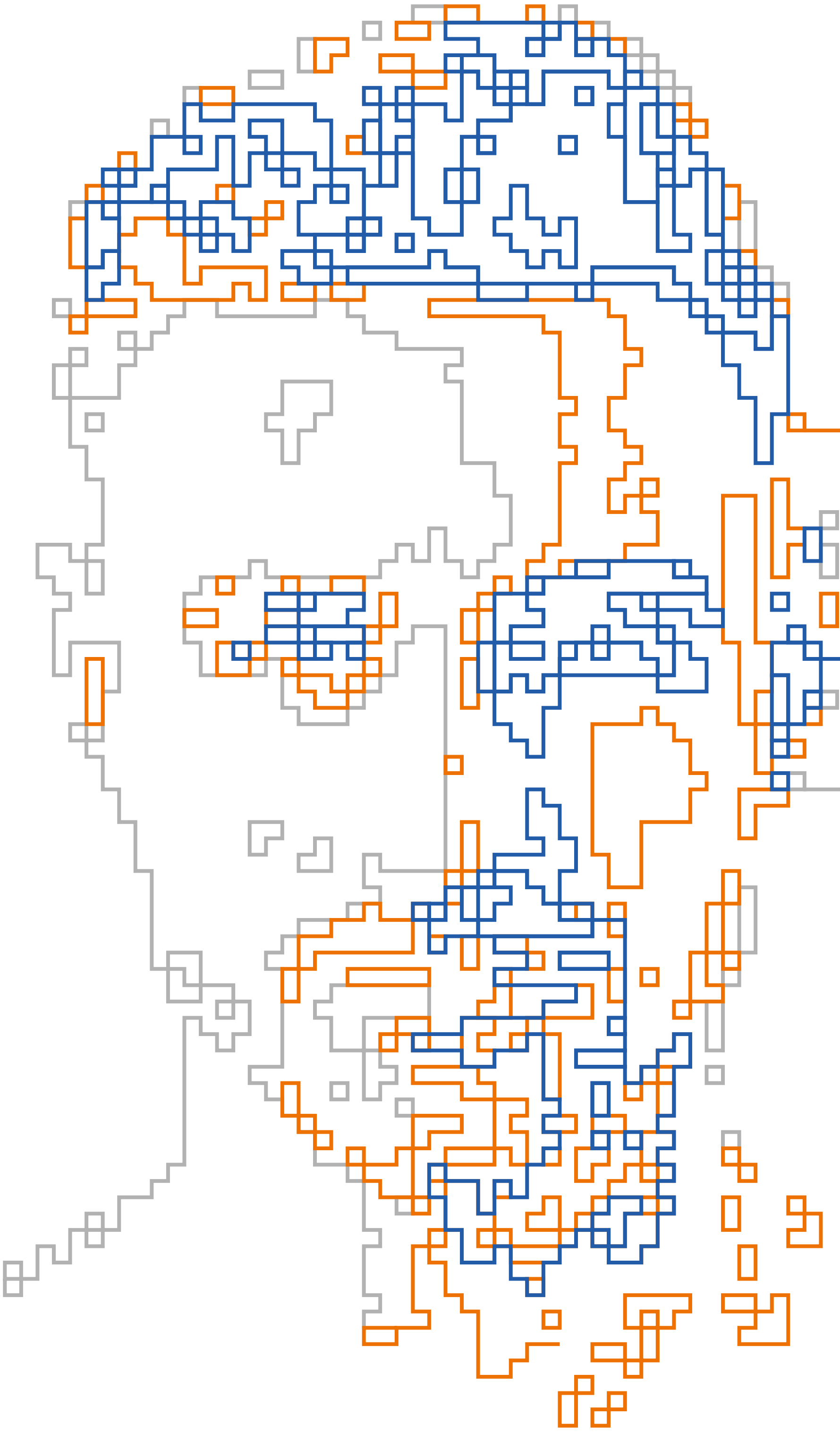
TECHNOLOGY

EFFICIENCY

GROWTH



Annual Report 2019

STAHL

KEY FIGURES R. STAHL GROUP

€ million	2019	2018	*Change in %*	2017	2016	2015
Sales	274.8	280.1	*-1.9*	268.5	286.6	312.9
Germany	62.5	70.3	*-11.1*	60.9	61.3	64.4
Central region[1]	120.9	116.1	*+4.1*	120.7	131.9	124.4
Americas	34.5	31.2	*+10.6*	29.0	35.8	49.1
Asia/Pacific	56.8	62.5	*-9.1*	57.9	57.5	75.1
EBITDA pre exceptionals[2) 3)]	30.4	15.2	*+99.9*	5.8	20.7	–
EBITDA[2]	25.3	9.5	*>+100*	2.3	22.2	17.4
EBIT[2]	6.3	-4.2	*n/a*	-10.7	8.8	3.9
Net profit[2]	1.3	-7.0	*n/a*	-21.2	4.2	-0.1
Earnings per share (in €)[2]	0.21	-1.10	*n/a*	-3.28	0.64	-0.02
Dividend per share (in €)	0	0	*0*	0	0.60	0.60
Cash flow from operating activities[2]	19.6	18.2	*+7.7*	19.7	10.9	18.4
Depreciation & amortization[2]	18.9	13.6	*+39.0*	13.0	13.4	13.5
Capital expenditures[4]	11.3	10.4	*+8.2*	10.4	12.5	23.0
Balance sheet total as of 31 December[2]	259.4	227.9	*+13.8*	249.6	278.6	278.8
Shareholders' equity as of 31 December[2]	58.4	62.3	*-6.1*	69.1	94.8	101.0
Equity ratio as of 31 December[2]	*22.5%*	*27.3%*		*27.7%*	*34.0%*	*36.2%*
Net financial liabilities as of 31 December[5]	4.2	5.5	*-24.0*	18.1	21.8	17.4
Employees as of 31 December[6]	1,669	1,690	*-1.2*	1,763	1,788	1,894

[1] Africa and Europe without Germany
[2] 2019 including effects from initial application of IFRS 16
[3] Exceptionals: restructuring charges, non-scheduled depreciation and amortization, charges for designing and implementing IT projects, M&A costs as well as profit and loss from the disposal of assets no longer required for business operations. Exceptionals were first disclosed in the reporting year 2016.
[4] Payments for investments in intangible assets and property, plant & equipment
[5] Without pension provisions and without lease liabilities
[6] Without apprentices

Rounding and rates of change
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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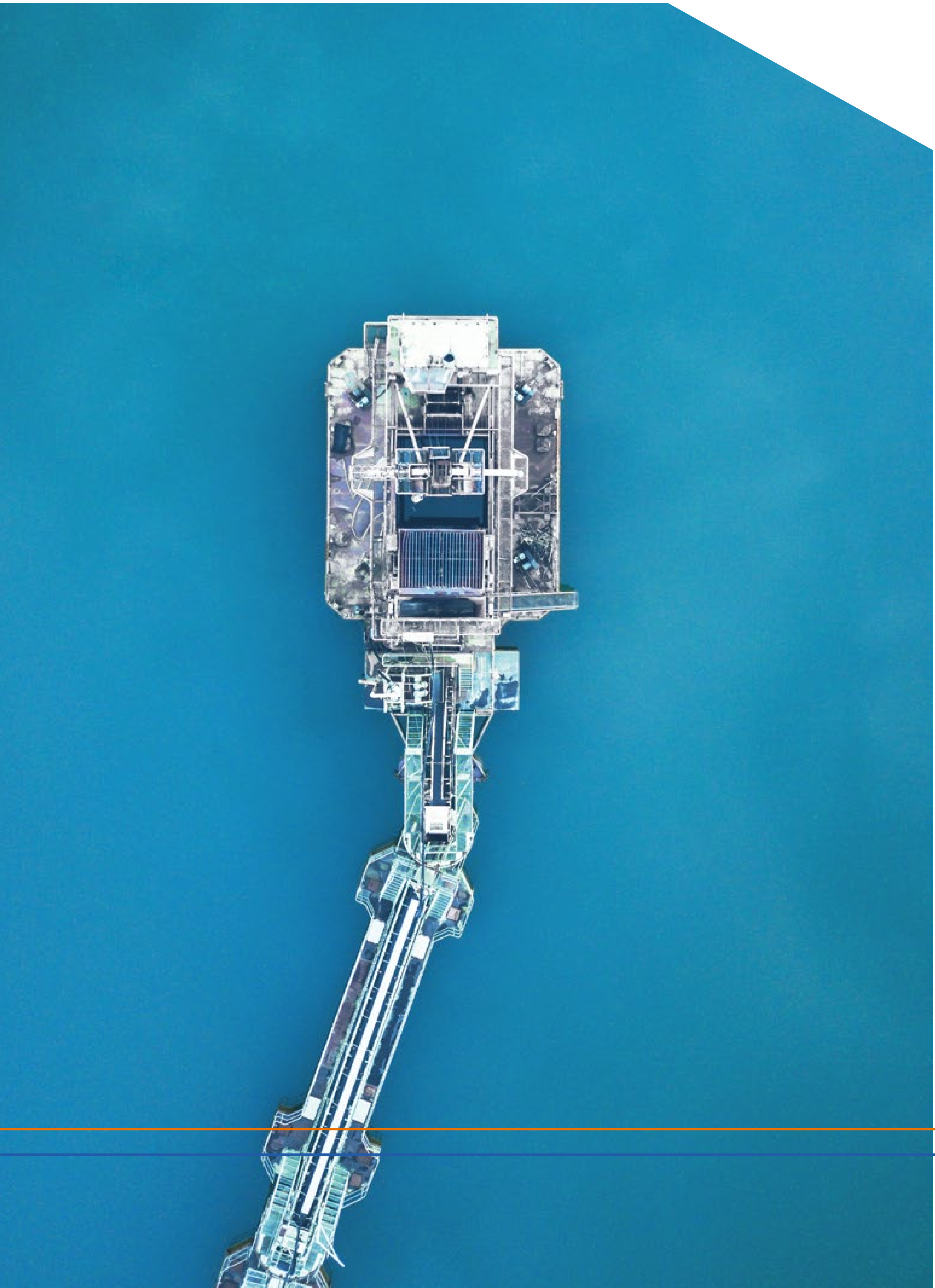


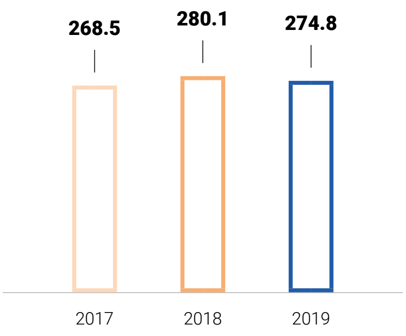
LEADING IN EXPLOSION PROTECTION

R. STAHL is a leading global supplier of products for electrical explosion protection.

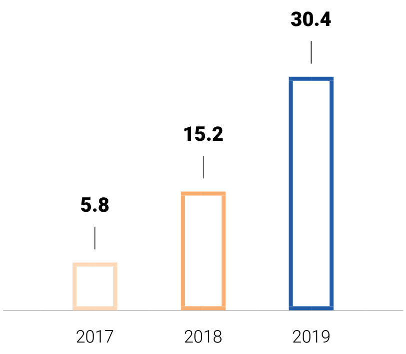
Electrical explosion protection is a core element of safety technology. By providing the right technical solutions, it guarantees the safe operation of electrical systems at all times wherever combustible substances are industrially produced, transported, stored and processed.

With a comprehensive and powerful portfolio of electromechanical and electronic components, as well as tailored system solutions, we offer our customers uncompromising safety – even for the most demanding applications and in the most challenging locations – thus protecting people as well as facilities and the environment. Our strong market position results from the outstanding quality of our products and services, as well as from a sustained and strategic focus on innovation to secure our technological lead.

SALES
€ million



EBITDA PRE EXCEPTIONALS
€ million



KEY EVENTS

01 — JANUARY

New accounting standard IFRS 16. The new accounting standard IFRS 16, mandatory as of 1 January 2019, comes into force. It standardizes the accounting treatment of leases and has a significant impact on key figures of the R. STAHL Group in the reporting period. While EBITDA pre exceptionals and the balance sheet total increase, the interest result and equity ratio decrease.

Austria supported in future from Waldenburg. In the course of consolidating our business activities in German-speaking countries, sales activities for Austria are managed from Waldenburg as of the beginning of 2019.

Merger of Cologne-based subsidiaries. In order to simplify our corporate structures, the two subsidiaries in Cologne, R. STAHL HMI Systems GmbH and R. STAHL Camera Systems GmbH, are merged.

03 — MARCH

Standards conference in Waldenburg. Premiere at R. STAHL: the world's most important standards conference for explosion protection is hosted by a leading manufacturer for the first time. Around 200 participants from 40 nations gather in Waldenburg for a meeting of Technical Committee 31 of the International Electrotechnical Commission (IEC).

Switzerland supported in future from Waldenburg. As part of the streamlining of our Group organization, sales processing for our customers in Switzerland is switched to Germany.

06 — JUNE

Luminaire recall. R. STAHL announces the recall of around 34,500 luminaires. Tests of the lamp housings, which mainly consist of a polycarbonate tube, had indicated that the long-term stability of the tubes was not sufficiently assured under unfavourable operating conditions. No complaints or damage claims were received due to lack of long-term stability. By recalling the product, R. STAHL underlines its promise to deliver maximum quality and safety.

Changes in the Executive Board. Chief Financial Officer Volker Walprecht leaves the company by 30 June.

2019

07 — JULY

Increase of stake in South African company. R. STAHL increases its stake in ESACO (Pty.) Ltd, Edenvale by a further 35% to 70%. Based in Linbro Park near Sandton/Johannesburg, the owner-managed company ESACO is a sales specialist for explosion-protected equipment focusing on the African market and has been a distributor for R. STAHL products since its foundation in 1975. The two companies have been successfully cooperating for decades. The ISO 9001-certified company achieved sales equivalent to € 1.6 million in 2018. R. STAHL had already acquired an initial 35% stake in ESACO in 2016. The strategic aim of the majority acquisition is to grow business on the African continent and perfectly pools R. STAHL's market-leading portfolio with ESACO's established market position. The purchase price for the newly acquired stake is € 0.9 million.

12 — DECEMBER

New syndicated loan agreement. R. STAHL prematurely concludes a new syndicated loan for Group funding. It has a volume of € 70 million with the possibility to increase it by a further € 25 million, and has a term of three years initially with an extension option for up to two further years.

Standardization of engineering software. R. STAHL decides to use the software solution Engineering Base from Aucotec AG in all of the Group's planning and production areas in future. The engineering software had already been in use at several locations for some time and will now be the global standard throughout R. STAHL Group.

Changes in the Supervisory Board. The Supervisory Board member Jürgen Wild steps down from his position on 31 December 2019. Jürgen Wild had been a member of the Supervisory Board of R. STAHL AG since 2015.

LETTER FROM THE CEO

Ladies and gentlemen,

2019 was a good and successful year for R. STAHL. Sales fell slightly year on year by 1.9% to € 274.8 million, which was mainly due to the declining volume of large-scale projects, for which we have had higher margin requirements since 2018. From a regional perspective, this mainly impacted Germany with a decline of 11.1%, whereas the Americas region posted further sales growth of 10.6% and the solid performance of the Central region almost offset weaker business in Asia. However, and in spite of this sales trend, EBITDA pre exceptionals – our main earnings KPI – was doubled to € 30.4 million and we successfully met our full-year guidance, after raising it slightly twice during the year. In addition to the favourable product mix and cost savings from the R. STAHL 2020 efficiency program introduced in 2018, earnings were enhanced by the new lease accounting standard IFRS 16, which was mandatory for the first time in the reporting period. Once again, net profit also improved significantly, raising by € 8.3 million to € 1.3 million in 2019. Although this rapid return to profitability confirms and strengthens our conviction that we are on the right track, the prerequisites to resume dividend payments are not met yet. The Executive Board will therefore propose to this year's Annual General Meeting that no dividend be paid for 2019.

Technology, efficiency and growth – these three elements form the cornerstone of our strategic roadmap. R. STAHL has enjoyed an outstanding technological position in electrical explosion protection for almost a century now. We will continue to drive the maturity level of our efficiency program, based on the new corporate structures created over the past two years and the process improvements still being implemented, in order to create a lean and agile organization. At the same time, we defined additional measures in the reporting period for stronger future growth. We see significant potential in the field of global climate protection, which will increase the importance of those energy sources offering lower CO_2 emissions. We are also focusing on the opportunities arising from digitalization: in our administrative and production processes, as well as in the increased networking of our products and the development of entirely new digital business models. Targeted measures for strategic market development and the global development of our workforce are being introduced to exploit these growth fields. We therefore started the current year with the aim of raising sales again in 2020 and further improving EBITDA pre exceptionals by a mid-single-digit million euro amount. In the reporting period, we had already created the necessary scope to finance long-term growth by concluding a new syndicated loan agreement with a volume of up to € 95 million.

The relentless global spread of the coronavirus in February and March, and the equally drastic yet necessary political measures to contain it, will strongly determine the macroeconomic conditions for the current year – even though reliable quantitative forecasts are currently not possible. The effects on the first stages of our value chain, i.e. the procurement of raw materials and production, are still manageable at present – neither our most important suppliers nor our production sites are located in those regions most affected by COVID-19. We also began implementing measures to maintain the health of our workforce and our ability to continue producing at an early stage. However, we will be only partially able to mitigate the adverse effects on the journey our products to their destination: these include a frequent lack of free transport capacities, restricted trade routes and consignments that either cannot be delivered or are delivered late. In addition, we expect the significant price decline of crude oil in March this year to show up with a delay also in our business. Nevertheless: the fundamental modernization of our structures and processes which we began two years ago has already made us much more resilient to such economic downturns. Against this backdrop, we currently expect a moderate decline in sales by a maximum of up to 5% to between € 260 million and € 275 million for the current year. EBITDA pre exceptionals will be in the low double-digit million euro range.

R. STAHL's strategic orientation is based on the principle of creating sustainable added value for our stakeholders. I would like to thank you, our shareholders, for your continued loyalty and support on this path. I would also like to express my particular gratitude to our employees, whose commitment and flexibility in the reporting period helped us drive the far-reaching modernization process at R. STAHL. Finally, I am indebted to our customers and business partners for the trust they continue to place in us and our solutions. With our value-adding products and first-class service, we do our best every day to earn this trust.

Dr Mathias Hallmann
Chief Executive Officer

Dr Mathias Hallmann
Chief Executive Officer

THE EXECUTIVE BOARD

Dr Mathias Hallmann
Chief Executive Officer

Dr Mathias Hallmann, Chief Executive Officer, studied Mechanical Engineering at the University of Karlsruhe where he also obtained a doctorate. He started his professional career in 1994 as a consultant for McKinsey, which he left in 2002 to join Moeller GmbH as Head of the Business Unit Automation (today: Eaton Industries GmbH). After several management positions at Böhler Welding Group and its parent company voestalpine, where Dr Hallmann worked as of 2005, he moved to Lincoln Electric in 2013. Here, he was initially responsible for the company's international business strategy outside the Americas before taking over full business responsibility for these regions. Dr Hallmann was appointed to the Executive Board of R. STAHL AG on 1 October 2017, and took over as CEO on 1 January 2018. His service agreement runs until 2023.

»R. STAHL's leading technologies and improving continuously process efficiency provide a strong base for profitable growth – they are therefore at the heart of our corporate strategy. At the same time, we are targeting opportunities arising from new applications and digitalization.«

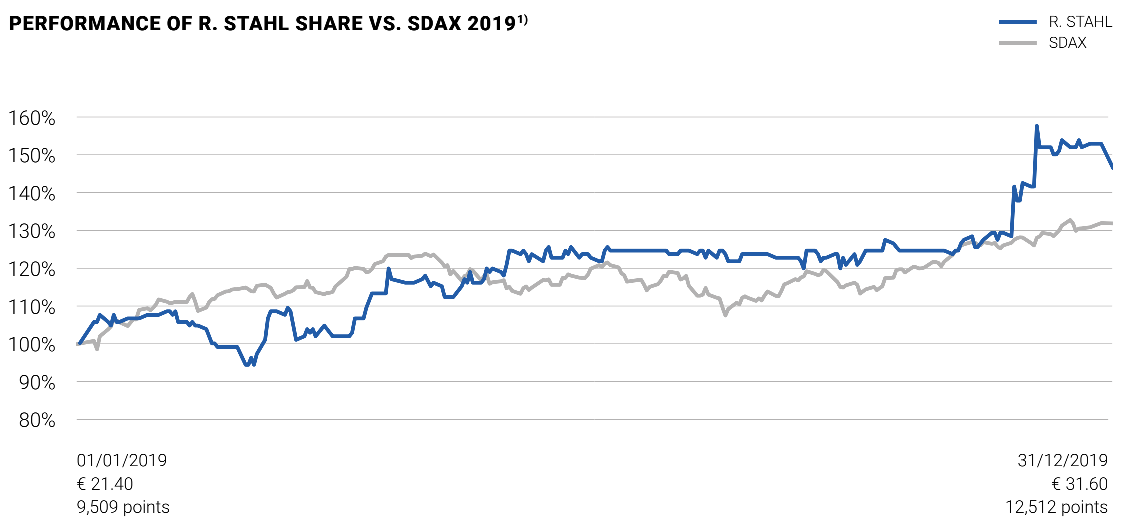
R. STAHL SHARE

Growing profitability and upbeat stock market environment drive share price performance

Despite uncertain economic conditions, concerns about an escalation of international trade disputes, and a slowing and heavily indebted global economy, 2019 was a very successful year for the stock markets. In Europe and the USA, share prices rose by more than 20% over the course of the year with indices such as the DAX and MDAX closing at record levels. Around the world, shares grew in value by US$ 17 trillion in 2019. In particular, the continuation of the central banks' expansionary monetary policy – also resulting in negative bond yields – has been one of the main drivers of share prices around the world for many years now. Experts believe there will be few investment alternatives to shares also in the medium term.

In the first few months of the reporting period, the R. STAHL share price tended towards a continuation of the decline commenced in the previous year. After starting the year at € 21.40, it had fallen to € 19.10 by 25 February – its lowest point since mid-2010. During the same period, the SDAX benchmark index rose significantly by around 15%. However, the R. STAHL share increasingly made up lost ground in a subsequent recovery and outperformed the SDAX from May onwards, hovering between € 26 and € 27 until October with very low volatility. The consistent progress made in implementing the R. STAHL 2020 efficiency program, coupled with the resulting healthy margin trend, ultimately led to further increase and a four-year high of € 33.80 for the R. STAHL share in December. The share closed the year at € 31.60 – corresponding to an increase of 47.7%.

PERFORMANCE OF R. STAHL SHARE VS. SDAX 2019[1)]



[1)] All stock exchange figures are based on the XETRA trading platform.

Over the same period, the SDAX rose by 31.6%. Average daily trading volumes fell to 965 shares (2018: 1,017 shares).

Founding families still hold majority of R. STAHL shares

More than 50% of R. STAHL shares are held by shareholders from the extended circle of the founding families Stahl and Zaiser. Over 10% of share capital is held by RAG-Stiftung Beteiligungsgesellschaft mbH, via its investment company RSBG SE, while Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte and Investmentaktiengesellschaft für langfristige Investoren TGV both hold stakes of over 5%. At year-end, shareholders from the extended circle of the founding families and institutional investors with voting rights subject to mandatory reporting requirements of 3% or more held a total of approximately 80% of share capital. 98.6% of R. STAHL's share capital is held by shareholders in Germany, around 1% is held by shareholders in Luxembourg and Switzerland.

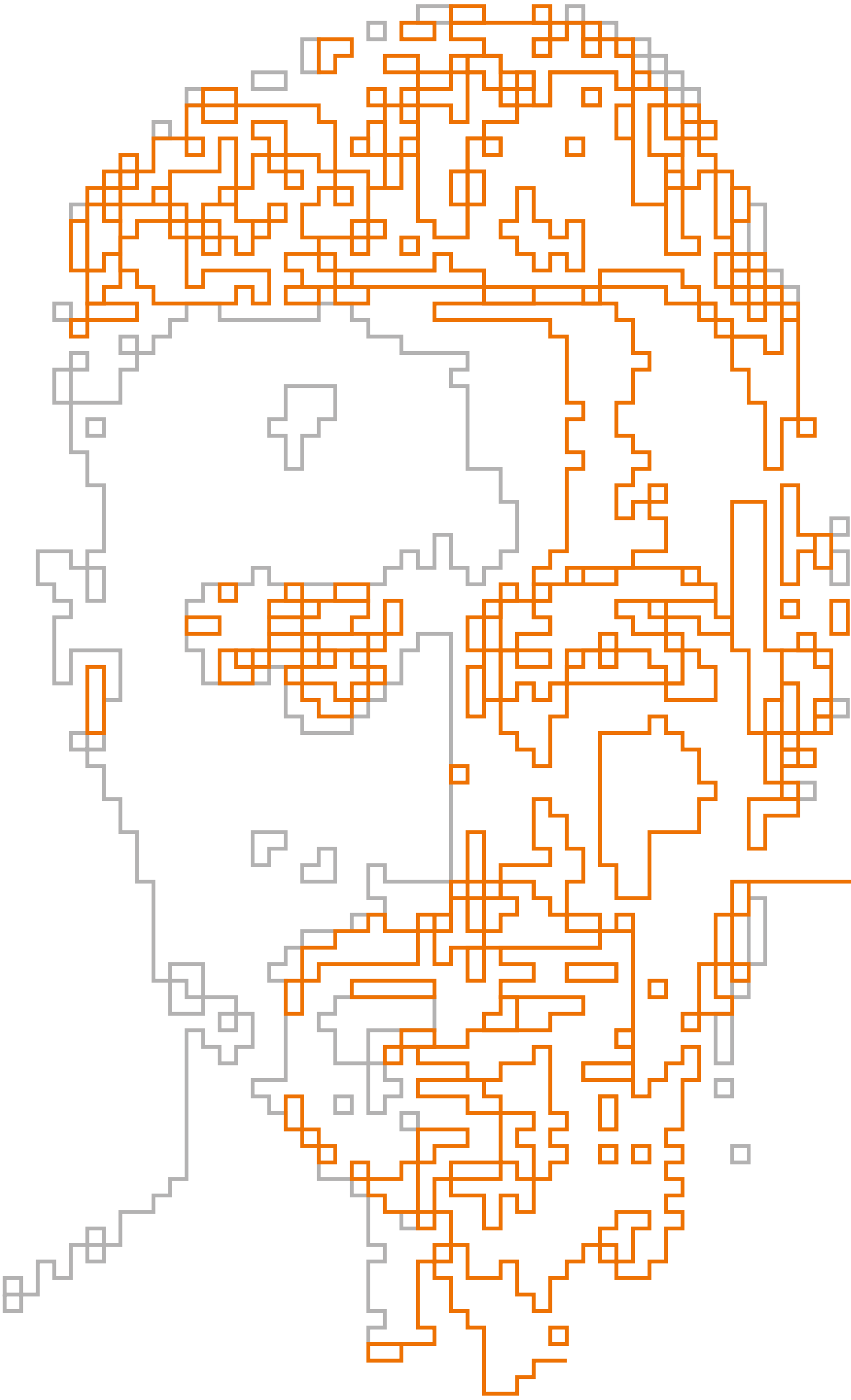
Regular dialogue with our shareholders is very important to us. In 2019, we were represented at several capital market conferences and held over 60 individual and group discussions with investors and the financial media. We publish comprehensive and up-to-date information in the form of interim, semi-annual and annual reports, as well as presentation materials, on our corporate website. In addition, we give all interested investors access to our conference calls, which are held regularly by the Executive Board. Further detailed information, also on the R. STAHL share, can be found on our website **www.r-stahl.com** in the section Corporate/Investor Relations.

KEY FIGURES OF R. STAHL SHARE [1)]

in €	2019	2018
Year-high (4 December 2019/18 January 2018)	33.80	31.00
Year-low (25 February 2019/20 November 2018)	19.10	20.40
Year-end price (31 December)	31.60	21.40
Average daily trading volume (number of shares)	965	1,017
Number of shares (in thousands)	6,440	6,440
Market capitalization on 31 December (in € million)	203.5	137.8
Earnings per share	0.21	-1.10
Dividend per share	0	0
Dividend yield at year-end (in %)	*0*	*0*

[1)] All stock exchange figures are based on the XETRA trading platform.

Security ID	A1PHBB
ISIN	DE000A1PHBB
Stock market ID	RSL2 (Bloomberg), RSL2.DE (Reuters)
Trading segment	Regulated market/Prime Standard
Indices	CDAX, Classic All Share, DAXplus Family, DAXsector All Industrial, DAXsector Industrial, DAXsubsector All Industrial Products and Services, DAXsubsector Industrial Products and Services, Prime All Share
Stock markets	XETRA, Frankfurt, Stuttgart, Düsseldorf, Munich, Berlin, Hamburg



SAFETY.
GUARANTEED.

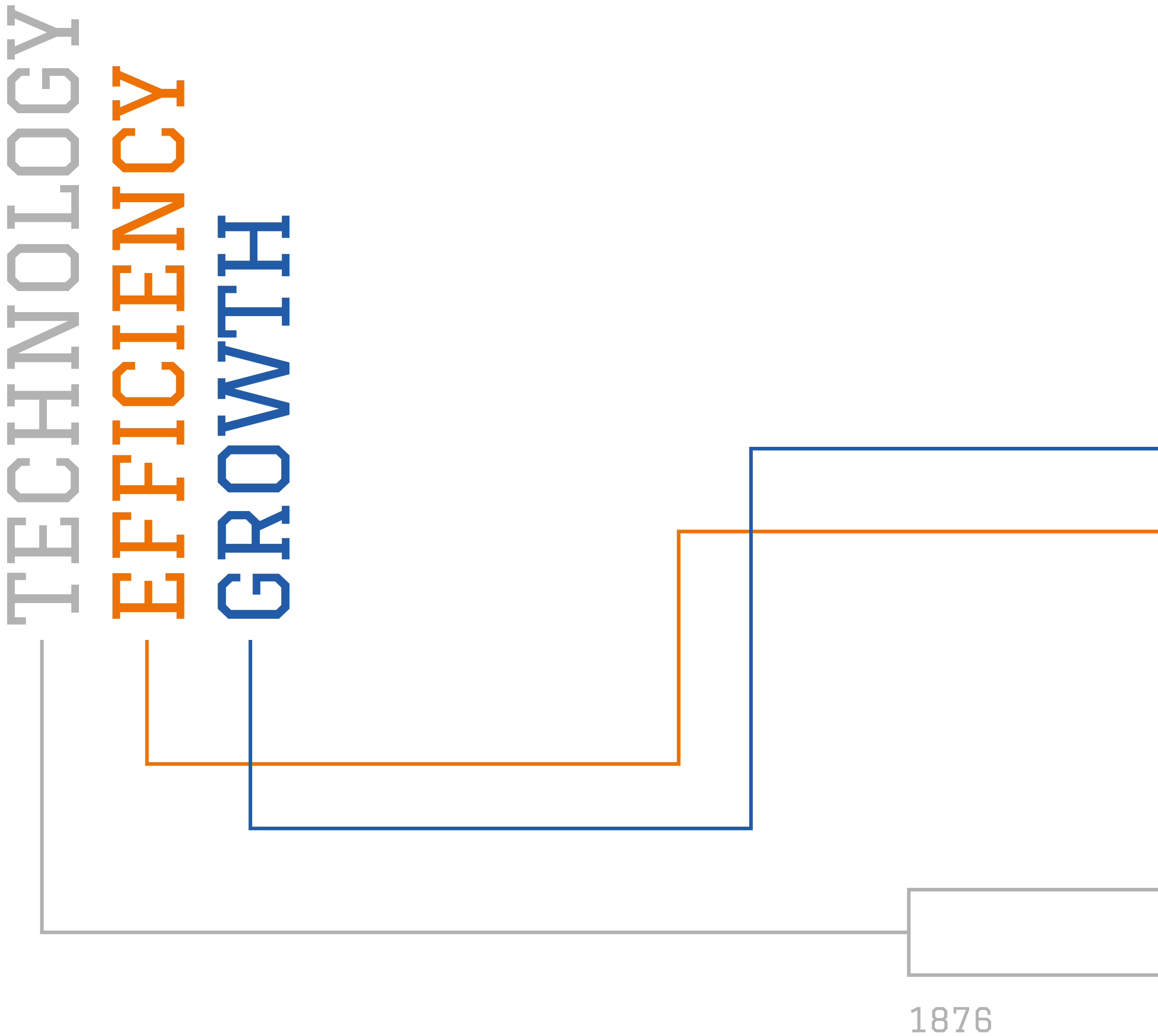
Electrical explosion protection creates safety. With our products and solutions, we ensure the safe operation of electrical systems in areas exposed to explosion hazards – at any time and almost anywhere.

