Financial Statements 2017

SIMONA AG

GLOBAL THERMOPLASTIC SOLUTIONS

Contents

COMBINED MANAGEMENT REPORT

FINANCIAL STATEMENTS

Combined Management Report
for the 2017 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) and perfluoroalkoxy (PFA) as well as 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 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.

The SIMONA Group markets its products worldwide. The primary reporting segments are categorised according to the following regions:

- Europe
- Americas
- Asia and Pacific

The secondary classification is based on 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 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. Additionally, Boltaron Inc. produces thermoplastic sheets at its plant in Newcomerstown (Ohio, USA), which are primarily used for aircraft interiors and in the building sector.

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.

The Supervisory Board included the following members in the financial year under review:
Dr. Rolf Goessler (Chairman), Roland Frobel (Deputy Chairman), Dr. Roland Reber and Joachim Trapp as well as Jörg Hoseus (Employee Representative until 28 February 2017), Gerhard Flohr (Employee Representative until 28 February 2017), Andy Hohlreiter (Employee Representative since 1 March 2017) and Markus Stein (Employee Representative since 1 March 2017).

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. The goal for the medium term remains SIMONA500, i.e. annual Group sales of €500 million. 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. With this in mind, Business Development was further expanded in the period under review. Opened in 2016, the Technology Centre was extended during the 2017 financial year to include a third production line with the focus on prototyping; it will help to speed up the company's efforts in the field of product development. In reorganising its executive and sales structure and appointing a CEO for the Asia-Pacific region, SIMONA established a solid foundation for sustained growth in the key emerging markets of China and South-East Asia. When it comes to operational excellence, the objective set is to raise productivity levels gradually at all plants and in all processes. In 2017, the Semi-Finished and Finished Parts division made further progress with regard to productivity. The 2017 financial year saw the launch of a project aimed at repositioning the Pipes and Fittings division from a strategic perspective. The aim of these measures is to boost growth while maintaining solid levels of profitability.

Optimisation of SIMONA AG's structure under corporate law

The structure of SIMONA AG under corporate law dates back primarily to the 1970s and has found it hard to keep up with the dynamic development of business and the changes to the organisation as a whole. With this in mind, SIMONA AG will submit a proposal to the Annual General Meeting, scheduled for June 2018, to adapt its corporate structure accordingly. From an organisational perspective, manufacturing is to be clearly separated from administration, sales and logistics. At the same time, the company is looking to improve cost transparency and the allocation of accounting items to specific areas of the business. This is to be achieved by establishing two legally independent production companies and a company responsible for real estate. The production facilities in Kirn and Ringsheim will each be separated and will in future operate as GmbH & Co. KG companies; they will be wholly-owned subsidiaries of SIMONA AG. These companies will represent new operational units at a manufacturing level. The properties were transferred to the wholly-owned subsidiary SIMONA Immobilien GmbH & Co. KG – and thus separated – effective from 1 December 2017. The central departments of administration, sales, logistics and parts of engineering/technical operations will remain with SIMONA AG; in future, they will provide their services for the manufacturing companies. In preparation for the transfer of undertakings to be resolved by the AGM it was necessary to formally establish the new entities during the 2017 financial year.

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.

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

in €m	2017	2016
EBIT under IFRS	9.1	13.6
Change in inventories	–1.6	1.8
Staff costs (pensions)	5.4	2.5
Depreciation/amortisation/write-downs of intangible assets and property, plant and equipment	1.6	1.3
Other operating expenses	3.0	0
Other changes	0.8	–0.4
EBIT under HGB	18.3	18.8

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 2017. This was achieved primarily with the help of new product variants and by extending the range of fittings.

As regards the development of materials, the focus in 2017 was on cost streamlining of formulas and on the customisation or modification of standard products.

The purpose of the new Technology Centre at SIMONA's headquarters in Kirn is to enhance the company's capabilities as an innovator and to extend its portfolio of materials. A third production line was installed during the financial year under review. It is capable of extruding sheets using small volumes of material, which helps to speed up R&D efforts in this area.

The company inaugurated a new building with a roofed storage area at its pipes and fittings plant in Ringsheim. This state-of-the-art extension to SIMONA's production plant will help the company to meet market requirements for customised fittings and strengthen its capabilities with regard to product development.

The company extended its product range to include fully fluorinated high-performance plastics. This meant the introduction of a new type of backing within the area of semi-finished and finished parts. As a result, the scope of application has become broader with regard to the transport, handling and storage of highly aggressive substances. A new free-foam sheet was developed for applications in the area of structural engineering. It paves the way for cost-effective designs that used to be dependent on conventional materials such as wood or metal. Additionally, this new-generation sheet combines the full range of plastics-related benefits such as resistance to moisture and chemical substances and protection against corrosion as well as thermal formability.

Within the area of pipes and fittings the emphasis of research and development was on expanding the product range for rehabilitation, water management and mining. This included the introduction of an antistatic version of SIMONA's abrasion-resistant AP-Line multilayer sheets, designed specifically for applications relating to animal feed and general pellet conveyance. For this purpose, various pilot projects were conducted by the company. Within the market segment for drainage systems, SIMONA developed a PE seating ring in DN 400/DN 600 to accommodate concrete covers. Used in railway track installations, this PE ring replaces conventional concrete components.

Expenses attributable to research and development within the Group amounted to €4,451 thousand in the period under review (previous year: €3,950 thousand). These expenses mainly consist of staff costs, material costs and depreciation/write-downs of property, plant and equipment.

2. BUSINESS REVIEW

2.1 Macroeconomic and sector-specific environment

According to estimates by the International Monetary Fund (IMF), the global economy grew by 3.7 per cent in 2017, which is 0.1 percentage point more than projected in autumn and 0.5 percentage points higher than in 2016. Thus, global economic recovery gained momentum in the period under review, driven mainly by more favourable developments in some parts of Europe and Asia.

Once again, Germany's economy recorded significant growth in 2017. According to preliminary data presented by the Federal Statistical Office, price-adjusted GDP rose by 2.2 per cent (2016: 1.9 per cent). This marks eight years of successive growth for the German economy. It was fuelled by private consumption as well as by an above-average increase in investments within the area of construction and in machinery/equipment. At 2.5 per cent, the rate of growth recorded by the eurozone in 2017 was the highest in ten years. This was underpinned by positive economic trends in France, Italy, Spain and Germany.

The United States saw its economy pick up speed over the course of the year, growing faster than anticipated at a projected rate of 2.3 per cent. Solid domestic demand buoyed by higher salaries and wages as well as a benign investment climate due to more substantial company profits and favourable borrowing terms were the key influencing factor.

Benefiting from a pickup in global growth, the Chinese economy expanded by 6.9 per cent in 2017. Private consumption again proved to be a key growth driver, complemented by buoyant foreign trade. The risks to which the world's second largest economy is exposed have become more pronounced as a result of high levels of private and corporate debt.

The plastics processing industry in Germany set yet another record in terms of sales revenue. According to data published by the industry association GKV, revenue generated by this sector as a whole expanded by 4.8 per cent to €63.7 billion. This was attributable mainly to solid growth by export-driven industries, such as mechanical engineering and automotive, as well as an upbeat domestic economy. The number of association members with higher revenues in 2017 rose to 71 per cent (previous year: 61 per cent). Only 7 per cent (previous year: 19 per cent) recorded a decline in revenues. The volume of plastics processed also rose year on year, up by 4.3 per cent in total.

Benefiting from favourable bulkware business with rising producer prices, the German chemical industry saw revenue increase by an impressive 5.5 per cent. Revenue from domestic sales rose by 4.5 per cent, while revenue generated abroad expanded by 6.5 per cent. Production output within Germany's chemical industry increased by 2.5 per cent (previous year: 0.5 per cent) thanks to stronger demand from all of the key markets.

Production volumes and revenues within Germany's mechanical and plant engineering industry each rose by 3 per cent in the first nine months. The industry association VDMA anticipates that revenue will exceed the €220 billion mark for the first time. The upturn in business was fuelled primarily by exports, which expanded by 6.2 per cent in real terms over the course of the first nine months. The United States retained its top position among the world's single largest export markets, although China recorded a stronger growth rate.

Projections by Hauptverband der Deutschen Bauindustrie, Germany's central federation of the construction industry, suggest that Germany's principal construction sector expanded by 9.3 per cent (nominal, companies with more than 20 employees) in 2017. This points to sustained dynamism within the industry as a whole, underpinned in particular by a solid performance in the housing sector. The commercial building sector also developed well, whereas growth rates in the market for public-sector construction were below average.

The global market for aircraft interiors grew by approx. 4 per cent in 2017, according to the market intelligence agency Counterpoint. Growth was fuelled by consistently strong demand for new aircraft and solid aftermarket business.

2.2 Course of business – SIMONA Group

Sales revenue totalled €394.1 million in the 2017 financial year (previous year: €366.7 million). This corresponds to an increase of 7.5 per cent. Revenue growth was underpinned by a solid sales performance in the core market of Europe, together with significant forward momentum in Asia and the United States. Competition remained intense in all regions and product groups. The revenue guidance of €370 to 380 million for the 2017 financial year, as presented in the previous year's Group management report, was exceeded by the Group. This was attributable primarily to the Group's performance in Europe and the very favourable direction taken by business in China. The revenue guidances issued as part of the Group interim report for the first half of the financial year (€360 to 370 million) and the press release for the third quarter (€385 to 395 million) were met by the Group.

