SIMPLY MORE

EFFICIENT

Annual Report 2020

KEY FIGURES R. STAHL GROUP

€ million	2020	2019	*Change*	2018	2017	2016
Sales	246.5	274.8	*-10.3%*	280.1	268.5	286.6
Germany	62.6	62.5	*0.1%*	70.3	60.9	61.3
Central region[1]	111.5	120.9	*-7.8%*	116.1	120.7	131.9
Americas	23.8	34.5	*-31.0%*	31.2	29.0	35.8
Asia/Pacific	48.6	56.8	*-14.5%*	62.5	57.9	57.5
EBITDA pre exceptionals[2]	19.0	30.4	*-37.4%*	15.2	5.8	20.7
EBITDA	17.2	25.3	*-32.0%*	9.5	2.3	22.2
EBIT	0.5	6.3	*-92.2%*	-4.2	-10.7	8.8
Net profit	-3.5	1.3	*n.a.*	-7.0	-21.2	4.2
Earnings per share (in €)	-0.54	0.21	*n.a.*	-1.10	-3.28	0.64
Dividend per share (in €)	0	0	*0*	0	0	0.60
Cash flow from operating activities	17.9	19.6	*-9.0%*	18.2	19.7	10.9
Depreciation & amortization	16.7	18.9	*-11.9%*	13.6	13.0	13.4
Capital expenditures[3]	12.7	11.3	*12.8%*	10.4	10.4	12.5
Balance sheet total as of 31 December	256.2	259.4	*-1.2%*	227.9	249.6	278.6
Shareholders' equity as of 31 December	48.1	58.4	*-17.6%*	62.3	69.1	94.8
Equity ratio as of 31 December	*18.8%*	*22.5%*		*27.3%*	*27.7%*	*34.0%*
Net financial liabilities as of 31 December[4]	5.8	4.2	*-39.6%*	5.5	18.1	21.8
Employees as of 31 December[5]	1,690	1,669	*1.3%*	1,690	1,763	1,788

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

Rounding and rates of change
Percentages and figures in this report may include rounding differences.
The signs used to indicate rates of change are based on economic aspects:
improvements are indicated by a plus "+" sign, deteriorations by a "-" sign.
Rates of change > +100% are shown as > +100%, rates of change < -100% as "n/a" (not applicable)

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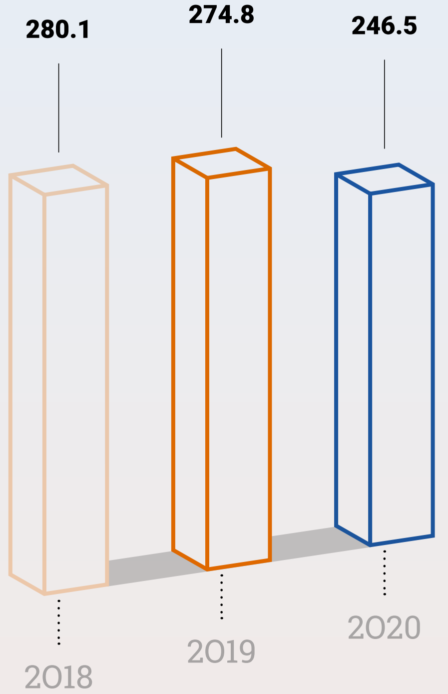
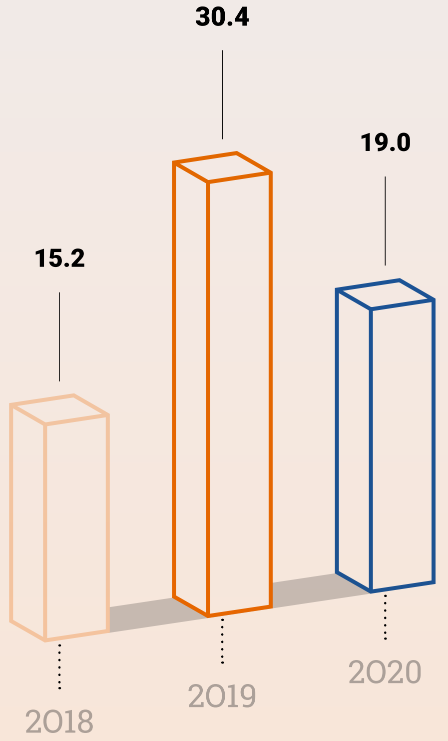


SALES
€ million



EBITDA PRE EXCEPTIONALS[1)]
€ million

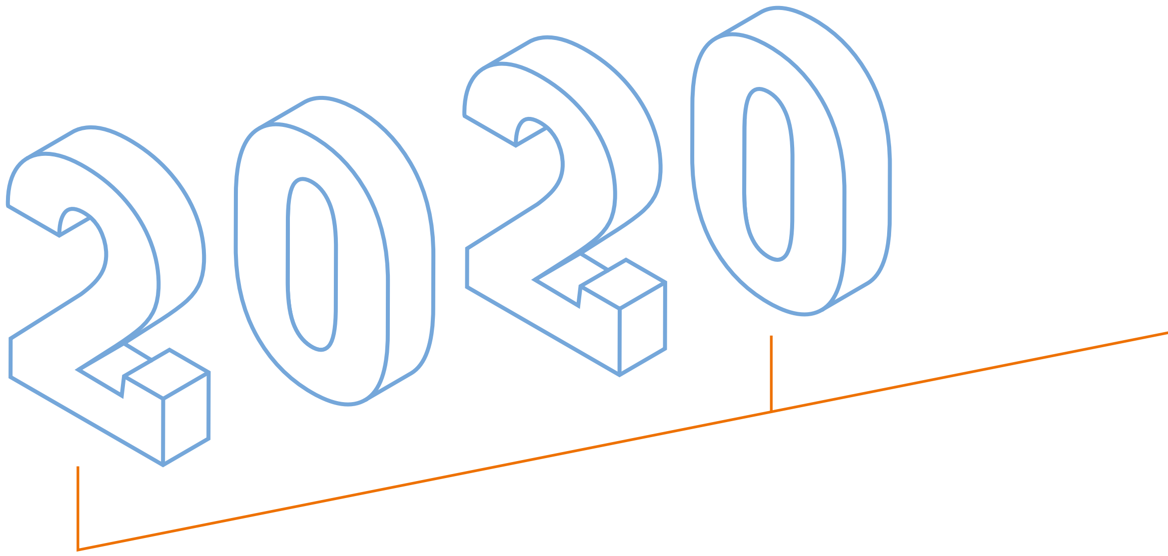
1) Exceptionals: restructuring charges, non-scheduled depreciation and amortization, charges for designing and implementing IT projects, M&A costs as well as profit and loss from the disposal of assets no longer required for business operations.

LEADING IN EXPLOSION PROTECTION

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

Electrical explosion protection is a key aspect of safety technology, providing the right technical solutions to guarantee the safe operation of electrical systems at all times in areas where combustible materials are industrially produced, transported, stored or processed.

With a comprehensive and high-performance portfolio of electromechanical and electronic components and individual system solutions, we deliver uncompromising safety for the most demanding applications and at the most challenging locations – protecting people as well as plants and the environment. Our excellent market position is the result of the first-class quality of our products and services in combination with a sustained and strategic focus on innovation to secure our technological edge.



01 — JANUARY

Restructuring of the building lease at Waldenburg location. The building lease for our largest location in Waldenburg will be restructured until 2038. R. STAHL has thus reaffirmed its commitment to the region and created planning security for future growth. The previous lease signed in 2000 had a term until 2023 with an option to purchase the building. The newly concluded agreement contains an extension of the lease term until 2038 and grants R. STAHL AG a subsequent purchase option once again. The new contract conditions, which take into account the current interest rate situation and development of the real estate market, will also have a positive impact on future earnings and balance sheet figures: Beginning in 2024, the annual lease expense will decrease by a low single-digit million amount compared to financial year 2019.

02 — FEBRUARY

Establishment of a crisis team to prepare for potential consequences of further spread of the Corona virus. The rapid spread of SARS-CoV2 in China and other Asian countries first affected R. STAHL's central purchasing department first and triggers additional measures to secure the supply of raw materials. The initial focus is primarily on electronic components and printed circuit boards. However, the threat the virus poses to the health of R. STAHL's employees quickly becomes apparent. A crisis team headed by the Executive Board and consisting of experts from the fields of medicine, occupational safety, human resources, legal affairs and communications begins its work. In the course of the year, concepts for workplace hygiene, health protection, business trips, contact restrictions as well as working hours and locations are continuously developed and adapted to the risk situation. Employees, customers and service providers are given direct and transparent information. As a result of the measures taken, it is possible to effectively prevent the spread of Corona virus at R. STAHL's sites.

03 — MARCH

27th Annual General Meeting originally scheduled for 28 May postponed. Due to the dynamic development of infections, R. STAHL feels it is necessary to postpone the 27th Annual General Meeting originally planned for 28 May 2020 to a later date in order to protect the health of employees, shareholders and the service providers involved.

IMPORTANT EVENTS

04 — APRIL

Early extension of Executive Board contract with Dr. Mathias Hallmann and Jürgen Linhard appointed as member of the Executive Board. The Supervisory Board prematurely extends the employment contract with CEO Dr. Mathias Hallmann by a further three years until September 2023. At the same time, Jürgen Linhard, previously Commercial Director at Diehl Aviation Hamburg GmbH, appointed Chief Financial Officer effective 1 May 2020. His contract has a term of three years.

R. STAHL with strong start to the year, but initial signs of a global economic slowdown. Despite the dynamic development of the Corona virus pandemic, R. STAHL records the highest quarterly order intake in four years in the first three months of 2020 at € 78.8 million. There are, however, increasing signs of a global economic slowdown. Given the looming prospect of the worst economic crisis since the end of the Second World War, it is necessary to abandon the original target of generating sales growth in the mid-single-digit percentage range in 2020.

EXpressure® housing technology used for the first time in Liebherr offshore cranes. R. STAHL and Liebherr-MCCtec Rostock GmbH announce the successful joint development of crane machine controls based on R. STAHL's new EXpressure® housing technology. EXpressure® enables Liebherr to build cranes in the explosion-endangered area with significantly lighter and more compact machine controls. Crane operators benefit from an extended range of applications.

07 — JULY

Harald Rönn elected new member of the Supervisory Board at R. STAHL's first virtual Annual General Meeting. The 27th Annual General Meeting of R. STAHL is held as a virtual event for the first time. The shareholders elect Harald Rönn as new member of the Supervisory Board. Following the resignation of Jürgen Wild at the end of 2019, the Supervisory Board of R. STAHL is thus once again complete.

10 — OCTOBER

R. STAHL reduces weekly working time at Waldenburg site to 30 hours for six months. In response to ongoing weak demand for explosion protection products, R. STAHL lowers the weekly working hours at its Waldenburg production site to 30 hours until 31 March 2021. For financial year 2020, this results in cost savings in the low seven-digit euro range.

11 — NOVEMBER

Closing of the subsidiary in Japan. The subsidiary in Japan is closed as part of the consolidation of our sites. Our regional organization in Asia assumes responsibility for Japanese customers.

LETTER FROM THE CEO

Ladies and Gentlemen,

2020 was enormously challenging for all of us – including R. STAHL. From the outset, the structural, personnel and process-related realignment we initiated in 2018 was aimed not only at increasing profitability but also at strengthening our ability to withstand periods of market weakness. We did not, however, expect to have to pass an unparalleled stress test just two years later. The Corona virus pandemic not only made it necessary for us to navigate through considerable global economic upheaval, but also meant that we had to undertake special efforts to safeguard the health of our employees and customers. We succeeded in both respects in the past financial year. With concepts implemented early on to preventively interrupt potential viral transmission paths, we were able to effectively stop the spread of the virus at R. STAHL's operating sites.

On the economic side, too, the pandemic forced us to adopt new rules. At the beginning of the year, we set a clear target of returning to sales growth in the wake of the efficiency gains achieved in previous years together with our 2020 strategic initiatives. From May onward, however, monthly demand plummeted by more than a quarter compared with the good performance of the first four months. The most severe downturn was seen in the oil industry, which suffered a one-third drop in sales and a two-thirds drop in prices within just a few weeks in the spring. The industry reacted immediately with far-reaching cuts in its maintenance and expansion investments. For R. STAHL, this resulted in a more than 10% drop in sales to € 247 million in the reporting year instead of the targeted mid-single-digit percentage growth. We did, however, manage to significantly limit the impact on earnings through targeted cost adjustments: the € 28 million year-on-year decline in sales translated into a relatively moderate € 11 million drop in EBITDA pre exceptionals to € 19 million, while net profit fell by € 4.9 million to € -3.5 million. This means that the conditions for the payment of a dividend in 2020 have not been met. The figures are, however, a clear indication of R. STAHL's increased resilience – the result of a disciplined and consistent implementation of the Group's strategy over the course of the past few years. As a result, the break-even point based on EBITDA pre exceptionals (calculated on the basis of the cost of materials ratio and constant fixed costs) improved in 2020 by around € 12 million as compared to the previous year to € 217 million (2019: € 229 million). Despite the very challenging business development, positive free cash flow achieved in the reporting year led to a further reduction in net debt including lease liabilities of € 3 million compared to the end of the previous year, to € 33 million as of 31 December 2020. At the same time, we pressed ahead unabated with R. STAHL's strategic development: by further increasing efficiency in production, introducing lean management – also in administrative areas, aligning our portfolio even more closely with market needs, and consistently executing our agenda to harmonize IT structures.

Following the very challenging conditions faced in 2020, we generally expect our markets to recover in the years ahead. It remains difficult to predict the exact timing of the Corona virus pandemic because of the uncertainties surrounding its development in the future. For 2021, we expect sales growth in the low single-digit percentage range, with momentum expected to pick up from the second half of the year and in the following year. We will continue to focus on the consistent implementation of the Group strategy,

Dr. Mathias Hallmann
Chief Executive Officer

which we have updated under the program name *EXcellence 2023* and which addresses our key value levers of efficiency, technology and growth. The priority here is the further development and data-driven management of our global production, sales and administration processes to a level of excellence, along with completion of the standardization of the Group-wide ERP system, our engineering tools and the product configurator by 2023. We are further upgrading our product portfolio in the areas of automation, luminaires and low-voltage technology. On the market side, we are focusing on expanding our position in previously underrepresented regions, on the growth areas of low-carbon and carbon-neutral energy sources, and on digital services in the future. Given the investments required to implement these strategic measures, EBITDA pre exceptionals in 2021 will still be slightly below the prior-year level despite an increase in sales.

Sustainable action as an integral part of value-based corporate management requires a comprehensive approach and the fundamental integration of ESG criteria into the Group strategy. Since 2017, R. STAHL has been reporting on selected key performance indicators to illustrate the sustainability aspects practiced in the company. In the current year, formulation of a comprehensive system of key figures is intended to create the basis for ESG reporting to be established consistently across the Group in the medium to long term, which will serve as the starting point for systematic integration of sustainability criteria relevant to R. STAHL into the Group strategy. In order to appropriately reflect the central importance of sustainability in our corporate activities to the outside world, we have for the first time no longer prepared the non-financial group statement for the reporting year as a separate non-financial report, but have integrated it into the management report of this annual report.

The global vaccination campaign against the Corona virus pandemic raises hope that public and commercial life will soon return to normal, but it will take time to return to pre-pandemic levels. I would like to express my very special thanks to our employees, whose tremendous dedication and a high degree of flexibility and discipline have kept our company on course during the extremely difficult year under review. In the future, we will continue to work every day to impress our customers with first-class products and services and to grow profitably in the long term. I am delighted that you are accompanying us on this journey and thank you for your trust.

Dr. Mathias Hallmann
Chief Executive Officer

THE EXECUTIVE BOARD

Dr. Mathias Hallmann
Chief Executive Officer

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

»By consistently implementing our Group strategy, we have significantly increased R. STAHL's resilience against dynamic market changes since 2018.«

Dr. Mathias Hallmann
Chief Executive Officer

R. STAHL SHARE

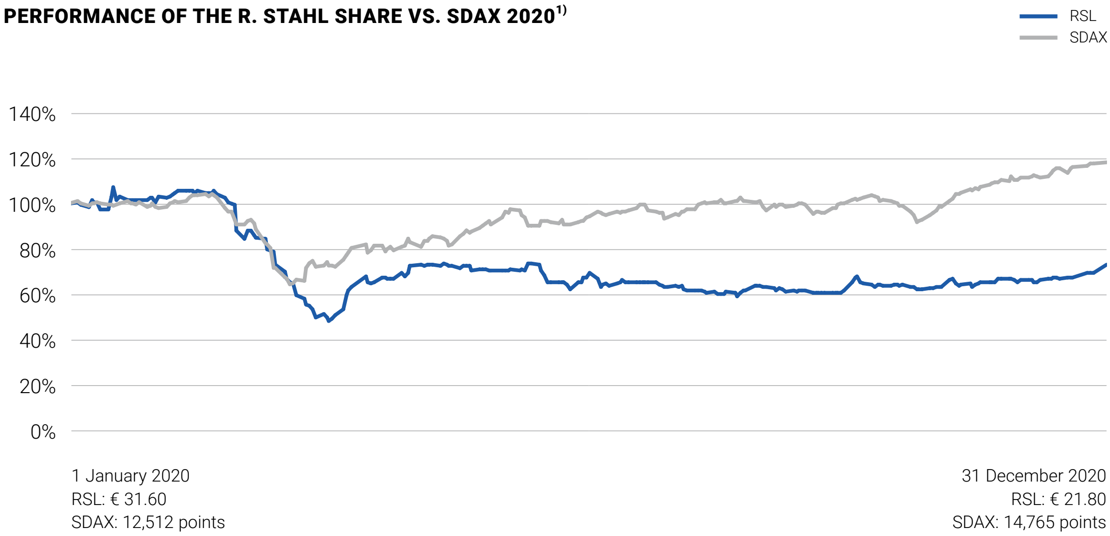
Spread of the Corona virus pandemic puts considerable pressure on international capital markets

Development of global capital markets in the year under review was shaped almost exclusively by the course of the Corona virus pandemic and the responses of government policymakers and central banks. What began as a quiet start to the stock market year was followed from the end of February by a dramatic drop of more than a third in global stock markets within just a few weeks, amid very high trading activity. After starting the year at 12,512 points, the SDAX lost more than 4,500 points and reached its low for the year of 7,996 points on 18 March. In line with overall development, the R. STAHL share price also came under substantial pressure, reaching its low for the year of € 15.00 on 1 April, a decline of more than 50% compared with its level at the beginning of the year.

In the second quarter, political and monetary measures lead to a stunning stock market recovery – R. STAHL share only partially able to capitalize on it

The massive economic and monetary support measures initiated by governments and central banks in response to the looming global recession subsequently led to a significant stock market rally that lasted until the end of the year. Compared with the start of the year, the SDAX more than made up for first quarter losses, closing the year up 18%. As was the case with the market as a whole, the R. STAHL share was also able to recover quickly, but increasingly

PERFORMANCE OF THE R. STAHL SHARE VS. SDAX 2020[1)]



[1)] All stock exchange data mentioned refers to the XETRA trading platform.

diverged from the SDAX from mid-May. At the end of the year, the price of € 21.80 remained about 30% below the level from the beginning of the year. Despite considerable volatility, the daily trading volume in 2020 declined year-on-year to an average of 790 shares (2019: 965 shares).

Roughly half of R. STAHL's shares held by the founding families

About 48% of R. STAHL shares are held by shareholders from the extended circle of the founding families Stahl and Zaiser. More than 10% of the share capital is held by the RAG Foundation through its investment company RSBG SE and the investment stock corporation for long-term investors TGV, and more than 5% by the Baden-Württemberg Pension Fund for Doctors, Dentists and Veterinarians. At year-end, shareholders from the extended circle of the founding families and institutional investors with voting rights subject to mandatory reporting requirements of 3% or more held a total of approximately 80% of share capital. 98.6% of R. STAHL's share capital is held by shareholders in Germany, around 1% is held by shareholders in Luxembourg and Switzerland.

Regular dialog with our shareholders is very important to us. In 2020, we were represented at several capital market conferences that were conducted virtually and exchanged views with our investors and analysts as well as financial media in more than 50 individual and group meetings. We publish comprehensive and up-to-date information in the form of interim, semi-annual and annual reports, as well as presentation materials, on our corporate website. We also provide all interested investors access to our conference calls, which are held regularly by the Executive Board. Further detailed information, also on the R. STAHL share, can be found on our website **www.r-stahl.com** under the heading ↗ **Company/Investor Relations**.

KEY FIGURES OF THE R. STAHL SHARE[1)]

in €	2020	2019
High for the year (16 January 2020, 4 December 2019)	34.20	33.80
Low for the year (1 April 2020, 25 February 2019)	15.00	19.10
Year-end price (31 December)	21.80	31.60
Average daily trading volume (number of shares)	790	965
Number of shares (in thousands)	6,440	6,440
Market capitalization as of 31 December (in € million)	140.4	203.5
Earnings per share	-0.54	0.21
Dividend per share	0	0
Dividend yield at year-end price (in %)	–	–

[1)] All stock exchange data mentioned refers to the XETRA trading platform.

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

ELECTRICAL EXPLOSION PROTECTION

SAFETY IN EXPLOSIVE ENVIRONMENTS

Electrical explosion protection creates safety. R. STAHL's products and solutions guarantee the safe operation of electrical systems in areas exposed to explosion hazards – at any time and in almost any place.

Key safety technology discipline

Wherever combustible substances are industrially produced, transported, stored or processed, reliable electrical explosion protection is vital. Explosion protection is therefore crucially important along the entire value chain of today's energy sources: from oil and gas production on land or at sea, to transport and petrochemical processing and including the downstream chemical and pharmaceutical sectors. Other areas of application include the food industry and shipbuilding. And when it comes to hydrogen, which has the potential to replace fossil fuels as a source of energy in the long term, safety and explosion protection also play a key role due to the very special explosion hazard it poses.

Technologies in explosion protection

In addition to a flammable substance and oxygen (e.g. from the ambient air), an ignition source is always required for explosions to occur. The objective of electrical explosion protection is primarily to avoid the potential of sparks emanating from electrical and electronic parts or to keep electrical sparks safely away from the explosive mixture of fuel and oxygen. Several protection concepts, known as ignition protection types in technical jargon, are available for this purpose.

R. STAHL is one of the world's three largest suppliers of electrical explosion protection and the technological leader in all common types of explosion protection. With our electrical components and unique expertise in the planning and implementation of the most sophisticated system solutions, we offer our customers a safe foundation for handling combustible substances.

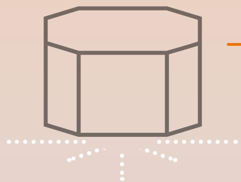
ELECTRICAL EXPLOSION PROTECTION

SAFETY

with reliable ignition protection

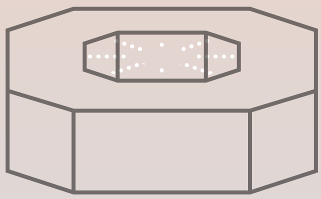
1 **INTRINSIC SAFETY**

avoids sparks by limiting the amount of energy



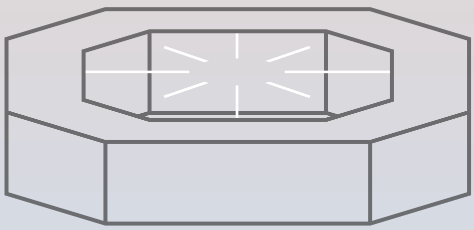
2 **FILLERS**

prevent contact between the source of sparks and the explosive mix



3 **FLAMEPROOF ENCLOSURES**

special enclosures that withstand explosion pressure



1 **No danger without a spark.** There are several ways to prevent sparks in electrically operated equipment. One very interesting concept is based on keeping the electrical energies occurring in the equipment below the level required for ignition of explosive mixtures as a minimum. This type of protection, known as intrinsic safety (Ex i), is of course only suitable for electrical components operated at low voltages and currents. This is especially the case for signal transmission and automation technology. By contrast, significantly higher energies can be processed in devices with Increased Safety (EX e) ignition protection. The prerequisites for this are mechanical-constructive in nature, for example in the form of mechanical barriers between electrical contacts that prevent sparks.

2 **Explosive mixtures have to stay out.** A very safe method of preventing the ignition of explosive mixtures by electrical equipment is also backfilling with liquids or solids (Ex o, q and m). In this process, the volume of air in the equipment is displaced by the fillers, so that no contact can occur between the source of the spark and the explosive mixture. Due to low maintainability – casting compounds that harden are often used as fillers – and the availability of alternative protection concepts, these types of ignition protection are rarely used today.