Key area of safety technology. Wherever combustible substances are industrially produced, transported, stored or processed, reliable electrical explosion protection is vital. Explosion protection is therefore crucially important along the entire value chain of fossil fuels: from oil and gas production on land or at sea, to transport and petrochemical processing, to the downstream chemical and pharmaceutical sectors. R. STAHL is one of the world's three largest suppliers of electrical explosion protection and the technological leader in all common explosion protection types. With our electrical components and unique expertise in the planning and implementation of the most sophisticated system solutions, we offer our customers a safe foundation for handling combustible substances.

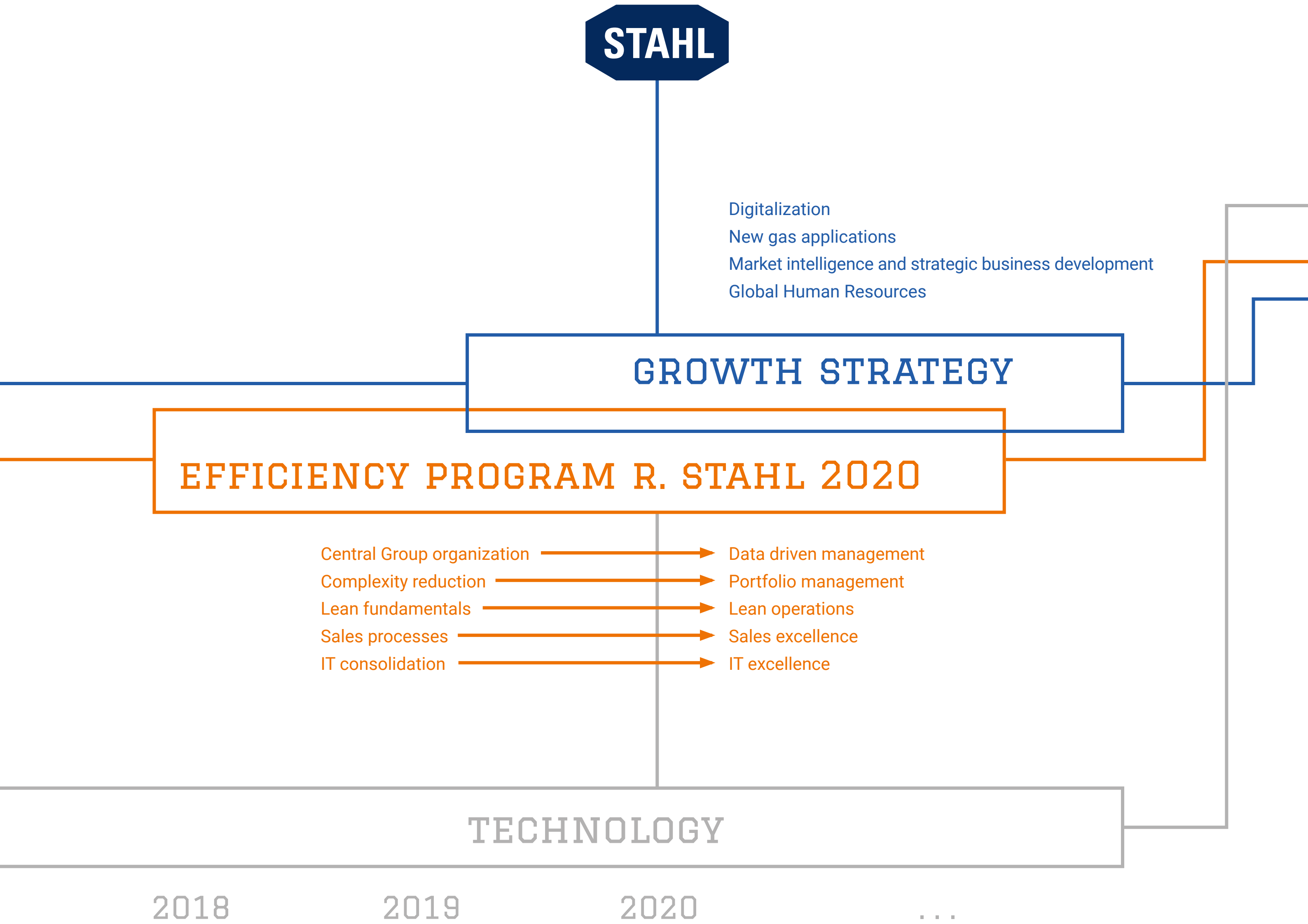
Growth ahead. Rising needs for energy and raw materials will continue to drive demand for petrochemical products in the coming decades. However, there are also opportunities from new technologies – not least because of the political and social desire for carbon-neutral energy sources. From the large-scale use of hydrogen to the production of gaseous and liquid energy sources from renewable biomass, new methods of supplying energy will also open up attractive long-term opportunities for our business.

Globally well positioned. R. STAHL has established an international network of sales companies and partnerships in order to offer its customers around the world the utmost in explosion protection. We are present in Europe, Asia and the Americas with a total of seven manufacturing sites. Our central production management ensures on-time delivery and guarantees products with consistently high and uncompromising quality standards.

From freezing cold to desert heat: we guarantee safety



Technology – Efficiency – Growth. These are the pillars on which our strategy to sustainably grow our enterprise value is built. In the long-term interests of our customers and shareholders, but also in the interests of all other stakeholders to whom R. STAHL is socially committed.


STAHL
Digitalization
New gas applications
Market intelligence and strategic business development
Global Human Resources
GROWTH STRATEGY
EFFICIENCY PROGRAM R. STAHL 2020
Central Group organization
Data driven management
Complexity reduction
Portfolio management
Lean fundamentals
Lean operations
Sales processes
Sales excellence
IT consolidation
IT excellence
TECHNOLOGY
2018
2019
2020
...

TECHNOLOGY

Technology as the basis for success. The history of R. STAHL began in 1876 with the foundation of a mechanical workshop on the outskirts of Stuttgart. More than 140 years have since passed. Decades which all have one thing in common: the leading technologies which have enabled us to tap a wide variety of markets and firmly establish ourselves in them. Our strong technological standing is still the solid foundation for our business success today. We combine core competencies in the fields of mechanical and electrical engineering with an unchanged, clear commitment to value-creating innovations.

Tradition and future:
R. STAHL is the global no. 3 in developing and manufacturing products and solutions for electrical explosion protection.

Operating model driving success. Outstanding products and technologies alone, however, are not enough to ensure long-term success in dynamic markets. This is something we have also learned in our long company history. Tradition is a precious asset, but the future holds new challenges. Market and quality leadership are important, but there must also be a reasonable level of profitability. The answer to the question of what we do is inseparably linked to how we do it. Only competitive structures and processes, i.e. the right operating model, enable us to turn technology leadership into sustainable business success.

EFFICIENCY

Program for greater efficiency. The world is changing. Globalization, digitalization and climate change are just a few of the trends impacting our business – and which will impact it even more in future. Trends that offer opportunities, but also require adjustments. Since launching our R. STAHL 2020 efficiency program in 2018, we have been driving the realignment of the Group and adapting our operating model to the current and future needs of our markets and customers. Our main focus is on the sustainable streamlining of structures and processes along the entire value chain, as well as in administrative areas.

On the path to excellence. In the first phase of the program, we successfully implemented structural measures. In the second phase, the main focus was on introducing standardized processes. Following on from this, we are now pursuing the goal of establishing market-leading standards in all business-relevant processes. These efficiency measures are enabling us to optimize cost structures, strengthen R. STAHL's competitive edge and offer customers further added value. After all, efficient, standardized processes and intelligent production and portfolio management also lead to shorter delivery times. For our customers this means: higher plant availability and thus lower operating costs.

ORGANIZATION

Decentralized organizational structures have been transformed into a centralized corporate matrix organization with global functional responsibilities, allowing global Group management based on standardized key performance indicators (KPIs). All Group companies will be managed via a uniform KPI system by 2021.

PRODUCT PORTFOLIO

Measures taken to reduce the complexity of our product portfolio are almost complete – the unnecessarily wide variety of parts has been eliminated. We are now focusing increasingly on intelligent portfolio control and inventory management in line with market requirements. For our customers, this means: increased product availability and lower operating expenditures costs in the event of unplanned plant shutdowns.

PRODUCTION PROCESSES

Over the past two years, we have introduced lean principles at our production sites, i.e. concepts for the systematic optimization of processes and streamlining of structures. These lean principles are now being extended to lean fundamentals – also in all other Group functions.

SALES PROCESSES

Our sales processes have been standardized across all sales units worldwide and our contract management has been made more professional. On this basis, we are now driving our efforts towards active sales management and market-leading sales excellence.

IT SYSTEMS

The harmonization of our IT landscape plays a key role. All production companies are to be connected to the Group's standard ERP solution from SAP by 2023 – the prerequisite for market-leading excellence. In addition, we laid the foundation for a standard Group-wide planning software with the decision to use Engineering Base from Aucotec, in the reporting period.

GROWTH

Growth fields as additional drivers. Our strong technological position and high and increasing level of process efficiency pave the way for sustained profitable growth. Against this backdrop, we defined further strategic growth areas in the reporting period:

DIGITALIZATION

NEW GAS APPLICATIONS

MARKET INTELLIGENCE AND STRATEGIC BUSINESS DEVELOPMENT

GLOBAL HUMAN RESOURCES

GROWTH FIELD DIGITALIZATION

The relentless advance of digitalization offers R. STAHL opportunities along the entire value chain – from administrative and production processes to products and new, digital business models.

Digitalization in administration and production. As part of our ongoing efficiency program, we are standardizing and harmonizing our IT systems, thus laying the foundation for digitalized administrative processes based on lean fundamentals. R. STAHL is also exploiting the opportunities for digitalization in production and expanding its automation level. In 2019, for example, a system for automatic cable assembly went into operation at our Waldenburg site. Moreover, existing systems were equipped with sensors for capturing digital process data, and parts of the quality assurance system have been automated. In Norway, we began implementing a paperless production process last year using a digitalized work and assembly sequence with monitors and the corresponding input devices.

Products are becoming more networked and more intelligent. Our IS1+ remote I/O system is already a leader in Ex areas, in terms of both the digitalization of sensor signals such as temperature or flow rate, and the digital control of actuator signals. In the reporting period, we added redundancy solutions, additional communication interfaces and protocols, as well as the latest data formats to the system. These enhancements enable the use of additional diagnostic information from the connected field devices. This additional information can be digitally networked outside the process automation pyramid, thus simplifying plant optimization and preventive maintenance. The same applies to our LED luminaires with digital DALI light control, introduced in 2019. They provide light more in line with actual needs and can also be equipped with additional sensor technology. R. STAHL has responded to the growing trend towards control system virtualization with its thin client operating stations, which we are developing in strict accordance with user-specific design specifications. The focus is on user-friendliness and user feel, i.e. features that enable much simpler configuration and start-up of the virtualization solutions.

R. STAHL is engaged in the most important committees for process automation. In addition, we are part of the Ethernet APL Consortium, which is developing the new intrinsically safe 2 wire standard for hazardous areas.

Digital business models as a future option. The future development of digital business models offers completely new opportunities. The range of services provided may extend far beyond the supply of explosion-protected components and systems – all the way to ensuring 24/7 error-free operation of plants or plant components via remote administration. This is facilitated by the availability of digital data and the processes it enables. We are already discussing initial approaches in this field as part of our cooperation with universities.

GROWTH FIELD NEW GAS APPLICATIONS

Global efforts to reduce carbon dioxide emissions are accelerating the use of liquefied natural gas, hydrogen and synthetic fuels. A development that can have sustainable benefits for R. STAHL.

Climate protection is setting new priorities. The public debate on the consequences of global climate change is also focusing on the future use of fossil fuels. This is due to the carbon dioxide formed when coal, oil and natural gas are burned. This gas with the chemical formula CO_2 is thought to be one of the major climate-damaging greenhouse gases. One way of reducing global warming is therefore to cut our CO_2 emissions. A comparison of the quantities of CO_2 produced by burning classic energy sources reveals crucial differences: oil releases 42% less CO_2 than coal for the same energy output. The emissions are even lower for natural gas. In this case, emissions are reduced by a further 25% compared to oil. Finally, hydrogen burns completely free of CO_2 emissions (see illustration on page 21 at the top). In the context of global climate policy regulations, it is therefore not surprising that the importance of coal as an energy source is expected to decline sharply in future. Natural gas, on the other hand, is likely to play a key role as a bridging technology on the path to the CO_2-free use of hydrogen. Industry experts therefore expect this market to grow at an above-average rate.

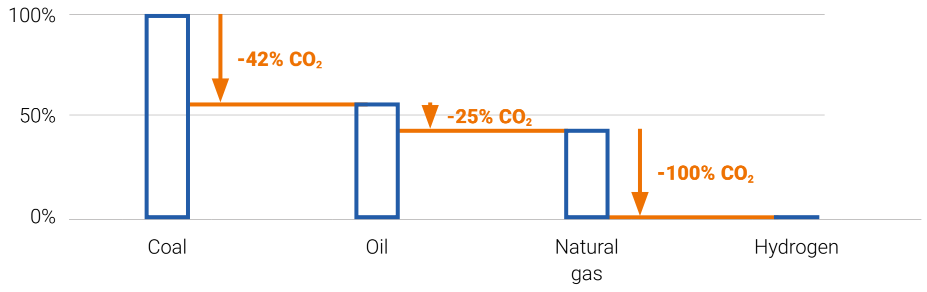
Explosion protection is growing in importance. Away from coal and oil, and towards natural gas and hydrogen. This trend offers huge opportunities for manufacturers of explosion protection solutions, as the risk of explosion increases considerably from coal to oil, and from natural gas to hydrogen. The crucial factor here is not only the growing ratios in which these substances form explosive mixtures with air, but also the possibility of ignition. The minimum ignition energy required for explosions, e.g. by sparks or hot surfaces, is about 20 times lower for hydrogen than for natural gas (see illustration on page 21 at the bottom).

Natural gas in liquefied form. If natural gas is not to be transported in gaseous form via pipelines over hundreds or thousands of kilometres, it can only be transported economically in liquefied form. Natural gas liquefied at the point of production, i.e. liquefied natural gas (LNG), is transported by ocean-going tankers to its destination, where it is then decompressed back to its gaseous state. R. STAHL already has a very high share of the market for explosion-proof LNG tanker equipment. We intend to leverage this in order to expand our market position in the upstream and downstream stages of the LNG value chain.

Chart left: explosion limits of coal, oil, natural gas and hydrogen. While oil forms explosive mixtures with air up to 7 vol.-% only, rages are much higher for natural gas (4%–17%) and even more for hydrogen (4%–77%).

Chart right: mixtures of hydrogen with air ignite significantly earlier: compared to natural gas, only one twentieth of the ignition energy is needed.

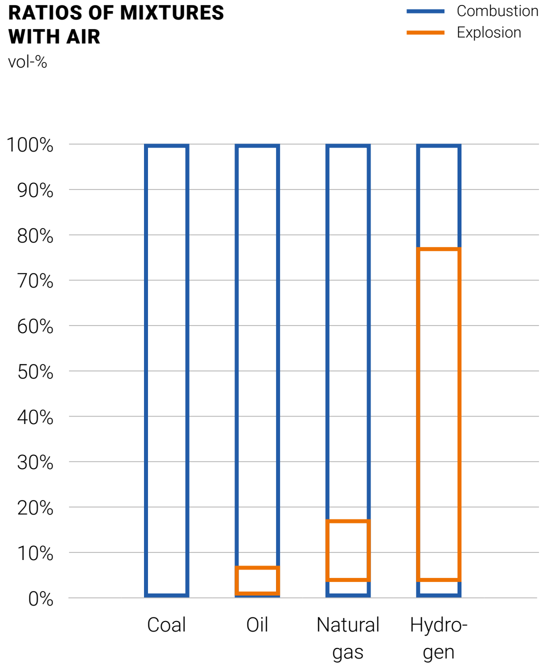
CO_2 EMISSIONS OF DIFFERENT ENERGY SOURCES AT IDENTICAL ENERGY OUTPUT LEVELS



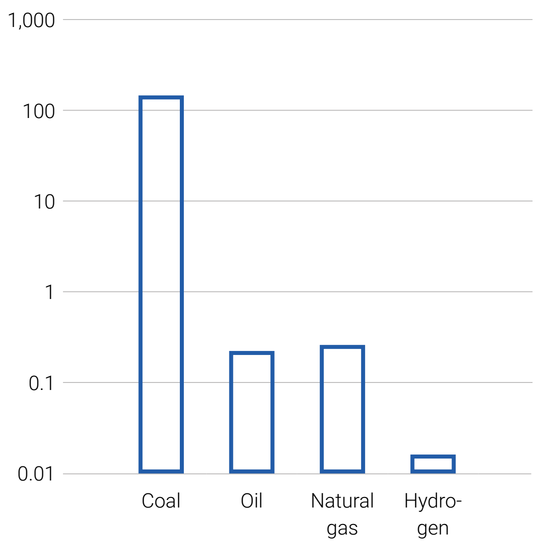
Out of all fossil energy sources, natural gas has the lowest carbon content – hydrogen is the most climate friendly.

Hydrogen and synthetic fuels. Unlike LNG, the importance of hydrogen as an industrial energy source is still in its infancy. However, the potential of this climate-neutral technology is unrivalled. By using electricity from renewable sources such as solar, wind or water power, it is possible to achieve completely CO_2-free hydrogen production. The wide variety of possible applications is a further benefit. Hydrogen can be converted into natural gas or synthetic liquid fuels such as methanol, which in turn can be used as vehicle fuels and also integrated into existing material flows or storage and delivery infrastructures. Alternatively, methanol can be produced climate-neutral from liquified biomass. R. STAHL already has the electrical explosion protection solutions required for the large-scale production and further processing of hydrogen or alternative fuels in its portfolio. We are therefore closely monitoring the development of these technologies and see attractive growth opportunities in the medium to long term. Several hydrogen filling stations for vehicles were already equipped with our explosion protection solutions in the reporting period.

RATIOS OF MIXTURES WITH AIR
vol-%



MINIMUM IGNITION ENERGY
mJ



GROWTH FIELD MARKET INTELLIGENCE AND STRATEGIC BUSINESS DEVELOPMENT

R. STAHL also sees growth opportunities in existing markets from a more targeted allocation of its available resources. We identify and analyze the relevant market data and drive strategic market development in order to deploy our sales teams more effectively.

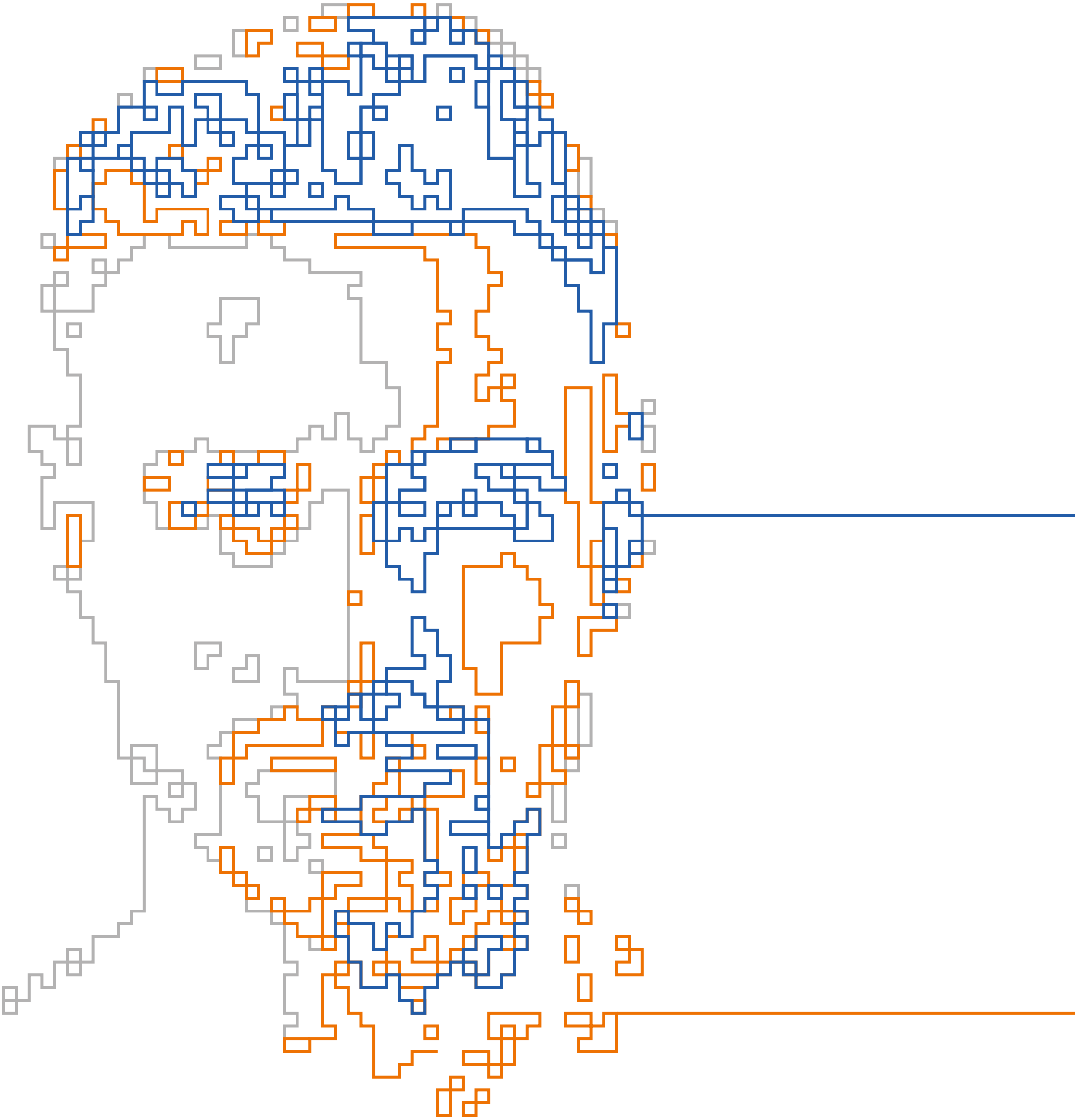
Expansion of market intelligence. Performance-oriented business operations require a high level of information. In the reporting period, we therefore broadened the systematic acquisition and evaluation of decision-relevant data. In addition to external industry reports, market studies and information on our competitors, we increasingly incorporate meaningful internal data. The spectrum ranges from information from sales and product development, to analyses provided by our Group Controlling and findings from customer interviews.

Potential for expanding regional market shares. Taken as a whole, the data already available to us confirm R. STAHL's excellent market standing in Europe. However, they also reveal our below-average market position in all other parts of the world – an opportunity we intend to exploit. As part of our strategic market development, we are driving two main prerequisites for this approach: qualifying as a supplier for our customers and helping to shape technical norms and standards, a mandatory requirement as the explosion protection market is regulated by certificates.

GROWTH FIELD GLOBAL HUMAN RESOURCES

We have set ourselves ambitious goals. R. STAHL needs a well-trained and highly motivated team to implement them.

Preferred employer. Our global HR strategy enables us to continue to position ourselves as an attractive employer around the world – for our employees and future staff alike. Key elements of this strategy are internationally standardized role descriptions and personnel marketing tailored to specific needs and target groups. These will allow R. STAHL to address specialists and bring specialist applicants on board. Tailored to the individual career and development goals of our staff, we promote continuous learning, prepare employees for more advanced tasks, and enhance their skills via development measures. These measures are rounded off by a succession planning strategy to retain knowledge permanently in our organization.



THE STRONGEST LINK

The key to growth. As early as 1960, the US economist Theodore Levitt described the fundamental link between corporate growth and the clear focus on customer needs that this requires. Levitt's thoughts are more relevant today than ever. Technological progress and global challenges such as climate change and digitalization are changing markets – and thus the needs of our customers. R. STAHL analyzes these developments very carefully and develops solutions which optimally meet the current and future requirements of our customers. We regard this strict focus on customer needs as the gateway to new opportunities and the key to lasting market success. The strategic cornerstone for all our endeavours are the three central elements: technology, efficiency and growth.

CUSTOMERS NEEDS

"An industry begins with the customer and his or her needs, not with a patent, a raw material, or a selling skill." **Theodore Levitt**

TECHNOLOGY

GROWTH

"Sustained growth depends on how broadly you define your business – and how carefully you gauge your customers needs." **Theodore Levitt**

CARES – FROM CUSTOMER NEED TO SOLUTION

Customers expect more. Safety is a top priority for operators of industrial plants. And therefore also for us. Our customers can justifiably rely on R. STAHL products to meet the highest safety requirements – 24 hours a day, 365 days a year. However, modern explosion protection goes even further.

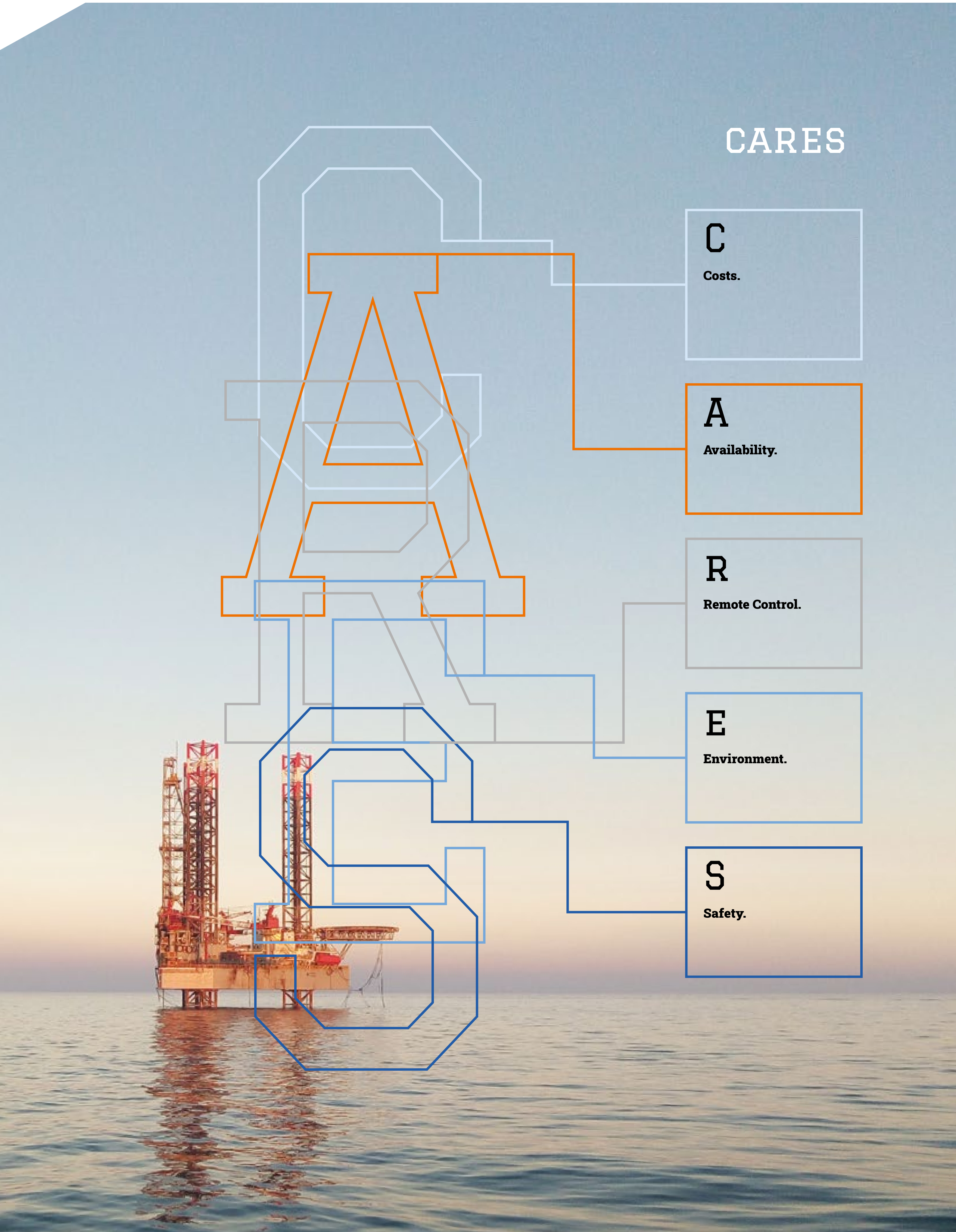
More efficiency, more sustainability. Our customers focus on five further interlocking requirements, which we have summarized under the acronym CARES:

- Costs
- Availability
- Remote Control
- Environment
- Safety

Roadmap to profitable growth. CARES is therefore deeply anchored in our corporate strategy: starting with our R. STAHL 2020 efficiency program launched in 2018 and aimed at improving the efficiency of our structures and processes, via digitalization and the tapping of new markets, to the development of new products and services.

CARES

stands for the five most important market requirements of electrical explosion protection. But also for our initiatives with regard to profitable growth and our claim to always be there for our customers. **We care.**


CARES
C
Costs.
A
Availability.
R
Remote Control.
E
Environment.
S
Safety.

Uncompromising safety has absolute priority for our customers. But cost control is no less important for the economical construction and operation of their plants.

R. STAHL meets the demand for market-driven prices with its efficient and competitive production processes. For the development of new products, we go one step further and fully adopt the customer's perspective. This means that we not only consider the one-off purchase price, but also the operating and maintenance costs over the entire product life cycle.

The aim is to reduce the total cost of ownership for our customers. This involves developing value-adding new products which justify their – possibly higher – selling price through lower operating and maintenance costs. There are various ways in which customers can benefit from cost advantages. For example, our LED lights feature significantly lower energy consumption and longer maintenance intervals. R. STAHL's EXpressure® housings deliver impressive savings in weight, transport and installation costs. And our automation solutions boast product functionalities for predictive maintenance and integration into digital infrastructures.

COSTS

Explosion-protected luminaires with LED technology significantly reduce operating and maintenance costs.

DIMENSIONS OF SUCCESS

- Sales price
- Service life
- Inspection intervals
- Maintenance intervals
- Energy consumption

AVAILABILITY

Industrial plants need to be utilized at optimum capacity for economic operation. Plant operators are therefore keen to maximize plant availability by minimizing downtime.

Routine maintenance intervals can be easily scheduled into plant operation with suitable advance notice. However, unexpected defects – especially in electronic components – can lead to considerable disruptions in the operational process. This unplanned downtime can be avoided by using high-quality components with long service lives, as well as predictive maintenance.

R. STAHL offers its customers solutions for both these approaches. The high quality of our products guarantees their reliability and long service lives. In addition, we are increasingly equipping our electronic products with sensors that can detect wear and aging at an early stage. Our remote I/O systems and luminaires, for example, can indicate an impending outage long before it occurs. This means that plant operators receive advance warning and can carry out the necessary replacement during the next scheduled maintenance.

And if a device is needed at short notice, R. STAHL's lean production and delivery processes ensure rapid replacement.

DIMENSIONS OF SUCCESS

- Service life
- Inspection intervals
- Maintenance intervals
- Self-monitoring capability
- Early warning system

Avoiding uncontrolled maintenance intervals is a key driver of high plant availability.

Remotely controlled unmanned platforms allow safe operation from a distance at low costs.

REMOTE CONTROL

Remote control, i.e. the operating, controlling and maintaining of plants or systems from a distance, reduces the risks associated with Ex areas. The corresponding data transmission systems are part of our automation solutions.

“Freedom from unacceptable risk.” This is how the DIN EN 61508-4 standard defines the term safety. A concept for reducing the risk of areas exposed to explosion hazards is based on their remote control. This is made possible by explosion-protected components that monitor the plant’s operating status and then transmit this data in digital form to a remote control centre from where the equipment can be controlled in real time. If a sensor detects a technical malfunction, it can be decided remotely whether the mobile maintenance team needs to replace the component immediately or whether this can be done during the next scheduled maintenance work.

The data transmission systems required for remote control are part of R. STAHL’s automation solutions, which include explosion-protected data collectors and network components, such as access points or switches. Remote control is already being used to operate unmanned oil platforms and autonomous ships. In the reporting period, for example, we equipped the world’s first self-steering container ship with our automation technology.

