

**SIMONA**

**Financial Statements 2018**  
SIMONA AG



# Contents

## **COMBINED MANAGEMENT REPORT**

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<b>03</b>	Fundamental information about the group
<b>05</b>	Business review
<b>13</b>	Report on opportunities and risks
<b>16</b>	Report on expected developments
<b>17</b>	Other information
<b>18</b>	Non-financial statement in accordance with Section 289 b)-e) HGB

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## **FINANCIAL STATEMENTS**

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<b>23</b>	Balance Sheet
<b>25</b>	Income Statement
<b>26</b>	Notes to Financial Statements
<b>33</b>	Statement of Changes in Fixed Assets
<b>34</b>	Details of Shareholdings
<b>35</b>	Reproduction of the Auditor's Report

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# Combined Management Report for the 2018 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).

## 1. FUNDAMENTAL INFORMATION ABOUT THE GROUP

### 1.1 The business model

The SIMONA Group develops, manufactures and markets a range of semi-finished thermoplastics, pipes and fittings as well as finished parts and 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 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.

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 and 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 products (sheets, rods, welding rods) are manufactured at two plants in Kirn (Rhineland-Palatinate), while pipes, fittings and finished 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 Inc. in Archbald (Pennsylvania, USA) mainly produces sheet products. 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, an entity acquired in August 2018, 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.

On 8 June 2018, the Annual General Meeting of SIMONA approved a proposal for the introduction of a new legal structure at SIMONA AG. From an organisational perspective, manufacturing is clearly separated from administration, sales and logistics. Effective from 1 January 2018, the manufacturing operations in Kirn and Ringsheim were transferred to two GmbH & Co. KG companies that operate as wholly-owned subsidiaries of SIMONA AG and were thus separated accordingly.

### Management and supervision at SIMONA AG

In the financial year under review the Management Board consisted of Wolfgang Moyses (Chairman/CEO), Dirk Möller (Deputy Chairman/COO) and Fredy Hiltmann (until 30 June 2018).

The Supervisory Board included the following members in the financial year under review:

Dr. Rolf Goessler (Chairman), Roland Frobel (Deputy Chairman), Dr. Roland Reber, Joachim Trapp (until 31 May 2018) and Martin Bücher (since 8 June 2018) as well as Andy Hohlreiter and Markus Stein as employee representatives.

### 1.2 Objectives and strategies

Focusing invariably on customer value, the SIMONA Group sees itself as a global solution provider for plastics applications. The SIMONA Group is committed to steady growth in revenues and earnings, while pursuing business expansion on its own terms and remaining independent. During the 2018 financial year, SIMONA took another step forward when it comes to achieving its strategic goal of generating Group revenue of €500 million as part of the “SIMONA500” plan. Revenue growth is to be achieved organically and through acquisitions. The Group’s long-term goal is to achieve an EBIT margin of 6 to 8 per cent.

SIMONA has defined three key strategic areas for the purpose of meeting its revenue and earnings targets:

- Enhanced innovatory abilities
- More pronounced growth in the emerging markets
- Achieving operational excellence

The aim is for SIMONA to grow within its core market of Europe in particular, the emphasis being on new fields of application and new markets. Within the emerging markets SIMONA is focusing its business activities on Asia-Pacific, the aim being to achieve a significant market position in this region. When it comes to operational excellence, the objective set is to raise productivity levels gradually at all plants and in all processes. In 2018, an in-depth assessment was conducted with regard to the strategic position of the Pipes and Fittings division. A concept was drawn up with the aim of expanding revenue to over €100 million by 2022. For this purpose, investments will be made in manufacturing operations, product development and personnel for market cultivation. In the United States, the corporate structure is to be optimised effective from 1 January 2019 within the newly established entity known as SIMONA AMERICA Group, Inc.

### 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 analysis and assessment of earnings performance by SIMONA is 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 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 is 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 includes 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 further increased over the course of 2018. This was achieved primarily with the help of new product variants and by extending the range of fittings.

In process development and production, the focus was on modernising measurement technology and expanding capacities. At the technology centre at the Group headquarters in Kirn, drying, conveying and dosing technology was updated and extended to all systems. At the US plant in Archbald, the focus of investments was on increasing output rates for special product lines and on introducing automation technology to simplify handling. Storage capacity was also expanded. At the US plant in Newcomerstown, another extrusion line was commissioned in the third quarter of 2018 in order to meet the strong demand for products used in aircraft interiors. In addition, a fully automated mixing system was put into operation. At the Chinese plant in Jiangmen, a new sheet extrusion line was also commissioned to expand capacity. Investments were also made to improve quality in the production of multilayer sheets for automotive applications.

In the area of Semi-Finished Parts, SIMONA added to its product range for linings in the field of high-end corrosion protection with the introduction of FEP products with glass fibre backing and won its first projects. SIMONA FEP is characterised by special non-stick properties and helps to reduce cycle times and increase efficiency. Product development relating to the PVC-free variant of a carrier sheet for floor coverings was successfully completed in the year under review.

In the area of Pipes and Fittings, the focus was on raising efficiency levels through automation and technological innovation. To this end, the production capabilities of the plastics workshop – accommodated in a facility that had been built in the previous year at one of the German sites – were expanded. In addition, the product portfolio centred around large fittings and machine capacity for injection moulding were expanded. Special pipe types based on new pipe materials were developed in order to be able to offer optimum solutions for various areas of application, such as PE pipes with higher long-term temperature resistance for the laying of high-voltage cables, PP pipes with a high modulus of elasticity for jacking technology in the area of pipeline rehabilitation and special PA pipes for gas transport with a pressure load capacity of up to 16 bar.

Expenses attributable to research and development within the Group amounted to €4,023 thousand in the period under review (previous year: €4,451 thousand). Expenses are mainly comprised of staff costs, material costs and depreciation of property, plant and equipment.

## 2. BUSINESS REVIEW

### 2.1 Macroeconomic and sector-specific environment

According to data presented by the International Monetary Fund (IMF), the global economy expanded by 3.7 per cent in 2018, following a growth rate of 3.8 per cent in the preceding year. In this context, however, many economies saw growth weaken substantially in the second half of the year.

Germany's economy expanded for the ninth year in succession in 2018, although it lost some of its forward momentum in the period under review. Gross domestic product (GDP) rose by 1.4 per cent (2017: 2.2 per cent). Growth was driven primarily by domestic consumption and investment spending. Capital expenditure on technical equipment grew by 4.5 per cent year on year. Investment in the area of construction rose by 3 per cent.

According to projections by Eurostat, a Directorate-General of the European Commission, eurozone GDP rose by 1.8 per cent in 2018, i.e. at a much slower rate than in 2017 (+2.5 per cent).

Based on preliminary data, the US economy expanded by 2.9 per cent, which was much more than in the previous year (+2.3 per

cent). Growth was fuelled primarily by private consumption and a significant increase in investment spending.

The Chinese economy expanded by 6.6 per cent, following growth of 6.9 per cent in the preceding year. Thus, growth was in line with the government target of 6.5 per cent, but it was also the lowest rate of expansion in almost three decades. The threat of a trade war with the United States, together with other longer-term factors such as the increase in loan-based debt, is now leading to a more cautious approach among consumers and companies.

Germany's plastics processing industry recorded another year of growth. According to data published by the industry association GKV, total revenue increased by 3.1 per cent to €65.7 billion in 2018 (prev. year: €63.7 billion). Thus, the plastics processing industry as a whole grew by around twice as much as GDP. Growth was driven by the construction, consumer goods and packaging sectors, whereas expansion in the tech industry was less pronounced due to a more sluggish automotive sector. At 2.4 per cent, revenue generated from domestic sales expanded at a slower rate than revenue earned abroad (3.8 per cent).

According to the industry federation VCI, the chemical-pharmaceutical sector performed well in 2018. Both production (+3.6 per cent) and revenue (+4.1 per cent) trended higher. However, the general mood within the market was much cooler in the final quarter of the year.

Production output in Germany's mechanical engineering sector fell well short of expectations in 2018. According to initial calculations by the Federal Statistical Office, growth stood at 2 per cent, which was considerably lower than the figure of 5 per cent targeted by the industry association VDMA. This was attributable to the sector's poor performance in November and December. After the first ten months of the year growth in production output had stood at 3.7 per cent.

Data presented by Hauptverband der Deutschen Bauindustrie, Germany's central federation of the construction industry, points to revenue expansion of 10.7 per cent (nominal, companies with more than 20 employees) within Germany's principal construction sector in the period from January to November 2018. Thus, with order intake remaining high, the buoyant construction sector remains strong.

The global market for aircraft interiors is expanding by 5.6 per cent per annum, according to the market intelligence agency Counterpoint. Growth is being driven primarily by strong demand for new aircraft, particularly in Asia.

