



# Non-financial Group statement

FOR THE FISCAL YEAR 2018  
pursuant to Section 315b HGB



# Foreword

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

We at R. STAHL understand corporate responsibility as a long-term commitment to improving the quality of life of people around the world. Our objective is to create sustainable added value for our stakeholders and to make a material 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, such as the Code of Conduct which is binding for all employees, and we ensure adherence with these guidelines by means of our group-wide compliance management system.

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

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## 1. BUSINESS MODEL OF THE R. STAHL GROUP

Gases, vapours, mists and dusts are created during various production processes in a number of industries. If these are ignited, the resulting explosion can result in severe harm to human life, property and the environment. R. STAHL's innovative electro-technical products and systems – used mainly in the oil and gas industry, as well as in the chemical, pharmaceutical and food industries – are designed to protect people, machines and the environment from the dangers that may arise from such unintended explosion events with utmost reliability, as well as to prevent such explosions from occurring. With our portfolio of products and services, we are the market leader in Europe and the second-largest provider of explosion protection products and solutions world-wide.

The offerings of R. STAHL cover the entire value chain: from individual components such as switches and signalling devices for simple applications, to control boxes and system controls for the distribution of electrical energy, to complete and complex systems for large-scale projects in the field of oil and gas production or the (petro) chemical industry, for example. R. STAHL is the global market leader for lighting solutions based on energy-efficient LED technology in explosion-protected areas. In addition, we offer a strong portfolio of automation solutions for controlling, managing and monitoring technical facilities, including the market-leading remote I/O system, IS1+, as well as operating units and camera systems. R. STAHL's expertise in the systems business – one-stop solutions for complex customer-specific problems and requirements – is also unique throughout the world. A major pillar here is our engineering and consulting expertise, which we are continually expanding and keeping at top-notch level. All of our products and services meet highest safety standards, reflecting almost 100 years of experience in the field of explosion protection.

The parent company of the R. STAHL Group is R. Stahl Aktiengesellschaft in Waldenburg, Germany (in the following R. STAHL AG), which sets the strategic alignment of the Group's subsidiaries and performs corporate management and controlling functions. It also acts as a service provider within the Group and advises and supports the subsidiaries. With around 800 employees, the Waldenburg site is not only home to the parent company, R. STAHL AG, but also to R. STAHL Schaltgeräte GmbH and various service and administration companies.

At the end of 2018, R. STAHL had a total of 29 subsidiaries in 25 countries on all continents actively engaged in the explosion protection market, as well as 50-plus representative offices around the world and seven production sites with different core competencies. Lighting and signalling devices are produced mainly in Weimar, Germany, and Chennai, India, while automation technology products are developed and manufactured in Cologne and our main base in Waldenburg. Most of the components for installation, such as switches, terminal boxes and connectors, are also produced in Waldenburg. Customized equipment and more complex explosion protection systems are produced in Waldenburg, as well as by the subsidiaries Electromach B. V. (Hengelo, the Netherlands), 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 ship-building and the oil and gas industry.

In 2018, the 1,690 employees (as of 31 December 2018) of the R. STAHL Group generated sales of € 280.1 million.

## 2. METHOD OF PREPARING THE CONSOLIDATED NON-FINANCIAL STATEMENT

As in the previous year, this non-financial statement is based on the WIN Charter sustainability management system developed especially for small and mid-sized enterprises (SMEs) by the Sustainable Business Practices Initiative (Wirtschaftsinitiative Nachhaltigkeit – WIN) of the German state of Baden-Württemberg. The WIN Charter provides a seal of quality with regard to its assessment and evaluation features as well as for the communication of corporate sustainability. It is not in competition with existing sustainability measurement systems, such as the Global Reporting Initiative (GRI) or the German Sustainability Code (DNK), but is based on their criteria and indicators. In addition, the WIN Charter has a clear regional component that justifies its seal of quality for sustainability from the state of Baden-Württemberg and sets it apart from existing systems.

The WIN Charter enables us to meet the requirements of the German CSR Directive Implementation Act to implement the EU guideline 2014/95/EU, which came into force on 19 April 2017. The WIN Charter is geared towards this legislation and covers all the required matters.

The twelve guiding principles of the WIN Charter formulate the common basic values, cover the three pillars of sustainability (economic, ecological and social matters), enable the identification of sustainability-relevant strategies and approaches, provide orientation for implementation in a regional and local context, and offer suitable starting points for communicating sustainability efforts to the outside world.

