

A woman is shown in profile from the back, looking out over a city skyline. She is using her hands to frame the sun, which is low on the horizon, creating a lens flare effect. The city buildings are visible in the background, and the overall scene is bathed in warm, golden light.

SIMONA

Financial Statements 2019

SIMONA AG

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Combined Management Report for the 2019 Financial Year

This management report combines the Group management report and the separate management report of SIMONA Aktiengesellschaft, Kirn (referred to also as SIMONA AG, SIMONA or company) (Section 315(3) in conjunction with Section 298(3) of the German Commercial Code – HGB).

This combined management report has been published instead of a Group management report in the annual report of the SIMONA Group.

It includes details relating to the course of business, including performance, as well as the position and expected development of the Group and SIMONA AG. Information pertaining to SIMONA AG has been included in the business review that can be found in a separate section with details presented in accordance with provisions set out in the German Commercial Code (Handelsgesetzbuch – HGB).

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1. Fundamental information about the group

1.1 THE BUSINESS MODEL OF THE GROUP

The SIMONA Group develops, manufactures and markets a range of semi-finished thermoplastics, pipes and fittings as well as profiles. The materials used include polyethylene (PE), polypropylene (PP), polyvinyl chloride (PVC), polyethylene terephthalate (PETG), polyvinylidene fluoride (PVDF), ethylene-chlorotrifluoroethylene (E-CTFE), perfluoroalkoxy (PFA), thermoplastic olefins (TPO), acrylonitrile butadiene styrene (ABS) and various specialist materials. The production methods applied within this area range from extrusion, pressing and injection moulding to CNC manufacturing. SIMONA also maintains its own plastics workshop for the production of customised fittings.

Key sales markets

Semi-finished parts are deployed mainly within the area of chemical tank and equipment construction, mechanical engineering, the transport industry, the construction sector, the exhibition and display sector as well as the automotive and aviation industry. Pipes and fittings are used primarily for drinking-water supply, sewage disposal and industrial piping systems, including the chemical process industry.

The SIMONA Group markets its products worldwide. Categorised geographically according to the regions

- Europe,
 - Americas,
 - Asia and Pacific,
- the business segments comprise the product areas
- Semi-Finished Parts,
 - Pipes and Fittings.

Production and sales locations

Sales activities at Group level are conducted by SIMONA AG and subsidiaries in the United Kingdom, Italy, France, Spain, Poland, the Czech Republic, Russia, Hong Kong, China, India and the United States, both

directly and via trading partners. Beyond this, SIMONA AG operates a sales office in Möhlin, Switzerland. It contributes around 3 per cent to Group sales revenue. The parent company, SIMONA AG, has its registered office in 55606 Kirn (Germany). In the period under review, the SIMONA Group operated three manufacturing facilities in Germany and four plants located abroad. Semi-finished parts (sheets, rods, welding rods) are manufactured at two plants in Kirn (Rhineland-Palatinate), while pipes, fittings and customised parts are produced at a facility in Ringsheim (Baden-Württemberg). The plant in Litvinov (Czech Republic) produces pipes and sheets, while the site in Jiangmen (China) manufactures sheets. The facility operated by SIMONA AMERICA Industries LLC in Archbald (Pennsylvania, USA) mainly produces sheet products. SIMONA Boltaron Inc. (formerly Boltaron Inc.) produces thermoplastic sheet products at its plant in Newcomerstown (Ohio, USA), which are primarily used for aircraft interiors and in the building sector. Additionally, SIMONA PMC, LLC manufactures sheet products at its facility in Findlay (Ohio, USA). Made primarily from thermoplastic olefins (TPO) and acrylonitrile butadiene styrene (ABS), they are used in thermoforming applications.

Management and supervision at SIMONA AG

In the financial year under review, the Management Board consisted of the following members: Wolfgang Moyses (Chairman, until 14 August 2019, member of the Management Board until 30 September 2019), Dirk Möller (Deputy Chairman, until 30 June 2019), Dr. Jochen Hauck (since 1 January 2019), Matthias Schönberg (Chairman, since 15 August 2019) and Michael Schmitz (since 15 August 2019). SIMONA has established a Global Management Team (GMT) that consists of the Management Board of SIMONA AG as well as the CEOs of SIMONA in the United States, Larry Schorr, and Asia, Y.K. Wong. The GMT is intended to facilitate a regular global exchange relating to strategy, in addition to managing global projects and promoting the internationalisation of the company.

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The Supervisory Board included the following members in the financial year under review: Dr. Rolf Goessler (Chairman), Roland Frobel (Deputy Chairman), Dr. Roland Reber and Martin Bücher as well as Andy Hohlreiter and Markus Stein as employee representatives.

1.2 OBJECTIVES AND STRATEGIES

The SIMONA Group conducted an in-depth analysis of its strategic orientation in 2019 and redefined it accordingly. The primary goal remains the generation of profitable growth, which is to be achieved organically and through company acquisitions. In this context, the focus is on thermoplastic sheets, pipes and fittings, which SIMONA supplies to industries undergoing global growth. Group revenue is to be increased further, with the EBIT margin standing at 6-8 per cent. SIMONA is looking to become the company with the highest degree of end-consumer orientation within its industry. The HR motto "A company like a friend" underscores the aspiration of a close and trusting relationship with all stakeholders. This is promoted by well-trained employees, open communication and a culture of feedback.

SIMONA has introduced strategic initiatives in pursuit of these goals.

- **Process orientation:** processes are to be further refined and continuous process orientation is to be implemented in support of excellence. To this end, SIMONA will invest heavily in the regular training and development of its employees, as well as promoting and encouraging a culture of open communication and feedback.
- **Application orientation:** SIMONA will focus on core markets and align its structural and process organisation with the requirements of end customers. This provides the foundation for developing a deep understanding of the fields of application relating to the products. New areas of application are to be cultivated selectively according to this principle.

- **Agile partner to industry:** SIMONA wants to think in a market- and applications-driven way, while acting in a product-based manner. A close dialogue with our end customers and a thorough understanding of the challenges they face are essential, regardless of the sales channel of the products in question.
- **Global profitability:** each and every region is to make a consistently profitable contribution to the company's success.
- **Sustainable added value for society and the environment:** the intelligent use of plastics, for example, can help to reduce energy consumption and emissions, facilitate water treatment or ensure the transport of energy from renewable sources.

1.3 INTERNAL CONTROL SYSTEM

SIMONA uses the Balanced Scorecard (BSC) as a strategic management and monitoring instrument. Within this context, the Management Board is responsible for the BSC-related corporate goals, as well as being accountable for regularly reviewing the efficacy of the BSC process as part of an overall assessment of the management system and initiating adjustments to the BSC process and the BSC-related corporate goals. The BSC cascades down to the company's other management levels. The BSC process was reviewed in 2019. As regions, the United States and Asia were systematically included in the BSC process and the efficiency of the process was examined. Measures were introduced to ensure faster target agreement and better controlling with regard to target achievement.

The analysis and assessment of earnings performance by SIMONA are conducted primarily with the help of sales revenue as well as the two financial indicators EBIT and EBITDA. EBIT represents the operating result before interest and taxes as well as income from investments. EBITDA (earnings before interest, taxes, depreciation and amortisation as well as investment income) represents an approximation for cash flow from operating activities, as non-cash depreciation/write-downs of

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property, plant and equipment as well as amortisation/write-downs of intangible assets are added to the EBIT figure.

Additionally, the return on operating assets is reviewed annually within the Group as part of the forecasting process and serves as an important criterion when it comes to managing the investment budget. ROCE, which stands for return on capital employed, is used as a profitability indicator (capital employed is calculated as follows: intangible assets, property, plant and equipment, financial assets, inventories and trade receivables less trade payables).

The principal non-financial indicators employed by the company include customer satisfaction, number of staff and their qualifications as well as quality management.

1.4 RESEARCH AND DEVELOPMENT

Research and development is subdivided into the areas of Formula Development, New Products & Applications and Process Development. Innovation Circles apply the Stage-Gate process to evaluate and prioritise new product ideas, before pursuing market roll-out. The indicator used in this area is the share of recent products (no older than three years) in total sales revenue, which was lower in 2019.

As regards process and material development of semi-finished parts, the focus in Germany was primarily on research into products with special requirements relating to fire behaviour and the use of recycled materials in PVC production as well as on the roll-out of systems for quality improvement and monitoring. A new extruder was purchased for the manufacture of transparent products and the industrialisation of new products. Process technology was optimised with regard to laminated products and fully fluorinated materials.

An extensive investment programme was implemented at the pipe and fittings plant in Ringsheim as part of the FutuRo100 strategy. Among other things, it includes new injection moulding machines for the production of stub flanges and large fittings. In addition, investments were made in extrusion technology for large-diameter protective-jacket pipes. At the plant in Litvinov, Czech Republic, investments were directed at the production of the new generation of SPC protective-jacket pipes. A CNC milling machine, which is also designed for large-sized milled parts, was put into operation at the plastics workshop. In addition, the production of SIMOFUSE integral electrofusion components was automated in the period under review.

Within the multifunctional plant in Litvinov, the plastics workshop was expanded for the production of customised components.

At the North American plants, capacity within the SIMONA Boltaron subsidiary was expanded by two new extrusion lines capable of handling products for aviation as well as other applications. Furthermore, the focus was on implementing continuous improvement and lean production projects. At the US subsidiary SIMONA PMC, technical integration into the SIMONA Group was driven forward in the period under review. Additionally, so-called "formable masking" was further refined. Investments were made at the plant of the US subsidiary SIMONA AMERICA Industries with the express purpose of achieving higher levels of productivity and efficiency. This included the modernisation of high-purity production by partially renewing components to optimise the extrusion of fluoropolymers.

At the plant in Jiangmen, China, the production of welding rods was successfully launched in 2019. The foundation for capacity expansion was laid with the approval of the investment in a second line for the production of PVC sheets.

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In the product area of Semi-Finished Parts, the range of SIMOPOR PVC foam sheets for printing, construction and advertising applications was realigned in Europe and successfully launched onto the market with new products. The range of fully fluorinated sheet products was supplemented by a laminated variant made of FEP with glass fibre and aramid fibre backing. The portfolio of twin-wall sheets developed by SIMONA was extended to include a UV-stable version made of white PE 100. The company's proprietary software for the calculation of tanks was extended to include a module for the computation of twin-wall sheets, and new features were presented at the K trade fair in Düsseldorf. For railway interior applications, an international team has been pressing ahead with product development and new products are to be rolled out in 2020. In the United States, 2019 saw the introduction of Boltaron 9815 True Pearl, a product for high-end decorative trims in aircraft interiors. Within the area of exterior applications, the new SIMONA® Boat Board® Lightweight was launched within the market, enabling a weight reduction of 20 per cent compared with conventional polymers. This material offers a long service life for boat applications, outdoor furniture and displays. SIMONA AMERICA Industries has been awarded NFPA 286 certification for products that are used in the fabrication of partition walls in sanitary applications. In the period under review, SIMONA PMC launched "OneStep", a vinyl/ABS-based range of sheet products in a high-quality leather look for marine applications.

Within the area of pipes and fittings, investments were directed at extrusion technology for the purpose of enhancing the properties of the product group of protective-jacket pipes and extending the dimensional range up to 1,000 mm in diameter. As part of the FutuRo100 strategy, the focus was also on material and product developments in future-oriented fields such as high-voltage cable conduits, rehabilitation and wear protection applications.

Expenses attributable to research and development within the Group amounted to €4,356 thousand in the period under review (previous year: €4,023 thousand). Expenses are mainly comprised of staff costs, material costs and depreciation of property, plant and equipment.

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2. Business review

2.1 MACROECONOMIC AND SECTOR-SPECIFIC ENVIRONMENT

At an estimated 2.9 per cent in 2019 (2018: 3.6 per cent), the world economy grew at the slowest rate in ten years. In this context, the International Monetary Fund (IMF) cites geopolitical conflicts and the trade dispute between China and the United States as the main reasons. As a result, both industrial production and global trade lost their momentum in the period under review.

While the German economy managed to expand for the tenth year in succession, growth proved much less dynamic in 2019 than in the past. The country's gross domestic product (GDP) rose by 0.6 per cent, after 1.5 per cent in the previous year. Growth was underpinned primarily by domestic demand. Investment spending also increased, but the main focus here was on buildings and research and development. By contrast, capital expenditure on machinery and equipment, an aspect that is of particular importance to SIMONA's business activities, rose at a below-average rate of just 0.4 per cent.

According to projections by the European Commission regarding annual growth for 2019, GDP within the euro area rose by 1.2 per cent, i.e. at a noticeably slower rate than in 2018, when GDP had been up by 1.8 per cent.

The US economy grew significantly, by 2.3 per cent in 2019, although it too, as the world's largest economy, experienced a loss in forward momentum (2018: 2.9 per cent). Domestic consumption and a historically low unemployment rate were again the main economic drivers.

According to the National Bureau of Statistics, the Chinese economy grew by 6.1 per cent last year – the lowest rate since 1990. In 2018, China had recorded economic growth of 6.6 per cent. The slowdown in

domestic demand and the trade conflict with the USA, lasting for almost two years, are the main reasons for the decline in growth.

According to the industry association GKV, revenue generated by the plastics processing industry in Germany fell by 1.2 per cent to €65.1 billion in 2019. Revenue generated from domestic sales fell more sharply than exports. As reasons, the GKV cited the difficult economic conditions currently seen within key customer industries, among them the automotive and mechanical engineering sectors, as well as the debate surrounding plastics and their effects on humans and the environment. The sharpest declines were recorded for consumer products and technical parts, while business relating to plastic products for construction applications expanded.

According to the German chemical industry association VCI, 2019 was a difficult year for the chemical and pharmaceutical industry. Revenue generated from sales within this area declined by 5 per cent to €193 billion. The industry's non-domestic business overseas and in Europe suffered from the global economic downturn and the trade disputes between China and the United States. At the same time, domestic demand for chemical products from industrial customers declined, according to the VCI.

The export-oriented mechanical engineering industry in Germany is expected to record a 2 per cent drop in production in 2019. The industry association VDMA attributes this to the trade dispute between China and the United States, more pronounced protectionism around the world, a global economic downturn, Brexit and the process of structural transition in key customer groups.

For 2019, the association of the building industry and the federation representing Germany's principal construction industry expect real (price-adjusted) revenue growth of 3 per cent in the principal construc-

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tion industry. Both residential, commercial and public-sector construction contributed to the increase.

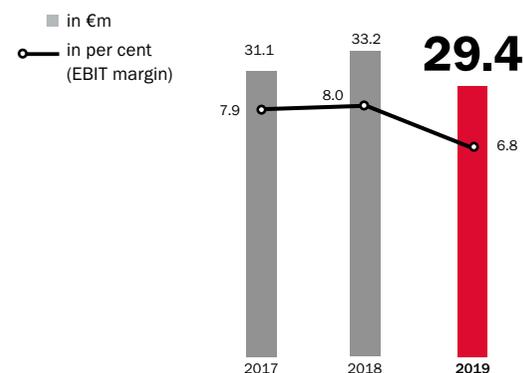
The global market for aircraft interiors is expanding by 5 per cent per annum, according to the market intelligence agency Counterpoint. The agency thus forecasts weaker growth than a year ago (5.6 per cent annual growth).