### 2.2 Course of business – SIMONA Group

Sales revenue totalled €417.9 million in the 2018 financial year (previous year: €394.1 million), which corresponds to an increase

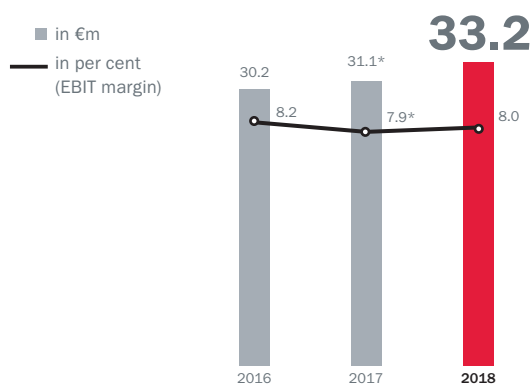
of 6.0 per cent. This was driven in particular by strong growth in the United States as a result of a solid performance in the Aviation and Industrial Products business as well as the acquisition of PMC, a company specialising in thermoforming products. Europe as a whole saw a moderate increase in revenue. While the region covering Germany, Austria and Switzerland developed very well, Western Europe was impacted by a sluggish economic performance in Italy and France. On the back of significant revenue growth in the preceding year, Asia was stable in the period under review. Competition remained intense in all regions and product groups. The revenue guidance of €405 to 410 million for the 2018 financial year, as presented in the previous year's Group management report and 2018 interim report for the first half, was achieved by the Group, when adjusted for acquisitions.

### Preliminary note

In the past, the SIMONA Group presented income and expenses from foreign currency translation entirely in other income and expenses. As from the 2018 financial year, the effects of financing activities will be accounted for in net finance cost/income for the purpose of improving the presentation of operating profit. Therefore, the prior-year figures presented in the consolidated financial statements for the 2017 financial year cannot be used for year-on-year comparative purposes; they have been adjusted accordingly (cf. Note [2] in the notes to consolidated financial statements).

Group earnings before interest and taxes (EBIT) totalled €33.2 million, up on the figure of €31.1 million reported in the previous financial year. The EBIT margin stood at 8.0 per cent (previous year: 7.9 per cent). The Group therefore managed to achieve its projected EBIT margin of between 7 and 9 per cent. EBITDA rose from €45.5 million a year ago to €48.4 million at the end of the reporting period. Thus, the EBITDA margin remained unchanged year on year at 11.6 per cent.

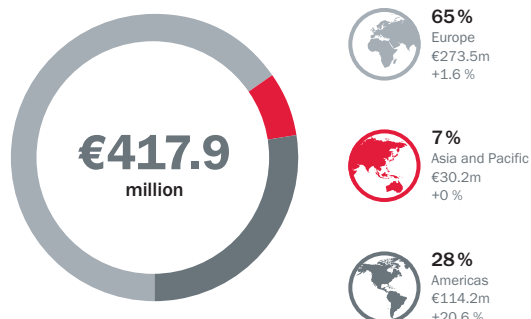
### EBIT



\* see preliminary note

At 10.9 per cent, Group ROCE was at the upper end of the range targeted, but down on the prior-year figure of 11.6 per cent.

### REVENUE BY REGION (in per cent)



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

### Europe

In the region encompassing Europe, sales revenue increased by 1.6 per cent to €273.5 million (previous year: €269.2 million), primarily due to a solid performance in the area of Pipes and Fittings and growth generated through Semi-Finished and Finished Parts in Central Europe. At €102.8 million, revenue generated in Germany was slightly higher than in the previous year. Revenue from sales in Western Europe was down year on year due to a decline in project-related business and a weak performance in France and Italy. Eastern Europe, by contrast, saw revenue expand in the period under review. 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 68.2 per cent to 65.4 per cent. EBIT within the segment covering Europe fell slightly from €15.6 million in the previous year to €14.8 million in the period under review.

### Americas

Revenue generated from sales in the Americas expanded significantly due to the acquisition of the subsidiary Premier Material Concepts and a solid performance within both the Aviation and the Industrial Products market – up by 20.6 per cent to €114.2 million (previous year: €94.7 million). Excluding the acquisition, revenue would have increased by around 11 per cent. SIMONA AMERICA Inc. further expanded its market share in the area of Industrial Products during the financial year under review, in addition to achieving significant revenue growth in the area of Semicon. Benefiting from sustained buoyancy in the aviation market, Boltaron Inc. managed to increase revenue in the Aviation and Specialty Products category. In total, the revenue and earnings target for 2018 was exceeded by both companies. The share of total revenues attributable to this region rose from 24.0 per cent to 27.4 per cent. The Americas segment generated EBIT of €17.9 million (previous year: €15.7 million). The Group recorded further productivity gains at its US plants.

### Asia and Pacific

After significant growth in the previous year, revenue in the region encompassing Asia and Pacific stagnated at €30.2 million in the

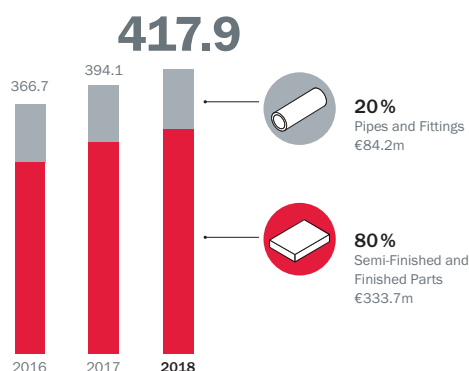
period under review (previous year: €30.2 million). As a result, the share of total revenues attributable to this region fell from 7.7 per cent to 7.2 per cent. Despite negative currency effects (€-0.2 million), the Asia and Pacific segment recorded EBIT of €0.8 million (previous year: €0.0 million).

### Sales revenue by product area

The product area comprising Semi-Finished and Finished Parts emulated last year's solid performance by recording revenue growth of 6.3 per cent, taking the figure to €333.7 million in the 2018 financial year (previous year: €313.8 million). Revenue growth was driven mainly by the industrial products and aviation business in North America. The area covering PVC foam products was impacted by intense competition. Revenue generated from sales in the area of solid and hollow rods was up in the financial year under review. Business expanded further as a result of an extension to the product range of fluoropolymers.

The product area comprising Pipes and Fittings met its revenue targets in the financial year under review and grew by 4.9 per cent to €84.2 million (previous year: €80.3 million). This was driven by a positive global performance in the area of industrial products as well as with regard to infrastructure business, primarily in Germany and Eastern Europe. Supported by international marketing efforts, investments aimed at extending the range of fittings also contributed to growth in this product area.

#### REVENUE BY PRODUCT AREA (in €m)



### Orders

Order backlog within the Group stood at €51.0 million (previous year: €40.0 million); of this total, a figure of €24.1 million (previous year: €21.4 million) is attributable to SIMONA AG.

## 2.3 Financial performance

### Earnings

Group EBIT (earnings before taxes, interest and investment income) rose by 6.8 per cent, up from €31.1 million to €33.2 million. At 8.0 per cent, the EBIT margin was up slightly on the figure of 7.9 per cent recorded in the previous financial year.

Supported by revenue growth, gross profit (revenue, other income, change in inventories of finished goods and work in progress less cost of materials) rose by €10.8 million to €197.1 million in 2018, which corresponds to 47.2 per cent of revenue (previous year: 47.3 per cent).

As in the previous financial year, an increase in inventories of €7.3 million (previous year: €7.2 million) was accounted for in the income statement.

Other income totalled €4.9 million (previous year: €4.3 million).

Commodity prices continued to spiral over the course of 2018, before trending slightly lower towards the end of the year. The cost of materials was €233.0 million (previous year: €219.3 million), i.e. this item expanded in line with revenue growth. At the same time, energy-related costs were up yet again compared to the previous year.

Staff costs stood at €78.8 million (previous year: €74.8 million), up 5.3 per cent on last year's figure. The year-on-year change is due primarily to staff recruitment at Boltaron and the first-time consolidation of the recently acquired US-based entity PMC.

Depreciation of property, plant and equipment and amortisation of intangible assets, including write-downs, amounted to €15.1 million (previous year: €14.4 million).

Other expenses increased year on year, up by 6.0 per cent to €70.0 million (previous year: €66.0 million). The increase was due primarily to higher expenses for sales, outward freight and administration.

In line with higher pre-tax profit, taxes on income rose from €7.1 million in the previous year to €8.0 million in the reporting period. The Group tax rate stood at 24.9 per cent in the reporting period (previous year: 28.9 per cent).

### 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 subsidiary in Spain and the Eastern Europe sales and production companies were, in part, substantially higher year on year. In line with revenue growth and due also to higher raw material costs, material-related expenses increased from €162.8 million in the previous year to €165.6 million in the period under review. At €55.9 million, staff costs were up 2.2 per cent on the figure posted in the previous year. Other expenses totalled €46.0 million (previous year: €44.9 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 €53.6 million (previous year: €43.0 million) rose mainly as a result

of the first-time consolidation of PMC, a recently acquired entity, and the expansion in sales volumes. Staff costs stood at €19.7 million (previous year: €17.1 million). At €19.3 million, other expenses were up by €2.1 million compared to the previous year.

The Asia and Pacific segment made a positive earnings contribution of €0.8 million. On the back of a solid performance in the previous year, the plant in China was again able to slightly increase its earnings before interest and taxes (EBIT) and EBITDA. Staff costs were up marginally year on year and other expenses were up marginally year on year. 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 €400.9 million as at 31 December 2018, which was considerably higher than in the previous year (€363.4 million) due to the corporate acquisition in the United States.

##### Changes to assets

Intangible assets mainly include goodwill from US acquisitions. The year-on-year increase by €9.7 million to €39.1 million was attributable primarily to the corporate acquisition in the United States and the direction taken by the US dollar.