Group earnings before interest and taxes (EBIT) totalled €26.5 million, which was lower than in the previous financial year (€30.2 million). Thus, projected EBIT (€25 to 30 million) was met at the lower end of the target range. This was attributable primarily to negative currency effects, equivalent to €-5.8 million. The EBIT margin declined year on year, down from 8.2 per cent to 6.7 per cent. EBITDA decreased from €43.9 million a year ago to €40.9 million in the financial year under review. This corresponds to an EBITDA margin of 10.4 per cent, down from 12.0 per cent in the previous financial year.

At 9.9 per cent, Group ROCE was down on the prior-year figure (11.7 per cent) and slightly below the figure targeted. As a result of more expansive revenues, particularly in Europe and Asia, the cost of materials rose by a disproportionately large amount, which contributed to the reduction in earnings. Additionally, earnings were adversely affected by costs associated with more pronounced currency effects.

Europe

In the region comprising "Europe", sales revenue rose by 4.6 per cent to €269.2 million (previous year: €257.3 million), primarily as a result of a solid business performance in the product area of Semi-Finished Parts. At €101.2 million, revenue generated in Germany was comparable to that recorded in the previous year. Revenue growth was significant in Spain, Italy and the United Kingdom. Benefiting from dynamic growth in the second half of the year, business in Eastern Europe developed well in the period under review, particularly in Russia, the Czech Republic and Poland. Owing to the expansion in revenue from sales in the "Americas" and "Asia and Pacific", the share of total revenue attributable to "Europe" fell further in the period under review, down from 70.1 per cent to 68.2 per cent. Earnings before interest and taxes within the "Europe" segment declined from €17.2 million a year ago to €11.4 million in the 2017 financial year, particularly as a result of negative currency effects.

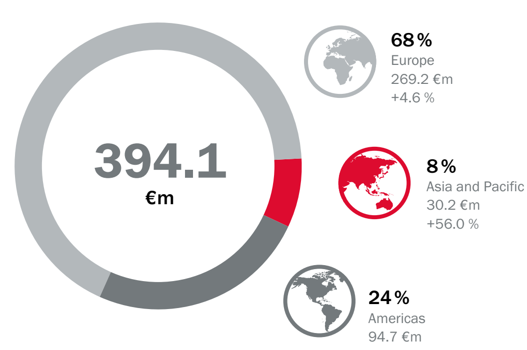
Americas

The region comprising the "Americas" saw sales revenue increase by 5.2 per cent to €94.7 million (previous year: €90.1 million). 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 Bathroom Partitions, while the other fields of business remained stable or trended slightly weaker. Overall, revenue was comparable to that recorded in the previous year. Benefiting from sustained buoyancy in the aviation market, Boltaron Inc. managed to increase revenue in the Aviation and Specialty Products division. In total, the revenue and earnings target for 2017 was exceeded in this region. The region encompassing the "Americas" accounted for 24.1 per cent of total sales revenue, slightly down from the prior-year figure of 24.6 per cent. The "Americas" segment generated earnings before interest and taxes of €15.7 million (previous year: €14.4 million). The Group recorded further profitability gains at its US plants.

Asia and Pacific

The region covering "Asia and Pacific" achieved significant revenue growth in the financial year under review, up by 56.0 per cent to €30.2 million (previous year: €19.3 million). As a result, the share of total revenues attributable to this region rose from 5.3 per cent to 7.7 per cent. The "Asia and Pacific" segment posted negative EBIT of €-0.5 million (previous year: €-1.2 million), with foreign exchange losses (€-0.9 million) having a major impact. At an operating level, profit at the plant in China was well within positive territory.

REVENUE BY REGION SIMONA GROUP (in €m)



Sales revenue by product area

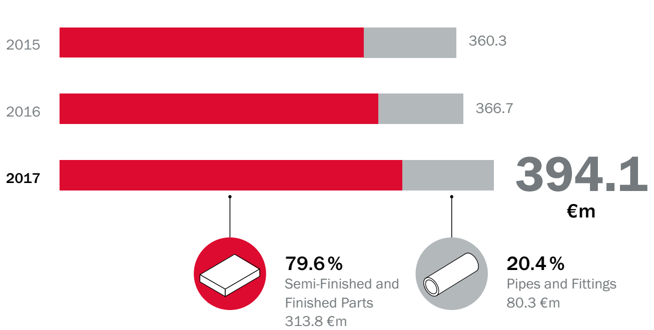
The product area comprising Semi-Finished and Finished Parts continued to develop well in 2017. Sales revenue rose by 8.3 per cent to €313.8 million (previous year: €289.8 million). Building on the Group's solid performance within the core market serving the chemical process industry, the division recorded growth in the area of extruded and pressed PP sheets, in particular. Business relating to compact PVC sheets also developed well in the period under review, buoyed by dynamic growth in the aviation and construction sectors. The product category encompassing foamed PVC sheets was faced with significant competitive pressures. Revenue generated from sales in the area of solid and hollow rods as well as welding 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 also recorded growth in the financial year under review. This was driven primarily by a favourable performance in the market for industrial applications. At a regional level, civil engineering sales were relatively subdued in the period under review, while business relating to lignite processing was stymied by a lack of projects in this field. Overall, the area of Pipes and Fittings saw revenue expand by 4.4 per cent to €80.3 million (previous year: €76.9 million).

Orders

Order backlog within the Group stood at €40.0 million (previous year: €30.4 million); of this total, a figure of €21.4 million (previous year: €17.9 million) is attributable to SIMONA AG.

REVENUE BY PRODUCT AREA (in €m)



2.3 Financial performance

Earnings

Despite the positive direction taken by revenue, Group earnings before interest, taxes and income from investments (EBIT) fell by 12.2 per cent year on year, down from €30.2 million to €26.5 million. This was attributable primarily to currency effects. The Group made further progress at an operating level. At 6.7 per cent, the EBIT margin was down on the figure of 8.2 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 €7.5 million to €187.5 million in 2017, which corresponds to 47.6 per cent of revenue (previous year: 48.7 per cent).

In this context, an increase in inventories of €7.2 million (previous year: decrease in inventories of €0.1 million) was accounted for in the income statement.

Other income totalled €5.4 million (previous year: €8.6 million). This figure includes gains of €2.2 million (previous year: €3.7 million) arising from changes in foreign exchange rates.

On the whole, the cost of raw materials increased over the course of 2017. The cost of materials was €219.3 million (previous year: €196.7 million). Up 11.5 per cent on the prior-year figure, the cost of materials thus increased at a faster rate than revenue. This was attributable primarily to the direction taken by commodity prices. At the same time, energy-related costs were higher than in the previous year.

Staff costs stood at €74.8 million (previous year: €72.4 million), up 3.4 per cent on last year's figure. The year-on-year change was due mainly to higher personnel-related costs and an increase in expenses associated with social security and post-employment benefits.

Depreciation of property, plant and equipment and amortisation of intangible assets, including write-downs, amounted to €14.4 million (previous year: €13.7 million).

Other expenses increased significantly year on year, up by 15.4 per cent to €71.7 million (previous year: €62.2 million). The year-on-year increase was due primarily to higher expenses for maintenance, outward freight and packaging material as well as negative foreign currency effects. By contrast, expenses for advertising and trade fairs were down on the previous year's figure. Having accounted for foreign exchange gains recognised in other income, the net foreign exchange loss was €-5.8 million (previous year: gain of €1.3 million).

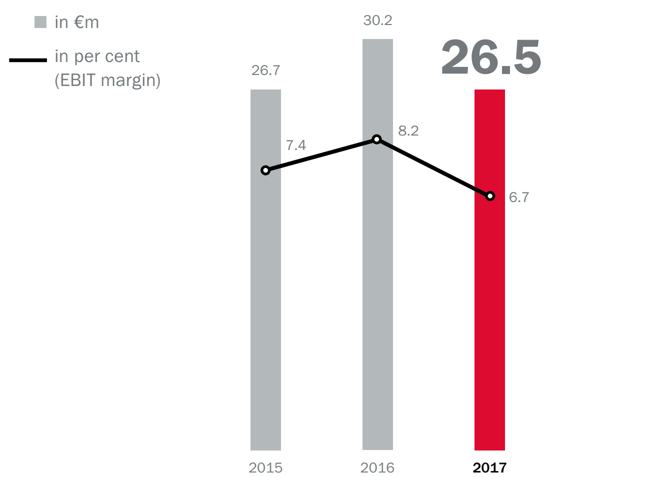
In line with lower pre-tax profit, taxes on income fell from €8.6 million in 2016 to €7.1 million in the reporting period. The Group tax rate stood at 28.9 per cent in the reporting period (previous year: 30.6 per cent).