2.2 COURSE OF BUSINESS – SIMONA GROUP

Sales revenue totalled €432.5 million in the 2019 financial year (previous year: €417.9 million), which corresponds to an increase of 3.5 per cent. In regional terms, the Americas made the largest contribution to growth in the period under review. Revenues were up slightly in Asia. By contrast, revenue generated from sales in Europe declined due to economic factors. Competition remained intense in all regions and product groups. Therefore, the Group fell just short of the revenue guidance of €435 to 450 million for the 2019 financial year, as presented in the previous year's Group management report and 2019 interim report for the first half.

Group earnings before interest and taxes (EBIT) totalled €29.4 million, down from the figure of €33.2 million reported in the previous financial year. The EBIT margin stood at 6.8 per cent (previous year: 8.0 per cent). The Group therefore managed to achieve its projected EBIT margin of between 6 and 8 per cent. EBITDA fell from €48.4 million a year ago to €46.8 million at the end of the reporting period. This corresponds to an EBITDA margin of 10.8 per cent (previous year: 11.6 per cent), which is within the projected EBITDA margin range (10 to 12 per cent).

EBIT



At 9.6 per cent, Group ROCE was at the upper end of the range targeted (8 to 10 per cent), but down on the prior-year figure of 10.9 per cent.

Europe

The region comprising Europe saw sales revenue decline by 1.5 per cent to €269.7 million in total (previous year: €273.5 million). While the Group's Semi-Finished Parts business remained stable in Central Europe, its business centred around Pipes and Fittings was down slightly in the same region. In Eastern Europe, meanwhile, strong growth in the area of Pipes and Fittings compensated for a decline within the Semi-Finished Parts business. Western Europe saw a downturn in revenue due to sluggish Semi-Finished Products business, which the Group was unable to offset despite growth in its Pipes and Fittings business. Owing to the expansion in revenue from sales in the Americas, the share of total revenue attributable to Europe fell further in the period under review, down from 65.4 per cent to 62.4 per cent. EBIT within the segment covering Europe fell noticeably from €14.8 million in the previous year to €9.8 million in the period under review.

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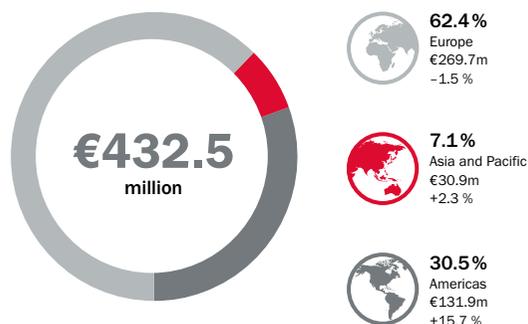
Americas

The region comprising the Americas saw sales revenue increase by a significant 15.7 per cent in total, taking the figure to €131.9 million (previous year: €114.2 million). This was driven primarily by a solid performance in the Aviation and Industrial Products business as well as the first-time inclusion of the acquiree SIMONA PMC for a full annual period. The share of total revenues attributable to this region rose yet again, from 27.4 per cent to 30.5 per cent. The Americas segment generated EBIT of €19.0 million (previous year: €17.9 million).

Asia and Pacific

The region covering Asia and Pacific recorded a slight increase in revenue, taking the figure to €30.9 million (previous year: €30.2 million). While business in China was stable thanks to solid demand in the automotive sector, sales in South-East Asia were sluggish due to problems within the semiconductor industry and a general lack of pipe-related projects. The share of total revenues attributable to this region fell from 7.2 per cent to 7.1 per cent. The Asia and Pacific segment recorded EBIT of €0.4 million (previous year: €0.8 million).

REVENUE BY REGION (in per cent)



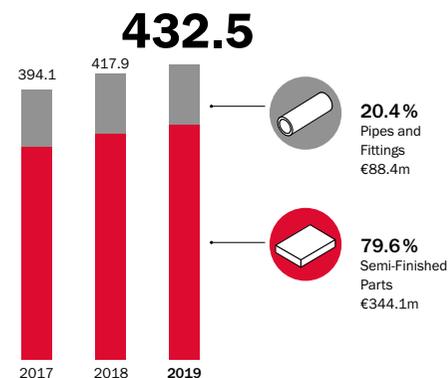
Allocated acc. to place of registered office of revenue-generating business unit

Sales revenue by product area

The product area comprising Semi-Finished Parts generated revenue of €344.1 million (previous year: €333.7 million). The growth in revenue of 3.1 per cent in total was attributable mainly to buoyancy within the Industrial Products business in the United States, consistently dynamic Aviation business and the first-time inclusion of SIMONA PMC for a full annual period. Business centred around PVC foam sheets for applications in the fields of printing and construction trended lower in the period under review, while business relating to fluoropolymers was adversely affected by waning investment spending at a global level.

The product area comprising Pipes and Fittings achieved revenue growth of 5.0 per cent, taking the total to €88.4 million (previous year: €84.2 million), thereby meeting its growth targets. The strategic reengineering programme initiated in 2018 is taking effect. Gains were recorded in particular with regard to business centred around protective-jacket pipes as well as products used in rehabilitation projects. With the exception of Asia, project-driven industrial products business grew worldwide in the period under review.

REVENUE BY PRODUCT AREA (in €m)



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Orders

Order backlog within the Group stood at €47.2 million (previous year: €51.0 million); of this total, a figure of €22.6 million (previous year: €24.1 million) is attributable to SIMONA AG.

2.3 FINANCIAL PERFORMANCE

Earnings

Group EBIT (earnings before taxes, interest and investment income) fell by 12.3 per cent, down from €33.2 million to €29.4 million. At 6.8 per cent, the EBIT margin was down on the figure of 8.0 per cent recorded in the previous financial year.

In total, gross profit (revenue, other income, change in inventories of finished goods and work in progress less cost of materials) improved to €208.5 million in the period under review (previous year: €197.1 million). The margin improved by 1.1 percentage points year on year to 48.2 per cent. Adjusted for the effect of the EEG levy exemption in the amount of EUR 4.7 million, the gross profit margin was 47.2 per cent, which was unchanged year on year (previous year: 47.2 per cent).

A decrease in inventories of €2.1 million was accounted for in the income statement (previous year: increase in inventories of €7.3 million).

Other income totalled €4.6 million (previous year: €4.9 million).

Commodity prices rose during the first half of 2019, before trending lower again in the period from July to the end of the year. Cost of materials amounted to €226.5 million in the financial year under review (previous year: €233.0 million). The energy costs included in the cost of materials were down by a total of around €3.0 million compared with the previous year. Of this figure, EEG levy exemption produced savings of

€4.7 million, while higher energy procurement prices had an accretive effect of €1.2 million.

Staff costs stood at €85.7 million (previous year: €78.8 million), up 8.8 per cent on last year's figure. The year-on-year change is mainly the result of collective wage increases and the increase in personnel at the Ringsheim production facility and at the US companies.

Depreciation of property, plant and equipment and amortisation of intangible assets, including write-downs, amounted to €17.4 million (previous year: €15.1 million). Following the first-time application of the new IFRS 16 Leases, this figure includes depreciation of EUR 0.8 million on right-of-use assets under lease arrangements.

Other expenses increased year on year, up by 8.6 per cent to €76.0 million (previous year: €70.0 million). The increase was attributable mainly to higher expenses for maintenance work (+€1.2 million), distribution (+€1.3 million) and packaging (+€0.5 million) as well as higher costs relating to legal and consulting fees (+€1.5 million).

In line with the reduction in earnings before taxes (EBT), taxes on income fell from €8.0 million to €7.4 million. The Group tax rate in the year under review is 26.4 per cent (previous year: 24.9 per cent) and is slightly higher than in the previous year due to the effects of the scheduled tax audit completed at the end of 2019.

Segment-specific disclosures

The individual sales companies operating within the segment encompassing Europe recorded positive earnings in the period under review. In particular, the earnings contributions made by the subsidiaries in the United Kingdom and Poland were, in part, substantially higher year on year. Earnings generated by the production company in the Czech Republic were slightly down on the prior-year figure. The cost of materi-

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als was €151.8 million (previous year: €165.6 million), i.e. this item fell at a more pronounced rate compared to the decline in revenue. Both raw material and energy costs decreased in the period under review. At €57.2 million, staff costs were up 2.4 per cent on the figure posted in the previous year. Other expenses totalled €50.5 million (previous year: €46.0 million).

In total, the subsidiaries operating within the Americas segment saw their contributions to earnings expand substantially in the financial year under review. The cost of materials amounting to €60.7 million (previous year: €53.6 million) rose mainly in line with the increase in sales volumes. Staff costs stood at €24.8 million (previous year: €19.7 million). At €23.2 million, other expenses were up by €3.8 million compared to the previous year.

Earnings within the Asia and Pacific segment amounted to €0.4 million, which is down on the prior-year figure (previous year: €0.8 million) due to a lower margin. While staff costs were up, other expenses were lower in the period under review. The sales companies operating within the Asia and Pacific segment saw their earnings decline year on year.

2.4 FINANCIAL POSITION

Total Group assets amounted to €430.2 million as at 31 December 2019, which was considerably higher than in the previous year (€400.9 million) due to an increase in provisions for pensions.

Changes to assets

Intangible assets totalled €38.0 million (previous year: €39.1 million) and mainly consisted of goodwill from the US acquisitions.

Property, plant and equipment amounted to €138.7 million (previous year: €129.1 million). Group capital expenditure on property, plant and equipment amounted to €23.5 million (previous year: €16.9 million). Depreciation and write-downs of property, plant and equipment stood at €14.6 million (previous year: €13.5 million).

The right-of-use assets relating to leases, which were recognised for the first time in the period under review, amounted to €2.0 million.

Inventories totalled €89.7 million (previous year: €92.4 million). Inventories of raw materials, consumables and supplies remained unchanged at €34.0 million. Finished goods and merchandise fell from €56.5 million to €54.7 million.

Trade payables were down by €4.3 million year on year to €59.7 million.

Current and non-current other assets and tax assets totalled €10.4 million (previous year: €10.7 million).

Other financial assets totalled €2.0 million (previous year: €1.3 million).

Changes to equity and liabilities

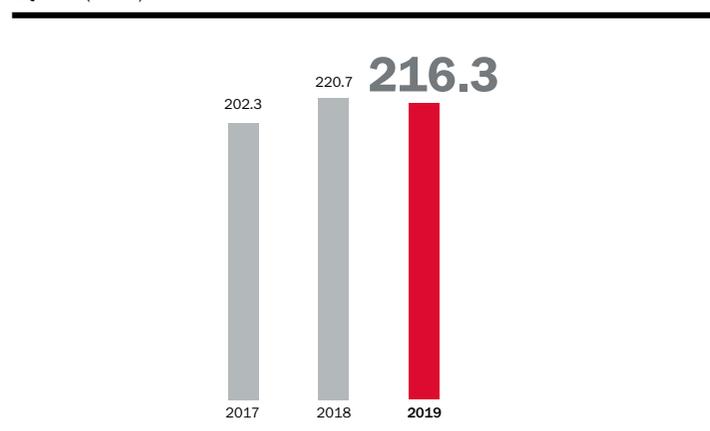
At the end of the reporting period, non-current and current liabilities were up year on year, while equity was slightly below the previous year's level.

Group equity amounted to €216.3 million (previous year: €220.7 million), down €4.4 million on the previous year. This figure includes annual profit of €20.6 million for 2019 and the dividend payment of €8.4 million in the 2019 financial year. Group equity was diluted by €19.1 million, without affecting profit or loss, as a result of the remeasurement of

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EQUITY (in €m)



pension provisions. This was due to a significant reduction in the IFRS actuarial interest rate. The equity ratio for the Group fell from 55 per cent to 50 per cent.

Current and non-current provisions for pensions were substantially higher at €137.9 million (previous year: €106.1 million). Due to the much lower IFRS interest rate, which fell to 0.91 per cent (previous year: 1.90 per cent), pension provisions were up markedly year on year.

At €18.7 million, trade payables were lower than in the previous financial year (€21.0 million).

Current and non-current other financial liabilities totalled €3.1 million (previous year: €2.2 million).

Other liabilities stood at €18.9 million in the period under review, i.e. up on the prior-year figure of €15.7 million; they were attributable primarily to management and staff bonus payments as well as deferrals/accruals relating to invoices and credit notes yet to be received.

In total, non-current (€4.5 million) and current (€1.1 million) other provisions were comparable to the figures recorded in the previous financial year.

Investments

Group capital expenditure on property, plant and equipment amounted to €23.5 million (previous year: €16.9 million). This mainly relates to investments in technical equipment as well as operating and office equipment at the production sites in Germany, the United States and Asia. In total, net investments in property, plant and equipment amounted to €8.8 million at Group level (previous year: €3.4 million).

2.5 CASH FLOWS

Principles and aims of financial management

Safeguarding the financial strength of the SIMONA Group is the primary goal of financial management. In this context, the most important aspect is to meet, to a sufficient degree, the Group's financial requirements relating to its operational business and its investing activities. Financial management is centrally organised within the parent company. To a large extent, SIMONA covers the liquidity required worldwide within the Group by means of intragroup funding via loans or similar arrangements. Additionally, firmly agreed lines of credit are in place. Excess cash resources are invested in the money or capital markets, either in euro or a foreign currency, by applying an approach that is optimised in terms of both risk and returns.

Financing analysis

Non-current financial liabilities relate to KfW loans and fell by €3.4 million to €11.9 million due to scheduled repayments. Current financial liabilities were unchanged at €3.4 million at the end of the reporting period and encompass the short-term proportion of KfW loans.

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As in the previous year, no derivative financial instruments were recognised at the end of the reporting period.

At the end of the reporting period the Group had undrawn lines of credit totalling €19.0 million (previous year: €17.0 million).

Cash flows

In the period under review the inflow of cash from operating activities (gross cash flow) was €51.6 million (previous year: €34.8 million). The increase in cash inflows was attributable primarily to the reduction in inventories and cash relating to trade receivables. The cash outflow from investing activities was €-23.2 million (previous year: €-39.8 million); of which attributable to the acquisition of subsidiaries €-25.2 million) and mainly included investments in property, plant and equipment. Net cash used in financing activities was €-12.9 million (previous year: €-10.9 million) and mainly consisted of the outflow in connection with dividend payments and the scheduled repayment of KfW loans.

Cash and cash equivalents

The Group's cash and cash equivalents totalling €68.4 million (previous year: €52.5 million) mainly consist of short-term bank deposits. The year-on-year swing of €15.9 million (previous year: €-15.5 million) was attributable to net cash from operating activities as well as, primarily, net cash used for investments in property, plant and equipment and net cash used in financing activities. These changes are presented in detail in the statement of cash flows.

Financial obligations

Current obligations included €9.4 million (previous year: €14.3 million) for contracts already awarded in connection with investment projects and €13.2 million (previous year: €12.1 million) in respect of purchase orders for raw materials.

Due to the first-time application of IFRS 16 Leases, the disclosure of financial obligations from operating rental and lease relationships is no longer required as from the 2019 financial year. In the previous year, financial obligations amounted to €2.8 million from operating rental and lease agreements; of this total, €0.9 million was due within one year.

Net finance cost

Based on finance income of €1.0 million and finance cost of €2.7 million, net finance cost amounted to €-1.7 million in the period under review (previous year: €-1.4 million). This includes the result from currency translation, which remained unchanged at €0.6 million.

2.6 COURSE OF BUSINESS – SIMONA AG

Sales performance at SIMONA AG was influenced mainly by an upturn in business within the area of Pipes and Fittings on the one hand and a decline in the market for Semi-Finished and Finished Parts on the other.