Property, plant and equipment amounted to €129.1 million (previous year: €114.4 million). The increase by €14.7 million is due above all to the entity acquired in the United States. Investments in property, plant and equipment totalled €16.9 million at Group level. Depreciation and write-downs of property, plant and equipment stood at €13.5 million.

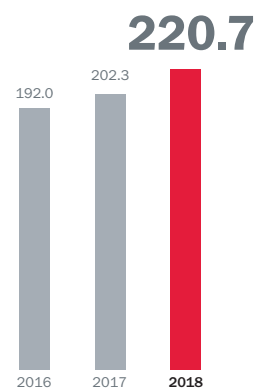
Inventories totalled €92.4 million (previous year: €78.0 million). At €34.0 million, inventories of raw materials, consumables and supplies were higher than in the previous year (€28.6 million). Finished goods and merchandise rose from €48.1 million to €56.5 million, which was due to higher stock volumes as well as commodity prices.

Trade receivables rose by €7.6 million year on year to €64.0 million.

Current and non-current other assets and tax assets totalled €10.7 million (previous year: €5.5 million).

Other financial assets totalled €1.3 million (previous year: €0.7 million).

#### EQUITY (in €m)



##### Changes to equity and liabilities

At the end of the reporting period, the Group recorded an increase in equity compared to the previous financial year as well as an expansion in its current and non-current liabilities.

Group equity amounted to €220.7 million (previous year: €202.3 million), a further year-on-year increase. This figure primarily includes annual profit of €24.3 million for 2018 and a dividend payment of €7.2 million in the 2018 financial year. Group equity was diluted by €4.1 million, without affecting profit or loss, by the remeasurement of pension provisions as a result of a lower fair value of plan assets. The Group equity ratio fell slightly from 56 per cent to 55 per cent as a result of the disproportionately large increase in the balance sheet total.

Current and non-current provisions for pensions totalled €106.1 million (previous year: €99.2 million). Pension provisions were up markedly due to the lower fair value of plan assets in conjunction with a slightly higher IAS interest rate of 1.90 per cent (previous year: 1.80 per cent).

At €21.0 million, trade payables were higher than in the previous financial year (€11.1 million). The prior-year figure was lower than was generally the case at the end of previous financial years, as supplier invoices were settled at the end of 2017 – prior to their due date – in preparation for corporate restructuring.

Current and non-current other financial liabilities totalled €2.2 million (previous year: €2.0 million).

Other liabilities stood at €15.7 million in the period under review, i.e. up slightly on the prior-year figure; 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.

Non-current (€3.4 million) and current (€2.0 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 €16.9 million (previous year: €15.3 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 €3.4 million at Group level (previous year: €2.4 million).

## 2.5. Financial management and 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 intra-group 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 €15.3 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.

As in the previous year, no derivative financial instruments were recognised as at 31 December 2017.

At the end of the reporting period the Group had undrawn lines of credit totalling €17.0 million (previous year: €18.6 million).

### Cash flows

In the period under review the inflow of cash from operating activities (gross cash flow) was €34.8 million (previous year: €19.2 million). The increase in cash inflow was mainly due, in net terms, to a higher pre-tax profit, an expansion of inventories and an increase in trade receivables. The cash outflow attributable to investing activities was €-39.8 million (previous year: €-13.8 million) and mainly included the acquisition of the new subsidiary in the United States and investments in property, plant and equipment. Net cash used in financing activities was €-10.9 million (previous year: €-11.0 million) and mainly consisted of the scheduled repayment of KfW funds and an outflow in connection with dividend payments.

### Cash and cash equivalents

The Group's cash and cash equivalents totalling €52.5 million

(previous year: €68.0 million) mainly consist of short-term bank deposits. The year-on-year swing of €-15.5 million (previous year: €-6.7 million) was attributable to net cash from operating activities as well as, primarily, net cash used for the corporate acquisition in the United States, 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 €14.3 million (previous year: €6.7 million) for contracts already awarded in connection with investment projects and €12.1 million (previous year: €14.2 million) in respect of purchase orders for raw materials. Other financial obligations totalling €2.8 million (previous year: €2.8 million) were attributable to operating rental and lease agreements. Of this total, an amount of €0.9 million is due within one year.

### Net finance cost

Based on finance income of €1.9 million and finance cost of €3.2 million, net finance cost amounted to €-1.4 million in the period under review (previous year: €-6.7 million). For the first time in the 2018 financial year this includes the result from currency translation (€0.6 million, previous year: €-4.6 million).

## 2.6 Course of business – SIMONA AG

### Preliminary note

Following a resolution passed by the Annual General Meeting of SIMONA Aktiengesellschaft, Kirn, on 8 June 2019, the Semi-Finished Parts production unit was transferred to SIMONA Produktion Kirn GmbH & Co. KG and the Pipes and Fittings production unit to SIMONA Produktion Ringsheim GmbH & Co. KG – in each case at their carrying amounts – on the basis of a separation and transfer agreement dated 11 June 2018 by way of a separation (“Ausgliederung”, hive-down) for absorption pursuant to Section 123(3) No. 1 of the German Transformation Act (Umwandlungsgesetz – UmwG) retrospectively as at 1 January 2018. The separation was entered in the commercial register on 1 August 2018.

Due to the separation, comparability with prior-year figures is not possible. In order to ensure comparability, the line item “31 Dec. 2018 before separation” was included in the balance sheet and the line item “2018 before separation” in the income statement. Offsetting effects were eliminated accordingly. Regardless of the actual figures for 2018, we therefore refer to the comparative figures “2018 before separation”. Due to the transfer concluded at the end of 2017, SIMONA Immobilien GmbH & Co. KG, Kirn, is no longer included in this figure.

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

Sales revenue totalled €271.5 million in 2018 (previous year: €268.6 million). This corresponds to revenue growth of 1.1 per cent. Thus, the company came close to meeting its revenue target of €272 million.

### Germany

Sales revenue in Germany rose by 4.1 per cent to €97.5 million (previous year: €93.7 million), primarily as a result of solid business within the area of Pipes and Fittings.

### Rest of Europe and Africa

The region comprising the Rest of Europe and Africa saw sales revenue decline slightly to €151.6 million (previous year: €152.8 million).

### Americas

Revenue from sales in the Americas increased to €6.1 million (previous year: €5.3 million).

### Asia & Pacific

The Asia & Pacific region recorded a slight reduction in revenue, down by 2.5 per cent to €16.3 million.

### Sales revenue by product area

In the product area comprising Semi-Finished and Finished Parts sales revenue decreased by 1.6 per cent to €188.0 million (previous year: €191.0 million). By contrast, revenue from the product group comprising Pipes and Fittings rose by 5.8 per cent, up from €75.4 million to €79.8 million.

### Earnings performance

SIMONA AG earnings declined year on year. Earnings before interest and taxes (EBIT), calculated on the basis of IFRS, totalled €7.7 million (previous year: €9.1 million), while the EBIT margin stood at 2.8 per cent (previous year: 3.4 per cent). Thus, the Group fell short of its EBIT margin target (5 to 6 per cent). EBITDA, calculated on the basis of IFRS, fell from €17.6 million in the previous year to €14.9 million in 2018. The EBITDA margin stood at 5.5 per cent, compared to 6.6 per cent for the same period a year ago (target of 8 to 9 per cent). At 5.1 per cent, ROCE (based on IFRS) remained below the prior-year figure of 6.4 per cent and below the defined target (6 to 7 per cent).

The decline in EBIT and EBITDA is attributable to higher sales expenses and an increase in staff costs. Overall, business performance with regard to revenue and earnings was satisfactory only in part.

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

in € millions	2018	2017
<b>EBIT under IFRS</b>	<b>7.7</b>	<b>9.1</b>
Change in inventories	4.0	-1.6
Cost of materials	-11.3	0.9
Staff costs (pensions)	5.5	5.4
Depreciation/amortisation/write-downs of intangible assets and property, plant and equipment	1.4	1.6
Other operating expenses	0.9	3.0
Other changes	1.8	-0.3
<b>EBIT under HGB</b>	<b>10.0</b>	<b>18.3</b>

## 2.7 Review of financial position, performance and cash flows of SIMONA AG (HGB)

### Earnings performance

Gross profit (sales revenue less cost of materials) amounted to €103.8 million, down by 1.1 per cent year on year. The gross profit margin fell from 39.1 per cent a year ago to 38.2 per cent. The cost of materials rose by 2.5 per cent, driven in particular by higher raw material and energy costs.

Other operating income totalled €3.6 million (previous year: €3.1 million). This figure includes gains of €1.7 million (previous year: €1.4 million) from currency translation.

Personnel expense amounted to €44.5 million, which was up 2.2 per cent on the prior-year figure. While staff costs rose by 3.5 per cent year on year, social security and post-employment benefit costs were lower than in the previous year.

Depreciation, amortisation and write-downs attributable to intangible assets and property, plant and equipment totalled €5.9 million.

Other operating expenses rose from €43.0 million a year ago to €47.2 million in the period under review, an increase of 9.8 per cent. Expenses were higher primarily with regard to rent payable on plant buildings as well as packaging materials. Expenses relating to currency translation amounted to €0.7 million (previous year: €2.2 million).