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 subsidiaries in the United Kingdom and Eastern Europe were, in part, substantially higher year on year. Earnings generated by the production company in the Czech Republic were down on the prior-year figure. Material-related expenses were higher, up from €148.2 million in the previous year to €162.8 million in the period under review, primarily as a result of revenue growth and an increase in the cost of raw materials. At €54.6 million, staff costs remained largely unchanged year on year. Other expenses rose by €6.7 million to €49.1 million, which was attributable mainly to negative currency effects.

In total, the subsidiaries operating within the Americas segment saw their contributions to earnings expand in the financial year under review. In percentage terms, material-related expenses (€43.0 million; previous year: €41.6 million) rose at a slower rate than revenue growth. Staff costs increased by 13.4 per cent to €17.1 million. At €17.2 million, other expenses were up by €0.9 million compared to the previous year.

The sales companies operating within the Asia and Pacific segment saw their earnings improve year on year. The plant in China reached the break-even mark in 2017 and recorded a significant increase in earnings before interest and taxes (EBIT) as well as earnings before interest, taxes, depreciation and amortisation (EBITDA). Staff costs and other expenses were up on the prior-period figures.

EBIT SIMONA GROUP



2.4 Financial position
As at 31 December 2017, the Group's total assets amounted to €363.4 million, thus remaining largely unchanged year on year.

Changes to assets
Intangible assets fell by €4.5 million to €29.4 million in total, which was attributable primarily to the direction taken by the US dollar in the period under review; they mainly comprise goodwill associated with entities acquired in the United States.

Property, plant and equipment amounted to €114.4 million (previous year: €116.7 million). Investments in property, plant and equipment totalled €15.3 million at Group level. Depreciation and write-downs of property, plant and equipment stood at €12.9 million.

Inventories totalled €78.0 million (previous year: €69.2 million). At €28.6 million, inventories of raw materials, consumables and supplies were higher than in the previous year (€26.2 million). Finished goods and merchandise rose by €6.7 million to €48.1 million.

Trade receivables rose by €4.3 million year on year to €56.5 million.

Current and non-current other assets and tax assets totalled €5.5 million (previous year: €3.4 million).

At €0.7 million, other financial assets were largely unchanged year on year.

The production site in Hazleton, USA, was sold in the financial year under review. Therefore, there were no assets held for sale in the reporting period (previous year: €3.8 million). The loss on disposal was €0.3 million in the period under review.

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 a reduction in its current and non-current liabilities.

Group equity amounted to €202.3 million (previous year: €192.0 million) at the end of the 2017 financial year. This figure primarily includes annual profit of €17.5 million and a dividend payment of €7.2 million in 2017. Group equity was strengthened by the remeasurement of pension provisions as a result of a higher fair value of plan assets. The Group's equity ratio rose from 53 per cent to 56 per cent due to higher equity and an unchanged balance sheet total.

Current and non-current provisions for pensions totalled €99.2 million (previous year: €103.3 million). Pension provisions were down on the prior-year figure primarily as a result of the higher fair value of plan assets in conjunction with an unaltered IAS interest rate of 1.80 per cent.

At €11.1 million, trade payables were lower than in the previous financial year (€15.1 million).

Current and non-current other financial liabilities, totalling €2.0 million (previous year: €3.4 million), were down on the prior-year figure mainly due to the extinguishment of the last instalment of the purchase price payment relating to corporate acquisitions in the United States.

Other liabilities totalled €14.6 million in the period under review, i.e. comparable to 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.

In total, non-current (€3.8 million) and current (€1.6 million) other provisions rose by €1.1 million compared to the previous financial year.

Investments
Group capital expenditure on property, plant and equipment amounted to €15.3 million (previous year: €15.5 million). This mainly relates to investments in the segment covering Europe and the new facility built at the Ringsheim site as well as technical and office equipment at sites in Germany and the United States. In total, net investments in property, plant and equipment amounted to €2.4 million at Group level (previous year: €3.1 million).

2.5 Financial management and cash flows

Principles and aims of financial management
Safeguarding the financial strength of the SIMONA Group remains the primary goal of financial management. In this context, the most important aspect is to meet, to a sufficient degree, the Group's financial requirements relating to its operational business and its investing activities. Financial management is centrally organised within the parent company. To a large extent, SIMONA covers the liquidity required worldwide within the Group by means of intragroup funding via loans or similar arrangements. Additionally, firmly agreed lines of credit are in place in various currencies and maturities. 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 €18.7 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 €18.6 million (previous year: €18.9 million).

Cash flows
In the period under review the inflow of cash from operating activities (gross cash flow) was €19.2 million (previous year: €42.2 million). The reduction in cash inflows was due primarily to the lower pre-tax profit, an expansion of inventories and higher trade receivables. Net cash used in investing activities totalled €–13.8 million (previous year: €–11.7 million). Net cash used in financing

activities was €–11.0 million (previous year: net cash from financing activities of €12.4 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 €68.0 million (previous year: €74.8 million) mainly consist of short-term bank deposits. The year-on-year swing of €–6.7 million (previous year: €42.9 million) was mainly attributable to net cash from operating activities as well as net cash used in investing activities and financing activities. These changes are presented in detail in the statement of cash flows.

Financial obligations

Current obligations included €6.7 million (previous year: €15.1 million) for contracts already awarded in connection with investment projects and €14.2 million (previous year: €12.9 million) in respect of purchase orders for raw materials. Other financial obligations totalling €2.8 million (previous year: €2.5 million) were attributable to operating rental and lease agreements. Of this total, an amount of €0.8 million is due within one year.

Net finance cost

Based on finance income of €0.2 million and finance cost of €2.2 million, net finance cost amounted to €–2.0 million in the period under review (previous year: €–2.2 million).

2.6 Course of business – SIMONA AG

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

Sales revenue totalled €268.6 million in 2017 (previous year: €254.5 million). This corresponds to revenue growth of 5.5 per cent. Thus, the company exceeded its revenue target of €260 million.

Germany

Sales revenue in Germany fell by 3.1 per cent to €93.7 million (previous year: €96.7 million), primarily as a result of sluggish business within the area of Pipes and Fittings.

Rest of Europe & Africa

The region comprising the Rest of Europe & Africa saw sales revenue expand by 8.4 per cent to €152.8 million (previous year: €140.9 million).

Americas

Revenue from sales in the Americas increased to €5.3 million (previous year: €4.2 million).

Asia & Pacific

The Asia & Pacific region recorded substantial revenue growth of 32.2 per cent, taking the total to €16.7 million.

Sales revenue by product area

In the product area comprising Semi-Finished and Finished Parts sales revenue increased by 6.1 per cent to €191.0 million (previous year: €179.9 million). Revenue from the product group comprising Pipes and Fittings rose by a modest 2.5 per cent, up from €73.6 million to €75.4 million.

SIMONA AG earnings declined year on year. Earnings before interest and taxes (EBIT), calculated on the basis of IFRS, totalled €9.1 million (previous year: €13.6 million), while the EBIT margin stood at 3.4 per cent (previous year: 5.2 per cent). The company fell short of its EBIT margin target (4 to 6 per cent). EBITDA, calculated on the basis of IFRS, fell from €21.5 million in the previous year to €17.6 million in 2017. The EBITDA margin stood at 6.6 per cent, compared to 8.5 per cent for the same period a year ago (target of 7 to 9 per cent). At 6.4 per cent, ROCE (based on IFRS) remained below the prior-year figure of 9.3 per cent and below the defined target (8 to 9 per cent).

The reduction in EBIT and EBITDA was mainly due to foreign exchange losses, the disproportionately large increase in cost of materials relative to revenue growth and higher selling expenses. Overall, business performance with regard to revenue was good in the 2017 financial year, while that relating to earnings was satisfactory in part.

2.7 Review of financial position, performance and cash flows of SIMONA AG

Earnings performance

Gross profit (sales revenue less cost of materials) amounted to €105.0 million, unchanged year on year. The gross profit margin fell from 41.3 per cent a year ago to 39.1 per cent. The cost of materials rose by 9.4 per cent, driven in particular by higher raw material and energy costs.

Other operating income totalled €3.1 million (previous year: €3.9 million). This figure includes gains of €1.4 million (previous year: €1.5 million) from currency translation.

Staff costs amounted to €43.6 million, which was lower than in the previous financial year. While staff costs were slightly lower year on year, social security and post-employment benefit costs were down considerably, particularly due to the reversal of provisions for pensions.

Depreciation, amortisation and write-downs attributable to intangible assets and property, plant and equipment totalled €6.9 million, up €0.3 million on the previous year.

Other operating expenses amounted to €43.0 million, which was 9.9 per cent more than in the previous financial year (€39.1 million). Expenses were higher primarily in the areas of maintenance, outward freight and packaging materials. Additionally, the direction taken by foreign currencies had an adverse effect. By contrast, expenses relating to advertising were lower.

Interest and similar expenses totalled €4.7 million (previous year: €4.2 million) and consisted primarily of expenses relating to the unwinding of the discount, i.e. interest cost, of pension provisions (€4.2 million, previous year: €4.0 million).