Sales revenue totalled €289.0 million (previous year: €300.6 million). This corresponds to a decline in revenue by 3.8 per cent. Revenue presented in the previous year's combined management report (EUR 271.5 million) was still based on revenue before separation. The change to €300.6 million is mainly attributable to revenues after separation attributable to goods deliveries, energy transfer and services between SIMONA AG and the separated production units.

Germany

Sales revenue in Germany fell by 7.8 per cent to €116.7 million (previous year: €126.6 million), primarily as a result of a downturn in business within the area of Semi-Finished Parts.



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Rest of Europe and Africa

The region comprising the Rest of Europe and Africa saw sales revenue decline slightly to €150.4 million (previous year: €151.6 million).

Americas

Revenue from sales in the Americas region increased to €7.4 million (previous year: €6.1 million).

Asia and Pacific

The Asia & Pacific region recorded a slight reduction in revenue, down by 11.3 per cent to €14.5 million.

Sales revenue by product area

In the product area comprising Semi-Finished Parts sales revenue decreased by 4.7 per cent to €182.4 million (previous year: €191.4 million). By contrast, revenue from the product group comprising Pipes and Fittings rose by 1.9 per cent, up from €84.7 million to €86.3 million. The area of business relating to Service and Others recorded revenue of €20.4 million (previous year: €24.5 million).

Earnings performance

SIMONA AG earnings declined year on year. Earnings before interest and taxes (EBIT), calculated on the basis of IFRS, totalled €3.6 million (previous year: €7.6 million), while the EBIT margin stood at 1.3 per cent (previous year: 2.7 per cent). Thus, the Group fell short of its EBIT margin target (3 to 3.5 per cent). EBITDA, calculated on the basis of IFRS, fell from €9.3 million in the previous year to €5.4 million in the period under review. The EBITDA margin stood at 2.0 per cent, compared to 3.5 per cent for the same period a year ago (target of 3.5 to 4 per cent). At 3.1 per cent, ROCE (based on IFRS) remained below the prior-year figure of 5.1 per cent (target 9 to 10 per cent).

The reduction in EBIT and EBITDA is mainly due to a deterioration in gross profit, slightly higher staff costs and an increase in other operating expenses. Overall, business performance with regard to revenue and earnings was not satisfactory in the 2019 financial year.

Reconciliation from IFRS to HGB of EBIT generated by SIMONA AG is mainly as follows:

in €m	2019	2018
EBIT under IFRS	3.6	7.6
Change in inventories	1.3	-4.6
Cost of materials	-0.7	6.5
Staff costs (pensions)	3.2	4.2
Depreciation/amortisation/write-downs of intangible assets and property, plant and equipment	0.1	0.1
Other operating expenses	0.1	0.1
Other changes	2.9	-5.9
EBIT under HGB	10.5	8.1

2.7 REVIEW OF FINANCIAL POSITION, PERFORMANCE AND CASH FLOWS OF SIMONA AG (HGB)

Financial performance

Gross profit (sales revenue less cost of materials) amounted to €65.5 million, down by 21.9 per cent year on year. The gross profit margin fell from 27.9 per cent a year ago to 22.7 per cent. The cost of materials rose by 3.1 per cent year on year. Raw material costs decreased slightly over the year as a whole and energy costs fell as a result of the EEG levy exemption. The previous year's figure was, however, influenced by a one-off effect from the separation of production units.

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Other operating income totalled €4.7 million (previous year: €3.1 million). This figure includes gains of €2.7 million (previous year: €1.7 million) from currency translation.

Personnel expense amounted to €25.2 million, which was up 5.7 per cent on the prior-year figure. While staff costs were slightly higher year on year, social security and post-employment benefit costs rose by €1.3 million.

Depreciation, amortisation and write-downs attributable to intangible assets and property, plant and equipment totalled €1.7 million.

Other operating expenses rose from €31.7 million a year ago to €32.7 million in the period under review, an increase of 3.0 per cent. Expenses relating to consulting services, in particular, were higher in the period under review. Expenses attributable to currency translation amounted to €0.2 million (previous year: €0.7 million).

Interest and similar expenses totalled €4.4 million (previous year: €4.2 million) and consisted primarily of expenses relating to the unwinding of the discount, i.e. interest cost, of pension provisions (€4.0 million, previous year: €3.9 million).

Earnings before interest and taxes (EBIT), calculated on the basis of HGB, totalled €10.5 million in the period under review (previous year: €8.1 million), as a result of which the EBIT margin stood at 3.6 per cent (previous year: 2.7 per cent). EBITDA amounted to €12.2 million (previous year: €9.7 million). The EBITDA margin stood at 4.2 per cent, compared to 3.2 per cent for the same period a year ago. Profit after taxes totalled €9.8 million. Earnings performance in the financial year under review was characterised in particular by a decline in the gross profit margin, primarily due to the reduction in revenue and the slight rise in other operating expenses.

Financial position

Total assets attributable to SIMONA AG rose by €7.0 million to €275.1 million.

Non-current assets totalled €144.2 million (previous year: €154.1 million), down mainly as a result of the reduction in loans relating to the entities in the US.

Property, plant and equipment amounted to €8.2 million (previous year: €7.3 million).

Interests in affiliated companies remained unchanged year on year.

Loans to affiliated companies, amounting to €31.6 million (previous year: €42.1 million), relate to subsidiaries in the Americas and Asia. The subsidiaries in the United States repaid a loan of €10.5 million in the reporting period.

Inventories were down on the prior-year figure (€26.0 million), falling to €23.8 million. They include work in progress (€0.6 million) and finished goods and merchandise (€23.2 million). Inventories of finished goods and merchandise fell by €2.1 million compared to the previous financial year.

Trade receivables decreased by €0.5 million to €21.8 million. At €45.0 million, receivables from affiliated companies – comprising loans and goods deliveries – were up by €16.7 million year on year.

Other assets totalled €4.8 million (previous year: €5.6 million).

In total, receivables and other assets amounted to €72.0 million (previous year: €57.3 million).

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Cash and cash equivalents rose from €30.3 million a year ago to €34.8 million at the end of the reporting period, an increase of €4.6 million. The increase is mainly due to the return flow of loans, the repayment of KfW loans and the dividend payment.

Cash flows

SIMONA AG's equity rose by €1.4 million year on year to €187.1 million. At 68 per cent, the equity ratio was slightly down on last year's figure (69 per cent). This was attributable primarily to higher liabilities compared to the previous year.

SIMONA AG pursues a policy of consistent dividend payments based on the performance of Group profit calculated in accordance with IFRS and an average dividend ratio that is stable over the long term. As in the past, the dividend payout is to be funded from free cash flow.

Provisions amounted to €46.6 million (previous year: €42.8 million). In total, allocations to provisions for pensions were increased by €1.4 million compared to the previous year and stood at €39.6 million at the end of the reporting period. The discount rate fell to 2.71 per cent (previous year: 3.21 per cent). Other provisions totalled €5.4 million (previous year: €4.6 million).

Total liabilities increased by €1.9 million to €41.4 million.

Trade payables totalled €3.0 million (previous year: €3.9 million).

Liabilities towards affiliated companies amounted to €19.9 million (previous year: €13.6 million) and relate mainly to goods deliveries from the German production companies as well as the subsidiary in the Czech Republic.

Bank borrowings totalled €15.3 million (previous year: €18.7 million) and were attributable to long-term KfW loans. Under the terms of the con-

tract, a total of €3.4 million was repaid during the financial year under review. At the end of the period under review, as in the previous year, no funds had been drawn from the short-term global credit facility.

The KfW loans are subject to fixed interest rates, with quarterly debt repayments scheduled under the terms of the agreement. The funds are used to finance long-term innovation programmes in Germany. The global credit facility is subject to interest on the basis of EONIA (Euro OverNight Index Average) plus a fixed premium calculated on an arm's length basis; these borrowings can be denominated in euros or a foreign currency.

At the end of the reporting period, SIMONA AG had undrawn borrowing facilities of €18.0 million.

Investments

Capital expenditure relating to property, plant and equipment at SIMONA AG amounted to €2.4 million in the period under review (previous year: €1.3 million). It mainly relates to investments in operating and office equipment at the company sites in Germany. In total, net investments (additions less write-downs) amounted to €1.0 million (previous year: €0.1 million).

Obligations from investment projects already initiated amounted to €0.4 million; they are financed from operating cash flow.

Analysis of liquidity

Cash and cash equivalents held by SIMONA AG at the end of the reporting period totalled €34.8 million (previous year: €30.3 million), comprising bank deposits denominated in euro and foreign currencies. The increase is attributable mainly to cash outflows in connection with financing activities (loans granted to US companies, repayment of KfW loans and dividend payment).

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2.8 NON-FINANCIAL INDICATORS CUSTOMER SATISFACTION

SIMONA measures customer satisfaction as part of pan-European surveys. Additionally, customers and target groups are surveyed in key markets outside of Europe, such as China and the United States.

The last extensive customer satisfaction survey in Europe was conducted in 2017. The findings of this survey showed that overall customer satisfaction (86.1 per cent) and the rate of recommendation (87.4 per cent) were again high. Thus, the levels recorded as part of previous customer surveys were matched. Compared to the last survey, SIMONA achieved better grades for its service offering in all product categories, e.g. sales admin and field sales, order processing, delivery/dispatch and applications engineering advice. Customers saw room for further improvement with regard to some aspects of SIMONA's training programmes, its website and complaints handling. The next extensive customer survey is scheduled for 2020.

Employees

As at 31 December 2019, the SIMONA Group employed 1,395 people (previous year: 1,413). The number of employees remained largely unchanged compared with the previous year's figure, as no further company acquisition took place in 2019.

The headcount at German entities within the SIMONA Group (SIMONA AG and the two production companies in Kirn and Ringsheim) was unchanged at 805 at the end of the year (31 Dec. 2018: 805). While staffing levels in Ringsheim were increased in a targeted manner due to more expansive revenues and sales volumes, the headcount in Kirn fell slightly, mainly as a result of retirements.

The number of trainees, which had already increased significantly in the previous year, was again maintained at the high level of 56 in 2019. These youngsters were enrolled in vocational programmes relating to one of eleven technical and commercial training courses offered by SIMONA. As in the previous year, in 2019 ten young people were enrolled in an integrated/dual work-study degree course supported by SIMONA or sponsored training to become a state-certified technician or to receive a Bachelor's degree.

In 2019, the focus of training activities for employees was primarily on the individual needs of each employee as determined during the annual employee appraisals. In addition, all supervisors at the Kirn and Ringsheim sites received comprehensive training on occupational safety responsibility. The third generation of the Talent Promotion Circle (TPC) completed its first year of courses, focusing on communication and conflict management as well as leadership skills. The SIMONA TPC prepares high potentials for professional and managerial roles as part of a modular, two-year training programme. This year's programme includes employees from Europe, the USA and Asia. The aim is to develop the intercultural skills of those taking part in the programme, in addition to focusing on specialist topics. At the same time, the young professionals are given the opportunity to establish an international network. At the Kirn plants, the 5-shift system in place in most areas was converted to a 4-shift system at the turn of 2019/2020. In parallel, a time-off account was introduced for industrial employees, which enables them to deal more flexibly with overtime and undertime, thus reflecting a more modern working environment. The conversion of the administration building in Kirn, which had been planned for some time, became necessary earlier than scheduled due to a severe storm in July 2019. In a first step, the third floor will now be completely redesigned and adapted to a modern working environment with an open and bright spatial concept.

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In August and September 2019, various areas of the company (Semi-Finished Parts division and Administration) had to announce short-time work as a result of a slump in orders. For a total of two months, the company reduced the working hours of a large part of its employees at the Kirn site and made use of short-time work allowances. Due to market recovery, short-time work was discontinued again after a very short period of time.

Quality

The goal of SIMONA's quality management system is to maintain and optimise product and process quality on a continual and sustainable basis. In this context, meeting the requirements of DIN EN ISO 9001 and the Pressure Equipment Directive 97/23/EC is an essential prerequisite, and full compliance with these standards was again confirmed by independent surveillance audits conducted in 2018. SIMONA conducted interdisciplinary quality circle meetings and product audits in the period under review, as well as taking part in various sampling and approval procedures for existing and newly launched projects relating to the automotive supply industry. As was the case in previous years, the Pipes and Fittings division saw a number of specific product accreditations in response to customer and market requirements. This resulted in several audits as part of which we were able to prove to external auditors the efficacy of the SIMONA management system as well as the exceptionally high quality of our products and processes. In 2019, a project was launched to digitalise quality inspection on the extrusion lines in order to simplify processes and raise efficiency levels.

Information technology

As regards IT infrastructure, the focus in 2019 was on further improving IT security. Among other things, the use of USB removable storage devices, which may contain malware, was restricted to data carriers

approved by the company. Many other clients were converted to so-called thin clients in the course of 2019, which enables cost-effective and simplified user administration.

The focus of IT application development in the past financial year was on supporting the revision of master data in the production areas, preparations for Brexit from a technical perspective and the system-side merger of two areas following the partial sale of a smaller product area.

IT Infrastructure and IT Application Development also supported hardware and software digitisation projects.



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3. Report on opportunities and risks

Capital expenditure within the industries served by SIMONA has been adversely affected by a lower propensity to invest amid global economic uncertainty. This applies in particular to the chemical industry and the mechanical engineering sector. Geopolitical conflicts and the coronavirus represent additional risk potential for 2020. The aviation business, in particular, may be exposed to significant risk as a result of the COVID-19 crisis. Due to the (temporary) discontinuation of services by air freight airlines, delays may occur in the area of logistics. We expect considerable shortages when it comes to the availability of containers for sea freight handling and a significant increase in freight costs during the second quarter. In China, risks arise from limited domestic transport and the lack of drivers and containers as well as cost increases. The debate on the environmental impact of plastics, particularly in Europe, may have a negative effect not only on business but also on the recruitment of skilled personnel. The discussion surrounding CO2 emissions from aircraft could have a detrimental effect on the market for aircraft interiors in the medium term.

Against this backdrop of uncertainty from an economic and structural perspective, the use of plastics offers opportunities as a cost-effective alternative to replace heavier materials, for example in mobility applications, thus reducing CO2 emissions or enabling the treatment of drinking water or the transport of renewable energies over long distances. These areas of application call for highly functional plastics with customised properties. SIMONA's strategy is aimed at continuously evolving product characteristics from a technological perspective by leveraging its in-house R&D capabilities, in addition to extending its portfolio of materials.

In Europe, SIMONA has identified good opportunities to recapture market share in core sectors and unlock potential in new fields of application following the strategic reorientation of its Semi-Finished Parts business, the focus being on expanding its product and service offering and operating in a manner that is targeted more effectively at end customers

and fields of application. The product and investment offensive in the area of Pipes and Fittings offers good opportunities to expand the Group's market position and benefit from fields considered promising for the future, such as the treatment of drinking water and energy transport.

In the United States, meanwhile, the subsidiary SIMONA Boltaron can draw on a highly adaptable product range and extended services tailored even more effectively to the exacting interior design standards applicable within the aviation sector. Good potential is also seen within the expanded portfolio that includes products for deep-drawing applications supplied by SIMONA PMC as well as the more extensive range of products for boat and display applications offered by SIMONA AMERICA Industries. In the medium term, the USA also offers opportunities within the area of Pipes and Fittings. In the region covering Asia-Pacific, SIMONA sees good opportunities with regard to key technologies centred around environmental management and chemical processes. The business segments focusing on the semiconductor industry and mobility applications are currently being established. SIMONA sees opportunities to offer customers an attractive range of products and services at a global level within these areas.