WIN Charter guiding principles	Key sustainability topic
01 – Human rights and employee rights	
02 – Employee welfare	3.1 Human rights, social and employee matters
03 – Stakeholder groups	
04 – Resources	
05 – Energy and emissions	3.2 Environmental matters
06 – Product responsibility	
07 – Corporate success and jobs	3.3 Economic benefits
08 – Sustainable innovation	
09 – Financial decisions	3.4 Sustainable and fair finances
10 – Anti-corruption	
11 – Benefits for the region	3.5 Benefits for the region
12 – Incentives to think in new ways	

### Summary of the WIN Charter guiding principles on the relevant key sustainability topics of R. STAHL

For the preparation of this non-financial statement, we determined the material factors influencing the sustainable business success of R. STAHL as part of a materiality analysis. We then assigned these factors to the guiding principles of the WIN Charter and summarized them in five topic areas (see table).

In the following, we will discuss our concepts, risks and performance indicators relating to these topics. Further information on our risk situation can be found in the RISK REPORT section of the Group Management Report 2018, which will be published on 26 April 2019 on our website [www.r-stahl.com](http://www.r-stahl.com) in the section Corporate/Investor Relations/IR News and Publications/Financial Reports.

Unless stated otherwise, the statements with a regional reference refer mainly to the sites of our largest production company R. STAHL Schaltgeräte GmbH in Waldenburg and Weimar. We are working on systematically extending the group of subsidiaries included in our non-financial reporting to the entire R. STAHL Group. In the reporting period, we were able to include our production sites in India and the USA in this report for the first time. Our new global corporate structure with central divisional responsibilities introduced on 1 April 2018 has created favourable structural conditions for the integration of further locations.

The contents of this report equally address all genders. For the sake of readability and without any intent to discriminate, only the male form is used, thereby including all genders.

### 3. KEY SUSTAINABILITY TOPICS OF THE R. STAHL GROUP

#### 3.1 HUMAN RIGHTS, SOCIAL AND EMPLOYEE MATTERS

##### 3.1.1 Human rights and employee rights

We regard human rights and employee rights as fundamental values and attach great importance to observing them. As a company largely owned by its founding families, the R. STAHL Group regards values such as mutual respect, support for colleagues, and joint problem-solving as particularly important and also lives these values in its daily actions. This also includes cooperation with internal and external employee representatives.

In order to safeguard our objectives, we have implemented a Compliance Management System. Our aim of drafting a Code of Conduct for suppliers and agents, formulated in the previous year, was put into effect in the reporting period. We are also committed to compliance with the Code of Conduct of our industry association (German Electrical and Electronic Manufacturers' Association – ZVEI). In terms of measures, we run training courses and request letters of commitment. As part of our hiring process, we ensure that new staff are aware of our behavioural guidelines and Code of Conduct and regularly check this knowledge via e-learning systems. The Internal Audit department regularly reviews the effectiveness of these measures and we record feedback and proof of test participation.

The success of our work is reflected in the very low number of individual or collective legal proceedings at both national and international level, as well as the absence of arbitration procedures required by worker codetermination laws. We have also not received any complaints under the General Act on Equal Treatment yet.

The aforementioned measures and processes ensure that we address the risks – especially from damage claims and damage to our reputation – arising from inadequate compliance with the concepts we pursue. It must be taken into consideration that SMEs in particular have only limited monitoring capacities. This means that seamless controls along the entire supply chain are hardly possible, due in part to the variety of sub-suppliers.

### 3.1.2 Employee welfare

In view of the competition for skilled and motivated personnel, we have introduced a series of measures to ensure that our current and future employees perceive us as an attractive employer. As an essential expression of our corporate responsibility and values, we respect, protect and promote the health, interests and welfare of our employees. Together with our culture of trustful communication, we believe that this not only helps improve their performance but also encourages their long-term commitment to the company. Our preventive efforts in the field of occupational safety begin by raising awareness among our employees and those superiors who integrate this important topic into their regular communication activities. In all corporate departments, for example, accidents and entries in the first-aid book are analyzed in order to derive new measures aimed at continuously improving the safety of work processes. With regard to the company's precautionary measures, we conduct regular inspections of working conditions, ergonomics and occupational safety together with the Works Council, the safety officers responsible and our company doctor, and implement any remedial measures deemed necessary. In the reporting period, for example, potential ergonomic improvements were identified in various production areas of our Waldenburg site and additional tools were provided for lifting and moving loads. We have installed a safety, health and environmental protection committee and a health management system at our German sites in order to safeguard our goals and measures. Our ultimate objective is to achieve a zero work accident rate ("Vision Zero"). In order to achieve this target, we held workshops with managers, carried out various action plans and conducted a staff survey during the reporting period. We also offer preventive healthcare measures, such as vaccinations, medical consultations with our company doctor, and participation in our sports groups. Wherever possible from an operational perspective, we endeavour to meet employee requests for part-time work in order to help them reconcile work and family life.