3 **Just relieving pressure.** It is not always possible to prevent contact between explosive mixtures and electrical sparks with the required level of safety. There is also tremendous interest in industrial plant engineering in the use of non-explosion-proof electrical components in potentially explosive environments. For this purpose, the flameproof enclosure (Ex d) type of ignition protection was developed. This approach involves installing commercially available electrical equipment in special enclosures that can withstand an explosion inside the enclosure and reliably prevent the explosion from spreading outside. Due to the extreme dynamic pressure development of nearly 20 bar in the event of an explosion, until a few years ago these flameproof enclosures were made of aluminum or stainless steel with wall thicknesses of several centimeters – a factor that quickly made them very heavy and unwieldy, thus severely limiting the enclosure size. These disadvantages are significantly reduced with EXpressure®, a new series of housings developed by R. STAHL. With this globally unique enclosure technology, which we launched in 2018, the pressure that occurs in an explosion inside the enclosure is safely dissipated by a metallic mesh as soon as it occurs, thus reducing it to a mere 0.2 bar. This means that the housing wall thicknesses can be limited to a few millimeters, allowing for significantly larger housing shapes.

MEGATRENDS DRIVE GROWTH

in our markets

A growing world population, increasing prosperity, a greater degree of mobility, advancing digitalization and climate change: we live in a world of constant change. The resulting increase in demand for raw materials and energy resources as well as new technologies will also drive demand for explosion protection solutions in the decades ahead. Because all current and future energy sources have one thing in common: they are flammable and form explosive mixtures with air. This leads to significant opportunities for R. STAHL:

- Oil will remain the most important source of energy and the key raw material for transportation and the chemical and pharmaceutical industries for decades to come. Annual global demand will continue to rise until 2030 before it begins to decline slowly.

- The importance of natural gas as the most climate-friendly fossil fuel continues to grow, and with it the transport of liquefied natural gas (LNG) by tanker. Compared with fixed pipelines, shipping offers much greater flexibility in getting gas to its destination and is less risky in terms of political developments. Natural gas assumes the role of a bridging technology to the carbon-neutral source of energy hydrogen.

- Hydrogen's potential as a source of energy for the future is enormous: as a component of water, it is available on earth in almost unlimited quantities. To produce hydrogen, water can be split into its components using electrolysis. If the electricity used comes from solar, hydroelectric or wind sources, electrolysis is completely free of carbon dioxide emissions – just like the conversion back to electricity. Even if hydrogen technology is not expected to make a significant contribution to the global energy infrastructure within the next one to two decades, in the long term there is no way around it.

- As transportation becomes more electrified, the need for rechargeable batteries with high energy storage density is also increasing. Because production (and subsequent recycling) of the active components of the batteries requires chemical processes, the expansion of production capacities will also be accompanied by increasing investment in chemical plant engineering.

- Digitalization as a prerequisite for the automation of industrial processes is also progressing in potentially explosive environments – and requires explosion-proof digital technology. This will allow unmanned operation of oil and gas platforms, as well as ships, in the future – with lower operating costs and reduced risks for the operating crew. It also opens up opportunities for suppliers of explosion-proof automation solutions from new business models, with remote operation or maintenance, for example.

BREAK-EVEN MEASURED BY EBITDA PRE EXCEPTIONALS[1)]

€ million

1) Exceptionals: Restructuring expenses, impairment losses, expenses for the design and implementation of IT projects, M&A expenses as well as gains and losses on the disposal of non-operational assets.

2) Figures do not include lease accounting in accordance with IFRS 16 to be implemented as of 2019.

SIMPLY MORE RESISTANT

R. STAHL's progress and successes in financial year 2020

2020 did not make it easy for us to press ahead with our strategic agenda.

- The consequences of the Corona virus pandemic, which has been spreading with unexpected speed, impacted all of our sites around the world with varying degrees of intensity – in India this included plant closures ordered by the authorities as part of nationwide restrictions on public and economic life.
- Within just a short period of time, it became necessary to develop both new ways of collaborating and sustainable concepts to protect the health of our employees, customers and suppliers.
- The dramatic downturn in demand pushed us temporarily into the red.

We nevertheless did everything in our power to maintain the course of R. STAHL's strategic transformation in 2020.

Compared to 2019, R. STAHL's sales decreased by € 28 million in the past year. Without countermeasures, this would have resulted in a loss of earnings before interest, taxes, depreciation and amortization of around € 18 million with our existing cost structures – but we managed to limit the figure to € 11 million through early cost adjustments. The decisive factor here was the significant efficiency improvements that we have achieved across our entire value chain since 2018: The central management of our business functions and increased transparency in our processes have not only made us more efficient, but has also given us greater flexibility in the face of dynamic changes in our markets. In 2020, we were able to adjust our work capacity quickly and accurately to the decline in demand while fully maintaining our ability to deliver.

It is a testament to the high quality of our solutions that we have maintained our margin requirements for new orders despite the difficult market environment. This is visible in the cost of materials ratio, which remained unchanged at the good level of 34% of total output in 2020. This confirms that we are on the right track with our strategic course.

As 2020 shows, our efficiency gains have significantly increased R. STAHL's resilience to periods of market weakness. This is clearly reflected in the break-even point, which has decreased significantly compared with previous years: in 2018, we still needed annual sales of more than € 250 million to achieve positive EBITDA pre exceptionals; one year later, we achieved this with sales of less than € 230 million. In the reporting year, the break-even point fell further to below € 220 million.

The success of our strategic measures is also documented by our regional sales performance in the reporting year. Outside the regions particularly affected by the downturn in demand and prices for crude oil – North America, Northern Europe and Asia – we were actually able to achieve year-on-year growth in some areas in 2020 despite the more difficult economic conditions. These areas include Germany, France and Spain.

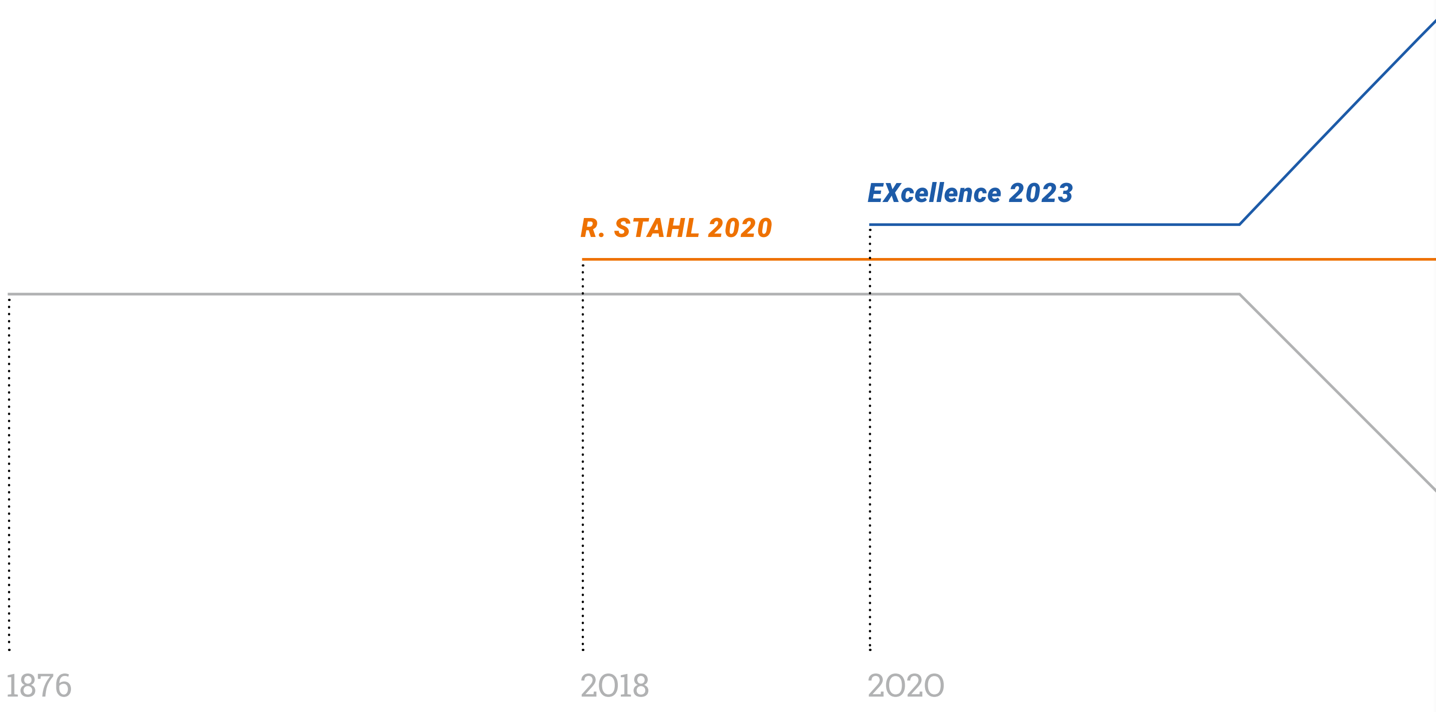
We report on our strategic progress in the reporting year in more detail below.

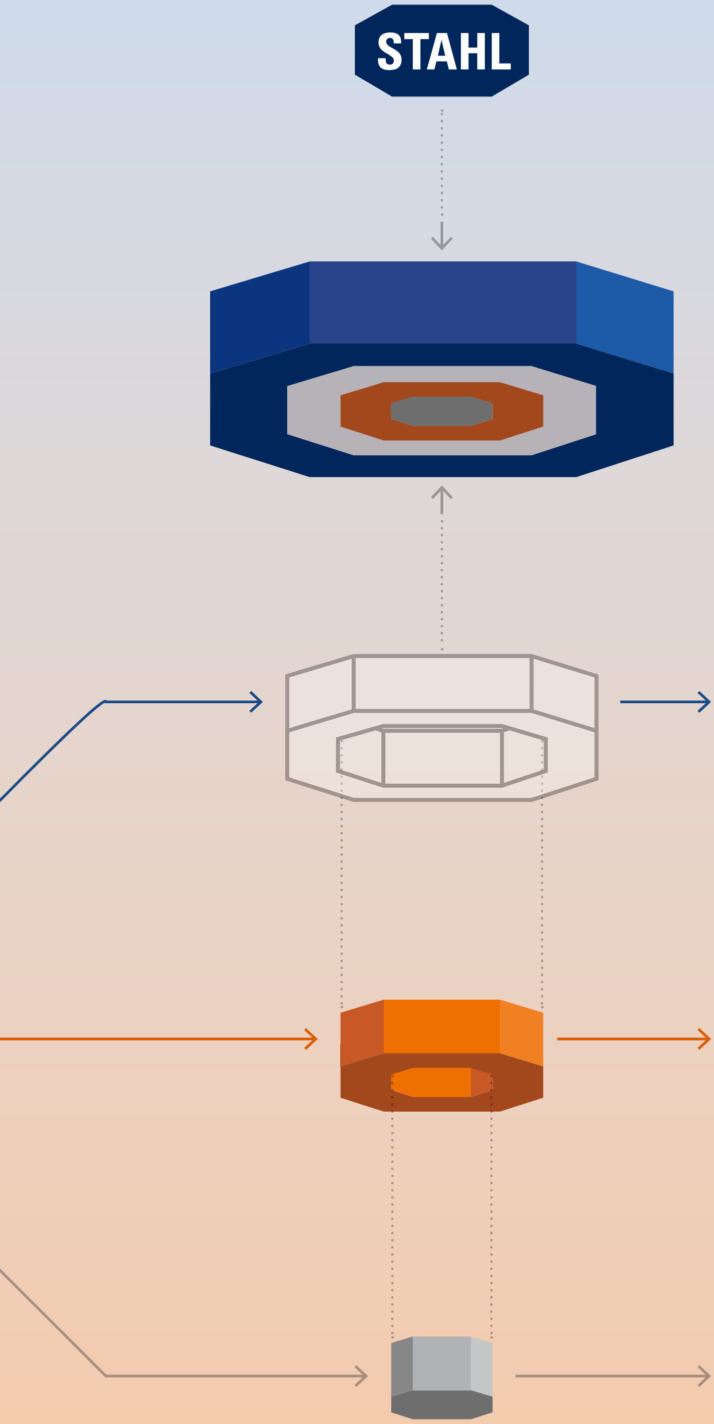
R. STAHL

EXCELLENCE

in electrical explosion protection

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





GROWTH

A strong technology position, efficient processes and attractive market opportunities are R. STAHL's basis for sustainably profitable growth.

MARKET OPPORTUNITIES

- Strategic market development
- New gas applications
- Digital services

EFFICIENCY

- Central Group organization → Data-driven Group management
- Complexity reduction → Portfolio management
- Lean principles → Lean workflows
- Sales processes → Sales excellence
- IT consolidation → IT excellence

TECHNOLOGY

- Market-driven innovations and portfolio renewal

R. STAHL

EXCELLENCE

for sustainably profitable growth

Market opportunities – Megatrends are generating growing demand for explosion protection solutions. R. STAHL focuses on growth within the scope of the *EXcellence 2023* strategy, in particular through an expansion of its market share: by qualifying as a supplier with new customers and helping to shape and further develop the relevant technical norms and standards as part of strategic market development. In addition, two of our sales and development priorities are on the industrial sectors of liquefied gas and hydrogen together with the downstream products that can be derived from them.

Efficiency – Only with competitive structures and processes is it possible to turn technological leadership into sustainable entrepreneurial success. With the *R. STAHL 2020* efficiency program, we have established the structural and process-related prerequisites for current and future market and customer requirements. The focus now is on further standardization, digitalization and data-driven management – another goal of our *EXcellence 2023* strategy. With these efforts, we are strengthening R. STAHL's competitive position and offering customers added value with shorter delivery times, higher plant availability and lower operating costs.

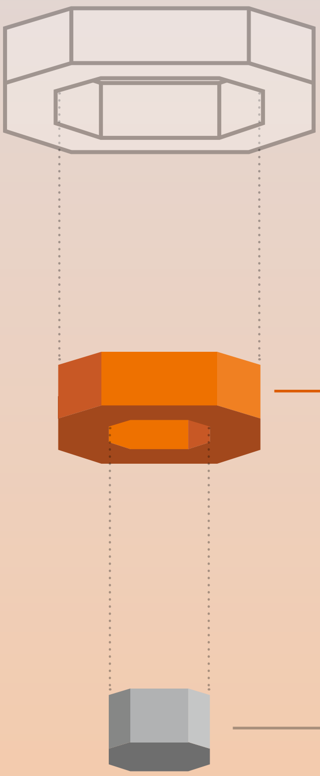
Technology – R. STAHL has been leading the way in electrical explosion protection for nearly a century. Our strong technological standing remains the sound foundation of our business success. We combine core competences in mechanical and electrical engineering with an unchanged, clear commitment to value-creating and market-driven innovations and the continuous renewal of our portfolio.


T-25

SIMPLY MORE EFFICIENT

MORE EXCELLENCE

Our *EXcellence 2023* strategy program seamlessly builds on our previous efficiency successes and systematically drives them forward. The goal is to expand our structures and processes to market-leading levels of excellence. Together with our strong technology position, this will enable us to make the best possible use of the attractive growth opportunities in our markets.



MARKET OPPORTUNITIES
7.–9.

EFFICIENCY
2.–6.

TECHNOLOGY
1.

SIMPLY

BEST-IN-CLASS TECHNOLOGY IN EXPLOSION PROTECTION

Market-driven innovations and portfolio renewal

Technological progress and global challenges including climate change and digitalization are changing markets – and thus also the needs of our customers. R. STAHL looks at these developments very closely and implements solutions that optimally meet current and future customer requirements. We see a consistent focus on customer needs as the path toward new opportunities and the key to sustainable market success.

Although safety is of course the top priority for industrial plant operators, modern explosion protection also addresses the factors such as economy and sustainability. Our customers focus on five other interrelated requirements, which we have summarized under the acronym CARES: low operating costs (Costs), ensuring the ongoing operation of plants by avoiding unplanned shutdowns (Availability), remote controllability (Remote Control), low environmental impact (Environment), and safety aspects during production (Safety). CARES is thus firmly anchored in our Group strategy.

In new product development, we see things from the customer's perspective right from the start. We consider not only the one-time purchase price, but also total cost of ownership – with the objective of reducing these costs for our customers. To this end, we develop value-added new products that justify their – also higher – selling price through lower operating and maintenance costs. Cost advantages can arise for our customers in various ways. For example, our LED lights feature significantly lower energy consumption and longer maintenance intervals. R. STAHL's EXpressure® housings deliver impressive savings in weight, transport and installation costs. And our automation solutions boast product features for predictive maintenance and integration into digital infrastructures. Sensors detect wear and tear as well as aging and report these to our remote I/O systems and lights, for example, that can then indicate an impending failure long before it occurs. This means that plant operators receive advance warning and can carry out the necessary replacement during the next scheduled maintenance. An unscheduled and expensive plant shutdown is thus avoided.

Intelligent sensor technology and data transmission in real time are also the technical prerequisites for the remote controllability of systems – and thus for their unmanned operation, for example of oil drilling platforms or ships that operate autonomously. This provides significant cost advantages: There is no need to keep a permanent operating

1.

IDENTIFY CUSTOMER NEEDS → DRIVE TECHNOLOGICAL INNOVATIONS → SET STANDARDS IN EXPLOSION PROTECTION

team on site, nor is there a need to provide the required rest area for this team. If a technical malfunction of the system is indicated by a sensor, a decision can be made from a distance as to whether the mobile maintenance team must replace the components immediately or whether this can be done at the same time as the next scheduled maintenance visit.

Purchasing decisions for the construction and operation of explosion-protected systems are increasingly incorporating sustainability criteria such as energy consumption, service life and ecological footprint. We also meet these customer expectations and our own standards by supplying high-level technical safety products and solutions that incorporate such sustainability aspects as ealry as the product development phase.

In 2020, we upgraded our portfolio, particularly in the areas of automation, luminaires and low-voltage technology. One of the main drivers here was the further increase in the use of our products in digitalized networked environments. When it comes to automation products, the focus was on vapor-proof (Ex nR) system solutions that allow for operationally standardized network components to be used cost-effectively and easily in Zone 2 explosion-proof areas. In the reporting year, we complemented our luminaire portfolio with the addition of high-performance spotlights featuring a DALI interface (a protocol for controlling lighting operation gear). This enables the intelligent control and readout options for central monitoring and preventive maintenance, thus reducing unplanned downtime and increasing operational reliability. In 2020, we added a new circuit breaker in component encapsulation technology to our portfolio for low-voltage solutions. It can be used to implement lighting and heating circuit distributions with extended current ranges as well as lower ambient temperatures. The presentation of our innovations at the ACHEMA international trade fair, originally planned for the current year, cannot take place until 2022 due to COVID-19.

SIMPLY MORE TRANSPARENCY

Central Group organization

Away from decentralized and independently operating companies, toward a centrally managed Group organization operating globally with standardized digital processes and structures – this is the approach we took to renewing R. STAHL in 2018.

We are now taking the next step towards transparency and global management. The condition for this is the measurability of our value levers on the basis of globally uniform key performance indicators. Using balanced scorecards – standardized reports on the development of the most important performance indicators over time – it is possible, for example, to compare locations with one another, identify trends in data development and derive areas for action.

Our primary goal is data-based global Group management based on all relevant value levers across R. STAHL's entire value chain – from bid preparation to production and goods delivery to the processing of incoming payments.

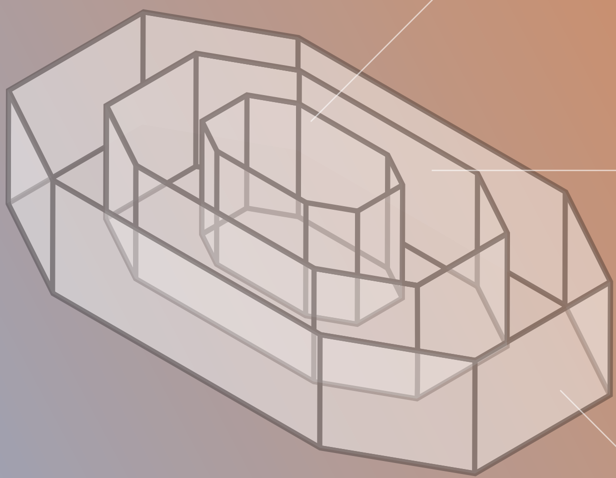
These value levers include not only financial indicators such as sales, EBITDA pre exceptionals or ROCE. As a manufacturer of electromechanical and electronic products, non-financial performance indicators also play a very important role. In our production areas, for example, we have been collecting data on delivery punctuality, capacity utilization, quality and occupational safety for some time.

In the reporting year, we began gradually implementing further non-financial key figures in our Group organization, including in purchasing, sales, marketing & innovation, IT and human resources. This allows us to record and visualize these figures in the future using balanced scorecards. In central purchasing, this includes success factors such as the ontime delivery of purchased materials, supplier quality or the share of framework purchasing agreements in overall purchasing volume. Data on the time taken to process bids and orders, for example, or the ratio of quotations submitted to orders received are relevant to sales.

The recording of key figures to measure and manage our sustainability efforts will also become increasingly important in the future.

Data-based Group management

2.



GLOBAL MANAGEMENT

data-based using value levers along the entire value chain

STANDARDIZED ASSESSMENTS

for recognizing trends and reaching decisions

UNIFORM KEY FIGURES

allow for global measurability and comparability

SIMPLY

CLOSER TO THE MARKET

Reduction of complexity

We used our efficiency program to significantly reduce the excessive complexity that existed in almost all areas of R. STAHL. This complexity was particularly apparent in our product portfolio, which we reduced by almost half in the first step in 2018 – without any sustained loss of sales.

In close coordination with sales and production, we began in the year under review to align our product range even more closely to market and customer needs. With the objective of establishing a standard program across our entire product portfolio, comprising around 1,000 articles that can be stocked at all times and delivered at short notice, we defined the first 300 articles in 2020 and began stocking and promoting them. The standard program will be successively rolled out throughout the world. Our customers will benefit from short delivery times and rapid global availability of urgently needed products.

STRONG PORTFOLIO

in line with the requirements of our customers

GLOBAL AVAILABILITY

wherever explosion protection is needed

SHORT DELIVERY TIMES

for high plant availability

3. Portfolio management

SIMPLY
MORE AGILE

Lean principles

SMARTER WORKFLOWS

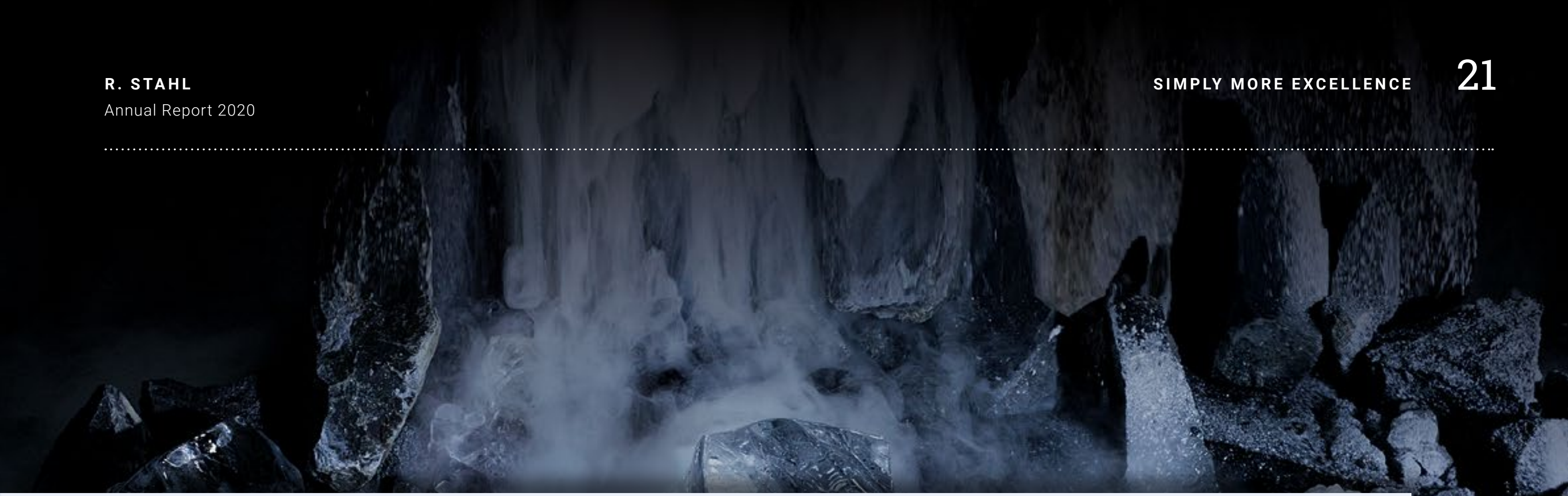
with lean and coordinated processes

ONGOING LEARNING

as a condition for sustainable excellence

CONTINUOUS IMPROVEMENT

as a key component of our corporate culture



Lean processes

4.