In addition to eliminating risk, remote control also offers significant cost benefits. After all, there is no need for permanent on-site operating staff or the recreational areas they require.

DIMENSIONS OF SUCCESS

Ability to remotely control components and systems

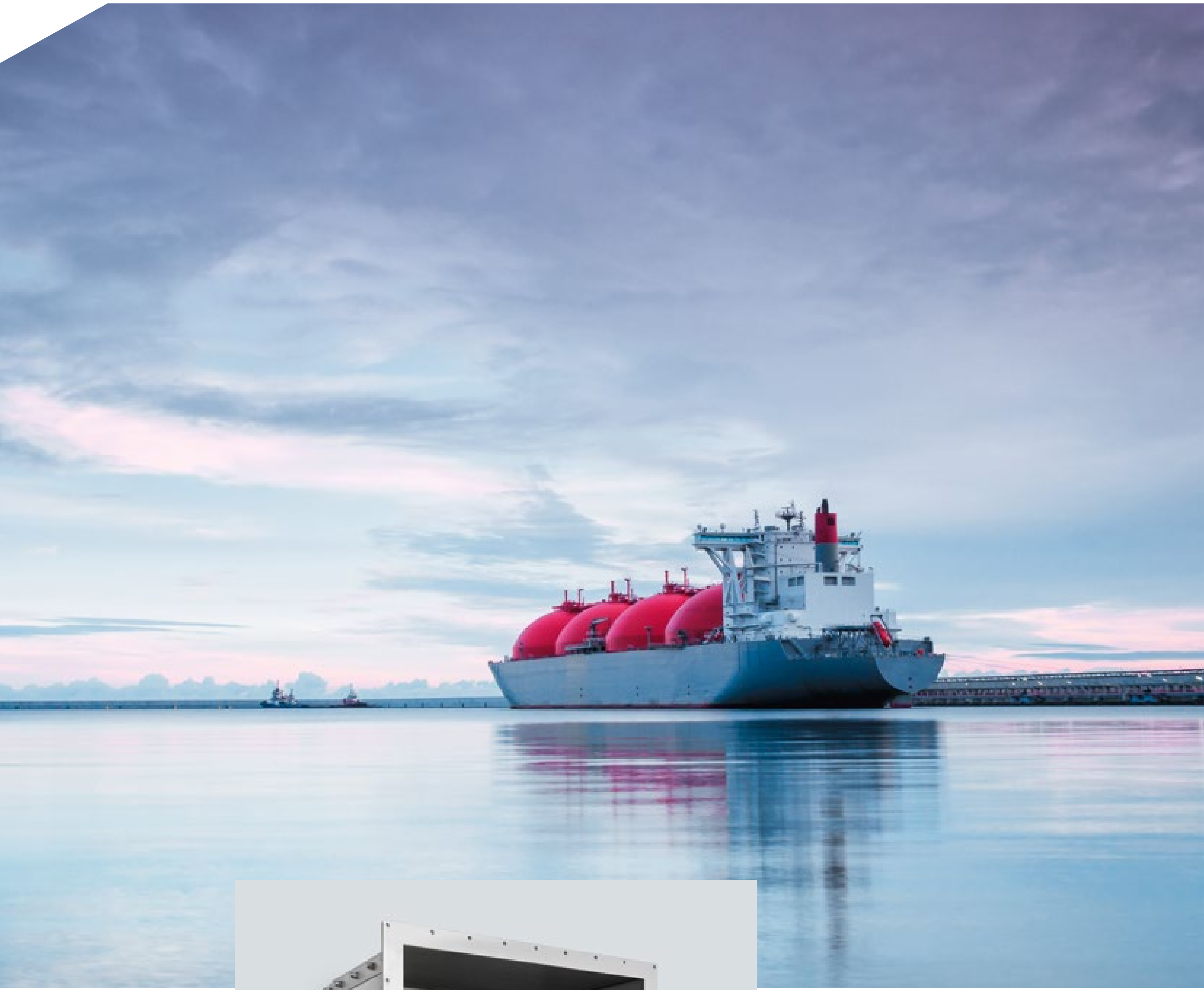
ENVIRONMENT

DIMENSIONS OF SUCCESS

- Energy consumption
- Service life
- Weight

A key component of sustainability is the responsible use of natural resources. This guiding principle is high on our agenda – and that of our customers.

We see corporate responsibility as a long-term commitment to improving the quality of life of people around the world and as a key prerequisite for a more sustainable approach to the environment. And our customers share this view. That's why they are increasingly requesting sustainability criteria, such as energy consumption, service life and ecological footprint, when purchasing equipment for the construction and operation of their explosion-protected facilities. We meet these customer expectations and our own standards by supplying high-level technical safety products and solutions that take account of such sustainability aspects right from the start – in other words, during product development. Typical examples are R. STAHL's energy-saving LED lights and lightweight EXpressure® housings made of durable stainless steel, which combine technical benefits with an advantageous ecological footprint.



Sustainability is also becoming increasingly important for our client industries.

SAFETY

Safety is the measure of all things for us – even when it comes to occupational safety. We therefore attach great importance on safe working conditions already at product development level.

Uncompromising safety in explosion protection – this is R. STAHL's central value proposition and an expression of our technological expertise. We use this expertise to develop new technologies and standards, as well as in the field of certification. It is reflected in the high degree of reliability provided by our products – for almost 100 years now. However, safety is not only a key aspect of the products themselves, but also of their manufacture. We therefore address a number of questions during the development phase with the aim of raising occupational safety in the subsequent production process. Are the raw materials flammable or dangerous for humans and the environment? What are the alternatives? How high is the physical strain on our employees? Does heavy machinery have to be used? These are all aspects which help to make the production of our products even safer. By taking into account the potential dangers of raw materials at an early stage and integrating labour-ergonomic aspects, we create the essential conditions for the sustainable preservation of our employees' health.

Safe working conditions are already ensured during product development.

DIMENSIONS OF SUCCESS

- Hazard classification of raw materials
- Labour ergonomics

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COMBINED MANAGEMENT REPORT

OF R. STAHL GROUP AND R. STAHL AG

BASIC PRINCIPLES OF THE GROUP

BUSINESS MODEL

Standards and regulations for electrical explosion protection

Electrical explosion protection is a key aspect of safety technology, providing the right technical solutions to guarantee the safe operation of electrical systems at all times in areas where combustible gases, liquids and solids are industrially produced, transported, stored or processed. Explosions not only require a combustible substance and oxygen (e.g. from the ambient air), but also an ignition source. The main task of electrical explosion protection is therefore to either avoid the possibility of sparks from electrical and electronic parts or to keep electrical sparks away from the explosive mixture of fuel and oxygen.

We encounter such combustible substances 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. Careful handling is necessary to minimize the dangers they present to humans and the environment. One particular danger is when combustible substances mix with specific proportions of oxygen in the air, the so-called explosion limits. Any ignition of such mixtures leads to an immediate explosion – often with grave personal injuries and damage to property. In particular, the risk posed by combustible dusts has long been underestimated – hardly anyone expects that, for example, meal dust used in the food industry or sawdust accumulating in wood processing companies can actually explode. However, when mixed with oxygen, the danger posed by such dusts is in no way inferior to that of liquid fuels such as petrol or combustible gases such as natural gas or hydrogen. Just how impressive such dust explosions can be is illustrated by the film industry, which uses them in a controlled manner for their pyrotechnic effects.

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

EU's ATEX directives, have established themselves as the increasingly accepted standard with global validity. For some years now, the US Coast Guard – responsible for US offshore installations – has also accepted IECEx-certified products for offshore facilities.

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

Market with high entry barriers

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

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

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

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

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

The parent company of R. STAHL Group is R. Stahl Aktiengesellschaft in Waldenburg, Germany (in the following R. STAHL AG). It mainly serves as a strategic holding company which controls the Group's domestic and foreign investments. As the management company, it is responsible for finance as well as communication with the Group's target groups. The Executive Board of R. STAHL AG defines the Group's strategy and steers its organization, infrastructure and resource allocation. An overview of the Group's various locations can be found in the list of shareholdings.

R. STAHL AG is subject to German law and governed by the two-tier system of Executive Board and Supervisory Board. Since the departure of Volker Walprecht on 30 June 2019, the Executive Board temporarily consists of just one member, the CEO, Dr Mathias Hallmann.

In accordance with the company's articles, the Supervisory Board of R. STAHL AG comprises nine members, three of which are staff representatives in accordance with the German One-Third Participation Act. The tasks of the Supervisory Board include appointing and dismissing members of the Executive Board, monitoring and advising the Executive Board, and adopting the annual financial statements. Detailed information on corporate governance, the composition of the Supervisory Board and its cooperation with the Executive Board is provided in this Annual Report in the Report of the Supervisory Board and on our website **www.r-stahl.com** in the section Corporate/Investor Relations/Corporate Governance.

At the end of 2019, the R. STAHL Group comprised 33 companies in all important regions of Europe, the Asia-Pacific region and in North and South America. In addition, we are represented by approximately 50 sales offices around the world. Our production capacities are pooled at seven sites with varying core competencies: lighting and signalling devices are produced mainly in Weimar, Germany, and Chennai, India, while automation technology products are developed and manufactured in Cologne and our main base in Waldenburg. Most of the components for installation, such as switches, terminal boxes and connectors, are also produced in Waldenburg. Customized equipment and more complex explosion protection systems are produced in Waldenburg, as well as by the subsidiaries Electromach B. V., Hengelo (Netherlands), R. STAHL TRANBERG AS, Stavanger (Norway) and R. STAHL Inc., Houston (USA). A particular area of expertise of the Hengelo facility is also the production of large container solutions, while in Stavanger the main focus is on products for shipbuilding and the oil and gas industry.

Skilled and motivated staff

Skilled and motivated employees are a major success factor for a globally operating, leading technology company like R. STAHL. In the competition for top-performing specialists, we offer attractive conditions in order to maintain our appeal for existing employees and successfully attract new staff. This starts with our efforts to provide schoolchildren and school leavers with initial orientation on possible future careers. At our largest manufacturing and vocational training site, Waldenburg, we launched operations for our new training centre in the reporting period. Its significantly enlarged space offers a modern environment and an efficient infrastructure for the tasks involved in training and studies. With the cooperation and support of the local Ilshofen Football Academy, we are also taking a new approach to attracting future specialists at an early stage in order to counter the overall decline in the number of applicants. The high standards of our Waldenburg site in the field of training continue to be supported by tried and trusted programmes, such as our career information day and the secondment of junior staff to foreign subsidiaries. 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 2019, the R. STAHL Group employed 1,669 people (31 December 2018: 1,690). In addition, there were 94 apprentices and students (31 December 2018: 89) and 17 employees completed their apprenticeship or dual study course in the reporting period (2018: 23). The adjustment to headcount was mainly due to our efficiency programme R. STAHL 2020 launched at the beginning of 2018, which we will be presenting in detail on the following pages.

OBJECTIVES AND STRATEGIES

We have set ourselves the goal of achieving sustainable and profitable growth, thereby steadily raising our enterprise value. To this end, we continue to develop our existing product and service portfolio in line with the needs of our customers with the aid of innovations. At the same time, we are expanding our footprint in growth markets and also considering non-organic growth. Another important medium- to long-term goal is to establish market-leading cost structures.

R. STAHL 2020

Market-leading cost structures require efficient processes. In 2018, we began a fundamental realignment of our operating model to meet the current and future needs of our customers and markets. Under the R. STAHL 2020 banner, we are currently driving forward an efficiency programme aimed at realigning the Group. Its main focus is the sustainable streamlining of structures, the reduction of complexity and the introduction of standardized processes along the entire value chain and administrative areas. With the successful conversion of our formerly decentralized organizational structures into a centralized corporate matrix organization with global functional responsibilities, we have laid the structural foundation for the global management of the Group on the basis of standardized key performance indicators (KPIs). By 2021, all Group companies will be managed according to a uniform KPI system. The same applies to our sales processes, which we are continuing to drive forward with the aim of sales excellence and active sales management. The harmonization of our IT systems will play a key role here – we aim to achieve a market-leading level of excellence for our IT landscape by 2023. In addition to the ERP system, this also applies to the Group-wide planning software and configurator solution. All production companies are to be connected to the Group's standard ERP solution from SAP in 2023. Efforts begun in 2018 to reduce the complexity of our product portfolio will gradually be superseded by intelligent portfolio management with inventory management adapted to market requirements. The lean principles successfully introduced in our production processes over the past two years, i.e. concepts for the systematic streamlining of structures and process optimization, are now being extended to lean workflows in all other Group departments. This will establish the basis for anchoring lean management as a philosophy and core element of a corporate culture dedicated to continuous learning.

The measures described above will not only improve our cost structures and competitiveness, but also offer additional value for our customers. Efficient, standardized processes and intelligent production and portfolio management enable us to reduce the delivery times for our products. In turn, our customers benefit from higher availability and lower operating costs for their equipment. Following the successful implementation of structural measures in 2018, the main focus in 2019 was on the introduction of standardized processes.

Strategic growth fields

With our increasing process efficiency and strong technological position, we continue to pave the way for sustained profitable growth. Against this backdrop, we defined further strategic growth areas and measures in the reporting period aimed at exploiting existing markets and tapping new business:

Growth from new business activities

In view of the intensifying public debate surrounding the consequences of global climate change, we see short- and medium-term potential along the value chain of liquefied natural gas (LNG). We intend to leverage our existing strong market position in the field of LNG tankers in order to expand our business in natural gas production and liquefaction as well as in the downstream unloading and gasification processes. In the medium to long term, we see considerable potential in the fields of water technology and synthetic fuels. We already have technologies to equip the necessary large-scale industrial infrastructures. In addition, we have defined strategic measures with which we intend to exploit the opportunities arising from digitalization. In addition to the ongoing market-led development of our product portfolio in the field of automation and the development of digital business models, we are also driving digital processes in our administrative and production areas.

Growth-enhancing support measures

In addition to new business activities, we also see growth opportunities in existing markets from a more targeted allocation of our available resources. In the reporting period, we established the prerequisites for the sustainable acquisition of the necessary decision-relevant data and the expansion of our market intelligence systems. In addition to external industry reports, market studies and information on competitors, the process regularly incorporates internal data – including information from sales and product development, analyses from controlling, and market-relevant information from customer interviews. The data already available to us confirms our excellent market standing in Europe, but also clearly shows our below-average market position in all other parts of the world, and thus the potential for expanding our regional market shares. As the market for explosion protection is regulated by certificates, it is essential for us to qualify as a supplier for our customers. As part of our strategic market development, we will therefore drive this qualification process while at the same time continuing to shape and develop the relevant technical standards. In addition, the implementation of our global HR strategy will lay the foundation for a sustainable competitive positioning as an attractive employer and thus enable us to achieve our efficiency and growth targets with the necessary specialists and managers while securing our technological leadership.

MANAGEMENT SYSTEM

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

Financial and non-financial indicators

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

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

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

Planning process

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

RESEARCH AND DEVELOPMENT

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

In 2019, we continued to work on the technological refinement of our product portfolio. Our main focus was the ongoing digitalization process, the Industrial Internet of Things (IIoT). R. STAHL is actively involved – and in some cases plays a leading role – in numerous international committees. These committees include the IEEE 802.3cg working group, which is developing a new standard in the process industry for digital communication via the ethernet right into the field, and the Open Automation Forum, which is looking for decentralized solution approaches in the field of automation. By contributing our expertise in this way, we are directly involved in new sector developments and can thus adopt and even help shape market trends at an early stage. In 2019, we added new intelligent variants to our luminaire range that can be controlled and monitored via the DALI interface (a protocol for controlling operational lighting equipment). This enables us to achieve significantly better energy efficiency than conventional lighting systems. Moreover, we focused in particular on developing further housing formats based on the new EXpressure® technology launched in 2018 and on optimizing the design of an industrial manufacturing process.

Our expenses for research and development in the reporting period 2019 amounted to € 18.8 million (2018: € 19.3 million) and thus represented 6.8% of sales (2018: 6.9% of sales). Own work capitalized of € 3.7 million (2018: € 3.3 million) accounted for 19.6% of this total (2018: 17.0%).

ECONOMIC REPORT

GENERAL CONDITIONS

Macroeconomic conditions

Global economic growth still at low level

The slowdown in global economic growth started in 2018 continued into the reporting period. In April 2019, the International Monetary Fund (IMF) downgraded its 2018 forecast of 3.6% for 2019 to 3.3% (IMF, April 2019, Executive Summary). Six months later this figure had been cut to 3.0% (IMF, World Economic Outlook, October 2019). According to preliminary figures of the IMF from January 2020, actual growth was slightly lower at 2.9%. In addition to the ongoing geopolitical tensions, international trade conflicts are seen as the main cause – these escalated further during the reporting period. According to the IMF, the resulting weakening of global industrial output reached a level in 2019 last seen during the 2009 financial crisis.

There was slow growth of 1.7% among the industrialized countries in 2019 (2018: 2.2%), while growth in the eurozone was just 1.2% (2018: 1.9%). Broken down by country, there were significant differences: while the Italian economy almost stagnated at 0.2% (2018: 0.8%), the USA achieved growth of 2.3% (2018: 2.9%). With a decline of 1.0 percentage point to 0.5% (2018: 1.5%), Germany suffered the sharpest downturn in growth of the major European economies. The IMF blames this in particular on the decline in global car manufacturing, which hit Germany particularly hard (IMF, World Economic Outlook, October 2019).

YEAR-ON-YEAR CHANGE IN GDP

in %	2019	2018
World	**+2.9**	**+3.6**
Industrialized countries	+1.7	+2.2
USA	+2.3	+2.9
Eurozone	+1.2	+1.9
Germany	+0.5	+1.5
France	+1.3	+1.7
Italy	+0.2	+0.8
Spain	+2.0	+2.4
Japan	+1.0	+0.3
United Kingdom	+1.3	+1.3
Canada	+1.5	+1.9
Emerging markets	+3.7	+4.5
Asia	+5.6	+6.4
China	+6.1	+6.6
India	+4.8	+6.8
Russia	+1.1	+2.3
Latin America	+0.1	+1.1

Source: International Monetary Fund, World Economic Outlook Update, January 2020

Amid the overall global economic downturn, the slowdown in the emerging markets was particularly noticeable. Although growth of 3.7% in 2019 (2018: 4.5%) once again exceeded the global average, the decline of 0.8 percentage points was more pronounced. With GDP growth of 2.0% and 1.2%, respectively, India and Russia recorded the sharpest declines. In India, demand was weighed down by regulatory uncertainties over corporate and environmental issues, as well as concerns about the stability of the non-banking financial sector. The IMF attributes the significant weakening of demand in China to the country's ongoing trade conflicts.

Sector-specific conditions

Oil and gas sector achieves further slight growth

The oil and gas sector continued its recovery in 2019, albeit at a low level. According to the Monthly Report for January 2020 of OPEC (Organization of the Petroleum Exporting Countries), global demand for crude oil rose by 0.9 million barrels/day to 99.8 million barrels/day in the reporting period. Whereas non-OPEC countries – in particular the USA, Brazil, Canada and Australia – increased output by a total of 1.9 million barrels/day to 64.3 million barrels/day in the reporting period, OPEC reduced production by about the same amount. Despite stronger demand, the average price of Brent crude in 2019 was approximately US$ 64 per barrel, around 10% lower than in the previous year.

Disappointing year for the chemical and pharmaceutical industry

The global economic downturn and smouldering trade conflict between China and the USA also affected exports of the German chemical and pharmaceutical industry, particularly in Europe and overseas. In December 2019, the German Chemical Industry Association (Verband der chemischen Industrie – VCI) estimated that sector sales were down 5% to € 193 billion (2018: € 204 billion). The additional fall in demand for chemical products in Germany led to an overall decline in output of 7.5%, whereby the decline in the chemical industry excluding pharmaceuticals was just 2.5%. According to the VCI, high costs in Germany and increasing pressure from imports are causing problems for German companies. By contrast, producer prices moved in the opposite direction to crude oil prices in 2019 – for the first time in many years – and were 1% higher on average than in the previous year. Those sectors of the chemical industry most dependent on oil mirrored the fall in oil prices, while processing companies were able to push through price increases. However, these were unable to compensate for the significant decline in volumes. The chemical and pharmaceutical industry is likely to have faced similar problems on its international markets in 2019.

Weak German electrical industry

In addition to the sector indicators described above, the development of the electrical industry is a further important economic yardstick and reference point for R. STAHL. In July 2019, the German Electrical and Electronic Manufacturers' Association (Zentralverband Elektrotechnik und Elektroindustrie e. V. – ZVEI) was still forecasting global market growth of 4% for the year as a whole. According to ZVEI's economic barometer in January 2020, however, sector sales in Germany during the first eleven months of 2019 were down 1.4% to € 175.2 billion (2018: +1.9%). The decline in order intake was even more pronounced at -3.4% (2018: -0.3%). Following a significant deterioration in expectations, especially in the second half of the year, the mood in the German electrical and electronic industry had brightened slightly towards year-end 2019, but was still below the zero line.

YEAR-ON-YEAR ECONOMIC GROWTH BY SECTOR

in %	2019	2018
Chemical and pharmaceutical, Germany	-5.0	+4.5
Electrical, Germany	-1.4	+1.9

COMBINED BUSINESS DEVELOPMENT

Significant events for business development

Driven by further encouraging progress in the implementation of our efficiency measures and the resulting significant improvement in margins, we are pleased with the development of business in the fiscal year 2019. As expected, restructuring charges were lower than in the previous year. A reduction in borrowing costs also had a positive impact on earnings.

Comparison of actual and forecast business development

In our first annual guidance published in April 2019, we forecast that sales in the reporting period would be on a par with the previous year. Macroeconomic data at the beginning of the year indicated global economic growth, albeit at a slower rate than in the previous year. For 2019, we had also planned to continue the implementation of our extensive structural reorganization of the Group begun in the previous year. Our annual guidance took appropriate account of the fact that change processes generally entail the risk of temporary slowdowns in operating processes and thus in business development during the transition phase. Due to the expected efficiency gains and cost reductions – excluding the effects of new lease ac-counting regulations under IFRS 16 – we expected growth in the mid-single-digit million range for EBITDA pre exceptionals.

On publication of the interim announcement for the first quarter of 2019 in May, we confirmed our sales guidance issued in April. We adjusted the full-year guidance for EBITDA pre exceptionals to a mid-double-digit percentage increase, taking into account for the first time the expected effect of new lease accounting.

By the time we presented our half-year figures for 2019 in August, there were indications that strict implementation of the higher margin requirements for new orders would probably prevent us from quite reaching the annual sales target set in April. As a result, sales guidance was set within a range of € 275 million to € 280 million. At the same time, we increased guidance for EBITDA pre exceptionals to between € 28 million and € 30 million – from the previous € 26 million to € 29 million – as a result of the expected impact of IFRS 16 in combination with the April forecast.

With the publication of the interim announcement for the third quarter of 2019, we specified our guidance for the year. Sales of around € 275 million were confirmed – at the lower end of the previously announced corridor. The outlook for EBITDA pre exceptionals was raised to over € 30 million.

In the fiscal year 2019, we generated sales of € 274.8 million and EBITDA pre exceptionals of € 30.4 million, thus meeting our guidance of November 2019.

€ million	Full-year 2018	Guidance 2019 April	Guidance 2019 May	Guidance 2019 August	Guidance 2019 November	Full-year 2019
Sales	280.1	Prior-year level	Prior-year level	275 to 280	~ 275	274.8
EBITDA pre exceptionals[1]	15.2	Increase in mid single-digit million range[2]	Increase in mid double-digit million range	28 to 30	>30	30.4

[1] Exceptionals: restructuring charges, non-scheduled depreciation and amortization, charges for designing and implementing IT projects, M&A costs as well as profit and loss from the disposal of assets no longer required for business operations
[2] Without effects from initial adoption of IFRS 16

FINANCIAL POSITION AND PERFORMANCE OF R. STAHL GROUP AND R. STAHL AG

BUSINESS DEVELOPMENT OF R. STAHL GROUP

EARNINGS POSITION

SALES

Solid demand for components cannot quite offset weaker project business

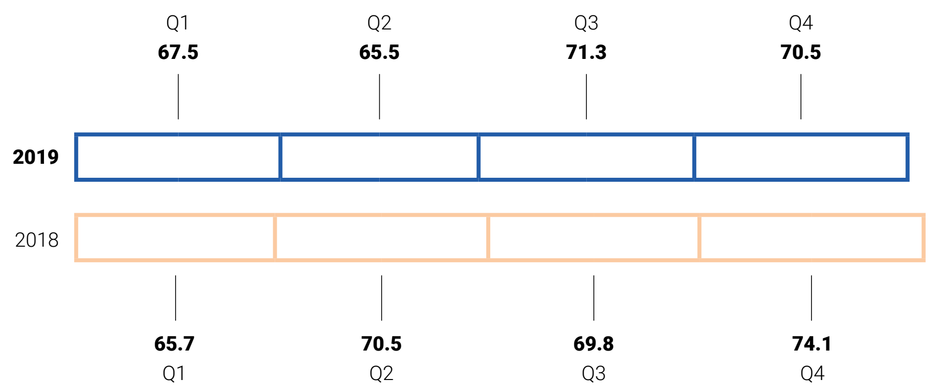
In 2019, R. STAHL achieved sales of € 274.8 million (2018: € 280.1 million). This corresponds to a slight year-on-year decline of 1.9%. This is mainly due to the high comparative figure for the previous year, which included deliveries of around € 9 million to two major petrochemical projects in the Middle East. Firm demand for components partially offset the decline in sales from major projects during the reporting period. Whereas sales in Germany and Asia were down, the Central and Americas regions expanded their business.

The quarterly sales trend in 2019 was dominated by a strong start to the year, with year-on-year growth of 2.8% in the first three months. The second quarter ended with a significant decline in sales of 7.1%, compared to the previous year. This was due to a temporary delivery bottleneck at the Waldenburg site in connection with the scheduled launch of new inventory management software. The latter is part of the harmonization of Group-wide IT systems within the R. STAHL 2020 programme. Compared with the previous stand-alone inventory management software, the new solution is an integral component of the Group-wide standard ERP system, guaranteeing greater system stability with reduced interface and maintenance requirements, as well as a lower level of system complexity. The system adjustments necessitated by the introduction of the new software were successfully completed at the end of the quarter. This had a positive impact on the sales trend in the subsequent third quarter and resulted in a year-on-year increase in sales of 2.2%. Although sales in the final quarter also made good progress, they failed to match the strong level of the previous year and thus fell year on year by 4.9%.

From a regional perspective, sales in **Germany** declined by 11.1% to € 62.5 million (2018: € 70.3 million). In contrast to the previous year, there were no major sales in connection with large international projects in the reporting period.

With growth of 4.1%, the **Central** region posted sales of € 120.9 million (2018: € 116.1 million). This increase was driven by initial sales success in Africa and further strong demand from Northern Europe.

SALES BY QUARTER
€ million



The **Americas** region continued its good performance of the previous year and once again raised sales in the reporting period. At € 34.5 million, year-on-year growth reached 10.6% (2018: € 31.2 million). This sustained positive development was driven in particular by the reorganization of sales and production processes at our US site in the past year with the aim of exploiting market potential more systematically and shortening delivery times.

In the **Asia/Pacific** region, sales were down 9.1% on the previous year to € 56.8 million (2018: € 62.5 million). This was due in particular to the focus on new orders with sufficient profitability.

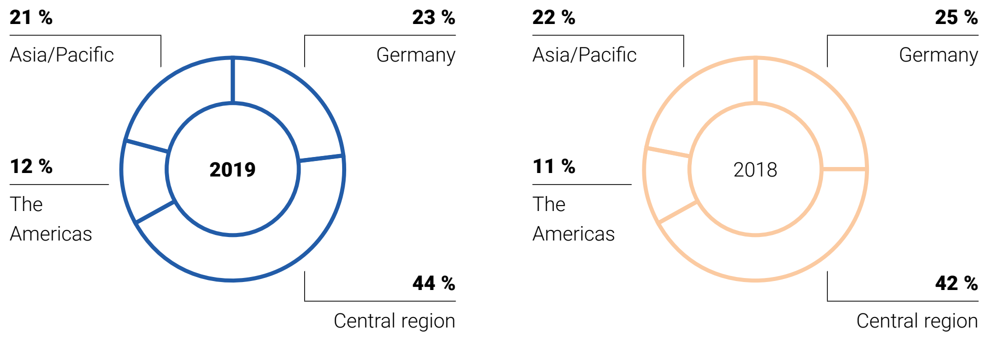
Order intake of € 271.4 million in the reporting period was up slightly by 0.5% compared to the previous year (2018: € 270.0 million).

EBITDA AND EBIT

Efficiency gains and favourable product mix improve cost of materials – earnings benefit additionally from new accounting regulations

Despite the slight decline in sales, EBITDA pre exceptionals was doubled to € 30.4 million in 2019 (2018: € 15.2 million). The EBITDA margin pre exceptionals improved to 11.0%

SALES BY REGION



RECONCILIATION OF EBITDA PRE EXCEPTIONALS TO EBIT

€ million	2019	2018	Change	in income statement contained in:
EBITDA pre exceptionals	**30.4**	**15.2**	**+15.2**	
Exceptionals[1]	**-6.0**	**-6.2**	**+0.2**	
Restructuring charges	**-6.1**	**-8.6**	**+2.5**	
Writedown and scrapping of inventories	-0.1	-0.5	+0.4	Change in finished and unfinished products and Cost of materials
Severance pay	-2.5	-3.0	+0.5	Personnel expenses
Depreciation and amortization[2]	-0.9	-0.4	-0.5	
Legal and consultancy costs	-2.4	-4.1	+1.7	Other operating expenses
Other	-0.1	-0.5	+0.4	Other operating expenses
Disposal of assets no longer required for business operations	**0**	**2.5**	**-2.5**	Other operating income
Other	**0.0**	**0**	**+0.0**	Other operating income and Other operating expenses
EBITDA[2]	**25.3**	**9.5**	**+15.8**	
Depreciation and amortization	**-18.9**	**-13.6**	**-5.3**	
thereof exceptionals[2]	-0.9	-0.4	-0.5	
EBIT	**6.3**	**-4.2**	**+10.5**	

[1] Exceptionals: restructuring charges, non-scheduled depreciation and amortization, charges for designing and implementing IT projects, M&A costs as well as profit and loss from the disposal of assets no longer required for business operations
[2] Depreciation and amortization disclosed as exceptionals is not to be considered in the reconciliation of EBITDA pre exceptionals to EBITDA.

(2018: 5.4%). In addition to efficiency gains in operating processes, this was also due to the sustained focus on orders with an appropriate level of profitability for our business. Although this had the effect of reducing the proportion of sales from deliveries for major projects, it was partly offset by smaller but higher-margin orders. The new accounting standard in accordance with IFRS 16 also had a positive impact of € 7.6 million on EBITDA pre exceptionals.

In the reporting period, exceptionals of € 6.0 million were on a par with the previous year (2018: € 6.2 million). It should be noted that earnings in 2018 included € 2.5 million from the sale of land no longer required for business operations. As expected, restructuring charges decreased to € 6.1 million in 2019 (2018: € 8.6 million). This was mainly due to a decrease of € 1.7 million in legal and consultancy costs, as well as a € 0.5 million decline in severance pay.

At € 278.2 million, total performance was up 0.4% (2018: € 277.0 million). While there was a moderate reduction of € 0.6 million in finished and unfinished goods in the reporting period, targeted measures to release tied up funds in the previous year had resulted in a significant reduction of € 6.7 million. Other operating income amounted to € 13.7 million and was thus on a par with the previous year (2018: € 13.8 million). In 2019, this was mainly due to the reversal of provisions in the second quarter, while the 2018 figure included income from the sale of land no longer required for business operations.

Despite the increase in total performance, the cost of materials decreased by 5.5% to € 94.0 million (2018: € 99.4 million), resulting in an improved cost of materials ratio of 33.8% (2018: 35.9%). This reflects in particular the more advantageous product mix.

The 2.2% increase in personnel expenses to € 122.0 million (2018: € 119.3 million) was mainly due to annual salary adjustments, as are customary for the industry. As a result, the personnel expense ratio rose to 43.9% (2018: 43.1%). At € 2.5 million, there was a slight decline in exceptionals from severance pay (2018: € 3.0 million).