To promote the well-being of our employees, we provide company restaurants with subsidized meals at our largest locations. Furthermore, we offer numerous voluntary social benefits, such as paid leave for weddings, the birth of a child, moving to a new home, or bereavements. In addition to paid leave, we also support employees in the form of gifts for family members on special occasions. We create a working atmosphere conducive to promoting partnership and cooperation by holding sports festivals and Christmas parties, as well as by organizing events to celebrate service anniversaries and reunite company pensioners. At our site in Chennai, India, we also offer a shuttle service for our staff from their workplaces to their homes.

The quantitative performance of these employee welfare measures is assessed annually via the staff turnover rate and sickness rate. At 1.9%, the proportion of employees leaving R. STAHL at their own request remained at the low prior-year level (2017: 1.9%), while the sickness rate was slightly higher at 4.5% (2017: 4.2%) and on a par with the average for Germany (4.3%). The number of work accidents is below the industry average.

Together with our proactive HR marketing activities, career development programmes and active succession planning, the measures we take are designed to counter the current risk posed by a shortage of skilled workers – especially in the strong economic region of Hohenlohe-Franconia. There are also opposing risks from own business activities, for example measures to reduce staff or a lack of career prospects.

## 3.2 ENVIRONMENTAL MATTERS

### 3.2.1 Resources

A key aspect of our efforts to protect and preserve the environment is our responsible use of resources. Our aim is to continuously enhance our resource efficiency by increasing raw material productivity and reducing the use of natural resources. One example is the optimization of specific material consumption in the manufacture of stainless steel housings at our site in Chennai, India. We have set ourselves a target of >90% and continued to drive these efforts in the reporting period.

Our programmes for avoiding errors in production, discussed in more detail under **Product responsibility** (Section 3.2.3 of this report), represent a significant contribution to the topic of resource efficiency. By developing new products that require less material and energy to manufacture and in their later use, we are making a targeted and long-term contribution to raising resource efficiency along the entire value chain. Examples of this are provided in the section **Sustainable innovation** (Section 3.3.2 of this report).

In addition to waste prevention, a further cornerstone of our sustainable use of resources is the growing separation and recycling of waste. To this end, we prepare and distribute waste manuals in paperless form with instructions for our employees. We also participate in workshops of the Working Group Waste of "Modell Hohenlohe" (a regional network for corporate environmental protection and sustainability). Our performance indicator in this field is the recycling rate, in other words the amount of recycled waste as a proportion of total waste generated. We have developed a process for this purpose which records the current recycling rate and enables us to identify potential for further improvements. In the reporting period, we were able to maintain a high recycling rate of 82.3% (2017: 84.0%). Non-recycled waste was sent for thermal utilization.

The fundamental risks associated with the efficient use of resources are the developments in the waste management market. Moreover, political and regulatory requirements may lead to changes in the risk situation. Neither of these aspects is within our immediate sphere of influence. We counter the possible risk of material-related resource bottlenecks resulting from our business activities by establishing supply channels with several suppliers.

### 3.2.2 Energy and emissions

Energy and emissions is a further focus area of our activities relating to environmental matters. In addition to the use of renewable energies, we also aim to increase our energy efficiency so that we can reduce our greenhouse gas emissions or compensate for them in a climate-neutral manner. Against this backdrop, our facilities in Waldenburg, Weimar and Cologne are certified according to DIN EN 16247 and the measures this involved have enabled us to reduce CO<sub>2</sub> emissions by more than 30% in the last five years. Our highly efficient combined heat and power plant in Waldenburg, which started regular operations at the beginning of 2015, has made a major contribution to the long-term reduction of emissions. In addition, 22.6% of annual electricity requirements at our Waldenburg site, and 9.7% at our Indian site in Chennai, were covered by our own photovoltaic systems in the reporting period.

The quantitative performance measurement of our efforts to improve energy and emission efficiency is based on the use of our energy sources, electricity and gas, in relation to sales (kWh/€) as well as the volume of CO<sub>2</sub> emissions in relation to energy usage (t/kWh). In order to identify focal points of consumption and additional potential savings, we continue to install further energy consumption recording and evaluation systems. We also continuously check our ventilation systems and equipment for generating compressed air – which account for a significant part of our energy consumption – with regard to their energy efficiency and develop concepts for improvement measures. By installing electricity meters on the main supply lines at our Waldenburg site, we have created the basis for decisions to convert the compressed air system and improve the energy efficiency of our ventilation drives. A further five electricity meters were installed in various areas in 2018. In order to improve the accuracy of our analyses and evaluations, we are planning to install additional consumption meters in 2019. The certification of our Indian production site in accordance with ISO 14001:2015 has laid the foundation for a standardized continuous improvement process for our environmental performance.