Overall, SIMONA believes the potential for unlocking opportunities remains good. Compared to the previous year, SIMONA's business prospects remain unchanged. However, the impact of the corona crisis has yet to be seen. Until recently, short-term economic factors appeared to be stabilising at a low level and medium-term structural factors, in particular industrial investment, which is important for business, were also expected to improve slightly due to the sluggish but gradual recovery of the global economy. However, leading economic research institutes currently predict a recession for Germany as well as for key international markets due to the corona crisis. The resulting effects cannot be reliably predicted at present.

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Risk management system

In view of their global business activities, both SIMONA AG and the SIMONA Group are exposed to a wide range of risks. In this context, risk is defined as an event, an action and/or the failure to act with the potential for adverse effects on the company. Risk strategy is an integral part of the corporate strategy of SIMONA and coexists alongside the business strategy. The risk culture of SIMONA is characterised by risk awareness in respect of decision-making processes and embraces the principles of diligent action based on prudence. In identifying opportunities at an early stage and applying diligence with regard to the exposure to corporate or business risks, SIMONA endeavours to safeguard its existence as a going concern and protect its enterprise value. Risk controlling is aimed at avoiding, mitigating or transferring risks. All remaining risks are managed accordingly by SIMONA. Risks are communicated as part of half-yearly risk reports to the Management Board and the Supervisory Board.

The risk management system includes the full range of guidelines and measures required to identify risk and to manage risk associated with commercial operations. The policies, the structural and procedural organisation as well as the processes of the internal control and risk management system operated in respect of financial reporting have been incorporated in guidelines and organisational instructions. They are revised regularly to account for the latest external and internal developments.

As regards financial reporting and the accounting process, we consider those elements to be of significance to the internal control and risk management system that may potentially influence financial reporting and the overall assessment of the annual financial statements, including the management report. These elements are as follows:

- Measures that safeguard the appropriate IT-based preparation of items and data of relevance to financial reporting

- Monitoring of commodity price trends for accounting-related control of procurement and sales prices within the context of price management

On the basis of a risk map, the risk management system of SIMONA controls the following material risks associated with the Group. The management of opportunities and risks is centred around the aspects of effect and probability of occurrence. Significant individual risks are considered to be those displaying a medium risk profile with an expected value in excess of €5.0 million when viewed over the medium term. The expected value is computed as the product of the effect/impact and the probability of occurrence; it is used solely for prioritising and focusing risk reporting on issues of material importance. A probability of occurrence of over 50 per cent is considered high, while one of less than 50 per cent is deemed low.

SIMONA considers the following individual risks to be material:

- Macroeconomic and sales market risks
- Business strategy risks
- Financial risks
- Risks attributable to procurement and purchasing
- Investment risks
- Risks attributable to information technology

Macroeconomic and sales market risks

The risks associated with the general business environment and the sector in which the company operates relate mainly to the economic performance of customer segments served by SIMONA. They also include exchange rate and commodity price volatility, political conflicts and the availability of raw materials. Among the primary sector-specific risks are the substitution of plastics with other materials, new developments within the competitive environment, the loss of key customers and changes to customer requirements. A diversified product portfolio,

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thorough monitoring of markets and structured procurement management provide the basis for risk mitigation. Further expansion of production in the United States following the recent corporate acquisition and at the plants located in China and the Czech Republic will ensure a high degree of flexibility and will help to meet customer requirements in close proximity to their sites of operation and in a market-driven manner.

The company continues to be exposed to significant geopolitical risks. Worldwide, the risks have also become more pronounced due to the spread of the coronavirus and the debate surrounding plastics and the environment. Risks relating to the business environment and industry within the segment comprising Europe are being driven by the effects of Brexit, possible further trade conflicts and political uncertainties. In the Americas, meanwhile, risk exposure is being influenced by protectionist trade policies as well as by the conflict with Iran and the direction taken by the US dollar exchange rate. In the Asia and Pacific segment, the weak economic performance of China poses a risk that is exacerbated by the impact of the coronavirus. As regards the aspect of changes to sales markets, the decline in revenue in the medium term is projected at approx. €5.0 to 10.0 million, with a probability of occurrence of under 50 per cent at present.

Business strategy risks

In particular, they include the risk of misjudging future market developments and are estimated to result in revenue shortfalls of around €5.0 to 10.0 million. Measures aimed at risk prevention mainly include close monitoring of the market and competitive environment as well as regular strategy meetings with key accounts and between the company's senior management and sales organisation. The probability of adverse effects occurring from exposure to business strategy risks is at present not considered to be material.

Financial risks

These encompass, above all, currency risks, default risks including risks associated with voidability of insolvency, product liability risks, risks of a change in interest rates and risks associated with the company pension scheme.

The principal aim of financial risk management is to mitigate risks attributable to ongoing operating and finance-related transactions. Depending on the risk, the aim is to restrict individual risks as required by means of derivative financial instruments and non-derivative hedging instruments.

Dependence on the euro within the Group was scaled back further through the corporate acquisitions in recent years as well as the continued expansion of production and the company's market position in the United States. At the same time, currency risk relating to US dollar transactions remains high for SIMONA. In the medium term, the probability of occurrence of a dilutive or accretive effect on earnings equivalent to €3.0 to 6.0 million is estimated at over 50 per cent. The global economy grew less in 2019 than originally predicted and a slight recovery with higher growth rates was forecast for 2020, although the negative effects of the corona crisis cannot be estimated at present. The business-related risks of a slowdown in economic performance remain high.

The risk of bad debt losses is particularly high within the Southern and Eastern European market. Within this context, thorough assessments of credit ratings and continuous monitoring within this area help to mitigate risk as a whole as well as risk associated with individually identifiable items. At €0.7 million, the potential risk roughly corresponds to the value of overdue receivables in the region of Southern and Eastern Europe. As regards transactions in Russia, a separate directive for the conclusion of business agreements relating to this country is in place for the purpose of limiting associated risks. Default-related risk associated with specific

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customers is limited by credit insurance and the cut-off of deliveries in the case of outstanding payments. In addition, there are the risks with regard to voidability of insolvency, which are covered by appropriate insurance. The carrying amounts of inventories are assessed on a regular basis, and adjustments in the form of allowances are made for specific unsaleable products.

Risks associated with interest rate changes are currently considered to be elevated. Interest payable in connection with KfW loans is based on fixed interest rates. Therefore, there are no risks associated with interest rate changes in this area. The overdraft facility of SIMONA AG, with its floating interest rate calculated on the basis of EONIA (euro overnight index average), is not being utilised at present.

The risks associated with occupational pension schemes are considered to be significant and the probability of their occurrence is deemed to be high. Risks that are difficult to gauge in the long term, such as future levels of pay and pensions as well as risks relating to higher life expectancy, have been categorised as material. The risks from pension obligations that may result from a cumulative change of +/- 0.5 per cent in the above-mentioned parameters are estimated at a total of around €30 to 40 million. They also include risks or encumbrances that are difficult to predict with regard to liquidity and equity, risks associated with investments and volatility of plan assets as well as fluctuating costs in respect of contributions to the German *Pensionssicherungsverein*. The volatility of plan assets is estimated at around €3 to 10 million, which is attributable primarily to the share performance of SIMONA AG stock in recent years. The corona crisis has recently led to a considerable slump in prices on stock markets. The repercussions are as yet unknown. Plan assets were stable at the end of the year under review. SIMONA AG shares were up €0.5 million year on year.

Risks attributable to procurement and purchasing

As was the case in previous years, these risks are related primarily to potential disruptions or outages with regard to suppliers of raw materials and additives as well as volatile commodity price trends within the markets for raw materials. The direction taken by input commodities (naphtha, propylene and ethylene) that are of relevance to raw materials used by the company does not necessarily coincide with the price trend for crude oil. The prices of raw materials, especially commodities, fell continuously during the year under review. Market prices were influenced primarily by demand and supply. We anticipate that the supply of raw materials and additives will remain stable in 2020. In the medium to long term, raw material prices are expected to remain stable. However, geopolitical influences, especially the corona crisis, may trigger significant price volatility. A 10 per cent increase in raw material prices that cannot be passed on to the sales market would result in an increase in raw material costs of around €3.5 million. However, the probability of occurrence is currently considered low.

Investment risks

Investment risks mainly include the risk of misinvestment in machinery and in foreign investments. Potential investment risks are currently estimated at around €5.0 million and a probability of just under 50 per cent.

Risks attributable to information technology

Ongoing monitoring and optimisation of existing information technology are essential to the safety and reliability of business processes. With this in mind, refinements to measures already implemented within the area of information security are considered particularly important. The primary risks involved relate to the availability, reliability and efficiency of information technology systems, including a failure of the IT infrastructure, loss of data and attacks on IT systems. SIMONA addresses risks relating to information technology through its in-house IT depart-

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ment as well as by commissioning specialised companies and making regular investments in the latest hardware and software. SIMONA responds to growing demands placed on system protection as part of its safety management programme. This mainly includes investments in the latest firewall and antivirus systems as well as other software systems. A significant loss in revenue caused by a temporary system failure is estimated at around €10.0 million. The probability of occurrence of external attacks on IT systems, in particular, has increased further.

In our assessment, the Group's overall risk situation at the end of the 2019 financial year is essentially unchanged compared with the previous year, although it should be noted that the corona crisis may have a significant impact that cannot be reliably predicted at present. At the time of preparing this report, there were no identifiable risks that might jeopardise the existence of the SIMONA Group and SIMONA AG as a going concern.

Internal control system (ICS) relating to financial reporting – Report pursuant to Section 289(4) and Section 315(4) HGB

The internal control system relating to financial reporting, which implements specific controls with regard to the financial reporting process, is aimed at providing reasonable assurance that annual financial statements and consolidated financial statements can be prepared in accordance with statutory requirements despite possible risks.

The ICS encompasses accounting-related processes and controls that are of significance to the preparation of the consolidated financial statements. In this context, the SIMONA Group observes the relevant publications issued by the German Institute of Public Auditors (Institut der Wirtschaftsprüfer – IDW). There were no significant changes to the accounting-related ICS in the period between the end of the reporting period and the preparation of the management report.

Bookkeeping and financial statement preparation are performed primarily at a decentralised level in accordance with local standards. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). In this context, SIMONA applies a uniform system of accounts within the Group and an accounting manual. The parent company assists the respective entities with regard to issues relating to financial reporting and coordinates the process of Group financial reporting. All entities included within the consolidated group have been integrated within this system by means of clearly defined management and reporting structures. The inclusion of subsidiaries is managed with the help of standardised reporting packages and a system certified in accordance with IDW PS 880. Consolidation is performed as a multi-stage process at the level of subsidiaries, segments and the Group.

The plausibility of numerical data is safeguarded at all levels by means of system-specific validation and through manual controls. Clearly defined areas of responsibility and access policies in respect of IT systems of relevance to the preparation of financial statements form an integral part of this process. Fundamental control policies applicable to the annual and consolidated financial statements include the separation of duties, the principle of four eyes and approval and release procedures for the process of financial statement preparation. Overall responsibility for the accounting-related internal control systems rests with the Management Board.

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4. Report on expected developments

Economic conditions

The IMF's forecast for 2020 and 2021 was based on the assumption of a tentative stabilisation and sluggish recovery of the global economy. Nevertheless, in spring, the IMF revised downwards its outlook for global economic growth slightly to 2.9 per cent for this year and 3.3 per cent for next year. This was attributable to the unexpectedly poor performance of the Indian economy. Major forecasting institutes are expecting a significant deterioration following the global spread of the coronavirus and the associated effects on companies. This also applies to the sector-specific conditions. At the time of preparing the management report it was impossible to quantify the possible deterioration caused by the corona crisis.

According to IMF data, the established economies as a whole were likely to see growth of 1.6 per cent in 2020. The rate of expansion in the United States was predicted to fall from 2.3 to 2 per cent. For the euro-zone, the IMF assumed GDP growth of 1.3 per cent, while for Germany the IMF had revised downwards its forecast to 1.1 per cent. France's economy was predicted to grow by 1.3 per cent. Italy remains at the bottom of the league in the eurozone with 0.5 per cent economic growth for 2020. For China, the IMF pointed to a further slowdown in growth of 6 per cent and India's economy was predicted to expand by just 4.8 per cent due to a stronger than expected decline in domestic demand. Overall, it should be noted that a deterioration is to be expected in the wake of the coronavirus pandemic.

Companies in the chemical industry in Germany do not expect any short-term improvement in their business and assume that the low economic momentum will continue well into the current year. According to the VCI, foreign markets will also fail to provide any strong impetus for a turnaround in the chemical industry. For 2020, the VCI assumed only a slight increase in production output of 0.5 per cent in the chemical-pharmaceutical sector. With prices stagnating, revenue was predicted to grow by 0.5 per cent within the chemical industry as a whole. The mechanical

engineering industry in Germany is also continuing to face considerable challenges. Due to the weakness of the global economy, the trade dispute between the United States and China and growing global protectionism, the industry association VDMA predicted a real decline in production of 2 per cent in 2020. The construction industry associations in Germany forecast nominal revenue growth of 5.5 per cent for 2020. Here too, it should be noted that the situation is expected to deteriorate in the wake of the coronavirus pandemic.

Sector-specific conditions

The industry association GKV assumes that the plastics processing industry in Germany will at best trend sideways in 2020. Companies' expectations with regard to revenues and earnings have deteriorated significantly. This is mainly due to growing uncertainty about the economic and political fundamentals – currently exacerbated by the spread of the coronavirus.

Future performance of the Group

SIMONA anticipates that Group revenue for the 2020 financial year will be between €430 and 440 million, while the EBIT margin is expected to be between 6 and 8 per cent and the EBITDA margin between 9 to 11 per cent. At Group level, the return on capital employed (ROCE) in 2020 is expected to be between 8 and 10 per cent.

The stagnating revenue forecast takes into account the past and anticipated effects of the coronavirus outbreak, price-related pressure likely to result from the lower oil price and an increase in revenue in the product area of pipes and fittings for infrastructure applications.

The company's ability to achieve its earnings targets will depend primarily on how the increasingly sluggish world economy develops. Against this backdrop, profit margins may come under greater pressure. Additionally, the attainment of earnings targets will depend on whether projected growth in the aviation market and in the area of Pipes and Fittings

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will materialise as planned. Furthermore, the impact of the coronavirus pandemic on the economy as a whole and on the Aviation business in particular is considered a key factor.

NON-FINANCIAL INDICATORS

Customer satisfaction

SIMONA is confident that it can maintain customer satisfaction at the present level thanks to the strengthening of its technical capabilities as well as its focus on new market segments and the core market of industrial products.

Quality

As part of the company's quality management measures, SIMONA has set itself the same ambitious targets for product quality as in the previous year and assumes that it will be able to reach this level.

Employees

The number of employees within the SIMONA Group is likely to remain stable in 2020. Based on the apprenticeship contracts already concluded, the headcount of vocational trainees is expected to be similar to that seen in the preceding year.

Future performance of SIMONA AG

SIMONA anticipates that revenue for the 2020 financial year will be between €295 and 305 million, while the EBIT margin is expected to be between 1 and 2 per cent and the EBITDA margin between 1.5 to 2.5 per cent. The return on capital employed (ROCE) in 2020 is expected to be between 2 and 4 per cent. The forecast takes into account the effects of the coronavirus seen to date as well as those currently expected for the future.