Earnings before interest and taxes (EBIT), calculated on the basis of HGB, totalled €18.3 million in the period under review (previous year: €18.8 million), as a result of which the EBIT margin stood at 6.8 per cent (previous year: 7.4 per cent). At €25.1 million, EBITDA was slightly down on the prior-year figure (€25.5 million). The EBITDA margin was 9.4 per cent (previous year: 10.0 per cent). Profit after taxes stood at €17.8 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 attributable to negative currency effects.

Assets

Total assets attributable to SIMONA AG remained largely unchanged at €274.7 million.

Non-current assets totalled €136.2 million, down by €3.1 million compared with the previous financial year.

Property, plant and equipment fell by €17.0 million to €38.0 million. This was attributable mainly to the transfer of domestic real estate held by SIMONA AG to the newly established Kommanditgesellschaft (limited partnership business entity governed by German law) SIMONA Immobilien GmbH & Co. KG. Effective from 1 December 2017, this real estate, including accessories governed by statutory provisions but without operating equipment, was transferred to the aforementioned entity in return for rights granted in respect of this entity. The carrying amount upon transfer was €17.3 million.

Interests in affiliated companies rose from €55.6 million to €72.9 million. This was attributable primarily to the newly established Kommanditgesellschaft (limited partnership business entity governed by German law) SIMONA Immobilien GmbH & Co. KG.

Loans to affiliated companies, amounting to €24.2 million (previous year: €28.1 million), relate to subsidiaries in the Americas and Asia. The subsidiary in the United States repaid a loan of €4.1 million in the reporting period.

In total, inventories increased by €4.4 million to €39.2 million. They include raw materials (€14.1 million), work in progress (€0.3 million) and finished goods (€24.7 million). Inventories of finished goods rose by €3.5 million compared to the previous financial year.

Trade receivables fell by €0.4 million to €23.3 million. At €21.2 million, receivables from affiliated companies – comprising loans and goods deliveries – were up by €6.9 million year on year. This increase was attributable mainly to more expansive goods deliveries.

Other assets totalled €3.5 million (previous year: €3.0 million).

In total, receivables and other assets amounted to €48.2 million, up €6.8 million on the prior-year figure (€41.4 million).

Cash and cash equivalents declined by €8.6 million, down from €59.5 million in the previous year to €50.8 million at the end of the 2017 reporting period. This reduction was mainly due to a cash outflow in connection with the extinguishment of KfW loans, the settlement of trade payables at the end of the year and the payment of a dividend.

Equity and liabilities

SIMONA AG's equity rose from €171.6 million a year ago to €182.0 million as at the end of the 2017 financial year. The equity ratio increased from 62 per cent a year ago to 66 per cent in the period under review. This was attributable primarily to the annual profit generated by the company and the reduction of liabilities, while the balance sheet total remained largely unchanged year on year.

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

Provisions amounted to €57.5 million (previous year: €58.7 million). In total, allocations to provisions for pensions were increased by €0.8 million compared to the previous year and stood at €47.2 million at the end of the reporting period. This includes the reversal of pension obligations of €2.8 million. The discount rate fell to 3.68 per cent (previous year: 4.01 per cent). Other provisions totalled €9.6 million (previous year: €11.5 million).

Total liabilities declined by €10.1 million to €35.1 million.

Trade payables fell by €4.1 million to €3.5 million. Liabilities towards affiliated companies amounted to €6.5 million (previous year: €9.8 million), which relate mainly to goods deliveries from the subsidiary in the Czech Republic.

Bank borrowings totalled €22.1 million (previous year: €25.6 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 €7.1 million in the period under review (previous year: €9.3 million). This mainly relates to investments in technical equipment as well as operating and office equipment at the company sites in Germany. In total, net investments (additions less write-downs) amounted to €0.7 million (previous year: €3.0 million).

Obligations from investment projects already initiated amounted to €3.7 million, while those attributable to raw material orders were €8.0 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 €50.8 million (previous year: €59.5 million), comprising bank deposits denominated in euro and foreign currencies. The reduction is attributable mainly to cash outflows in connection with operating activities (settlement of trade payables) and financing activities (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.

In May 2017, a new customer satisfaction study was conducted in Europe. The response rate was high and provided extensive information on SIMONA customer satisfaction. Based on the findings of this survey, overall customer satisfaction (86.1 per cent) and the rate of recommendation (87.4 per cent) remain high. Thus, the levels recorded as part of the last major customer survey were matched in 2017. 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

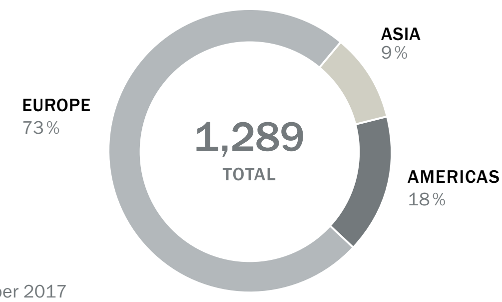
As at 31 December 2017, the SIMONA Group employed 1,289 people. The headcount thus remained largely unchanged year on year (previous year: 1,288). In Germany, staffing levels were slightly lower, while the total number of employees in the Rest of Europe was close to that recorded in the previous year. As a result of business expansion in the United States, the headcount in the US increased in the period under review.

At 778, the number of staff employed at SIMONA AG was down compared to the previous year (31 Dec. 2016: 789).

In total, 45 (previous year: 48) young people (as at December 2017) were enrolled in vocational programmes relating to one of eight technical and commercial training courses offered by SIMONA. In 2017, thirteen young people were enrolled in an integrated/dual work-study degree course supported by SIMONA or sponsored training to become a state-certified technician.

Over the course of the 2017 financial year, SIMONA conducted an extensive review of future requirements relating to operational processes and structures. As part of the “SIMONA HOME25” project, the impact on our company was assessed in detail in collaboration with the Junior Enterprise of Hochschule Mannheim University of Applied Sciences (a consulting unit managed by students). The findings of this project provided the basis for the fundamental decision to retain the seat of administration at the company’s headquarters in Kirn for the foreseeable future and to further enhance the company’s appeal as an employer within this region by introducing a package of measures. They include, among other things, plans for the refurbishment of the administration building (or the construction of a new building), programmes aimed at making working hours more flexible and the provision of various sports activities. Among the other focal points of HR management were the preparation and implementation of measures relating to the staff survey conducted over the course of the 2017 financial year, which again revealed good levels of employee satisfaction at SIMONA. In the context of occupational health management a number of ergonomics projects were conducted in the period under review, in addition to special Health Days organised in collaboration with health insurers at the company’s Ringsheim site. The focus of staff training was on further improving foreign language skills and cementing team members’ expertise in the field of project management. The production area of Extrusion saw the introduction of a qualifications matrix and staff appraisals as a control instrument. These are to be applied to other operational fields over the course of 2018. Additionally, a new image concept was introduced. “A company like a friend” forms the key statement of this concept. It is to be applied gradually to all employer branding measures. At the same time, there will be greater emphasis on social media channels.

EMPLOYEES BY REGION (SIMONA GROUP)



31 December 2017

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, ISO/TS 16949 and the Pressure Equipment Directive 97/23/EC is an essential prerequisite, and full compliance with these standards was again confirmed by independent recertification audits conducted in 2017. This also involved adapting and certifying the quality management system in accordance with the new requirements of the revised ISO 9001:2015 standard. 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 2017 was on further improving IT security, particularly by enhancing Client security. Thanks to the exchange of network components at the subsidiaries, connections to the SIMONA network are more stable and secure. At the same time, the management of these components is more efficient. As a pilot project, a new file system was introduced at the headquarters in Kirn for the purpose of providing data in a failsafe environment and allowing the central storage of data relating to the respective branch offices. An additional feature of this file system includes a Cloud service for the secure exchange of data with external parties. All data is stored at data centres operated by SIMONA AG; no third-party providers are involved. An update of the telecommunications system was implemented in preparation for the discontinuation of ISDN services in 2018.

The emphasis of IT applications development in the financial year under review was on the conversion of operational business processes at the SIMONA sites in Germany in order to prepare for the organisational separation of production units from administration, sales and logistics (cf. section 1.2).

3. REPORT ON OPPORTUNITIES AND RISKS

Worldwide demand for plastics remains strong and is being fuelled further by a more buoyant global economy. The medium-term forecast points to average annual growth of 5.3 per cent in the period up to 2020 (source: Grand View Research). Demand continues to be driven by the Asia-Pacific region. Among other things, this is underpinned by more expansive investments in construction and infrastructure throughout Asia as well as growth in private transport. Growth within the relatively mature markets of North America and Europe is likely to come mainly from new applications. The key drivers are lightweight engineering and improvements to the properties of plastics. North America is expected to generate average annual growth of 4.3 per cent up to 2020. Market research institute Ceresana predicts that the European plastics market will expand by an average of 2.9 per cent annually up to the year 2022.

The strategy applied by SIMONA is in keeping with these global trends. In Europe, the focus is on enhancing the company's abilities in the field of innovation, which includes an expansion in the product portfolio of high-performance plastics. Given the company's extended production capabilities at its new Technology Centre, SIMONA is confident that it can increase revenue through new products and applications, in addition to serving customers faster with prototypes and small-batch series.