The external risks arising from the topic of energy and emissions mainly relate to changes in the legal requirements. With regard to minimizing risks along our supply chain, we operate a cogeneration unit at our Waldenburg site to secure electricity supplies. In addition, we cover part of the electricity requirements at our production sites via our own photovoltaic systems, which make us independent of purchased energy sources.

### 3.2.3 Product responsibility

The key elements of product responsibility we have identified are: the harmlessness, customer safety, product transparency and labelling of our products, our environmental impact and our feedback culture.

In order to secure the harmlessness and customer safety of our products, we obtain declarations from our suppliers stating that no conflict materials are used within the supply chain we can influence. This was prompted by the US Dodd-Frank Wall Street Reform and Consumer Protection Act which aimed to strengthen accountability and transparency, and to provide proof that by using certain raw materials (conflict materials) in their production, companies were not funding armed groups in or near the Democratic Republic of the Congo. Against this backdrop, we conduct annual surveys among those suppliers whose products contain conflict minerals in accordance with the RMI standard (Responsible Minerals Initiative, <http://www.responsiblemineralsinitiative.org>) and using the Conflict Minerals Reporting Template (CMRT). The requests for information are triggered annually by a process stored in the QM system "Procurement Service" on the basis of the latest CMRT and the currently valid Smelter List. In the reporting period, our requests were answered by more than 75% of our suppliers. The CMRT report is also provided to customers on request. We ensure meaningful reports by checking, monitoring and requesting information from our suppliers. We also conduct regular audits of our 100 or so top suppliers with the aim of auditing at least 20% of them annually. In 2018, we carried out a total of 20 supplier audits and a similar number (19 currently planned) is anticipated in 2019. A Statement on Conflict Minerals is also made available on our website, in which we undertake to comply with the high standards imposed by our industry association ZVEI.

With regard to the transparency and labelling of products, we consider the proportion of our products that is subject to statutory information requirements. In the heavily regulated market for explosion protection solutions, all products are subject to labelling requirements in accordance with the respective legislation. In 2018, we met all requirements by 100%. Our products all have multilingual operating instructions (German, English and other languages), which can be viewed online at any time. These include all required information and instructions for safe and proper installation, commissioning, usage, maintenance and disposal.

We regularly evaluate the extent of environmental pollution that can result from the use of toxic materials in our products. Against this backdrop, we confirm our compliance with the European regulation concerning the registration, evaluation, authorization and restriction of chemicals (REACH) and the directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS). In principle, our aim is to completely dispense with raw materials and purchased parts which contain health-endangering substances wherever possible. Insofar as it is technically feasible, we therefore replace raw materials and components containing substances requiring declaration with those which contain harmless materials. When using substances with manufacturing or usage restrictions, our products are provided with corresponding declarations.

In order to monitor forbidden or restricted materials, we store substance-specific information in our central data system and also use it to certify the compliance of our products. The data is entered in accordance with DIN EN 62474 (Material Declaration for Products of the Electrotechnical Industry – IEC 62474 Database on Material Declaration – Information of the "European Chemical Agency" (ECHA) – Supplier Data from Annual Declaration of Ingredients According to IEC 62474). We pass on information to our customers by means of statements on the conformity of our products with RoHS, WEEE, battery and other national, European and international regulations and guidelines for the monitoring of raw materials and purchased components regarding forbidden substances and those which must be declared. In this way, we ensure compliance with the relevant guidelines.

In addition to the direct measures taken in our operational processes described above, we also sustainably reduce the environmental impact of our entrepreneurial activities by developing resource-conserving new products. Details on these products are provided in the following topic area **BENEFITS FOR THE ECONOMY** (Section 3.3) of this report. We regularly incorporate feedback from our customers into the continuous improvement of our processes and products. An essential aspect of our feedback culture is delivery quality, which we monitor via the average complaint rate. For this purpose, we have established an online complaint management system in which all incoming customer complaints are evaluated according to originators and causes. In the reporting period, the complaint rate for the R. STAHL Group was 1.04%. We thus almost achieved the target we set in the past year of reducing this figure to below 1%. For 2019, we have also set a target of <1% for our complaint rate. We regard the regular recording of customer satisfaction with our products and services as a further important element of an efficient feedback culture. As planned, we continued to make progress in the reporting period with our preparations for a customer satisfaction analysis to be conducted in 2019.