Interest and similar expenses totalled €5.5 million (previous year: €4.7 million) and consisted primarily of expenses relating to the unwinding of the discount, i.e. interest cost, of pension provisions (€5.2 million, previous year: €4.2 million).

Earnings before interest and taxes (EBIT), calculated on the basis of HGB, totalled €10.0 million in the period under review (previous

year: €18.3 million), as a result of which the EBIT margin stood at 3.7 per cent (previous year: 6.8 per cent). The prior-year figure had included a special distribution of €5.0 million from the Czech-based subsidiary SIMONA Plast-Technik. EBITDA amounted to €15.8 million (previous year: €25.1 million). The EBITDA margin stood at 5.8 per cent, compared to 9.4 per cent for the same period a year ago. Profit after taxes totalled €10.4 million. Earnings performance in the financial year under review was dominated in particular by a decline in the gross profit margin due to the higher cost of materials as well as an increase in other operating expenses.

### Assets

Total assets attributable to SIMONA AG rose by €9.6 million to €284.3 million.

Non-current assets totalled €156.6 million, up by €20.4 million mainly as a result of loans to finance the acquisition in the United States.

Property, plant and equipment expanded by €2.6 million to €40.6 million. With effect from 1 January 2018, property, plant and equipment at a carrying amount of EUR 30.7 million was transferred in exchange for rights granted in respect of the entities as part of the separation of production.

Interests in affiliated companies remained unchanged year on year.

Loans to affiliated companies, amounting to €42.1 million (previous year: €24.2 million), relate to subsidiaries in the Americas and Asia. The subsidiary in the United States received funds of €22.1 million to finance the US acquisition of PMC in the financial year under review. At the same time, it repaid a loan of €4.6 million.

In total, inventories increased by €1.1 million to €40.3 million. They include raw materials (€14.3 million), work in progress (€0.3 million) and finished goods and merchandise (€25.6 million). Inventories of finished goods and merchandise rose by €0.8 million compared to the previous financial year.

Trade receivables fell by €1.0 million to €22.3 million. At €26.0 million, receivables from affiliated companies – comprising loans and goods deliveries – were up by €4.8 million year on year.

Other assets totalled €6.9 million (previous year: €3.5 million).

In total, receivables and other assets amounted to €56.2 million, up €8.0 million on the prior-year figure (€48.2 million).

Cash and cash equivalents declined by €20.2 million, down from €50.8 million in the previous year to €30.6 million at the end of the 2018 reporting period. The reduction was mainly due to a cash outflow in connection with a loan granted to the US subsidiary in order to finance the acquisition in the United States, the extinguishment of KfW loans and the payment of dividends.

### Equity and liabilities

SIMONA AG's equity rose by €3.1 million year on year to €185.2 million. At 65 per cent, the equity ratio was slightly down on last year's figure (66 per cent). This was attributable primarily to the year-on-year decline in annual profit and higher borrowings.

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 €59.2 million (previous year: €57.5 million). In total, allocations to provisions for pensions were increased by €1.0 million compared to the previous year and stood at €48.2 million at the end of the reporting period. The discount rate fell to 3.21 per cent (previous year: 3.68 per cent). Other provisions totalled €10.8 million (previous year: €9.6 million).

Total liabilities increased by €4.8 million to €39.8 million.

Trade payables totalled €10.8 million (previous year: €3.5 million). The prior-year figure was lower than at the end of previous financial years, as supplier invoices were settled at the end of 2017 – prior to their due date – in preparation for corporate restructuring. Liabilities towards affiliated companies amounted to €6.9 million, i.e. slightly up on the prior-year figure. They relate mainly to goods deliveries from the subsidiary in the Czech Republic.

Bank borrowings totalled €18.7 million (previous year: €22.1 million) and were attributable to long-term KfW loans. Under the terms of the contract, 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 €16.0 million.

### Investments

Capital expenditure relating to property, plant and equipment at SIMONA AG amounted to €8.1 million in the period under review (previous year: €7.1 million). They mainly relate to investments in operating and office equipment at the company sites in Germany. In total, net investments (additions less write-downs) amounted to €2.6 million (previous year: €0.7 million).

Obligations from investment projects already initiated amounted to €11.7 million, while those attributable to raw material orders were 4.4 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 €30.6 million (previous year: €50.8 million), comprising bank deposits denominated in euro and foreign currencies. The reduction is attributable mainly to cash outflows in connection with financing activities (loan granted to US subsidiary in order to finance the US acquisition, repayment of loans and dividend payment).

## 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.

### Employees

As at 31 December 2018, the SIMONA Group employed 1,413 people (previous year: 1,289). The headcount was up in the United States in particular, which was due to the acquisition of PMC as well as new hires at Boltaron and SIMONA AMERICA. Staffing levels in Germany were also higher. The number of people employed in the Rest of Europe remained largely unchanged year on year.

At 805, the headcount at SIMONA AG was up on the prior-year figure (31 Dec. 2017: 778). The 2018 headcount relating to SIMONA AG includes the employees of the newly established production companies in Kirn and Ringsheim.

The number of vocational trainees rose significantly in 2018. In total, 56 (previous year: 45) young people (as at December 2018) were enrolled in vocational programmes relating to one of eleven technical and commercial training courses offered by SIMONA. In 2018, 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.

Staff advancement programmes focused on training for machine fitters, business development and product management. In addition, employees were trained at the Kirn and Ringsheim sites, with a focus on business English courses. In 2018, an assessment centre was organised for the third generation of staff members assigned to the Talent Promotion Circle (TPC). 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 one-to-one meetings introduced uniformly for all salaried employees for the purpose of discussing personal targets will be expanded – after a test phase – in some parts of production for industrial employees based at the Kirn headquarters. As part of its corporate health management activities, SIMONA held health days at its Kirn site and introduced a free fruit service. The company also offers an allowance for fitness centres. For many years now, SIMONA has been offering its employees the opportunity to work from their home offices. In 2018, this was regulated uniformly in a company agreement. SIMONA is actively using this instrument to enhance its attractiveness as an employer. SIMONA does not rely solely on home-office-based workplaces. Instead, it is of the opinion that regular dialogue at the workplace, combined with flexible and occasional home office opportunities, is the best way of reconciling work and family life, while at the same time meeting job requirements. As regards the construction and conversion of the administration building in Kirn, the requirements were defined on the basis of expected trends relating to future workflow. This included employee input as well as feasibility studies for various options.

### 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.

### Information technology

As regards IT infrastructure, the focus in 2018 was on further improving IT security, particularly in respect of components with direct access to the internet. In order to be able to act proactively on the one hand and respond quickly to an attack on the other hand, a software application was implemented that enables the automated monitoring of all selected end devices. In addition, two branches in

the United States were connected to the SIMONA network in order to simplify the exchange of information and enable central IT administration. Many clients were converted to so-called thin clients in the course of 2018, which enables cost-effective and simplified user administration.

The emphasis of IT applications development in the financial year under review was again on the conversion of operational business processes at the SIMONA sites in Germany as part of the organisational separation of production units from administration, sales and logistics. At the end of the year, the SAP system was converted to the latest release worldwide. The preparatory measures as well as the changeover at the turn of the year were supervised, coordinated and carried out by the two divisions.

### 3. REPORT ON OPPORTUNITIES AND RISKS

The slowdown in the global economy will have an impact on the performance of industries and business areas targeted by SIMONA, particularly if investment spending continues to decline. This applies primarily to the export-driven sectors of chemicals and mechanical engineering. By contrast, the construction sector (in Germany) and the aviation market remain very robust.

In this more challenging economic climate, opportunities may arise from the sustained buoyancy in demand for plastics with customised properties as well as an expansion of the range of materials offered. 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 introducing a wider range of materials, e.g. FEP in the area of high-performance plastics.

In Europe, SIMONA sees opportunities in new fields of application, e.g. within the energy supply and construction sectors. With this in mind, the Pipes and Fittings division was repositioned in strategic terms and investments were made in this area. In the United States, the subsidiary Boltaron can benefit from sustained growth in the market for aircraft interiors. In the area of industrial products, the acquisition of SIMONA PMC with its specialised product portfolio for thermoforming applications provides customers with a more extensive range of products. At the same time, the Group can further strengthen its market position. In the region covering Asia-Pacific, SIMONA sees good opportunities with regard to key technologies centred around semiconductors, environmental management and chemical processes.

Overall, SIMONA believes the potential for unlocking opportunities remains good. Compared to the previous year, however, SIMONA's business prospects are considered to be slightly weaker. Given the visible downturn in most of the economies around the globe, the short-term economic fundamentals have deteriorated. At the same time, the medium-term structural indicators – particularly with re-

gard to investment spending in the industrial sector, which is considered to be of key importance to the company – have also deteriorated slightly.

#### 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:

- Market environment and sector-specific risks
- Business strategy risks
- Financial risks
- Risks attributable to procurement and purchasing
- Production risks
- Risks attributable to information technology

#### Market environment and sector-specific 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, 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 is exposed to significant geopolitical risks. Within the segment covering Europe, risks relating to the business environment and industry are dominated by uncertainty over the outcome of Brexit, the smouldering trade war with the United States and negative developments in Italy and France. In the Americas, meanwhile, risk exposure is being influenced by protectionist trade policies as well as by the fundamental political stance assumed by the United States and the direction taken by the US dollar exchange rate. In the segment covering Asia and Pacific, risk is more pronounced due to the weak performance of China's economy in the wake of the trade conflict with the United States. As regards the aspect of changes to sales markets, the expected value for a decline in revenue, in the medium term, has been determined as being approx. €5.0 to 10.0 million with a probability of occurrence of under 50 per cent at present. Overall, the probability of adverse effects occurring from exposure to sector-specific risks is at present considered low.