The prospects for further growth in the Americas with regard to industrial products are considered to be good, particularly through the expansion of trading partnerships and the provision of services, such as technical consulting and training programmes. In the context of strategic positioning, we are assessing whether to expand our business in the area of pipes and fittings. The consistent focus of SIMONA subsidiary Boltaron Inc. on business within the field of semi-finished products for aircraft interiors offers solid opportunities for sustained growth in the booming aviation market.

As regards the Asia-Pacific region, SIMONA sees good opportunities to profit from growth in markets that have a strong focus on environmental and safety-critical issues, the emphasis being on premium products. In this context, the gradual expansion of production capabilities at the Jiangmen site and the new organisational structure for the region are considered to be key factors. The principal targets are the chemical process industry, the semiconductor industry, the construction sector and the area of water supply and treatment.

Compared to the previous year, the opportunities associated with SIMONA's business activities have not changed significantly. The short-term economic factors have improved slightly worldwide. At the same time, the medium-term structural factors – particularly with regard to investment spending in the industrial sector, which is considered to be of key importance to the company – have also shown signs of improvement. The continued expansion of business beyond the borders of Europe – with a new organisational structure in Asia, a clear focus on industry and aviation in the United States and a boost to the core industrial business in Europe through expansion of the product range of high-performance plastics – is to be seen as a key prerequisite when it comes to benefiting from global growth within the market for polymer-based applications.

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
- 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. Expansion of production in the United States through corporate acquisitions and the plants located in China and the Czech Republic help to raise flexibility levels for the purpose of meeting customer requirements in close proximity to their sites of operation and in a market-driven manner.

Geopolitical risks remain high. In the segment encompassing Europe, uncertainty surrounding the outcome of Brexit negotiations, fiscal volatility and concerns over political stability within the region are dominant factors when it comes to business environment and industry-specific risks. In the Americas, meanwhile, risk exposure is being influenced by protectionist trade policies as well as by the fundamental political stance taken by the United States and developments relating to the US dollar exchange rate. Within the Asia and Pacific segment, the economic performance of China within the industrial sector as well as the direction taken by the property market will have a significant bearing on risk patterns. 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 by means of derivative financial instruments and non-derivative hedging instruments.

Dependence on the euro within the Group was scaled back significantly through recent acquisitions and the expansion of manufacturing operations within the US market. At the same time, currency risk relating to US dollar transactions has become more pronounced 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 2017, the global economy expanded at a more pronounced rate than originally anticipated, while 2018 is expected to see stable growth. However, the potential of a waning economy and, in turn, a dip in investment spending within the industrial sector continues to be the most significant of all economic risks.

The risk of bad debt losses remains high in particular within the 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 utilized 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 longevity, 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.

Risks attributable to procurement and purchasing

As was the case in previous years, these risks are related primarily to potential disruptions or outages with regard to suppliers of raw materials and additives as well as commodity price trends. The supply of raw materials used by SIMOMA is dependent largely on the availability of direct input products (e.g. ethylene or naphtha) and to a lesser extent on prevailing oil prices. There were no significant commodity shortfalls in 2017 and prices for basic raw materials were in a corridor from relatively stable to slightly higher. However, the market has seen significant pricing-related pressures with regard to some of the key additives required for the manufacture of PVC products. We anticipate that price trends during the 2018 financial year will be similar to those recorded in 2017, while the supply of raw materials and additives is expected to remain stable. In the medium- to long-term we expect to see a structural upturn in raw material prices.

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 firewall and antivirus systems as well as other software systems. The probability of occurrence of external attacks on IT systems, in particular, is considered high.

At the end of the 2017 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 if 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
Growth within the global economy is expected to continue in 2018. In January, the IMF revised upwards its forecast to 3.9 per cent, which is 0.2 percentage points higher than in its outlook of autumn 2017. The economic upturn in Europe and Asia as well as the US tax reform are seen as the key drivers of growth. Among the downside risks, the IMF cites an increase in sovereign debt, the appreciation of the US dollar and current account deficits.

The IMF improved its outlook for the majority of the world's established economies. The euro area is expected to grow by 2.2 per cent, Germany by 2.3 per cent, France by 1.9 per cent and Italy by 1.4 per cent. According to IMF data, the United States is likely to see its economy expand by 2.7 per cent. China's economy is expected to grow by 6.6 per cent in 2018.

The chemical industry anticipates that its upturn will be sustained in 2018, albeit at a less dynamic rate. According to data published by Verband der Chemischen Industrie (VCI), Germany's association of the chemical industry, production output will increase by 2 per cent and revenue by 3 per cent. Domestic and foreign trade are expected to develop largely along similar lines. Germany's mechanical and plant engineering sector is predicting sustained dynamism within its market, with further growth in production output by 3 per cent.

Companies operating within Germany's principal construction industry have forecast revenue growth of 4 per cent within the industry as a whole, which would be similar to the previous year's figure. Benefiting from corporate investments, the commercial building sector is expected to develop favourably. Based on recent projections, the global market for aircraft interiors will continue to grow at pace in 2018.

Sector-specific conditions

According to industry association GKV, the plastics processing sector in Germany will enjoy sustained growth in the year ahead. Its projections point to revenue growth of approx. 4 per cent in 2018. In a recent GKV survey, 60 per cent of the association members said that they anticipated higher revenues in 2018, while only 4 per cent suggested a decline in business.

Expectations with regard to earnings performance are also positive on the whole. 41 per cent predict growth in profits, while 51 per cent believe earnings will remain stable. The majority of the companies surveyed are of the opinion that exports will continue to rise. On a less positive note, high energy costs due to EEG charges payable under the provisions of the Renewable Energy Act, political uncertainty in Europe and a growing shortage of qualified personnel are expected to exert downward pressure.

Future performance of the Group

SIMONA anticipates that Group revenue for the 2018 financial year will be between €405 and 410 million, while the EBIT margin is expected to be between 7 and 9 per cent and the EBITDA margin between 11 to 13 per cent.

At Group level, the return on capital employed (ROCE) in 2018 is expected to be between 9 and 11 per cent.

SIMONA will be targeting slight growth in Central Europe, whereas business in Western Europe is to be maintained roughly at the high level recorded in the preceding year. Growth in Eastern Europe is projected to be higher. Business centred around industrial products is expected to expand further in the United States. In Asia, meanwhile, SIMONA will be looking to achieve sustained growth on the basis of the solid level recorded in 2017.

The company's ability to achieve these targets will again depend in particular on the capacity to impose viable prices in a highly competitive market environment as well as on the direction taken by commodity markets. At present, we anticipate that we will be in a position to meet the revenue and earnings targets. Future developments in respect of global industrial production and investment spending as well as trends within the commodity markets are considered to be key determinants when it comes to achieving these goals.

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.

Given our efforts in the field of quality management,we anticipate that we can match the levels currently recorded in this context.

The number of employees within the SIMONA Group is likely to increase marginally in 2018. Based on the apprenticeship contracts already concluded, the headcount of vocational trainees is expected to be similar to that seen in 2017.

Future performance of SIMONA AG

For the financial year 2018, SIMONA has set a guidance target of €272 million in sales revenue, together with an EBIT margin of between 5 and 6 per cent and an EBITDA margin of between 8 and 9 per cent, each calculated on the basis of IFRS.

The return on capital employed (ROCE) in 2018 is expected to be between 6 and 7 per cent.

The sales region of "Germany" is to generate slight growth through the continued expansion of business in the industrial sector. The target for the region encompassing the "Rest of Europe & Africa" is to achieve an increase in revenue – with Western Europe maintaining its high level and Eastern Europe recording stronger growth. The regions covering the "Americas" and "Asia and Pacific" are also expected to generate strong growth for SIMONA AG.

5. OTHER INFORMATION

5.1 Corporate governance statement

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

5.2 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 2014 to 2016, the long-term incentive programme was based on the attainment of a defined target figure (capital employed and a weighted average cost of capital (WACC) of 8 per cent). As regards the performance periods 2015 to 2017, average Group NOPAT (net operating profit after taxes) 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 comprises the financial years 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	2017	2016
Fixed compensation		
Fixed salary and fringe benefits	924	906
Variable compensation		
Annual bonus	1,030	1,067
Long-term incentive programme		
Period 2014 – 2016, payment 2017	–	517
Period 2015 – 2017, payment 2018	620	–
Total Management Board compensation	**2,574**	**2,490**

On 10 June 2016, the Annual General Meeting of Shareholders of SIMONA AG agreed by a three-quarter majority 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 €420 thousand (previous year: €470 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 €11,863 thousand as at 31 December 2017 (previous year: €12,890 thousand). IFRS-based pension provisions for active and former members of the Management Board were recognised to the full extent and amounted to €16,595 thousand as at 31 December 2017 (previous year: €18,861 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 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.

Compensation payable to members of the Supervisory Board was increased in accordance with the resolution passed by the Annual General Meeting convened on 10 June 2016. 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 9 June 2017 no such resolution for variable compensation components was passed for the 2017 financial year.

Supervisory Board compensation for the financial year under review amounted to €164 thousand (previous year: €163 thousand), of which €140 thousand (previous year: €139 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 2017, 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 10.1 per cent interest by Rossmann Beteiligungs GmbH (Burgwedel). The remaining 10.8 per cent of shares in the company were in free float.