### 3.3 ECONOMIC BENEFITS

#### 3.3.1 Corporate success and jobs

In order to achieve sustainable success in dynamic markets, companies need excellent products and fast market access, as well as competitive corporate structures and processes. Since focusing on explosion protection in 2005, R. STAHL has continuously and consistently expanded its global market positions – with innovative and value-adding new products, its evolution from component manufacturer to system supplier, its regional expansion in growth markets and with its company acquisitions. However, the decline in sales and earnings in 2016 and 2017 highlighted that our cost and corporate structures, as well as our operational processes, were not sufficiently sustainable to also operate profitably under difficult market conditions. We have therefore given top priority to reducing our high level of complexity in these areas and thus raising the efficiency of our structures and processes. We intend to achieve this with the Group's global realignment programme "R. STAHL 2020", which we began to implement in early 2018. Further details and information on R. STAHL 2020 can be found in the Annual Report 2018. By significantly improving profitability, we aim to create the necessary conditions and scope to exploit the opportunities for sustainable and profitable growth in our markets more fully in future. The various measures are expected to be largely implemented by the end of 2019.

As a technology-driven manufacturing company, we compete globally and regionally for skilled and well-trained employees. In Waldenburg in particular, the Group's largest production site in the Hohenlohe-Franconia region, demographic change has led to an increasing shortage of apprentices and skilled workers. This motivated us to differentiate our apprenticeship activities with the "Dualis" quality seal of the Heilbronn-Franconian Chamber of Commerce (IHK Heilbronn-Franken). The aim was to improve our prospects amid growing competition for skilled staff and to be able to demonstrate the high quality standards of training at R. STAHL to school-leavers and students. Dualis is a certificate awarded by IHK Heilbronn-Franken for companies with above-average training quality in dual training courses. Staff from our HR and Training departments played a leading role in the development of this certificate. R. STAHL was thus the first company in the region to be certified by "Dualis". In 2016, R. STAHL Schaltgeräte GmbH was successfully re-audited by the IHK Heilbronn-Franken. The findings of this first re-audit underlined that the standard of training remains above average and has even increased since the first audit four years ago. Our apprentices have thus become compelling educational ambassadors for us. At our locations in Waldenburg and Weimar, the apprenticeship ratio, i.e. the ratio of apprentices to the total workforce, remained at a consistently high level of 8.8% (2017: 8.5%). Further measures to secure our long-term personnel requirements can also be found under **Benefits for the region**, Section 3.5.1.

We also successfully reach out to young people by participating in a total of nine vocational training fairs and careers information days, publishing brochures on our training possibilities, offering company tours and placing job ads in the relevant online and print media. This enables us to attract suitably qualified applicants for our available apprenticeship positions. Our efforts focus in particular on raising our regional profile by cooperating with kindergartens and schools and getting girls and young women interested in MINT professions. We also give teachers the opportunity to get to know R. STAHL and the quality of its training and careers by allowing them to sit in on lessons or tour the company. In addition, we have numerous cooperation arrangements with schools in the Hohenlohe district and offer various internships with clearly defined content and processes.

In order to secure adequate manpower resources, our HR policy also considers other factors. These include the targeted promotion of employees through training opportunities and job rotation, the promotion of diversity in the workforce, equal opportunities and fair remuneration (see also **Employee welfare**, Section 3.1.2). With the aid of in-service training, we were able to cover 40% of vacancies with employees from our own ranks in the reporting period; a total of 10 of our employees were seconded from our headquarters in Waldenburg to foreign subsidiaries. We also expanded the scope of our leadership training by adding additional modules and trained 31 employees in the reporting period. Our skills management system uses suitable IT systems to derive individual training needs and provide appropriate offers. We regularly evaluate the effectiveness of the seminars and training we offer. During the reporting period, we trained a total of 1,075 employees on 180 days.

A further focus area of our HR activities at the Waldenburg site, where we employ people from 25 different nations, was the help we offer refugees to find employment. The basic idea of fair remuneration – by which we also mean the principle of equal pay for equal work – has already been largely implemented at our German sites on the basis of statutory requirements and the Remuneration Framework Agreement (Entgeltrahmenabkommen, ERA) which forms part of the collective bargaining agreement. We also consider it a success of our compliance measures that we did not receive any inquiries from the workforce under the Transparency in Wage Structures Act (Entgelttransparenzgesetz) during the reporting period.

As a leading technology company, the ability to find highly skilled employees for the respective positions is of vital importance for our success. The main risks result from a possible shortage of suitable specialists and in the loss of knowledge due to key employees leaving the company. We counter these risks with the measures described under **Employee welfare** (Section 3.1.2 of this report). Further information on how these risks were handled in the reporting year is provided in the Group Management Report 2018 in the section BASIC PRINCIPLES OF THE GROUP under the heading BUSINESS MODEL.

### 3.3.2 Sustainable innovation

Explosion protection guarantees the safety of people and the environment. New and innovative explosion protection solutions which further increase this safety are thus firmly in line with the fundamental objectives of sustainability.