Efficiency gains achieved in our global production areas made a significant contribution to the increase in our profitability in 2018 and 2019. This was made possible above all by the introduction and implementation of lean management and continuous improvement methods. This is increasingly becoming part of our corporate culture – not only in production, but increasingly also in administrative areas.

In 2020, despite the difficulties in material procurement and goods delivery caused by the Corona virus pandemic, we also further improved our delivery reliability and capacity utilization. We took important steps forward in terms of space utilization, key quality indicators as well as occupational safety. Overall, further process optimization in more than 1,000 individual measures (also known as kaizens in the language of lean management) led to cost savings in the low single-digit million euro range. The success of our lean management in production is reflected in the Lean Journey Assessment Score (LJA), a performance indicator that measures progress in the seven most important dimensions relevant to success, including employee motivation, defect detection (Jidoka) or financial performance measures.

In 2020, we were able to improve the LJA by about 10% as compared to the previous year. Reflected here is also the high proportion of Six Sigma Yellow Belt certification of our production employees worldwide, which we expanded to well over 90% in the reporting year. Building on the further qualification and training of our employees, we implemented a range of projects to modernize our production technologies in the reporting year, including acquisition of simulation software to optimize and visualize our manufacturing processes, the automated measurement of raw materials and finished products for warehousing purposes and the introduction of automated transport systems.

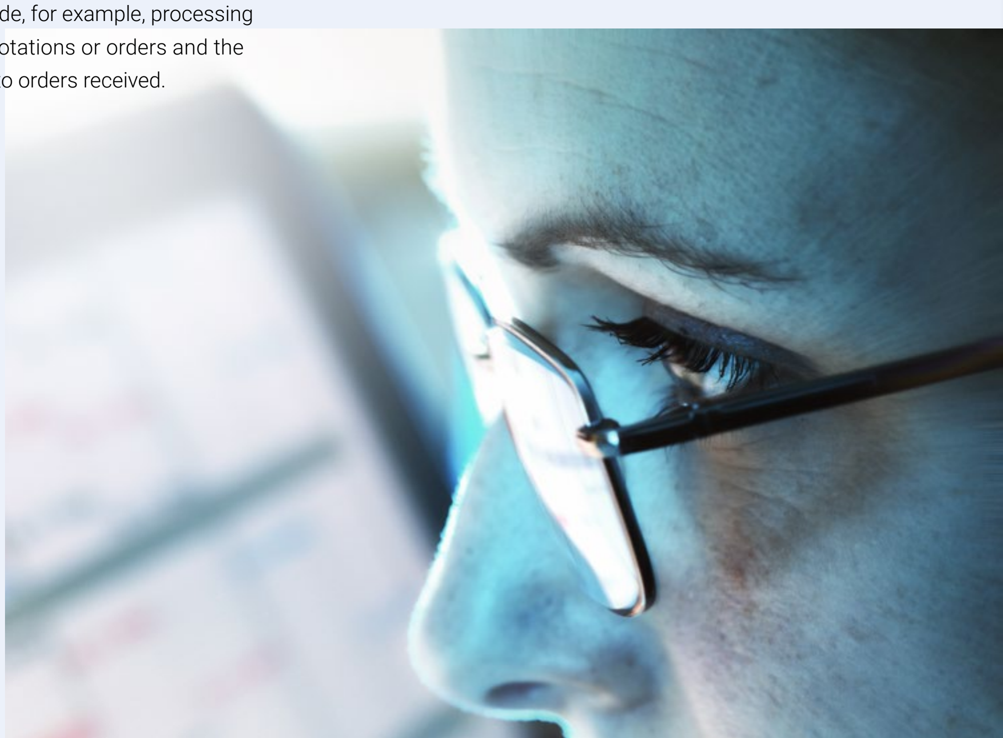
SIMPLY SYSTEMATIC

Sales processes

We have also centralized R. STAHL's sales activities in recent years and introduced standardized processes worldwide for all order entry and processing – with the aim of creating a sales organization at excellence level.

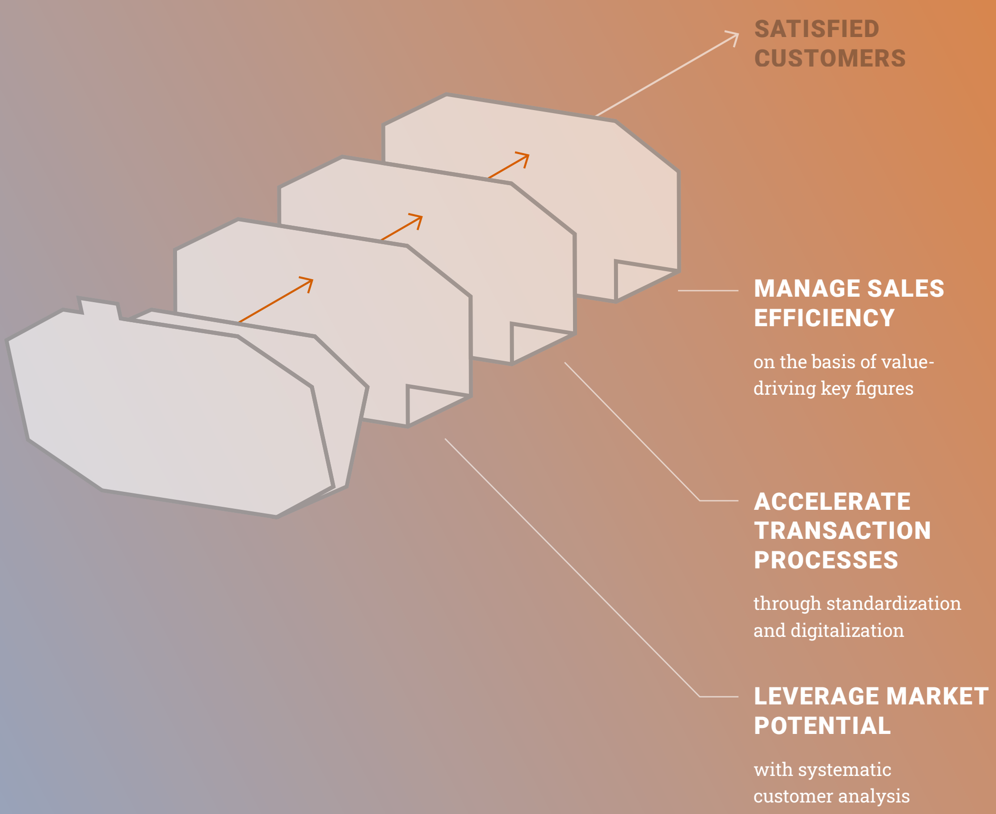
In the reporting year, we began to introduce lean methods and comprehensive measures to improve our sales efficiency. Under the *Sales Excellence* program, we address all value-driving back office processes, systematically record market potential and sales channels, and measure and control success using suitable key performance indicators. These key figures include, for example, processing times in the preparation of quotations or orders and the ratio of quotations submitted to orders received.

Ongoing portfolio adjustments, strategic market development and the further development of the IT landscape, which we describe in more detail below, also have a significant impact on sales success. In contract engineering, it was also possible in 2020 to process the first product lines using the standardized engineering tool Engineering Base. We also further operationalized the cooperation between sales and business development in connection with systematic customer analysis, laying a further foundation for future growth.



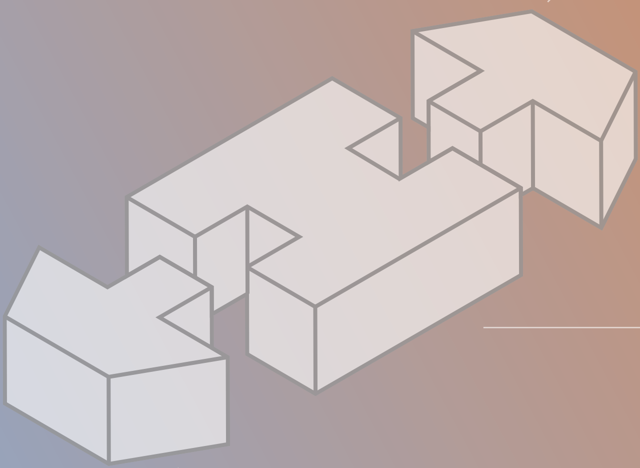
Sales excellence

5.



SIMPLY MORE DIGITAL

IT consolidation



DIGITAL INNOVATIONS

for greater value creation

AUTOMATED INTERFACES

for the fast and error-free flow of data

HARD AND SOFTWARE STANDARDS

for reduced administrative efforts and greater data security

IT excellence

6.

Digitalization provides R. STAHL with significant opportunities across the entire value chain: in digitalized and networked processes in production and administration, in our electrical engineering products with digital functions and in the digital services that are based on them. With the fundamental renewal and harmonization of our IT landscape, a process that began in 2018, we are building the highway that will enable us to make even better use of these opportunities for R. STAHL in the future. The key element here is the Group-wide standardization of our IT hardware and software solutions in the areas of Enterprise Resource Planning (ERP), Computer Aided Engineering (CAE) and product configurators. We will make increasing use the resources made available in the course of the ongoing transformation of our systems to drive innovation, including in the areas of virtual reality, block chain or smart dust, and also to further develop our IT to a level of excellence.

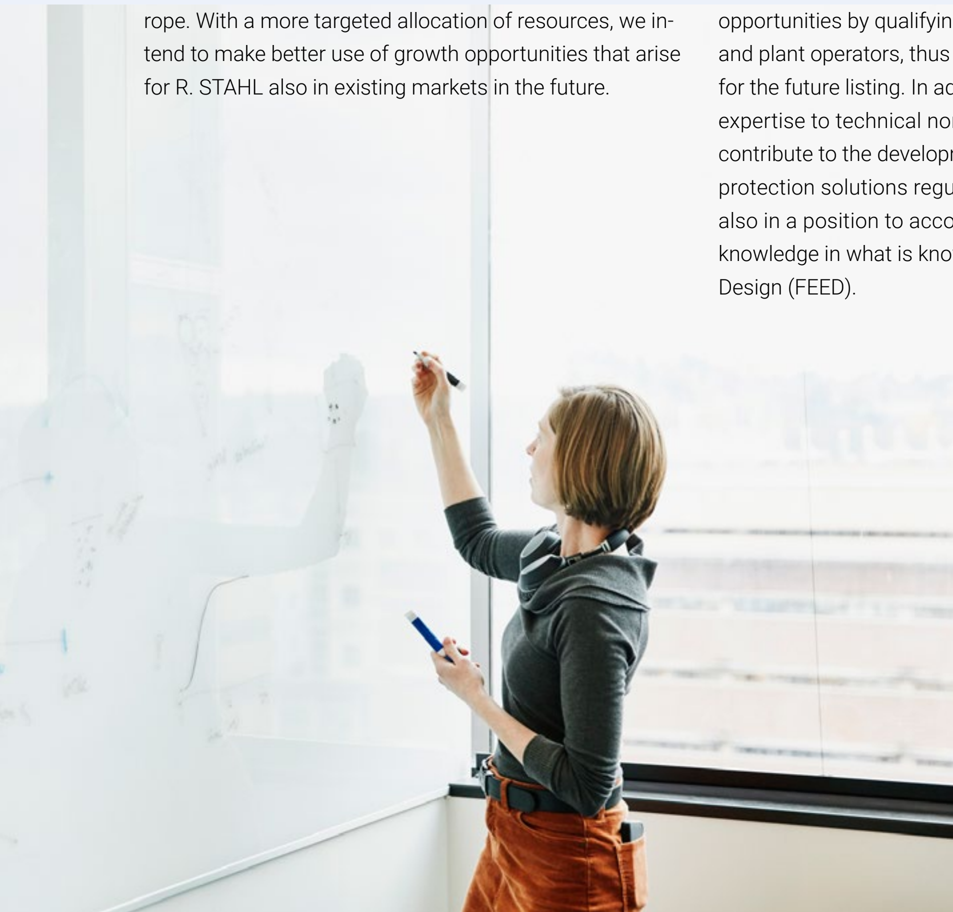
In the reporting year, we again made good progress on the road to IT excellence, for the most part as scheduled. In 2020, in terms of hardware standardization, we were able to expand the share from around 80% at the beginning of the year to >95% at the end of the year in 2020. With that, we are now close to achieving the specified target status. Pandemic-related travel and contact restrictions led to delays in the global rollout of the Group-wide ERP system. The SAP implementation at the US production site in Houston scheduled for the reporting year had to be postponed by several months and is now expected to be completed in the current year. The SAP rollout at the subsidiaries in the Netherlands and the UK is also scheduled to take place in the current year. As planned, the sales locations in Italy, France and Spain were connected to SAP in 2020 and preparations for connecting the sales location in Korea were brought forward. This means that by the end of 2020, six of 17 locations had already been integrated into our Group-wide SAP landscape.

Work on standardizing our CAE system also proceeded according to plan in the reporting year. Of the six sub-projects defined at the beginning, the two general structural projects and the introduction of the first of four product-related CAE projects were completed. The first of a total of 20 series-specific product configurator solutions also went into operation, initially for internal sales purposes. From the coming year, the product configurators will be gradually integrated into the expansion of the web store and made available directly to our customers.

SIMPLY MORE STRATEGIC

Market opportunity: Strategic market development

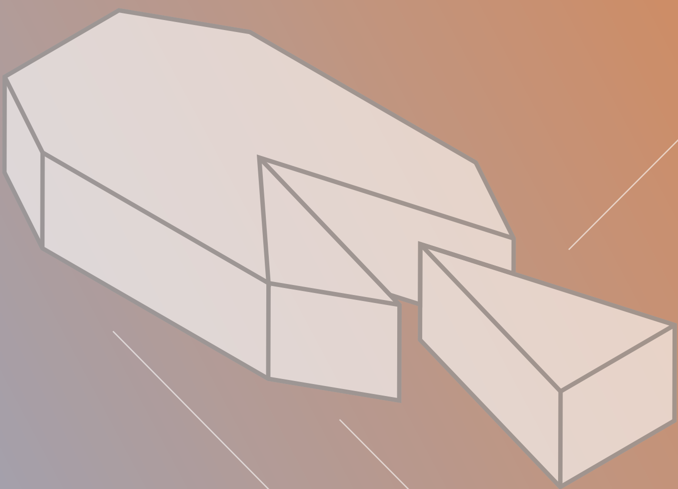
R. STAHL's leading market position in electrical explosion protection is the result of a high degree of technological competence, market-leading products, a powerful portfolio and our global presence. Our market share in important markets such as Asia and America are nevertheless significantly below our market position in Germany and Europe. With a more targeted allocation of resources, we intend to make better use of growth opportunities that arise for R. STAHL also in existing markets in the future.



Our goal is to at least maintain R. STAHL's strong market position in Europe and to expand the market penetration in all other parts of the world where it remains below average.

As part of our strategic market development, we are pressing ahead in a number of directions. We are expanding sales opportunities by qualifying as a supplier to end customers and plant operators, thus creating the entry requirements for the future listing. In addition, we not only contribute our expertise to technical norms and standards and thereby contribute to the development of the market for explosion protection solutions regulated by certificates, but we are also in a position to accompany our customers with our knowledge in what is known as Front-End Engineering and Design (FEED).

7.



EXPAND MARKET SHARE

through qualification as supplier with end customers and plant operators as well as contribution of expertise in technical standards

LEVERAGING TECHNOLOGICAL STRENGTHS

on the basis of technological competence and a strong portfolio

TAP INTO MARKETS AT AN EARLY STAGE

through the further development of norms and standards

SIMPLY MORE CLIMATE-FRIENDLY

Market opportunity: New gas applications

Global efforts to reduce carbon dioxide emissions will lead to a sharp decline in the importance of coal as a source of energy in the future. At the same time, the use of liquefied natural gas, hydrogen and synthetic fuels is being aggressively pursued. Natural gas plays a key role as a bridging technology to CO_2-free hydrogen use. Industry experts therefore expect this market to grow at an above-average rate in the short and medium term. This trend offers huge opportunities for manufacturers of explosion protection solutions, as the risk of explosion increases considerably from coal to oil, and from natural gas to hydrogen.

If natural gas is not to be transported in gaseous form via pipelines over hundreds or thousands of kilometers, it can only be transported economically in liquefied form. Liquefied natural gas (LNG) is liquefied at the production site and transported by ocean-going tankers to its destination, where it is then decompressed back to its gaseous state. This method of transportation will increase significantly compared to pipeline transportation due to the greater degree of flexibility in terms of shipment to the desired destinations. This represents another development from which R. STAHL can benefit. R. STAHL already has a very high market share in explosion-proof LNG tanker equipment. We intend to leverage this in order to further expand our market position in the upstream and downstream stages of the LNG value chain. In the reporting year, we were able to win a significant amount of LNG orders.

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

In line with our strategic FEED approach, we expanded our hydrogen technology activities in 2020 to include cooperation with numerous expert groups and Europe-wide project initiatives. Particularly noteworthy here is the *Green Hydrogen @ Blue Danube* project launched as part of the EU's *IPCEI Hydrogen* initiative, which focuses on the production and use of green hydrogen in Austria and Bavaria in the initial phase. *IPCEIs* are joint investment efforts among cooperating European companies and government funding

and serve to strengthen and develop strategically important technologies in Europe. In the reporting year, we also addressed *Germany's National Hydrogen Strategy*, which is partly supported by *IPCEI Hydrogen*. Here, as part of the *Green Hydrogen Ideas Competition* from the German Federal Ministry of Education and Research (BMBF) under the leadership of the Technical University of Dresden, we are seeking to develop a safety concept for hydrogen for use in large-scale plants together with the German Federal Office for Materials Research and Testing (BAM) and the Federal Institute of Physics and Metrology (PTB). We have also expanded our ties with regional activities, including the *HYPOS initiative* in eastern Germany and cooperation with the Center for Solar Energy and Hydrogen Research Baden-Württemberg (ZSW) as part of the *BW Electrolysis* research project.

In addition to our FEED activities, we actively pursued sales with our customers that already offer commercial solutions in existing hydrogen applications in the reporting year. Building on the hydrogen refueling stations we equipped for the first time in the Netherlands in 2019, we also received an increasing number of inquiries from other regions, particularly Asia, in 2020.

EXPAND STRONG POSITION IN LNG

and benefit from growth trend

ACTIVELY SHAPE HYDROGEN TECHNOLOGY

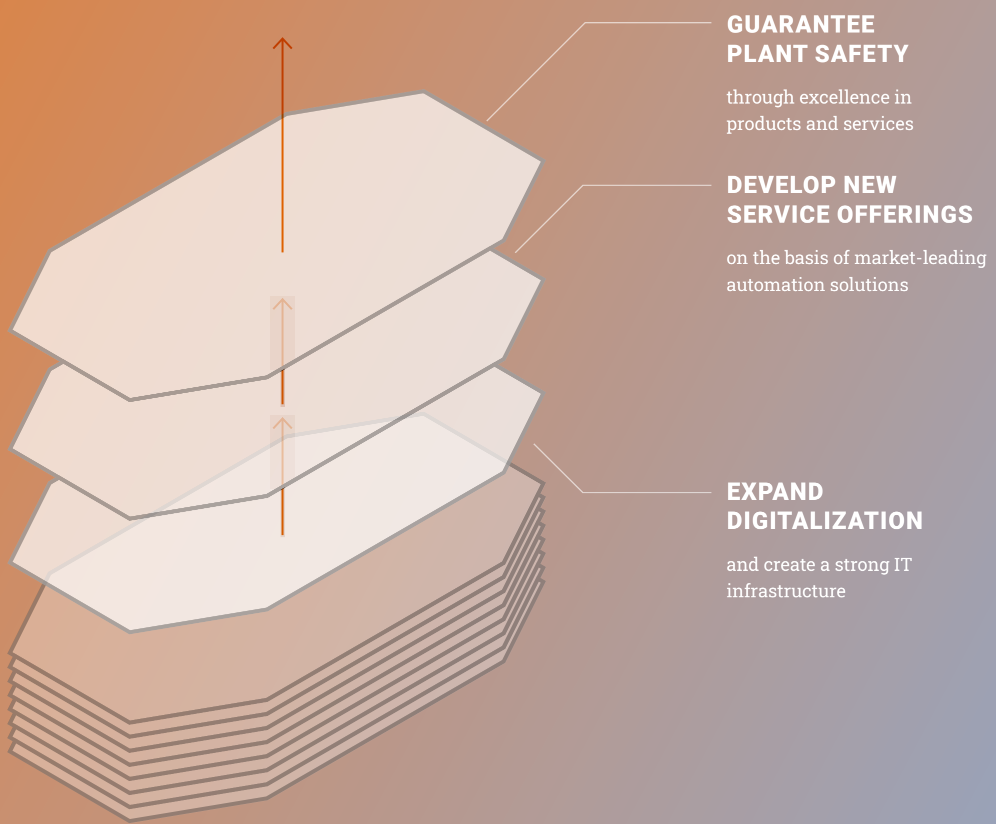
with early participation in groups of experts and pilot projects

USE ADVANTAGES FROM LOW-CARBON SOURCES OF ENERGY

and make the energy transition safe

SIMPLY MORE VALUE FOR CUSTOMERS

Market opportunity: Digital services



9.

Digitalization, which is also advancing in the industrial environment, creates opportunities for R. STAHL across the entire value chain – not only in administrative and production processes and with new products, but also with new digital business models. The range of services extends well beyond the supply of explosion-protected components and systems. It may be possible, for example, to ensure the fault-free operation of plants or plant components at all times through the application of remote administration. This is facilitated by the availability of digital data and the processes it enables.

In the reporting year, we began systematically identifying our customers' current and future requirements for digital services and to identify initial approaches for building up new business areas for R. STAHL. The starting point was selected applications and customers in key markets where we have a particularly high level of application expertise thanks to many years of close cooperation. As a result, a number of general fields of action emerged that will become increasingly important for many of our customer industries, such as the trend towards modularization, virtualization, and growing demands on data analytics. The insights gained will not only be incorporated into considerations for the design of future digital services from R. STAHL, but also into the further development of the kind of automation solutions we need for this purpose.

SIMPLY R. STAHL

It is a pioneering spirit and superior performance that drive us forward and for which customers worldwide have come to appreciate us – for more than 140 years. To live up to this standard in the future, we have set the goal of consistently expanding our competitiveness and technological position in electrical explosion protection. In the interests of our customers, shareholders and all other stakeholders.

FINANCIAL INFORMATION

Pursuant to Section 315a HGB
in accordance with International
Financial Reporting Standards (IFRS)

COMBINED MANAGEMENT REPORT

OF THE R. STAHL GROUP AND R. STAHL AG

BASIC PRINCIPLES OF THE GROUP

BUSINESS MODEL

R. STAHL is a leading international technology company specializing in electrical explosion protection, a sector of electrical engineering the development of which we have been advancing for almost a century and which has been the sole focus of our business activities since 2006. The purpose of electrical explosion protection is to ensure the safe operation of electrical equipment and systems in potentially explosive atmospheres at all times through the application of suitable technical solutions – and thus to protect people as well as systems and the environment with a maximum degree of reliability.

These solutions are used wherever flammable gases, liquids and dusts are industrially produced, transported, stored and processed or when these are generated during processing: In the oil and gas industry, in the chemical and pharmaceutical sectors, in shipbuilding and in the food industry. One particular danger arises when combustible substances mix with specific proportions of oxygen in the ambient air – the so-called explosion limits. Any ignition of such mixtures leads to an immediate explosion – often with serious personal injuries and property damage. The risk posed by combustible dusts, in particular, has long been underestimated – hardly anyone expects, for example, that meal dust used in the food industry or sawdust accumulating in wood processing companies can actually explode. When mixed with oxygen, however, the danger posed by such dusts is in no way inferior to that of liquid fuels such as petrol or combustible gases such as natural gas or hydrogen. Just how impressive such dust explosions can be is illustrated by the film industry, which uses them in a controlled manner for their pyrotechnic effects.

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

In addition to a flammable substance and oxygen (e.g. from the ambient air), an ignition source is always required for explosions to occur. The objective of electrical explosion protection is either to avoid the potential of sparks emanating from electrical and electronic parts or to keep electrical sparks safely away from the explosive mixture of fuel and oxygen. On the basis of the products and services we offer, we are one of the world's top three suppliers of explosion protection solutions and number one in the systems business. Our solutions cover the entire value chain in explosion protection: From individual components like switches and signaling devices for simple applications, to control boxes and system controls for the distribution of electrical energy and including complex systems for large-scale projects in the field of oil and gas production or the (petro) chemical industry, for example. We also offer a strong portfolio of lighting solutions for hazardous areas using energy-efficient LED technology – from handheld spotlights to dedicated lighting systems for helidecks on oil rigs. In addition, we provide a strong portfolio of automation solutions for controlling and monitoring technical facilities, including the market-leading remote I/O system, IS1+, as well as operating units and camera systems. Demand for these products is driven by the increasing digitalization and automation of industrial processes: Industry 4.0. Our expertise in the systems business – one-stop solutions for complex individual problems and customer requirements – is unique throughout the world. A major pillar here is our engineering and consulting expertise, which supplement with additional services on an ongoing services. All of our products and services meet the highest safety standards, reflecting almost 100 years of experience in the field of explosion protection.