#### Business strategy risks

These encompass the risk of misjudgements with regard to the future direction taken by the market. 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 acquisition of PMC in 2018 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. In 2018, the global economy expanded at a less pronounced rate than originally anticipated and 2019 is also expected to see a downturn in growth. Therefore the business-related risks of a slowdown in economic performance and, in turn, a dip in investment spending within the industrial sector have increased considerably.

The risk of bad debt losses remains high in particular 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. 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 customers is limited by credit insurance and the cut-off of deliveries in the case of outstanding payments. Additionally, risks exist with regard to voidability of insolvency. 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. 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. At the end of the financial year, plan assets were €3.5 million lower due to the decline in the price of SIMONA AG shares.

#### **Risks attributable to procurement and purchasing**

As was the case in the previous year, 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. The direction taken by oil prices does not necessarily coincide with price trends for input commodities (naphtha, propylene and ethylene) that are of relevance to raw materials used by the company. Instead, market prices tend to be influenced by demand and supply factors. Commodity prices continued to spiral over the course of 2018, before trending slightly lower towards the end of the year. We anticipate that the supply of raw materials and additives will remain stable in 2019. In the medium to long term, raw material prices are expected to remain stable.

#### **Production risks**

Production risks include in particular product quality, capacity utilisation, production or machine downtime and energy supply. The probability of adverse effects occurring from exposure to production risks is at present not considered to be material.

#### **Risks attributable to information technology**

Ongoing monitoring and optimisation of existing information technology is 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 department 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. The probability of occurrence of external attacks on IT systems, in particular, has increased further.

At the end of the 2018 financial year, we are of the opinion that the overall risk situation for the Group remains largely unchanged from that of the previous year. 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.

## 4. REPORT ON EXPECTED DEVELOPMENTS

### Economic conditions

The International Monetary Fund (IMF) has revised downwards its outlook for the global economy. Given the sluggish performance in the fourth quarter of 2018 and the negative effects of higher tariffs in the United States, compounded by the risk of escalating trade wars, the tightening financial leeway in some economies and the prospect of a no-deal Brexit, the IMF's January outlook predicts global economic growth of 3.5 per cent, 0.2 percentage points down on October 2018. Other renowned institutes have recently further reduced their forecasts for global economic growth to 3 per cent at the most.

The majority of the world's established economies are predicted to grow at a reduced rate. As regards the eurozone, the IMF has forecast growth of 1.6 per cent. The IMF has revised its forecast downwards for Germany and Italy in particular. As regards Germany, the IMF expects growth of 1.3 per cent (0.6 percentage points down on October 2018) and 0.6 percent (0.4 percentage points down) for Italy. The USA (2.5 per cent) and China (6.2 per cent) are also expected to grow at a weaker rate than in 2018.

After a very weak December, the chemical industry is pessimistic about 2019. The industry association VCI anticipates a decline in production output of 2.5 per cent. Against the backdrop of a more sluggish global economy and political challenges such as trade disputes and Brexit, the general outlook has become bleaker. As for the machinery and plant engineering sector, Germany's engineering federation, the VDMA, has reaffirmed its forecast of production growth of 2 per cent, despite downside pressure on the economy.

The German Construction Industry Association expects construction activity to continue growing at a high level in 2019 and has predicted nominal revenue growth in the construction industry of 6 per cent (all companies).

### Sector-specific conditions

Despite increasingly difficult economic conditions, the GKV industry association anticipates growth of 2 per cent in the plastics processing industry in Germany. The plastics industry in the German-speaking region is already noticing the first signs of an economic slowdown. The survey regularly conducted by the GKV points to a relatively unfavourable industry performance in 2019. 29 per cent of the companies surveyed anticipate an improvement in business during the first half of the year, while 23 per cent believe business will decline. Companies are anxious about the direction taken by global economic policy as well as Brexit and US protectionism. 62 per cent of all companies anticipate that the trade stance taken by the US administration will have adverse effects on business. 49 per cent of the companies surveyed believe that Brexit will be detrimental to their own business performance.

### Future performance of the Group

SIMONA anticipates that Group revenue for the 2019 financial year will be between €435 and 450 million, while the EBIT margin is expected to be between 6 and 8 per cent and the EBITDA margin between 10 to 12 per cent. At Group level, the return on capital employed (ROCE) in 2019 is expected to be between 8 and 10 per cent.

The planned increase in revenue is based primarily on the fact that the recently acquired entity SIMONA PMC will be consolidated over a full annual period for the very first time. Additionally, the market for aircraft interiors is expected to remain buoyant in the United States and the Pipes and Fittings business in Europe is forecast to grow following the Group's strategic repositioning in this area.

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 will materialise as planned.

### 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 our quality management measures, we have set ourselves the same ambitious targets for product quality as in the previous year and assume that we will be able to reach this level.

#### Employees

The number of employees within the SIMONA Group is likely to remain stable in 2019. Based on the apprenticeship contracts already concluded, the headcount of vocational trainees is expected to be similar to that seen in preceding year.

### Future performance of SIMONA AG

For the financial year 2019, SIMONA has set a guidance target of €278 million in sales revenue, together with an EBIT margin of between 3 and 3.5 per cent and an EBITDA margin of between 3.5 and 4 per cent, each calculated on the basis of IFRS. The return on capital employed (ROCE) in 2019 is expected to be between 9 and 10 per cent.

The sales region of Germany is to generate slight growth through the continued expansion of business in the industrial sector. The goal for the region encompassing the Rest of Europe and Africa is to achieve a significant increase in revenue. The region covering the Americas and the region encompassing Asia and Pacific are expected to remain stable year on year.



## 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](http://www.simona.de).

### 5.2 Compensation report

#### 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 2015 to 2017, 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 2015 to 2017, the second performance period comprises the financial years 2016 to 2018 and the third performance period covers the financial years from 2017 to 2019. 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	2018	2017
Fixed compensation		
Fixed salary and fringe benefits	890	924
Variable compensation		
Annual bonus	1,064	1,030
Long-term incentive programme		
Period 2015–2017, payment 2018	–	620
Period 2016–2018, payment 2019	600	–
<b>Total compensation</b>	<b>2,554</b>	<b>2,574</b>

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).

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 €301 thousand (previous year: €420 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 €12,478 thousand as at 31 December 2018 (previous year: €11,863 thousand). IFRS-based pension provisions for active and former members of the Management Board were recognised to the full extent and amounted to €15,846 thousand as at 31 December 2018 (previous year: €16,595 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 8 June 2018 no such resolution for variable compensation components was passed for the 2018 financial year.

Supervisory Board compensation for the financial year under review amounted to €162 thousand (previous year: €167 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 2018, 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 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 8 June 2018, members of the Management Board reported a total holding of 70,826 shares; this corresponds to 11.80 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 8 June 2018, 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 (Aktengesetz – 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.

## 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 finished parts and 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 automobile 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.

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.

### 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 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. In 2018, the energy management system was successfully recertified to the relevant standards (ISO 50001:2011 (ISO 50003)).

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.

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 its consumption.

### Personnel matters

The company's employees are a key pillar of its success. This is enshrined on 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. 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 compa-

nies located in Kirn have already implemented performance appraisals or plan to introduce them fully in 2019. In the commercial area 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 are evaluated systematically.

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.

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 IGBCE.

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.

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.

### **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, 29 March 2019  
SIMONA Aktiengesellschaft  
The Management Board

Wolfgang Moyses      Dirk Möller      Dr. Jochen Hauck

# Financial Statements of SIMONA AG for the Financial Year 2018

## FINANCIAL STATEMENTS

<b>23</b>	Balance Sheet
<b>25</b>	Income Statement
<b>26</b>	Notes to Financial Statements
<b>33</b>	Statement of Changes in Fixed Assets
<b>34</b>	Details of Shareholdings
<b>35</b>	Reproduction of the Auditor's Report