In the sales region covering Germany, an expansion of the Pipes and Fittings business should compensate for declines in the area of Semi-Finished Parts. The region comprising the Rest of Europe and Africa is expected to see a stable development of sales revenue. The region covering the Americas and the region encompassing Asia and Pacific are expected to remain stable year on year.

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5. Other information

5.1 CORPORATE GOVERNANCE STATEMENT

The corporate governance statement pursuant to Section 289f of the German Commercial Code (Handelsgesetzbuch – HGB) has been published by SIMONA AG on its corporate website at www.simona.de.

5.2 MANAGEMENT BOARD COMPENSATION

The Supervisory Board, based on the recommendations of the Personnel Committee, is responsible for determining the overall compensation of the respective Management Board members. It also regularly reviews the compensation system relating to the Management Board. The Personnel Committee consists of the Supervisory Board Chairman Dr. Rolf Goessler as well as the Supervisory Board members Roland Frobel and Dr. Roland Reber. Compensation for the members of the Management Board of SIMONA AG is calculated on the basis of the size of the company, its commercial and financial position, as well as the level and structure of compensation granted to Management Board members of similar enterprises. In addition, the duties and the contribution of the respective members of the Management Board are taken into account.

Management Board compensation is performance-based. It is comprised of a fixed level of remuneration as well as a variable component. The fixed component of compensation is paid as a salary on a monthly basis. The variable component of compensation is reviewed annually, while the fixed component is assessed once every two years. In addition, both components are subject to thorough analyses in intervals of two to three years, based on a comparison with compensation figures applicable to executive staff of similar enterprises. The variable component of Management Board compensation is based on earnings performance within the Group and a long-term incentive programme. As regards the performance periods 2017 to 2019, average Group NOPAT (net operating profit after tax) is used as the key performance indicator, calculated

on the basis of a three-year performance period. The first performance period encompasses the financial years 2017 to 2019, the second performance period comprises the financial years 2018 to 2020 and the third performance period covers the financial years from 2019 to 2021. Payment occurs subsequent to the adoption of the consolidated financial statements for the final year of the respective performance period. In the financial year under review Management Board compensation included the following components:

COMPOSITION OF MANAGEMENT BOARD COMPENSATION

in € '000	2019	2018
Fixed compensation		
Fixed salary and fringe benefits	1,140	890
Variable compensation		
Annual bonus	959	1,064
Long-term incentive programme		
Period 2016-2018, payment 2019	-	600
Period 2017-2019, payment 2020	502	-
Period 2018-2020, payment 2020	330	-
Period 2019-2021, payment 2020	126	-
Total compensation	3,057	2,554

The increase in Management Board remuneration in 2019 is mainly due to the temporary dual appointment of Management Board members. On 10 June 2016, the Annual General Meeting of Shareholders of SIMONA AG agreed by a majority of three-quarters to disclose Management Board compensation in an aggregated format, divided into fixed and performance-related components, rather than disclosing each amount by name. The resolution is valid up to and including the 2020 financial year. Therefore, no individual, i.e. itemised, disclosures are made under Section 285 no. 9 a) sentence 5 to 8 and Section 314(1) no. 6 a) sentence 5 to 8 of the German Commercial Code (Handelsgesetzbuch – HGB).

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The company's Articles of Association contain no provisions that are non-compliant with those set out in the German Stock Corporation Act as regards the conditions applicable to the appointment or removal of Management Board members as well as amendments to the company's Articles of Association. In view of this, readers are asked to refer to the relevant statutory provisions set out in Sections 84, 85, 133 and 179 of the German Stock Corporation Act (Aktiengesetz – AktG) for further details.

Remuneration for the former members of the Management Board amounts to €304 thousand (previous year: €301 thousand). Pension provisions for active and former members of the Management Board, as governed by the German Commercial Code, were recognised to the full extent and amounted to €12,651 thousand as at 31 December 2019 (previous year: €12,478 thousand). IFRS-based pension provisions for active and former members of the Management Board were recognised to the full extent and amounted to €17,393 thousand as at 31 December 2019 (previous year: €15,846 thousand).

The members of the Management Board also receive fringe benefits in the form of non-cash remuneration, which mainly consists of a company car, telephone and insurance policies. Members of the Management Board received neither loans or share options nor other share-based compensation from the company.

Supervisory Board compensation

Supervisory Board compensation is calculated according to the size of the company, as well as the duties and responsibilities of the Supervisory Board members. The Chairman and the Deputy Chairman as well as members involved in Committees receive supplementary compensation.

Members of the Supervisory Board of SIMONA AG receive a standard fixed level of compensation amounting to €13,000. The Chairman of the

Supervisory Board receives an amount equivalent to double the standard level of compensation; the Deputy Chairman receives an amount equivalent to one and a half times the standard level of compensation. Supervisory Board members who are engaged in Committee work receive supplementary fixed compensation of €7,000. All expenses associated directly with a position on the Supervisory Board, as well as sales tax payable on such compensation, are reimbursed.

In addition to fixed compensation, the General Meeting of Shareholders shall be authorised to pass a resolution on a variable component of compensation, payment of which shall be dependent on whether specific corporate performance indicators have been met or exceeded. At the Annual General Meeting of Shareholders on 7 June 2019 no such resolution for variable compensation components was passed for the 2019 financial year.

Supervisory Board compensation for the financial year under review amounted to €156 thousand (previous year: €162 thousand), of which €140 thousand (previous year: €140 thousand) was attributable to SIMONA AG. Members of the Supervisory Board received neither loans or share options nor other share-based compensation from the company.

5.3 DISCLOSURES PURSUANT TO SECTION 289A AND SECTION 315A HGB AND EXPLANATORY REPORT

As at 31 December 2019, the share capital of SIMONA AG remained unchanged at €15,500,000, divided into 600,000 no-par-value bearer shares ("Stückaktien" governed by German law). The shares are traded in the General Standard of the German stock exchange in Frankfurt as well as on the Berlin securities exchange. There are no different categories of share or shares furnished with special rights. Each share is equipped with one vote at the General Meeting of Shareholders. In view

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of the fact that a shareholder's right to a certificate of ownership interests has been precluded under the company's Articles of Association, the share capital of our company is represented only in the form of a global certificate, which has been deposited with Clearstream Banking AG, Frankfurt am Main. Therefore, our shareholders will in future only have an interest as co-owners in the collective holdings of the no-par-value shares in our company, as held by Clearstream Banking AG, according to their interest in the company's share capital.

A 31.19 per cent interest was held by Dr. Wolfgang und Anita Bürkle Stiftung, Kirn, a 15.04 per cent interest by Kreissparkasse Biberach (Biberach), an 11.64 per cent interest by Dirk Möller (Kirn), an 11.25 per cent interest by Regine Tegtmeyer (Nebel), a 10.0 per cent interest by SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH (Kirn) and a 10.10 per cent interest by Rossmann Beteiligungs GmbH (Burgwedel). The remaining 10.78 per cent of shares in the company were in free float.

As at 7 June 2019, members of the Management Board reported a total holding of 70,860 shares; this corresponds to 11.81 per cent of the share capital of SIMONA AG. The members of the Supervisory Board reported holdings of 1,300 shares as at the attendance date of the Annual General Meeting on 7 June 2019, which corresponds to 0.22 per cent of share capital of SIMONA AG.

To the extent that employees hold an interest in the company's capital, these employees themselves directly exercise the rights of control associated with their shareholdings. The appointment and the removal of members of the Management Board are governed by the statutory provisions set out in Sections 84 and 85 of the German Stock Corporation Act (Aktiengesetz – AktG) as well as by Section 9 of the Articles of Association of SIMONA AG. Under these provisions, the Management Board of the company consists of at least two members. The appointment of deputy members of the Management Board is permitted. The

Management Board shall generally have a Chairperson appointed by the Supervisory Board.

The Supervisory Board may delegate decisions on the conclusion, amendment and termination of Management Board employment contracts to a Supervisory Board committee. Any amendments to the Articles of Association must be made in accordance with the statutory provisions set out in Section 179 et seq. of the German Stock Corporation Act.

According to Section 6 of the Articles of Association, the company is entitled to issue share certificates that embody one share (single certificate) or multiple shares (global certificates).

At present there are no significant agreements containing a change of control provision that would apply in the event of a takeover bid.

At present there are no agreements with members of the Management Board or with employees relating to compensation payments in the event of a change of control.

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6. Non-financial statement in accordance with section 289 b)-e) HGB

Brief description of business model

The SIMONA Group develops, manufactures and markets a range of semi-finished thermoplastics, pipes and fittings as well as profiles. The materials used include polyethylene (PE), polypropylene (PP), polyvinyl chloride (PVC), polyethylene terephthalate (PETG), polyvinylidene fluoride (PVDF), ethylene-chlorotrifluoroethylene (E-CTFE), perfluoroalkoxy (PFA), thermoplastic olefins (TPO), acrylonitrile butadiene styrene (ABS) and various specialist materials. The production methods applied within this area range from extrusion, pressing and injection moulding to CNC manufacturing. SIMONA also maintains its own plastics workshop for the production of customised fittings.

Semi-finished parts are deployed mainly within the area of chemical tank and equipment construction, mechanical engineering, the transport industry, the construction sector, the exhibition and display sector as well as the automotive and aerospace industry. Pipes and fittings are used primarily for drinking-water supply, sewage disposal and industrial piping systems, including the chemical process industry. Finished parts and profiles are destined in particular for the mechanical engineering and transport technology sectors.

As a company, SIMONA is aware of its responsibilities towards people and the environment. Environmental, social and energy issues are key factors for SIMONA.

Environmental issues

A certified environmental management system in accordance with the requirements of DIN EN ISO 14001 forms part of the company's central policies. This international standard for environmental management systems is designed to give certified companies a framework for protecting the environment and responding to changing circumstances in compliance with socio-economic requirements. The systematic approach promoted by the standard furnishes information that fosters success in

the long term and opens up opportunities that contribute to sustainable development.

SIMONA has adopted an environmental management system at its sites in Kirn and Ringsheim in Germany and Litvinov in the Czech Republic and ensures compliance with its requirements through surveillance and recertification audits.

Material risks associated with SIMONA's business activities that could be very likely to have a serious negative impact on the environment relate to the contamination of the soil, air or bodies of water as a result of accidents, fires or the discharge of production waste.

SIMONA manages its fire risk through preventive fire protection measures: regular maintenance for its extinguishers, inspections conducted with the insurer and fire service, a dedicated set of fire protection regulations and annual staff briefings. Accident-related risk is managed with regular checks and maintenance of plant and equipment, structural measures such as retention basins, collecting pans and sealed floors and by storing hazardous substances in compliance with the law. SIMONA follows fixed emergency plans in the event of an accident, carries out weekly, semi-annual and annual maintenance and tests the leak-tightness of its oil separators every five years. Test and inspection intervals are complied with and emissions are measured regularly. SIMONA disposes of waste that cannot be returned to the production cycle in accordance with the provisions of the German Circular Economy Act (Kreislaufwirtschaftsgesetz). Waste is mainly recycled in-house or passed on to external recycling firms. All waste disposal companies used have been certified and are authorised in accordance with the relevant statutory provisions. Staff receive regular training on preventing, recycling and disposing of waste. Reducing waste as a percentage of production volume is one of the company's key objectives.

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Material risks that are associated with the corporation's business relationships, products and services and that could be very likely to have a serious negative impact on the environment relate to the environmental footprint of the raw materials that SIMONA uses, the disposal/recycling of waste at customers' premises and non-conformance with product properties in environmentally critical and safety-related applications.

SIMONA manages risks associated with the environmental footprint of the raw materials it uses by carefully selecting resource suppliers based on the certifications they have obtained (origin, observing blacklists), substituting hazardous substances right from the research and development stage and complying with applicable legislation governing the use of hazardous substances. SIMONA provides its customers with regular updates on the correct ways to use, recycle and dispose of its products and the waste that is generated when these products are processed further. Product characteristics, key data and safe storage and processing instructions are listed in material and safety data sheets for each product, which are available online. The risk of non-conformance with product properties is managed with a dedicated quality assurance system, which sets out testing and inspection plans for all products. Additionally, durable SIMONA products help to deliver effective solutions in response to market challenges, e.g. with regard to environmental engineering and utilities. SIMONA is an active member of VinylPlus, an organisation that focuses on improving sustainability within the PVC supply chain. In addition, the company is a co-initiator and holder of the PVC quality mark issued by Industrieverband Halbzeuge und Konsumprodukte aus Kunststoff e. V. (pro-K). Those entitled to use the mark have committed themselves to specific quality standards, in addition to delivering the best possible manufacturing expertise and a premium-quality service. In 2019, SIMONA joined the "Zero Pellet Loss" initiative organised by Industrieverband Halbzeuge und Konsumprodukte e.V. – pro-K. "Zero Pellet Loss" is part of a global initiative launched by the plastics industry. Plastic associations around the world are participating

in this initiative under the names "Zero Pellet Loss" and "Operation Clean Sweep" to prevent the loss of plastic pellets along the entire supply chain. Through its membership, SIMONA also participates in projects aimed at preventing marine litter. A prerequisite for participation was that SIMONA should create the necessary technical and organisational conditions at its facilities to prevent pellet spillage. The package of measures also includes staff training and regular monitoring of effectiveness.

Energy issues

A certified energy management system in accordance with the requirements of DIN EN ISO 50001 forms part of the company's central policies. This international standard for the energy management system is designed to help certified companies to develop systems and processes to become more energy-efficient. Adopting a systematic approach in order to introduce, implement, maintain and improve an energy management system is intended to enable companies to continuously improve their performance as regards energy management, energy efficiency and energy saving. The standard sets out requirements governing the supply, use and consumption of energy, including measurement, documentation and reporting as well as practical design and procurement rules for facilities, systems, processes and personnel that consume energy.

SIMONA has adopted an energy management system at its sites in Kirn and Ringsheim in Germany and Litvinov in the Czech Republic and ensures compliance with its requirements through surveillance and recertification audits. The most recent recertification took place in 2018.

Material risks associated with SIMONA's business activities that could be very likely to have a serious negative impact on energy issues relate to the consumption of resources and the production of emissions.

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SIMONA manages these risks with measures designed to improve energy efficiency and reduce emissions. The company assesses its energy consumption and efficiency by means of energy performance indicators (ENPIs), which compare consumption data with the relevant production volumes. Key objectives in the field of energy management are increasing energy efficiency and cutting consumption.

Personnel matters

The company's employees are a key pillar of its success. This is an integral part of the company culture embraced by us and is thus also enshrined at several levels in our Code of Conduct, which applies equally to employees, line managers and senior executives at all SIMONA companies.

For instance, the company has made health and safety at work a priority and has introduced a "Vision Zero" (referring to the number of occupational accidents) action plan. This is a multi-year concept for the sustainable reduction of occupational accidents, consisting of an extensive range of individual measures. The execution of these measures was also defined as a target in the Balanced Scorecard for the European sites. The collection of data relating to accidents at work in accordance with an internationally harmonised definition will now also be carried out on an international basis from 2020. All occupational accidents are logged in reports by the health and safety officers appointed by the company before their causes are analysed and preventive action is determined based on this analysis. SIMONA AG has also set up a healthcare team geared towards keeping staff healthy through various campaigns (e.g. free supply of fruit, allowance for gym membership, Health Days).