Standards and regulations in electrical explosion protection

Due to the serious consequences that inadequate explosion protection can have, technical requirements for the commercial handling of combustible materials are highly regulated, although these regulations differ greatly from region to region. In electrical explosion protection, for example, member states of the European Union are governed by the directives 2014/34/EU and 1999/92/EC (ATEX directives), whereas the primary regulation for the construction of electrical systems – including explosion-protected equipment – in the USA is the National Electrical Code (NEC) and in Canada the Canadian Electrical Code (CEC). The two standards differ considerably in their technical details; one reason for this is that the NEC system was originally geared towards the construction of water and gas pipelines. Further national regulations increase the diversity of applicable standards and guidelines. With the objective of facilitating free movement of goods worldwide, the International Electrotechnical Commission (IEC) – which is responsible for global standardization in the field of electrical engineering – is working on internationally valid approval conditions for electrical equipment in the field of explosion protection. And they have been doing so very successfully: The IEC 60079 standards and related compliance assessment system IECEx based on its work, which is technically very similar to the EU's ATEX directives, have established themselves as the increasingly accepted standard with global validity. For some years now, the US Coast Guard – responsible for US offshore installations – has also accepted IECEx-certified products for offshore facilities.

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

Market with high entry barriers

Just how important stringent safety standards and uncompromising reliability are when it comes to explosion protection is particularly evident when these standards are lacking. A single spark on an oil rig or in a chemical industrial plant is enough to trigger explosions that can have fatal consequences. There is a tremendous demand in society for safe, environmentally compatible and sustainable industrial processes, and this is leading to increasing expectations worldwide in all areas of safety technology, including and especially in the field of explosion protection.

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

GROUP STRUCTURE

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

At the end of 2020, the R. STAHL Group consisted of 35 companies, 22 of which are operationally active in the explosion protection market, serving all major regions in Europe, Asia-Pacific and North and South America. In addition, we are represented by 45 sales offices around the world. With this network in place, we ensure direct market access in more than 50 countries. We have bundled our production capacities at seven locations with various core competences: Lighting and signaling devices are produced mainly in Weimar, Germany and Chennai, India, while automation technology products are developed and manufactured in Cologne and our main location in Waldenburg. Waldenburg is also home to most of the component production for installation needs, such as switches, terminal boxes and connectors. Customized equipment and more complex explosion protection systems are produced in Waldenburg as well as by the subsidiaries Electromach B. V. (Hengelo, the Netherlands), R. STAHL TRANBERG AS (Stavanger, Norway) and R. STAHL Inc. (Houston, USA). A particular focus of expertise at the Stavanger site is also on products for shipbuilding and the oil and gas industry.

GROUP OBJECTIVES AND STRATEGY

Sustainably profitable growth

We have set ourselves the goal of achieving sustainable and profitable growth and thus steadily increasing our enterprise value. To this end, we continue to develop our existing product and service portfolio in line with the needs of our customers with the aid of innovations, though we also consider inorganic growth. In addition, we are expanding our presence in growth markets. Another important medium-term goal is to establish market-leading cost structures.

Technology – Efficiency – Growth

A strong technology base, efficiency in structures and processes and growth that is at least in line with the market – these are the pillars of entrepreneurial activity on which R. STAHL's strategy for sustainably increasing the value of the company is built. We have been demonstrating technological expertise in the fields of mechanical and electrical engineering for more than 140 years. Over the course of that time, we have managed to successfully tap into a wide variety of markets. Today, our strong technology position remains the foundation of our business success. In combination with efficient operational structures and processes, this creates lasting competitive advantages that lay the foundations for disproportionately strong participation in growing markets. In the long-term interests of our customers and shareholders, but also in the interests of all other stakeholders to whom R. STAHL is socially committed.

R. STAHL 2020

Sustainable economic activity requires efficient structures and processes that meet current and future customer and market requirements. In 2018, we started to fundamentally realign R. STAHL's operating model to these requirements. Under the *R. STAHL 2020* banner, we launched an efficiency program aimed at repositioning the sustainable streamlining of structures, the reduction of complexity and the introduction of standardized processes along the entire value chain and administrative areas. Five of the six initially defined measures were completed by the end of the reporting year:

- The R. STAHL Group's previously decentralized organizational structure was transformed into a central Group matrix organization with global functional divisional responsibilities.
- We aligned the product portfolio so that it more closely meets the needs of our customers and at the same time reduced the number of unnecessary variations. Around 10,000 product variations were eliminated without a loss of sales.
- Lean methods were introduced and operationalized in all manufacturing areas.
- We implemented standard processes and introduced uniform performance indicators in our global sales processes – starting with the submission of a quotation through to completion of the order.
- We centralized and further professionalized management of major projects throughout the world.

In 2018, we set a timeframe until 2023 for standardizing the IT infrastructure in the core areas of ERP, engineering as well as product configuration – the areas that are essential for R. STAHL. Progress at the end of the reporting year was in line with the schedule. Only the SAP launch at the U.S. production site in Houston, which was originally scheduled for the end of 2020, had to be postponed until the first half of 2021 due to the COVID-19 pandemic.

Technology
Efficiency
Growth

EXcellence 2023

With the measures implemented from the efficiency program *R. STAHL 2020*, we have addressed and established the key structural prerequisites for lean and uniform processes. The focus is now on sales growth that is at least level with the market. For this purpose, our strategy program *EXcellence 2023* aims to achieve further efficiency increases in all business-relevant processes and to sustainably strengthen R. STAHL's competitive position, which at the same time also provide our customers with additional added value: Through globally standardized processes, higher service quality, shorter delivery times and lower plant operating costs. At the same time, we aim to expand our market share through targeted strategic market development and push technological advancements in explosion protection through the development of innovative new products. We pay particular attention to areas of application with above-average growth prospects in the medium to long term. The focus of *EXcellence 2023* is on:

- the establishment of a uniform Group-wide system of key performance indicators for the data-driven management of all functional areas and corporate processes,
- demand-oriented management of the product portfolio,
- establishment of lean methods in all Group functions and creation of a corporate culture of continuous learning,
- further development of sales processes to a level of excellence
- the complete harmonization of our IT systems and processes by 2023

- market-driven innovations and portfolio renewal

- strategic market development through qualification with target customers and active specification and standards development
- a focus on energy sources with a favorable carbon footprint (liquefied natural gas, synthetic fuels, hydrogen), and
- the development of digital service models

Details of the innovations we are pursuing can be found in the Research and development section of this management report.

Technology
Efficiency
Growth

Our continued strong market position in Europe primarily reflects the high share of sales from the chemical industry. By contrast, our business in Northern Europe, Asia and the Middle East as well as in America is predominantly driven by development in the oil and gas sector. In these regions, our overall market positions are also still below our average global market share. We therefore see significant potential here for expanding regional market share. As the market for explosion protection is regulated by certificates, it is essential for us to qualify as a supplier for our customers. As part of our strategic market development, we will therefore drive this qualification process while at the same time continuing to shape and develop the relevant technical standards.

Against the backdrop of the growing public debate regarding the consequences of global climate change, we see potential along the value chain of liquefied natural gas (LNG) – in both the short and medium term. We therefore intend to use our already strong market position in the LNG tanker segment to expand our business in natural gas production and liquefaction, as well as in the downstream processes of unloading and regasification. In the medium to long term, we also see strong potential in the associated fields of hydrogen technology and synthetic fuels. We already have technologies to equip the necessary large-scale industrial infrastructures.

MANAGEMENT SYSTEM

Principles and objectives of financial management

The principal aim of our financial management is to secure the financial independence of the R. STAHL Group. This function is performed centrally by R. STAHL AG and includes all Group companies in which R. STAHL directly or indirectly holds the majority. Financial management is based on guidelines that cover all commercial aspects of the Group's business activities. The objectives of financial management include a sufficient level of liquidity for R. STAHL AG and its subsidiaries, compliance with financial covenants agreed with banks and the limitation of financial risks from fluctuations in exchange rates and interest rates. As in previous years, we did not commission any liquidity analyses from external rating agencies in the reporting period.

Securing liquidity

Within the scope of the annual Group planning, R. STAHL develops a multi-year financial plan on which the long-term financing and refinancing requirements are based. This fundamental information and the monitoring of financial markets to identify financing opportunities form the decision-making basis for financing investments in the long term, using suitable financing instruments for corporate financing at an early stage and limiting financial risks. The Group's funding requirements are managed centrally from our headquarters in Waldenburg.

For R. STAHL AG and some of its subsidiaries, there is an intra-group financial clearing within the framework of cash pooling. The surplus liquidity of companies outside the cash pool is used for funding by means of a needs oriented distribution policy and internal Group lending. In the course of Group-wide financial management, liquidity surpluses of individual Group companies are concentrated at R. STAHL AG.

As of 31 December 2020, there was a liquidity reserve (consisting of cash and cash equivalents and unused syndicated and bilateral credit lines) of € 65.9 million (31 December 2019: € 81.7 million). The decrease as compared to the previous year is nearly exclusively attributable to the termination of bilateral loan agreements. As part of the *EXcellence 2023* strategy program, R. STAHL is aiming for an average liquidity reserve of € 40 million. The basis for the disposition with the banks is a rolling liquidity planning system. In December 2019, we secured the Group's long-term funding with the conclusion of a new syndicated loan. This agreement has a volume of € 70 million with the option to increase this amount by a further € 25 million, and has a term of three years initially with an extension option for up to two further years. In the reporting year, the term of the contract was initially extended by one year to December 2023.

Maintaining financial covenants

Under various loan agreements, R. STAHL is obligated to comply with certain financial indicators, so-called financial covenants, at Group level. For the most part, these relate to (a) maintaining an appropriate ratio of net debt to earning power and (b) equity capitalization. All financial covenants were complied with at all times during the reporting period.

Limiting financial risks

In some of our global markets, business is invoiced and payment transactions are processed in local currencies. R. STAHL's reporting currency, on the other hand, is the euro. In addition, as a European company, R. STAHL incurs a significant portion of its costs in euros. Currency risks are hedged using derivative financial instruments where this makes economic sense. Where possible, price increases in raw materials are passed on to customers on the basis of contractual agreements or, depending on the competitive situation, compensated for through higher selling prices of finished products. Price risks from raw material purchases are also partially hedged by means of longer price agreements. Interest rate risks from liquidity procurement on the international money and capital markets are monitored as part of an interest rate management system and, if necessary, limited by derivative interest rate hedging instruments.

Sound equity capitalization targeted

Equity amounted to € 48.1 million as of the balance sheet date (31 December 2019: € 58.4 million). By partially retaining future profits, we aim to strengthen our equity base. In the medium to long term, R. STAHL aims for an equity ratio of around 30%. As of 31 December 2020, the equity ratio was 18.8% (31 December 2019: 22.5%).

Targeted management of the gearing ratio

The net gearing ratio (ratio of net financial debt including lease liabilities to equity) was 0.69 at the end of the reporting period (2019: 0.62). The dynamic gearing ratio, measured by the ratio of net debt to EBITDA, increased slightly in the reporting period, amounting to 1.8 at year-end 2020. Reducing debt and achieving and maintaining a targeted net gearing ratio of no more than 2.5 remain priorities.

Shareholder participation in the company's success

The basis for distribution is R. STAHL AG's balance sheet profit under commercial law, the appropriation of which is decided by the Annual General Meeting in accordance with German law. As a result of R. STAHL AG's net loss in the reporting year, the Executive Board's proposal for the appropriation of profits for 2020 no longer applies. R. STAHL generally pursues a sustainable dividend policy intended to enable shareholders to participate in the company's business development while maintaining an appropriate capital structure. Key figures for the determination of dividends are net income, equity ratio and the expected future market development.

Planning process

On the basis of the Group's strategic objectives, we prepare a plan for the next three years in the final quarter of the current reporting year. This plan is then submitted to the Supervisory Board, discussed and approved by that board. The main component of this planning is an estimation of the expected development of our individual subsidiaries, which is also based on general economic and sector-specific forecasts. The Group planning process is coordinated by our central Controlling division. Budget figures of Group companies are consolidated and monthly deviations from these figures are analyzed and discussed with the Executive Board and the Supervisory Board.

Control parameters

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

Our financial business success is essentially reflected in our earning power and in the generation of liquidity – hence our financial management system is geared to EBITDA pre exceptionals and free cash flow. Other key financial figures serve as indicators of expected financial development, including earnings-relevant variables such as sales and the development of order intake, as well as liquidity-influencing indicators such as net working capital.

EBITDA pre exceptionals

The earnings parameter EBITDA pre exceptionals is calculated from earnings before interest, taxes, depreciation and amortization (EBITDA), without consideration of exceptionals. Exceptionals are earnings-relevant effects that are not an inherent and regular part of our business model, in particular restructuring expenses, expenses for the design and implementation of IT projects, M&A expenses, and income and losses from the disposal of non-operating assets. As part of the annual planning process, we define targets for the objectives mentioned above. These are then continuously monitored on the basis of monthly plan/actual comparisons and, as an integral part of monthly reporting, form the basis for the timely management of the Group's overall performance together with suitable measures.

A key lever for managing EBITDA pre exceptionals as a key performance indicator is efficient cost management, for which we collect the necessary IT-based data at an early stage and use it to manage as well as implement and track cost-cutting measures. Our cost base, however, is also dependent to a significant extent on external factors. Exchange rate fluctuations due to our global operating activities, for example, have an impact on the level of costs. The operating cost base is also influenced by the price development for raw materials, which in many cases are subject to annual cost increases. In the previous chapter Principles and objectives of financial management, we discuss the measures we use to limit the resulting negative effects for R. STAHL.

ROCE

In addition to the operating performance indicators EBITDA pre exceptionals and free cash flow, return on capital employed (ROCE) is calculated as a periodic indicator at Group level. The ROCE concept compares earnings before interest and taxes (EBIT) with capital employed at the reporting date. Capital employed is defined as the total of equity and net financial liabilities (including lease liabilities and pension provisions). For financial year 2020, the return on capital employed (ROCE) was 0.3% (2019: 3.2%). Accordingly, the return on capital in 2020 was below the average cost of capital before income taxes, which amounted to 5.5% as of 31 December 2020 (31 December 2019: 6.0%). The decrease in the weighted average cost of capital was due to lower borrowing costs and an increase in the debt ratio.

PERFORMANCE INDICATORS AND PRINCIPLES

Key financial performance indicators

In addition to EBITDA pre exceptionals and free cash flow, important financial performance indicators for the R. STAHL Group include development of sales and order intake as well as net working capital. For a description and calculation of the performance indicators, please refer to the section Corporate management. Return on capital employed (ROCE) is also used as a parameter.

Key non-financial principles

We believe that sustainable and profitable growth also requires the consideration of non-financial performance indicators. As a manufacturer of electromechanical and electronic products, non-financial performance indicators, particularly from the areas of sales, production and purchasing, play a very important role for us. Within the scope of the measures we launched in 2018 to increase the efficiency of structures and processes, we have begun to successively implement further non-financial principles in all other areas of our Group organization, including Marketing & Innovation, IT and Human Resources, in order to be able to record and visualize these in the future using balanced scorecards.

The non-financial principles listed below represent important information for understanding R. STAHL as a manufacturing industrial company, but are not used as control parameters.

Selected performance indicators in sales

Our goal is to further set R. STAHL apart in the market for explosion protection solutions, positioning it as a quality supplier and innovation leader. Key elements of R. STAHL's market presence are the high quality, consulting competence and reliability of the products and services we offer. In the 2020 reporting year, one focus in sales was on establishing the processes and data basis that will allow for the detailed recording, reporting and managing of sales-relevant key figures. These key figures include, for example, processing times in the preparation of quotations and orders and the ratio of quotations submitted to orders received. We thus ensure that, in addition to the process-related efficiencies, there is also an effective market development.

Selected performance indicators in production

We introduced non-financial performance indicators throughout the Group for the first time in the newly created Global Operations unit as part of the implementation of our *R. STAHL 2020* efficiency program. Since that time, these performance indicators have been regularly recorded at all global sites and visualized in the form of balanced scorecards. The most important parameters from a production perspective include delivery punctuality, capacity utilization and key figures on quality and occupational safety.

Selected performance indicators in purchasing

Group Purchasing was also newly-established within the scope of the implementation of the matrix organization. In addition to operational tasks to cover the R. STAHL Group's ongoing material and service requirements, the focus of its work is on strategic supplier management. In the reporting year, the establishment of the purchasing organization and the definition and introduction of the required processes were completed on schedule. On this basis, an IT solution was selected and implemented which in the future will be used to monitor and control the financial performance indicators in this area and to better prepare purchasing negotiations. We are also identifying non-financial performance indicators, including on-time delivery performance, supplier quality and the proportion of framework purchasing agreements.

Across all departments, sustainable and quality-conscious corporate management as well as well-trained and motivated employees are also important foundations for R. STAHL's long-term profitable corporate growth.

We present further information on performance indicators used in the Group in the non-financial Group statement, which forms part of this management report and which we also publish on our website at **www.r-stahl.com** under the heading ↗ **Corporate/Corporate Responsibility**.

RESEARCH AND DEVELOPMENT

Our technological expertise is an important element of our market-leading position in explosion protection and the basis for continuous product improvements and new developments. We also collaborate with specialist universities, including Ernst Abbe University in Jena, Dresden University of Technology and Heilbronn University, in the core technology parts of our business, particularly electrical engineering and materials research.

In the reporting year, we continued to press ahead with the technological development of our product portfolio, particularly in the areas of automation, luminaires and low-voltage technology. When it comes to automation products, the focus was on vapor-proof (Ex nR) system solutions that allow for operationally standardized network components to be used cost-effectively and easily in Zone 2 explosion-proof areas. Our luminaire portfolio is also becoming increasingly digital: The high-performance spotlights with DALI interface (a protocol for controlling operational lighting equipment) developed in the reporting year provide intelligent control and readout options for central monitoring and preventive maintenance. With the increasing digitalization of our products, we are establishing a foundation for the Industrial Internet of Things (IIoT) and Industry 4.0 in the Ex area. In 2020, our portfolio for low-voltage solutions was expanded with the addition of a new circuit breaker in component encapsulation technology. This means that lighting and heating circuit distribution with extended current ranges as well as lower ambient temperatures can now be implemented. The presentation of our innovations at the Achema international trade fair, originally planned for the current year, cannot take place until 2022 due to COVID-19.

In addition to market-driven innovations and ongoing portfolio renewal, international association work also plays a very important role in our research and development activities. We play a leading role, for example, in the working group “Ethernet APL project” which is developing a new standard in the process industry for digital communication through explosion-protected ethernet right into the field, and the Open Process Automation™ Forum, which seeks decentralized solutions in the field of automation. We are also working with end users to implement NAMUR Open Architecture (NOA) as a way to simplify and optimize plant and equipment monitoring. A further focus in the reporting year was on participation in projects related to the implementation of Germany’s national hydrogen strategy. With our targeted committee work, we help shape the development of electrical explosion protection and are thus in a position to tap into market trends at an early stage.

Our research and development expenses amounted to € 19.9 million in the 2020 reporting year (2019: € 18.8 million), corresponding to 8.1% of sales (2019: 6.8% of sales). Included in that total is own work capitalized of € 4.3 million (2019: € 3.7 million) which corresponds to share of 21.5% (2019: 19.6%).

EMPLOYEES

Skilled and motivated employees are a major success factor for a globally active, leading technology company like R. STAHL. To secure the skilled workers we need, we offer employees and applicants attractive framework conditions so that we can compete for qualified employees and attract new skilled workers. This begins with the initial guidance we provide to students and upcoming graduates in the selection of a career. At our largest production and training site in Waldenburg, the content required for training and studies is taught in a modern environment and an efficient infrastructure. Through our cooperation with the Ilshofen football academy, we are also addressing future skilled workers at an early stage in order to counter the generally noticeable decline in the number of applicants. The high standards of our Waldenburg site in the field of training continue to be supported by tried and trusted programs, such as our career information day and the secondment of junior staff to foreign subsidiaries.

To ensure employees are given the best possible conditions for achieving their personal career goals, we offer individual training opportunities and flexible working time models for a healthy work-life balance. We also support the maintenance of our workforce’s health with sports and medical programs.

In the reporting year, the COVID-19 pandemic forced us to incur considerable unplanned additional expense in global personnel management. The focus was on maintaining business processes with as little interruption as possible through the rapid implementation of preventive and protective concepts to preserve employee health, as well as ensuring compliance with regulatory requirements and measures. We were very successful in this regard. Through early development and careful implementation of site-specific hygiene plans, social-distancing rules, working hours and work location regulations, canteen concepts and the provision of protective masks, we were able to very effectively minimize the spread of COVID-19 at our sites overall.

We also made progress in the further development of our “Employer of Choice” HR strategy in the reporting year. In addition to continuing to successfully fill specialist and management positions in key functions, we have laid the foundations for global and digital processes in recruitment and further training, as well as for performance measurement and succession planning, with the definition of a talent management system that is to be implemented across the Group by the end of 2023. Another focus of our HR work in 2020 was the implementation of improvements from the global employee survey that was conducted in 2019. In the reporting year, our subsidiary in the United Kingdom was presented with the “Investors in People Award” for exemplary performance in the areas of employee commitment, communication, employee management and the reward system.

As of 31 December 2020, the R. STAHL Group employed 1,690 people (31 December 2019: 1,669). A further 98 were in apprenticeships (31 December 2019: 94). 22 employees completed an apprenticeship or dual study program in 2020 (2019: 17) and were initially taken on as temporary employees for a period of one year, resulting in an expansion of the workforce in the reporting year.

ECONOMIC REPORT

As an internationally-positioned specialist supplier in the electronics industry, we produce and market our products and services worldwide. Our business therefore depends on global economic trends as well as the development of certain major foreign currencies, particularly the US dollar. In addition to the oil and gas industry, the chemical and pharmaceutical industries are R. STAHL’s most important customers.

GENERAL CONDITIONS

COVID-19 pandemic ushers in global recession of historic proportions

In its January 2020 assessment, the International Monetary Fund (IMF) was still forecasting sound growth of 3.3% for the global economy in the reporting year. Within just a few weeks of that time, however, it became apparent that the year 2020 would take a completely different course due to the dynamic, worldwide spread of SARS-CoV-2. Although accurate forecasts of the global economic impact were at first difficult due to the novelty of the virus and uncertainty about the success of containment measures, the impact of the virus on the world economy was not immediately clear. There were, however, significant travel and contact restrictions ordered by governments around the world which quickly disrupted global supply chains in many key industries. At the same time, SARS-CoV-2 began spreading rapidly worldwide as a result of the initially often underestimated threat, which gradually disrupted an increasing number of operational processes in all sectors of the economy and brought them to a complete standstill in some cases due to closures of businesses and public facilities ordered by the authorities. Against this backdrop, the IMF lowered its forecast for the reporting year to -3.0% in April 2020 and lowered it again to -4.9% in June 2020. Although the IMF’s January 2021 report assumes an actual decline of 3.5%, this is still the sharpest downturn in the global economy since the end of the Second World War.

The decline was above average in industrialized countries at 4.9%, led by the euro area countries with a drop of 7.2%, where the extent of the collapse correlated closely with the severity of the infectious event and the economic importance of travel. Of the largest European economies, Spain was the hardest hit with a decline of 11.1%, followed by Italy and France with 9.2% and 9.0%, respectively. In Germany, the recovery of cyclical industrial sectors and private consumption, especially in the second half of the year, limited the economic downturn for the year as a whole to -5.4%. Economic output also declined across the board in the major industrialized nations outside the euro zone. The weak performance in the United Kingdom, with a drop of -10.0%, reflects not only pandemic but also the British exit from the European Union at the end of the reporting year. At -3.4%, gross domestic product in the USA developed in line with the global economy.

CHANGE IN GROSS DOMESTIC PRODUCT COMPARED TO PREVIOUS YEAR[1)]

in %	2020	2019
World	**-3.5**	**+2.8**
Industrialized countries	-4.9	+1.6
USA	-3.4	+2.2
Euro zone	-7.2	+1.3
Germany	-5.4	+0.6
France	-9.0	+1.5
Italy	-9.2	+0.3
Spain	-11.1	+2.0
Japan	-5.1	+0.3
United Kingdom	-10.0	+1.4
Canada	-5.5	+1.9
Emerging markets	-2.4	+3.6
Asia	-1.1	+5.4
China	+2.3	+6.0
India	-8.0	+4.2
Russia	-3.6	+1.3
Latin America	-7.4	+0.2

[1)] International Monetary Fund, WORLD ECONOMIC OUTLOOK UPDATE, January 2021

In emerging markets, the impact of the pandemic was somewhat less pronounced, with a decline of 2.4% over the year, but this was mainly due to the comparatively good performance in China, where the spread of SARS-CoV-2 originated and was countered there early on with dramatic restrictions on freedom of movement. The Chinese economy was thus the only one of the major economies to increase its gross domestic product in the year under review, growing by 2.3%. Other Asian countries also benefited from their experience with similar pandemic events (SARS-CoV in 2003, MERS-CoV in 2012) and were therefore able to contain the spread of the virus more quickly, limiting the economic impact to a mere 1.1% decline. The impact was much greater in India and Latin America, where gross domestic product fell by 8.0% and 7.4% respectively.