As at 9 June 2017, members of the Management Board reported a total holding of 70,860 shares; this corresponds to 11.81 per cent of the share capital of SIMONA AG. The members of the Supervisory Board reported holdings of 1,300 shares in total as at the attendance date of the Annual General Meeting on 9 June 2017. This corresponds to 0.22 per cent of SIMONA AG's share capital.

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

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

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

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

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

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) and ethylene-chlorotrifluoroethylene (E-CTFE) and perfluoroalkoxy (PFA) as well as 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. In 2017, SIMONA became one of the first companies to be successfully recertified to the new standard 14001:2015.

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 selecting resource suppliers carefully 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 2017, 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, SIMONA has made health and safety at work a priority and is currently implementing a "Vision Zero" strategy (referring to the number of occupational accidents) at all SIMONA AG sites. This vision has also been set as a target in the balanced scorecard used at 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.

A keen supporter of diversity and equal opportunities for all its employees, SIMONA has set itself the target of appointing female executives to 20 per cent of positions at the level below the SIMONA AG Management Board. This target has already been met.

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 AG regularly seeks its employees' opinions in anonymous staff surveys and uses the results to devise tangible measures to improve staff satisfaction. At its Kirn site, SIMONA AG is currently introducing comprehensive performance development reviews (PDRs), some of which in the commercial category are already organised based on 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. It is to be rolled out to all commercial staff within the next two years. Training needs are determined based on these annual PDRs. Feedback from training courses attended are evaluated systematically.

Within SIMONA AG, 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. Such committees have been established for many years at SIMONA AG's site, while the workforce in Kirn is also represented by the IG BCE union.

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 2018

SIMONA Aktiengesellschaft
The Management Board

Wolfgang Moyses Dirk Möller Fredy Hiltmann

Financial Statements
of SIMONA AG for the financial year 2017

FINANCIAL STATEMENTS

Balance Sheet
of SIMONA AG for the financial year 2017

ASSETS

in € '000	31/12/2017	31/12/2016
A. NON-CURRENT ASSETS		
I. Intangible assets		
Industrial property rights and similar rights and assets as well as licences in such rights and assets	1,068	629
	1,068	**629**
II. Property, plant and equipment		
1. Land, land rights and buildings	2,643	17,983
2. Technical equipment and machinery	24,803	23,403
3. Other equipment, operating and office equipment	6,636	6,305
4. Prepayments and assets under construction	3,888	7,295
	37,970	**54,986**
III. Financial assets		
1. Investments in affiliated companies	72,947	55,636
2. Loans to affiliated companies	24,181	28,056
3. Other long-term equity investments	23	23
	97,151	**83,715**
	136,189	**139,330**
B. CURRENT ASSETS		
I. Inventories		
1. Raw materials, consumables and supplies	14,088	13,008
2. Work in progress	336	370
3. Finished goods and merchandise	24,747	21,285
4. Prepayments for inventories	4	129
	39,175	**34,792**
II. Receivables and other assets		
1. Trade receivables	23,306	23,710
2. Receivables from affiliated companies	21,180	14,304
3. Receivables from other long-term investees and investors	241	312
4. Other current assets	3,496	3,049
	48,223	**41,375**
III. Cash in hand and bank balances	**50,846**	**59,470**
	138,244	**135,637**
C. PREPAID EXPENSES	**257**	**592**
	274,690	**275,559**

EQUITY AND LIABILITIES

in € '000		31/12/2017	31/12/2016
A.	**EQUITY**		
I.	**Subscribed capital**	**15,500**	**15,500**
II.	**Capital reserve**	**15,032**	**15,032**
III.	**Revenue reserves**		
	1. Legal reserve	397	397
	2. Statutory reserves	2,847	2,847
	3. Other revenue reserves	133,055	124,223
IV.	**Unappropriated surplus**	**15,222**	**13,591**
		182,053	**171,590**
B.	**PROVISIONS**		
	1. Provisions for pensions	47,166	46,360
	2. Provisions for taxes	728	855
	3. Other provisions	9,640	11,510
		57,534	**58,725**
C.	**LIABILITIES**		
	1. Liabilities to banks	22,130	25,555
	2. Trade payables	3,547	7,649
	3. Liabilities to affiliated companies	6,514	9,849
	4. Other liabililities (of which taxes €297 thousand; previous year: €277 thousand) (of which relating to social security €774 thousand; previous year: €680 thousand)	2,912	2,191
		35,103	**45,244**
		274,690	**275,559**

Income Statement
of SIMONA AG for the financial year 2017

in € '000	01/01/ – 31/12/2017	01/01/ – 31/12/2016
1. Revenue	268,555	254,513
2. Increase in finished goods and work in progress	3,574	2,354
	272,129	**256,867**
3. Other operating income (of which from currency translation €1,427 thousand; previous year: €1,505 thousand)	3,125	3,908
4. Cost of materials		
a) Cost of raw materials, consumables and supplies and of purchased merchandise	–162,502	–148,583
b) Cost of services purchased	–1,096	–939
	–163,598	**–149,522**
5. Staff costs		
a) Wages and salaries	–37,556	–38,379
b) Social security, post-employment and other employee benefit costs (of which in respect of old-age pensions €-649 thousand; previous year: €1,543 thousand)	–6,012	–8,332
	–43,568	**–46,711**
6. Depreciation, amortisation and write-downs of property, plant and equipment as well as intangible assets	–6,882	–6,602
7. Other operating expenses (of which from currency translation €2,207 thousand; previous year: €484 thousand)	–42,951	–39,092
8. Income from equity investments (of which from affiliated companies €6,424 thousand; previous year: €1,262 thousand)	6,424	1,262
9. Income from profit transfer agreements	1,182	293
10. Write-ups of financial assets	239	9,244
11. Other interest and similar income (of which from affiliated companies €705 thousand; previous year: €700 thousand)	873	867
12. Write-downs of financial assets	0	–6,210
13. Interest and similar expenses (of which to affiliated companies €100 thousand, previous year: €8 thousand) (of which from discounting €4,249 thousand; previous year: €3,983 thousand)	–4,665	–4,239
14. Taxes on income	–4,481	–4,831
15. Result after taxes	**17,827**	**15,234**
16. Other taxes	–164	–141
17. Profit for the year	**17,663**	**15,093**
18. Unappropriated retained earnings brought forward	6,391	6,044
19. Allocation to revenue reserves	–8,832	–7,546
20. Unappropriated surplus	**15,222**	**13,591**

Notes to Financial Statements
of SIMONA AG for the financial year 2017

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 2017, SIMONA AG was categorised as a large corporation within the meaning of Section 267 of the German Commercial Code (Handelsgesetzbuch – HGB). The company's financial year corresponds to the calendar year.

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

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

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.

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. 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.

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 and finished goods 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.

The cost of conversion relating to finished goods and work in progress is measured according to item-by-item calculations based on current operational accounting; in addition to the directly related cost of direct material, direct labour and special production costs, this item also includes production and material overheads as well as depreciation/write-downs of non-current assets. Interest on borrowed capital is not included in the cost of conversion.

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

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

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

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

Subscribed capital is carried at its nominal value.

The provisions for pensions and similar obligations are determined in accordance with actuarial principles by applying the projected unit credit method on the basis of “Richttafeln 2005 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 3.68 per cent (previous year: 4.01 per cent), was applied. Expected increases in salaries were accounted for with a rate of 2.50 per cent, while the trend in respect of the contribution assessment ceiling for social insurance was accounted for with a 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

Under the terms of a contribution agreement of 22 November 2017, SIMONA AG transferred its real estate in Germany, including buildings on properties and accessories governed by statutory provisions, to the newly established entity SIMONA Immobilien GmbH & Co. KG, Kirn, in return for rights granted in respect of the entity. The transfer of property, plant and equipment – historical cost of purchase or conversion of €72,981 thousand and carrying amount after depreciation of €17,233 thousand – came into effect on 1 December 2017 (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 has been taken from the data used in connection with the consolidated IFRS financial statements as at 31 December 2017 (socalled 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. (€13,123 thousand) and SIMONA ASIA LIMITED (€11,058 thousand).

Inventories

Inventories of raw materials and finished goods 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 €2,566 thousand in the case of raw materials and €8,953 thousand with regard to finished goods.

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 (€19,436 thousand, previous year €13,720 thousand) as well as loans (€1,683 thousand, previous year €584 thousand). The total amount of loans with a remaining term of more than one year was €502 thousand (previous year: €260 thousand).

The receivables from other long-term investees and investors, amounting to €241 thousand, are attributable to payments made within the context of post-employment benefits.

Other assets primarily include sales tax receivables amounting to €1,878 thousand as well as receivables in respect of energy tax totalling €697 thousand.

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 €6,391 thousand in unappropriated retained earnings brought forward. In the financial year under review, a total of €8,832 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 €–7,379 thousand (previous year: €–6,068 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 2017, the company recorded a deficit of €8,520 thousand (ten-year interest rate) and €18,608 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 €5,808 thousand (previous year: €6,851 thousand) and warranty obligations of €3,152 thousand (previous year: €3,515 thousand).

