RESPONSIBLE AUDITOR

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

LIST OF SHAREHOLDINGS

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

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

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

ANNUAL FINANCIAL STATEMENTS OF R. STAHL AKTIENGESELLSCHAFT

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

INCOME STATEMENT

of R. Stahl Aktiengesellschaft, Waldenburg, for the period 1 January to 31 December 2017

€ 000	2017	2016
1. Sales	**9,326**	**13,311**
2. Other operating income	1,341	3,656
	10,667	**16,967**
3. Cost of materials		
Cost of raw materials, consumables and supplies and for purchased goods	0	6
4. Personnel costs		
a) Wages and salaries	5,224	5,349
b) Social insurance contributions and pension	1,529	571
	6,753	**5,920**
5. Depreciation and amortization of intangible assets and property, plant & equipment	306	741
6. Other operating expenses	13,829	15,584
	-10,221	**-5,283**
7. Investment income	9,713	9,157
8. Income from profit transfer agreements	0	5,888
9. Other interest and similar income	384	594
10. Depreciation on financial assets	3,248	0
11. Expenses from transfer of losses	4,181	0
12. Interest and similar income	1,363	1,291
13. Income taxes	79	93
	3,974	**14,255**
14. Result after taxes	**-8,995**	**8,972**
15. Other taxes	35	40
16. Net loss for the year (previous year: net profit for the year)	**-9,030**	**8,932**
17. Profit carryforward	5,068	0
18. Balance sheet loss (previous year: balance sheet profit)	**-3,962**	**8,932**

BALANCE SHEET

of R. Stahl Aktiengesellschaft, Waldenburg, as of 31. December 2017

€ 000	31/12/2017	31/12/2016
ASSETS		
A. Non-current assets		
I. Intangible assets		
1. Industrial property and similar rights, acquired for a consideration	779	0
2. Prepayments made	1,236	1,438
	2,015	**1,438**
II. Property, plant and equipment		
1. Properties and buildings, including buildings on third-party properties	1,890	2,040
2. Technical equipment and machinery	12	14
3. Other plant as well as operating and office equipment	39	30
	1,941	**2,084**
III. Financial assets		
1. Equity interests in affiliated companies	67,050	71,574
2. Loans to affiliated companies	6,030	3,842
3. Equity investments	7,086	5,811
	80,166	**81,228**
B. Current assets		
I. Receivables and other assets		
1. Trade receivables	35	62
2. Receivables from affiliated companies	12,899	19,495
3. Other assets	1,273	536
4. Prepayments made	24	0
	14,231	**20,093**
II. Cash and cash equivalents	**300**	**303**
C. Prepaid expenses and deferred income	187	351
	98,840	**105,498**

€ 000	31/12/2017	31/12/2016
EQUITY & LIABILITIES		
A. Equity		
I. Issued capital		
Subscribed capital	16,500	16,500
II. Capital reserves	18,666	18,666
III. Revenue reserves		
Other revenue reserves	18,447	18,447
IV. Balance sheet loss (previous year: balance sheet profit)	-3,962	8,932
	49,652	**62,546**
B. Provisions		
1. Pension provisions	15,569	15,315
2. Other provisions	994	1,323
	16,563	**16,638**
C. Liabilities		
1. Liabilities to banks	21,442	21,269
2. Trade payables	823	403
3. Liabilities to affiliated companies	9,993	3,903
4. Other liabilities	367	739
	32,625	**26,314**
	98,840	**105,498**

GLOSSARY

IMPORTANT FINANCIAL AND ECONOMIC TERMS

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

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

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

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

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

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

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

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

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

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

Free float
Number of shares owned by diverse shareholders

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

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

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

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

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

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

IMPORTANT COMPANY-RELEVANT TERMS

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

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

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

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

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

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

HMI (Human Machine Interface)
Equipment technology for operating and monitoring of processes

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

LED
Light-emitting diode

LNG
Liquefied natural gas

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

NEC
National Electrical Code of the USA for certifying electrical installations

OEM (Original Equipment Manufacturer)
Company which produces parts and equipment that may be marketed by another manufacturer

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

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

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

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Annual General Meeting in Künzelsau **30 August 2018**

Interim statement as of 30 September 2018 **8 November 2018**

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