US dollar falls back significantly in the course of the year

In addition to its impact on the real economy, the Corona virus pandemic also had a serious impact on international capital markets and development of foreign currency exchange rates. The U.S. dollar experienced a significant depreciation in the reporting period. While the U.S. Federal Reserve (FED) successively raised its base interest rate from 0.25% at the end of 2015 to 2.5% by the end of 2018 in response to above-average economic growth in the U.S. and thereby boosting international demand for the U.S. currency, it began a series of interest rate cuts again from mid-2019 in light of slowing growth. After two adjustments on March 3 and March 16, 2020, the base interest rate finally moved back to the historically low level of 0.25%. During the reporting period, this led to a depreciation of the U.S. dollar against the euro in 2019 from US$1.12/€ at the beginning of the year to US$1.23/€ at the end of the year.

SECTOR-SPECIFIC CONDITIONS

Oil and gas sector suffers unparalleled collapse

The spread of the Corona virus and the collapse of the global economy also had a significant impact on the commodity markets, particularly the oil and gas sector. While global demand for oil remained around 100 million barrels per day at the start of 2020, rapidly declining industrial production and significantly lower fuel demand for aircraft and vehicles due to restricted travel led to a drop in demand of around 30% by April. In addition, the market price for crude oil fell by around two thirds at its lowest point. At times, forward contracts, which are purchase contracts for crude oil to be purchased in the future, traded at double-digit negative prices. According to data released by the Organization of Petroleum Exporting Countries (OPEC) in January 2021, global demand for crude oil declined 9.8% over the previous year to 90.3 million barrels/day, and the average price of Brent crude fell 32.6% year-on-year to around US$43/barrel. Oil and gas producers reacted to the resulting nearly 40% drop in revenue by significantly reducing their capital expenditures for both maintenance and the construction of new production and processing facilities, which also became directly apparent in a decline in demand for explosion protection products. The fluctuation on the oil market led to numerous bankruptcies, particularly in the US fracking industry, which extracts oil from shale rock using complex extraction methods, due to the relatively high production costs and the typically high level of debt financing on the part of companies in this industry.

CHANGE IN INDUSTRY-SPECIFIC KEY FIGURES COMPARED WITH PREVIOUS YEAR

in %	2020	2019
Oil demand, world[1, 2]	-9.8	+0.9
Oil price, world (Brent, change vs. annual average)	-32.6	-10.2
Chemical industry, world[3]	-0.7	+2.1
Chemical industry, Western Europe[3]	-3.0	-1.1
Pharmaceutical industry, world[3]	+4.1	+6.4
Pharmaceutical industry, Western Europe[3]	+7.9	+11.4
Electrical industry, world[4]	-3	+2
Electrical industry, Germany[4]	-9	-2

[1] OPEC Monthly Oil Market Report – February 2021
[2] OPEC Monthly Oil Market Report – January 2020
[3] VCI, World Chemistry Report, January 2021, data for 2020 from January to November
[4] ZVEI, The Global Electrical Industry – Data, Figures and Facts, August 2020

Chemical industry victim of overall economic trend

Following years of growth that was above global gross domestic product, the performance of the chemical industry also dropped in the year under review in the wake of the collapse of the global economy, although to a lesser extent. While chemical production fell by 0.7% worldwide in the first eleven months of the reporting year, according to data published by the German Chemical Industry Association (VCI) in January 2021, the decline in Western Europe was significantly greater at 3.0%. These differing developments reflect the strong contribution on the part of China, which accounts for more than one-third of global chemical production but which suffered only moderate economic losses in the year under review. Eastern Europe, which increased its chemical production by 4.2% year-on-year from January to November 2020, also saw a much smaller impact from the Corona virus on the chemical industry than the rest of the world.

Pharmaceutical industry growth weaker, but still high, especially in Europe

Development in the pharmaceutical industry was again counter to development in the chemical industry in 2020. Although growth here also declined on an annual basis, global pharmaceutical production increased by 4.1% in the first eleven months of 2020 according to the VCI's January 2021 estimate. Developments varied greatly from region to region: While North America's pharmaceutical industry dropped by 2.2% and production in Latin America was slightly higher than the previous year by 0.4%, Asia recorded growth of +3.7%, Western Europe +7.9% and Eastern Europe +12.2%.

Global electrical industry shrinks with particularly sharp decline in Germany

In its August 2020 assessment, the German Electrical and Electronic Manufacturers' Association (ZVEI) predicted that the global electrical and electronic industry's economic output would decline by 3% to € 4.4 trillion for the year as a whole. The most substantial decreases were recorded by the consumer electronics (electrical household appliances and entertainment electronics) and information technology sectors, which were down 6% on the previous year. For the Asia region, expectations were for a relatively moderate decline of -1%, while a significantly stronger drop was forecast for the Americas and Europe, at -7% in each case, and a reduction of -9% was anticipated for Germany. Even though the electrical industry performed better in the second half of the year than had been expected in August, the decline in sales in Germany was significant at -5.6% in the first eleven months of the reporting year, according to ZVEI data from January 2021.

BUSINESS DEVELOPMENT

Overview of business development

Decline in demand leads to significant drop in sales, cost control measures ensure continued sound financial position

In 2020, the global recession that was triggered by the Corona virus pandemic led to a significant decline in demand in all key markets relevant to electrical explosion protection. This also had a significant impact on R. STAHL's business development in the reporting year.

The very strong demand at the beginning of the year, with monthly order volumes averaging around € 25 million and resulting in the highest quarterly order intake in more than four years in the first quarter of 2020, plunged by almost a third from May onwards and remained at a very low monthly level until the end of the year, with significantly increased volatility. This affected day-to-day business for components and systems as well as orders for replacement and expansion investments and a large number of major projects worldwide. The decline was most pronounced in the oil and gas sector, which experienced a significant slump in demand in March and April and subsequently an unprecedented drop in prices. Overall, R. STAHL's order intake in 2020 was down 8.6% on the previous year at € 248.0 million (2019: € 271.4 million). The decline in order intake resulted in a drop in sales to € 246.5 million in the year under review, down more than 10% on the previous year (2019: € 274.8 million). Also reflected in these figures are delays in transport and receipt of goods on the part of some customers who were unable to accept products ready for delivery due to pandemic-related disruptions to their operational processes. In the course of the year, this led to a temporary increase in inventories of finished and unfinished goods, which at the end of the year were still € 3.4 million higher than at the end of the previous year. There were significant regional differences in the development of sales in the reporting year. In Germany, R. STAHL's strong market position and high proportion of business in the chemical industry, which weathered the fallout from the recession comparatively well, led to sales at the previous year's level. By contrast, regions with a typically high proportion of sales in the oil and gas sector suffered considerable losses, first and foremost the USA with a drop of 31.0%, Asia with a decline of 14.5% and the Central Region (consisting of Africa and Europe excluding Germany) with a drop of 7.8%. Measures implemented at an early stage to adjust costs and secure liquidity significantly limited the impact of declining sales on R. STAHL's earnings and financial position. The € 28.3 million decrease in sales was thus offset by a comparatively small decline in EBITDA pre exceptionals of € 11.4 million to € 19.0 million (2019: € 30.4 million). With the cost of materials ratio unchanged from the previous year at 33.7%, the moderate decline in earnings was mainly attributable to reduced working hours and lower variable compensation components in response to weak demand, which reduced personnel expenses by € 6.4 million in the reporting year. Lower net other operating income and other operating expenses of around € 1.6 million also had a positive impact on earnings. As a result, the break-even point based on EBITDA pre exceptionals (calculated on the basis of the cost of materials ratio and constant fixed costs) improved by around € 12 million year-on-year to € 217 million in the financial year (2019: € 229 million). Consolidated net profit decreased by € 4.9 million to € -3.5 million (2019: € 1.3 million) or € -0.54 per share (2019: € 0.21 per share). Despite the challenging market environment, free cash flow was clearly positive at € 5.7 million in 2020 (2019: € 8.5 million). As of 31 December 2020, net debt was € 5.8 million and thus still at the very low level seen at the end of the previous year (31 December 2019: € 4.2 million). The equity ratio declined, falling to 18.8% at the end of the reporting period (31 December 2019: 22.5%), mainly as a result of the negative consolidated net profit and increased provisions for pension obligations.

Significant events

Strong start to the year, but initial signs of a global economic slowdown

In the first four months of 2020, R. STAHL recorded its highest quarterly order intake in four years at € 78.8 million. There were, however, growing signs of a global economic slowdown due to the dynamic development of the Corona virus pandemic. Given the looming prospect of the worst economic crisis since the Second World War, it was necessary to abandon the original target of generating sales growth in the mid-single-digit percentage range in 2020.

Early extension of Executive Board contract with Dr. Mathias Hallmann – Jürgen Linhard appointed member of the Executive Board

At its meeting on 20 April 2020, the Supervisory Board of R. STAHL AG decided to prematurely extend the employment contract with CEO Dr. Mathias Hallmann by a further three years until September 2023 and to appoint Jürgen Linhard, until then Commercial Director at Diehl Aviation Hamburg GmbH, as a member of the Executive Board with responsibility for finance effective 1 May 2020. His contract has a term of three years.

R. STAHL reduces weekly working time at Waldenburg site to 30 hours for six months

In response to ongoing weak demand for explosion protection products, R. STAHL lowered the weekly working hours at its Waldenburg production site to 30 hours from 1 October until 31 March 2021. For financial year 2020, this resulted in cost savings in the low seven-digit euro range.

Closing of the subsidiary in Japan

As part of the consolidation of locations, the subsidiary in Japan was closed at the end of the reporting year. The regional organization in Asia will assume responsibility for the customers there.

Events after the balance sheet date

There were no significant events after the balance sheet date.

Due to the ongoing COVID-19 pandemic, there is still a high degree of uncertainty regarding the pandemic's depth and duration of the impact on the global economy, which could likewise affect the business activities of the R. STAHL Group.

FINANCIAL POSITION AND PERFORMANCE OF THE R. STAHL GROUP

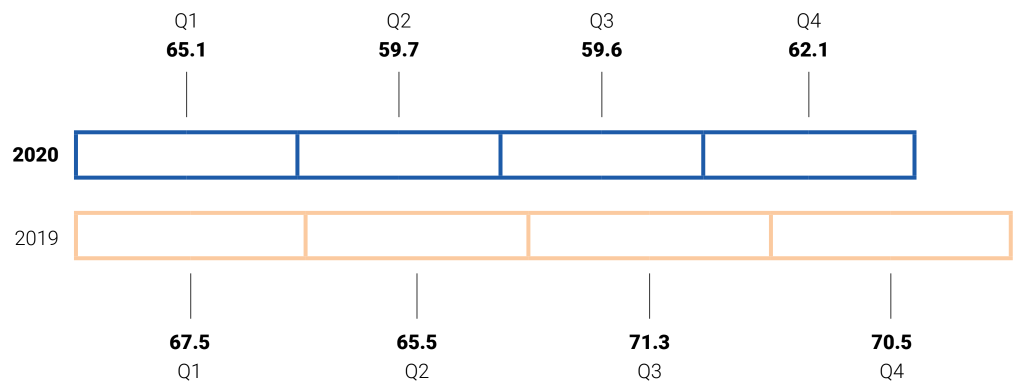
Earnings position

Sales

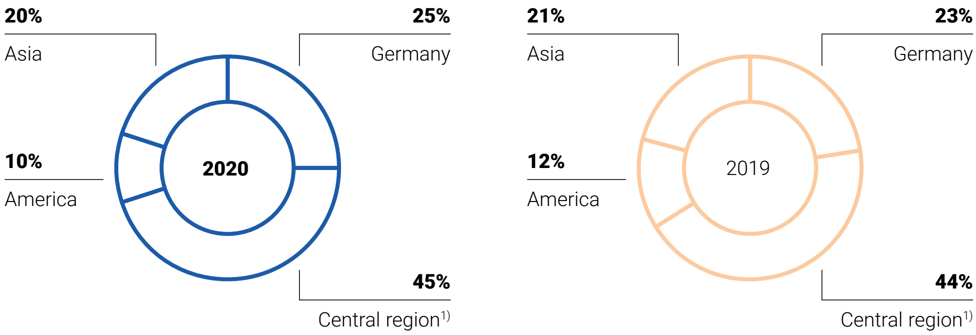
SALES SHARPLY LOWER IN THE COURSE OF THE YEAR, BIGGEST DECREASE IN DEMAND IN THE OIL AND GAS SECTOR

R. STAHL generated sales of € 246.5 million in the reporting year, down 10.3% on the previous year (2019: € 274.8 million). Sales development in 2020 was heavily influenced by the progress of the COVID-19 pandemic and its impact on the global economy. Although business in the first few months was in line with expectations due to the sound order intake and strong demand at the beginning of the year, the pandemic had a noticeable impact on sales from March onward, particularly in the form of delays in customer acceptance of goods. This resulted in a slight decline in sales to € 65.1 million in the first quarter of 2020 (Q1 2019: € 67.5 million). As the year progressed, the economic effects of the pandemic were increasingly apparent in market demand, leading to significant declines in R. STAHL's sales in all subsequent quarters in the reporting year.

SALES BY QUARTER
€ million



SALES BY REGION



[1] Africa, Europe without Germany

There were significant regional differences in sales development. **Germany** was the only region to maintain the previous year's sales level at € 62.6 million (2019: € 62.5 million). This is primarily the result of a strong market position and high proportion of business in the chemical industry, which weathered the fallout from the recession relatively well. By contrast, those regions with a significant proportion of sales in the oil and gas sector suffered considerable losses. In the **Central region** (consisting of Africa and Europe excluding Germany), sales declined by 7.8% year-on-year to € 111.5 million (2019: € 120.9 million), mainly due to declining demand from the oil industry in the Nordic countries.

The decline was even more pronounced in the **Asia** region, with a drop of 14.5% to € 48.6 million (2019: € 56.8 million). In the **Americas** region, where production costs for oil from shale rock and offshore extraction are particularly high by global standards, the dramatic drop in volumes and prices had a particularly severe impact on R. STAHL's business. At € 23.8 million (2019: € 34.5 million), sales there fell by 31.0%.

EBITDA and EBIT

COST REDUCTIONS SIGNIFICANTLY LIMIT IMPACT OF SALES DECLINE ON EARNINGS POSITION

The € 28.3 million decrease in sales in the reporting year also led to a significant decline in earnings before interest, taxes, depreciation and amortization (EBITDA) pre exceptionals. Targeted measures to adjust personnel costs, however, noticeably limited the impact on earnings, resulting in EBITDA pre exceptionals of € 19.0 million in 2020 (2019: € 30.4 million), corresponding to a margin of 7.7% (2019: 11.0%). Year-on-year, this corresponds to a decrease of € 11.4 million or 37.4%. At the same time, exceptionals were significantly lower than in the previous year, falling by € 4.2 million to € -1.8 million (2019: € -6.0 million), mainly due to lower legal and consulting costs and lower severance payments, resulting in EBITDA of € 17.2 million in the reporting year (2019: € 25.3 million). Total operating performance decreased by € 24.4 million or 8.8% to € 253.9 million in 2020 (2019: € 278.2 million). This also reflects the € 3.4 million increase in inventories of finished and unfinished goods at the end of the reporting period in connection with delays in acceptance by customers. There was a positive development in the cost of materials, which decreased in line with total operating performance by 8.8% to € 85.7 million (2019: € 94.0 million), resulting in a continued low cost of materials ratio of 33.7% of total operating performance at the level of the previous year (2019: 33.8% of total operating performance).

RECONCILIATION OF EBITDA PRE EXCEPTIONALS TO EBIT

€ million	2020	2019	Change	in income statement contained in:
EBITDA pre exceptionals[1]	**19.0**	**30.4**	**-11.4**	
Exceptionals[1]	**-1.8**	**-6.0**	**+4.2**	
Restructuring charges	**-1.8**	**-6.1**	**+4.3**	
Write down and scrapping of inventories	-0.2	-0.1	-0.0	Change in finished and unfinished goods and cost of materials
Severance pay	-1.5	-2.5	+1.1	Personnel expenses
Depreciation and amortization[2]	0	-0.9	+0.9	
Legal and consultancy costs	-0.1	-2.4	+2.3	Other operating expenses
Other expenses	0	-0.1	+0.1	Other operating expenses and other operating income
EBITDA	**17.2**	**25.3**	**-8.1**	
Depreciation and amortization	**-16.7**	**-18.9**	**+2.2**	
thereof exceptionals[2]	0	-0.9	+0.9	
EBIT	**0.5**	**6.3**	**-5.8**	

[1] Exceptionals: restructuring charges, non-scheduled depreciation and amortization, charges for designing and implementing IT projects, M&A costs as well as profit and loss from the disposal of assets no longer required for business operations.

[2] Depreciation and amortization disclosed as exceptionals is not to be considered in the reconciliation of EBITDA pre exceptionals to EBITDA.

It was possible to significantly reduce personnel expenses by € 6.4 million or 5.2% to € 115.6 million (2019: € 122.0 million), mainly as a result of the reduced working hours initiated in response to weak demand (including the conversion of collectively agreed special payment entitlements into time off and, in some cases, through short-time work), lower variable compensation components and a large number of local measures at the global sites. A decrease of € 1.1 million to € -1.5 million in severance pay reported as exceptionals also contributed to this development (2019: € -2.5 million).

The balance of other operating income and expenses decreased to € -35.4 million in 2020 (2019: € -37.0 million). Negative effects from changes in foreign exchange rates were more than offset by significantly lower legal and consulting fees.

As a result of the year-on-year decline in lease liabilities, depreciation and amortization of intangible assets and property, plant and equipment fell to € 16.7 million in the reporting year (2019: € 18.9 million). The higher figure for the previous year also included impairment losses of € 0.9 million recognized as exceptionals.

At € 0.5 million (2019: € 6.3 million), EBIT was € 5.8 million lower than in the previous year. A reconciliation of EBITDA pre exceptionals to EBIT for the reporting period and the previous year is shown above.

Financial result

SIGNIFICANT IMPROVEMENT IN INTEREST RESULT IMPROVES NET PROFIT BY MORE THAN € 1 MILLION

In 2020, the financial result improved significantly in a year-on-year comparison to € -1.8 million (2019: € -2.9 million). This mainly reflects lower interest expenses for additions to pension provisions and from leases at the Waldenburg site. The interest result was therefore € -1.2 million lower overall than in the previous year. The result from ZADOV Goreltex, which is consolidated using the equity method, was € 1.6 million (2019: € 1.7 million).

Earnings before income taxes

Earnings before income taxes (EBT) amounted to € -1.3 million in the reporting period (2019: € 3.4 million).

Income taxes

Income taxes of € -2.2 million were incurred in the reporting year (2019: € -2.1 million). Of that total, € -1.6 million related to effective taxes and € -0.6 million related to deferred taxes. The increase in effective taxes compared with the previous year (2019: € -1.1 million) is due to the fact that companies without loss carryforwards generated more profit than in the previous year. Overall, this increased the tax burden despite the negative pre-tax result.

Net profit/earnings per share

Net profit amounted to € -3.5 million in 2020 (2019: € 1.3 million). This corresponds to earnings per share of € -0.54 (2019: € 0.21).

Asset Position

Balance sheet structure

As of 31 December 2020, the R. STAHL Group's balance sheet was € 3.1 million lower than at the end of the previous year at € 256.2 million (2019: € 259.4 million). Non-current assets decreased by € -4.5 million to € 153.0 million (2019: € 157.5 million), mainly due to scheduled depreciation. There was an increase of € 1.4 million in current assets to € 103.2 million as of 31 December 2020 compared with the end of the previous year (2019: € 101.8 million). Declining trade receivables were offset by higher inventories and an increase in cash and cash equivalents.

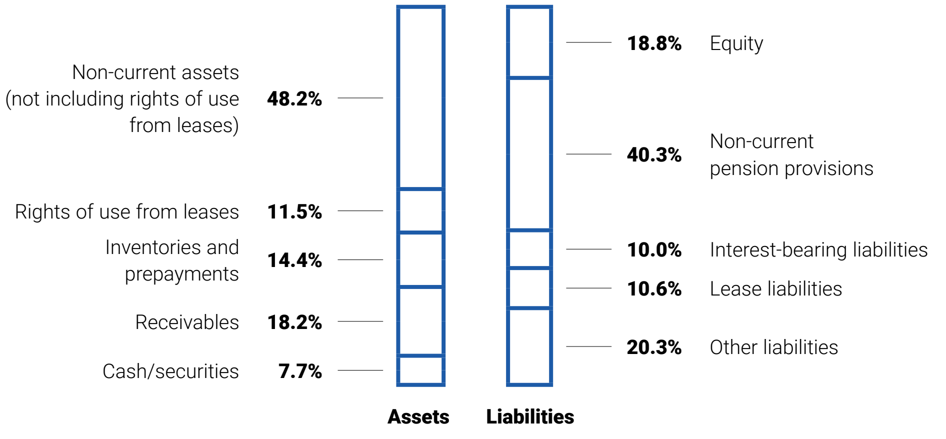
Non-current liabilities decreased by € -1.0 million to € 137.8 million as of the balance sheet date (2019: € 138.8 million). A decrease in non-current interest-bearing liabilities and lease liabilities was offset by higher provisions for pension obligations.

Current liabilities showed a significant increase, rising by € 8.1 million to € 70.2 million, mainly due to greater utilization of loans (2019: € 62.2 million).

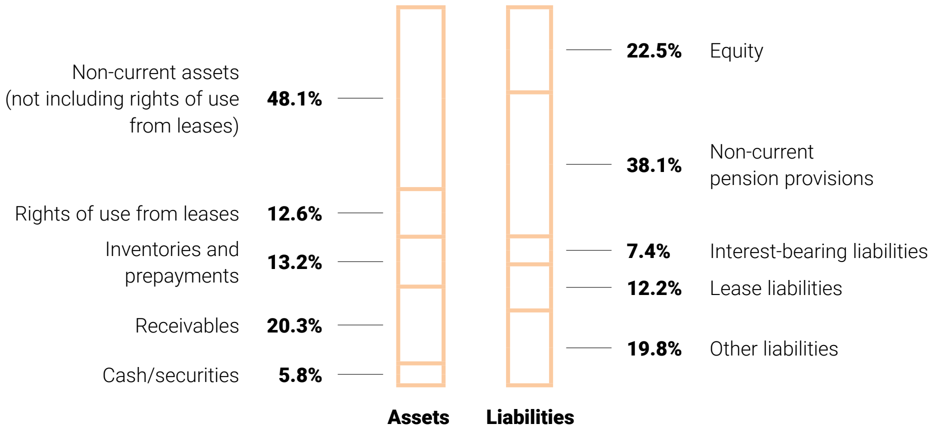
As a result of the negative net profit, increased pension provisions and adverse exchange rate changes, equity decreased by € -10.3 million to € 48.1 million as of 31 December 2020 compared with the end of the previous year (2019: € 58.4 million). The equity ratio thus decreased to 18.8% (2019: 22.5%).

ASSET AND CAPITAL STRUCTURE

31 December 2020 **Balance sheet total € 256.2 million**



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



Financial Position

Cash flow statement

The decline in net profit led to a year-on-year reduction in cash flow of € -5.5 million to € 15.3 million in 2020 (2019: € 20.8 million). This figure included non-cash expenses of € 3.7 million due, among other things, to changes in foreign exchange rates and the valuation of inventories.