# Balance Sheet of SIMONA AG

## for the Financial Year 2018

### ASSETS

in € '000	31/12/2018	31/12/2018 before separation	31/12/2017
<b>A. NON-CURRENT ASSETS</b>			
<b>I. Intangible assets</b>			
Industrial property rights and similar rights and assets as well as licences in such rights and assets	772	978	1,068
	<b>772</b>	<b>978</b>	<b>1,068</b>
<b>II. Property, plant and equipment</b>			
1. Land, land rights and buildings	2,702	2,702	2,643
2. Technical equipment and machinery	609	25,392	24,803
3. Other equipment, operating and office equipment	3,736	6,302	6,636
4. Prepayments and assets under construction	297	6,177	3,888
	<b>7,344</b>	<b>40,573</b>	<b>37,970</b>
<b>III. Financial assets</b>			
1. Investments in affiliated companies	103,854	72,947	72,947
2. Loans to affiliated companies	42,071	42,071	24,181
3. Other long-term equity investments	23	23	23
	<b>145,948</b>	<b>115,041</b>	<b>97,151</b>
	<b>154,064</b>	<b>156,592</b>	<b>136,189</b>
<b>B. CURRENT ASSETS</b>			
<b>I. Inventories</b>			
1. Raw materials, consumables and supplies	581	14,299	14,088
2. Work in progress	0	348	336
3. Finished goods and merchandise	25,374	25,556	24,747
4. Prepayments for inventories	1	121	4
	<b>25,956</b>	<b>40,324</b>	<b>39,175</b>
<b>II. Receivables and other assets</b>			
1. Trade receivables	22,258	22,276	23,306
2. Receivables from affiliated companies	28,384	26,001	21,180
3. Receivables from other long-term investees and investors	1,086	1,086	241
4. Other current assets	5,559	6,863	3,496
	<b>57,287</b>	<b>56,226</b>	<b>48,223</b>
<b>III. Cash in hand and bank balances</b>	<b>30,268</b>	<b>30,639</b>	<b>50,846</b>
	<b>113,511</b>	<b>127,189</b>	<b>138,244</b>
<b>C. PREPAID EXPENSES</b>	<b>486</b>	<b>490</b>	<b>257</b>
	<b>268,061</b>	<b>284,271</b>	<b>274,690</b>

## EQUITY AND LIABILITIES

in €'000	31/12/2018	31/12/2018 before separation	31/12/2017
<b>A. EQUITY</b>			
<b>I. Subscribed capital</b>	<b>15,500</b>	<b>15,500</b>	<b>15,500</b>
<b>II. Capital reserve</b>	<b>15,032</b>	<b>15,032</b>	<b>15,032</b>
<b>III. Revenue reserves</b>			
1. Legal reserve	397	397	397
2. Statutory reserves	2,847	2,847	2,847
3. Other revenue reserves	138,469	138,469	133,055
<b>IV. Unappropriated surplus</b>	<b>13,477</b>	<b>12,990</b>	<b>15,222</b>
	<b>185,722</b>	<b>185,235</b>	<b>182,053</b>
<b>B. PROVISIONS</b>			
1. Provisions for pensions	38,123	48,188	47,166
2. Provisions for taxes	70	191	728
3. Other provisions	4,636	10,835	9,640
	<b>42,829</b>	<b>59,214</b>	<b>57,534</b>
<b>C. LIABILITIES</b>			
1. Liabilities to banks	18,705	18,705	22,130
2. Trade payables	3,935	10,780	3,547
3. Liabilities to affiliated companies	13,601	6,918	6,514
4. Other liabilities (of which taxes €352 thousand; previous year: €297 thousand) (of which relating to social security €780 thousand; previous year: 774 thousand)	3,269	3,419	2,912
	<b>39,510</b>	<b>39,822</b>	<b>35,103</b>
	<b>268,061</b>	<b>284,271</b>	<b>274,690</b>



# Income Statement of SIMONA AG

## for the Financial Year 2018

in €'000	01/01/ - 31/12/2018	01/01/ - 31/12/2018 before separation	01/01/ - 31/12/2017
<b>1. Revenue</b>	300,563	271,526	268,555
2. Reduction/increase in finished goods and work in progress	-21,533	201	3,574
	<b>279,030</b>	<b>271,727</b>	<b>272,129</b>
3. Other operating income (of which from currency translation €1,719 thousand; previous year: €1,427 thousand)	3,068	3,559	3,125
<b>4. Cost of materials</b>			
a) Cost of raw materials, consumables and supplies and of purchased merchandise	-216,467	-164,660	-162,502
b) Cost of services purchased	-304	-3,061	-1,096
	<b>-216,771</b>	<b>-167,721</b>	<b>-163,598</b>
<b>5. Staff costs</b>			
a) Wages and salaries	-21,016	-38,887	-37,556
b) Social security, post-employment and other employee benefit costs (of which in respect of old-age pensions €-351 thousand; previous year: €-649 thousand)	-2,867	-5,647	-6,012
	<b>-23,883</b>	<b>-44,534</b>	<b>-43,568</b>
6. Depreciation, amortisation and write-downs of property, plant and equipment as well as intangible assets	-1,595	-5,854	-6,882
7. Other operating expenses (of which from currency translation €670 thousand; previous year: €2,207 thousand)	-31,741	-47,169	-42,951
8. Income from equity investments of which from affiliated companies €6,671 thousand; previous year: €6,424 thousand)	6,671	5,714	6,424
9. Income from profit transfer agreements	1,589	1,589	1,182
10. Write-ups of financial assets	0	0	239
11. Other interest and similar income (of which from affiliated companies €1,036 thousand; previous year: €705 thousand)	1,152	1,166	873
12. Interest and similar expenses (of which from discounting €3,916 thousand; previous year: €4,249 thousand)	-4,213	-5,533	-4,665
<b>13. Result before taxes</b>	<b>13,266</b>	<b>12,898</b>	<b>22,309</b>
14. Taxes on income	-2,398	-2,519	-4,481
<b>15. Result after taxes</b>	<b>10,909</b>	<b>10,425</b>	<b>17,827</b>
16. Other taxes	-40	-43	-164
<b>17. Profit for the year</b>	<b>10,869</b>	<b>10,382</b>	<b>17,663</b>
18. Unappropriated retained earnings brought forward	8,022	8,022	6,391
19. Allocation to revenue reserves	-5,414	-5,414	-8,832
<b>20. Unappropriated surplus</b>	<b>13,477</b>	<b>12,990</b>	<b>15,222</b>

# Notes to Financial Statements of SIMONA AG for the Financial Year 2018

## 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 2018, 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 (Aktien-gesetz – 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. Additionally, for the purpose of clarity, the item “write-ups relating to financial assets”, i.e. reversals of write-downs, was incorporated within the classification under Section 275 HGB.

Following a resolution passed by the General Meeting of Shareholders of SIMONA Aktiengesellschaft, Kirn, on 8 June 2018, the Semi-Finished Parts production unit was transferred to SIMONA Produktion Kirn GmbH & Co. KG and the Pipes and Fittings production unit to SIMONA Produktion Ringsheim GmbH & Co. KG on the basis of a separation and transfer agreement dated 11 June 2018 by way of a separation (“Ausgliederung”, hive-down) for absorption pursuant to Section 123 (3) No. 1 of the German Transformation Act (Umwandlungsgesetz – UmwG). The separation was entered in the commercial register on 1 August 2018.

Due to the separation, comparability with prior-year figures is not possible. In order to ensure comparability, the line item “31 Dec. 2018 before separation” was included in the balance sheet and the line item “2018 before separation” in the income statement. Off-setting effects were eliminated accordingly.

## 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.

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, bank balances and cheques** 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 3.21 per cent (previous year: 3.68 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.

## NOTES TO BALANCE SHEET

### Non-current assets

Based on a separation and transfer agreement of 11 June 2018, SIMONA AG, Kirn, transferred the Semi-Finished Parts production unit to SIMONA Produktion Kirn GmbH & Co. KG, Kirn, and the Pipes and Fittings production unit to SIMONA Produktion Ringsheim GmbH & Co. KG, Ringsheim, in return for rights granted in respect of these entities. The transfer of intangible assets and property, plant and equipment – historical cost of purchase or conversion of €168,413 thousand and carrying amount after amortization/depreciation of €30,682 thousand – came into effect on 1 January 2018 (transfer of risks and rewards of ownership).

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. Information pertaining to equity and earnings concerning foreign entities has been taken from the data used in connection with the consolidated IFRS financial statements as at 31 December 2018 (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 Inc. (€31,014 thousand) and SIMONA ASIA LIMITED (€11,057 thousand).

### Inventories

Inventories of raw materials, finished goods and merchandise are measured on the basis of the LIFO method. The LIFO measurement of inventories entails the classification of inventories into appropriate groups, which are then valued at the lower of cost and net realisable value. The difference arising from the application of this

method compared with the average cost method, leading to a reduction in inventories, was €0 thousand (prev. year: €2,566 thousand; due to the transfer of inventories in the context of separation) and €13,331 thousand (prev. year: €8,953 thousand) with regard to finished goods and merchandise.

#### 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 (€23,336 thousand, prev. year: €19,436 thousand), receivables in respect of profit transfers by entities established in the corporate form of partnerships (€4,415 thousand) and loans (€633 thousand, prev. year: €1,683 thousand). The total amount of loans with a remaining term of more than one year was €633 thousand (prev. year: €502 thousand).

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

Other assets primarily include sales tax receivables of €2,584 thousand as well as receivables in respect of energy tax totalling €2,711 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").

The unappropriated surplus ("Bilanzgewinn", i.e. the distributable profit) includes €8,022 thousand in unappropriated retained earnings brought forward. In the financial year under review, a total of €5,414 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 annual periods is €-5,641 thousand (previous year: €-7,379 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 2018, the company recorded a deficit of €25,019 thousand (ten-year interest rate) and €38,042 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 €4,279 thousand (previous year: €5,808 thousand). Warranty obligations were down to €135 thousand (prev. year: €3,152 thousand) in the period under review due to the separation of production as at 1 January 2018.

#### Liabilities

Bank borrowings again include loans of €3,425 thousand with a remaining term of less than one year and loans of €13,700 thousand with a remaining term of between one and five years. The total amount attributable to bank borrowings with a remaining term of more than five years was €1,580 thousand (previous year: €5,005 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 (€5,204 thousand, prev. year €4,300 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 €2,627 thousand in total as at 31 December 2018.