The 19.0% decline in other operating expenses to € 50.7 million (2018: € 62.6 million) reflects the lower level of restructuring charges. However, a further significant reduction of € 7.6 million resulted from the application of the new lease accounting regulations. By contrast, this led to an increase in depreciation and amortization of intangible assets and property, plant and equipment to € 18.9 million (2018: € 13.6 million), which also included exceptionals of € 0.9 million from the amortization of goodwill for the subsidiary in Canada due to its reduced earnings outlook (2018: exceptionals of € 0.4 million in connection with the closure of the subsidiary in Austria).

There was a strong increase in EBIT to € 6.3 million in the reporting period (2018: € -4.2 million). A reconciliation of EBITDA pre exceptionals to EBIT for the reporting period and the previous year is shown on page 50.

FINANCIAL RESULT

Reduced loan drawings more than offset increase in interest expense from lease accounting

Compared to the previous year, the financial result in 2019 was virtually unchanged at € -2.9 million (2018: € -2.8 million). While non-recurring interest income from tax arrears of € 1.0 million had a positive effect in the previous year, the 25% stake in ZAVOD Goreltex contributed income of € 0.7 million in the reporting period. The € 1.0 million rise in interest expense in 2019 due to new lease accounting was more than offset by reduced loan drawings. In total, the net interest result of € -4.6 million was € 0.8 million lower than in the previous year (2018: € -3.8 million).

EARNINGS BEFORE INCOME TAXES

Earnings before taxes (EBT) amounted to € 3.4 million in the reporting period (2018: € -7.0 million) – an improvement of € 10.4 million. Income taxes of € 2.1 million were incurred (2018: € 0.0 million), especially by subsidiaries in Europe and India.

NET PROFIT

Positive net profit despite higher income tax burden

Net profit of € 1.3 million was the first positive annual result since 2017 (2018: € -7.0 million). This corresponds to earnings per share of € 0.21 (2018: € -1.10).

ASSET POSITION

BALANCE SHEET STRUCTURE

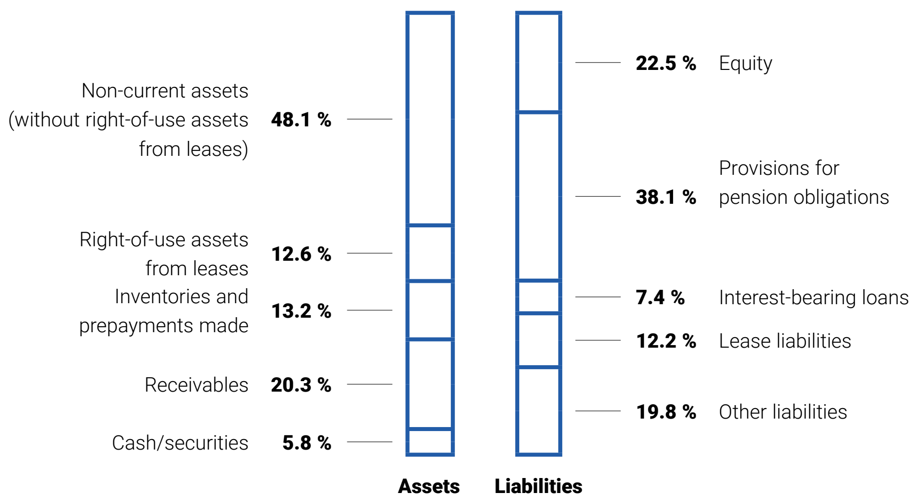
As of 31 December 2019, R. STAHL's balance sheet total increased to € 259.4 million (31 December 2018: € 227.9 million). The rise was due in particular to the new lease ac-

RECONCILIATION OF EBIT TO EARNINGS PER SHARE

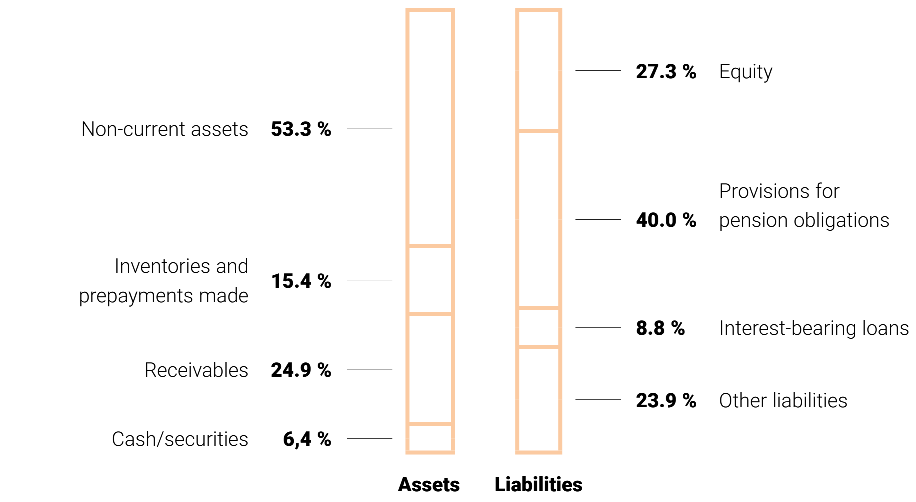
€ million	2019	2018	Change
EBIT	**6.3**	**-4.2**	**+10.5**
Financial result	-2.9	-2.8	-0.1
Earnings before income taxes	**3.4**	**-7.0**	**+10.4**
Income taxes	2.1	0.0	-2.1
Earnings after income taxes	**1.3**	**-7.0**	**+8.3**
thereof attributable to other shareholders	0.0	0.1	-0.1
thereof attributable to the shareholders of R. STAHL AG	1.3	-7.1	+8.4
Earnings per share in €	**0.21**	**-1.10**	**+1.31**
Average number of outstanding shares (weighted, in million units)	6.44	6.44	0

ASSET AND CAPITAL STRUCTURE

31 December 2019 **Balance sheet total € 259.4 million**



31 December 2018 **Balance sheet total € 227.9 million**



counting regulations of IFRS 16, which accounted for € 32.5 million. Net debt (without provisions for pension obligations and lease liabilities) fell further to € 4.2 million at the end of the reporting period (31 December 2018: € 5.5 million).

Non-current assets increased to € 157.5 million at the end of the reporting period (31 December 2018: € 121.5 million), primarily due to the first-time capitalization of right-of-use assets for property, plant and equipment under IFRS 16 in the reporting period, as well as an increase in other assets in connection with the collateralization of guarantees.

There was a decline in current assets, which fell to € 101.8 million (31 December 2018: € 106.5 million). This was due in particular to the reduction in inventories and trade receivables, which decreased in total by € 6.0 million.

In the reporting period, the development of shareholders' equity of R. STAHL Group was driven by a strong and renewed increase in provisions for pension obligations, which greatly outweighed the positive result for the year. At € 58.4 million, shareholders' equity declined by € 3.8 million compared with the end of the previous year (31 December 2018: € 62.3 million). Already adversely affected by the increased balance sheet total due to IFRS 16 described above, the equity ratio therefore also fell to 22.5% (31 December 2018: 27.3%).

The initial recognition of lease liabilities amounting to € 25.1 million led to a significant increase in non-current liabilities to € 138.8 million at the end of the reporting period (31 December 2018: € 107.7 million). This increase was also a result of a € 7.5 million rise in provisions for pension obligations due to a decline in the discount rate to 1.37% as 31 December 2019 (31 December 2018: 2.07%).

The increase in current liabilities to € 62.2 million (31 December 2018: € 57.9 million) also resulted largely from the recognition of lease liabilities of € 6.7 million. The slight growth in trade payables of € 1.6 million as of the balance sheet date was more than offset by the reversal of provisions amounting to € 3.1 million.

FINANCIAL POSITION

PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

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

FINANCIAL ANALYSIS

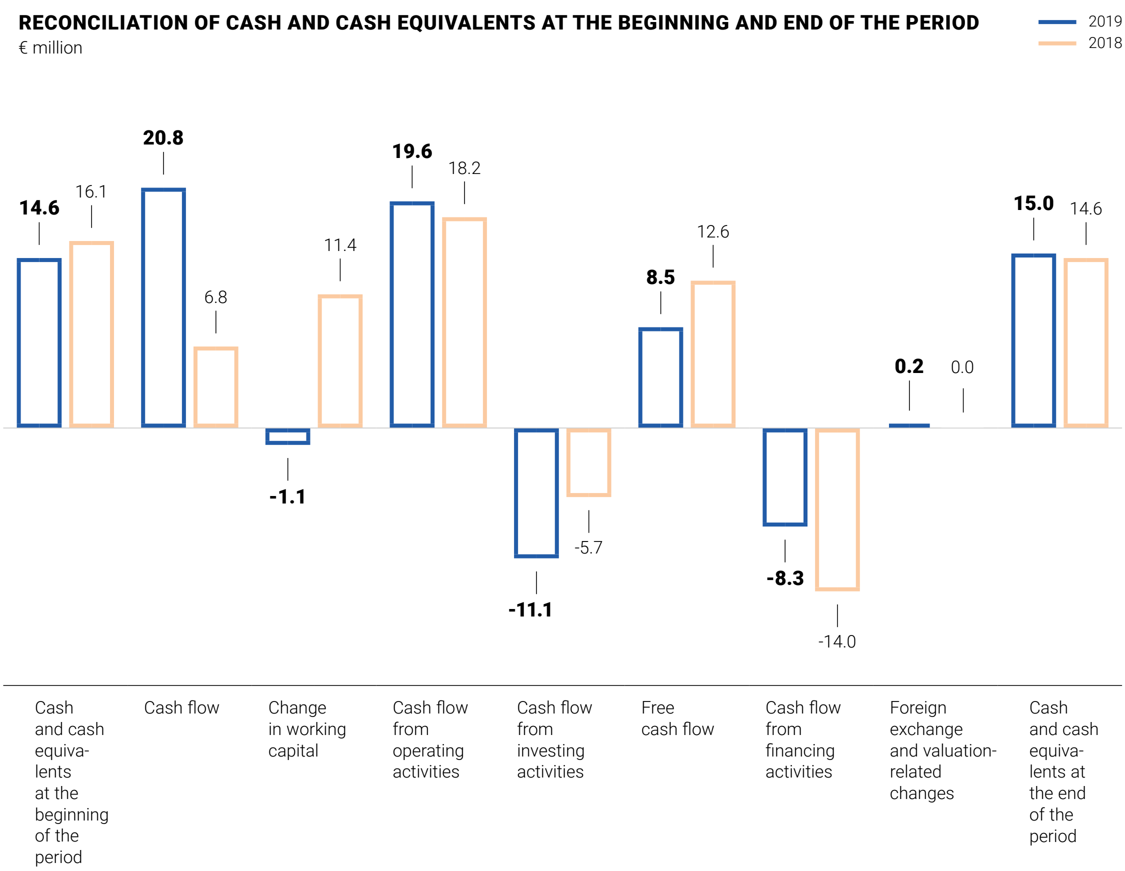
The Group's funding requirements are managed centrally from our headquarters in Waldenburg. For R. STAHL AG and its German subsidiaries there is a cash pooling system to balance out financial requirements, which is to be extended to the eurozone in the current year. The surplus liquidity of companies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

Our funding needs are met by a syndicated loan agreement as well as by bilateral loan agreements. In December 2019, we secured the Group's long-term funding by taking out a new syndicated loan. The new agreement has a volume of € 70 million with the possibility to increase it by a further € 25 million, and has a term of three years initially with an extension option for up to two further years. The agreed terms reduce R. STAHL's borrowing costs to the currently low market level. The previous syndicated loan agreement concluded in September 2015 was replaced at the end of the reporting period. There are bilateral loan agreements in the form of cash lines of € 11.5 million and guarantee lines of € 2.4 million, which amounted to € 3.5 million in total at the end of the reporting period. At € 13.3 million, the existing facility of the syndicated loan agreement totalling € 70 million had only been drawn to a minor extent, and exclusively for guarantees, at the end of the reporting period. Of the total interest-bearing financial liabilities of € 19.2 million, no significant amounts were attributable to loans in foreign currencies.

CASH FLOW STATEMENT

The positive earnings trend led to a significant increase in cash flow to € 20.8 million in the reporting period (2018: € 6.8 million). The effects of the new lease accounting standard accounted for € 7.1 million of this figure.

RECONCILIATION OF CASH AND CASH EQUIVALENTS AT THE BEGINNING AND END OF THE PERIOD
€ million



Whereas the by € 11.4 million improvement in working capital of the previous year was largely due to the formation of current provisions, a significant reduction in inventories as part of the lean production measures already implemented, as well as portfolio optimization, the reduction in inventories and trade receivables in the reporting period was overshadowed by the reversal of current provisions. As a result, the amount of funds tied up in working capital rose in total by € 1.1 million. Despite this effect, cash flow from operating activities increased slightly by 7.7% to € 19.6 million (2018: € 18.2 million).

Investments in property, plant and equipment and intangible assets rose year-on-year by 12.7% to € -11.3 million in the reporting period (2018: € -10.4 million). This figure includes the payment made during the reporting period for an increased stake in our South African partner R. STAHL SOUTH AFRICA (PTY) LTD (formerly: ESACO (Pty.) Ltd). At € -11.1 million, cash flow from investing activities was almost twice as high as in the previous year (2018: € -5.7 million). In 2018, the sale of two properties not required for operations led to a one-off cash inflow of € 4.8 million. Total free cash flow of € 8.5 million was generated in the reporting period (2018: € 12.6 million).

Due to the negative net profit for 2018, there was no proposal for a resolution on the appropriation of profit at the 2019 Annual General Meeting and consequently no dividend was distributed in the reporting period. New lease accounting under IFRS 16 resulted in a cash outflow of € -7.1 million in cash flow from financing activities, which nevertheless was reduced to € -8.3 million (2018: € -14.0 million). The remaining liquid funds generated in the reporting period were used to reduce financial liabilities.

As of 31 December 2019, R. STAHL had cash and cash equivalents of € 15.0 million (31 December 2018: € 14.6 million).

Rating

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

EXECUTIVE BOARD'S OVERALL ASSESSMENT OF BUSINESS DEVELOPMENT AND THE ECONOMIC SITUATION

Greatly improved profitability and return to double-digit margin in 2019

In the reporting period, we continued to make very good progress with the strategic measures derived from our R. STAHL 2020 efficiency programme. Structural improvements coupled with strict bidding and order management resulted in significantly improved earnings in the financial year 2019. In addition to efficiency gains in our operational processes, the sustained focus on orders with an appropriate level of profitability for our business proved particularly effective. Although this reduced the proportion of sales generated from major project deliveries, it was partially offset by smaller but higher-margin orders.

At € 274.8 million, sales were 1.9% down on the previous year (2018: € 280.1 million). From a regional perspective, Germany and Asia suffered declines of 11.1% and 9.1%, respectively, while there was growth of 4.1% in the Central region and of 10.6% in the Americas region. Order intake was slightly up in 2019 with an increase of 0.5% to € 271.3 million (2018: € 270.0 million).

The favourable product mix and cost savings were able to more than offset the effect on earnings of the slight decline in sales. Compared to the previous year, EBITDA pre exceptionals doubled to € 30.4 million (2018: € 15.2 million). This figure also includes a positive contribution of € 7.6 million from new lease accounting according to IFRS 16, applied for the first time in the reporting period. There was also strong growth in the EBITDA margin pre exceptionals which reached double figures again in 2019 at 11.0% (2018: 5.4%). Exceptionals of € 6.0 million in the reporting period were on a par with the previous year (2018: € 6.2 million). It should also be noted that earnings in 2018 included € 2.5 million from the sale of properties not required for operations. As expected, restructuring charges fell to € 6.1 million in 2019 (2018: € 8.6 million), due mainly to a € 1.7 million decrease in legal and consultancy fees and a € 0.5 million decline in severance pay. Consolidated net profit improved significantly to € 1.3 million, up € 8.3 million on the previous year (2018: € -7.0 million).

Strong free cash flow of € 8.5 million was generated in the reporting period (2018: € 12.6 million) – despite an almost two-fold increase in cash flow from investing activities. Whereas cash flow in the previous year benefited mainly from the release of funds tied up in working capital and the sale of two properties not required for operations, free cash flow in 2019 was boosted by further margin improvements and the impact of new lease accounting pursuant to IFRS 16. As a result of the net cash inflow in 2019, net debt was reduced further to € 4.2 million at the end of the reporting period (December 31, 2018: € 5.5 million). The decrease in the equity ratio to 22.5% as of the balance sheet date (December 31, 2018: 27.3%) was mainly driven by the increase in total assets in connection with new lease accounting and a renewed increase in provisions for pension obligations.

The conclusion of a new syndicated loan agreement in December 2019 secured the Group's long-term funding. The new agreement has a volume of € 70 million with the possibility to increase this amount by a further € 25 million and an initial term of three years with an extension option for up to two further years. The agreed terms reduce R. STAHL's borrowing costs to the currently low market level. The previous syndicated loan agreement concluded in September 2015 was replaced at the end of the reporting period.

R. STAHL has a very robust asset and financial position. In the reporting period, we significantly improved our margin structure. Together with our consistently low level of net debt and secure long-term funding at attractive borrowing rates, we have created a solid foundation for the implementation of further efficiency measures in the current year. At the same time, we see attractive growth potential in our business in the short, medium and long term. With the introduction of several strategic initiatives for future growth, we were able to build on our operational objective of establishing market-leading cost structures in the past financial year.

BUSINESS DEVELOPMENT OF R. STAHL AG

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

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

EARNINGS POSITION

R. STAHL AG generates sales from rentals and from the invoicing of commercial and organizational services provided for its subsidiaries. In 2019, R. STAHL AG generated sales of € 9.2 million (2018: € 9.6 million). The decrease is due to lower rental income following the sale of property in the previous year. Other operating income fell for the same reason to € 2.0 million (2018: € 2.9 million), as the prior-year figure includes non-recurring income from the sale of property. A decrease in legal and consultancy fees led to reduced other operating expenses of € 13.7 million in the reporting period (2018: € 16.3 million). Earnings before interest, taxes, depreciation and amortization (EBITDA) improved slightly to € -10.3 million (2018: € -11.8 million).

There was a slight decrease in amortization and depreciation of intangible and tangible assets in 2019 to € 0.3 million (2018: € 0.4 million). A reduction in total dividends from investments led to a fall in the investment result to € 2.5 million in the reporting period (2018: € 3.3 million). Income from profit transfer agreements amounted to € 8.2 million (2018: € 5.1 million). The increase is due to the improved earnings situation of R. STAHL Schaltgeräte GmbH. Other interest and similar income decreased to € 0.2 million (2018: € 1.3 million). The high prior-year figure was mainly influenced by interest received as part of a tax refund. At € 1.4 million (2018: € 3.5 million), there was a significant decline in depreciation of financial assets. There were no expenses from loss transfers (2018: € 2.3 million). Interest expenses of € 2.8 million were slightly below the prior-year level (2018: € 3.2 million).

The improved earnings situation resulted in a tax burden of € 0.1 million. In the previous year, an income tax credit resulted in income of € 0.8 million. Overall, earnings after taxes in the reporting year amounted to € -4.1 million (2018: € -10.7 million) with a net loss for the year of € -4.1 million (2018: € -10.8 million). As of December 31, 2019, this resulted in a balance sheet loss of € -18.8 million (31 December 2018: € -14.7 million).

FINANCIAL POSITION

The cash and cash equivalents of the German subsidiaries are pooled with R. STAHL AG by means of a cash pooling system. The inflow of funds mainly results from R. Stahl Schaltgeräte GmbH, Waldenburg, and R. STAHL HMI Systems GmbH, Cologne. At the end of the reporting period, cash and cash equivalents amounted to € 0.9 million (31 December 2018: € 2.8 million). No dividend was paid to shareholders in the reporting period, nor in the previous year.

ASSET POSITION

On 31 December 2019, the balance sheet total of R. STAHL AG amounted to € 97.0 million (31 December 2018: € 97.1 million).

Non-current assets decreased slightly to € 78.8 million as of the balance sheet date (31 December 2018: € 80.9 million), mainly as a result of a decline in loans to affiliated companies and a decrease in investments. There was a significant increase in current assets to € 14.0 million (December 31, 2018: € 12.1 million). Due to a pledge to collateralize the use of guarantees, other assets increased to € 3.6 million (31 December 2018: € 0.0 million). Cash and cash equivalents decreased to € 0.9 million at the end of the reporting period (31 December 2018: € 2.8 million).

Due to the net loss for the year, equity of R. STAHL AG decreased to € 34.8 million as of the reporting date (31 December 2018: € 38.9 million). This resulted in a decline in the equity ratio to 35.8% at the end of the year (31 December 2018: 40.%).

At € 17.8 million, provisions were down on the prior-year figure (December 31, 2018: € 18.3 million). Whereas pension provisions increased by € 0.3 million, other provisions were reduced by € 0.8 million.

Higher liabilities to affiliated companies were mainly responsible for an increase in liabilities to € 44.4 million (December 31, 2018: € 39.9 million).

SUSTAINABILITY

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

At R. STAHL, we understand corporate responsibility as a long-term commitment to improving the quality of life of people around the world and to our sustainable interaction with the environment – a commitment that our safety products and solutions already meet from their very nature. Our objective is to create sustainable added value for our stakeholders and to make a tangible contribution to the environmental and social development of society as a whole. This includes an ongoing examination of our actions and their impact on society. The high sustainability standards which listed companies domiciled in Germany must meet are set by the respective legal regulations, and in particular by the German Corporate Governance Code. In addition, we have implemented further group-wide guidelines, e.g. our Code of Conduct which is binding for all employees, and we ensure adherence with these guidelines by means of our group-wide compliance management system. The authority matrix anchored in our organization and the dual control principle, whereby legally binding and financially effective decisions can only be taken by two authorized persons and not by any individual, help us to ensure compliance with our Code of Conduct.

In line with its profit-oriented business activities, the R. STAHL Group is managed primarily according to financial goals. These may also be supplemented by non-financial objectives. In this way we take account of our corporate responsibility, which we interpret in the joint context of our economic, ecological and social actions (CSR – Corporate Social Responsibility). Responsible cooperation with our stakeholders – above all our customers, suppliers, employees, shareholders, financial institutes and the interested public – is given high priority in our organization and our processes. As entrepreneurial success is inextricably linked with the commitment of creative and motivated employees, our HR strategy attaches great importance to attractive terms of employment with healthy and safe working conditions, fair compensation, targeted training offerings and equal opportunities. Our customers rely on the outstanding quality of our products, which are renowned for their uncompromising safety and reliability, as well as for their excellent workmanship and durability. As a leading technology company in our industry, we want to continue to drive the development of technical progress in the future and secure this trust with outstanding, innovative products and sustainable value creation. As well as complying with all legal regulations, as well as work-related and environmental standards, we set ourselves the target of achieving the high quality standards of our products with the efficient use of resources.

With the introduction of the German CSR Directive Implementation Act on 11 April 2017, and in accordance with Section 315b HGB, R. STAHL is required to include a "consolidated non-financial declaration" in its Group Management Report for the first time as of the financial year 2017. Pursuant to Section 315c in conjunction with Section 289c HGB, the company must provide details on the five aspects Environmental Matters, Employee Matters, Social Matters, Respect of Human Rights, and Anti-Corruption and Bribery Matters. These aspects are fundamental elements of our sustainability-relevant activities and we have already reported on them for many years in our past Group Management Reports. For the preparation of a consolidated non-financial declaration, R. STAHL is utilizing the option under Section 315b (3) HGB of alternatively publishing a separate non-financial Group statement for the financial year 2019 outside of its Group Management Report, as in the previous year. The non-financial Group statement for the reporting year 2019 was published on 13 March 2020 on our website **www.r-stahl.com** in the section Corporate/Corporate Responsibility.

DECLARATION ON COMPANY MANAGEMENT

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

ADDITIONAL DISCLOSURES

SHAREHOLDER RIGHTS AND OBLIGATIONS

Every shareholder has economic and administrative rights.

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

Administrative rights include the right to take part in the Annual General Meeting, as well as the right to talk, submit questions and table motions at the Annual General Meeting, and to exercise voting rights.

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

COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board has nine members, six of whom are to be elected by the Annual General Meeting and three by the workforce pursuant to the German One-Third Participation Act. Resolutions of the Supervisory Board are passed with a simple majority of the votes cast, unless there is a mandatory legal requirement stipulating a different majority. If the election outcome is a tie, a new debate is only held if the majority of the Supervisory Board so decides. Otherwise, voting has to be repeated immediately. Should another tie occur in this new voting on the same issue, the Chairman of the Supervisory Board has two votes according to Section 12 (6) of the Articles of Association.

STATUTORY REGULATIONS AND PROVISIONS IN THE ARTICLES OF ASSOCIATION ON THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE EXECUTIVE BOARD AND ON THE AMENDMENT OF THE ARTICLES

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

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

POWERS OF THE EXECUTIVE BOARD MEMBERS, ESPECIALLY WITH REGARD TO THE POSSIBILITY OF ISSUING OR BUYING BACK SHARES

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

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

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

SIGNIFICANT AGREEMENTS WHICH TAKE EFFECT IN THE EVENT OF A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID

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

REMUNERATION SYSTEM FOR THE SUPERVISORY BOARD AND EXECUTIVE BOARD

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

SUBSEQUENT EVENTS

Significant events after 31 December 2019 which are expected to have a material effect on the financial position and performance of R. STAHL Group or R. STAHL AG are described under **Other Notes and Disclosures/Events after the Balance Sheet Date** in the notes to the consolidated financial statements.

RISK REPORT

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

Description of Risk Management System

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

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

Risk Reporting/Early Warning System

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

The risk owners in the subsidiaries and the division managers of the corporate divisions are included in this early warning system and report identified, existing and eliminated risks once a quarter. In addition, ad hoc reports are submitted to the Risk Management Officer and the company's management if significant or critical risks are identified or significant changes in risks already identified occur. The risk management process is supported by an IT application.

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

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

Risk Assessment

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

Probability of occurrence	Description
0 to 10 %	very unlikely
11 to 20 %	unlikely
21 to 50 %	possible
51 to 90 %	likely
91 to 100 %	very likely

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

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

According to their estimated probability of occurrence and their impact on operations, financial position and performance and cash flow, 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:

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

Controlling

Group Controlling staff are the contacts for our subsidiaries in Germany and abroad. The Group Controlling department provides the IT systems needed to collect and evaluate business data. The financial position and performance of the companies are analyzed during monthly reporting, whereby a special focus is placed on the comparison of planned/actual figures. Once a month, Controlling prepares

Risk area	Probability of occurrence	Net expected damage
Macro environment/country risks	possible	low
Market/competition	possible	low
Supporting processes	possible	low
Strategy	unlikely	low
Performance-related risks	unlikely	medium
Personnel	likely	low
Financial risks	possible	low
Compliance	unlikely	low

a forecast review for this purpose and thus ensures a constant flow of information to the Executive Board on current and projected budget deviations as well as any resulting risks.

Internal Monitoring System

A further component of R. STAHL Group's risk management system is the internal control system which includes all basic principles, procedures and measures that have been introduced by the Executive Board to ensure:
- the effectiveness and efficiency of business operations,
- the correctness and reliability of internal and external reporting, and
- compliance with group-wide guidelines and standards, as well as the relevant statutory regulations.

The Internal Audit division regularly checks compliance with these objectives.

Internal Control System Based on the Consolidated Accounting Process

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

Further key instruments for controlling the accounting process are:
- the group-wide standards applicable for financial and administrative areas,
- the clear separation of functions and assignment of responsibilities,
- the use of uniform ERP systems and standard software, as well as
- detailed authorization schemes.

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

Internal Audit

The Internal Audit division provides independent and objective auditing and advisory services aimed at improving business processes, thus creating added value. It serves the organization's objectives by evaluating the effectiveness and efficiency of the internal management and monitoring processes with a systematic and targeted approach and thus helps to continuously improve them. Internal Audit reports directly to the CEO of R. STAHL AG. Audits are held on the basis of an annual risk-oriented audit plan. The position has been vacant since the beginning of the current year and is expected to be filled in the first half of 2020.

Compliance Management, Code of Conduct

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

GROUP'S RISK SITUATION

Macro environment and country risks

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

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

Finally, our international alignment in different jurisdictions also represents a legal risk. In the course of our business activities, it cannot be ruled out that R. STAHL AG and its subsidiaries become parties to court proceedings. Negative rulings at the expense of the respective company cannot be ruled out in individual cases. There have only been a few such cases in the past. However, the companies of R. STAHL AG defend themselves in such proceedings in the actual and legally required manner and, where necessary, we take account of an impending cost risk by forming appropriate provisions. At present, however, we do not expect any material adverse effects on the financial position and performance of R. STAHL Group from this risk.

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, which mainly comprise the oil and gas sector, the chemical and pharmaceutical industry, the food industry and shipbuilding. As the sales and earnings of those companies active in the oil and gas sector are by nature highly dependent on the often volatile price trends of crude oil and natural gas, changes in the prices of these commodities can also impact the investment decisions of these companies. Various factors play a role here. On the one hand, the propensity of companies in the oil and gas sector to invest is influenced not only by the price of crude oil and natural gas but also by their own production costs. When the oil price fell in the years 2015 to 2017, many companies with comparatively complex production methods (especially extraction from shale rock (fracking) and (deep) sea drilling) were able to significantly reduce their production costs and make their business model less susceptible to price decreases. On the other hand, a distinction must be made between maintenance investments and new plant construction. Since pending maintenance investments can only be postponed to a limited extent due to their significance for plant safety, and halting work on new plants already under construction only makes economic sense in exceptional cases, short-term changes in the price of oil and gas generally have no direct impact on such investment. By contrast, longer low-price periods may lead to delays in the construction of planned new facilities, which may in turn impact R. STAHL's order intake with a certain time lag.

In order to counter the increasing competition also from new providers in the components business, we seek to consolidate our market position by continuously expanding our technological leadership, by developing products which our clients appreciate due to their efficiency-enhancing and cost-saving characteristics, and by achieving regional diversification.

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

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

Last but not least, R. STAHL's international alignment entails the risk that customers may prefer regional suppliers because they are better acquainted with their products, have greater confidence in their product characteristics, or are encouraged to do so for political reasons (such as market embargos or the market foreclosure of certain countries). As R. STAHL aims to widen its customer base as part of its business strategy, the establishment of brand awareness and reputation is critical. We therefore employ an appropriate number of highly qualified sales experts, are represented at trade fairs all over the world, and also offer our own seminars to provide customers with the relevant information on explosion protection and to train them in handling our products. This also helps us to strengthen our position vis-à-vis local competitors.

Strategic Risks

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

In addition, there are procurement risks. Depending on the market situation, purchase prices may fluctuate and affect our cost structures. There is also the fundamental risk of a temporary unavailability of source materials. We counter these risks with our strict cost management approach and international procurement. 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.

Moreover, an increasing technological acceptance of products from China and other Asian countries also represents a competitive situation in the European environment, which we are monitoring in order not to risk market losses. We continue to assess the risk of product and brand piracy as minor. Continuous improvement of our core products and production technologies, as well as our specialist knowledge and our experience reduce the risk that R. STAHL products can be replicated in comparable quality. In the field of explosion protection, quality, as well as functional and certification reliability are among the most important purchase criteria.

Risks from Supporting Processes

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

In view of the growing competitive pressure in all sectors of the electronics industry, delivery times and reliability are becoming ever more important for our dealings with customers. Excessive delivery times or non-compliance with delivery dates pose general risks for customer loyalty and thus our further business trend. Further expanding our competitiveness, as well as our logistics, manufacturing and handling processes in order to achieve market-leading delivery reliability is an essential component of our lean management measures within the framework of R. STAHL 2020.

The efficiency measures included in R. STAHL 2020 have far-reaching effects on our structures and processes and include all key functional areas of the Group. Such extensive changes generally entail the risk of temporary disruptions in operational processes with negative effects on sales and earnings. We counter this risk by closely monitoring and steering individual measures and regularly comparing the targeted and actual conditions. If necessary, appropriate actions are derived.

Risks in Connection with Information Technologies

In international trade and industrial production, the digitalization of processes is steadily increasing. Consequently, the amount of data essential for the processing of our business processes which is digitally recorded, processed and stored is also rising. In order to ensure the necessary availability, appropriate security measures must be taken against the risk of technical failure of IT systems and data networks due to both technical error and external influences (e.g. fire, flood, theft). We counter this risk by processing data centrally on redundant server systems and data storage devices in separate locations, as well as data backup and recovery processes that enable rapid data recovery.