A keen supporter of diversity and equal opportunities for all its employees, SIMONA had, upon introduction of statutory regulations governing such target figures, set itself the target in 2015 of appointing female executives to 20 per cent of positions at the level below the SIMONA AG

Management Board. As this target was met at the first scheduled date of review, a new target of 25 per cent was set in 2018.

SIMONA AG invests in bringing on suitable young talent and regularly participates in joint projects with schools and universities (school mentoring schemes, MINT programme). As well as training, applicants who fit the criteria can look forward to a dual-degree course, subsidised training to fit around their existing work commitments (part-time degree) or a placement at one of the foreign sites run by our subsidiaries. SIMONA AG maintains partnerships with the universities in Ludwigshafen, Darmstadt and Mainz in order to offer these part-time degrees.

SIMONA regularly seeks its employees' opinions in anonymous staff surveys and uses the results to devise tangible measures to improve staff satisfaction. To a large extent, the SIMONA companies located in Germany have already implemented performance appraisals. As regards the commercial functions at the Kirn site, they are, in part, already organised on the basis of a skills matrix. This set-up allows every employee to be shown the requirements of their position and the extent to which they themselves are meeting these requirements. Training needs are determined based on these annual PDRs. Feedback from training courses attended is evaluated systematically.

In 2020, SIMONA will focus on employee training and will establish a central training management system based on key topics identified by the organisation.

Within the SIMONA companies, the flow of information to staff is guaranteed by the SIMONA intranet, a noticeboard system, departmental get-togethers and regular shift training and company meetings.



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> 6. Non-financial statement in accordance with section 289 b)-e) HGB

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SIMONA recognises the right of all its employees to be represented on, in and by trade unions and to form staff committees. There are long-established employee representatives at the German sites: at the Kirn site the workforce is also represented by the IG BCE.

Material risks to which we could be exposed by neglecting personnel matters relate to a loss of staff – and thus their expertise and potential trade secrets – to the competition. A “brain drain” of this kind can also mean a fall in quality, which could have financial implications in the form of higher warranty claims and the loss of customers. Last but not least, high rates of sickness absence have a negative impact on site productivity. We are also facing the challenges of demographic change, which for us brings risks associated with capacity and an ageing population as well as the issue of how to recruit young members of staff.

SIMONA has not yet assessed to what extent it complies with the underlying International Labour Organisation agreements as regards its measures and policies on personnel matters.

Human rights

SIMONA is committed to upholding internationally recognised human rights and, in its Code of Conduct, has imposed a binding obligation on itself and its staff to safeguard these rights. In so doing, we are supporting international diversity, advocating equal opportunities and demanding mutual respect from our employees. Factors that are a potential source of discrimination such as gender, background, religion or sexual orientation are not considered when the company makes decisions. We wholeheartedly reject any form of forced or child labour and expect our business partners to do the same. We are continuously developing our approach. Breaches of the basic principles laid down in our Code of Conduct can be reported to the Compliance Officer and will be punished severely.

Combating bribery and corruption

Without exception or restriction, SIMONA undertakes not to give any illegal gratuities to its staff, advisors, commercial representatives, agents or similar third parties or to receive any such gratuities. SIMONA has issued policies for avoiding bribery and corruption in respect of various areas and everyday situations with which its employees could be confronted. Breaches will be punished severely.

Under some circumstances, breaches of the ban and related policies can be serious offences that can cause the company financial damage as well as significant damage to its reputation. They will also give many of our contractual partners grounds to terminate their cooperation. Finally, they can also lead to the company being excluded from bidding for public tenders in Germany and abroad.

Spotting risks early is a key criterion in preventing compliance breaches. The specific compliance risks to which SIMONA is exposed are determined, analysed and updated systematically in an annual process. Appropriate preventive measures are formulated and introduced as and when new risks emerge.

Checks as to whether the subsidiaries are complying with the regulations on preventing bribery and corruption are performed by means of regular site audits, including inspecting accounts and cash holdings.

SIMONA has appointed a Compliance Officer to ensure the effective implementation of its compliance system. SIMONA allows both staff and external third parties to report breaches of the ban on bribery and corruption to the Compliance Officer anonymously.

Rather than following or being based on any national or international standards, the company's system for combating bribery and corruption is structured in line with the individual requirements and risk situation within the organisation.

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Social matters

As a company, SIMONA bears responsibility for the development and appeal of the cities and communities where it is based and takes social matters into account. It is committed to supporting social, cultural and aid projects at its various sites across the world. The due diligence processes implemented as part of this philosophy lay down responsibilities and workflows for selecting the institutions, projects and initiatives to be supported and how much support each is to receive. At the Kirn site, support is also provided by the Dr. Wolfgang und Anita Bürkle Stiftung, SIMONA AG's major shareholder. The foundation focuses on promoting education and healthcare, endangered species and animals in general, art and culture, development aid funding and charitable causes relating to social welfare facilities.

Forward-looking statements and forecasts

This combined management report contains forward-looking statements that are based on the current expectations, presumptions and forecasts of the Management Board of SIMONA AG as well as on information currently available to the Management Board. These forward-looking statements shall not be interpreted as a guarantee that the future events and results to which they refer will actually materialise. Rather, future circumstances and results depend on a multitude of factors. These include various risks and imponderables, as well as being based on assumptions that may conceivably prove to be incorrect. SIMONA AG shall not be obliged to adjust or update the forward-looking statements made in this report.

Responsibility Statement

We hereby declare that, to the best of our knowledge, the combined management report includes a fair review of the development and performance of the business and the position of the SIMONA Group and SIMONA AG, together with a description of the principal opportunities and risks associated with the expected development of the Group and SIMONA AG.

Kirn, 30 March 2020
SIMONA Aktiengesellschaft
The Management Board

Matthias Schönberg Dr. Jochen Hauck Michael Schmitz

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Balance Sheet of SIMONA AG for the Financial Year 2019

ASSETS (in € '000)		31/12/2019	31/12/2018
A. NON-CURRENT ASSETS			
I. Intangible assets	Industrial property rights and similar rights and assets as well as licences in such rights and assets	493	772
		493	772
II. Property, plant and equipment	1. Land, land rights and buildings	2,759	2,702
	2. Technical equipment and machinery	567	609
	3. Other equipment, operating and office equipment	4,701	3,736
	4. Prepayments and assets under construction	216	297
		8,243	7,344
III. Financial assets	1. Investments in affiliated companies	103,854	103,854
	2. Loans to affiliated companies	31,623	42,071
	3. Other long-term equity investments	23	23
		135,500	145,948
		144,237	154,064
B. CURRENT ASSETS			
I. Inventories	1. Raw materials, consumables and supplies	592	581
	2. Finished goods and merchandise	23,218	25,374
	3. Prepayments for inventories	29	1
		23,840	25,956
II. Receivables and other assets	1. Trade receivables	21,759	22,258
	2. Receivables from affiliated companies	45,044	28,384
	3. Receivables from other long-term investees and investors	427	1,086
	4. Other current assets	4,777	5,559
		72,006	57,287
III. Cash in hand and bank balances		34,828	30,268
		130,673	113,511
C. PREPAID EXPENSES		168	486
		275,078	268,061

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EQUITY AND LIABILITIES (in € '000)		31/12/2019	31/12/2018
A. EQUITY			
I. Subscribed capital		15,500	15,500
II. Capital reserves		15,032	15,032
III. Revenue reserves			
	1. Legal reserves	397	397
	2. Statutory reserves	2,847	2,847
	3. Other revenue reserves	143,344	138,469
IV. Unappropriated surplus		9,953	13,477
		187,072	185,722
B. PROVISIONS			
I. Provisions for pensions		39,550	38,123
II. Provisions for taxes		1,651	70
III. Other provisions		5,392	4,636
		46,593	42,829
C. LIABILITIES			
I. Liabilities to banks		15,280	18,705
II. Trade payables		2,963	3,935
III. Liabilities to affiliated companies		19,875	13,601
IV. Other liabilities		3,294	3,269
(of which taxes €289 thousand; previous year €352 thousand)			
(of which relating to social security €826 thousand; previous year €780 thousand)			
		41,412	39,510
		275,078	268,061

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Income Statement of SIMONA AG for the Financial Year 2019

in € '000

		31/12/2019	31/12/2018
1. Revenue		289,043	300,563
2. Reduction/increase in finished goods and work in progress		-78	-21,533
		288,965	279,030
3. Other operating income	(of which from currency translation €2,655 thousand; previous year €1,719 thousand)	4,731	3,068
4. Cost of materials	a) Cost of raw materials, consumables and supplies and of purchased merchandise	-223,227	-216,467
	b) Cost of services purchased	-333	-304
		-223,560	-216,771
5. Staff costs	a) Wages and salaries	-21,088	-21,016
	b) Social security, post-employment and other employee benefit costs (of which in respect of old-age pensions €-721 thousand; previous year €351 thousand)	-4,150	-2,867
		-25,238	-23,883
6. Depreciation, amortisation and write-downs of property, plant and equipment as well as intangible assets		-1,681	-1,595
7. Other operating expenses	(of which from currency translation €-223 thousand; previous year €-670 thousand)	-32,705	-31,741
8. Income from equity investments	(of which from affiliated companies €5,818 thousand; previous year €6,671 thousand)	5,818	6,671
9. Income from profit transfer agreements		0	1,589
10. Other interest and similar income	(of which from affiliated companies €1,937 thousand; previous year €1,036 thousand)	2,038	1,152
11. Interest and similar expenses	(of which from affiliated companies €-85 thousand; previous year €-21 thousand) (of which from compounding €-4,006 thousand; previous year €-3,916 thousand)	-4,378	-4,213
12. Taxes on income		-4,217	-2,398
13. Result after taxes		9,771	10,909
14. Other taxes		-21	-40
15. Profit for the year		9,751	10,869
16. Unappropriated retained earnings brought forward		5,078	8,022
17. Allocation to revenue reserves		-4,875	-5,414
18. Unappropriated surplus		9,953	13,477

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Notes to Financial Statements of SIMONA AG for the Financial Year 2019

GENERAL INFORMATION

SIMONA AG, with its registered office in Kirn, has been entered in the Commercial Register at the District Court of Bad Kreuznach (HRB 1390).

As at the end of the reporting period on 31 December 2019, SIMONA AG was categorised as a large corporation within the meaning of Section 267 of the German Commercial Code (Handelsgesetzbuch – HGB). The company's financial year corresponds to the calendar year.

These financial statements have been prepared in accordance with Section 242 et seqq. and Section 264 et seqq. of the German Commercial Code (Handelsgesetzbuch – HGB) as well as on the basis of the relevant provisions set out in the Stock Corporation Act (Aktiengesetz – AktG) and the supplementary accounting requirements of the Articles of Association. In this case, regulations governing large corporations apply.

The income statement has been prepared on the basis of the nature of expense method.

For computational reasons, the tables presented in this document may include rounding differences equivalent to +/- unit (€, %, etc.).

Significant accounting policies

The following accounting policies, which remain unchanged compared with the previous year, have been used in preparing the annual financial statements:

Purchased intangible assets are recorded at their cost of acquisition and, to the extent that their useful lives are finite, their carrying amount is appropriately reduced by systematic straight-line amortisation over their useful lives of 3 to 5 years.

The company does not recognise **internally generated intangible assets** relating to non-current assets.

Property, plant and equipment are initially recorded at cost of purchase or cost of conversion and, to the extent that their useful lives are finite, their carrying amounts are reduced by systematic straight-line depreciation. Assets relating to property, plant and equipment are written down according to their estimated useful lives of 3 to 20 years. Depreciation on additions to property, plant and equipment is performed pro rata temporis. Items of property, plant and equipment whose cost of purchase or conversion is in excess of €150, but not in excess of €1,000, are accounted for in an annual collective item in the year of addition. This collective item is subject to depreciation in the year it was formed as well as in the subsequent four financial years, in each case at a rate of one-fifth. Following full depreciation, the collective items are derecognised. Advance payments are carried at their nominal values.

In the case of **financial assets**, equity interests and loans are carried at cost or, where the impairment is likely to be permanent, at the lower fair value.

In accordance with the strict lower-of-cost-or-market principle, **inventories** are stated at the lower of purchase or conversion cost and fair value.

The cost of purchase or conversion of raw materials, finished goods and merchandise is determined on the basis of the LIFO method. The differences in these amounts to those resulting from measurement on the basis of the exchange price or the market price at the end of the reporting period have been presented as part of the explanatory notes to the balance sheet.



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The inventories associated with consumables and supplies have been capitalised at the lower of average historical cost or current cost at the end of the reporting period.

All identifiable risks associated with **inventories**, relating to holding periods in excess of average duration, diminished usability and lower replacement costs, are recognised by an appropriate write-down.

Receivables and other assets are carried at their nominal values (cost of purchase). All items subject to risk are written down on an item-by-item basis. Where items are subject to a general credit risk, a general allowance is recognised. Non-interest-bearing other assets with a term of more than one year have been discounted using an interest rate appropriate to the remaining term.

Cash in hand and bank balances are carried at their nominal values.

Prepaid expenses include payments for expenses in respect of subsequent years.

Subscribed capital is carried at its nominal value.

The **provisions for pensions and similar obligations** are determined in accordance with actuarial principles by applying the projected unit credit method on the basis of "Richttafeln 2018 G" (actuarial mortality assumptions) published by Prof. Dr. Klaus Heubeck. With regard to the discount rate, as in the previous year the average market rate for the past ten years (with a remaining term of fifteen years), amounting to 2.71 per cent (previous year: 3.21 per cent), was applied. Expected increases in salaries were accounted for with an interest rate of 2.50 per cent, while the trend in respect of the contribution assessment ceiling for social insurance was accounted for with an interest rate of 2.00 per cent and expected pension increases with 1.87 per cent. Due to its minor significance, no staff turnover, i.e. fluctuation, rate was applied.

In accordance with Section 28(1) of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch – EGHGB), no provisions are recognised in respect of indirect obligations arising from pension benefits.

Tax and other provisions were created with reference to liabilities, the timing or amount of which were uncertain at the end of the reporting period or in consideration of future losses on pending transactions. They were recognised at the settlement amount deemed appropriate following a reasonable commercial assessment (i.e. including future cost and price increases). Provisions with a remaining term of more than one year are discounted using an interest rate specified in the Ordinance on the Discounting of Provisions (Rückstellungsabzinsungsverordnung).

Liabilities are stated at their settlement amount; to the extent that they are non-current and non-interest-bearing, they are recognised as liabilities at their present value.

For the purpose of determining **deferred taxes** arising from temporary differences between the accounting carrying amounts of the assets, liabilities and accruals/deferrals and the equivalent tax base, the amounts of resulting tax burden or benefit are measured, and not discounted, using the company-specific tax rates at the date of the reduction in differences. Deferred tax assets and deferred tax liabilities are netted. In accordance with the right to exercise the option in respect of recognition, deferred taxes are not capitalised.

Currency translation

In the financial statements of SIMONA AG, receivables and liabilities denominated in foreign currencies are translated using the mean spot exchange rate at the end of the reporting period (Section 256a). In the case of a remaining term of more than one year, the Realisation Principle (Section 252(1) no. 4 half sentence 2 HGB) and the Historical Cost Principle (Section 253(1) sentence 1 HGB) were observed accordingly.

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NOTES TO BALANCE SHEET

Non-current assets

Changes to individual items classified as non-current assets have been presented in the statement of changes in fixed assets (appendix to notes) together with details of depreciation, amortisation and write-downs for the full financial year.