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 €5,005 thousand (previous year: €8,335 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 (€4,300 thousand, previous year €7,594 thousand), as well as loans totalling €2,000 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, 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.

In respect of warranty agreements, SIMONA AG issued one guarantee each in respect of its subsidiaries SIMONA FAR EAST LIMITED, Hong Kong, China, and SIMONA ASIA LIMITED, Hong Kong, China. At 31 December 2017, they amounted to €0 in total.

As collateral for third-party liabilities, SIMONA AG issued a payment guarantee covering a nominal amount of €2,501 thousand for the purpose of securing commodity deliveries. Trade payables of SIMONA AMERICA Inc. and Boltaron Inc. amounted to €444 thousand in total as at 31 December 2017.

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	2017	%	2016	%
Germany	93,749	34.9	96,726	38.0
Rest of Europe & Africa	152,774	56.9	140,933	55.4
Americas	5,308	2.0	4,206	1.6
Asia & Pacific	16,724	6.2	12,648	5.0
	268,555	**100.0**	**254,513**	**100.0**

REVENUE BY PRODUCT AREA

in € '000	2017	%	2016	%
Semi-finished and finished parts	191,001	71.1	179,965	70.7
Pipes and fittings	75,377	28.1	73,565	28.9
Service and rental	2,177	0.8	983	0.4
	268,555	**100.0**	**254,513**	**100.0**

Other operating income

Other operating income includes income not attributable to the accounting period in connection with electricity tax refunds (€14 thousand, previous year: €1,325 thousand), other income not attributable to the accounting period (€36 thousand; previous year: €20 thousand) and the reversal of provisions (€661 thousand; previous year: €373 thousand).

Other operating expenses

Other operating expenses relate primarily to outward freight charges (€10,416 thousand; previous year: €9,416 thousand), maintenance expenses (€8,063 thousand; previous year: €7,731 thousand), expenses for packaging material (€6,794 thousand; previous year: €6,227 thousand), legal and consulting costs (€1,892 thousand; previous year: €1,751 thousand), cost of premises (€1,035 thousand; previous year: €962 thousand) and advertising costs (€765 thousand; previous year: €1,631 thousand). Expenses not attributable to the accounting period relate to the derecognition of receivables (€16 thousand; previous year: €77 thousand).

Taxes on income

Taxes on income are attributable to the result before taxes in the financial year under review. This item includes tax income of €30 thousand (previous year: €5 thousand) that relates to previous financial years.

OTHER INFORMATION

Off-balance-sheet transactions

Under the terms of the contribution agreement of 22 November 2017, SIMONA AG transferred its real estate in Germany, with a carrying amount of €17,233 thousand after depreciation, to the newly established subsidiary SIMONA Immobilien GmbH & Co. KG, Kirn, effective from 1 December 2017 (transfer of risks and rewards of ownership). This transfer was carried out for the purpose of separating the operating activities that remain with SIMONA AG from the management of real estate, which is also associated with an improvement in cost-related transparency and efficiency. 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 €6,054 thousand per annum. The rental payments have a negative effect on the cash and cash equivalents of SIMONA AG.

Other financial commitments

COMMITMENTS FROM RENTAL AND LEASE AGREEMENTS

in € '000	
Due 2018	3,047
Due after 2018	6
	3,054

Of this total, €3,027 thousand is attributable to other financial obligations towards affiliated companies.

ORDER COMMITMENTS

in € '000	
Capital investment orders	3,732
Raw material orders	7,981
	11,713

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 €1,957 thousand (previous year: €1,864 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:

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

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
- Process Development
- Logistics

Fredy Hiltmann, Kirn, Betriebsökonom

Responsible for the areas:

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

Wolfgang Moyses performs supervisory duties in 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, Buttenwiesen-Pfaffenhofen

Wolfgang Moyses performs duties on the supervisory board (or similar) of the following entities within 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 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 duties on the supervisory board (or similar) of the following entities within 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

Fredy Hiltmann performs duties on the supervisory board (or similar) of the following entities within the SIMONA Group:

- SIMONA S.r.l. Società UNIPERSONALE, Cologno Monzese (MI)
- SIMONA IBERICA SEMIELABORADOS S.L., Barcelona
- SIMONA UK Ltd., Stafford
- 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:

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, Managing Director of ROSSMANN CENTRAL EUROPE B.V., Renswoude, Netherlands
(Deputy Chairman)
Other supervisory board mandates:

- Member of the Supervisory Board of GBK Beteiligungen AG, Hannover
- Member of the Supervisory Board of Hannover 96 GmbH & Co. KGaA, Hannover
- Partner and Managing Director of Frobel Beteiligungs-GmbH, Isernhagen
- Managing Director of Reitstall Steinberg GmbH, Neuenkirchen
- Managing Director of DR Konzept GmbH, Burgwedel
- Managing Director of DR Projekt GmbH, Burgwedel
- Managing Director of DR Immobilien GmbH, Burgwedel
- Managing Director of DR Objekt GmbH, Burgwedel
- Managing Director of FRISS Beteiligungsgesellschaft mbH, Isernhagen

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

Joachim Trapp, Biberach, Qualified Lawyer

- Deputy Chairman of the Management Board of Kreissparkasse Biberach, Biberach
- Managing Director of Sparkasse Immobilien BC GmbH, Biberach
- Managing Director of Sparkasse Immobilien BC Grundstücksverwaltungsgesellschaft mbH, 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 2017 financial year amounted to €2,574 thousand, of which €1,650 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	2017
Dr. Rolf Goessler	40.0
Roland Frobel	33.5
Dr. Roland Reber	27.0
Joachim Trapp	13.0
Andy Hohlreiter	10.8
Markus Stein	10.8
Gerhard Flohr	2.2
Jörg Hoseus	2.2
	139.5

Compensation and pension provisions for former members of the Management Board

Compensation relating to former members of the Management Board amounted to €420 thousand.

Full allocations have been made to pension provisions for former members of the Management Board. At 31 December 2017, these amounted to €4,403 thousand.

Employees

Average number of employees in the financial year:

	2017	2016
Industrial staff	458	465
Clerical staff	273	274
Employees	**731**	**739**
School-leavers (apprentices)	50	46
	781	**785**

Appropriation of profits

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

in € '000	2017
Net profit for the year	17,663
Unappropriated retained earnings brought forward	6,391
Appropriation to other revenue reserves in accordance with the Articles of Association	–8,832
Unappropriated surplus	**15,222**
Dividend (€12.00 per share)	–7,200
Carried forward to new account	**8,022**

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

In accordance with Section 161 AktG, the company filed a Declaration of Conformity for 2017 on 23 February 2018. It has been made permanently available and publicly accessible to shareholders on its corporate website at www.simona.de.

Ownership interests

On 9 June 2017 the company was informed of the following ownership interests:

VOTING POWER IN RESPECT OF SIMONA AG

in %	as at 31 Dec. 2017
Dr. Wolfgang und Anita Bürkle Stiftung, Kirn	31.19
Kreissparkasse Biberach, Biberach	15.04
Dirk Möller, Kirn	11.64
Regine Tegtmeyer, Nebel	11.25
Rossmann Beteiligungs GmbH, Burgwedel	10.10
SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH, Kirn	10.00

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

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

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

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

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

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 €36 thousand in 2017 and relate solely to tax consultancy services (tax returns, tax treatment of specific circumstances).

Events after the reporting period

There were no events of material significance in the period between the end of the 2017 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 2018
SIMONA Aktiengesellschaft

Wolfgang Moyses   Dirk Möller   Fredy Hiltmann

Statement of Changes in Fixed Assets
of SIMONA AG for the financial year 2017

	COST OF PURCHASE/ PRODUCTION					ACCUMULUTATED DEPRECIATION/ AMORTISATION/WRITE-DOWNS					NET CARRYING AMOUNTS	
in € '000	**01/01/ 2017**	Additions	Reclassifications	Disposals	**31/12/ 2017**	**01/01/ 2017**	Additions	Write-ups	Disposals	**31/12/ 2017**	**31/12/ 2017**	**31/12/ 2016**
I. Intangible assets												
Industrial property rights and similar rights and assets as well as licences in such rights and assets	7,670	810	104	138	8,446	7,041	475	0	138	7,378	1,068	629
	7,670	**810**	**104**	**138**	**8,446**	**7,041**	**475**	**0**	**138**	**7,378**	**1,068**	**629**
II. Property, plant and equipment												
1. Land, land rights and buildings	56,591	145	2,532	56,329	2,939	38,608	1,038	0	39,350	296	2,643	17,983
2. Technical equipment and machinery	146,207	1,918	3,129	2,130	149,124	122,804	3,637	0	2,120	124,321	24,803	23,403
3. Other equipment, operating and office equipment	48,569	2,065	591	18,634	32,591	42,264	1,732	0	18,041	25,955	6,636	6,305
4. Prepayments and assets under construction	7,295	2,949	–6,356	0	3,888	0	0	0	0	0	3,888	7,295
	258,662	**7,077**	**–104**	**77,093**	**188,542**	**203,676**	**6,407**	**0**	**59,511**	**150,572**	**37,970**	**54,986**
III. Financial assets												
1. Investments in affiliated companies	60,977	17,311	0	0	78,288	5,341	0	0	0	5,341	72,947	55,636
2. Loans to affiliated companies	34,266	0	0	4,114	30,152	6,210	0	239	0	5,971	24,181	28,056
3. Other long-term equity investments	23	0	0	0	23	0	0	0	0	0	23	23
	95,266	**17,311**	**0**	**4,114**	**108,463**	**11,551**	**0**	**239**	**0**	**11,312**	**97,151**	**83,715**
I + II + III	**361,598**	**25,198**	**0**	**81,345**	**305,451**	**222,268**	**6,882**	**239**	**59,649**	**169,262**	**136,189**	**139,330**