As collateral for third-party liabilities, SIMONA AG issued a payment guarantee covering a nominal amount of €2,620 thousand for the purpose of securing commodity deliveries. Trade payables of SIMONA AMERICA Inc. and Boltaron Inc. amounted to €341 thousand in total as at 31 December 2018.

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	2018	%	2018 before separation	%	2017	%
Germany	126,576	42.1	97,539	35.9	93,749	34.9
Rest of Europe and Africa	151,579	50.4	151,579	55.8	152,774	56.9
Americas	6,098	2.0	6,098	2.3	5,308	2.0
Asia & Pacific	16,310	5.5	16,310	6.0	16,724	6.2
	<b>300,563</b>	<b>100.0</b>	<b>271,526</b>	<b>100.0</b>	<b>268,555</b>	<b>100.0</b>

#### REVENUE BY PRODUCT AREA

in € '000	2018	%	2018 before separation	%	2017	%
Semi-Finished and Finished Parts	191,405	63.7	188,035	69.2	191,001	71.1
Pipes and Fittings	84,672	28.2	79,776	29.4	75,377	28.1
Services and Other	24,486	8.1	3,715	1.4	2,177	0.8
	<b>300,563</b>	<b>100.0</b>	<b>271,526</b>	<b>100.0</b>	<b>268,555</b>	<b>100.0</b>

### Other operating income

Other operating income includes income not attributable to the accounting period in connection with electricity tax refunds (€25 thousand, prev. year: €14 thousand), other income not attributable to the accounting period (€64 thousand; prev. year: €36 thousand) and the reversal of provisions (€717 thousand; prev. year: €661 thousand).

### Other operating expenses

Other operating expenses relate primarily to outward freight charges (€10,627 thousand; prev. year: €10,416 thousand), maintenance expenses (€1,649 thousand; prev. year: €8,063 thousand), expenses for packaging material (€3,479 thousand; prev. year: €6,794 thousand), rental expenses (€3,277 thousand; prev. year: €504 thousand), legal and consulting costs (€1,957 thousand; prev. year: €1,892 thousand), cost of premises (€450 thousand; prev. year: €1,035 thousand) and advertising costs (€1,059 thousand; prev. year: €765 thousand). Expenses not attributable to the accounting period relate to the derecognition of receivables (€250 thousand; prev. year: €16 thousand).

### Taxes on income

Income taxes are attributable to the result before taxes in the financial year under review. This item includes tax income of €8 thousand (previous year: €30 thousand) that relates 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 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 have a negative effect on the cash and cash equivalents of SIMONA AG.

### Carried forward to new account

#### COMMITMENTS FROM RENTAL AND LEASE AGREEMENTS

in € '000	
Due 2019	17
Due after 2019	0
	<b>17</b>

Of this total, €0 thousand is attributable to other financial obligations towards affiliated companies.

#### ORDER COMMITMENTS

in € '000	
Capital investment orders	949
	<b>949</b>

### Related-party transactions

Dr. Roland Reber, member of the Supervisory Board of SIMONA AG, is also the Managing Director of Ensinger GmbH; Nufringen. In the financial year under review, product sales amounting to €1,853 thousand (previous year: €1,957 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:

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**Wolfgang Moyses**, Kirn, MBA, Diplom-Betriebswirt, (Chairman)

Responsible for the areas:

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

Areas of responsibility taken over from Fredy Hiltmann as from 1 July 2018:

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

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**Dirk Möller**, Kirn, Diplom-Ingenieur  
(Deputy Chairman)

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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**Fredy Hiltmann**, Kirn, Betriebsökonom  
(until 30 June 2018)

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Wolfgang Moyses performs supervisory duties at the following entities:

- Customer Advisory Board member Landesbank Rheinland-Pfalz, Mainz
- Advisory Board of CW Brabender Instruments Inc., South Hackensack, USA
- Supervisory Board member of SURTECO SE, Büttenwiesen-Pfaffenhofen

Wolfgang Moyses performs supervisory duties within the following companies of the SIMONA Group:

- SIMONA S.A.S., Domont
- SIMONA S.r.l. Società UNIPERSONALE, Cologno Monzese (MI)
- SIMONA IBERICA SEMIELABORADOS S.L., Barcelona
- SIMONA UK Ltd., Stafford
- SIMONA POLSKA Sp. z o.o., Wrocław
- SIMONA AMERICA Inc., Archbald
- SIMONA PMC, LLC, Findlay
- Simona PMC Acquisition Inc., Archbald
- SIMONA FAR EAST LIMITED, Hong Kong
- SIMONA ENGINEERING PLASTICS TRADING (SHANGHAI) CO., LTD., Shanghai
- SIMONA ASIA LIMITED, Hong Kong
- SIMONA ENGINEERING PLASTICS (Guangdong) Co. Ltd., Jiangmen

Dirk Möller is a shareholder (11.64 per cent of shares in SIMONA AG) and a member of the Management Board of SIMONA AG. At the same time, Dirk Möller performs supervisory duties within the following companies of the SIMONA Group:

- SIMONA S.A.S., Domont
- SIMONA POLSKA Sp. z o.o., Wrocław
- SIMONA AMERICA Inc., Archbald
- SIMONA FAR EAST LIMITED, Hong Kong
- SIMONA ENGINEERING PLASTICS TRADING (SHANGHAI) CO. LTD., Shanghai
- SIMONA ASIA LIMITED., Hong Kong
- SIMONA ENGINEERING PLASTICS (Guangdong) Co. Ltd., Jiangmen.

#### Supervisory Board:

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**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
- Member of the Advisory Board of Deutsche Bank AG, Region Nord

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

Martin Bücher, Biberach, Qualified Bank Clerk (since 8 June 2018)

- 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 Ochsle Bahn AG

Joachim Trapp, Biberach, Qualified Lawyer (until 31 May 2018)

- Deputy Chairman of the Management Board of Kreissparkasse Biberach, Biberach

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 2018 financial year amounted to €2,768 thousand, of which €1,878 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	2018
Dr. Rolf Goessler	40.0
Roland Frobel	33.5
Dr. Roland Reber	27.0
Andy Hohlreiter	13.0
Markus Stein	13.0
Martin Bücher	7.6
Joachim Trapp	5.4
	<b>139.5</b>

### 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 €301 thousand.

Full allocations have been made to pension provisions for former members of the Management Board. At 31 December 2018, these amounted to €4,703 thousand.

### Employees

Average number of employees in the financial year:

	2018	2017
Industrial staff	148	458
Clerical staff	245	273
<b>Employees</b>	<b>393</b>	<b>731</b>
School-leavers (apprentices)	53	50
	<b>446</b>	<b>781</b>

Due to the separation and transfer agreement of 11 June 2018, the employees assigned to the production unit Semi-Finished Parts were transferred to SIMONA Produktion Kirn GmbH & Co. KG, Kirn, and the employees assigned to the Pipes and Fittings production unit were transferred to SIMONA Produktion Ringsheim GmbH & Co. KG, Ringsheim, retrospectively as at 1 January 2018 by way of separation ("Ausgliederung", hive-down) for absorption pursuant to Section 123 (3) No. 1 of the German Transformation Act (Umwandlungsgesetz, UmwG).

### APPROPRIATION OF PROFITS

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

in € '000	2018
Profit for the year	10,869
Unappropriated retained earnings brought forward	8,022
Allocation to other revenue reserves in accordance with the Articles of Association	-5,414
<b>Unappropriated surplus</b>	<b>13,477</b>
Dividend (€14.00 per share)	-8,400
<b>Carried forward to new account</b>	<b>5,077</b>

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

In accordance with Section 161 AktG, the company filed a Declaration of Conformity for 2018 on 22 February 2019. It has been made permanently available and publicly accessible to shareholders on its corporate website at [www.simona.de](http://www.simona.de).

### Ownership interests

On 8 June 2018 the company was informed of the following ownership interests:

#### VOTING POWER IN RESPECT OF SIMONA AG

in %	as at 31 Dec. 2018
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.

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).

### 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 €28 thousand in 2018 and relate to tax consultancy services €12 thousand and other confirmation services €16 thousand.