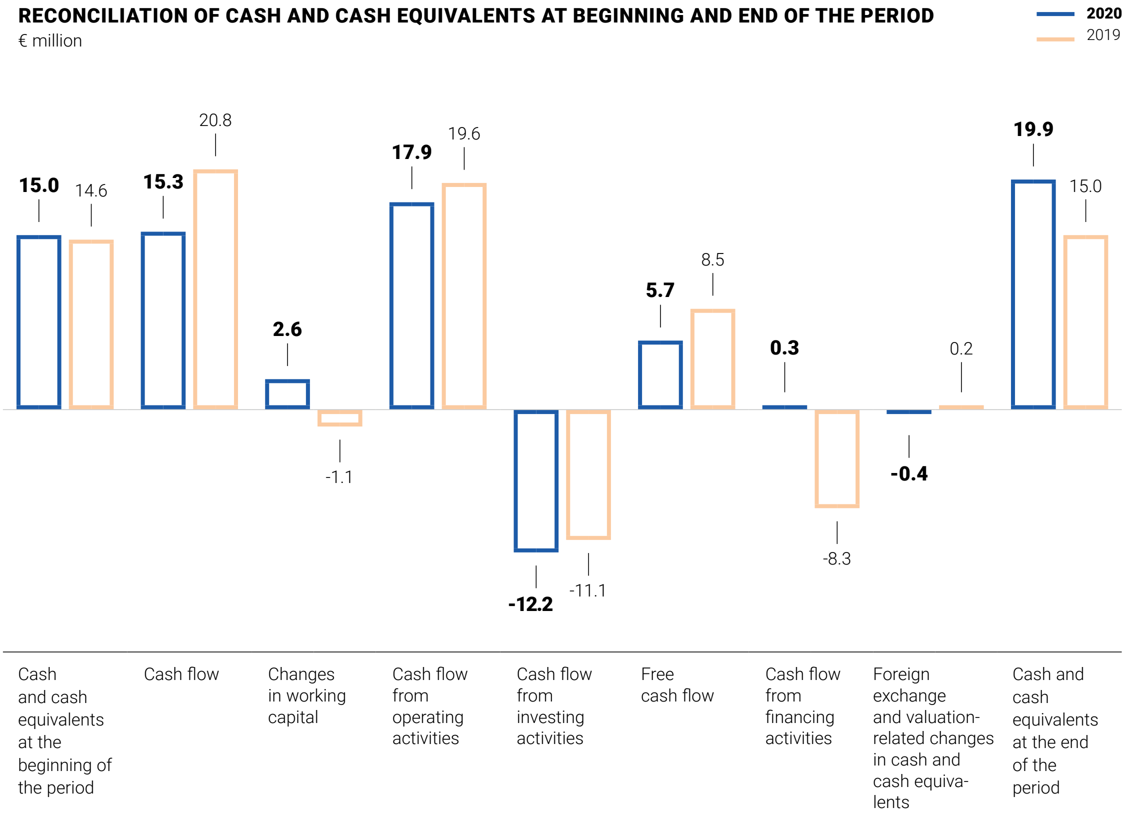
As a result of measures implemented to safeguard liquidity, including a lower build-up of receivables and an expansion of the factoring volume, working capital was reduced by € 2.6 million in 2020 (2019: build-up of € 1.1 million). This resulted in only a slight decrease in cash flow from operating activities of € -1.8 million to € 17.9 million in the reporting year (2019: € 19.6 million), despite weak earnings.

At € -12.2 million, cash flow from investing activities was slightly above the level of the previous year (2019: € -11.1 million). While payments for property, plant and equipment were lower, investments in intangible assets – particularly in development projects – increased significantly to € -7.5 million (2019: € -5.8 million) as part of the innovation campaign planned for the coming year. In total, free cash flow of € 5.7 million was generated in 2020 (2019: € 8.5 million).

Cash flow from financing activities was € -0.3 million in the reporting year (2019: € -8.3 million). The repayment of interest-bearing liabilities and lease liabilities was offset by proceeds from the raising of interest-bearing liabilities in almost the same amount.

At the end of the reporting period, the R. STAHL Group had cash and cash equivalents of € 19.9 million at its disposal (2019: € 15.0 million). Despite the positive free cash flow in the reporting period, the repayment of lease liabilities of € 6.7 million and the net borrowing of interest-bearing financial liabilities of € 6.6 million resulted in a slight overall outflow of funds, leading to an increase in net debt (not including pension provisions and lease liabilities) of € 1.7 million compared with the end of the previous year to € 5.8 million as of the reporting date (31 December 2019: € 4.2 million). Net debt including lease liabilities (but not including pension provisions) decreased to € 33.1 million (31 December 2019: € 36.0 million).

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



Capital expenditures

The R. STAHL Group's capital expenditures increased by € 1.4 million in 2020 compared to the previous year. Capitalized development expenses in particular increased by € 1.3 million to € 6.1 million (2019: € 4.8 million). Advance payments on intangible assets were also € 0.5 million higher than in the previous year. At € 10.0 million, investments in property, plant and equipment were slightly below the previous year's level (2019: € 7.1 million).

FINANCIAL POSITION AND PERFORMANCE OF R. STAHL AG

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

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

Earnings position

Sales

R. STAHL AG generates sales from rentals and from the invoicing of commercial and organizational services provided for its subsidiaries. In 2020, R. STAHL AG's sales amounted to € 8.6 million (2019: € 9.2 million). The decrease is attributable to lower rental income and lower service charges.

EBITDA and EBIT

Earnings before interest, taxes, depreciation and amortization (EBITDA) improved significantly in the reporting year to € -4.9 million (2019: € -10.3 million). This was due to a year-on-year increase of € 2.7 million in other operating income to € 4.7 million (2019: € 2.0 million) mainly attributable to write-ups of € 2.3 million on associates. In addition, declining other operating expenses of € 10.3 million (2019: € 13.7 million), mainly due to lower legal and consulting costs, had a positive impact on earnings. Personnel expenses increased slightly to € 7.9 million (2019: € 7.8 million). Amortization of intangible assets and depreciation of property, plant and equipment in 2020 was level with the previous year at € 0.3 million (2019: € 0.3 million). Overall, EBIT of € -5.1 million was generated (2019: € -10.7 million).

Financial result

The financial result declined significantly in the reporting year to € -7.0 million (2019: € 6.6 million). While the investment result increased slightly to € 2.7 million (2019: € 2.5 million), income from profit transfer agreements decreased significantly to € 1.1 million (2019: € 8.2 million). At the same time, depreciation and amortization of financial assets increased to € 3.8 million (2019: € 1.4 million) and expenses from the assumption of losses to € 5.4 million (2019: € 0 million). Interest expenses developed positively with a decrease to € 2.2 million (2019: € 2.8 million).

Earnings before income taxes

The improved EBIT was not enough to offset the decline in the financial result. Overall, earnings before taxes (EBT) declined to € -12.1 million in the reporting period (2019: € -4.0 million).

Income taxes

As in the previous year, income taxes of € -0.1 million were incurred in the reporting year (2019: € -0.1 million).

Result for the year

R. STAHL AG's net loss for the year increased to € -12.3 million in 2020 compared to the previous year (2019: € -4.1 million).

Asset Position

Balance sheet structure

As of 31 December 2020, the balance sheet total of R. STAHL AG increased to € 103.8 million (31 December 2019: € 97.0 million).

Non-current assets decreased slightly to € 76.4 million as of the reporting date compared with the end of the previous year (31 December 2019: € 78.8 million), mainly driven by declining loans to associates. Current assets recorded a significant increase of € 11.0 million to € 25.1 million at the end of the year (31 December 2019: € 14.0 million). This mainly reflected an increase in receivables from associates of € 19.8 million compared with the previous year (31 December 2019: € 9.5 million), which was partly offset by declining Other assets. Cash and cash equivalents increased to € 5.1 million at the end of the reporting period (31 December 2019: € 0.9 million).

Due to the net loss for the year, R. STAHL AG's equity decreased significantly to € 22.5 million as of the balance sheet date (31 December 2019: € 34.8 million). The equity ratio declined accordingly to 21.7% at the end of the year (31 December 2019: 35.8%).

At € 18.1 million, provisions were slightly above the level at the end of the previous year (31 December 2019: € 17.8 million). While pension provisions increased by € 0.4 million, other provisions fell by € 0.2 million.

Liabilities increased significantly to € 63.3 million as of the balance sheet date (31 December 2019: € 44.4 million). This is mainly due to an increase in liabilities to banks to € 20.5 million (31 December 2019: € 10.0 million) and liabilities to associates to € 41.1 million (31 December 2019: € 33.3 million).

Financial position

At R. STAHL AG, the cash and cash equivalents of the German subsidiaries are pooled via cash pooling. The inflow of funds mainly results from R. STAHL Schaltgeräte GmbH, Waldenburg, and R. STAHL HMI Systems GmbH, Cologne. Cash and cash equivalents amounted to € 5.1 million as of the balance sheet date (31 December 2019: € 0.9 million). No dividends were paid to shareholders in either the reporting year or the previous year.

TARGET ACHIEVEMENT AND EXECUTIVE BOARD'S OVERALL ASSESSMENT OF ECONOMIC DEVELOPMENT

Target achievement

We published our forecast for 2020 for the first time with the presentation of the Annual Report 2019 on 21 April 2020. At the beginning of the year, we anticipated that we would be able to achieve sales growth in the mid-single-digit percentage range in 2020 thanks to the efficiency gains achieved in previous years and our strategic initiatives, but a few months later the emergence of the COVID-19 pandemic forced us to adopt a much more cautious approach. Against the backdrop of the rapidly increasing global economic slowdown, in April we therefore forecast a year-on-year decline in sales for 2020, although this was unlikely to exceed five percent due to the good start to the year and the high order backlog. This forecast was based on the assumption that the impact of the pandemic on society and the economy would weaken in the second half of the year at the latest. We forecast EBITDA pre exceptionals in the low double-digit million euro range.

By mid-year, this forecast had been confirmed. Precautionary measures implemented at an early stage with regard to health protection and raw material availability helped us to maintain business operations throughout the Group without major interruptions. From April onwards, we also began making targeted cost adjustments to counteract the excessive impact of weaker sales on earnings. Moreover, the decline in the incidence of infections in many regions of the world buoyed our expectation that the global economy and our business performance would soon stabilize and recover. For this reason, with the presentation of the half-year financial report on 6 August 2020, we once

FORECAST DEVELOPMENT AND BUSINESS DEVELOPMENT 2020

€ million	Full year 2019	April 2020	July 2020	November 2020	Full year 2020
Sales	**274.8**	Decrease by no more than 5%	Decrease by no more than 5% to 260-265	**242-248**	**246.5**
EBITDA pre exceptionals[1]	**30.4**	low double-digit million euro amount	low double-digit million euro amount	**15-18**	**19.0**
Free cash flow	8.5	positive	positive	positive	5.7
Equity ratio	22.5%	stable	stable	approx. 20%	18.7%

[1] Exceptionals: restructuring charges, non-scheduled depreciation and amortization, charges for designing and implementing IT projects, M&A costs as well as profit and loss from the disposal of assets no longer required for business operations.

again confirmed our April assessment, but narrowed the anticipated sales development to a range between € 260 million and € 265 million.

The course of the third quarter was unexpectedly characterized by continuing weak demand and ongoing customer delays in acceptance. The scenario we saw as most likely in August – a revival of our markets in the second half of the year – largely failed to materialize. Numerous major international projects for which we had already been in the technical clarification and bidding phases since the end of 2019 and from which orders are typically generated several months in advance were only restarted with a significant delay. There were also no significant catch-up effects in the maintenance and components businesses. Against this background, the forecast for sales development from the fourth quarter onwards was no longer sustainable and was therefore adjusted to a range of € 242 million to € 248 million with the presentation of the interim report for the third quarter on 12 November 2020. The cost-control measures put in place again in the third quarter meant that our guidance range of € 15 million and € 18 million for EBITDA pre exceptionals, published for the first time, slightly exceeded existing market expectations of around € 14 million.

We closed the extremely challenging 2020 financial year with sales of € 246.5 million, thus achieving the forecast as adjusted in November. EBITDA pre exceptionals came in slightly ahead of our forecast at € 19.0 million. At € 5.7 million, we also clearly achieved our target of positive free cash flow. The further increase in pension obligations as a result of a historically low discount rate outside our control contributed 140 basis points (or 1.4 percentage points) to the unexpectedly sharp decline in the equity ratio to 18.8% in the reporting year.

Overall statement by the Executive Board on the economic position

Cost control significantly limits drop in demand's impact on earnings situation

Early cost control measures significantly limited the economic impact of the Corona virus pandemic on R. STAHL's business development. The year-on-year decline in sales of € 29 million to € 246 million (2019: € 275 million) was reflected in a relatively moderate decrease in EBITDA pre exceptionals of € 11 million to € 19 million (2019: € 30 million). This was mainly due to a € 6 million reduction in personnel expenses. The EBITDA margin pre exceptionals decreased by 330 Percentage points year-on-year to 7.7% (2019: 11.0%).

At € 5.7 million, positive free cash flow was again achieved despite the very challenging market environment in the reporting year (2019: € 8.5 million). This meant that net debt remained at a low level of € 5.8 million at the end of the reporting period (31 December 2019: € 4.2 million). The reduction in the equity ratio to 18.8% as of the balance sheet date (31 December 2019: 22.5%) was mainly attributable to the further increase in provisions for pension obligations, the negative net profit and adverse changes in foreign currency exchange rates.

Progress made with strategic agenda

Despite what were at times significantly more difficult general conditions caused by the Corona virus pandemic, it was still possible to press ahead with measures for the strategic development of R. STAHL on schedule in the reporting year. For the quantitative measurement and management of success, initial efforts have been undertaken to define further success factors in purchasing and sales and introducing balanced scorecards based on these. On the product side, the focus was on establishing a core program based on standard products available from stock at all times and on further new product developments, particularly in the areas of luminaires, automation and low-voltage technology. In global production, further process optimization in more than 1,000 individual measures (kaizens) resulted in cost savings in the low single-digit million euro range. Further improvements were also achieved here in terms of land use, delivery reliability, quality-related criteria and occupational safety. In sales, we progressed as planned with the introduction of lean methods and the launch of a uniform global excellence program. In contract engineering, it was also possible to process the first product lines using the standardized engineering tool Engineering Base. Pandemic-related travel and contact restrictions led to delays in the further global roll-out of the Group-wide ERP system. The SAP implementation planned for the reporting year at the US production site in Houston had to be postponed by several months and is now scheduled to take place in the current year. However, the sales locations in Italy, France and Spain were linked to SAP as planned and preparations for connecting the sales location in Korea were brought forward.

As part of our strategic objective to expand our position in growth markets in the reporting year, we achieved good results in the liquefied natural gas (LNG) sector. We also further operationalized the cooperation between sales and business development, laying a further foundation for future growth. In hydrogen technology, which is still at the development stage from an industrial perspective, we joined various initiatives over the course of the reporting, including the “BW Electrolysis” project, in which companies from Germany’s Baden-Württemberg region are advancing research and development into the use of green hydrogen as a future source of energy. In the reporting year, we explored initial market opportunities for digital services in cooperation with universities.

RISK AND OPPORTUNITY REPORT

This report considers risks as internal and external events or developments that may adversely affect the achievement of objectives and budgeted figures of R. STAHL Group. Conversely, opportunities represent internal and external events or developments that may have a positive effect on the achievement of targets and plan values of the R. STAHL Group.

RISKS

Description of risk management system

The risk management system (RMS) included in the operational and organizational structure of R. STAHL Group is an integral part of our business processes and corporate decisions for all companies and central functions. It includes the entirety of the installed IT systems, processes, activities, instructions and rules of conduct that are implemented in all our companies worldwide as applicable standards and it is subject to a constant process of improvement and further development. Part of the risk management system especially is a group-wide risk reporting on the basis of the German Law on Control and Transparency in Businesses (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – KonTraG), a uniform planning and controlling process and the internal monitoring system consisting of the internal controlling system with guidelines that are applicable across the Group and internal auditing. In addition, a compliance management system complements the risk management system. The entirety of the systems implemented enables Group management to take counter-measures for identified risks at an early stage. The effectiveness and efficiency of the risk management system is also continuously checked and enhanced and also examined by the auditor in accordance with statutory requirements.

Risk reporting/early warning system

Current risk reporting is based on a risk catalog divided into eight risk areas: Macro environment/country risks, market/competition, strategy, supporting processes/IT, performance management, human resources, financial management and compliance.

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

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

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

Risk assessment

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

RISK ASSESSMENT

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

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

RISK ASSESSMENT

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

In accordance with their estimated probability of occurrence and their impact on operations, financial position and performance and cash flow, risks are aggregated at Group level and classified as "high", "medium" or "low". This classification is based on the following value intervals for net expected damage (net risk x probability of occurrence):
- Low < € 1.5 million
- Medium € 1.5 million to € 5.0 million
- High > € 5.0 million

The following table shows the classification in relation to the individual risk areas:

RISK ASSESSMENT

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

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

Controlling

Group Controlling staff are the contacts for our subsidiaries in Germany and abroad. Group Controlling provides the IT systems needed to collect and evaluate business data. The financial position and performance of the companies are analyzed during monthly reporting, whereby a special focus is placed on the comparison of planned/actual figures. Once a month, Group Controlling prepares a forecast review for this purpose and thus ensures a constant flow of information to the Executive Board on current and projected budget deviations as well as any resulting risks.

Internal monitoring system

Another component of our risk management system is the internal control system, which includes the principles, procedures and measures introduced by the Executive Board at the R. STAHL Group, the objectives of which are:

- securing the effectiveness and efficiency of business operations,
- the correctness and reliability of internal and external reporting and
- compliance with Group-wide guidelines and standards as well as the relevant statutory regulations.

The Internal Audit division regularly checks compliance with these objectives.

Internal control system based on the consolidated accounting process

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

Further key instruments for controlling the accounting process are:

- the Group-wide standards applicable for financial and administrative areas,
- the clear separation of functions and assignment of responsibilities,
- the use of uniform ERP systems and standard software as well as
- detailed authorization concepts.

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

Internal Audit

Internal Audit provides independent and objective auditing and advisory services aimed at improving business processes, thus creating added value. It serves the organization's objectives by evaluating the effectiveness and efficiency of the internal management and monitoring processes with a systematic and targeted approach and thus helps to continuously improve them. Internal Audit reports directly to the Chief Executive Officer of R. STAHL AG. Audits are conducted on the basis of an annual risk-oriented audit plan.

Compliance management, Code of Conduct

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

GROUP'S RISK SITUATION

Macro environment and country risks

Due to the international nature of our business activities, risks may arise due to political and economic instability in individual regions or countries and this may, in turn, influence the R. STAHL Group's sales and earnings position.

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

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

Market and competition

With its range of attractive products and services, R. STAHL operates in dynamic markets. Our business depends heavily on the investment climate in our client sectors, which mainly comprise the oil and gas sector, the chemical and pharmaceutical industry, the food industry and shipbuilding. Because sales and earnings of companies active in the oil and gas sector are by nature highly dependent on the often volatile market price development of crude oil and natural gas, changes in the prices of these commodities can generally also impact the investment decisions of these companies. Various factors play a role here. On the one hand, the willingness of companies in the oil and gas sector as well as the process industries to invest is influenced not only by the price of crude oil and natural gas but also by their own production costs. Following the drop in the price of oil in the years from 2015 to 2017, many companies managed to significantly reduce their manufacturing costs through technologically revised manufacturing methods and the use of new digital technologies, making their business models less susceptible to sales price declines. On the other hand, a distinction must be made between maintenance investments and new plant construction. Since pending maintenance investments can only be postponed to a limited extent due to their significance for plant safety, and halting work on new plants already under construction only makes economic sense in exceptional cases, short-term changes in the price of oil and gas generally have no direct impact on such investment. In contrast, during longer periods of low price levels, time delays and restart times in the execution of planned new plants and plant expansions are common, which can have a delayed effect on suppliers like R. STAHL and thus on their order development.

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

Although entry barriers are higher in our systems business and the risk of competition correspondingly lower, the possibility of new competitors appearing on the market cannot be generally excluded. Existing competitors may also gain a market advantage by forging alliances or other measures. We meet the challenges of the market with outstanding engineering expertise, many years of experience with customer-specific solutions and the high quality standard.

We have an excellent position in the worldwide market for explosion protection solutions, in which above all the safety of the products used has the highest priority. In relation to the total investment costs of customer plants, the cost contribution for electrical explosion protection is often only in the low single-digit percentage range. Against the backdrop of the high added value which the solutions R. STAHL offers to its customers, the business is therefore only driven by price to a comparatively small extent. Nevertheless, depending on the economic situation of our client industries and the market activities of our competitors, there is still a fundamental risk of price pressure, which could have a negative impact on our sales and earnings performance. We counter this risk on the one hand by continuously developing technically varied solutions that generate unique additional benefits for our customers. Further, within the scope of our ongoing measures under the *EXcellence 2023* strategic program, we are establishing market-leading efficiency and cost structures that will secure sufficient profitability for the long term, even in periods of economic weakness.

Not least, R. STAHL's international positioning brings with it the risk that customers prefer regional suppliers. The reasons for such a preference may be a higher level of awareness, greater confidence in their product characteristics or political motives such as market embargoes in force or external pressure to close off certain countries from the market. Because R. STAHL aims to widen its customer base as part of its business strategy, the establishment of brand awareness and reputation is critical. To this end, we employ an appropriate number of highly qualified sales experts, are represented internationally at trade fairs and offer our own seminars. In this way, customers and interested parties are provided with the information relevant to explosion protection and trained in the use of our products. We also strengthen our position over local competitors, who often fail to address overarching issues such as internationally valid product certifications. For this purpose, we cooperate with selected international partners, if necessary, who ensure our market presence in places where we are not present ourselves or who support us through competence focal points for special product lines.

Strategic risks

Tapping into new markets and sectors and the expansion of existing sales areas – including through acquisitions – may give rise to new risks that cannot be fully assessed in advance. We analyze the risk potential of individual markets and industries in a wide range of regions and take this into account when assessing risks and deriving actions.

Especially in the current economic situation caused by the Corona virus pandemic, assessments and forecasts for market developments are subject to constant updates and changes. We treat the risks associated with the further development of the company with the appropriate care.

There are also procurement risks relating to the availability of raw materials and their purchase costs, in particular purchase prices, transport costs, customs duties and currency fluctuations. Availability can be impacted by specific problems on the supplier side, general bottlenecks in certain industry segments, and bottle-necks or delays in transportation and customs clearance. We counter the risks of short-term bottlenecks by maintaining reasonable inventory levels rather than procuring raw materials for our standard products on a just-in-time basis. As our suppliers produce predominantly in industrialized countries (a large number of which are in the European Union) and in geographically secure areas, political risks and natural disasters play a subordinate role in our procurement processes.

We conclude framework agreements with all strategic suppliers and these legally secure our supplies with uninterrupted operational processes. We prevent bottlenecks caused by problems experienced by our suppliers (e.g. technical difficulties due to production relocations, financial difficulties up to and including insolvency) through close cooperation and regular monitoring of our key suppliers as well as through second-source approvals where this makes sense.

Bottlenecks in certain industry segments (electronic components, for example) that may occur due to increased demand or reduced supply (due, for example, to war in an important country of origin for a raw material or an accident at a major raw material producer) we try to hedge as best we can through long-term planning and stockpiling for starting materials. For this purpose, we provide our suppliers with forecasts and, if necessary, also ensure the acceptance of the material.

The greatest challenges are bottlenecks and interruptions in transportation and issues related to customs clearance. The most recent example of this is the disruption of trade with the UK at the end of 2020 following that country's exit from the EU. Here, we work closely with established logistics service providers in order to quickly identify limitations and initiate targeted measures to resolve the situation as needed.

Purchase prices – like logistics costs – can be subject to market-dependent fluctuations and influence our cost structures. We prevent this risk by applying rigorous cost management. Because we have a very diverse procurement portfolio, the overall effect of market price fluctuations for individual materials on our over-all cost structure is relatively low. This also applies to the risk of unforeseen customs duties, which we also limit by maintaining a high proportion of regional suppliers.

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

Increasing digitalization in our core markets, such as the oil and gas sector, represents both an opportunity and a risk for us. Here, the speed with which new customer requirements are responded to determines who can place new and increasingly digital products and service models on the market in the future.

Risks from supporting processes

The field of explosion protection is primarily about the safety of man, equipment and the environment – the quality of our products therefore has top priority. Product defects do not necessarily lead to life-threatening situations but they can significantly damage our reputation. Strict quality management with a continuous improvement process plays a central role in minimizing product quality risks. Quality control of every manufactured component and every system solution is essential for most of our products. In addition, bought-in components and their suppliers are also subject to strict quality requirements and are carefully checked. In the reporting year, we implemented a structured production stop tool to further improve our quality management. This enabled us to respond quickly and appropriately in the event of quality risks. This tool is supplemented by preventive statistical process control (SPC) software. Although these measures and quality checks require additional time and expense, the high quality standards and our explosion protection expertise give us a competitive edge that positively impacts the sales and image of our product range.

In the course of increasing competitive pressure in all sectors of the electronics industry, delivery time and delivery reliability are becoming more and more important for the cooperation with our customers. Excessive delivery times or non-compliance with delivery dates pose general risks for customer loyalty and thus our further business trend. Further expanding our competitiveness, as well as our logistics, manufacturing and handling processes in order to achieve market-leading delivery reliability is an essential component of our lean management measures and something that we have been pursuing since 2018.