Despite the growing risk of cyber attacks around the world, R. STAHL has so far been able to avoid damaging security incidents. In order to continue to protect the Group from such risks as loss or falsification of data and the resulting interruptions to business, we work hard on our IT security processes, as well as preventive and defensive measures, and regularly adapt them to the changing requirements and risks. In doing so, we work closely with external IT security specialists in order to check our measures with regard to their effectiveness and to utilize their findings from other security incidents in our processes and measures.

In addition to information security, R. STAHL attaches great importance to data privacy. The protection of personal data has always been one of the basic principles of our business policy and we work continuously on the implementation and monitoring of the requirements of the GDPR and other country-specific data protection legislation. Personal data from the EU is stored exclusively on servers in the EU.

In addition to processes, as well as technical and organizational measures, employees play a major role in data security and data privacy. We therefore train our employees at the time of recruitment and in the case of specific events on data security and data privacy aspects, in order to achieve an appropriate level of awareness for issues surrounding data processing, IT systems and risks.

Performance-related Risks

R. STAHL's international production sites enable it to meet the growing requirements of customers around the world regarding the availability of local contact partners and short delivery times. We counter the risk of fluctuations in local capacity utilization and costs resulting from the decentralization of production with a central production control system (Global Operations) with global responsibility for efficient resource management across all manufacturing sites. In 2018, the corporate function Global Operations began introducing lean management methods at all production sites aimed at improving our processes and costs.

Personnel Risks

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

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

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

Financial and Tax Risks

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

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

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

In December 2019, R. STAHL AG prematurely concluded a syndicated loan agreement. It has a volume of € 70 million, with the option to increase it by a further € 25 million, and an initial term of three years with the option to extend it by up to two further years. The agreement contains standard provisions regarding the maintenance of the Group's financial strength (financial covenants). Non-compliance with these covenants results in an adjustment of the contract terms or premature termination by the banks involved.

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

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

Due to the global nature of our business activities, the R. STAHL Group is subject to a multitude of country-specific tax laws and regulations. Changes in the relevant tax legislation and a possibly different interpretation of the legal regulations by tax authorities may have a negative impact on the taxation of Group companies.

Moreover, a lack of, or insufficient, transparency due to the extreme complexity of internal processes may mean that tax-relevant information is not forwarded and assessed in the correct way, thus resulting in inconsistencies in the company's tax returns. Such errors in dealing with tax issues may result in an adverse adjustment of the tax base and lead to subsequent tax demands, as well as criminal prosecution of the management.

In order to minimize such risks, tax-relevant issues are analyzed and assessed by the Group's corporate tax department, and where necessary in cooperation with external consultants. In addition, R. STAHL is working on the implementation of a viable tax compliance management system to ensure that all relevant tax laws are observed and all tax obligations fulfilled in future.

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 on our business success.

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 relatively low, it might negatively impact the reputation of our company, our business, and our financial position and performance.

External Risks

In view of our global network of manufacturing facilities and sales offices, R. STAHL is exposed to external risks in varying degrees that may develop both regionally and globally. These include in particular natural disasters, wars, civil wars and pandemics such as the current rapid and hard-to-control spread of the coronavirus (SARS-CoV-2) which first appeared in China in December 2019.

These risks can impair our company's ability to act and may lead to supply bottlenecks, loss of production, disruptions in the supply chain and non-payment of trade receivables, thus exerting a negative impact on sales and earnings.

In order to mitigate the consequences arising from such risks, we have developed and communicated plans and measures for all our facilities. At our HQ in Waldenburg, we have set up the Safety, Health and Environmental Protection Working Group with the aim of minimizing the impact of a pandemic on the health of our employees and our business processes and to ensure a uniform and co-ordinated approach where necessary. The main aim is to break transmission paths by means of regulations to minimize contact, increased hygiene, travel restrictions and defined processes for dealing with suspected cases. The financial repercussions of damage caused to our production facilities through natural disasters are covered to some extent by insurance policies. As R. STAHL has production sites on various continents, our manufacturing and delivery capabilities are at least partially guaranteed if individual sites should be unable to operate, depending on the severity of the risk event. However, risks that arise from natural catastrophes, war or pandemics cannot be completely ruled out.

It is currently impossible to predict what impact the coronavirus will have on the global economy and supply chains in the current year and beyond. Similarly, it is unknown whether and to what extent there will be catch-up effects for a global economy that has been slowing since the beginning of the year. Since the end of February 2020, the global spread of the coronavirus, which was initially limited to Asia, has accelerated and reached large parts of Europe and the Americas. This development has already led to considerable price falls on the global capital markets. Should the current situation develop into a prolonged pandemic, this might significantly hamper global economic growth and possibly lead to a recession. As governments impose quarantine measures to protect the health of their citizens or restrict the movement of people and goods, this may lead to supply bottlenecks for raw materials, production stoppages and disruption to logistics chains. The situation is currently evolving very dynamically. We are therefore currently unable to reliably assess the further development of the situation. At present we believe that there is a high probability that R. STAHL will be affected by such risks. Our contingency plans and the global distribution of our manufacturing facilities and sales offices will help us limit the effects of local or regional disruption to our business processes. However, we anticipate that the spread of the coronavirus may have a significant impact on the earnings of R. STAHL Group.

OVERALL STATEMENT ON THE RISK SITUATION OF R. STAHL GROUP AND R. STAHL AG

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. From the current perspective, the Executive Board does not see any risks that R. STAHL would be unable to counter in an appropriate manner, or which might endanger the Group's financial position and performance. As described above, the level of uncertainty regarding the predictability of the overall economic development has increased considerably compared to the previous year. In addition, the sales market risks have also increased. We therefore believe that the overall risk is higher than in the previous year. However, thanks to our comprehensive product portfolio and good regional positioning, we also see opportunities to expand our leading market position. We remain confident that R. STAHL is sufficiently well positioned, both strategically and financially, to take advantage of the opportunities that present themselves.

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

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

OPPORTUNITY AND FORECAST REPORT

OPPORTUNITIES

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

Long-term Opportunities

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

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

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

Medium-term Opportunities

In the medium term, R. STAHL sees opportunities from the expansion of our market position and the tapping of new markets. To this end, we defined a series of measures for strategic market development in the reporting period which aim to quantify the regional market potential and allocate resources appropriately and in a targeted manner. In this connection, we are also driving the necessary approval procedures to qualify as a supplier for new customers, thereby creating new opportunities to expand our regional market shares in the medium term. Moreover, our continuous and targeted research and development work, which has enabled us to establish strong positions in numerous product areas, will continue to play a key role.

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

In terms of regional expansion, the ongoing opening of further markets for IECEx-certified products and solutions – which are becoming increasingly popular also for international projects – offers additional growth potential. One of our key regional target markets is Eastern Europe, where the acquisition of a stake in ZAVOD Goreltex in 2016 has improved our access opportunities. We also see opportunities in sub-Saharan Africa in the medium term. We laid the foundation for further expansion in this region during the reporting period by taking over our South African partner ESACO (Pty.) Ltd with an increase in our stake to 70%.

We see significant opportunities to increase our productivity and profitability in the medium term by optimizing our operational structures and processes as part of our efficiency programme R. STAHL 2020. The current implementation of measures to create Group-wide standards and to digitize and streamline our internal processes will ensure short delivery times across the world and thus meet the key requirements of our customers. We are pursuing the same objectives with the further automation of our production facilities in the direction of “Industry 4.0”.

Short-term Opportunities

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

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

FORECAST FOR YEAR-ON-YEAR GDP GROWTH IN 2020

in %	
World	**+3.3**
Industrialized countries	+1.6
USA	+2.0
Eurozone	+1.3
Germany	+1.1
France	+1.3
Italy	+0.5
Spain	+1.6
Japan	+0.7
United Kingdom	+1.4
Canada	+1.8
Emerging markets	+4.4
Asia	+5.8
China	+6.0
India	+5.8
Russia	+1.9
Latin America	+1.6

Source: World Economic Outlook, International Monetary Fund, January 2020

FORECAST

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

Global economy: forecast for 2020 still optimistic at the beginning of the year, from March onwards marked slowdown due to increasing spread of the coronavirus

In its outlook of January 2020, the International Monetary Fund (IMF) predicted a slight increase in global economic growth to 3.3% for the current year, driven by a recovery in global trade and manufacturing. In addition to a continuation of the monetary easing policy of the world’s central banks, the IMF’s justification also included the de-escalating trade conflict between the USA and China, as well as the UK’s withdrawal from the European Union, which has now been completed after years of political deadlock.

In January 2020, the IMF was still forecasting a further decline in growth for the industrialized countries – albeit at a slower rate – to 1.6% in the current year. The IMF predicted a stronger slowdown for the USA with a decline in GDP growth to 2.0%. By contrast, a slight increase to 1.3% was forecast for the eurozone, boosted by stable growth in France and a resurgence in Germany and Italy.

In its January 2020 outlook, the IMF predicted a return to faster growth of 4.4% for the emerging markets (2018: 3.7%). Whereas growth in China is expected to be slightly slower at 6.0%, India is likely to grow at the faster rate of 5.8%.

At the time of preparing this report, the IMF had not yet issued an update to its last figures for global economic growth in 2020. However, it is already certain that the spread of the coronavirus will result in a marked decline. With regard to developments in Germany, the German Council of Economic Experts issued a special report on 30 March 2020 in which it stated that a recession in the first half of 2020 can no longer be avoided. Furthermore, three scenarios have been drafted for the years 2020 and 2021, which essentially differ depending on the duration, extent and effect of the health measures taken to contain the coronavirus. In the currently most probable base scenario, German GDP would shrink by 2.8% in the current year and grow by 3.7% in the following year. This is based on the assumption that the economic situation will return to normal over the coming summer months. The second risk scenario assumes a 5.4% decline in GDP in 2020 and growth of 4.9% in the following year. In the worst of the three scenarios, GDP will fall by 4.5% in the current year with only a slight increase of 1% in the coming year.

Demand for oil down in first quarter, pressure on prices

In its monthly report on the development of the oil market in January 2020, OPEC was still forecasting a further increase in demand for crude oil of 1.2 million barrels per day for the current year. This would have meant global demand exceeding the 100 million barrels/day mark for the first time – a level of demand which OPEC had actually already forecast for the reporting year in 2019, but which was narrowly missed at 99.8 million barrels/day.

In its monthly report on the development of the oil market in February 2020, OPEC reduced its volume growth forecast for the current year to around 1.0 million barrels/day. More recent statements by OPEC were not available at the time of preparing this report. The fall in demand for crude oil caused by the global spread of the coronavirus has had a significant impact on prices since March 2020 and led to a decline from US$ 65 per barrel of Brent crude oil at the beginning of 2020 to below US$ 25 per barrel by mid-March. According to estimates published by Rystad Energy on 1 April 2020, global demand for crude oil in the current year will be between 6.4% and 8.5% down on the previous year, depending on the extent of government measures to contain the coronavirus. A return to last year's average demand level of 100 million barrels/day is not expected before September 2020, even under the most favourable circumstances. It is currently impossible to predict how these scenarios will affect price trends in the current year, especially as the oil price is also heavily influenced by political developments. Although the aforementioned events have not yet had a significant impact on our business up to the time of writing this report, a continuation of the current extremely low level of oil prices over a longer period of time, or a further fall in prices, is highly likely to slow the development of sales and earnings in our business.

Restrained outlook also for chemical, pharmaceutical and electronics sectors

In its forecast of December 2019, the German Chemical Industry Association (VCI) predicted very moderate growth of 0.5% for German chemical and pharmaceutical output in the current year. While prices are expected to remain constant, a slight decline in volume of 0.5% was forecast for the chemical industry, while the pharmaceutical industry is expected to grow by 2.0% on the back of stronger foreign demand. In its assessment of December 2019, the association saw risks for the economy in particular from a renewed escalation of global trade conflicts, a further weakening of the capital goods sector, increasing effects from a decline in industrial output on the overall economy, for example on the labour market, and from financial market stability and geopolitical risks.

In March 2020, the VCI dampened expectations for the current year, particularly in view of the as yet unpredictable effects of the coronavirus pandemic, and predicted a decline in chemical output of 1.5% – whereby it underlined that this forecast was also subject to significant caveats.

In July 2019, ZVEI had forecast growth of 3% for the global electronics market in 2020. Growth in the emerging markets – previously the main growth drivers – was expected to slow to around 5%, while ZVEI anticipated unchanged growth of 2% for the industrialized countries. Following a year of decline in the reporting period, Germany is expected to return to growth with an increase of 1% in 2020.

In its report published in March 2020, ZVEI reported that the German electronics industry had started the new year with a fall in order intake. At the same time, it stressed that this development did not yet include the effects of the coronavirus. At the time of preparing this report, ZVEI had not yet updated its 2020 figures for the electronics industry.

In view of current global economic situation, forecast for 2020 subject to considerable uncertainty

Following the downturn in 2019, our outlook at the beginning of the year was still predicated on an overall economic recovery for the current year. This assessment was based in particular on forecasts for global economic growth. Although the outlook for our main sectors was mixed, we still anticipated an overall increase in demand for our products and solutions. We also saw growth opportunities in connection with further improvements in our sales and manufacturing processes and the resulting market share gains and shorter delivery times. Consequently, we expected to be able to further enhance our profit margin through sales growth and improved efficiency. Compared with the previous year, this would have resulted in growth in EBITDA pre exceptionals in the mid-single-digit million euro range for 2020. We had assumed a weaker first half of the year, followed by a stronger second half.

At the time of preparing this report, the measures taken so far by governments and central banks around the world to contain the coronavirus and its economic consequences give an idea of the high degree of political and economic uncertainty that the pandemic is currently causing. These measures include the closing of borders, entry bans for many countries, curfews, significant interest rate cuts and the provision of aid programmes worth hundreds of billions of euros. Against this backdrop, it is impossible to make a reliable forecast of R. STAHL's development in the current year. Although our healthy order intake position over the past few months means there are no immediate, serious effects for our business as yet, the overall trend in our financial year 2020 will be shaped to a great extent by the success of all efforts to rein in the global spread of the coronavirus and thus restore normality to public life and the business world. How, when and to what extent this will succeed, however, cannot be predicted at present. We do not currently see any short-term effects on our business from the recent significant decline in the oil price. However, if oil prices remain at the current very low level, or even below, for a longer period of time, we believe that demand for our products is likely to decline in the second half of the year.

With a regard to our annual guidance for 2020, the current limited visibility of developments in our markets can only be addressed by adopting a scenario approach. Taking into account the scenarios we currently regard as possible, we expect to achieve sales of between € 260 million and € 275 million for the current year, with EBITDA pre exceptionals in the low double-digit million range.

While EBITDA pre exceptionals is the main measure used to steer the R. STAHL Group, and in particular for measuring the success of our ongoing efficiency measures, the ability of R. STAHL AG to pay dividends is largely determined by net profit. For 2020, we expect R. STAHL AG to post a net loss for the year in the single-digit millions. On this basis, no dividend is expected for 2020.

Stable financial and asset position, expected increase in capex

As of 31 December 2019, the equity ratio of R. STAHL Group amounted to 22.5%. Provided there are no opposing effects regarding the measurement of our pension obligations, we expect the equity ratio to at least remain stable in the current year.

With regard to efforts to further digitize our processes, we had originally planned to expand automation at our production facilities, with a corresponding increase in capex in 2020. Depending on the business trend in the current year, we will adjust capex planned at the beginning of the year, if required and to the necessary extent, in order to maintain our financial stability. We expect free cash flow to be positive in 2020.

Slight increase in net financial liabilities expected

As neither dividend payments nor equity measures are planned for the current year, we expect cash flow from financing activities to remain at the prior-year level. Together with the expected development of free cash flow in 2020, this will result in a slight increase in net financial liabilities in the current year.

OVERALL ASSESSMENT

Forecast reliability greatly restricted by current global economic position, sales and earnings expected to be below previous year

Based on the healthy order intake position in the first few months of this year, and despite the extreme uncertainty of the global economic outlook at present, we currently expect sales of between € 260 million and € 275 million for the current year, with EBITDA pre exceptionals in the low double-digit million range. Against this backdrop, we anticipate a stable equity ratio and positive free cash flow. We expect a slight increase in net financial liabilities.

This forecast is based on what we believe to be the most likely developments of our markets from the current perspective. Changes in the general conditions due to macroeconomic or geopolitical developments, such as a further cooling of the global economy in connection with a further spread of the coronavirus, a very low oil price over a longer period, an escalation of trade conflicts, or the emergence of regional flashpoints, may adversely impact our markets and thus also our business development. A comprehensive description of the potential risks that may influence this forecast is provided in the risk report.

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CONSOLIDATED FINANCIAL STATEMENTS

OF R. STAHL AG

CONSOLIDATED INCOME STATEMENT

1 January to 31 December

€ 000	Note	2019	2018
Sales	[6]	**274,784**	**280,114**
Change in finished and unfinished products		-610	-6,727
Other own work capitalized	[7]	4,065	3,621
Total operating performance		**278,239**	**277,008**
Other operating income	[8]	13,705	13,764
Cost of materials	[9]	-93,981	-99,408
Personnel costs	[10]	-122,013	-119,334
Depreciation and amortization	[12]	-18,928	-13,617
Other operating expenses	[13]	-50,680	-62,575
Earnings before financial result and income taxes (EBIT)		**6,342**	**-4,162**
Result from companies consolidated using the equity method	[4] [14]	1,654	956
Investment result	[15]	3	0
Interest and similar income	[16]	125	1,150
Interest and similar expenses		-4,703	-4,922
Financial result		**-2,921**	**-2,816**
Earnings before income taxes		**3,421**	**-6,978**
Income taxes	[17]	-2,073	-18
Net profit/loss		**1,348**	**-6,966**
thereof attributable to other shareholders		9	63
thereof attributable to shareholders of R. STAHL AG		1,339	-7,059
Earnings per share (€)	[18]	**0.21**	**-1.10**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
1 January to 31 December

€ 000	2019	2018
Net profit/loss for the year	**1,348**	**-6,996**
Gains/losses from currency translations of foreign subsidiaries, recognized in equity	219	-833
Deferred taxes on gains/losses from currency translations	0	0
Currency translation differences after taxes	**219**	**-833**
Gains/losses from the subsequent measurement of cash flow hedges, recognized in equity	0	0
Recognized in profit or loss	0	8
Deferred taxes on cash flow hedges	0	-2
Cash flow hedges after taxes	**0**	**6**
Other comprehensive income with reclassification to profit for the period	**219**	**-827**
Gains/losses from the subsequent measurement of pension obligations, recognized in equity	-7,865	1,401
Deferred taxes from pension obligations	2,192	-410
Other comprehensive income without reclassification to profit for the period	**-5,673**	**991**
Other comprehensive income (valuation differences recognized directly in equity)	**-5,454**	**164**
thereof attributable to other shareholders	19	-16
thereof attributable to shareholders of R. STAHL AG	-5,473	180
Total comprehensive income after taxes	**-4,106**	**-6,832**
thereof attributable to other shareholders	28	47
thereof attributable to shareholders of R. STAHL AG	-4,134	-6,879

CONSOLIDATED BALANCE SHEET

€ 000	Note	31 Dec. 2019	31 Dec. 2018
ASSETS			
Intangible assets	[20]	41,424	40,905
Property, plant & equipment	[21]	85,959	54,520
Investments in associated companies	[4] [22]	8,834	8,284
Other financial assets	[22]	32	32
Other assets	[22]	3,945	1,012
Real estate held as a financial investment	[22]	4,914	5,122
Deferred taxes	[17]	12,417	11,587
Non-current assets		**157,525**	**121,462**
Inventories and prepayments made	[23]	34,180	35,043
Trade receivables	[24]	42,489	47,636
Contract receivables	[24]	622	1,052
Income tax claims	[24]	959	1,133
Other receivables and other assets	[24] [25]	8,631	6,977
Cash and cash equivalents	[26]	14,966	14,629
Current assets		**101,848**	**106,470**
Total assets		**259,372**	**227,932**
EQUITY AND LIABILITIES			
Subscribed capital	[27]	16,500	16,500
Capital reserves	[27]	13,457	13,457
Sales reserves	[27]	63,555	62,216
Accumulated other comprehensive income	[27]	-35,521	-30,048
Equity attributable to shareholders of R. STAHL AG		**57,991**	**62,125**
Non-controlling interests	[27]	449	133
Equity		**58,440**	**62,258**
Pension provisions	[28]	98,717	91,222
Other provisions	[29]	2,031	1,748
Interest-bearing financial liabilities	[30]	10,193	11,451
Lease liabilities	[1] [31]	25,056	0
Other liabilities	[32]	87	233
Deferred taxes	[17]	2,677	3,094
Non-current liabilities		**138,761**	**107,748**
Provisions	[28] [29]	8,118	11,235
Trade payables	[31]	15,092	13,470
Interest-bearing financial liabilities	[30]	8,957	8,680
Lease liabilities	[1] [31]	6,727	0
Deferred liabilities	[32]	14,186	13,386
Income tax liabilities	[32]	791	1,117
Other liabilities	[32]	8,300	10,038
Current liabilities		**62,171**	**57,926**
Total equity and liabilities		**259,372**	**227,932**

CONSOLIDATED CASH FLOW STATEMENT

1 January to 31 December

€ 000	2019	2018
Net profit/loss for the year	**1,348**	**-6,996**
Depreciation, amortization and impairment of non-current assets	18,928	13,620
Changes in non-current provisions	-103	-1,267
Changes in deferred taxes	969	-230
Equity valuation	-1,243	-535
Other income and expenses without cash flow impact	1,324	4,618
Result from the disposal of non-current assets	-457	-2,441
Cash flow	**20,766**	**6,769**
Changes in current provisions	-3,139	5,203
Changes in inventories, trade receivables and other non-capex or non-financial assets	1,721	9,597
Changes in trade payables and other non-capex or non-financial liabilities	273	-3,352
Changes in working capital	**-1,145**	**11,448**
Cash flow from operating activities	**19,621**	**18,217**
Cash outflow for capex on intangible assets	-5,793	-5,827
Cash inflow from disposals of non-current intangible assets	560	0
Cash outflow for capex on property, plant & equipment	-5,492	-4,602
Cash inflow from disposals of property, plant & equipment and real estate held as a financial investment	69	4,772
Cash outflow for capex on non-current financial assets	0	0
Cash inflow from disposals of non-current financial assets	0	0
Cash inflow from the sale of consolidated companies less cash sold	-466	0
Cash flow from investing activities	**-11,122**	**-5,657**
Free cash flow	**8,499**	**12,560**
Distribution to shareholders (dividend)	0	0
Distribution to/contribution from minority shareholders	0	0
Cash outflow for the payment of lease liabilities	-7,060	0
Cash inflow from interest-bearing financial debt	5,867	147
Cash outflow for repayment of interest-bearing financial debt	-7,138	-14,166
Cash flow from financing activities	**-8,331**	**-14,019**
Changes in cash and cash equivalents	168	-1,459
Foreign exchange and valuation-related changes in cash and cash equivalents	169	3
Cash and cash equivalents at the beginning of the period	14,629	16,085
Cash and cash equivalents at the end of the period	**14,966**	**14,629**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 January to 31 December

	Equity attributable to shareholders			
			Accumulated other comprehensive income	
€ 000	Subscribed capital	Capital reserves	Sales reserves	Currency translation
1 January 2018	**16,500**	**13,457**	**69,449**	**-2,741**
Net profit/loss for the year			-7,059	
Accumulated other comprehensive income			-212	-817
Total comprehensive income			**-7,271**	**-817**
Dividend distribution			0	
Initial application of IFRS 9 and IFRS 15			38	
31 December 2018	**16,500**	**13,457**	**62,216**	**-3,558**
1 January 2019	**16,500**	**13,457**	**62,216**	**-3,558**
Net profit/loss for the year			1,339	
Accumulated other comprehensive income			0	200
Total comprehensive income			**1,339**	**200**
Dividend distribution			0	
Changes in the consolidated group			0	
31 December 2019	**16,500**	**13,457**	**63,555**	**-3,358**

Unrealized gains/ losses from cash flow hedges	Unrealized gains/ losses from pensions	Total accumulated other comprehensive income	Total	Non-controlling interests	Equity
-6	**-27,693**	**-30,440**	**68,966**	**86**	**69,052**
			-7,059	63	-6,996
6	1,203	392	180	-16	164
6	**1,203**	**392**	**-6,879**	**47**	**-6,832**
			0	0	0
			38	0	38
0	**-26,490**	**-30,048**	**62,125**	**133**	**62,258**
0	**-26,490**	**-30,048**	**62,125**	**133**	**62,258**
			1,339	9	1,348
	-5,673	-5,473	-5,473	19	-5,454
0	**-5,673**	**-5,473**	**-4,134**	**28**	**-4,106**
			0	0	0
			0	288	288
0	**-32,163**	**-35,521**	**57,991**	**449**	**58,440**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OF R. STAHL AG

PRINCIPLES AND METHODS OF CONSOLIDATED ACCOUNTING

1. BASIS OF PREPARATION

The consolidated financial statements of R. Stahl Aktiengesellschaft (District Court of Stuttgart, HRB 581087) (hereinafter also called R. STAHL AG) as of 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS), as applicable in the European Union (EU), and the commercial law regulations pursuant to Section 315a (1) HGB. The binding interpretations for the current year of the International Financial Reporting Interpretations Committee (IFRS IC) were observed.

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

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

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

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 2019:

Standard/Interpretation		Mandatory as of	Status
AIP (2015–2017)	Amendments to IFRS 3 and IFRS 11 as well as IAS 12 and IAS 23	1 January 2019	revised
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019	revised
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019	revised
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	new
Amendments to IFRS 9	Financial Assets Prepayment Features with Negative Compensation	1 January 2019	revised
IFRS 16	Leases	1 January 2019	new

IFRS 16, Leases

Under IFRS 16, all leases and their related rights and obligations are to be recognized in the lessee's balance sheet. Lessees are therefore no longer required to make a distinction between finance and operating leases, as was previously required under IAS 17. For all leases, the lessee recognizes a lease liability in the balance sheet for the obligation to make future lease payments. At the same time, the lessee recognizes a right-of-use asset for its right to use the underlying leased asset. This is equivalent to the present value of the future lease payments plus initial direct costs, prepayments and restoration costs, less incentive payments received. Similar to the previous regulations for finance leases under IAS 17, the lease liability is amortized over the lease term using actuarial methods, while the right-of-use asset is depreciated in scheduled amounts – resulting in higher expenses at the beginning of a lease compared to IAS 17. By contrast, the regulations of the new standard for lessors are similar to those of IAS 17. IFRS 16 also includes a series of new regulations on the definition of a lease, its disclosure and the notes, as well as on sale-and-lease-back transactions.

The standard has a significant impact on the presentation of the financial position and performance of R. STAHL. The details of these effects are explained below.

As of 1 January 2019, R. STAHL accounts for lease agreements in accordance with the requirements of IFRS 16 "Leases". A lease is an agreement that conveys the right to use an identified asset for a specified period in exchange for consideration. Regardless of its formal structure, a right-of-use asset for an identified asset can arise in many agreements of R. STAHL; for example, rental, lease and service agreements. Transactions in which R. STAHL acts as lessee are accounted for using the right-of-use model according to IFRS 16.22 "Leases", irrespective of the economic (ownership) relationship to the leased asset at the beginning of the lease term. Only right-of-use assets for intangible assets not already specifically excluded from application by IFRS 16.3(e) are not accounted for by R. STAHL as lessee using the right-of-use model due to the option under IFRS 16.4.

As a lessor, R. STAHL lets real estate. The underlying lease agreements were classified as operating leases (see section "Real estate held as a financial investment").

Further significant policy elections and practical expedients are exercised as follows:

Lease liabilities are presented separately in the balance sheet. The development of right-of-use assets is presented in the notes to intangible assets and property, plant & equipment.

In the case of low-value leases and short-term agreements with a term of less than twelve months, the practical expedient of IFRS 16.5 is adopted and the expense is recognized over the term on a systematic basis.

A liability is recognized in the amount of the present value of the existing payment obligation for lease arrangements. It is subsequently measured using the effective interest method. Present value is determined by discounting with an incremental borrowing rate which is equivalent in terms of risk and term if the implicit interest rate cannot be determined. The current portion of the lease liability to be recognized separately in the balance sheet is determined on the basis of the repayment portion of the next twelve months included in the lease payments.

The initial value of the liability is also the starting point for determining the acquisition cost of the right-of-use asset, which is carried as a separate asset class under intangible assets and property, plant & equipment. The acquisition cost of the right-of-use asset also includes initial direct costs and expected costs arising from a restoration obligation if these do not relate to an item of property, plant & equipment. Prepayments increase and lease incentives received reduce the amount of initial recognition. R. STAHL measures all right-of-use assets at amortized cost.

Amortization is carried out on a straight-line basis over the shorter of the lease term or the useful life of the identified asset. An impairment test is carried out in accordance with IAS 36 if events or changed circumstances indicate any impairment.

When concluding lease agreements, R. STAHL secures its operational flexibility by means of extension and termination options. Accounting for leases is significantly influenced by the assessment of the lease term. In determining the lease term, all facts and circumstances that provide an economic incentive to exercise existing options are considered. The assumed term therefore also includes periods covered by extension options if it can be assumed with reasonable certainty that they will be exercised. An amendment of the term is taken into account if there is a change with regard to whether an existing option will be exercised or not with reasonable certainty.

R. STAHL acts as a lessee in particular in the field of real estate, vehicle fleet and operating and office equipment. In order to ensure its entrepreneurial flexibility, extension and termination options are agreed for real estate leases in particular, whose exercise is included in the term if it can be assumed with sufficient certainty that it will be exercised. With regard to lease agreements for vehicle fleets and operating and office equipment, the predetermined term ends are considered. All significant cash outflows are therefore taken into account when measuring the lease liability and corresponding right-of-use assets. There are no variable lease payments and R. STAHL does not give residual-value guarantees. No significant lease arrangements have already been contractually agreed whose use has not yet begun. The existing financial liabilities include covenant clauses linked to key balance sheet figures. The effects of IFRS 16 are taken into account in the covenant clauses.

The initial application of the standard as of 1 January 2019 was made using the modified retrospective transition method. R. STAHL applies the following practical expedients for lessees for its transition to IFRS 16:

- A single discount rate was applied to a portfolio of leases with reasonably similar characteristics.
- At the initial application date, existing leases are not reassessed to determine whether or not they are leases under the criteria of IFRS 16. Instead, the previous assessment under IAS 17 and IFRIC 4 is maintained.
- Leases that end no later than on 31 December 2019 are carried as short-term leases, irrespective of their original term.
- When measuring a right-of-use asset at the initial application date, the initial direct costs are not considered.
- Current knowledge is taken into account when determining the term of contracts with extension or termination options.

Based on the financial obligations for operating leases as of 31 December 2018, the following table shows the reconciliation to the opening balance sheet amount of lease liabilities as of 1 January 2019:

€ 000		**01/01/2019**
Financial obligations from operating leases as of 31 December 2018		24,364
-	Practical expedients for short-term leases	-133
-	Practical expedients for leases of low-value assets	-550
+	Assumed lease extensions	8,307
+	Exercise of purchase options	13,084
+	Leases not contained in the financial obligations	1,509
-	Non-lease-related obligations	-1,425
+/-	Other	-8
=	Gross lease liability as of 1 January 2019	45,148
-	Discounting effects	-3,403
=	**Lease liability as of 1 January 2019**	**41,745**

As of 1 January 2019, lease liabilities are opposed by right-of-use assets for intangible assets amounting to € 465 thousand and for property, plant & equipment amounting to € 41,777 thousand.

Lease obligations were discounted as of 1 January 2019 using a weighted average incremental borrowing rate of 0.42%.

The following amounts were incurred for lease activities of R. STAHL in the financial year 2019:

€ 000	
Amortization amount for right-of-use assets by class of underlying assets – Intangible assets	-465
Amortization amount for right-of-use assets by class of underlying assets – Property, plant & equipment	-5,091
Interest expense for lease liabilities	-1,008
Expense for current lease liabilities	-347
Expense for lease liabilities from leases of low-value assets	-707
Total cash outflow for leases	-7,060
Addition of right-of-use assets	1,689
Carrying amount after amortization, impairment, any impairment reversals, as well as after revaluations and modifications – Intangible assets	0
Carrying amount after amortization, impairment, any impairment reversals, as well as after revaluations and modifications – Property, plant & equipment	32,778

The following tables show the impact of the application of IFRS 16 on the affected items of the consolidated balance sheet as of 31 December 2019, of the consolidated income statement and of the consolidated cash flow statement for the financial year 2019.