R. STAHL's technology-leading position in the field of explosion protection is based on the strategic anchoring of research and development in our business activities. On average, we invest between 5 and 7 percent of our annual sales in these activities. In 2018, our research and development expenses amounted to € 19.3 million, corresponding to 6.9 percent of sales. In addition, workplace-oriented continual improvement processes (CIP) and our company suggestion scheme (see also Section 3.5.2 of this report) form the basis for the continuous optimization of our products. For many decades now, we have been driving the fundamental technological development of explosion protection: examples include the first use of plastic for explosion-protected enclosures in the 1960s, the first explosion-protected fieldbus system and the introduction of remote I/O systems in process automation. For the development of new products, we not only draw on our extensive technological and market expertise, but above all on our findings from customer discussions. Moreover, we already focus on excellent workmanship and durability during the development phase in order to conserve resources over the long term and promote sustainability. For example, our market-leading range of explosion-protected LED luminaires offers customers numerous solutions to significantly reduce their environmental impact, as LED technology features significantly lower power consumption and longer lifetimes compared to conventional lighting. This reduced electricity consumption also allows the use of cables with smaller diameters, thus reducing the size and weight of the luminaires and enabling additional savings in material usage and freight costs. Together with the longer lifetimes of LED lights, these benefits reduce costs over the entire operating and life cycle. Last year, we set ourselves the target of increasing the proportion of luminaires based on LED technology that we sell to between 35% and 45%. In the reporting period, we easily achieved this target with a ratio of 41%. We intend to increase this share further in 2019. By 2020, at the latest, sales of LED-based luminaires should exceed those of conventional luminaires for the first time. Our newly developed EXpressure® enclosure line based on a completely new and revolutionary technological approach for flameproof enclosures ("Ex d") – of particular importance in explosion protection – also represents a significant step forward in the efficient use of resources compared to previous solutions. While maintaining the same uncompromising level of explosion protection, EXpressure® offers users the benefits of significant material and weight savings for metallic enclosures. In addition, it enables the use of significantly larger

enclosure shapes. For applications in which the transport and installation of explosion-protected parts involves particularly high technical and material costs, for example on ships and oil rigs, the use of the lighter EXpressure® enclosures also offers considerable resource savings. We began marketing EXpressure® in 2018.

In order to quantify our innovative strength, we not only record the new product ratio – the proportion of products sold that are less than five years old – but also the number of patent families in which we actively hold patents. In 2018, our new product ratio was about one third, and we held a total of 252 patents in 71 patent families. Further information on our activities and success in the field of research and development is provided in our Group Management Report 2018 in the section BASIC PRINCIPLES OF THE GROUP under the heading RESEARCH AND DEVELOPMENT.

The high innovative strength of our organization and our employees makes them fundamentally attractive for our competitors, translating into a corresponding risk of losing development employees and know-how to these competitors. We counter this risk by taking measures to maintain and enhance our attractiveness as an employer (see also Sections 3.1.2 and 3.5 of this report).

## 3.4 SUSTAINABLE AND FAIR FINANCES

### 3.4.1 Financial decisions

In order to take responsible financial decisions, it is essential to have meaningful key performance indicators (KPIs) and established analytical and control processes. The financial management of the R. STAHL Group is based on a three-year budget for order intake, sales, earnings and liquidity prepared once a year. In addition, there is a regular rolling twelve-month forecast of the key earnings-related variables prepared as part of the monthly financial performance review. Further details on R. STAHL's management system are provided in the Group Management Report 2018 in the section BASIC PRINCIPLES OF THE GROUP under MANAGEMENT SYSTEM.

Sustainable financial management also requires a regular dialogue with the company's investors. The company's liquidity is secured at all times by bilateral financing agreements with various banks. In addition, we concluded a syndicated loan agreement in 2015 with a term of five years and a total volume of initially € 95 million (adjusted by R. STAHL in August 2018 by termination of a partial volume of € 30 million to € 65 million), with an expansion option of € 25 million for acquisitions. This not only created scope for investment in organic growth, but also for acquisition opportunities which might result from consolidation in our competitive environment or the technological expansion of our product portfolio. We provide liquidity for our subsidiaries via a group-wide cash pooling system. A further method for steering liquidity is the active management of our working capital.

In addition to securing long-term debt options, we also attach great importance to our sustainable relationships with R. STAHL's equity providers, i.e. our shareholders. With a clear and reliable dividend policy, we want our shareholders to participate appropriately in the company's success. In addition, we regard our proactive dialogue with our shareholders as an important contribution to reducing the risk premium and cost of capital, as well as to retaining long-term oriented shareholders. In this way, we also counter the inherent risks of a lack of operational continuity and sustainability which may result from frequent significant changes in the shareholder structure.

As part of the investment programme we implemented in the years 2012 to 2015, we built a new development centre in Waldenburg and established cutting-edge production and administrative capabilities in the field of automation at our facility in Cologne. This created a solid foundation for future sustainable growth. After completing these expansion measures in 2016, annual capital expenditure has returned to approximately the same level as annual depreciation and amortization.