The efficiency measures summarized in our strategic development program are far-reaching in terms of structure and processes and involve all major functional areas of the Group. Such extensive changes generally entail the risk of temporary disruptions in operational processes with negative effects on sales and earnings. We counter this risk by closely monitoring and steering individual measures and regularly comparing the targeted and actual conditions. Appropriate actions are derived as needed.

Risks in connection with information technology

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

Despite the increased risk of cyber-attacks throughout the world, R. STAHL has so far managed to avoid damaging security incidents. In order to continue to protect the Group from such risks as loss or falsification of data and the resulting interruptions to business, we work hard on our

IT security processes, as well as preventive and defensive measures, and regularly adapt them to the changing requirements and risks. In doing so, we work closely with external IT security specialists in order to check our measures with regard to their effectiveness and to utilize their findings from other security incidents in our processes and measures.

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

In addition to processes and technical organizational measures, employees play a key role in data security and data protection. We provide our employees with training on data security and data protection issues when they are hired and when changes occur in order to familiarize them with the handling of data, IT systems and risks and to achieve an appropriate level of caution.

Performance-related risks

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

Personnel risks

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

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

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

Financial and tax risks

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

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

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

In December 2019, R. STAHL AG concluded a new syndicated loan agreement to finance the Group. It has a volume of € 70 million with an option to increase this amount by a further € 25 million, and an initial term of three years with the option to extend it by up to two additional years.

The agreement contains provisions regarding the maintenance of the Group's financial strength that are standard for the market (financial covenants). If these covenants are breached, it results in an adjustment of the contract terms or premature termination by the banks involved. Due to the possibility of such a breach, R. STAHL is exposed to a financial risk which, in the worst case, could lead to a termination of the credit lines. The agreed financial covenants relate to a quarterly verification with regard to the net debt ratio, equity and the equity ratio. Each of the agreed financial covenants is subject to an individual adjustment of the amount over time until the date of final maturity.

From the viewpoint of the applicable regulations, the debt-equity ratio remains constant as of the balance sheet date until 30 September 2022 and intensifies as of 31 December 2022 with validity until the date of final maturity.

The financial covenant concerning the absolute amount of equity intensifies in two stages. Until 30 September 2021, it remains constant from the viewpoint of the applicable regulations as of the balance sheet date, is intensified in a first step as of 31 December 2021 for a period until 30 September 2022 and in a second step again as of 31 December 2022 with validity until the date of final maturity.

The equity ratio remains constant from the viewpoint of the applicable regulations as of the balance sheet date until 30 September 2021 and is intensified as of 31 December 2021 with validity until the date of final maturity.

Assuming an interest rate for the measurement of pension provisions of 1.06% (31 December 2019: 1.37%), which is unchanged from 31 December 2020, there will be a covenant violation as of 31 December 2022 in relation to equity and due to the higher requirements from the financial covenants as of this reporting date, in accordance with approved medium-term planning. Due in particular to existing uncertainties with regard to development of the interest rate used to measure pension provisions and taking into account various interest rate sensitivity analyses carried out in the planning period, there is a possible covenant breach relating to equity. A further potential covenant breach in relation to net debt cannot be ruled out in the event of a significant worsening of the impact of the COVID-19 pandemic in 2021.

The following countermeasures may be taken to counter the risk of a breach of the covenants:

- ***EXcellence 2023* strategy program**
  The *EXcellence 2023* strategy program seeks to enhance efficiency in all business-relevant processes. At the same time, it will also improve the competitive situation, enabling the achievement of stronger sales growth. Increasing positive annual results improve the equity situation and help maintain compliance with the financial covenants.
- **Negotiation of a waiver**
  To address a potential covenant breach, there is the option of agreeing a waiver, i.e., temporarily adjusting the covenant agreements with the syndicated lenders.
- **Increase in equity**
  The Executive Board may, with the approval of the Supervisory Board, increase R. STAHL AG's share capital by up to € 3.3 million (authorized capital) until 29 August 2021, in accordance with the resolution of the Annual General Meeting on 30 August 2018. If this option has not been exercised, an extension of the authorization for the capital increase by the Executive Board and Supervisory Board can be submitted to the next Annual General Meeting for resolution. An increase in share capital would have a positive effect on equity, the equity ratio and the net debt ratio, and would create an additional safety buffer with regard to compliance with the financial covenants.

In summary, the R. STAHL Group estimates the probability of an actual contract breach to be low on the basis of the aforementioned countermeasures.

We limit the risk of insolvency among our customers by means of a targeted monitoring of their payment behavior. Value adjustments are made where necessary.

A detailed description of the hedging instruments held at the balance sheet date and further disclosures on currency, interest rate, credit and liquidity risks can be found in the notes to the consolidated financial statements under Derivative financial instruments and Management of financial risks.

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

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

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

Compliance risks

As a listed stock corporation headquartered in Germany, R. STAHL is subject to German corporate governance laws and the requirements of other legal systems. The regulatory environment has intensified significantly in recent years – especially due to more rigorous application of existing laws and the expansion and tightening of criminal offenses. Examples include anti-corruption laws in Germany, the USA (Foreign Corrupt Practices Act) and the UK (Bribery Act). All these regulations are very complex. Any failure to comply with relevant laws and regulations or any allegation of a violation of law made against our company, whether justified or not, could have a material adverse effect on our reputation and on our business success.

An thorough assessment of these risks is difficult due to the large number of relevant statutory and legal requirements and the large number of possible violations. We constantly monitor the current legal requirements and new developments in the field of compliance which arise in our industry or the economy. In an international context, we are supported in part by specialized local law firms, and in part by local cooperation partners of renowned German law firms or the local offices of international law firms. Based on this information and other available sources, we continuously update our compliance rules. In order to ensure as effectively as possible that our employees know and comply with our Code of Conduct, we inform our managers once a year about our anti-corruption guidelines as well as their obligation to train their employees in these matters. This also includes the obligation to participate in appropriate training. For new employees, learning about the Code of Conduct is part of the hiring process. The Group Compliance Officer coordinates all activities in this area. Despite the existing compliance rules and internal control systems, it cannot be ruled out that individuals may deliberately circumvent our control mechanisms in order to gain personal advantage. Although we consider the probability of this risk to be relatively low, it would have a negative impact on the reputation of our company, our business activities as well as our financial position and performance.

External risks

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

These risks can hamper our ability to act as a business, lead to supply bottlenecks, production stoppages, disruptions in the supply chain and a default on trade receivables, and thus negatively impact sales and earnings performance.

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

It is currently impossible to predict what impact the Corona virus will have on the global economy and supply chains in the current year and beyond. Similarly, it is unknown whether and to what extent there will be catch-up effects for a global economy that has been slowing since the beginning of the year. Since the end of February 2020, the global spread of the coronavirus, which was initially limited to Asia, has accelerated and reached large parts of Europe and the Americas. This development has already led to considerable price falls on the global capital markets. Should the current situation develop into a prolonged pandemic, this might significantly hamper global economic growth and possibly lead to a recession. As governments impose quarantine measures to protect the health of their citizens or restrict the movement of people and goods, this may lead to supply bottle-necks for raw materials, production stoppages and disruption to logistics chains.

Development of the situation dynamic at this time. We are therefore currently unable to reliably assess the further development of the situation. At present we believe that there is a high probability that R. STAHL will be affected by such risks. Our contingency plans and the global distribution of our manufacturing facilities and sales offices will help us limit the effects of local or regional disruption to our business processes. However, we anticipate that the spread of the Corona virus may have a significant impact on the earnings of the R. STAHL Group.

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

The Executive Board and Supervisory Board of R. STAHL regard the risk management system as suitable for the detection, quantification and analysis of existing risks in order to manage them in a suitable manner. After careful consideration of the overall risk assessment, those responsible have come to the conclusion that at the time of preparing this Group management report, the existing risks are limited both individually and cumulatively. From the current perspective, the Executive Board does not see any risks that R. STAHL would be unable to counter in an appropriate manner, or which might endanger the Group's financial position and performance. As described above, the level of uncertainty regarding the predictability of the overall economic development has increased considerably compared to the previous year. In addition, the sales market risks have also increased. We therefore believe that the overall risk is higher than in the previous year. However, thanks to our comprehensive product portfolio and good regional positioning, we also see opportunities to expand our leading market position. We remain confident that R. STAHL is sufficiently well positioned, both strategically and financially, to take advantage of the opportunities that present themselves.

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

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

OPPORTUNITIES

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

Long-term opportunities

The growing world population and the resulting steady increase in the demand for energy offer long-term growth opportunities for R. STAHL. In addition to the ongoing industrial development in the emerging countries in particular, the improvement of living conditions in developing countries is a main factor driving the growing demand for energy. Since coal as an energy source is becoming less and less socially acceptable in western industrial nations, power supplies are increasingly reliant on natural gas power plants or oil-fired plants. We also see the expansion of renewable energies, which is required by climate policy, as an opportunity: To ensure a stable supply with these volatile sources of energy, efficient technical options must be created that can store the electrical energy from wind and solar power over a longer period of time. This power is dependent on the weather and time of day. One of the most promising opportunities for the future is the conversion and storage of electrical energy in the form of hydrogen, methane or methanol and their reconversion into electricity as required. Since all of these materials are highly explosive, in the long term there may be a corresponding need for explosion protection solutions not only for their production, but also for transport and regeneration. To avoid dependence on a pipeline-bound transport by land, ship transport by means of LNG tankers is becoming increasingly important and R. STAHL offers a wide range of explosion-proof equipment for this approach. In this context, there are also opportunities in the upstream and downstream processes of the liquefied gas value chain (gas liquefaction and regasification).

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

Finally, the political and social will to establish and enforce sufficiently strict safety standards in the process industry, as well as the increasing importance of climate protection is also leading to growing demand for explosion protection solutions throughout the world.

Medium-term opportunities

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

Due to the increasing safety requirements for operators of technical equipment, we also see the opportunity to generate growth with our range of holistic and tailored system solutions. R. STAHL is already a global leader in this field. We plan to take a similar direction with the expansion of our offerings to include services that our customers are requesting as a result of increasing regulation and their own limited capacities. In addition, opportunities arise from our customers' focus on their own core business and the associated outsourcing of engineering and maintenance functions through to new digital services that facilitate the safety management of process plants and enable them to be performed remotely. Training offerings also represent attractive growth opportunities for us.

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

We see significant opportunities to increase our productivity and profit in the medium term by optimizing our operational structures and processes as part of our efficiency program *EXcellence 2023*. The measures currently being implemented to establish uniform standards throughout the Group and to digitalize and streamline internal processes enable us to ensure short delivery times worldwide and thus address the key needs of our customers. We are pursuing the same objectives with the further automation of our production facilities in the direction of "Industry 4.0".

Short-term opportunities

Assuming the global economy continues to grow, short-term opportunities for us will arise from increasing investment activity in plants for the production and processing of crude oil and natural gas and their downstream products. Following the sharp downturn in the global economy in the reporting year, we also expect demand for explosion-protected electrical and electronic equipment to pick up in the current year in light of the expected economic recovery in all our core markets.

In the short to medium-term, we see the enormous demand potential for our automation solutions, which we believe will establish themselves largely independently of economic influences, as an opportunity in connection with advancing industrial digitalization.

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

NON-FINANCIAL GROUP STATEMENT (NOT AUDITED)

The responsible treatment of people and the environment combined with integrity and transparency in corporate governance are at the very core of our sustainable business success. The conduct of employees and company representatives, which at all times complies with the law and is based on the principles of the honorable businessman, is our guiding principle. By following this principle, we create sustainable value for all our stakeholders and make tangible contributions to the ecological and social development of society. This process also includes the ongoing scrutiny of our actions and the impact they have both on us and on others. Corporate social responsibility (CSR) is thus also a long-term commitment to improving the quality of life of people around the world – an objective that our safety products and solutions fulfill every day with the greatest degree of reliability.

The strict corporate governance standards that must be met by listed companies headquartered in Germany is already derived from the applicable legal system and in particular from the German Corporate Governance Code. We have also implemented supplementary Groupwide policies, including the Code of Conduct, which is binding for all employees and observance of which is ensured by a Group-wide compliance management system. Effective mechanisms for ensuring compliance with the relevant policies have been established through the authority matrix anchored in our organization and the dual control principle, according to which legally binding and financially effective decisions may not be made by one individual but only by two authorized persons. The publicly and globally accessible, fully anonymous whistleblower system *R. STAHL Integrity Line* has been in place since October 2020 and offers the opportunity to report compliance violations to the company. The system can be accessed at ↗ **https://rstahl.integrityline.org**. No reports were received through the *Integrity Line* in the reporting year.

Control of the R. STAHL group is primarily based on financial targets in keeping with the principle of value-based management. Non-financial targets may also be taken into account. This reflects our corporate responsibility, which we view in the context of economic activity together with environmental, social as well as governance action. Responsible cooperation with our stakeholders – first and foremost our customers, suppliers, employees, shareholders, financial institutions and the interested public – is a top priority in our organization and in our processes. Because business success is inseparably linked to the commitment of creative and motivated employees, we emphasize the importance of attractive employment conditions with healthy and safe working conditions, fair compensation, targeted training opportunities and equal opportunities – all as part of our human resources strategy. Our customers rely on the quality of our products, which are renowned for their uncompromising safety and reliability as well as for their excellent workmanship and durability – over the course of nearly a century. As a technology leader in our industry, we want to secure this confidence in the future with outstanding, innovative products that deliver sustainable value creation and contribute to the advancement of technological progress. To achieve this objective, we not only expect a great deal from ourselves, but also from our suppliers. In addition to compliance with the law and labor and environmental standards, we also strive to ensure the efficient use of resources.

The successful integration of sustainability criteria into value-based corporate management requires a comprehensive approach and the fundamental integration of ESG criteria into the Group strategy. Appropriate key performance indicators must be defined for quantitative performance measurement and control, and the necessary systems for regular data collection and evaluation must be established. R. STAHL has been reporting on selected key performance indicators to illustrate the sustainability aspects and criteria practiced in the company since 2017. In the current year, the formulation of a key performance indicator system, the content of which will be very closely oriented to the criteria of major organizations for ESG assessment of listed companies, is to create the basis for a Group-wide ESG reporting system to be established in the medium to long term, a system that will serve as a starting point for the methodical integration of sustainability criteria relevant for R. STAHL into the Group strategy.

With the introduction of the German CSR Directive Implementation Act on 19 April 2017 to implement the guideline 2014/95/EU (so-called CSR guideline to disclose non-financial information and details concerning diversity), and in accordance with Section 315b HGB, R. STAHL was required to include a Non-financial Group statement in its Group management report for the first time as of financial year 2017. Pursuant to Section 315c in conjunction with Section 289c HGB, the company must provide details on Environmental Matters, Employee Matters, Social Matters, Respect of Human Rights and Anti-Corruption and Bribery Matters. These aspects are fundamental elements of our sustainability-relevant activities.

For financial years 2017 to 2019, R. STAHL has made use of the option pursuant to Section 315b (3) HGB to alternatively prepare a separate non-financial group report outside the Group management report and to publish it on the company's website **www.r-stahl.com** under the heading **↗ Corporate/Responsibility**. For reporting year 2020, the non-financial Group report has been integrated into this combined management report of the company for the first time. This step is a reflection of our understanding of the central importance of sustainability for the continued existence, development and social responsibility of R. STAHL.

The Non-financial Group statement is prepared and published annually. The reporting period for this Non-financial Group statement is the calendar year 2020. The reporting period is therefore identical to the consolidated financial statements for 2020. As in the past, the Supervisory Board of R. STAHL AG reviewed this Non-financial Group statement without external support.

PREPARATION METHODS OF THE NON-FINANCIAL GROUP STATEMENT

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

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

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

For the preparation of this non-financial statement, we determined the material factors influencing the sustainable business success of R. STAHL as part of a materiality analysis. We then assigned these factors to the guiding principles of the WIN Charter and summarized them in five topic areas (see table on page 58).

We discuss our concepts, risks and performance indicators as relate to these topics below. Additional information on the risk situation can be found in the Risk and opportunity report of this management report.

Unless stated otherwise, the statements with a regional reference refer mainly to the sites of our largest production company R. STAHL Schaltgeräte GmbH in Waldenburg

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Group statement

and Weimar. We are working on systematically extending the group of subsidiaries included in our non-financial reporting to the entire R. STAHL Group. In 2018, for example, we were able to include our production sites in India and the USA for the first time. In 2019, we also began to integrate sustainability aspects pursued by our subsidiaries in Norway, France, Korea and the United Arab Emirates into our reporting. Our company in South Africa was added in the reporting year.

SUMMARY OF THE WIN CHARTER PRINCIPLES ON THE TOPICS RELEVANT TO R. STAHL

Guiding principle of the WIN Charter	Topic
01 – Human rights and employee rights 02 – Employee well-being 03 – Stakeholders	Human rights, social and employee matters
04 – Resources 05 – Energy and emissions 06 – Product responsibility	Environmental matters
07 – Corporate success and jobs 08 – Sustainable innovation	Economic benefits
09 – Financial decisions 10 – Anti-corruption	Sustainable and fair finances
11 – Benefits for the region 12 – Incentivizing new ways to think	Benefits for the region

MATERIAL SUSTAINABILITY TOPICS IN THE R. STAHL GROUP

Human rights, social and employee matters

Human rights and employee rights

Human and employee rights are fundamental values and we consider it extremely important that they be upheld. As a company still largely owned by its founding families, the R. STAHL Group regards values such as mutual respect, support for colleagues and joint problem-solving particularly important and also lives these values in its daily actions. This also includes cooperation with internal and external employee representatives.

To ensure these values are maintained, we have implemented a compliance management system for all employees of R. STAHL. A Code of Conduct for suppliers and intermediaries has also been in place since 2019. We are also committed to compliance with the Code of Conduct of our industry association (German Electrical and Electronic Manufacturers' Association – ZVEI). On the measures side, we conduct training courses and obtain declarations of commitment electronically. As part of our hiring process, we ensure that new staff are aware of our Code of Conduct and regularly train and review this knowledge through the use of e-learning systems. The Internal Audit department regularly reviews the effectiveness of these measures and we record feedback and proof of test participation.

The success of our work is reflected in a generally very low number of individual and collective legal proceedings at both the national and international level, as well as the absence of arbitration procedures required by employee co-determination laws. In the reporting year, there were once again no proceedings involving arbitration bodies subject to co-determination. Only two labor law proceedings were conducted; no other court proceedings took place at either the national or international level. As has been the case in the past, we did not receive any complaints under the General Equal Opportunity Act in the reporting year.

The aforementioned measures and processes ensure that we address the risks – especially from damage claims and damage to our reputation – arising from inadequate compliance with the concepts we pursue. It should be considered that SMEs in particular have only limited monitoring capacities. This means that seamless control across the entire supply chain is difficult to achieve – due in part to the variety of subcontractors.

Adherence to laws, internal rules and compliance regulations together with the importance of the company's acceptance of its social responsibility meet with a very high level of acceptance among R. STAHL's workforce. A survey conducted in 2019 and followed up during the reporting year showed that 88% of participating employees were aware of all rules and regulations relating to their tasks, including in particular the Code of Conduct. The results show that compliance and good corporate governance are firmly anchored in R. STAHL's corporate culture and underline the effectiveness of the measures we have implement so far.

In addition to the Group-wide Code of Conduct, our Indian subsidiary has introduced additional principles and guidelines that staff are regularly reminded of through a range of instruction and training. One special program is dedicated to the topic of "sexual harassment in the workplace" (POSH = Prevention of Sexual Harassment). Compliance with this program is monitored by a local compliance committee.

In December 2019, EU Directive 2019/1937 came into force, which gives whistleblowers uniform protection throughout Europe in future. EU member states are required to implement this directive into national law within two years. Since October 2020, and thus well before the legally required implementation, we have been offering whistleblowers the opportunity to anonymously report violations of laws and guidelines through the whistleblower system known as *R. STAHL Integrity Line*. The system is publicly accessible through the R. STAHL website. No reports were received by the company through the *Integrity Line* in the reporting year.

Employee well-being

Given the level of competition for skilled and motivated personnel, we have introduced a series of measures to ensure that our current and future employees perceive us as an attractive employer. As an essential expression of our corporate responsibility and values, we respect, protect and promote the health, interests and wellbeing of all our employees.

This helps improve their performance and fosters their long-term commitment to the company. A culture of mutual trust and open communication is also important. Our preventive efforts in the field of occupational safety begin by raising awareness among our employees and managers who integrate this important topic into their regular communication activities. In all departments, for example, accidents and entries in the first-aid record are analyzed in order to derive new measures aimed at continuously improving the safety of work processes.

With regard to the company's precautionary measures, we conduct regular inspections of working conditions, ergonomics and occupational safety together with the Works Council, the safety officers responsible and our company doctor, and implement any remedial measures deemed necessary. We have established a safety, health and environmental protection committee and a health management system at our German sites in order to safeguard our goals and measures. We pursue the goal of achieving a zero work-related accident rate (Vision Zero), for which we again held workshops with managers and developed action plans in the reporting year. As part of this process, measures are repeatedly identified and implemented to improve our accident figures. Coming from an already low level, occupational accidents at our German sites fell by an additional 8% in the reporting year to a total of eleven cases (2019: 12). The number of hours lost decreased in an identical manner, and the number of entries in the first-aid record was reduced by another 22% to 205 (2019: 264).

In the production areas, a bi-weekly work safety circle was introduced in 2019, where our safety specialists discuss current topics with their line managers. The company's work safety officers also meet at the same intervals, while the work safety circle with managers in administrative departments meets once a quarter.

In 2019, we successfully recertified our occupational safety management system; the validity of our preventive measures is now certified until 2022.

We regularly offer preventive healthcare measures for our workforce, including vaccinations, medical consultations with our company doctor and participation in our sports groups. Wherever possible from an operational perspective, we meet employee requests for part-time work in order to help them balance work and family life. We conduct an annual training needs survey to determine the content of the courses offered. The needs that are defined on the basis of this survey are met by inhouse seminars (e.g. basic training, office applications, skills training) and external training providers with target group-specific courses (e.g. industrial engineering, development, IT, sales, marketing or logistics). In the year under review, it was not possible to implement these programs due to the Corona virus pandemic.

To promote the wellbeing of our employees, we provide company restaurants with subsidized meals at our largest locations. We also provide a broad range of voluntary social benefits including paid leave for weddings, for the birth of a child, for moving to a new home or for funerals. In addition to paid leave, we also support employees in the form of gifts for family members on special occasions, within the scope of tax-exempt limits. We create a working atmosphere that fosters partnership and cooperation by holding sports festivals and Christmas parties, as well as by organizing events to celebrate anniversaries and reunite company pensioners. At our site in Chennai, India, we also offer a shuttle service from home to work for our staff. In addition, we have established a health plan at our Chennai site, including regular examinations by a local medical professional.

The impact of the Corona virus pandemic on the daily lives and work of our employees, which necessitated extremely careful health protection measures, naturally played an extremely important role in the reporting year. Through the implementation of concepts at an early stage to prevent the transmission of the virus, we have been able to very effectively stop the spread in our operating facilities. The crisis team that was established in February 2020 and which consists of the Executive Board and experts from human resources, occupational health and safety, labor law, medicine and communications, defined Group-wide precautionary and protective concepts early, initially analyzed the incidence of infection on a daily basis and promptly informed employees, customers and suppliers. Further precautionary and protective measures were implemented at our subsidiaries worldwide, taking into account regional regulatory requirements. The connection of the IT network to a local fiberoptic network at the beginning of the year allowed the Group to significantly expand its mobile working capacity at the Waldenburg site within a short period of time. Mobile work was also introduced to a large extent in the subsidiaries to reduce the transmission of the virus.

In India, a nationwide curfew lasting several weeks also led to the temporary closure of our site in Chennai. Mobile container solutions in the immediate vicinity of the plant enabled us to provide our employees there with overnight accommodation at short notice, which meant that they were not forced to use the often overcrowded public transport.

Thanks to our prudent safety and hygiene concepts, we managed to largely avoid the closure of our company restaurants while at the same time fully complying with official directives. In Germany, routine health and precautionary examinations of the workforce resumed in May 2020 after an initial interruption following the creation of a hygiene concept.

In occupational health and safety, almost all measures that had been planned for the year were severely impacted by the Corona virus pandemic. In the summer months, however, we were able to arrange for the training bus of the employers’ liability insurance association to visit Waldenburg as planned. Under extensive hygiene requirements, managers, safety officers, work preparation staff and forklift drivers received instruction on safety issues in small groups over a period of several days. Due to the positive response, the bus is scheduled to stop again in the current year. The planned road safety day for motorcyclists and cyclists at the Waldenburg site in the reporting year had to be cancelled due to the Corona virus pandemic and was postponed until 2021. The pandemic did, however, have a positive effect on the willingness to participate in the flu vaccination offered annually in Waldenburg, which was requested twice as often by employees as in previous years.