Impact on the consolidated balance sheet as of 31 December 2019:

€ 000	**As stated**	**Adjustment according to IFRS 16**	**Amounts without application of IFRS 16**
ASSETS			
Property, plant & equipment	85,959	-32,778	53,181
Deferred taxes	12,417	295	12,712
Non-current assets	**157,525**	**-32,483**	**125,042**
Total assets	**259,372**	**-32,483**	**226,889**
EQUITY AND LIABILITIES			
Equity	58,440	-700	57,740
Lease liabilities	25,056	-25,056	0
Non-current liabilities	**138,761**	**-25,056**	**113,705**
Lease liabilities	6,727	-6,727	0
Current liabilities	**62,171**	**-6,727**	**55,444**
Total equity and liabilities	**259,372**	**-32,483**	**226,889**

Impact on the consolidated cash flow statement for the financial year 2019:

€ 000	As stated	Adjustment according to IFRS 16	Amounts without application of IFRS 16
Depreciation and amortization	-18,928	5,557	-13,371
Other operating expenses	-50,680	-7,560	-58,240
Earnings before financial result and income taxes (EBIT)	**6,342**	**-2,003**	**4,339**
Financial result	-2,921	1,008	-1,913
Earnings before income taxes	**3,421**	**-995**	**2,426**
Income taxes	-2,073	295	-1,778
Earnings after income taxes	**1,348**	**-700**	**648**

Auswirkungen auf die Konzern-Kapitalflussrechnung für das Geschäftsjahr 2019:

€ 000	As stated	Adjustment according to IFRS 16	Amounts without application of IFRS 16
Earnings after income taxes	**1,348**	**-700**	**648**
Depreciation, amortization and impairment of non-current assets	18,928	-5,557	13,371
Changes in deferred taxes	969	-295	674
Other income and expenses without cash flow impact	1,324	-508	816
Cash flow	**20,766**	**-7,060**	**13,706**
Cash flow from operating activities	**19,621**	**-7,060**	**12,561**
Free cash flow	**8,499**	**-7,060**	**1,439**
Cash flow from financing activities	**-8,331**	**7,060**	**-1,271**

Effects of other new or amended standards

Other standards whose application was mandatory in the EU for the first time as of 1 January 2019 had no material impact on the consolidated financial statements.

New or revised standards that have not been applied

The IASB and IFRS Interpretations Committee have adopted the following standards, interpretations and amendments which were not yet mandatory on 31 December 2019 and in some cases have not yet been endorsed by the EU. Early application of these new provisions is not intended. 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
Ongoing review	Changes in references to conceptual framework in IFRS standards	1 January 2020	yes	none
IAS 1, IAS 8	Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020	yes	none
IFRS 17	Insurance Contracts	1 January 2021	no	none
Amendments to IFRS 3	Business Combinations: Definition of a Business	1 January 2020	no	none
IFRS 9, IAS 39 und IFRS 7	Interest Rate Benchmark Reform	1 January 2020	no	none

[1] Mandatory initial application date for R. STAHL AG
[2] as of 31 December 2019

2. COMPANY DATA

Name and legal structure:
R. Stahl Aktiengesellschaft
(parent company, and at the same top-level parent company of the Group)

Registered office:
Waldenburg (Germany)

Address:
Am Bahnhof 30, 74638 Waldenburg, Germany

Business and main activities:
Supplier of explosion-protected devices and systems for measuring, controlling and operating

3. RELEASE DATE FOR PUBLICATION OF FINANCIAL STATEMENTS

The Executive Board of R. STAHL AG released the 2019 consolidated financial statements and 2019 Group management report for forwarding to the Supervisory Board on 7 April 2020. It will be presented to the Supervisory Board at its meeting on 20 April 2020.

4. CONSOLIDATION PRINCIPLES

Scope of consolidation

In addition to R. STAHL AG, the consolidated financial statements include 32 (2018: 33) domestic and foreign subsidiaries over which R. STAHL AG can exercise a direct or indirect controlling influence. A controlling influence is defined by IFRS 10 as being when R. STAHL AG has power over the subsidiary due to voting rights or other rights, may participate in positive or negative returns of the subsidiary and can affect these returns through its decisions.

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

ZAVOD Goreltex Company Limited, Saint Petersburg, Russian Federation, is consolidated as an associated company 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.

Financial information on ZAVOD Goreltex, Saint Petersburg, Russia:

€ 000	**2019**	**2018**
Non-current assets	11,980	9,566
Current assets	25,582	18,155
Balance sheet total	**37,562**	**27,721**
Equity	30,889	22,695
Non-current liabilities	789	503
Current liabilities	5,884	4,523
Sales	46,084	37,630
Result for the year	6,616	3,829

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

	Domestic 31 Dec. 2019	Foreign 31 Dec. 2019	Total 31 Dec. 2019	Total 31 Dec. 2018
Number of fully consolidated companies	8	25	33	34
Number of companies consolidated using the equity method	0	1	1	2
Number of non-consolidated companies	1	1	2	2

The composition of fully consolidated companies has changed as follows since the previous year:

With effect from 1 January 2019, R. STAHL HMI Systems GmbH, Cologne was merged with R. STAHL Camera Systems GmbH, Cologne. The remaining company continues to trade under the name R. STAHL HMI Systems GmbH, Cologne. R. STAHL Nissl GmbH, Vienna, Austria was closed in March 2019. In July 2019, R. STAHL AG acquired 35% of shares in R. STAHL SOUTH AFRICA (PTY) LTD, Edenvale (South Africa) (formerly: ESACO (Pty.) Ltd, Edenvale, South Africa). The stake is now 70%. The company markets R. STAHL products in the South African region.

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

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

Company acquisitions

In July 2019, R. STAHL AG acquired a further 35% of the voting shares in R. STAHL SOUTH AFRICA (PTY) LTD, Edenvale (South Africa) and now holds 70% of voting shares in the company. The majority acquisition is aimed at increasing profitable growth to open up the market in southern Africa. The purchase price for the acquired stake was € 865 thousand, which was paid in cash. The acquisition resulted in goodwill of € 1,060 thousand, taking into account the old shares measured at fair value.

The transaction was accounted for using the purchase method. The purchase price was allocated to the acquired assets and liabilities at the time of acquisition as follows:

€ 000	**Fair value**
Property, plant & equipment	22
Right-of-use assets	89
Inventories	555
Trade receivables	115
Other assets	621
Total assets	**1,402**
Trade payables	293
Lease liabilities	89
Other liabilities	63
Total liabilities	**445**
Acquired net assets	**957**
Acquired net assets (prorated)	**670**
Total purchase price	1,509
Fair value (old shares)	+221
Acquired net assets (prorated)	-670
Goodwill	**1,060**
Settled in cash and cash equivalents	1,509
thereof in 2016	644
thereof in 2019	865
Acquired cash and cash equivalents	555
Net cash outflow from acquisition	**954**

The main adjustment to the acquired assets and liabilities was made to the right-of-use assets and lease liabilities, as one lease was accounted for in accordance with IFRS 16. The goodwill of € 1,060 thousand mainly reflects non-separable assets such as employee expertise and the company's positive earnings potential. Goodwill is not expected to be usable for tax purposes. Transaction costs attributable to the acquisition amounted to € 46 thousand and were recognized as expenses.

The fair value of trade receivables amounts to € 115 thousand and corresponds to the nominal amount of the receivables. There was no impairment of receivables at the time of acquisition and the entire contractually agreed amount is expected to be recoverable.

Non-controlling shareholders account for 30% of the voting shares with a fair value of net assets of € 287 thousand as of the acquisition date. The amount is based on the share of the acquired assets and liabilities.

From the acquisition date until 31 December 2019, R. STAHL SOUTH AFRICA (PTY) LTD, Edenvale (South Africa) contributed earnings after taxes of € 27 thousand; in the same period, sales with third parties amounted to € 1,015 thousand. If the company had been consolidated as of 1 January 2019, consolidated sales for the financial year would have amounted to € 276,758 thousand with consolidated earnings after taxes of € 1,407 thousand.

In December 2019, R. STAHL TRANBERG AS, Stavanger (Norway) acquired a product line for helideck lighting systems. The acquisition of all significant assets as part of an asset deal qualified as a business operation. The acquisition strengthens the market position of R. STAHL TRANBERG AS in the field of helideck lighting systems and offers further growth opportunities, above all in the Middle East and Asian regions. The transaction was accounted for according to the purchase method. The purchase price was € 223 thousand, of which € 156 thousand was paid in cash and € 67 thousand carried as a contingent purchase price liability. The acquisition resulted in goodwill of € 67 thousand.

The purchase price was allocated to the acquired assets as follows:

€ 000	**Fair value**
Intangible assets	67
Property, plant & equipment	20
Inventories	69
Total assets	**156**
Total liabilities	**0**
Acquired net assets	**156**
Total purchase price	223
Acquired net assets	-156
Goodwill	**67**
Purchase price	223
Settled in cash and cash equivalents	156
Acquired contractual warranty obligations	67
Acquired cash and cash equivalents	0
Net cash outflow from acquisition	**156**

The main adjustments were made to intangible assets, where technologies and customer relationships were capitalized as part of the purchase price allocation. The goodwill of € 67 thousand reflects non-separable assets such as synergies from complementing the product portfolio. Goodwill is not expected to be usable for tax purposes. Transaction costs of € 83 thousand were incurred and recognized as expenses.

As part of the purchase price payment, a contingent consideration in the form of assumed contractual warranty obligations of € 67 thousand was agreed.

If business operations had been consolidated as of 1 January 2019, consolidated sales for the financial year would have amounted to € 277,084 thousand with consolidated earnings after taxes of € 1,617 thousand.

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 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 lessor took on the planning and construction of an administration building and logistics building on the ground lease site. In the financial year 2013, the logistics building was extended by R. STAHL AG as the general contractor and in the financial year 2014 the administration building was extended with the addition of a company restaurant and a newly built development centre.

Abraxas grants R. STAHL AG, as lessee, the right to use the administration and logistics building. The lease is carried under IFRS 16.

In 2019, R. STAHL AG restructured its real estate lease agreement. The previous lease agreement concluded with Abraxas in 2000 had an original term until 2023 with an option to purchase the building. The newly concluded agreement contains an extension of the lease term until 2038 and grants R. STAHL AG a subsequent purchase option once again. In this connection, R. STAHL AG and Abraxas concluded a loan agreement totalling € 13.1 million. R. STAHL AG is to grant Abraxas a loan of € 13.1 million to finance the total investment costs if no external funding has been provided by another lender (credit institute) by 30 September 2023.

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	2019	2018
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 sales from sales in foreign currencies are determined using the exchange rates valid on the date of the transactions. Monetary items (cash and cash equivalents, receivables and liabilities) in foreign currencies are valued at the exchange rates on the balance sheet date. Changes in assets and liabilities arising from foreign currency translation are recognized in the income statement, and disclosed under other operating expenses or income, other financial result, and in the case of available-for-sale financial assets, in other comprehensive income.

Translation of foreign currency financial statements

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

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

	Year-end rate		Average exchange rate	
in €	31 Dec. 2019	31 Dec. 2018	2019	2018
US dollar	1.12340	1.14500	1.11948	1.18096
British pound	0.85080	0.89453	0.87777	0.88471
Norwegian krone	9.86380	9.94830	9.85109	9.59749
Indian rupee	80.18700	79.72980	78.83614	80.73324
Russian rouble	69.95630	79.71530	72.45534	74.04160

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.

In the event of staggered acquisition and subsequent assumption of control, the difference between the carrying amount and the fair value of the shares already held at the time of initial full consolidation is recognized in other income and expenses of 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 which are not attributable 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 remained unchanged compared to last year.

5. ACCOUNTING AND MEASUREMENT METHODS

Uniform group methods

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

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

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

Estimates and assumptions

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

Impairment of goodwill

The R. STAHL Group examines at least once a year whether goodwill is impaired. This requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. Management has to estimate the expected future cash flows of the cash-generating units and furthermore select a suitable discount factor to determine the cash value of these cash flows. On 31 December 2019, the carrying amounts of goodwill totalled € 10.7 million (2018: € 10.6 million). For further information please refer to section 20.

Capitalized development costs

Development costs are capitalized according to the accounting and measurement methods presented in this section. In order to determine the amounts to be capitalized, management has to make assumptions about the amount of the expected future cash flows from assets, the interest rates to be applied and the period of time for the influx of expected future cash flows that the assets generate. On 31 December 2019, the carrying amount of capitalized development costs stood at € 26.6 million (2018: € 26.0 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 2019, provisions for pension obligations amounted to € 102.1 million (2018: € 94.5 million). For further information please refer to section 28.

Deferred taxes

The carrying amount of deferred tax assets as of 31 December 2019 came to € 12.4 million (2018: € 11.6 million). Determination of future tax advantages reflected in the balance sheet is based on assumptions and estimates of the development of tax income and tax legislation in those countries where Group companies are located.

Further assumptions

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

Recognition of sales

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

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

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

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

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

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

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

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

In 2019, there were no significant items with terms of payment of over 12 months.

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

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 there are no potential common shares and no option or subscription rights outstanding, diluted earnings per share did not have to be calculated for the current financial year.

Goodwill

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

Development costs

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

Other intangible assets

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

Property, plant & equipment

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

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

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

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

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

Impairment of tangible and other intangible assets

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

Financial instruments

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

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

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

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

Under IFRS 9, there are three categories for the classification and subsequent measurement of financial assets. The options are:
- measurement at amortized cost,
- measurement at fair value through other comprehensive income (OCI) and
- measurement at fair value through profit or loss.

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

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

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

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

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

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

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

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

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

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

Real estate held as a financial investment

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

Deferred tax assets and liabilities

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

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

Inventories

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

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

Financing costs are not included in acquisition or manufacturing cost.

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

Receivables and other assets

Receivables and other assets, excluding derivative financial instruments and current-asset securities, are loans granted by the Group and receivables not held for trading. These items are recognized at amortized cost.

Appropriate allowances and the expected credit loss model are recognized to take account of all identifiable risks. For further information, please refer to the chapter “Financial instruments”.

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

Derivative financial instruments and hedge accounting

When accounting for derivative financial instruments according to IFRS 9 as of 1 January 2018, R. STAHL exercised the option provided by IFRS 9.7.2.21 and applied the regulations for hedge accounting pursuant to IAS 39.

R. STAHL only uses derivative financial instruments to hedge currency, interest rate and fair value risks from operating activities, and to reduce the resulting financing risks. All derivative financial instruments as specified by IAS 39.88 are to be recognized at their market value, irrespective of the purpose or intent of entering into such contracts.

R. STAHL uses derivative financial instruments to hedge planned foreign currency payments.

Changes in the fair value of derivative financial instruments are recognized directly in the income statement in accordance with IFRS 9.

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

Provisions for pensions and similar obligations

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

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

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

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

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

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

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

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

Other provisions

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

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

Liabilities

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

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

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

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

Contingent liabilities

Contingent liabilities are possible obligations based on past events that have yet to be validated by one or more uncertain future events outside R. STAHL'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 R. STAHL in the reporting period.

In accordance with IAS 7 (Statement of Cash Flows), we distinguish between cash flows from operating, investing and financing activities. Cash flow from operating activities is calculated using the indirect method. The cash flows of subsidiaries reporting in foreign currencies are translated into the Group's functional currency at annual average exchange rates.

Information on interest received and paid, dividends received and income taxes received and paid is presented separately in the notes to the consolidated financial statements.

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 sales source is shown below:

€ 000	2019	2018
Sales from contracts with customers	273,736	278,900
Rental income from real estate held as financial investments	1,048	1,214
Total	**274,784**	**280,114**

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

€ 000	2019	2018
At a specific time	263,601	269,884
Over a specific period	11,183	10,230
Total	**274,784**	**280,114**

Sales are recognized “over a specified period” with a high probability of occurrence within a period of one to two months.

7. OTHER OWN WORK CAPITALIZED

Other own work capitalized results in particular from capitalizing development costs pursuant to IAS 38. In the reporting period, this came to € 3,675 thousand (2018: € 3,284 thousand).

In the reporting period, total expenses of € 18,769 thousand (2018: € 19,268 thousand) were recognized for research and development.

8. OTHER OPERATING INCOME

Other operating income includes the following items:

€ 000	2019	2018
Income from asset disposals	489	2,556
Income from the reversal of provisions	4,147	2,455
Income from the reversal of valuation allowances	1,580	1,444
Income from the market valuation of derivatives	355	13
Gains from currency translation	4,500	4,694
Other income	2,634	2,602
Total	**13,705**	**13,764**

9. COST OF MATERIALS

The cost of materials comprises the following items:

€ 000	2019	2018
Expense for raw materials and supplies	-88,885	-94,201
Services received	-5,096	-5,207
Total	**-93,981**	**-99,408**

10. PERSONNEL COSTS

Personnel costs consist of the following:

€ 000	2019	2018
Wages and salaries	-101,719	-98,908
Social insurance contributions, as well as pension and support expense	-20,294	-20,426
thereof for pensions	-2,943	-3,567
Total	**-122,013**	**-119,334**

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	2019	2018
Employees	1,682	1,724
Trainees	82	73
Total	**1,764**	**1,797**

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 € 18,928 thousand (2018: € 13,617 thousand).

13. OTHER OPERATING EXPENSES

Other operating expenses mainly comprise the following items:

€ 000	2019	2018
Services	-9,233	-8,769
Rental expense for premises	-950	-6,920
Rent for office and operating equipment	-1,282	-2,947
Legal, consulting, licensing and inventor fees	-6,878	-8,298
Office, postal and communication costs	-1,827	-2,053
Voluntary social security contributions and ancillary personnel expenses	-3,229	-2,790
Maintenance costs	-5,495	-4,457
Travel and entertainment expenses	-3,278	-3,156
General transport costs	-3,016	-2,928
Losses from currency translation	-5,022	-4,236
Other taxes	-579	-690
Expenses from market valuation of derivatives	-11	-673
Other	-9,880	-14,658
Total	**-50,680**	**-62,575**

14. RESULT FROM COMPANIES CONSOLIDATED USING THE EQUITY METHOD

The result from companies consolidated using the equity method includes an amount of € 1,654 thousand from ZAVOD Goreltex, Saint Petersburg, Russia.

15. INVESTMENT RESULT

The investment result amounted to € 3 thousand (2018: € 0 thousand).

16. INTEREST RESULT

The interest result comprises the following items:

€ 000	2019	2018
Interest and similar income	125	1,150
Interest and similar expense	-4,703	-4,922
Total	**-4,578**	**-3,772**

The interest result includes the net interest portion from the allocation to pension provisions in the amount of € -1,917 thousand (2018: € -1,837 thousand).

17. INCOME TAXES

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

€ 000	2019	2018
Current taxes	-1,104	-248
Deferred taxes	-969	230
Total	**-2,073**	**-18**

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 reporting period, we claimed previously unused tax loss carryforwards resulting in tax credits of € 770 thousand (2018: € 306 thousand).

Deferred taxes are calculated on the basis of applicable tax rates in effect or known to become effective in the respective countries at the time these taxes fall due. In Germany, the corporate tax rate is 15.0% with a solidarity surcharge of 5.5%. In addition to corporate tax, a trade income tax is payable on profits made in Germany. This varies depending on the communities in which the company is located. With an average trade tax collection rate of 381.9% (2018: 392.7%), the total tax rate for the Group's domestic companies amounts to 29.2% (2018: 29.5%). The total tax rate decreased due to the termination of a profit transfer agreement of a domestic company. 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% to 34.0% (2018: 0.0% to 34.0%).

Deferred tax assets on tax loss carryforwards of € 17,495 thousand (2018: € 16,371 thousand) were written down by € 16,365 thousand (2018: € 15,943 thousand) as we do not know exactly the amounts to which they may be realized given the information available at this time. Total writedowns include € 10,039 thousand corporate tax (2018: € 10,207 thousand) and € 6,326 thousand trade tax (2018: € 5,736 thousand). In addition, deferred tax assets on temporary differences whose recoverability is uncertain were written down by € 478 thousand (2018: € 635 thousand).

Corporate tax loss carryforwards as yet unused amount to € 63,065 thousand (2018: € 57,561 thousand), while trade tax loss carryforwards as yet unused amount to € 43,559 thousand (2018: € 41,525 thousand). These loss carryforwards are mostly unlimited 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 2019 were as follows:

€ 000	31 Dec. 2019	31 Dec. 2018
Deferred tax assets, gross		
Tax loss carryforwards	17,495	16,371
Intangible assets	3	8
Property, plant & equipment	56	62
Other non-current financial assets	0	1
Inventories	2,024	2,422
Receivables and other assets	238	415
Prepaid expenses	41	28
Cash and cash equivalents	1	1
Equity	165	165
Non-current interest-bearing financial debts	5,226	0
Non-current other liabilities	0	0
Non-current provisions	15,554	13,571
Current interest-bearing financial debts	1,277	0
Other current liabilities and debts	460	336
Current provisions	2,173	2,438
Net of value adjustments	-16,843	-16,578
Total deferred tax assets, gross	**27,870**	**19,240**
Less netting	-15,453	-7,653
Total deferred tax assets acc. to balance sheet	**12,417**	**11,587**
Deferred tax liabilities, gross		
Intangible assets	7,444	7,289
Property, plant & equipment	9,557	2,325
Financial investments	25	0
Other non-current assets	196	157
Investment property	81	81
Inventories	57	4
Receivables and other assets	507	252
Prepaid expenses	0	0
Non-current provisions	170	168
Current interest-bearing financial debts	0	74
Other current liabilities and debts	87	397
Current provisions	6	0
Total deferred tax liabilities, gross	**18,130**	**10,747**
Less netting	-15,453	-7,653
Total deferred tax liabilities acc. to balance sheet	**2,677**	**3,094**
Net balance of deferred taxes	**9,740**	**8,493**

Deferred tax assets of € 12,417 thousand (2018: € 11,587 thousand) include € 3,112 thousand (2018: € 2,537 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% (2018: 29.0%). Pre-tax earnings amount to € 3,421 thousand (2018: € -6,978 thousand).

€ 000	2019	2018
Expected tax expense	**-992**	**2,024**
Taxation differences between domestic and foreign operations	-381	+218
Non-tax-deductible expenses	-658	-1,205
Tax-free income	26	108
Changes in write-downs on deferred tax assets	-1,246	-1,951
Utilization of tax loss carryforwards	770	306
Taxes for prior years	83	895
Other	325	-413
Disclosed tax expense	**-2,073**	**-18**

In the previous year, the conclusion of an objection procedure resulted in tax income in Germany of € 971 thousand for previous years. A tax audit of domestic Group companies was largely completed in the previous year. Tax provisions of € 188 thousand and interest provisions of € 55 thousand were formed for expected tax back payments. In addition, the adjustments resulting from the tax audit led to the utilization of loss carryforwards of € 930 thousand for corporate income tax and € 683 thousand for trade tax and thus to the utilization of deferred tax assets, which were fully written down, amounting to around € 240 thousand. Tax relief of around € 165 thousand is expected from corrections.

A total of € 2,192 thousand was recognized in the balance sheet with an increasing effect on equity (2018: € -412 thousand decreasing equity) without affecting the income statement.

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

	2019			2018		
€ 000	Earnings before income taxes	Income taxes	Earnings after income taxes	Earnings before income taxes	Income taxes	Earnings after income taxes
Currency translation differences	219	0	219	-833	0	-833
Cash flow hedges	0	0	0	8	-2	6
Pension obligations	-7,865	2,192	-5,673	1,401	-410	991
Income and expense recognized directly in equity	**-7,646**	**2,192**	**-5,454**	**576**	**-412**	**164**

18. EARNINGS PER SHARE

€ 000	2019	2018
Net profit for the year without non-controlling interests	1,339	-7,059
Number of shares (weighted average)	6,440,000	6,440,000
Earnings per share in €	**0.21**	**-1.10**

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 2018 or 2019.

19. APPROPRIATION OF PROFIT/EQUITY

The annual financial statements as at 31 December 2019 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 2019, and in the previous year, no dividend was distributed to shareholders.

NOTES TO THE CONSOLIDATED BALANCE SHEET

NON-CURRENT ASSETS

20. INTANGIBLE ASSETS

As of 31 December 2019, the development was as follows:

€ 000	Industrial property rights and similar rights	Goodwill	Development costs	Right-of-use assets	Other	Total
Acquisition costs						
1 January 2019 (without IFRS 16)	26,614	10,779	48,299	0	10,879	96,571
Initial application IFRS 16				465		465
1 January 2019 (adjusted)	26,614	10,779	48,299	465	10,879	97,036
Currency differences	125	104	7	0	94	330
Additions	759	0	4,781	0	254	5,794
Additions to consolidated group	0	1,126	0	0	67	1,193
Disposals	-18	-101	-7	-465	-74	-665
Reclassifications	0	0	0	0	0	0
31 December 2019	**27,480**	**11,908**	**53,080**	**0**	**11,220**	**103,688**
Cumulative amortization and impairment						
1 January 2019	24,526	211	22,286	0	8,643	55,666
Currency differences	125	19	6	0	91	241
Additions	1,138	944	4,215	465	159	6,921
Disposals	-18	0	-7	-465	-74	-564
Reclassifications	0	0	0	0	0	0
31 December 2019	**25,771**	**1,174**	**26,500**	**0**	**8,819**	**62,264**
Carrying amounts						
31 December 2019	**1,709**	**10,734**	**26,580**	**0**	**2,401**	**41,424**

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

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

The item “Other intangible assets” includes prepayments of € 2.1 million (2018: € 1.9 million).

Intangible assets mainly comprise software, capitalized development costs for various development projects, and goodwill. In 2019, intangible assets were written down by € 944 thousand (2018: € 1,199 thousand).

Impairment of goodwill is checked by calculating the realizable value of cash-generating units based on their value in use. In the case of R. STAHL, the individual cash-generating unit corresponds to the legal entity (company) or, in aggregated form, an appropriately defined subgroup. The calculation of the rights of use is based on cash flow projections based on management-approved, three-year financial plans. Goodwill is allocated to the respective legal entity.

Goodwill of € 10.7 million (2018: € 10.6 million) was allocated to the following cash-generating units:

	31 December 2019		31 December 2018	
€ million	Carrying amounts	Pre-tax discount rates	Carrying amounts	Pre-tax discount rates
R. STAHL HMI Systems GmbH (Germany)	4.6	9.4%	4.6	10.1%
R. Stahl Schaltgeräte GmbH (Germany)	1.0	8.9%	1.1	9.7%
Sub-group (Norway)	4.0	8.6%	4.0	8.9%
R. STAHL LTD. (Canada)	0.0	7.6%	0.9	9.1%
R. STAHL SOUTH AFRICA (PTY) LTD, (South Africa)	1.1	16.5%	–	–
Total	**10.7**		**10.6**	

The recoverable amounts are greater than the carrying amounts. Changes to goodwill are due in particular to the writedown on goodwill of R. STAHL LTD. (Canada) amounting to € 0.9 million due to reduced earnings prospects.

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

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

The average annual growth in external sales (compound annual growth rate) in the detailed planning period for the cash-generating units is between -0.6% and 28.2%, depending on the market position and region. Gross profit margins are calculated as part of the bottom-up planning of Group companies using average gross profit margins achieved in the directly preceding year and are possibly raised under consideration of expected increases in efficiency.

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

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

Sensitivity analyses showed that from the current perspective, there is no requirement for impairment of goodwill even if we assumed that planned EBIT as of plan year 2019 would fall by 10% or that capital costs would rise by another 0.5 percentage points. Changes outside this range are regarded as unlikely.

21. PROPERTY, PLANT & EQUIPMENT

As of 31 December 2019, 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	Right-of-use assets	Prepayments made and plant under construction	Total
Acquisition costs						
1 January 2019 (without IFRS 16)	47,950	33,927	54,164	0	777	136,818
Initial application IFRS 16				41,777		41,777
1 January 2019 (adjusted)	47,950	33,927	54,164	41,777	777	178,595
Currency differences	10	53	63	197	-2	321
Additions	86	1,419	3,353	1,600	633	7,091
Additions to consolidated group	0	32	10	89	0	131
Disposals	0	-153	-1,862	-5,992	0	-8,007
Reclassifications	84	133	260	0	-477	0
31 December 2019	**48,130**	**35,411**	**55,988**	**37,671**	**931**	**178,131**
Cumulative depreciation and impairment						
1 January 2019	13,096	26,729	42,473	0	0	82,298
Currency differences	11	51	58	11	0	131
Additions	1,107	1,898	3,704	5,091	0	11,800
Disposals	0	-153	-1,694	-209	0	-2,056
Reclassifications	0	0	0	0	0	0
31 December 2019	**14,214**	**28,525**	**44,541**	**4,893**	**0**	**92,173**
Carrying amounts						
31 December 2019	**33,916**	**6,886**	**11,447**	**32,778**	**931**	**85,959**

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

€ 000	Properties, property-like rights and buildings	Technical equipment and machinery	Other plant as well as operating and office equipment	Prepayments made and plant under construction	Total
Acquisition costs					
1 January 2018	48,535	34,005	52,707	591	135,838
Currency differences	-101	-103	-60	0	-264
Additions	92	550	3,255	705	4,602
Disposals	-578	-560	-2,218	-2	-3,358
Reclassifications	2	35	480	-517	0
31 December 2018	**47,950**	**33,927**	**54,164**	**777**	**136,818**
Cumulative depreciation and impairment					
1 January 2018	12,360	25,220	41,055	0	78,635
Currency differences	10	-27	-27	0	-44
Additions	1,185	2,020	3,550	0	6,755
Disposals	-459	-484	-2,105	0	-3,048
Reclassifications	0	0	0	0	0
31 December 2018	**13,096**	**26,729**	**42,473**	**0**	**82,298**
Carrying amounts					
31 December 2018	**34,854**	**7,198**	**11,691**	**777**	**54,520**

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 € 11,215 thousand (2018: € 11,489 thousand). With regard to order commitments for property, plant & equipment, please refer to the notes on Other financial obligations.

22. OTHER NON-CURRENT ASSETS

Shares in associated companies

R. STAHL AG holds a 25% stake in the Russian company ZAVOD Goreltex Co. Ltd., Saint Petersburg, Russia.

The carrying amount of shares in associated companies developed as follows:

€ 000	**Total**
1 January 2019	8,284
Disposal of R. STAHL SOUTH AFRICA (PTY) LTD	-692
At-equity result – ZAVOD Goreltex Co. Ltd	+1,654
Dividend received – ZAVOD Goreltex Co. Ltd	-412
31 December 2019	**8,834**

Other financial assets

Other financial assets totalling € 32 thousand (2018: € 32 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 € 3,945 thousand (2018: € 1,012 thousand). Total other non-current assets comprise a restricted amount of € 821 thousand (2018: € 880 thousand) which serves as collateral for obligations arising from partial retirement contracts. To collateralize drawings of guarantees, R. STAHL AG has deposited a cash contribution and pledged a total of € 3,521 thousand. Of this total, € 2,374 thousand (€ 2,341 thousand incl. interest effect € 33 thousand) is disclosed under non-current assets and € 1,198 thousand (€ 1,180 thousand incl. interest effect € 18 thousand) under current assets. The deposited EUR amount is reduced accordingly when guarantees are repaid or derecognized.

Other non-current assets comprise derivative financial instruments amounting to € 32 thousand (2018: € 0 thousand).

Real estate held as a financial investment

Real estate held as a financial investment developed as follows:

2019 € 000	**Total**
Acquisition costs	
1 January 2019	8,684
Additions	0
Disposals	0
Reclassifications	0
31 December 2019	**8,684**
Cumulative depreciation and impairment	
1 January 2019	3,562
Additions	208
Disposals	0
Reclassifications	0
31 December 2019	**3,770**
Carrying amounts	
31 December 2019	**4,914**

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

R. STAHL measures real estate held as a financial investment using the acquisition cost model. Real estate comprises a plot of land with buildings. The buildings are depreciated in scheduled amounts over economic useful lives for buildings of 33 and 50 years using the straight-line method. As of 31 December 2019, the fair value of real estate amounted to € 6.5 million (2018: € 8.0 million according to a valuation of October 2014) and is allocated to the fair value hierarchy Level 3.

Values were determined in October 2019 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.

The following amounts are recognized in the income statement in connection with real estate held as a financial investment:

€ 000	**2019**	**2018**
Rental income	1,048	1,214
Operating expenses directly attributable to rental income	-312	-432
Total	**736**	**782**

The maturities of future undiscounted lease payments due to R. STAHL are as follows:

€ 000	**2020**	**2021**	**2022**	**Total**
Lease payments	1,014	1,014	1,014	**3,042**

The lease has a fixed term until 31 December 2022. On expiry of the fixed term, the lease is extended for an indefinite period and can be terminated with 24 months’ notice.