Details of Shareholdings
of SIMONA AG for the financial year 2017

Company	Ownership interest	Equity	Profit/loss of last financial year
	%	€ '000	€ '000
Directly			
SIMONA Beteiligungs-GmbH, Kirn (*)	100	1,834	–
SIMONA Sozialwerk GmbH, Kirn (**)	50	12,344	–69
SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH, Kirn (**)	50	2,843	495
SIMONA Produktion Kirn GmbH & Co. KG, Kirn	100	1	–2
SIMONA Kirn Management GmbH, Kirn	100	25	1
SIMONA Produktion Ringsheim GmbH & Co. KG, Ringsheim	100	1	–2
SIMONA Ringsheim Management GmbH, Ringsheim	100	25	1
SIMONA Immobilien GmbH & Co. KG, Kirn	100	20,864	293
SIMONA Immobilien Management GmbH, Kirn	100	25	1
SIMONA Plast-Technik s.r.o., Litvinov, Czech Republic	100	16,980	357
SIMONA-PLASTICS CZ, s.r.o., Prag, Czech Republic	100	25	–3
SIMONA POLSKA Sp. z o.o., Wrocław, Poland	100	1,318	336
DEHOPLAST POLSKA Sp. z o.o., Kwidzyn, Poland	51	646	120
OOO SIMONA RUS, Moscow, Russian Federation	100	155	191
SIMONA AMERICA Inc., Archbald, USA	100	35,291	2,726
SIMONA ASIA LIMITED, Hong Kong, China	100	4,165	–838
SIMONA FAR EAST LIMITED, Hong Kong, China	100	1,096	218
SIMONA INDIA PRIVATE LIMITED, Mumbai, India	99.99	161	–77
SIMONA ASIA PACIFIC PTE. LTD., Singapore	100	–326	–336
Indirectly			
SIMONA IBERICA SEMIELABORADOS S.L., Barcelona, Spain	100	498	141
SIMONA S.A.S., Domont, France	100	2,957	125
SIMONA S.r.l., Società UNIPERSONALE, Cologno Monzese (MI), Italy	100	489	175
SIMONA UK Ltd., Stafford, United Kingdom	100	2,241	204
64 NORTH CONAHAN DRIVE HOLDING LLC, Hazleton, USA	100	2,615	–122
Laminations Inc., Archbald, USA	100	14,171	122
Boltaron Inc., Newcomerstown, USA	100	26,110	9,101
DANOH LLC, Akron, USA	100	192	162
CARTIERWILSON, LLC, Marietta, USA (***)	25	355	761
SIMONA ENGINEERING PLASTICS TRADING (SHANGHAI) CO. LTD., Shanghai, China	100	402	–301
SIMONA ENGINEERING PLASTICS (Guangdong) Co.Ltd., Jiangmen, China	100	4,694	644
SIMONA INDIA PRIVATE LIMITED., Mumbai, India	0.01	161	–77

* Control and profit transfer agreement with SIMONA AG
** 2016 financial year
*** Preliminary financial data

Reproduction of the Auditor's Report

Independent auditor's 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 2017 and the statement of profit or loss (income statement) for the financial year from 1 January to 31 December 2017 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 2017. 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 2017 and its results of operations for the financial year from 1 January to 31 December 2017 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 Informat-ion" in this Independent Auditor's Report.

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

Basis for opinion

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

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 2017. 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. Contribution of land and buildings with rent-back
2. Measurement of investment activities in China
3. 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. Contribution of land and buildings with rent-back

1. The land and buildings held by SIMONA Aktiengesellschaft, including accessories governed by statutory provisions (Section 97 of the German Civil Code (Bürgerliches Gesetzbuch – BGB), were transferred by way of contribution, effective from 1 December 2017 (transfer of risks and rewards of ownership) and with a book value of €17.2 million, to the previously formed Kommandit-

gesellschaft (limited partnership business entity governed by German law) SIMONA Immobilien GmbH & Co. KG, Kirn, in return for rights granted in respect of this entity. The interests – accounted for according to the principles of exchange – in the Kommanditgesellschaft receiving said real estate have been recognised at the book value of the assets disposed of by the Company. In addition, the two entities involved in this transaction completed a rent-back agreement for an indefinite period as from 1 December 2017. Owing to the accounting options regarding transactions conducted on the basis of exchange principles and the requisite disclosures in the notes to the financial statements, in our view, these measures were of particular significance in the context of our audit.

2. For the purpose of evaluating the appropriateness of principles applied in accounting for the aforementioned disposals, our audit involved obtaining an initial understanding of the underlying contractual agreements and subsequently assessing their 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 in question have been represented appropriately in the Company's financial statements; the same applies to the rental arrangements. In particular, we reviewed the official documents of the underlying resolutions as well as the relevant sections of the Commercial Register and the Land Registry. No hidden reserves were realised in accordance with the right to exercise this option in line with generally accepted opinion relating to German commercial law. Additionally, we assessed the required disclosures in the notes to the financial statements with regard to off-balance-sheet transactions pursuant to Section 285 no. 3 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 the sections "Notes to Balance Sheet" and "Off-balance-sheet transactions" as well as in the statement of changes in fixed assets.

2. Measurement of investment activities in China

1. The Company's financial statements include the item "Financial assets", in which it recognised interests in affiliated companies and loans to affiliated companies totalling €97.1 million (35.4 % of total assets). The purchase costs of the Company's entire investments in Chinese subsidiaries, encompassing interests in and loans to affiliated companies as well as net current receivables, totalled €27.1 million as at 31 December 2017. Having recognised total impairments, i. e. write-downs, of €11.6 million in respect of financial assets in the financial years 2015 and 2016, the Company conducted a review of its valuations as at 31 December 2017. The measurement of interests in affiliated companies under the provisions of German commercial law is based on the lower of purchase cost or fair value. Loans to/receivables from affiliated companies are to be recognised at the lower of nominal value or fair value. The fair values are determined on the basis of the present value of expected future cash flows, which in turn are based on the financial budgeting conducted by the Legal Representatives of the Company. They also take into consideration expectations regarding future market development and assumptions relating to the macroeconomic influences. Discounting is performed by means of capital costs determined individually in respect of the affiliated company. On the basis of the values determined as well as additional documentation, no further impairments, i.e. write-downs, were deemed necessary for the financial year in respect of the Company's overall investment portfolio in China. The result of this valuation is dependent to a large extent on projections made by the Legal Representatives of the Company with regard to future cash flows as well as on the discount rate and growth rate applied. The measurement is therefore associated with significant uncertainty. Given these circumstances and in view of the complexity associated with measurement and the significance to the Company's net assets and results of operations, this matter was of particular importance in the context of our audit.

2. As part of our audit, among other aspects, we reviewed the procedures applied in the context of measurement. In particular, we assessed whether the fair values had been determined in an appropriate manner with regard to methodology and in compliance with relevant standards relating to measurement. In this context, we relied, among other things, on a comparison with general and sector-specific market expectations as well as the Legal Representatives' detailed explanations regarding key value drivers underlying expected cash flows. We also focused our testing on the parameters used to determine the discount rate applied and evaluated the measurement model. In our view, based on the

information available, the measurement parameters used by the Legal Representatives and the assumptions made are suitable for the purpose of measuring the Company's investment activities in China.

3. The Company's disclosures on financial assets have been included in the section "Notes to Balance Sheet" as well as in the section "Details of Shareholdings" in the notes to the financial statements.

3. Provisions for pensions

1. In the Company's financial statements the item "Provisions for pensions" includes pension provisions totalling €47.2 million (17.0% of the balance sheet total). The pension provisions are determined on the basis of the settlement amount, under German commercial law, in respect of direct obligations from several pension plans maintained by the Company. Measurement of obligations from pension plans in respect of pension commitments is conducted on the basis of the projected unit credit method. This requires, in particular, assumptions with regard to long-term salary and pension trends, average life expectancy and staff turnover rates. In our view, these matters were of particular significance in the context of our audit, as the recognition and measurement of this large-scale item are dependent to a considerable extent on estimates and assumptions made by the Legal Representatives of the Company.

2. As part of our audit, we reviewed 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 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. Subsequently, we reviewed 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 corporate governance report in accordance with No. 3.10 of the German Corporate Governance Code
- 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 9 June 2017. We were engaged by the Supervisory Board on 21 September 2017. 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, 5 April 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Christian Kwasni	ppa. Christopher Schlig
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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