### Events after the reporting period

There were no events of material significance in the period between the end of the 2018 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, 29 March 2019

SIMONA Aktiengesellschaft  
The Management Board

Wolfgang Moyses

Dirk Möller

Dr. Jochen Hauck



# Statement of Changes in Fixed Assets of SIMONA AG for the Financial Year 2018

in € '000	COST OF PURCHASE/ PRODUCTION					ACCUMULATED DEPRECIATION/ AMORTISATION/WRITE-DOWNS					NET CARRYING AMOUNTS		
	01/01/ 2018	Addi- tions	Reclas- sifica- tions	Disposal/ addition due to separation	Dispos- als	31/12/ 2018	01/01/ 2018	Addi- tions	Disposal due to separation	Dispos- als	31/12/ 2018	31/12/ 2018	31/12/ 2017
<b>I. Intangible assets</b>													
Industrial prop- erty rights and similar rights and assets as well as licences in such rights and assets	8,446	215	34	-497	0	8,198	7,378	393	345	0	7,426	772	1,068
	<b>8,446</b>	<b>215</b>	<b>34</b>	<b>-497</b>	<b>0</b>	<b>8,198</b>	<b>7,378</b>	<b>393</b>	<b>345</b>	<b>0</b>	<b>7,426</b>	<b>772</b>	<b>1,068</b>
<b>II. Property, plant and equipment</b>													
1. Land, land rights and buildings	2,939	132	0	0	0	3,071	296	73	0	0	369	2,702	2,643
2. Technical equipment and machinery	149,124	19	0	-147,758	0	1,385	124,321	73	123,618	0	776	609	24,803
3. Other equipment, operating and office equipment	32,591	913	44	-16,387	452	16,709	25,955	1,056	13,767	271	12,973	3,736	6,636
4. Prepayments and assets under construction	3,888	257	-78	-3,770	0	297	0	0	0	0	0	297	3,888
	<b>188,542</b>	<b>1,321</b>	<b>-34</b>	<b>-167,915</b>	<b>452</b>	<b>21,462</b>	<b>150,572</b>	<b>1,202</b>	<b>137,385</b>	<b>271</b>	<b>14,118</b>	<b>7,344</b>	<b>37,970</b>
<b>III. Financial assets</b>													
1. Investments in affiliated companies	78,288	0	0	30,907	0	109,195	5,341	0	0	0	5,341	103,854	72,947
2. Loans to affiliated companies	30,152	22,133	0	0	4,243	48,042	5,971	0	0	0	5,971	42,071	24,181
3. Other long-term equity invest- ments	23	0	0	0	0	23	0	0	0	0	0	23	23
	<b>108,463</b>	<b>22,133</b>	<b>0</b>	<b>30,907</b>	<b>4,243</b>	<b>157,260</b>	<b>11,312</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11,312</b>	<b>145,948</b>	<b>97,151</b>
<b>I + II + III</b>	<b>305,451</b>	<b>23,669</b>	<b>0</b>	<b>-137,505</b>	<b>4,695</b>	<b>186,920</b>	<b>169,262</b>	<b>1,595</b>	<b>137,730</b>	<b>271</b>	<b>32,856</b>	<b>154,064</b>	<b>136,189</b>

# Details of Shareholdings of SIMONA AG for the Financial Year 2018

Company	Ownership interest	Equity	Profit/loss of last financial year
	%	€ '000	€ '000
<b>Directly</b>			
SIMONA Beteiligungs-GmbH, Kirn (*)	100.0	1,834	0
SIMONA Sozialwerk GmbH, Kirn (**)	50.0	12,017	-327
SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH, Kirn (**)	50.0	2,365	522
SIMONA Kirn Produktion GmbH & Co. KG, Kirn	100.0	24,960	617
SIMONA Kirn Management GmbH, Kirn	100.0	26	0
SIMONA Ringsheim Produktion GmbH & Co. KG, Ringsheim	100.0	5,948	341
SIMONA Ringsheim Management GmbH, Ringsheim	100.0	26	0
SIMONA Immobilien GmbH & Co. KG, Kirn	100.0	17,223	3,461
SIMONA Immobilien Management GmbH, Kirn	100.0	26	0
SIMONA Plast-Technik s.r.o., Litvinov, Czech Republic	100.0	17,592	1,133
SIMONA-PLASTICS CZ, s.r.o., Prague, Czech Republic	100.0	20	-4
SIMONA POLSKA Sp. z o.o., Wrocław, Poland	100.0	1,266	315
DEHOPLAST POLSKA Sp. z o.o., Kwdizyn, Poland	51.0	758	215
OOO SIMONA RUS, Moscow, Russian Federation	100.0	447	336
SIMONA AMERICA Inc., Archbald, USA	100.0	39,120	2,901
SIMONA ASIA LIMITED, Hong Kong, China	100.0	4,169	231
SIMONA FAR EAST LIMITED, Hong Kong, China	100.0	1,159	38
SIMONA INDIA PRIVATE LIMITED, Mumbai, India	99.99	26	-127
SIMONA ASIA PACIFIC PTE. LTD., Singapore	100.0	-645	-290
<b>Indirectly</b>			
SIMONA IBERICA SEMIELABORADOS S.L., Barcelona, Spain	100.0	723	228
SIMONA S.A.S., Domont, France	100.0	753	150
SIMONA S.r.l., Vimodrone, Società UNIPERSONALE, Cologno Monzese (MI), Italy	100.0	663	180
SIMONA UK Ltd., Stafford, United Kingdom	100.0	2,418	200
64 NORTH CONAHAN DRIVE HOLDING LLC, Hazleton, USA	100.0	2,721	-18
Laminations Inc., Archbald, USA	100.0	15,547	7
Boltaron Inc., Newcomerstown, USA	100.0	38,892	11,025
DANOI LLC, Akron, USA	100.0	245	233
CARTIERWILSON, LLC, Marietta, USA (***)	25.0	243	934
SIMONA ENGINEERING PLASTICS TRADING (SHANGHAI) CO. LTD., Shanghai, China	100.0	415	16
SIMONA ENGINEERING PLASTICS (Guangdong) Co. Ltd., Jiangmen, China	100.0	5,319	773
SIMONA INDIA PRIVATE LIMITED, Mumbai, India	0.01	26	-127
SIMONA PMC, LLC, Findlay, USA	100.0	-557	-540
Simona PMC Acquisition Inc., Archbald, USA	100.0	1	0
SIMONA AMERICA Industries LLC., Archbald, USA	100.0	0	0
Sandusky Technologies LLC, Fremont, USA	25.0	921	-236

\* Control and profit transfer agreement with SIMONA AG

\*\* 2017 financial year

\*\*\* Preliminary financial data

# Reproduction of the Auditor's Report

## 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 2018 and the statement of profit or loss (income statement) for the financial year from 1 January to 31 December 2018 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 2018. 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 2018 and its results of operations for the financial year from 1 January to 31 December 2018 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") and 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.

#### 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 2018. 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:

1. Separation of the "Production Semi-Finished Parts" and "Production Pipes and Fittings" units
2. Provisions for pensions

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

#### 1. Separation of the "Production Semi-Finished Parts" and "Production Pipes and Fittings" units

1. On 11 June 2018, SIMONA Aktiengesellschaft as Transferor concluded a separation and transfer agreement with the affiliated companies SIMONA Produktion Kirn GmbH & Co. KG, Kirn, and SIMONA Produktion Ringsheim GmbH & Co. KG, Ringsheim. The separation ("Ausgliederung" – hive-down) (Section 123(3) no. 1 UmwG), which was carried out retrospectively as at 1 January 2018, relates to the "Production Semi-Finished Parts" unit and the "Production Pipes

and Fittings" unit. The separation was conducted in exchange for a limited partner's share in each of the two acquiring limited partnerships (Kommanditgesellschaft). The limited partner's shares granted as part of this agreement were recognised at the carrying amount of the assets and liabilities disposed of totalling €30.9 million in accordance with the exchange principles under commercial law. Thus, no hidden reserves were realised in the course of the exchange transaction. Due to the complex contract design and its implementation in accounting terms, including the application of the exchange principles, as well as the complex questions regarding the presentation of the separation in respect of financial accounting given the extensive range of assets and liabilities transferred, this issue was of particular importance in the context of our audit.

2. For the purpose of evaluating the appropriateness of principles applied in accounting for the aforementioned separation, our audit involved obtaining an initial understanding of the underlying contractual agreement and subsequently assessing its implications in the context of accounting. Additionally, we reviewed the representation of said transactions in the Company's financial accounting records. In parallel, we assessed whether the additions and disposals of the assets and liabilities in question have been represented appropriately in the Company's financial statements. In particular, we inspected the documents of the underlying resolutions and corresponding extracts from the commercial register and assessed whether the initial valuation of the new limited partner's shares had been carried out in accordance with the principles of exchange under commercial law. In addition, we assessed the Company's explanations in the annual financial statements regarding the year-on-year differences resulting from the separation with regard to the aspect of comparability within the meaning of Section 265(2) sentence 2 HGB. Based on the information available to us, we were able to satisfy ourselves that the treatment of these transactions in terms of accounting had been reasonably documented and accounting options had been appropriately exercised.

3. The disclosures by the Company have been included in a third column in the balance sheet and the income statement as well as in the section entitled "General information" within the notes and in the statement of changes in fixed assets.

## 2. Provisions for pensions

1. In the Company's financial statements the item "Provisions for pensions" includes pension provisions totalling €38.1 million (14.2% 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. The new mortality tables of Heubeck-Richttafeln-GmbH (Heubeck mortality tables RT 2018 G) were used for the first time as at

31 December 2018 in respect of average life expectancy. The effect of the first-time application of these mortality tables amounts to €1.9 million. 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.

2. 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 first-time 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.

3. 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
- 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 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 information 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 8 June 2018. We were engaged by the Supervisory Board on 3 September 2018. 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.

Frankfurt am Main, 3 April 2019

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

Christian Kwasni                      ppa. Christopher Schlig  
German Public Auditor              German Public Auditor

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**SIMONA AG**

Teichweg 16  
55606 Kirn  
Germany

Phone +49(0)67 52 14-383

Fax +49(0)67 52 14-738

[ir@simona.de](mailto:ir@simona.de)

[www.simona.de](http://www.simona.de)