Details of shareholdings

Details of shareholdings are presented in the appendix to the notes.

As regards the foreign entities, information pertaining to equity and earnings has been taken from the data used in connection with the consolidated IFRS financial statements as at 31 December 2019 (so-called Handelsbilanz II, i.e. single-entity financial statements adjusted/restated for uniform group accounting policies). Entities' foreign-currency equity is translated at the closing rate, while entities' foreign-currency earnings are translated at the average rate of the financial year.

Loans to affiliated companies

This item includes loans to SIMONA AMERICA Group Inc. (formerly: SIMONA AMERICA Inc.; €20,566 thousand) and SIMONA ASIA LIMITED (€11,058 thousand).

Inventories

Inventories of raw materials, finished goods and merchandise are measured on the basis of the LIFO method. Unlike in previous years, LIFO valuation of finished goods and merchandise is carried out without taking into account write-downs due to long holding periods and diminished usability. Inventories are presented according to appropriate groups, which are then valued at the lower of cost and net realisable value. The difference arising from the application of this method com-

pared with the average cost method, leading to a reduction in inventories, was €11,998 thousand in the case of finished goods (prev. year: €13,331 thousand).

Receivables and other assets

Essentially, as was the case in the previous year, all receivables and other assets, with the exception of those items described below, have maturities of under one year.

The receivables from affiliated companies relate to trade receivables (€35,613 thousand, prev. year: €23,336 thousand), receivables in respect of profit transfers by entities established in the corporate form of partnerships (€8,393 thousand) and loans (€1,038 thousand, prev. year: €633 thousand). The total amount of loans with a remaining term of more than one year was €1,038 thousand (prev. year: €633 thousand).

The receivables from other long-term investees and investors, amounting to €427 thousand (prev. year: €1,086 thousand), are attributable to payments made within the context of post-employment benefits.

Other assets primarily include sales tax receivables of €2,141 thousand as well as receivables in respect of energy tax totalling €2,324 thousand, which do not arise legally until after the reporting period.

As in the previous financial year, there were no other assets with a remaining term of more than one year.

Equity

As in the previous year, share capital amounted to €15,500,000 and consisted of 600,000 bearer shares. Share capital is in the form of no-par-value shares ("Stückaktien").



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The unappropriated surplus ("Bilanzgewinn", i.e. the distributable profit) includes €5,077 thousand in unappropriated retained earnings brought forward. In the financial year under review, a total of €4,875 thousand was allocated to other revenue reserves as prescribed by the Articles of Association. In addition, please refer to the proposed appropriation of profits.

Provisions for pensions and similar obligations

The difference between the pension provisions recognised by the company and provisions calculated on the basis of an average interest rate for the last seven and ten annual periods is €-4,834 thousand (prev. year: €-5,641 thousand).

SIMONA Sozialwerk GmbH operates as a pension fund, governed by German law, for the purpose of funding the indirect pension obligations for SIMONA AG. As at 31 December 2019, the company recorded a deficit of €32,808 thousand (ten-year interest rate) and €45,034 thousand (seven-year interest rate); this deficit does not necessitate mandatory recognition as a liability.

Other provisions

Other provisions were recognised primarily in respect of personnel-related provisions of €4,050 thousand (prev. year: €4,279 thousand). Warranty obligations amount to €141 thousand (prev. year: €135 thousand).

Liabilities

Bank borrowings again include loans of €3,425 thousand (prev. year: €3,425 thousand) with a remaining term of less than one year and loans of €11,855 thousand (prev. year: €15,280 thousand) with a remaining term of more than one year. There were no bank borrowings with a remaining term of more than five years (prev. year: €1,580 thousand). As in the previous financial year, there were no bank overdrafts due within one year.

Liabilities to affiliated companies relate to trade payables due within one year (€17,629 thousand, prev. year €5,204 thousand).

All liabilities are unsecured.

Deferred taxes

Deferred taxes are not presented in the balance sheet, as the option provided under Section 274 HGB specifies that the excess of assets remaining after netting of deferred tax assets and deferred tax liabilities need not be recognised. Deferred tax liabilities result from non-current assets and valuation differences in the case of trade receivables due to unrealised foreign exchange gains. Deferred tax assets result mainly from differences in valuation and recognition relating to provisions for pensions and similar obligations as well as other provisions. The amounts were computed on the basis of a tax rate of 29.48 per cent.

Contingencies

SIMONA AG issued a Letter of Comfort for the subsidiary SIMONA UK Ltd., Stafford, United Kingdom, for the subsidiary SIMONA ASIA PACIFIC PTE. LTD., Singapore, and for the subsidiary SIMONA ENGINEERING PLASTICS (Guangdong) Co. Ltd., Jiangmen, China. In accordance with these Letters of Comfort, the company is obliged to furnish the respective subsidiaries with sufficient financial resources so that they are in a position to meet their obligations.

As collateral for third-party liabilities, SIMONA AG issued a Letter of Comfort for the purpose of securing commodity deliveries. The liabilities of SIMONA Produktion Kirn GmbH & Co. KG, Kirn, and SIMONA Produktion Ringsheim GmbH & Co. KG, Ringsheim, towards suppliers amounted to €2,006 thousand in total as at 31 December 2019.

As collateral for third-party liabilities, SIMONA AG issued a payment guarantee covering a nominal amount of €2,670 thousand for the purpose of securing commodity deliveries. Trade payables of SIMONA

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AMERICA Industries LLC. and SIMONA Boltaron Inc. (formerly: Boltaron Inc.) amounted to €496 thousand in total as at 31 December 2019.

The risk of a contractual obligation arising from guarantees and letters of comfort is currently considered to be improbable, as the subsidiaries in question have sufficient funds from operating activities to meet their obligations.

NOTES TO INCOME STATEMENT

Revenue

REVENUE BY REGION

in € '000	2019	%	2018	%
Germany	116,730	40.4	126,576	42.1
Rest of Europe and Africa	150,409	52.0	151,579	50.4
Americas	7,443	2.6	6,098	2.0
Asia & Pacific	14,461	5.0	16,310	5.5
	289,043	100.0	300,563	100.0

REVENUE BY PRODUCT AREA

in € '000	2019	%	2018	%
Semi-Finished Parts	182,399	63.1	191,405	63.7
Pipes and Fittings	86,288	29.9	84,672	28.2
Services and Other	20,356	7.0	24,486	8.1
	289,043	100.0	300,563	100.0

Other operating income

Other income primarily includes the proceeds from the sale of the Finished Parts business, the derecognition of expired liabilities (€282 thousand; prev. year: €0 thousand) as well as income not attributable to the accounting period in connection with electricity tax refunds (€0 thousand; prev. year: €25 thousand), other income not attributable to the accounting period (€109 thousand; prev. year: €64 thousand) and the reversal of provisions (€134 thousand; prev. year: €717 thousand).

Other operating expenses

Other operating expenses relate primarily to outward freight charges (€10,781 thousand; prev. year: €10,627 thousand), maintenance expenses (€1,648 thousand; prev. year: €1,649 thousand), expenses for packaging material (€3,231 thousand; prev. year: €3,479 thousand), rental expenses (€3,277 thousand; prev. year: €3,277 thousand), legal and consulting costs (€3,630 thousand; prev. year: €1,957 thousand), cost of premises (€493 thousand; prev. year: €450 thousand) and advertising costs (€1,026 thousand; prev. year: €1,059 thousand). Expenses not attributable to the accounting period relate to the derecognition of receivables (€194 thousand; prev. year: €250 thousand).

Taxes on income

Income taxes are attributable to the result before taxes in the financial year under review. This item includes tax expenses of €542 thousand (prev. year: tax income of €8 thousand) that relate to previous financial years.

OTHER DISCLOSURES

Off-balance-sheet transactions

Under the terms of the rental contract of 1 December 2017, SIMONA Immobilien GmbH & Co. KG leases to SIMONA AG the land and buildings

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required for its operations for an indefinite term and with a mutual right of termination on the basis of regular way terms and conditions. The rent payable totals €3,277 thousand per annum. The rental payments result in an outflow of cash and cash equivalents at SIMONA AG.

Other financial commitments

COMMITMENTS FROM RENTAL AND LEASE AGREEMENTS

in € '000	
Due 2020	1,940
Due after 2020	577
	2,517

Of this total, €1,638 thousand is attributable to other financial obligations towards affiliated companies.

The order commitments are attributable to investment orders in the amount of €402 thousand.

Related-party transactions

Dr. Roland Reber, member of the Supervisory Board of SIMONA AG, is also the Managing Director of Ensinger GmbH; Nufingen. In the financial year under review, product sales amounting to €1,865 thousand (prev. year: €1,853 thousand) were transacted between SIMONA AG and the entities of the Ensinger Group. The two entities maintain business relations with each other on arm's length terms.

Companies of the SIMONA Group entered into no significant transactions with members of the Management Board or the Supervisory Board of SIMONA AG and/or entities to which these persons have been appointed in an executive or controlling capacity (revenues less than €25 thousand in total). This also applies to close family members of the aforementioned persons. This excludes compensation relating to existing employment contracts.

GOVERNING BODIES AND COMPENSATION

Management Board

Matthias Schönberg, Oberursel, Diplom-Kaufmann, (Chairman of the Management Board), (since 15 August 2019)

Responsible for the areas:

- USA and Asia-Pacific
- Global Business Segments
- Strategic Business Development
- HR & Legal
- Investor Relations
- Marketing & Communication

Michael Schmitz, Sprendlingen,

Qualified Bank Clerk (since 15 August 2019)

Responsible for the areas:

- Finance
- Controlling
- Taxes
- Purchasing
- IT & Organisation
- Quality Management

Dr. Jochen Hauck, Mainz,

Diplom-Ingenieur (since 1 January 2019)

Responsible for the areas:

- Semi-Finished Parts Division Europe
- Pipes and Fittings Division
- Research and Development
- Applications Technology/
- Technical Service Centre
- Global Process Development
- Logistics

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Dirk Möller, Kirn, Diplom-Ingenieur
(Deputy Chairman)
(until 30 June 2019)

Wolfgang Moyses, Kirn, MBA,
Diplom-Betriebswirt (until 14 August 2019 Chairman of the Management Board; until 30 September 2019 Member of the Management Board)

Matthias Schönberg performs supervisory duties within the following companies of the SIMONA Group:

- SIMONA POLSKA Sp. z o.o., Wrocław

Michael Schmitz performs supervisory duties within the following companies of the SIMONA Group:

- SIMONA S.A.S., Domont, France
- SIMONA IBERICA SEMIELABORADOS S.L., Barcelona, Spain
- SIMONA POLSKA Sp. z o.o., Wrocław, Poland
- SIMONA America Group Inc., Archbald, USA
- Power Boulevard Inc., Archbald, USA

Dr. Jochen Hauck performs supervisory duties within the following companies of the SIMONA Group:

- SIMONA S.r.l. Società UNIPERSONALE, Cologno Monzese (MI), Italy
- SIMONA IBERICA SEMIELABORADOS S.L., Barcelona, Spain
- SIMONA POLSKA Sp. z o.o., Wrocław, Poland

Supervisory Board

Dr. Rolf Goessler, Bad Dürkheim, Diplom-Kaufmann (Chairman)

Other supervisory board mandates:

- Member of the Supervisory Board of J. Engelsmann AG, Ludwigshafen

Roland Frobel, Isernhagen,
(Deputy Chairman)

Other supervisory board mandates:

- Member of the Supervisory Board of GBK Beteiligungen AG, Hannover
- Member of the Supervisory Board of Hannover 96 GmbH & Co. KGaA, Hannover
- Partner and Managing Director of Frobel Beteiligungs-GmbH, Isernhagen
- Managing Director of Reitstall Steinberg GmbH, Neuenkirchen
- Managing Director of FRISS Beteiligungsgesellschaft mbH, Isernhagen
- Managing Director of DR Konzept GmbH, Burgwedel (until 6 January 2020)
- Managing Director of DR Projekt GmbH, Burgwedel (until 16 January 2020)
- Managing Director of DR Immobilien GmbH, Burgwedel (until 3 January 2020)
- Managing Director of DR Objekt GmbH, Burgwedel (until 13 January 2020)
- Member of the Advisory Board of Deutsche Bank AG, Region Nord (until 31 December 2019)

Dr. Roland Reber, Stuttgart, Managing Director of Ensinger GmbH, Nufringen

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Martin Bücher, Biberach, Qualified Bank Clerk

- Chairman of the Executive Board of Kreissparkasse Biberach, Biberach

Other supervisory board mandates:

- Member of the Advisory Board of BW Global Versicherungsmakler GmbH
- Deputy Supervisory Board Member of BW Bank
- Member of the Supervisory Board of Öchsle Bahn AG

Andy Hohlreiter, Becherbach, (Employee Representative), Industrial Mechanic

- Chairman of Works Council

Markus Stein, Mittelreidenbach, Employee Representative, (Office Administration)

- Deputy Chairman of the Works Council

Total Management Board compensation

Total Management Board compensation for the 2019 financial year amounted to €2,988 thousand, of which €1,848 thousand was attributable to variable components.

Beyond that, no other compensation or loans were granted.

In accordance with Section 286(5) HGB and pursuant to a resolution passed by the Annual General Meeting on 10 June 2016, which remains valid up to and including the 2020 financial year, compensation has not been presented individually in an itemised format subdivided into fixed and performance-related components as well as components with a long-term incentive.

Total Supervisory Board compensation

Supervisory Board compensation comprises remuneration in respect of supervisory board duties (€97.5 thousand) and remuneration for committee work performed by Supervisory Board members (€42.0 thousand). Total Supervisory Board compensation amounted to €139.5 thousand in the financial year under review, itemised as follows:

in € '000	2019
Dr. Rolf Goessler	40.0
Roland Frobels	33.5
Dr. Roland Reber	27.0
Martin Bücher	13.0
Andy Hohlreiter	13.0
Markus Stein	13.0
	139.5

Compensation and pension provisions for former members of the Management Board and the Supervisory Board

Compensation relating to former members of the Management Board amounted to €304 thousand.

Full allocations have been made to pension provisions for former members of the Management Board. At 31 December 2019, these amounted to €12,651 thousand.

Employees

Average number of employees in the financial year

	2019	2018
Industrial staff	111	108
Clerical staff	233	233
Employees	344	331
School-leavers (apprentices)	53	53
	397	393

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Appropriation of profits

The Management Board proposes that the unappropriated surplus ("Bilanzgewinn", i.e. the distributable profit) be appropriated as follows:

in € '000	2019
Net profit for the year	9,751
Unappropriated retained earnings brought forward	5,078
Appropriation to other revenue reserves in accordance with the Articles of Association	-4,875
Unappropriated surplus	9,953
Dividend (€14.00 per share)	-8,400
Carried forward to new account	1,553

Corporate Governance Code Declaration of Compliance pursuant to Section 161 of the Stock Corporation Act

In accordance with Section 161 AktG, the company filed a Declaration of Conformity for 2019 on 24 February 2020. It has been made permanently available and publicly accessible to shareholders on its corporate website at www.simona.de.