CURRENT ASSETS

23. INVENTORIES AND PREPAYMENTS MADE

Inventories comprise the following:

€ 000	**31 Dec. 2019**	**31 Dec. 2018**
Raw materials and supplies	17,004	16,907
Unfinished goods and unfinished services	6,726	6,538
Finished goods and merchandise	10,074	11,005
Prepayments made	376	593
Total	**34,180**	**35,043**

Impairment of inventories so far recognized as an expense totals € 10,549 thousand (2018: € 12,486 thousand). In the reporting period 2019, an amount of € 1,646 thousand was recognized in the income statement.

With regard to inventories, collateral of € 3,182 thousand (2018: € 3,652 thousand) has been provided for liabilities.

24. RECEIVABLES AND OTHER ASSETS

Receivables and other assets consist of the following items:

€ 000	31 December 2019 Total	31 December 2019 Thereof due within one year	31 December 2018 Total	31 December 2018 Thereof due within one year
Trade receivables	42,489	42,489	47,636	47,636
Contract receivables	622	622	1,052	1,052
Income tax claims	958	958	1,133	1,133
Other receivables	9,364	6,070	5,412	4,413
Other financial assets	249	217	205	205
Total	**53,682**	**50,356**	**55,438**	**54,439**

Of the capitalized total, € 50,356 thousand (2018: € 54,439 thousand) is due within one year, the remainder totalling € 3,326 thousand (2018: € 999 thousand) is disclosed under other non-current assets.

As of 31 December 2019, other receivables include a cash deposit of € 3,521 thousand to collateralize the drawing of guarantees. Including the interest effect, an amount of € 2,374 thousand of this pledge is disclosed under non-current assets and € 1,198 thousand under current assets.

Bad debt allowances of € 2,498 thousand (2018: € 3,022 thousand) were recognized on trade receivables.

Other current financial assets include derivative financial instruments of € 89 thousand (2018: € 75 thousand).

At the end of 2016, with a supplement in June 2018, two Group companies entered into a factoring agreement according to which the factoring company is obliged to purchase trade receivables with a monthly revolving nominal volume of € 14 million for receivables denominated in euro and € 5 million for receivables denominated in USD. The agreement can be terminated by both contractual partners with a notice period of six months for the first time on 30 November 2019. Thereafter, termination is only possible on 30 November of each year with a six-month notice period. The relevant risk for risk assessment with regard to receivables sold is mainly the credit risk. The maximum loss is limited to the variable purchase price discount or security retention, which is retained by the factoring company when the receivables are sold and is reimbursed in the amount of the non-consumed proportion. The remaining credit risk-related payment defaults represent the majority of all risks and opportunities associated with the receivables and are borne by the factoring company. The maximum loss risk for R. STAHL from the receivables sold on 31 December 2019 (nominal value € 11,366 thousand) amounts to € 1,295 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 2019, the carrying and fair value of the company's entire ongoing factoring activities amounted to € 1,295 thousand. The residual maturity of the corresponding other receivables and other assets is less than one year. At the at the end of the reporting period, receivables not tendered amounted to € 854 thousand.

25. PREPAID EXPENSES

Of total prepaid expenses, € 2,344 thousand (2018: € 2,359 thousand) are due within one year; € 620 thousand (2018: € 12 thousand) qualify as long-term and are disclosed under other non-current assets.

26. CASH AND CASH EQUIVALENTS

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

€ 000	31 Dec. 2019	31 Dec. 2018
Cash on hand	27	39
Cheques	145	135
Credit balances with banks, payable on demand	12,361	14,183
Credit balances with banks, payable at 3 months' notice	2,433	272
Total	**14,966**	**14,629**

27. EQUITY

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

Sales reserves

Sales 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 sales 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 sales reserves.

Accumulated other comprehensive income

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

Non-controlling interests

Non-controlling interests relate to external shareholders of OOO R. Stahl, Moscow (Russian Federation) and R. STAHL SOUTH AFRICA (PTY) LTD, Edenvale (South Africa).

Additional disclosures on capital management

R. STAHL'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 1.2% (2018: -2.5%).

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

€ 000	31 Dec. 2019	31 Dec. 2018
Equity net of non-controlling interests	**57,991**	**62,125**
Non-current interest-bearing loans	10,193	11,451
Current interest-bearing loans	8,957	8,680
Interest-bearing debt	**19,150**	**20,131**
Total capital	**77,141**	**82,256**
Equity ratio for capital management (%)	**75.2**	**75.5**

PROVISIONS

28. PENSION PROVISIONS

Provisions for pensions and similar obligations include the following items:

€ 000	31 Dec. 2019	31 Dec. 2018
Non-current pension provisions	98,717	91,222
Current pension provisions	3,366	3,244
Total	**102,083**	**94,466**

Pension provisions are accrued for obligations from pension commitments (unit credits) and on-going payments to entitled current and former employees of R. STAHL 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 € 5.2 million (2018: € 4.9 million). In addition, there were individual defined contribution plans. The annual contribution amounted to € 0 thousand in 2019 (2018: € 46 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.

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

In Switzerland, there are defined benefit pension obligations for employees and managers that are financed by employee and employer contributions to pension funds. The contributions depend on salary and age. In order to implement the pension plan, the employer must have its own pension und or join a pension fund (foundation/collective foundation/joint foundation/cooperative/institution under public law).

R. STAHL Schweiz AG joined the collective foundation Swiss Life for the implementation of its pension plan.

We calculated our 2019 pension obligations based on the 2018 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	
in %	**2019**	**2018**	**2019**	**2018**
Interest rate	1.19–1.47	2.07	0.20	1.00–2.60
Salary trend	2.75	3.00	1.50	1.50–2.75
Pension trend	1.67	1.75	0.00	0.00

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

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

Sensitivity analyses

Changes of 0.25 percentage points to the above mentioned assumptions used to calculate the DBO as at 31 December 2019 would increase or decrease the DBO as follows:

€ 000	**Increase**	**Decrease**
Interest rate	-4,158	+4,436
Salary trend	+811	-790
Pension trend	+3,351	-3,198

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 2019 would increase by € 4,862 thousand with a life expectancy of one more year.

There were the following changes in the previous year. Changes of 0.25 percentage points to the above mentioned assumptions used to calculate the DBO as at 31 December 2018 would increase or decrease the DBO as follows:

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

To determine the sensitivity of longevity, it was assumed that the life expectancy for all beneficiaries increased by one year. The DBO as at 31 December 2018 would increase by € 4,225 thousand with a life expectancy of one more year.

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

Defined benefit pension obligations

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

€ 000	31 Dec. 2019	31 Dec. 2018
Present values of fund-financed pension claims	1,106	3,979
Fund assets at market values	-894	-3,509
Financial status (net)	**212**	**470**
Present values of provision-based pension claims	101,871	93,996
Balance sheet value as at 31 December	**102,083**	**94,466**

Of total pension provisions amounting to € 102,083 thousand (2018: € 94,466 thousand), domestic group companies account for € 101,871 thousand (2018: € 93,996 thousand). Foreign companies account for fund assets of € 894 thousand (2018: € 3,509 thousand).

The projected benefit obligations developed as follows:

€ 000	2019	2018
Projected benefit obligations on 1 January	**97,975**	**105,820**
+ Current service cost	+1,284	+1,762
+ Interest expense	+1,932	+1,979
+/- Actuarial gains (-) and losses (+) from changes in demographic assumptions	-23	+756
+/- Actuarial gains (-) and losses (+) from changes in financial assumptions	+9,065	-2,075
+/- Actuarial gains (-) and losses (+) from changes based on experience adjustments	-1,129	-452
- Benefits paid	-3,199	-3,141
+/- Past service cost	-4	-7
+/- Changes in exchange rate	+78	+311
+/- Other	-3,002	-6,978
= Projected benefit obligations on 31 December	**102,977**	**97,975**

Due to restructuring in Switzerland, the number of insured persons has fallen. The effects are contained in the item “Other”. In Norway, defined benefit pension obligations were converted to defined contribution obligations in the previous year. The effects are contained in the item “Other” of prior-year disclosures.

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

€ 000	2019	2018
Beneficiaries in active employment	43,632	41,309
Beneficiaries no longer with the company	6,582	7,549
Pensioners	52,763	49,117
= Projected benefit obligations on 31 December	**102,977**	**97,975**

The defined benefit pension obligations have the following maturities:

€ 000	
Due in the financial year 2020	3,366
Due in the financial years 2021–2024	14,257
Due in the financial years 2025–2029	19,728

From the current perspective, the average weighted term over which the defined benefit pension obligation will exist amounts to 17 years for R. STAHL.

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

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

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

€ 000	2019	2018
Fund assets on 1 January	**3,509**	**8,882**
+ Expected income from fund assets	15	142
+ Employer's pension contributions	44	370
+ Employee's pension contributions	37	50
- Administrative expenses	0	-21
+/- Pension payments made and refunds	-596	-278
- Income from fund assets without interest	0	-200
+/- Other	-2,182	-5,703
+/- Foreign exchange rate changes	+67	+267
= Fund assets on 31 December	**894**	**3,509**

Due to restructuring in Switzerland, the number of insured persons has fallen. The effects are contained in the item "Other". In Norway, defined benefit pension obligations were converted to defined contribution obligations in the previous year. The effects are contained in the item "Other" of prior-year disclosures.

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 € 13 thousand (2018: € 52 thousand) are expected.

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

€ 000	31 Dec. 2019	31 Dec. 2018
Quoted market price in an active market		
Shares	0	0
Fixed interest-bearing securities	0	0
Real estate	0	0
Investment fund	0	0
Other	0	0
Total quoted market price in an active market	**0**	**0**
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	894	3,509
Total no quoted market price in an active market	**894**	**3,509**
Total	**894**	**3,509**

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

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

€ 000	2019	2018
Current service cost	1,284	1,762
+/- Past service cost	-4	-7
+ Net interest expense	1,917	1,837
+/- Other amounts	-213	-1,196
= Balance of amounts recognized in profit or loss for pension obligations	**2,984**	**2,396**

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	2019	2018
+/- Actuarial gains (-) and losses (+) from changing demographic assumptions	-23	756
+/- Actuarial gains (-) and losses (+) from changing financial assumptions	+9,065	-2,075
+/- Actuarial gains (-) and losses (+) from changes based on experience adjustments	-1,129	-451
+ Income from plan assets without interest	0	369
+/- Other	-48	0
= Balance of amounts recognized in equity for pension obligations	**7,865**	**-1,401**

Pension provisions changed as follows:

€ 000	2019	2018
Pension provisions as of 1 January	**94,466**	**96,938**
+/- Amounts recognized in profit or loss for pension obligations	+2,984	+2,396
+/- Amounts recognized in equity for pension obligations	+7,865	-1,401
- Pension payments made	-3,199	-3,141
- Employer contributions	-44	-370
+/- Currency changes	+11	+44
= Pension provisions as of 31 December	**102,083**	**94,466**

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 December 2019 Total	31 December 2019 Thereof due within one year	31 December 2018 Total	31 December 2018 Thereof due within one year
Personnel provisions	2,768	737	2,461	713
Warranty obligations	2,189	2,189	2,102	2,102
Impending losses	0	0	2,694	2,694
Other provisions	1,826	1,826	2,483	2,483
Total	**6,783**	**4,752**	**9,740**	**7,992**

Of the total amount expensed, € 4,752 thousand (2018: € 7,992 thousand) is due within one year. The remainder of € 2,031 thousand (2018: € 1,748 thousand) pertains to personnel provisions (partial retirement and anniversary obligations) and is recognized in non-current debt as “Other non-current provisions”.

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

Current provisions disclosed in the balance sheet comprise the following items:

€ 000	31 Dec. 2019	31 Dec. 2018
Current pension provisions	3,366	3,243
Other current provisions	4,752	7,992
Total	**8,118**	**11,235**

Other current and non-current provisions developed as follows:

€ 000	1 Jan. 2019	Currency change	Addition	Interest expense	Usage	Reversal	31 Dec. 2019
Personnel provisions	2,461	5	1,101	23	-822	0	2,768
Warranty obligations	2,102	0	1,745	0	-809	-849	2,189
Impending losses	2,694	0	0	0	0	-2,694	0
Other provisions	2,483	23	481	0	-863	-298	1,826
Total	**9,740**	**28**	**3,327**	**23**	**-2,494**	**-3,841**	**6,783**

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

Provisions for impending losses of € 2,694 thousand formed in the previous year for submitted bids were reversed in the financial year as the reasons for their original formation no longer existed.

In June 2019, R. STAHL announced the recall of a total of 34,500 LED luminaires of the 6036 and 6149 series which it had delivered. Tests of the lamp housings, which mainly consist of a polycarbonate tube, had indicated that the long-term stability of the tubes was not sufficiently assured under unfavourable operating conditions. This affects luminaires from the production period December 2017 to March 2019. As of the balance sheet date, provisions for warranty obligations of € 1,214 thousand were recognized for the cost of producing new LED luminaires in connection with the recall.

LIABILITIES

30. INTEREST-BEARING FINANCIAL LIABILITIES

Interest-bearing financial liabilities include amounts due to banks of € 18,951 thousand (2018: € 20,131 thousand) as well as other loans from hire purchase agreements amounting to € 199 thousand (2018: € 0 thousand).

Of the expensed total, € 8,957 thousand (2018: € 8,680 thousand) is due within one year and the remaining € 10,193 thousand (2018: € 11,451 thousand) is disclosed as "Interest-bearing loans" under non-current liabilities.

As of 31 December 2019, interest-bearing liabilities had the following maturities:

€ 000	31 Dec. 2019	31 Dec. 2018
Interest-bearing liabilities		
Up to one year	8,957	8,680
One to five years	10,193	10,285
More than five years	0	1,166
= Current and non-current interest-bearing liabilities	**19,150**	**20,131**

Liabilities to banks with residual maturities of more than one year amounting to € 10,108 thousand (2018: 11,451 thousand) comprise the following loans:

	31 Dec. 2019 € 000	31 Dec. 2018 € 000	Maturity	Interest rate in %
Loan 1	5,000	5,000	30 October 2022	1.90
Loan 2	444	621	30 June 2023	2.00
Loan 3	2,332	2,915	30 December 2024	1.25
Loan 4	2,332	2,915	30 December 2024	
Total	**10,108**	**11,451**		

At the end of the reporting period, there are also loans with residual maturities of more than one year from hire purchase agreements amounting to € 85 thousand (2018: € 0 thousand).

31. LEASE LIABILITIES

As of 31 December 2019, total lease liabilities had the following maturities:

€ 000	31 Dec. 2019
Lease liabilities	
Up to one year	6,727
One to five years	15,147
More than five years	9,909
= Current and non-current lease liabilities	**31,783**

Payments are shown in the maturity period “Up to one year”. Discounting effects are assigned to maturity periods of one year or more.

The maturity profile (undiscounted cash flows) of lease liabilities with remaining contractual maturities is presented in the following table:

€ 000	Carrying amount 31 Dec. 2019	Cash flows 2020	Cash flows 2021–2024	Cash flows ab 2025
Lease liabilities	31,783	6,727	17,448	11,653

32. OTHER LIABILITIES

The other liabilities position comprises the following items:

€ 000	31 December 2019		31 December 2018	
	Total	Thereof due within one year	Total	Thereof due within one year
Prepayments received	2,954	2,954	3,936	3,936
Trade payables	15,092	15,092	13,470	13,470
Income tax liabilities	791	791	1,117	1,117
Other liabilities	5,404	5,321	6,003	5,770
Deferred liabilities	14,186	14,186	13,386	13,386
Other financial liabilities	28	24	332	332
Total	**38,455**	**38,368**	**38,244**	**38,011**

Of the expensed total, € 38,368 thousand (2018: € 38,011 thousand) is due within one year and the remaining € 87 thousand (2018: € 233 thousand) is disclosed under “Other non-current liabilities”.

As of 31 December 2019, non-current “Other financial liabilities” include market values of derivative financial instruments amounting to € 4 thousand (2018: € 0 thousand).

Current “Other financial liabilities” as of 31 December 2018 contain market values of derivative financial instruments amounting to € 12 thousand (2018: € 315 thousand).

Deferred liabilities break down as follows:

	31 December 2019		31 December 2018	
€ 000	**Total**	**Thereof due within one year**	**Total**	**Thereof due within one year**
Employer’s liability insurance premiums	520	520	558	558
Bonuses	6,470	6,470	5,886	5,886
Holiday entitlement	1,435	1,435	1,321	1,321
Time unit credits	2,209	2,209	1,868	1,868
Missing supplier invoices	823	823	1,180	1,180
Other deferred liabilities	2,729	2,729	2,573	2,573
Total	**14,186**	**14,186**	**13,386**	**13,386**

33. 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 Dec. 2019	31 Dec. 2018
Sureties	470	504
Guarantees	9,443	8,304
Other obligations	809	1,146
Total	**10,722**	**9,954**

As of 31 December 2019, there were contingent claims against an insurance company for damages amounting to € 164 thousand.

Other financial obligations

Other financial obligations include future payments from off-balance sheet contractual obligations. They are composed as follows:

€ 000	**31 Dec. 2019**
Order commitments – property, plant & equipment	323
Obligations from rental agreements for software and licences	2,754
Obligations from rental agreements for office and operating equipment	787
Obligations from rental agreements for real estate	7,821

There are no contingent rents or subleases as of 31 December 2019.

34. DERIVATIVE FINANCIAL INSTRUMENTS

As a global player, R. STAHL conducts its business transactions in a number of foreign currencies. R. STAHL 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.

To hedge currency risks, derivative financial instruments for the currencies Australian dollar, Canadian dollar and US dollar were held in the form of forward foreign exchange contracts on 31 December 2019.

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.

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.

Changes in the market value of derivative financial instruments in the reporting period are recognized in the income statement.

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

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

	Nominal volume		Market value	
€ 000	**31 Dec. 2019**	**31 Dec. 2018**	**31 Dec. 2019**	**31 Dec. 2018**
Positive market values				
Currency derivatives, qualified as cash flow hedges	0	0	0	0
Currency derivatives without hedging relationship	9,404	8,608	121	75
Total	**9,404**	**8,608**	**121**	**75**
Negative market values				
Currency derivatives, qualified as cash flow hedges	0	418	0	-1
Currency derivatives without hedging relationship	1,547	8,187	-16	-314
Interest rate derivatives, qualified as cash flow hedges	0	0	0	0
Total	**1,547**	**8,605**	**-16**	**-315**

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 December 2019			
Other financial assets (derivatives)	121	-12	109
Other financial liabilities (derivatives)	16	-12	4
31 December 2018			
Other financial assets (derivatives)	75	-11	64
Other financial liabilities (derivatives)	315	-11	304

35. MANAGEMENT OF FINANCIAL RISKS

Principles of risk management

R. STAHL'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 R. STAHL are subject to the risk of debtor default.

Outstanding accounts from operating activities are constantly monitored on a local basis. Specific valuation allowances are recognized to take account of the default risk. The maximum default risk is mostly defined by the carrying amounts of financial assets as recognized in the balance sheet, including derivative financial instruments with positive market values. Apart from the factoring agreements described in receivables and other assets, there were no material agreements (e.g. offsetting agreements) that would lower the maximum default risk at the end of the reporting period.

The following table illustrates the credit quality of financial assets:

€ 000	Gross carrying amount 31 Dec. 2019	Not due	Up to 30 days overdue	31 to 90 days overdue	91 to 180 days overdue	More than 180 days overdue
Trade receivables	44,986	28,840	6,937	4,172	1,731	3,306
Contract receivables	622	622	0	0	0	0
Total	**45,608**	**29,462**	**6,937**	**4,172**	**1,731**	**3,306**

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

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

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

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

€ 000	**Gross carrying amount 31 Dec. 2019**	**Not due**	**Up to 30 days overdue**	**31 to 90 days overdue**	**91 to 180 days overdue**	**More than 180 days overdue**
Trade receivables (gross)	44,986	28,840	6,937	4,172	1,731	3,306
Contract receivables (gross)	622	622	0	0	0	0
- Sales tax or other taxes and duties	-4,802	-3,502	-699	-355	-119	-127
+ Netted prepayments received	926	326	289	309	2	0
Calculation basis (I)	41,732	26,286	6,527	4,126	1,614	3,179
Valuation allowances	2,353	18	0	293	312	1,730
Calculation basis (II)	39,379	26,268	6,527	3,833	1,302	1,449
Average default rate in %	0.4	0.3	0.8	0.0	0.0	0.0
Risk provision	145	91	54	0	0	0

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

Allowances for trade receivables developed as follows:

€ 000	Total	Valuation allowance	Risk provision
1 January 2019	**3,022**	**2,886**	**136**
Currency differences	41	41	0
Written off amounts	-69	-68	-1
Reversed amounts	-1,656	-1,580	-76
Increase in credit losses recognized through profit or loss	+1,160	+1,074	+86
31 December 2019	**2,498**	**2,353**	**145**

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

Liquidity risk

To ensure that R. STAHL 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 (non-discounted cash flows) with residual contract maturities:

€ 000	Carrying amount 31 Dec. 2019	Cash flows 2020	Cash flows 2021–2024	Cash flows from 2025
Trade payables	15,092	15,092	0	0
Interest-bearing loans	19,150	9,278	10,524	0
Derivatives without hedging relationship	16	12	4	0

€ 000	Carrying amount 31 Dec. 2018	Cash flows 2019	Cash flows 2020–2023	Cash flows from 2024
Trade payables	13,470	13,470	0	0
Interest-bearing loans	20,131	8,943	10,776	1,175
Derivatives without hedging relationship	314	314	0	0
Derivatives with hedging relationship	1	1	0	0

The liquidity risk can be rated as being rather low. In September 2015, R. STAHL AG signed a syndicated loan agreement with a term of five years to secure the Group's funding. It comprises a cash credit line of initially € 95 million (adjusted by R. STAHL AG to € 65 million in August 2018 with the termination of a partial volume of € 30 million), with an expansion option of € 25 million for acquisitions.

In December 2019, R. STAHL AG prematurely concluded a new syndicated loan for Group funding. The new agreement has a volume of € 70 million with the possibility to increase it by a further € 25 million, and has a term of three years initially with an extension option for up to two further years. The previous syndicated loan agreement with a term of five years concluded in September 2015 would have run until September 2020 and had a cash credit line of € 65 million with an expansion option of € 25 million was replaced prematurely in December 2019. The agreement contains standard provisions regarding the maintenance of the Group's financial strength (financial covenants). Non-compliance with these covenants results in an adjustment of the contract terms or premature termination by the banks involved.

Market price risks

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

Currency risks

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

Our foreign exchange rate risks in operating activities mainly stem from forecast transactions denominated in currencies other than the group's functional currency.

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

Interest risks

R. STAHL is mainly funded via a syndicated loan agreement at standard market conditions. Interest rate risks may arise from the violation of agreed contractual terms.

Price risks

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

As of 31 December 2019 and 31 December 2018, R. STAHL had no material financial instruments in its portfolio that are subject to other price risks.

Sensitivity analyses

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

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

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

If the euro had appreciated 10% relative to all currencies relevant to our operating activities as of 31 December 2019, earnings before income tax would have been higher by € 988 thousand (31 December 2018: € 1,551 thousand) and the direct unrealized profits from financial instruments would have been higher by € 0 thousand (31 December 2018: € 38 thousand).

If the euro had devalued 10% relative to all currencies relevant to our operating activities as of 31 December 2019, earnings before income tax would have been lower by € 1,208 thousand (31 December 2018: € 1,892 thousand) and the direct unrealized profits from financial instruments would have been lower by € 0 thousand (31 December 2018: € 47 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.

If the market interest rate level had been higher by 100 basis points on 31 December 2019, earnings before income taxes would have been lower by € 67 thousand (31 December 2018: € 76 thousand).

If the market interest rate level had been lower by 100 basis points on 31 December 2019, earnings before income taxes would have been higher by € 131 thousand (31 December 2018: € 138 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 carrying amounts and fair values of balance sheet items to their individual categories:

		Carrying amounts of financial instruments				
€ 000	Balance sheet amount as at 31 Dec. 2019	Stated at fair value	Stated at amortized cost	Not subject to IFRS 7	Carrying amounts of others	Fair value
Non-current assets						
Shares in associated companies	8,834	0	0	8,834	0	8,834
Other financial assets	33	0	5	27	0	33
Other non-current assets	3,945	32	2,430	32	1,451	3,945
Current assets						
Trade receivables	42,489	0	42,324	0	165	42,489
Contract receivables, other receivables and other assets	9,254	89	3,457	0	5,708	9,254
Cash and cash equivalents	14,966	0	14,966	0	0	14,966
Non-current liabilities						
Interest-bearing loans	10,193	0	10,193	0	0	10,193
Lease liabilities	25,056	0	0	25,056	0	25,056
Other liabilities	87	71	0	0	16	87
Current liabilities						
Trade payables	15,092	0	15,092	0	0	15,092
Interest-bearing loans	8,957	0	8,957	0	0	8,957
Lease liabilities	6,727	0	0	6,727	0	6,727
Other liabilities	8,299	12	1,228	0	7,059	8,299
Thereof aggregated acc. to IFRS 9						
Financial assets (hold to collect) – at amortized cost	66,720	0	62,372	0	4,348	66,720
Financial assets (hold to collect) – at fair value	121	121	0	0	0	121
Financial assets (hold to collect and sale) – at amortized cost	854	0	854	0	0	854
Financial liabilities – at amortized cost	39,579	0	36,016	0	3,563	39,579
Financial liabilities – at fair value	16	16	0	0	0	16
Other liabilities – at fair value	67	67	0	0	0	67

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

€ 000	Balance sheet amount as at 31 Dec. 2018	Carrying amounts of financial instruments: Stated at fair value	Carrying amounts of financial instruments: Stated at amortized cost	Carrying amounts of financial instruments: Not subject to IFRS 7	Carrying amounts of others	Fair value
Non-current assets						
Shares in associated companies	8,284	0	0	8,284	0	8,284
Other financial assets	33	0	5	27	0	33
Other non-current assets	1,012	0	79	0	933	1,012
Current assets						
Trade receivables	47,636	0	47,636	0	0	47,636
Contract receivables, other receivables and other assets	8,029	75	3,544	0	4,410	8,029
Cash and cash equivalents	14,629	0	14,629	0	0	14,629
Non-current liabilities						
Interest-bearing loans	11,451	0	11,451	0	0	11,451
Other liabilities	233	0	0	0	233	233
Current liabilities						
Trade payables	13,470	0	13,470	0	0	13,470
Interest-bearing loans	8,680	0	8,680	0	0	8,680
Other liabilities	10,038	315	1,110	0	8,613	10,038
Thereof aggregated acc. to IFRS 9						
Financial assets (hold to collect) – at amortized cost	68,864	0	65,893	0	2,971	68,864
Financial assets (hold to collect) – at fair value	75	75	0	0	0	75
Financial liabilities – at amortized cost	39,604	0	34,711	0	4,893	39,604
Financial liabilities – at fair value	315	315	0	0	0	315

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 € 121 thousand (2018: € 75 thousand). Negative fair values of € -16 thousand (2018: € -315 thousand) were recognized. In addition, contingent purchase price obligations of € 67 thousand (2018: € 0 thousand) were carried as other liabilities at fair value.

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 li-abilities 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 R. STAHL are rated exclusively according to the fair value hierarchy Level 2.

In the financial year 2019, 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 2019:

€ 000	**2019**	**2018**
Recognized in the income statement		
Derivatives	+344	-660
Recognized in equity		
Derivatives in a hedging relationship	0	+8

OTHER DISCLOSURES

36. EXECUTIVE BODIES OF R. STAHL AG

Members of the Supervisory Board

Peter Leischner, business graduate, Frankfurt
Chairman
Independent Management Consultant, Frankfurt

Heike Dannenbauer, M.A., Empfingen
Deputy Chairwoman
Stage Manager of the Apollo Theater Produktionsgesellschaft mbH, Stuttgart

Klaus Erker, Dörzbach[1)]
Chairman of the Works Council of the Waldenburg site
Deputy Chairmam of the joint Works Council of R. STAHL Schaltgeräte GmbH, Waldenburg

Heinz Grund, Braunsbach[1)]
In the past scheduler/production control of R. STAHL Schaltgeräte GmbH, Waldenburg

Rudolf Meier, engineering graduate, Nuremberg
In the past Head of Production Machinery, Factory Automation at Siemens AG, Munich

Andreas Müller, business graduate, Rösrath
Global Head of Controlling at KHD Humboldt Wedag International AG, Cologne
Member of the Executive Board of KHD Humboldt Wedag Vermögensverwaltungs-AG, Cologne

Dr Renate Neumann-Schäfer, Überlingen
Independent Management Consultant, Überlingen
Member of Supervisory Board, Chairwoman of the Audit Committee and member of the Finance Committee of Sto SE and Sto SE & Co. KGaA, Stühlingen
Member of the Administrative Board and member of the Finance Committee of Samariterstiftung, Nürtingen
Member of the Foundation Board of ZEIT FÜR MENSCHEN, Nürtingen

Nikolaus Simeonidis, Bretzfeld[1)]
Deputy Chairman of the Works Council of the Waldenburg site
Chairman of the joint Works Council of R. STAHL Schaltgeräte GmbH, Waldenburg

Jürgen Wild, Vaucresson, France (until 31 December 2019)
Managing Director of RSBG SE (previously RAG-Stiftung Beteiligungsgesellschaft mbH), Essen

[1)] Employee representative

Members of the Executive Board

Dr Mathias Hallmann, Karlsruhe
CEO
responsible for Procurement, Marketing, Production, Quality Assurance, Internal Audit, Strategy and Sales

Volker Walprecht, Essen (until 30 June 2019)
responsible for Controlling, Accounting, Treasury, Tax, Investor Relations and Corporate Communications, M&A, HR, Legal and Compliance, and IT

With effect from 1 July 2019, Dr Mathias Hallmann took over the responsibilities of Mr Volker Walprecht as sole member of the Executive Board.

Compensation report

Total Executive Board compensation

The compensation system for Executive Board members in office during the financial year 2019 (Mr Volker Walprecht until 30 June 2019) is regulated in their respective service agreements. According to these agreements, the Executive Board members receive (or received) variable, performance-based compensation comprising both a short-term and a long-term component in addition to their fixed compensation. As presented in last year's compensation report, following an analysis of the company's situation in 2018, the Supervisory Board and Executive Board jointly came to the conclusion that the existing variable compensation system for the Executive Board members required adjustment with regard to sustainable and corporate objectives. In March 2019, both sides therefore approved a corresponding revision of the existing service agreements with retroactive effect from the beginning of 2019.

In the course of this contract change, the long-term variable remuneration component for the financial year 2018 was paid out early. This was because the target figure ROCE was no longer comparable with that prior to 1 January 2019 due to the mandatory application of IFRS 16 (Leases) as of 1 January 2019, and a reconciliation statement would have required a disproportionate amount of effort.

Compensation system

Executive Board remuneration comprises an annual basic salary, short-term and long-term variable remuneration, a special bonus (optional without legal entitlement) and a subsidy for pension, health and long-term care insurance in the amount that would be payable by the employer if the Executive Board member were a company employee. The amount naturally depends on the current contribution assessment thresholds and the current contribution rates. In addition, there is also compensation in kind. This includes contractually defined leasing rates for a vehicle (€ 1,750.00 net monthly) and, if applicable, temporary allowances for hotel or rental costs at the beginning of the service period (in the reporting period only for Mr Walprecht).

There are only company commitments for old-age and/or invalidity provision in the case of former Executive Board members who had left the company by 2018.

The contract change described above has increased the weighting of the long-term component and linked it with a mandatory personal investment in R. STAHL shares during the term of the service agreement. At the time of payment, the Executive Board member must prove that he or she holds shares in the company amounting to at least 50% of annual basic salary (gross). These shares must be held at least until the last long-term variable remuneration component to which he or she is entitled under the service agreement is due. Until the target is reached, 30% of the long-term variable remuneration component is to be used to purchase the shares.