Finally, sustainable financial activities also require targeted measures for dealing with financial risks. In order to minimize our financial risks, we have implemented a number of processes in our group-wide risk management system. Details can be found in the Group Management Report 2018 in the section RISK REPORT.

### 3.4.2 Anti-corruption

Our basic understanding of entrepreneurial activity is based on fair competition, which we aim to win via the quality and value of our innovative products and services. We are therefore committed to strict compliance without exception with all national and international regulations and laws, in particular with regard to the illegal offering or granting of unfair advantages (corruption) in connection with business activities, directly or indirectly, in the form of cash or any other services. To ensure this objective, we implemented a group-wide Code of Conduct in 2009 which all employees are informed about via e-learning systems. In addition, we require our global executives to submit annual declarations of their commitment to compliant behaviour in all aspects of competition law. We also support compliance with our Code of Conduct by anchoring an authorization matrix and dual control principle in our organization. This states that legally binding and financially effective decisions cannot be taken by one individual alone, but only by two persons with the corresponding authorization. Even if, due to our business model, we generally consider the risk of being involved in money laundering to be relatively low, we are creating additional hurdles to preventing them with the aforementioned measures. Event-driven checks of possible non-compliant behaviour with regard to regulations or laws are given top priority by our Internal Audit department. Experience has shown that our measures have raised awareness of the importance of acting in accordance with guidelines. This is also reflected, for example, in the number of staff queries to the Compliance Officer regarding doubts about the acceptance of invitations or gifts. Since establishing these measures and processes, there have been no reported cases of violations. Compliance with antitrust regulations, for example in the design of industry-specific technical standards that are extremely important in our business, is ensured by event-related trainings on a case-by-case basis.

The risks arising from non-compliant behaviour may be significant and can result, for example, in damage claims, fines, penalties, reputational damage or exclusion from tendering processes for public-sector contracts. With regard to the restricted auditing capacities of SMEs, it should be noted that there are only limited possibilities for end-to-end controls, especially along the entire supply chain with a variety of sub-suppliers. However, due to the training measures taken and our corporate culture, we regard the risk of violations by R. STAHL employees as relatively low.

## 3.5 BENEFITS FOR THE REGION

### 3.5.1 Benefits for the region

R. STAHL can look back on over 140 years of history as a traditional mid-sized company. Our production and sales facilities are located around the world and more than 85% of our workforce is based at our seven international production sites. We generate a particularly high benefit for the regions in which these major sites are located.

R. STAHL's deepest roots are in the German state of Baden-Württemberg. For many decades now, our largest production facility has been in the Hohenlohe-Franconia region, and since 2001 in Waldenburg. Around half of our total workforce is based at this site, as well as our training department, thus making the region especially important for the R. STAHL Group. We are committed to expanding the local educational infrastructure, including initiatives for the preparation, support and implementation of industrial automation and "Industry 4.0", helping to ensure the future viability and prosperity of the region. We are also a member of "Innovationsregion Hohenlohe e. V.", an association of leading regional companies dedicated to supporting thorough training and further education for the employees of the participating companies. It has already resulted in the "MINTec" project (MINT: **M**athematics, **I**nformatics, **N**atural Sciences and **T**echnology), which promotes the teaching of scientific and technical topics in kindergartens and schools and trains apprentices to become learning partners, as well as the "GABI" project (joint training initiative), which we support with a number of activities. R. STAHL apprentices are given regular didactic training to help inspire children at cooperating schools and kindergartens to later take up MINTec professions. During the project, our apprentices teach and support children and pupils in the MINTec workshop. Our range of activities is rounded off by Inventor Days. "Innovationsregion Hohenlohe e. V." also succeeded in procuring generous grants from the foundation "Landesstiftung Baden-Württemberg" to support its MINTec activities. A further focus area of the association is to strengthen networking between regional companies, local technical colleges and the Reinhold-Würth University. In addition, support is given for the expansion and further development of Campus Künzelsau, Campus Schwäbisch Hall and Heilbronn University of Applied Sciences. This ensures the long-term, seamless continuation of MINTec – from kindergarten to university. Common interests of the association's member companies are translated into specific training and further education measures. For example, a two-year electrotechnical apprenticeship was launched and new university courses have been set up in line with the requirements of member companies. Moreover, executives are involved in educational work, for example by playing a leading role on the Advisory Board of Heilbronn University of Applied Sciences or serving as board members for the support associations of technical or commercial colleges in the region. As part of their holistic education programme, apprentices at R. STAHL also have the opportunity to gain experience in social projects in addition to their technical training. A social project week is held annually during the last school week before the summer holidays, with around 40 trainees supporting various social institutions with a total of around 1,600 working hours. For example, we support local retirement homes, facilities for the disabled, and the SOS Children's Village in Waldenburg. We also play an active role in helping refugees integrate into local society and provide ongoing support for them. In 2018, two refugees successfully completed the technical apprenticeships they began in 2016 and were taken on as skilled workers; three others began their technical apprenticeships in the reporting period.