Ownership interests

On 7 June 2019 the company was informed of the following ownership interests:

VOTING POWER IN RESPECT OF SIMONA AG	
in %	as at 31/12/2019
Dr. Wolfgang und Anita Bürkle Stiftung, Kirn	31.19
Kreissparkasse Biberach, Biberach	15.04
Dirk Möller, Kirn	11.64
Regine Tegtmeyer, Nebel	11.25
Rossmann Beteiligungs GmbH, Burgwedel	10.10
SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH, Kirn	10.00

Notification of voting rights pursuant to Section 21(1) WpHG

SIMONA Aktiengesellschaft received the following notifications disclosing the most recent status of shareholders in respect of amounts exceeding or falling below reporting thresholds under Section 21(1) of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG):

On 21 July 2016, Landkreis Biberach, Biberach, Germany, notified the company in accordance with Section 41(4g) WpHG that its voting power in respect of SIMONA AG had increased beyond the threshold of 3 per cent, 5 per cent, 10 per cent and 15 per cent on 2 July 2016 and that at this date its interest was 15.0435 per cent (90,261 voting rights). Of these voting rights, 15.0435 per cent (90,261 voting rights) are attributable to the aforementioned shareholder in accordance with Section 22(1) sentence 1 no. 1 WpHG. Within this context, attributable voting rights are held by the aforementioned party via the following entities under its control whose voting power in respect of SIMONA AG amounts to 3 per cent or more in each case: Kreissparkasse Biberach, Biberach, Germany.

On 10 June 2010, Dr. Wolfgang und Anita Bürkle Stiftung notified the company in accordance with Section 21(1) of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) that its voting power in respect of SIMONA AG had exceeded the threshold of 15 per cent, 20 per cent, 25 per cent and 30 per cent of the voting rights on 13 May 2010 and that at this date its interest was 30.79 per cent (corresponding to 184,739 voting rights).

On 20 June 2008, Rossmann Beteiligungs GmbH, Burgwedel, notified the company in accordance with Section 21(1) WpHG that its voting power in respect of SIMONA AG had exceeded the threshold of 10 per cent on 16 June 2008 and that at this date its interest was 10.10 per cent (corresponding to 60,584 voting rights).

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Group relationship

The separate financial statements are included in the consolidated financial statements of SIMONA AG, Kirn, which prepares the consolidated financial statements for the largest and smallest group of companies. The consolidated financial statements have been filed with the District Court Bad Kreuznach, Commercial Register No. HRB 1390.

Audit fees

As the total auditor fee has been accounted for in the consolidated financial statements of SIMONA AG, the relief clause stipulated under Section 285 no. 17 HGB has been applied.

Non-audit services provided by our auditor totalled €21 thousand in 2019 and relate to tax consultancy services.

Events after the reporting period

There were no events of material significance in the period between the end of the 2019 financial year and the preparation of this report.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management report that has been combined with the Group management report of SIMONA Aktiengesellschaft, Kirn, includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Kirn, 30 March 2020
SIMONA Aktiengesellschaft
The Management Board

Matthias Schönberg Dr. Jochen Hauck Michael Schmitz

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Statement of Changes in Fixed Assets of SIMONA AG for the Financial Year 2019

in € '000	COST OF PURCHASE/ PRODUCTION				31/12/ 2019	ACCUMULATED DEPRECIATION/ AMORTISATION/WRITE-DOWNS				31/12/ 2019	NET CARRYING AMOUNTS	
	01/01/ 2019	Additions	Disposals	Reclassifi- cations		01/01/ 2019	Additions	Write-ups	Disposals		31/12/ 2019	31/12/ 2018
I. Intangible assets												
Industrial property rights and similar rights and assets as well as licences in such rights and assets	8,198	70	0	5	8,273	7,426	355	0	0	7,781	493	772
	8,198	70	0	5	8,273	7,426	355	0	0	7,781	493	772
II. Property, plant and equipment												
1. Land, land rights and buildings	3,071	130	0	0	3,201	369	57	0	-16	442	2,759	2,702
2. Technical equipment and machinery	1,385	28	0	0	1,414	776	71	0	0	847	567	609
3. Other equipment, operating and office equipment	16,709	2,141	684	130	18,295	12,973	1,199	0	578	13,594	4,701	3,736
4. Prepayments and assets under construction	297	54	0	-135	216	0	0	0	0	0	216	297
	21,462	2,354	684	-5	23,126	14,118	1,326	0	562	14,882	8,243	7,344
III. Financial assets												
1. Investments in affiliated companies	109,195	0	0	0	109,195	5,341	0	0	0	5,341	103,854	103,854
2. Loans to affiliated companies	48,042	89	10,538	0	37,593	5,971	0	0	0	5,971	31,623	42,071
3. Other long-term equity investments	23	0	0	0	23	0	0	0	0	0	23	23
	157,260	89	10,538	0	146,811	11,312	0	0	0	11,312	135,500	145,948
	186,920	2,513	11,222	0	178,210	32,856	1,681	0	562	33,975	144,237	154,064

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Details of Shareholdings of SIMONA AG for the Financial Year 2019

Company	Ownership interest	Equity	Profit/loss of last financial year
	%	€ '000	€ '000
Directly			
SIMONA Beteiligungs-GmbH, Kirn (*)	100.0	1,834	0
SIMONA Sozialwerk GmbH, Kirn (**)	50.0	12,192	175
SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH, Kirn (**)	50.0	1,487	624
SIMONA Kirn Produktion GmbH & Co. KG, Kirn	100.0	24,960	525
SIMONA Kirn Management GmbH, Kirn	100.0	25	0
SIMONA Ringsheim Produktion GmbH & Co. KG, Ringsheim	100.0	5,947	210
SIMONA Ringsheim Management GmbH, Ringsheim	100.0	25	0
SIMONA Immobilien GmbH & Co. KG, Kirn	100.0	17,223	3,240
SIMONA Immobilien Management GmbH, Kirn	100.0	26	1
SIMONA Plast-Technik s.r.o., Litvinov, Czech Republic	100.0	18,922	1,101
SIMONA-PLASTICS CZ, s.r.o., Prague, Czech Republic	100.0	17	-3
SIMONA POLSKA Sp. z o.o., Wrocław, Poland	100.0	1,395	417
DEHOPLAST POLSKA Sp. z o.o., Kwdizyn, Poland	51.0	910	224
OOO SIMONA RUS, Moscow, Russian Federation	100.0	785	280
SIMONA AMERICA Group Inc., Archbald, USA (formerly: SIMONA AMERICA Inc.)	100.0	51,752	12,815
SIMONA ASIA LIMITED, Hong Kong, China	100.0	3,782	-255
SIMONA FAR EAST LIMITED, Hong Kong, China	100.0	967	-210
SIMONA INDIA PRIVATE LIMITED, Mumbai, India	99.99	90	65
SIMONA ASIA PACIFIC PTE. LTD., Singapore	100.0	-782	-135



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Company	Ownership interest	Equity	Profit/loss of last financial year
	%	€ '000	€ '000
Indirectly			
SIMONA IBERICA SEMIELABORADOS S.L., Barcelona, Spain	100.0	936	213
SIMONA S.A.S., Domont, France	100.0	764	11
SIMONA S.r.l., Vimodrone, Società UNIPERSONALE, Cologno Monzese (MI), Italy	100.0	776	113
SIMONA UK Ltd., Stafford, United Kingdom	100.0	2,838	287
64 NORTH CONAHAN DRIVE HOLDING LLC, Hazleton, USA	100.0	2,773	0
Power Boulevard Inc., Archbald, USA (formerly: Laminations Inc.)	100.0	7,858	-21
SIMONA Boltaron Inc., Newcomerstown, USA (formerly: Boltaron Inc.)	100.0	47,351	11,935
DANOI LLC, Akron, USA	100.0	249	254
CARTIERWILSON, LLC, Marietta, USA (***)	25.0	260	1,030
SIMONA ENGINEERING PLASTICS TRADING (SHANGHAI) CO., LTD. Shanghai, China	100.0	420	3
SIMONA ENGINEERING PLASTICS (Guangdong) Co. Ltd., Jiangmen, China	100.0	5,477	122
SIMONA INDIA PRIVATE LIMITED, Mumbai, India	0.01	90	65
SIMONA PMC, LLC, Findlay, USA	100.0	-1,648	-1,083
Industrial Drive Inc., Archbald, USA (formerly: Simona PMC Acquisition Inc.)	100.0	1	0
SIMONA AMERICA Industries LLC, Archbald, USA	100.0	31,208	3,008
Sandusky Technologies LLC, Fremont, USA	25.0	939	-267

(*) Control and profit transfer agreement with SIMONA AG

(**) 2018 financial year

(***) Preliminary financial data

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Reproduction of the Auditor's Report

Based on the results of our audit, we issued the following unqualified audit opinion dated 30 March 2020:

INDEPENDENT AUDITOR'S REPORT

To SIMONA Aktiengesellschaft, Kirn

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS AND MANAGEMENT REPORT

Opinions

We have audited the financial statements of SIMONA Aktiengesellschaft, Kirn, which comprise the statement of financial position (balance sheet) as of 31 December 2019 and the statement of profit or loss (income statement) for the financial year from 1 January to 31 December 2019 as well as the notes to the financial statements, including a summary of accounting policies. In addition, we have audited the management report of SIMONA Aktiengesellschaft, which has been combined with the Group management report, for the financial year from 1 January to 31 December 2019. In accordance with German statutory requirements, we have not audited the content of those parts of the management report specified under "Other Information" in this Independent Auditor's Report.

In our opinion, based on our audit findings,

- the accompanying financial statements comply, in all material respects, with the provisions of German commercial law and give a true and fair view of the net assets and financial position of the Company as at 31 December 2019 and its results of operations for the financial year from 1 January to 31 December 2019 in accordance with German principles of proper accounting, and

- the accompanying management report as a whole provides a suitable view of the Company's position. In all material respects, the management report is consistent with the financial statements, complies with German statutory requirements, and suitably presents the opportunities and risks of future development. Our opinion on the management report does not cover the content in respect of those parts of the management report specified under "Other Information" in this Independent Auditor's Report.

Pursuant to Section 322(3) sentence 1 HGB, we state that our audit has not led to any reservations with respect to compliance of the financial statements and the management report.

Basis for opinion

We conducted our audit of the financial statements and management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; hereinafter referred to as "EU Audit Regulation") as well as the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (Institut der Wirtschaftsprüfer – IDW). Our responsibilities under those regulations and guidelines are further described in the "Auditor's responsibilities for the audit of the financial statements and management report" section of our report. We are independent of the Company in accordance with the requirements of European Union law as well as German commercial law and the rules of professional conduct, and we have fulfilled our other ethical responsibilities under German professional law in accordance with these requirements. In addition, pursuant to Article 10(2)(f) EU Audit Regulation, we hereby declare that we did not provide any of the prohibited non-audit services referred to in Article 5(1) EU Audit Regulation. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinion on the financial statements and management report.



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Key audit matters in the audit of the financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

Pension provisions

Our presentation of this key audit matter has been structured in each case as follows:

- Matter and issue
- Audit approach and findings
- Reference to further information

Hereinafter we present the key audit matter:

- Pension provisions
- In the Company's financial statements the item "Provisions for pensions" includes pension provisions totalling €39.6 million (14.4% of the balance sheet total). The pension provisions are determined on the basis of the settlement amount, under German commercial law, in respect of direct obligations from several pension plans maintained by the Company. Measurement of obligations from pension plans in respect of pension commitments is conducted on the basis of the projected unit credit method. This requires, in particular, assumptions with regard to long-term salary and pension trends, average life expectancy and staff turnover rates. In our view, these matters were of particular significance in the context of our audit, as the recognition

and measurement of this large-scale item are dependent to a considerable extent on estimates and assumptions made by the Legal Representatives of the Company.

- As part of our audit, we reviewed, among other items, the actuarial reports prepared by external parties at the request of the Company and assessed the professional qualifications of these external experts. In addition, we focused, among other aspects, on the specifics of the actuarial calculations and assessed the numerical data, the actuarial parameters and the method of valuation applied to the measurement for the purpose of evaluating their appropriateness. This also applied to the application of the Heubeck mortality tables 2018 G. Subsequently, we reviewed, among other things, the calculation of provisions as well as the presentation in the statement of financial position (balance sheet), the statement of profit or loss (income statement) and the notes. On the basis of our audit procedures, we were able to satisfy ourselves that the estimates applied and assumptions made by the Company's Legal Representatives are substantiated and sufficiently documented.
- The disclosures by the Company in respect of pension provisions have been included in the sections "Significant accounting policies", in the section "Notes to Balance Sheet" and in the notes.

Other Information

The Company's Legal Representatives are responsible for the Other Information. The Other Information comprises the following non-audited parts of the management report:

- The declaration of corporate governance pursuant to Section 289f HGB and Section 315d HGB, as presented in section 5.1 of the management report

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- The non-financial statement pursuant to Section 289b(1) HGB and Section 315b(1) HGB, as presented in section 6 of the management report.

Our audit opinions on the financial statements and on the management report do not cover the Other Information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In the context of our audit, our responsibility is to read the Other Information and, in so doing, to consider whether the Other Information

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

Responsibilities of the Legal Representatives and Supervisory Board for the financial statements and the management report

The Legal Representatives are responsible for the preparation of financial statements that comply, in all material respects, with German commercial law for the preparation of financial statements that give a true and fair view of the net assets, financial position, and results of operations of the Company in accordance with the German principles of proper accounting. Furthermore, the Legal Representatives are responsible for such internal control as they have determined necessary to enable the preparation of financial statements in accordance with the German principles of proper accounting that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Legal Representatives are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. Additionally, they are responsible for

using the going concern basis of accounting unless there are factual or legal obstacles preventing them from doing so.

Moreover, the Legal Representatives are responsible for preparing the management report, which as a whole provides a suitable view of the Company's position, and, in all material respects, is consistent with the financial statements, complies with German statutory requirements and suitably presents the opportunities and risks of future development. Furthermore, the Legal Representatives are responsible for such arrangements and measures (systems) as they determine are necessary to enable the preparation of the management report in compliance with the applicable requirements of German commercial law and for providing sufficient and appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for monitoring the Company's financial reporting process for the preparation of the financial statements and the management report.

Auditor's responsibilities for the audit of the financial statements and the management report

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and whether the management report as a whole provides a suitable view of the Company's position, as well as, in all material respects, is consistent with the financial statements and our audit findings, complies with German statutory requirements, and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our opinion on the financial statements and the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and



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the EU Audit Regulation, as well as in compliance with the German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (Institut der Wirtschaftsprüfer – IDW), will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements and this management report.

As part of our audit we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements of the financial statements and the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 override of internal control.
- Obtain an understanding of internal control relevant to the audit of the financial statements, and of the arrangements and measures relevant to the audit of the management report, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and management report or, if such disclosures are inadequate, to modify our particular opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view of the net assets, financial position, and results of operations of the Company in accordance with German principles of proper accounting.
- Evaluate consistency of the management report with the financial statements, its legal compliance, and presentation of the Company's position.
- Perform audit procedures on the prospective information presented by the Legal Representatives in the management report. Based on sufficient and appropriate audit evidence, we hereby in particular trace the significant assumptions used by the Legal Representatives as a basis for the prospective information and assess the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit opinion on the prospective informa-



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tion as well as the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Other disclosures pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor at the annual general meeting held on 7 June 2019. We were engaged by the Supervisory Board on 18 September 2019. We have been the auditor of SIMONA Aktiengesellschaft, Kirn, without interruption since the 2013 financial year.

We declare that the audit opinions in this auditor's report are consistent with the additional report to the audit committee referred to in Article 11 of the EU Audit Regulation (audit report).

German public auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Christian Kwasni.

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