The short-term element was switched from a purely performance-dependent component to a target bonus system. It comprises two financial sub-components and the individual performance of the Executive Board member. EBIT and free cash flow were agreed to be the financial sub-components. However, due to the prevailing situation of the company, EBITDA pre was agreed for the year 2019. The two financial sub-components have equal weighting for the bonus calculation. 100% target achievement corresponds to the approved budget figures. The calculated amount is multiplied by a factor of 0.8 to 1.2 depending on the individual performance of the Executive Board member in the respective financial year. The Supervisory Board makes the assessment at its reasonable discretion, but sets individual targets for this purpose on which the assessment is made. If the targets are achieved in full, the factor is 1.0.

The short-term component is capped at 150% of target achievement. This cap also includes the factor for the individual performance of the Executive Board member. As a result, the short-term remuneration of Dr Hallmann is limited to a maximum of € 240.0 thousand p.a. (under the old agreement € 312.0 thousand). In the case of Mr Walprecht, the amount was limited to € 195.0 thousand (under the old agreement € 257.4 thousand). If the target achievement rate is 70% or less per individual target, there is no entitlement to short-term variable remuneration.

The long-term component depends on the extent to which the company's objectives are achieved. The target achievement rate is measured over a period of three financial years. The Supervisory Board sets the targets, based on the approved budget, at the beginning of the financial year following the end of the respective three-year period. At the end of each financial year, the Supervisory Board sets a three-year target for the respective Executive Board member, based on the three following financial years. The relevant target figures are – with equal weighting – average ROCE and EBT to be achieved over the respective three-year period.

The long-term component is capped at 150% of target achievement. As a result, the long-term variable remuneration component of Dr Hallmann, taking account of both targets, is limited to a maximum of € 285.0 thousand (under the old agreement € 185.9 thousand). In the case of Mr Walprecht, the amount was limited to € 240.0 thousand (previously € 160.6 thousand). If the target achievement rate is 70% or less per individual target, there is no entitlement to long-term variable remuneration.

In addition to the above remuneration components, the Supervisory Board may, after the end of a financial year, at its own reasonable discretion and in compliance with the requirements of section 87 (1) AktG, award a special bonus for outstanding achievements of the Executive Board up to the amount of an annual basic salary. There is no legal entitlement to the granting of this special bonus.

In summary, Dr Hallmann is entitled to the following possible maximum compensation:

€ 000	
Annual basic salary	400.0
Long-term variable remuneration (max)	285.0
Short-term variable remuneration (max)	240.0
Special bonus (max) (optional/without legal entitlement)	200.0
Leasing rate for car	21.0
Maximum compensation[1)]	**1,146.0**

1) Maximum compensation € 1,146.0 thousand plus monthly subsidy for health, long-term care and pension insurance of approx. € 1,000 per month.

From the current perspective, it is expected that the Supervisory Board will adopt resolutions on the compensation system for the Executive Board and on maximum compensation in accordance with ARUG II, which will be closely based on the above statements.

Executive Board compensation Dr Mathias Hallmann

Dr Hallmann received the following compensation in the financial year 2019:

€ 000	2019	2018
Fixed compensation	400.0	400.0
Long-term variable compensation[1)]	76.0	110.0
Short-term variable compensation[1)]	240.0	120.0 (guaranteed)
Special bonus	0.0	140.0
Subsidy[2)]	12.0	11.4
Compensation in kind	18.0	16.9
Total	**746.0**	**798.3**

1) Payment of short-term variable remuneration only in the following financial year; payment of long-term variable remuneration only after three years. A one-off payment was made for 2018 (see explanation in the text).
2) Subsidy for health, long-term care and pension insurance in the amount which the employer would incur if 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, and in the currently valid version of 12 March 2019, stipulates annual fixed compensation of € 400 thousand. The EBITDA pre target achievement rate was 137.5%. This corresponds to an amount of € 110.0 thousand. Target achievement for free cash flow was 150%. This corresponds to an amount of € 120.0 thousand. Based on the target achievement rate for the individual targets additionally agreed with Dr Hallmann, the Supervisory Board set the factor for the arithmetically resulting amounts at 1.1. This results in total short-term variable remuneration for 2019 of € 240.0 thousand, taking into account the agreed cap.

Target achievement for the long-term variable remuneration component is 121% (equivalent to € 229.0 thousand). As this is a three-year target, the entitlement acquired to date amounts to € 76.0 thousand.

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 € 12.0 thousand. Dr Hallmann received benefits in kind amounting to € 18.0 thousand. These refer to the costs of the leased car provided for him. The contractually agreed leasing rate may not exceed € 1,750.00 net for an all-inclusive leasing contract.

Executive Board compensation Volker Walprecht

Mr Walprecht received the following prorated compensation for the financial year 2019 up to the date of his departure on 30 June 2019 (prior-year figures only for six months as Mr Walprecht was not appointed to the Executive Board until 1 July 2018):

€ 000	**Until 30 June 2019**	**As of 1 July 2018**
Fixed compensation	165.0	165.0
Fixed bonus (only provided for 2018)	0.0	130.0
Long-term variable compensation[1)]	40.0	47.5
Short-term variable compensation[1)]	65.0	0.0
Subsidy[2)]	6.0	5.9
Compensation in kind	12.8	10.9
Total	**288.8**	**359.3**

[1)] The Executive Board compensation system stipulates that short-term variable remuneration is only paid in the following financial year and long-term variable remuneration is only paid after three years. A one-off payment was made for 2018 (see explanation in the text); the termination agreement provided for a prorated payment of both components as of 30 June 2019 on the basis of 100 % target achievement and a factor of 1.0 for the short-term component.
[2)] Subsidy for health, long-term care and pension insurance in the amount which the employer would have incurred if Mr Walprecht had the status of an employee

Mr Walprecht was appointed to the Executive Board with effect from 1 July 2018 by a resolution of the Supervisory Board adopted on 27 June 2018. The service agreement concluded at the same time, and in the version of 12 March 2019, provided for a fixed annual salary of € 330 thousand. Variable compensation consisted of a short-term and a long-term component according to the system described above.

Mr Walprecht stepped down from the Executive Board on 30 June 2019. The termination agreement concluded with him provided for payment of the contractually agreed remuneration up to this date. This also included the prorated amounts for short-term and long-term variable remuneration based on 100% target fulfilment. There were no further payment claims.

The company granted Mr Walprecht a subsidy for his health, long-term care and pension insurance in the amount that the company would have incurred if Mr Walprecht had the status of an employee. This subsidy amounted to € 6.0 thousand in the reporting period (prorated until 30 June 2019). The company has no further commitments for a retirement and/or disability pension for Mr Walprecht.

Mr Walprecht received benefits in kind worth € 12.8 thousand relating to the cost of a leased vehicle and the cost of hotel accommodation or rent for a second apartment, which the company had to bear at an appropriate rate for a period up to 30 June 2019.

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 reporting period, the Supervisory Board received fixed compensation totalling € 227.5 thousand (2018: € 227.5 thousand), and variable compensation of € 0 thousand (2018: € 0 thousand).

Supervisory Board € 000	**Fixed compensation**	**Committee compensation**	**Variable compensation**	**Total**
Peter Leischner	36.00	21.90	0.00	57.90
Heike Dannenbauer	18.00	3.65	0.00	21.65
Klaus Erker	18.00	3.65	0.00	21.65
Heinz Grund	18.00	3.65	0.00	21.65
Rudolf Meier	18.00	3.65	0.00	21.65
Andreas Müller	18.00	3.65	0.00	21.65
Dr Renate Neumann-Schäfer	18.00	7.30	0.00	25.30
Nikolaus Simeonidis	18.00	0.00	0.00	18.00
Jürgen Wild (until 31 Dec. 2019)	18.00	0.00	0.00	18.00
Total	**180.00**	**47.45**	**0.00**	**227.45**

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 € 421.0 thousand in the financial year 2019 (2018: € 412.3 thousand).

As of 31 December 2019, the present value of pension obligations for former members of the Executive Board, as well as former Managing Directors, and their survivors amounted to € 8,354 thousand (2018: € 7,725 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 5,000 company shares and Supervisory Board members held 151,008 shares.

37. 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 R. STAHL. 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 R. STAHL'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 R. STAHL including close relatives or intermediary companies. A substantial influence on the financial and business policy of R. STAHL 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 2019, the disclosure requirements of IAS 24 only affected R. STAHL in respect to business relations with members of the Executive Board and members of the Supervisory Board. Total compensation of the Supervisory Board amounted to € 227.5 thousand in the reporting period (2018: € 227.5 thousand). These amounts do not include the statutory compensation amounts for worker representatives. Please refer to section 36 Executive bodies of R. STAHL AG, subsection Compensation Report.

No significant reportable transactions were carried out with the company ZAVOD Goreltex, Saint Petersburg (Russian Federation) in 2019, nor with the company R. STAHL SOUTH AFRICA (PTY) LTD, Edenvale (South Africa) for the period as an associated company in 2019.

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 R. STAHL'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	**2019**	**2018**
Interest received	31	1,010
Interest paid	-2,021	-2,921
Dividends received	409	424
Income tax refunds/credits	91	3,068
Income tax payments	-1,117	-1,862

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. At R. STAHL, the Executive Board is responsible for assessing and controlling business success and is regarded as the top management body pursuant to IFRS 8.

The Group develops, manufactures, assembles, and distributes devices and systems for measuring, controlling, distribution of energy, securing, and lighting in potentially explosive environments.

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

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

R. STAHL AG serves as the holding company for the different subsidiaries. The subsidiaries submit a monthly income statement and balance sheet. Monthly consolidated financial statements are then created at Group level which are used to steer the Group's overall development.

The key performance indicator for R. STAHL 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).

The following table provides a breakdown by region:

2019 € 000	**Germany**	**Central-Region without Germany**	**Americas**	**Asia/ Pacific**	**Total**
Revenue from sales to external customers	62,524	120,916	34,511	56,833	274,784
Carrying amounts of non-current assets	92,251	19,791	3,708	8,288	124,038
Additions to non-current assets	10,796	1,567	22	764	13,149
Initial application IFRS 16	27,983	7,962	3,543	2,754	42,242
Total additions	38,779	9,529	3,565	3,518	55,391

2018 € 000	**Germany**	**Central-Region without Germany**	**Americas**	**Asia/ Pacific**	**Total**
Revenue from sales to external customers	70,335	116,132	31,194	62,453	280,114
Carrying amounts of non-current assets	75,030	13,074	6,008	6,435	100,547
Additions to non-current assets	9,433	671	0	324	10,428

The regional breakdown shows sales on the basis of customer locations. Assets of R. STAHL 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.

The following table provides a breakdown by product segment:

2019 € 000	**Components**	**Systems**	**Services and rent**	**Total**
Revenue from sales to external customers	103,239	168,027	3,518	**274,784**
	(37.6%)	(61.1%)	(1.3%)	**(100.0%)**

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

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

In the reporting period, no individual country (with the exception of Germany and the USA) and in the previous year (with the exception of Germany), 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	**2019**	**2018**
Financial statement audits	321	404
of which relating to other periods	44	144
Other certification and valuation services	0	0
Tax consultancy services	0	0
Other services	16	0
Total	**337**	**404**

R. Stahl Schaltgeräte GmbH, Waldenburg, R. STAHL HMI Systems GmbH, Cologne, GGF – Gesellschaft für Grundstücksvermietung und Finanzierungsvermittlung mbH, Waldenburg, and R. Stahl Services GmbH, Waldenburg 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 2019.

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 2019 of R. STAHL LECTIO GmbH, Waldenburg, R. STAHL SUPERA GmbH, Waldenburg and R. Stahl Beteiligungsgesellschaft mbH, Waldenburg. The necessary prerequisites pursuant to Section 264 (3) HGB are fulfilled.

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
GGF – Gesellschaft für Grundstücksvermietung und Finanzierungsvermittlung mbH, Waldenburg	F; c	100.00
R. STAHL HMI Systems GmbH, Köln	F; c	100.00
R. Stahl Schaltgeräte GmbH, Waldenburg	F; c	100.00
R. Stahl Services GmbH, Waldenburg	F; c	100.00
Abraxas Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	I; n. c.	49.58
R. STAHL LECTIO GmbH, Waldenburg	F; c	100.00
R. STAHL SUPERA GmbH, Waldenburg	F; c	100.00
Foreign companies		
R. STAHL MIDDLE EAST FZE, Dubai (United Arab Emirates)	F; c	100.00
R. STAHL Gulf FZCO, Dubai (United Arab Emirates)	F; c	100.00
R. STAHL AUSTRALIA PTY LTD, Sutherland (Australia)	F; c	100.00
Stahl N.V., Dendermonde (Belgium)	F; c	100.00
R. STAHL do Brasil Ltda, Sao Caetano (Brazil)	F; c	100.00
R. STAHL, LTD., Edmonton (Canada)	F; c	100.00
R. STAHL Switzerland 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 (UK)	F; c	100.00
R. STAHL PRIVATE LIMITED, Chennai (India)	F; c	100.00
R. STAHL S.r.l., Peschiera Borromea (Italy)	F; c	100.00
R. STAHL Kabushiki Kaisha, Kawasaki (Japan)	F; c	100.00
R. Stahl LLP., Atyrau (Kazakhstan)	I; n. c.	100.00
R. STAHL CO., LTD, Seoul (Korea)	F; c	100.00
R. STAHL ENGINEERING & MANUFACTURING SDN. BHD., Selangor (Malaysia)	F; c	100.00
Electromach B.V. Hengelo (Netherlands)	F; c	100.00
R. STAHL NORGE AS, Stavanger (Norway)	F; c	100.00
R. STAHL TRANBERG AS, Stavanger (Norway)	F; c	100.00
OOO R. Stahl, Moscow (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
R. STAHL SOUTH AFRICA (PTY) LTD, Edenvale (South Africa)	F; c	70.00
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.).

OTHER NOTES AND DISCLOSURES

Events after the balance sheet date

There were no subsequent events after the balance sheet date.

Waldenburg, 3 April 2020

R. STAHL Aktiengesellschaft

Dr Mathias Hallmann
Executive Board

RESPONSIBILITY STATEMENT

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

Waldenburg, 3 April 2020

R. Stahl Aktiengesellschaft

Dr Mathias Hallmann
Chief Executive Officer

AUDIT OPINION OF THE INDEPENDENT AUDITOR

TO R. STAHL AKTIENGESELLSCHAFT, WALDENBURG

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

AUDIT OPINIONS

We have audited the consolidated financial statements of R. Stahl Aktiengesellschaft, Waldenburg, Germany and its subsidiaries (the Group) – consisting of the consolidated balance sheet as at 31 December 2019, 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 2019 to 31 December 2019, as well as the notes to the consolidated financial statements, including a summary of significant accounting methods. In addition, we also audited the combined management report of R. Stahl Aktiengesellschaft and the R. Stahl Group for the fiscal year from 1 January 2019 to 31 December 2019. In accordance with German legal requirements, we have not audited the contents of the components of the combined management report referred to under “Other information”.

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

- the attached consolidated financial statements comply in all material respects with those IFRSs adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) of the German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2019 and of its financial performance for the fiscal year from 1 January 2019 to 31 December 2019, and
- the accompanying combined management report as a whole provides an appropriate view of the Group’s position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with the German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not extend to the contents of the components of the combined management report referred to under “Other information”.

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

BASIS FOR THE AUDIT OPINIONS

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

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

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

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters which, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2019 to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our auditor's opinion thereon; we do not provide a separate audit opinion on these matters.

We identified the following as key audit matters:

1. Impairment of goodwill

2. Recognition and recoverability of deferred tax assets

3. Initial adoption of the new accounting standard "IFRS 16 – Leases"

IMPAIRMENT OF GOODWILL

Description of issue

Goodwill of EUR 10.7 million, corresponding to 4.1% of the consolidated balance sheet total, is disclosed in the consolidated financial statements of R. Stahl Aktiengesellschaft under the balance sheet item "Intangible Assets". Goodwill was allocated to cash-generating units.

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

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

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

Auditor's response

In the course of our audit, we assessed the appropriateness of the key assumptions and discretionary parameters, as well as the calculation methods used in the impairment tests. We have gained an understanding of the planning system and planning process, as well as the significant assumptions made by the legal representatives during planning. We checked the forecast of future cash flows in the detailed planning period with the planning approved by the Supervisory Board and reviewed the planning accuracy of the companies on the basis of an analysis of actual and planned deviations in the past and in the current fiscal year.

We checked the underlying assumptions for the planning and the growth rates assumed in forecasting the cash flows beyond the detailed planning period by comparing them with past developments and current industry-specific market expectations. In the 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

Description of issue

Deferred tax assets of EUR 12.4 million, of which EUR 1.1 million for loss carryforwards, are disclosed in the consolidated financial statements of R. Stahl Aktiengesellschaft. In accordance with IAS 12.34, a deferred tax asset may only be recognized to the extent to which it is probable that future taxable profit will be available. This assessment requires taxable income planning for future taxation periods, which in turn is based on reliable corporate planning. The assessment of whether future taxable earnings can be generated despite the existence of past losses is heavily discretionary. The auditing of deferred tax assets on loss carryforwards was therefore of particular importance and thus identified as a key audit matter.

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

Auditor’s response

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

INITIAL ADOPTION OF THE NEW ACCOUNTING STANDARD “IFRS 16 – LEASES”

Description of issue

As of 31 December 2019, right-of-use assets amounting to EUR 32.8 million and lease liabilities of EUR 31.8 million are disclosed in the consolidated financial statements of R. Stahl Aktiengesellschaft. Lease liabilities account for a total of 12.3% of the balance sheet total and thus have a material influence on the Company’s financial position and performance.

The initial adoption of the new accounting standard “IFRS 16 – Leases” had a material impact on the opening balance sheet values of the financial year and their development as of the balance sheet date. The Group applies the new standard using the modified retrospective method.

The calculation of the lease term and the incremental borrowing rates used as the discount rates may be discretionary and based on estimates. In addition, extensive data from the leases must be recorded to calculate the initial effects of IFRS 16 and the development of lease liabilities and right-of-use assets in accordance with the standard. This data forms the basis for the measurement and recognition of lease liabilities and right-of-use assets.

Due to the complexity of the requirements of the new accounting standard IFRS 16 with regard to the correctness and completeness of the data as well as the need for discretionary decisions by management, this item was identified as a key audit matter.

The disclosures of R. Stahl Aktiengesellschaft regarding “IFRS 16 – Leases” are included in sections [1] Basis of preparation, [20] Intangible assets, [21] Property, plant & equipment and [31] Lease liabilities of the notes on the consolidated financial statements.

Auditor’s response

First of all, we gained an understanding of the Group’s process for implementing the new accounting standard IFRS 16. We then analyzed the accounting instructions on which the implementation was based with regard to completeness and conformity with IFRS 16.

We took random samples of the lease agreements to check whether the relevant data had been recorded correctly and completely. Where discretionary decisions were made to determine the lease term, we reviewed these to ensure that the underlying assumptions were plausible and consistent with other assumptions made in the financial statements.

We compared the assumptions and parameters underlying the incremental borrowing rates with our own assumptions and publicly available data. Moreover, we evaluated the appropriateness of the model used to calculate the interest rate and reproduced the calculation of the incremental borrowing rates on a risk-oriented basis.

We reproduced the calculations of R. Stahl Aktiengesellschaft for the carrying amounts of lease liabilities and right-of-use assets. To this end, we evaluated the measurement and recognition of lease liabilities and right-of-use assets performed by the IT system for selected leases, chosen in part on a representative and in part on a risk-oriented basis. The risk-oriented evaluation included an assessment of the proper measurement in the event of changes or reassessments of the underlying contractual arrangement.

To the extent that IT processing systems were used to calculate and consolidate the relevant data, we checked the correct consideration of the parameters and the mathematical accuracy of the calculation using our IT audit tool.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- identify and assess the risks of – intentional or unintentional – material misstatement of the consolidated financial statements and the combined management report, plan and perform audit procedures as a response to these risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for our audit opinions.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal controls;

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

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

FURTHER DISCLOSURES PURSUANT TO ARTICLE 10 EU AUDIT REGULATION

We were elected as group auditor by the Annual General Meeting of 7 June 2019. We were hired by the Audit Committee of the Supervisory Board on 2 October 2019. We have been the group auditor of R. Stahl Aktiengesellschaft without interruption since the fiscal year 2017.

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

RESPONSIBLE AUDITOR

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

Stuttgart, 3 April 2020

BDO AG
Wirtschaftsprüfungsgesellschaft

Andreas Müller	Markus Will
Auditor	Auditor

SUPERVISORY BOARD REPORT

Peter Leischner
Chairman of the Supervisory Board

Peter Leischner
Chairman of the Supervisory Board

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

Dear shareholders,

R. STAHL continued to make good progress with its realignment process in 2019. The measures initiated in the previous year to streamline internal structures and processes paved the way for the Group's rapid financial recovery and resulted in a return to profitability in the reporting period. Moreover, R. STAHL secured its long-term funding with a new syndicated loan agreement at favourable market terms and has thus created the right conditions for further profitable growth. The respective strategy presented by the Executive Board during the reporting period addresses the central current and future developments in our markets and identifies the resulting long-term opportunities for our company. The Supervisory Board will continue to support the Executive Board to the best of its ability, provide advice and carefully examine its proposals and decisions in the interests of the company.

Changes in the Executive Board and Supervisory Board

The Executive Board member Volker Walprecht, responsible for the Finance division, left the company as of 30 June 2019. Until a successor can be appointed, the CEO of R. STAHL AG, Dr Mathias Hallmann, has assumed the tasks of the CFO on an interim basis. In addition, the Supervisory Board member Jürgen Wild stepped down as of 31 December 2019. A new Supervisory Board member will be proposed at this year's Annual General Meeting.

Work of the Supervisory Board

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

Supervisory Board meetings

In the reporting period, the Supervisory Board convened on six occasions, five of which were ordinary meetings with one extraordinary meeting. Mr Erker, Dr Neumann-Schäfer and Mr Wild each had one excused absence. Otherwise, the meetings were attended by all members of the Supervisory Board.

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 R. STAHL Group, as well as on 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. In particular, the following topics were discussed:

At its meeting on 12 March 2019, the Supervisory Board discussed the preliminary annual financial statements, the corporate governance report, the audit results of the CSR report and the company's risk management system.

Following a detailed report by the auditing firm BDO AG Wirtschaftsprüfungsgesellschaft and discussion of the audit results, the Supervisory Board approved the annual financial statements 2018 for the company and the consolidated financial statements 2018 at the balance sheet meeting on 25 April 2019. At the same meeting, the Supervisory Board discussed the individual agenda items and the agenda as a whole for the Annual General Meeting 2019.

The subsequent meeting on 6 June 2019 mainly served as final preparation for the Annual General Meeting 2019 on the following day.

At the extraordinary meeting held via conference call on 17 June 2019, the committee dealt with the resignation of Volker Walprecht as CFO as of 30 June 2019 and the terms for his departure.

The focus of the ordinary meeting in September was an analysis of the trend in operating business. Certain aspects of corporate strategy (IT and sales) were discussed at length. The Supervisory Board was also informed in detail about the current status of talks regarding the new syndicated loan agreement and the status of budget planning for the new financial year.

At its last meeting on 10 December 2019, the Supervisory Board held its scheduled discussion of corporate planning for the coming years and the budget for 2020. Both were approved. In addition, the detailed results of the Group-wide staff satisfaction survey conducted in autumn 2019 were presented. The next steps to be taken based on the findings from this survey were subsequently discussed with the Executive Board. Prior to the meeting, the Supervisory Board received training on the relevant tasks of the Audit Committee, as well as on liability and efficiency aspects from the perspective of the Supervisory Board.

Meetings of the committees

The Audit Committee held three scheduled meetings in the reporting period. Dr Neumann-Schäfer was excused from attending one meeting, otherwise attendance was 100%. 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. In addition, the committee focused on accompanying the detailed preparation of the new syndicated loan agreement for long-term funding and the new lease for the property in Waldenburg.

The Administration Committee held eight meetings in 2019, which were attended by all members. In addition, the committee met several times outside meetings, or coordinated by telephone, in the course of regulating Executive Board matters. In the reporting period, the Administration Committee was largely concerned with the departure of Mr Walprecht and the search for his successor. The committee also prepared the compensation decisions of the full Supervisory Board and presented proposals for the revised service agreements with Executive Board members to the full Supervisory Board. Moreover, it prepared the Supervisory Board's assessment on the appropriateness of Executive Board remuneration.

As activities of the Strategy Committee had already been previously suspended, it was dissolved at the end of the reporting period. Corporate strategy continues to be regularly discussed by the Supervisory Board as a whole.

The chairs of the committees regularly informed the Supervisory Board about the work of their committees in the subsequent meetings.

Auditing of the annual and consolidated financial statements

The annual financial statements of R. STAHL AG as of 31 December 2019, as well as the consolidated financial statements of R. STAHL AG, were audited by the auditing firm selected by the Annual General Meeting and appointed by the Audit Committee of the Supervisory Board, BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, and were both certified without qualification. The auditor's declaration of independence was provided.

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

The Audit Committee discussed the financial statements and audit reports in great detail with the auditors and dealt in particular with the key audit matters. At its balance sheet meeting on 20 April 2020, the Supervisory Board subsequently dealt with all issues relating to the audit of the financial statements. The Audit Committee reported to all members of the Supervisory Board on its findings. The chief auditor was present during the meeting and was on hand for discussions. The Supervisory Board concurred with the audit verdict and raised no objections to the annual and consolidated financial statements and the management reports. In accordance with Sections 170, 171 AktG, the Supervisory Board therefore approved the annual financial statements of R. STAHL AG and the consolidated financial statements, together with the management reports as prepared by the Executive Board. The former is thus adopted. Despite the significant improvement in earnings, the company's loss situation of the previous year does not allow a dividend payment for the reporting year yet.

At its meeting on 5 March 2020, the Supervisory Board also inspected that the separate non-financial report outside the management report ("CSR report") was reporte lawfully, properly and appropriately, and critically reviewed the approach taken by the Executive Board with regard to the methods, processes and procedures used to collect the necessary information and data. No objections were raised. The Supervisory Board approved the CSR report immediately after the meeting. As of 13 March 2020, the CSR report is available on the website **www.r-stahl.com** in the section Corporate/Corporate Responsibility.

The Supervisory Board would like to thank the Executive Board, the employees, and the staff representatives of R. STAHL, in Germany and abroad, for their hard work and dedication.

Peter Leischner
Chairman of the Supervisory Board

ANNUAL FINANCIAL STATEMENTS

OF R. STAHL AG

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 AG

1 January to 31 December 2019

€ 000	2019	2018
1. Sales	9,156	9,645
2. Other operating income	2,002	2,896
	11,158	**12,541**
3. Cost of materials		
Cost of raw materials, consumables and supplies and for purchased goods	19	2
4. Personnel costs		
a) Wages and salaries	6,099	6,349
b) Social insurance contributions and pensions	1,711	1,653
	7,810	**8,002**
5. Depreciation and amortization of intagible assets and property, plant & equipment	307	398
6. Other operating expenses	13,672	16,305
	-10,650	**-12,166**
7. Investment income	2,543	3,320
8. Income from profit transfer agreements	8,160	5,103
9. Other interest and similar income	200	1,292
10. Depreciation on financial assets	1,433	3,517
11. Expenses from transfer losses	0	2,322
12. Interest and similar income	2,830	3,198
13. Income taxes	75	-770
	6,565	**1,448**
14. Result after taxes	**-4,085**	**-10,718**
15. Other taxes	33	35
16. Net loss for the year	**-4,118**	**-10,753**
17. Loss carryforward	-14,715	-3,962
18. Balance sheet loss	**-18,833**	**-14,715**

BALANCE SHEET OF R. STAHL AG

as of 31 December 2019

€ 000	31 Dec. 2019	31 Dec. 2018
ASSETS		
A. Non-current assets		
I. Intangible assets		
1. Industrial property and similar rights, acquired for a consideration	527	761
2. Prepayment made	1,553	1,440
	2,080	**2,201**
II. Property, plant and equipment		
1. Properties and buildings, including buildings on third-party properties	1,719	1,748
2. Technical equipment and machinery	6	9
3. Other plant as well as operating and office equipment	37	39
	1,762	**1,796**
III. Financial assets		
1. Equity interests in affiliated companies	67,391	67,231
2. Loans to affiliated companies	5,024	6,557
3. Equity investmens	6,403	7,086
	78,818	**80,874**
B. Current assets		
I. Receivables and other assets		
1. Trade receivables	35	35
2. Receivables form affiliated companies	9,501	9,026
3. Other assets	3,634	45
4. Prepayments made	0	139
	13,170	**9,245**
II. Cash in hand and bank deposits	872	2,837
C. Prepaid expenses and deferred income	**332**	**149**
	97,034	**97,102**

BALANCE SHEET OF R. STAHL AG
as of 31 December 2019

€ 000	31 Dec. 2019	31 Dec. 2018
EQUITY AND LIABILITIES		
A. Equity		
I. Subscribed capital	16,500	16,500
II. Capital reserves	18,666	18,666
III. Sales reserves		
Other sales reserves	18,447	18,447
IV. Balance sheet loss	-18,833	-14,715
	34,780	**38,898**
B. Provisions		
1. Pension provisions	16,162	15,862
2. Provisions for tax	6	145
3. Other provisions	1,677	2,336
	17,845	**18,343**
C. Liablities		
1. Liabilities to banks	9,984	10,000
2. Trade payables	865	975
3. Liabilities to affiliated companies	33,349	28,315
4. Other liabilities	211	571
	44,409	**39,861**
	97,034	**97,102**

GLOSSARY

IMPORTANT FINANCIAL AND ECONOMIC TERMS

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

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

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

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

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

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

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

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

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

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

Free float
Number of shares owned by diverse shareholders

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

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

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

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

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

ROCE (Return on Capital Employed)
ROCE is a profitability figure and calculated by dividing EBIT by capital employed, i. e. the sum of equity and interest bearing debt minus cash and cash equivalents.

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

IMPORTANT COMPANY-RELEVANT TERMS

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

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

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

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

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

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

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

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

LED (Light Emitting Diode)
Light-emitting diode

LNG (Liquefied Natural Gas)
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

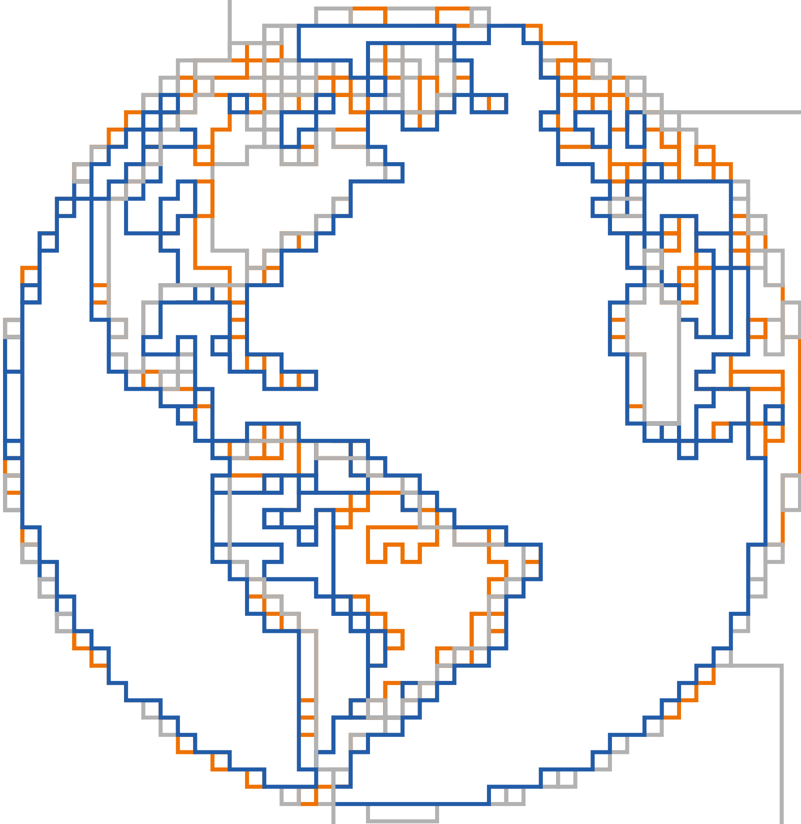
Petrochemistry
Production of chemical products from natural gas and suitable fractions of crude oil

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.

PRODUCTION SITES AND SALES LOCATIONS

Production
Sales



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FINANCIAL CALENDAR 2020

2020

14 MAY

Interim statement as of 31 March 2020

to be disclosed

Annual General Meeting

6 AUGUST

Interim statement as of 30 June 2020

12 NOVEMBER

Interim statement as of 30 September 2020

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