With a budget of 2% of its annual net profit, our subsidiary in India supports local projects in the region including the Roshini Homes children's home, which provides shelter and education for orphans. In the USA, our employees in the Greater Houston region support the Salvation Army by donating money for Christmas presents (Angel Tree) which are given to people in need. In the reporting period, Christmas presents were handed out to seven adults and seven children.

Risks associated with the above mentioned measures mainly relate to the availability of the necessary funds and employee capacities.

### 3.5.2 Incentives to think in new ways

The continuous improvement of products and processes requires systematic management of ideas and innovation. The aim is to harness and integrate the knowledge and creativity of all employees in order to strengthen our competitiveness.

Our R. STAHL 2020 efficiency programme, launched in 2018, involves far-reaching changes in the Group's organization and processes. The common theme of all these measures is the streamlining of structures and processes along the entire value chain – also known as “lean management”. A key success factor here is the rapid and targeted implementation of measures, which requires close control of the change process. The main tenet of lean management is the creation of a permanent change culture, not limited to the one-off application of efficiency methods but in the sense of a management approach for the holistic development of a company towards a learning organization. As a core element of R. STAHL 2020, lean management therefore plays a vital role in the sustainable and efficient use of resources and in maintaining our competitiveness – thus addressing a large number of key sustainability aspects. With this in mind, we expanded our lean management organization in the reporting year 2018.

To further continuously develop our organization, we are pursuing the two complementary methodological concepts of Employee Suggestion System (ESS) and Continuous Improvement Process (CIP), which partly overlapped in the year under review due to the extensive efficiency measures initiated and therefore did not allow a sharp separation. ESS encourages the spontaneous generation of ideas and its procedures are regulated in a Works Agreement. The ideas and suggestions for improvement which employees submit are assessed by an Evaluation Committee, which usually invites experts from the relevant departments to provide support. Good suggestions for improvement are recognized with cash or non-cash rewards. The second concept adopted by R. STAHL, CIP – also known as “kaizen” in the language of lean management – usually involves controlled idea generation as part of a standard-compliant quality management process. The aim is to continuously improve existing processes, even in small steps. In 2018, we trained 316 production employees in lean management (Six Sigma) methods. A total of 755 kaizens and suggestions according to ESS were implemented at our German sites and 119 at our production facility in Chennai. This resulted in sustainable annual savings in the low single-digit million range. Targets for 2019 are to achieve a Six Sigma training rate of 100% in all production sites, to further optimize production processes through the quantitative control of value streams, and to increase the number of kaizens to 950. In addition, we also aim to clearly separate the two concepts ESS and CIP again.

Our ideas management measures are supplemented by further incentives to think in new ways. These include “STAHL goes crazy”, a creative project series initiated by our apprentices to promote lateral thinking. We also regularly organize colloquia with speakers who discuss interdisciplinary topics from various areas with our executives, such as health, social policy or personal development. The aim is to raise awareness among staff for accountability and sustainability in word and deed – something which is manifested in our daily work and corporate culture.

#### 4. FINAL REMARKS

With the introduction of the German CSR Directive Implementation Act on 19 April 2017 to implement the guideline 2014/95/EU (so-called CSR guideline to disclose non-financial information and details concerning diversity), and in accordance with Section 315b HGB, R. STAHL is required to include a "non-financial Group statement" in its Group Management Report for the first time as of the financial year 2017. Pursuant to Section 315c in conjunction with Section 289c HGB, the company must provide details on the five aspects Environmental Matters, Employee Matters, Social Matters, Respect of Human Rights, and Anti-Corruption and Bribery Matters. These aspects are fundamental elements of our sustainability-relevant activities. As in the previous year, R. STAHL is utilizing the option under Section 315b (3) HGB of alternatively publishing a separate non-financial Group report for the fiscal year 2018, outside of its Group Management Report, which is available on the company's website [www.r-stahl.com/](http://www.r-stahl.com/) in the section Corporate/Sustainability.

The reporting period for this non-financial Group statement is the calendar year 2018. The reporting period is thus identical to those of the Consolidated Financial Statements 2018 and the Group Management Report 2018. The non-financial Group statement is prepared and published annually.

#### Waldenburg, 5 April 2019

R. Stahl Aktiengesellschaft



Dr. Mathias Hallmann  
Chief Executive Officer



Volker Walprecht  
Member of the Executive Board

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