In 2020, first-aid courses were also offered again for the first time in November in Waldenburg for first-year apprentices. The objective is to ensure a sufficient number of people qualified in first aid – an objective that was achieved again in the reporting year with around 170 qualified persons.

The events we traditionally hold in Waldenburg for active and former employees with larger gatherings of people, including the annual retiree party, anniversary celebrations, the sports festival in the summer months and the Christmas party, could not take place due to pandemic-related restrictions on such gatherings.

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The success of our measures to increase employee wellbeing is also reflected in the results of the 2019 global employee survey. According to the survey, 98% of respondents felt comfortable in their workplace. The highest three scores were recorded in the categories of employer attractiveness & loyalty, commitment & wellbeing and collaboration with colleagues. At the beginning of the reporting year, the results were discussed with employees at team and Group level and potential improvements were worked out together. Despite pandemic-related organizational obstacles, it was possible in many cases to start implementing the agreed targets as early as the reporting year.

To further promote our workforce's enthusiasm and identification with the company, we relaunched the employee magazine *STAHL Report* two years ago. The magazine had been published semi-annually until 2015. Two issues were again published in the reporting year. The main topics in the first half of the year were the growth strategy presented for 2019, and in the second half the impact of the Corona virus pandemic on the day-to-day lives and work of our employees as well as its impact on our markets.

In order to enhance its attractiveness as an employer, our subsidiary in Dubai prepares an annual qualification matrix for each employee and uses it to define training measures which are then continuously implemented and reviewed on a monthly basis. The agreed targets and associated personal development plans and performance appraisals open up attractive career options for employees.

Our Norwegian subsidiary finances a more extensive health insurance plan for its employees, which ensures rapid medical treatment when needed. Regular workplace inspections are also conducted here together with experts from the company's health management system. Stress-related to ergonomics, noise, light and air is recorded and eliminated where necessary. For example, new LED luminaires were installed in the warehouse in Stavanger, which led to significantly better illumination and thus to the wellbeing of staff working there. Other improvements included measures to eliminate drafts in the workplace and the purchase of transport stands for storing and transporting large switch cabinet doors.

We regularly support our employees in Korea by offering memberships for leisure clubs – thus helping to improve the working atmosphere by promoting leisure activities together. Due to the restrictions imposed by the Corona virus pandemic, it was necessary to suspend these activities in the reporting year. It was still possible to hold some smaller company events, including a team-building workshop and birthday celebrations that are highly appreciated in Korea. The *Employee of the Year* election held by employees at our Korean subsidiary also has tremendous motivational value.

An Equal Treatment Committee was created at our subsidiary in South Africa in the reporting year. The committee is tasked with further increasing awareness of equal treatment. The committee has equal representation in terms of ethnic origin, gender and activity in the company. A regular component of our measures to enhance the wellbeing of our South African work-force is also a health care program that covers 50% of the private health care costs of all employees and their immediate family members. We also maintain life insurance policies for our employees that, in the event of death, cover funeral expenses as well as shortfall payments and education costs for surviving dependents.

Especially in pandemic times, when mobile working must be used wherever possible, new ways of communication and collaboration were required. At our subsidiary in the U.S., a new software tool was introduced to provide employees with straight-forward feedback for mutual recognition of good work. The feedback that is recorded expresses appreciation and is incorporated into annual employee reviews. Arrangements for time off work, subsidies for health insurance and various leisure events round out the employer attractiveness efforts undertaken at our American subsidiary.

The quantitative performance of these employee wellbeing measures is assessed annually through the staff turnover rate and sickness rate. At 1.0%, the proportion of employees in Germany leaving R. STAHL at their own request increased in the reporting period (2019: 3.3%). The sickness rate for German companies of 4.3% was in line with the previous year (2019: 4.4%) and slightly above the average for Germany (4.3%). The number of work accidents was below the industry average in the reporting year.

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

Environmental matters

Resources

The responsible use of resources is a key aspect of our efforts to protect and preserve the environment. Our objective is to continuously enhance our resource efficiency by increasing raw material productivity and reducing the use of natural resources. One example is the optimization of specific material consumption in the manufacture of stainless steel housings at our site in Chennai, India, which we improved to 88.8% in the reporting year (2019: 86.6%) and thus moved one step closer to our target of > 90%.

At our sites in Germany, around 95% of pallets used meet the Euro pallet standard specified by the European Pallet Association (EPAL). The international exchange system for these pallets ensures a very high reuse rate. Disposable pallets are used for long-term storage – as long as they are in working order – and are recycled at the end of their useful lives.

Due to reduced production activity in the reporting year, the volume of waste at our largest production site in Waldenburg decreased by around 2% compared with the previous year. By contrast, the recycling rate – the amount of waste reused to create value – increased by 1%. The recycling rate, which shows the proportion of waste sent for external recycling, also increased slightly. These positive developments on the volume side were offset by significantly higher disposal prices, outweighing the benefits of declining waste volumes.

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

Waste management is also part of the sustainability efforts at our Cologne site. The site's water decalcification plant also helps protect the pipelines and thus the longevity of the supply infrastructure.

At R. STAHL, resource efficiency begins with the planning and procurement process. To ensure a sufficient supply of raw materials at all times, we maintain long-term supplier partnerships with future-oriented cooperation based on our planning figures. We also conclude framework agreements with our suppliers with extended notice periods and ensure additional procurement channels for critical materials.

With regard to the sustainable use of resources, we increasingly focus on local value creation and procurement. One example is our subsidiary in the United Arab Emirates, which regularly consults with its suppliers from the Middle East on increasing the proportion of local purchases.

At our plant in India, systematic training of our employees in explosion protection requirements in accordance with IECEx as well as in quality management enabled us to further improve the First Time Right rate (a key performance indicator that shows freedom from defects) and establish it at the high level of around 95%.

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

Energy and emissions

Energy and emissions is a further focus area of our activities relating to environmental matters. In addition to the use of renewable energies, we also aim to improve our energy efficiency so that we can reduce greenhouse gas emissions or compensate for them in a climate-neutral manner. Our facilities in Waldenburg, Weimar and Cologne are certified in accordance with DIN EN 16247 and the measures this involved have enabled us to reduce CO_2 emissions by more than 30% in the last five years. Our highly efficient combined heat and power plant in Waldenburg makes a major contribution to the long-term reduction of emissions. After starting regular operations at the beginning of 2015, it supplied 27.2% of our annual electricity needs at this site in the reporting period (2019: 26.0%).

At our Indian site in Chennai, 10% of annual electricity needs were generated by our own photovoltaic systems in the reporting period. This reduced annual CO_2 emissions in Chennai by about 100 tons. The photovoltaic system on the administration building in Waldenburg produced around 25,000 kWh of electricity last year and this energy was available for the company's own use.

The quantitative performance measurement of our efforts to improve energy and emission efficiency is based on the use of our energy sources, electricity and gas, in relation to sales (kWh/€) as well as the volume of CO_2 emissions in relation to energy usage (t/kWh). In order to identify focal points for consumption and potential savings, we continue to install further energy consumption recording and evaluation systems. We also continuously check our ventilation systems and equipment for generating compressed air – which account for a significant part of our energy consumption – with regard to their energy efficiency and develop concepts for improvement measures.

We began replacing conventional lighting in the main building in Waldenburg with LED luminaires in 2019, thus reducing these energy costs by 75%. The gradual luminaire replacement is scheduled for completion in 2023.

In Weimar, the ventilation system and associated heating system for the production halls were replaced as scheduled in the reporting year. Subsidies from the EU and the state of Thuringia for the expansion of energy efficiency and the use of renewable energies in the company were obtained for the new ventilation technology in the production plant, contributing to a rapid amortization and to the economic efficiency of the measure. Two ventilation systems were installed with a total investment volume of € 370 thousand. The improved efficiency of the new fans and motors reduces the installed connected load by 45%. The new plant achieves an estimated annual savings of 114,759 kWh or more than 90 tons of CO_2.

At our Indian production site, we already laid the foundation for a standardized continuous improvement process for our environmental performance with our certification in accordance with ISO 14001:2015. Pollution dust and noise in the area of each workplace is analyzed and, if present, eliminated. An audit was successfully conducted in October 2019. TÜV-Nord confirmed the company's certification of the ISO 45001:2018 standard on health and safety issues. With the help of the Environmental Management Program (EMP) that was introduced in Chennai, together with associated measures such as lighting management in offices, the use of solar power for lighting during the day and the optimization of the compressed air system, it was possible to reduce annual energy costs by a total of € 14,000.

As planned, we created and filled the position of Environmental Manager at the Waldenburg site in the reporting year as part of the establishment of an environmental management system. The first step in this process – certification of the site in accordance with DIN ISO 14001 – is planned for 2022. All other production sites will follow. The Indian site in Chennai is already certified in accordance with DIN EN 1401. In addition to our own commitment to the responsible use of energy and the reduction of emissions, we are also increasingly receiving inquiries from customers on the topic of environmental management.

The external risks arising from the topic of energy and emissions mainly relate to changes in the legal requirements. With regard to minimizing risks along our supply chain, we operate a combined heat and power plant at our Waldenburg site to secure electricity supplies. We also generate a portion of the electricity needed at our production sites through our own photovoltaic systems, which increase our independence from purchased energy sources.

Product responsibility

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

To ensure the harmlessness and customer safety of our products, we obtain declarations from our suppliers stating that no conflict minerals are used within the supply chain we can influence. This was prompted by the US Dodd-Frank Wall Street Reform and Consumer Protection Act which aimed to strengthen accountability and transparency and to provide proof that by using certain raw materials (conflict minerals) in their production, companies were not funding armed groups in or near the Democratic Republic of the Congo. Against this backdrop, we conduct annual surveys in accordance with the CFSI standard (Conflict Free Sourcing Initiative, www.responsiblemineralsinitiative.org) using a standardized form (CMRT, Conflict Minerals Reporting Template) with those suppliers whose products contain conflict minerals. Conflict minerals are metal ores that are mined in conflict or high-risk regions and are often mined illegally or outside state control. In such cases, there is often systematic violation of human rights and international law. The requests for information are triggered annually by a process stored in the *QM system Procurement Service* on the basis of the latest CMRT and the currently valid Smelter List. There were no requests for information in the reporting year. The CMRT report is also provided to customers upon request. In the area of conflict minerals, we are committed to the strict standards imposed by our industry association ZVEI, and we confirm our compliance with these standards at all times by means of a declaration made publicly available on our website. We ensure meaningful reports by checking, monitoring and requesting information from our suppliers. We also conduct regular audits of our top 100 or so suppliers with the aim of auditing at least 20% of them each year. Of the 20 supplier audits planned for the reporting year, 19 were carried out (2019: 19 planned, 27 implemented).

With regard to the transparency and labeling of products, we consider the proportion of our products that is subject to statutory information requirements. In the heavily regulated market for explosion protection solutions, all products are subject to labeling requirements in accordance with the relevant legislation. In 2019, we once again fully met all requirements. Our products all have multilingual operating instructions (German, English and other languages) that can be viewed online at any time. These include all the required information and instructions for safe and proper installation, commissioning, usage, maintenance and disposal. The accurate and professional marking of our products with type plates and serial numbers is also important with regard to traceability. In 2019, it was thus possible to conduct a problem-free product recall (luminaires of the 6036 and 6149 series) which was, for the most part, concluded in the reporting year. We are currently working on the further optimization of our labeling system, a step that will generate additional benefits in terms of the traceability of our products and components.

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

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

We apply the guidelines of the Indian Environmental Management System (EMS) to every new material to be used at our plant in India, as is also the case in Waldenburg. Quality indicators are recorded and evaluated and the regulations according to RoHS and REACH as well as energy saving measures are initiated and implemented.

R. STAHL has also been represented in the ZVEI working groups *Materials Policy* and *CE Marking* since 2019. These groups meet twice a year, discuss with experts and company representatives the implementation of current European and non-European directives and work on ZVEI recommendations. The relevant information from the working groups is passed on to our experts and the respective departments and thus considered in the design, development and manufacture of our products. In the reporting period, particular attention was paid to the requirements coming from non-European markets. It has not yet been possible to establish and fill the position of a materials compliance officer responsible for this issue, something that was planned for the reporting year.

In addition to the direct measures taken in our operational processes described above, we also sustainably reduce the environmental impact of our entrepreneurial activities by developing new products that conserve resources. Details on these products are provided in the following topic area Economic benefits of this report. We regularly incorporate feedback from our customers into the continuous improvement of our processes and products. An essential aspect of our feedback culture is delivery quality, which we monitor via the average complaint rate. For this purpose, we have established a complaint management system in which all incoming customer complaints are evaluated according to originators and causes. In the reporting year, we adjusted the assignment of defect categories to product-related complaints at the Waldenburg and Weimar sites and, for the first time, also included complaints from the administrative areas in the complaint rate. Based on this new system, the complaint rate for 2020 was 2.38%. Of that total, 1.61% was of an administrative nature. Although the system changeover has eliminated comparability with prior-year figures, the increased transparency gives us the opportunity to further improve our processes. In the future, the error recording currently still carried out by our employees will be replaced with an online tool that will allow customer complaints to be reported directly to the reporting system via a web portal.

In our Group-wide quality management system, we work with standardized indicators that are identical for all sites. These indicators are compiled and collated on a monthly basis in balanced scorecards (BSC). Criteria include customer satisfaction as well as product and supplier quality. The *Costs of poor quality* indicator is used to record quality costs in production. These are made up of expenses for rejects, rework, warranty and goodwill and should be continuously reduced. In the event of target/actual deviations, adjustments are made at short notice and in a targeted manner.

To prevent and detect defects, our Norwegian subsidiary implemented a new value stream design in the reporting year that decreases the incidence of defects in the finished product through early checks of critical production parameters in accordance with a Six Sigma approach. This system also helps to quickly rectify defects that occur despite efforts to avoid them.

We regard the regular recording of customer satisfaction with our products and services as a further important element of an efficient feedback culture. The customer satisfaction analysis planned for 2020 could not be carried out because external partners involved were unavailable due to the Corona virus pandemic. The survey will be carried out in the current year, with results expected in 2022.

In the reporting year, our qualified experts once again provided up-to-date, practice-oriented knowledge on all aspects of explosion protection to our customers and other interested parties and expanded this knowledge with specific exercises and workshops. In the course of complying with contact and assembly restrictions, some of these efforts were conducted virtually. The courses held online and at numerous locations in Germany, Austria and Switzerland cover a wide range of topics. They range from the technical and normative basics to the installation and maintenance of electrical systems, the construction of intrinsically safe power and communication networks, as well as lightning and fire protection in potentially explosive atmospheres. In cooperation with the Ernst Abbe University, R. STAHL organizes events in Jena specifically designed for machine and apparatus manufacturers. The workshops focus on the ignition-protected design of non-electrical equipment, while three-day specialist seminars deal with standard-compliant risk assessment pursuant to ATEX and the Machinery Directive. R. STAHL also conducts a series of seminars as part of the IECEx certification of qualified persons for testing in areas where the threat of explosion exists. The annual *Explosion Protection Day* roadshow – a fixed part of the calendar that takes place in Germany – where R. STAHL informs interested parties about technological innovations and new developments in the world of standards, could not take place in 2020. This also resulted in a significant drop in the total number of participants in externally offered training courses and workshops in the reporting year. The current seminar program is available at **www.r-stahl.com** under the heading ↗ **Home/Services and Seminars/Seminars**.

Economic benefits

Corporate success and jobs

We have set ourselves the goal of achieving sustainable and profitable growth and thus steadily increasing our enterprise value. To this end, we continue to develop our existing product and service portfolio in line with the needs of our customers with the aid of innovations, though we also consider inorganic growth. In addition, we are expanding our presence in growth markets. Another important medium-term goal is to establish market-leading cost structures. Our strategic focus is on a strong technology base, efficiency in structures and processes and growth that is at least level with the market.

We have been demonstrating technological expertise in the fields of mechanical and electrical engineering for more than 140 years. Over the course of that time, we have managed to successfully tap into a wide variety of markets. Today, our strong technology position remains the foundation of our business success. In combination with efficient operational structures and processes, this creates lasting competitive advantages that lay the foundations for disproportionately strong participation in growing markets. In the long-term interests of our customers and shareholders, but also in the interests of all other stakeholders to whom R. STAHL is socially committed.

Sustainable economic activity requires efficient structures and processes that meet current and future customer and market requirements. In 2018, we started to fundamentally realign R. STAHL's operating model to these requirements. Under the *R. STAHL 2020* banner, we launched an efficiency program aimed at repositioning the sustainable streamlining of structures, the reduction of complexity and the introduction of standardized processes along the entire value chain and administrative areas. Five of the six initially defined measures were completed by the end of the reporting year:

- The R. STAHL Group's previously decentralized organizational structure was transformed into a central Group matrix organization with global functional divisional responsibilities.
- We aligned the product portfolio so that it more closely meets the needs of our customers and at the same time reduced the number of unnecessary variations. Around 10,000 product variations were eliminated without a loss of sales.
- Lean methods were introduced and operationalized in all manufacturing areas.
- We implemented standard processes and introduced uniform performance indicators in our global sales processes – starting with the submission of a quotation through to completion of the order.
- We centralized and further professionalized management of major projects throughout the world.

In 2018, we set a timeframe until 2023 for standardizing the IT infrastructure in the core areas of ERP, engineering as well as product configuration – the areas that are essential for R. STAHL. Progress at the end of the reporting year was in line with the schedule. Only the SAP launch at the U.S. production site in Houston, which was originally scheduled for the end of 2020, had to be postponed until the first half of 2021 due to the COVID-19 pandemic.

With the implemented measures from the efficiency program *R. STAHL 2020*, we have addressed and established the key structural prerequisites for lean and uniform processes. The focus is now on sales growth that is at least level with the market. For this purpose, our strategy program *EXcellence 2023* aims to achieve further efficiency increases in all business-relevant processes and to sustainably strengthen R. STAHL's competitive position, which at the same time also provide our customers with additional added value: through globally standardized processes, higher service quality, shorter delivery times and lower plant operating costs. At the same time, we aim to expand our market share through targeted strategic market development and push technological advancements in explosion protection through innovative new products. We pay particular attention to areas of application with above-average growth prospects in the medium to long term. The focus of *EXcellence 2023* is thus on:

- the establishment of a uniform Group-wide system of key performance indicators for the data-driven management of all functional areas and corporate processes,
- demand-oriented management of the product portfolio,
- establishment of lean methods in all Group functions and creation of a corporate culture of continuous learning,
- further development of sales processes to a level of excellence,
- the complete harmonization of our IT systems and processes by 2023,
- market-driven innovations and portfolio renewal,
- strategic market development through qualification with new customers and active specification and standards development,
- a focus on energy sources with a favorable carbon footprint (liquefied natural gas, synthetic fuels, hydrogen), and
- the development of digital services.

Details on the innovation topics we are pursuing can be found in the management report in the section Basic principles of the Group in the Research and development chapter and under Sustainable innovations in this report.

Our continued strong market position in Europe primarily reflects the high share of sales from the chemical industry. By contrast, our business in Northern Europe, Asia and the Middle East as well as in America is predominantly driven by development in the oil and gas sector. In these regions, our overall market positions are also still below our average global market share. We therefore see significant potential here for expanding regional market share. As the market for explosion protection is regulated by certificates, it is essential for us to qualify as a supplier for our customers. As part of our strategic market development, we will therefore drive this qualification process while at the same time continuing to shape and develop the relevant technical standards.

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Against the backdrop of the growing public debate regarding the consequences of global climate change, we see potential along the value chain of liquefied natural gas (LNG) – in both the short and medium term. We therefore intend to use our already strong market position in the LNG tanker segment to expand our business in natural gas production and liquefaction, as well as in the downstream processes of unloading and regasification. In the medium to long term, we also see strong potential in the associated fields of hydrogen technology and synthetic fuels. We already have technologies to equip the necessary large-scale industrial infrastructures.

Qualified employees are vital to achieving the strategic goals described. As part of a global HR strategy, we are establishing the foundation for a sustainable competitive positioning as an attractive employer, thus allowing us to achieve our efficiency and growth targets and to secure our technology leadership. In the reporting year, an important basis for achieving this goal was the decision to implement an integrated, IT-based management system for mapping the most significant HR processes at an international level. The implementation of this system is scheduled for the current financial year.

As a technology-driven manufacturing company, we compete globally and regionally for skilled and well-trained employees. In Waldenburg in particular, the Group's largest production site in the Hohenlohe-Franconia region, demographic change has led to an increasing shortage of apprentices and skilled workers. This motivated us to differentiate our apprenticeship activities with the *Dualis* quality seal of the Heilbronn-Franconian Chamber of Commerce (IHK). The aim was to improve our prospects amid growing competition for skilled staff and to be able to demonstrate the high quality standards of training at R. STAHL to secondary school and university students. *Dualis* is a certification awarded by the Heilbronn-Franken Chamber of Commerce and Industry (IHK) for companies with above-average training quality in dual training courses. Staff from our HR and Training departments played a leading role in the development of this certificate. R. STAHL was thus the first company in the region to be certified by *Dualis*. The findings of the first re-audit in 2016 showed that the standard of training remains above average and has actually increased since the first audit four years previous. A re-audit of the *Dualis certification* is scheduled again for 2021 in the planned five-year cycle, but it is not yet certain that it can be conducted due to the current Corona virus infection rate in the current year.

At our locations in Waldenburg and Weimar, the apprenticeship ratio, i.e. the ratio of apprentices to the total workforce, remained at a consistently high level of 9.48% (2019: 8.9%). We also provide training in France and in our company in the Netherlands. The Group's trainee ratio was 5.8%. Further measures to secure our long-term personnel requirements can also be found under Benefits for the region.

Our participation in education fairs and training events, at which we are regularly represented so that we can arouse interest in training among young people, also had to be significantly adjusted in the reporting year as a result of the Corona virus pandemic. As a result, we were represented at only one of five planned education fairs could take place in 2020 (2019: participation in 7 education fairs). All other events were canceled due to applicable restrictions on assembly and contact. A switch to online offerings, which followed in May, met with little response from young people.

Our efforts focus in particular on raising our regional profile by cooperating with kindergartens and schools and getting girls and young women interested in MINT professions. Our cooperation in this regard with two kindergartens and two primary schools in the Waldenburg region has been running for over ten years now. In the reporting year, we were able to hold four kindergarten workshops. These were conducted by our regular and specially trained first-year trainees. In 2020, 20 young people were trained. The otherwise annual social project week with various social institutions in the Waldenburg and Weimar regions, in which all our trainees in Germany participate, could not take place in 2020 either due to the pandemic. We consider the social competence gained here to be valuable for personal development both professionally and privately.

We also give teachers the opportunity to get to know R. STAHL and the quality of its training and careers by allowing them to sit in on lessons or tour the company. There are also numerous cooperation arrangements in place with schools in the Hohenlohe district and various internships with clearly defined content and processes are offered. Opportunities to contact new employees also arise from our cooperation with universities, such as Jena University of Applied Sciences, where we launched an innovative project for a modern manufacturing concept (Smart Assembly) in 2019.

Nevertheless, the recruitment of junior staff remains a constant challenge and requires further efforts in order to fill vacancies in the appropriate quantity and quality. We distributed our training brochure announced in the previous year for the first time at the beginning of 2020 with a very positive response from the target group. An update of the catalog is planned for the current year.

For the start of training in fall 2020, it was possible to fill all 30 positions we offered. Newly included is the training of two IT specialists and the resumption of the training offer for two warehouse specialists. Both training programs are intended to meet the company's own demand for specific specialist personnel on a permanent basis.

In order to secure adequate manpower resources, our HR policy also considers other factors. These include the targeted promotion of employees through training opportunities and job rotation, the promotion of diversity in the workforce, equal opportunities and fair compensation (see also Employee wellbeing). We use an annual training needs survey to determine the content of our training measures.

A total of 2 (2019: 3) of our employees were seconded from our headquarters in Waldenburg to international subsidiaries in the reporting year.

We attach great importance to the ongoing training of our managers. A further 22 managers took part in training programs in the reporting year. In addition to general management and personnel management, topics also included collective bargaining law.

Our skills management system uses relevant IT systems to register individual training needs through annual surveys and to provide the appropriate offers. The identified needs are met by inhouse seminars (including basic training, office applications, skills training) and external training providers with target group-specific courses (e.g. industrial engineering, development, IT, sales, marketing or logistics). The Corona virus pandemic led to reduced activity here, too. While 586 employees received training on a total of 218 days at the German sites in 2019, the number fell by almost half to 363 employees in 2020, and the scope fell even more significantly to 70 training days. The number of trainings held fell by just under a third, from 150 in 2019 to 52 in the reporting year.

At our Norwegian subsidiary, we use our own software solution to identify competences and systematically qualify employees. The tool maps required competences and compares them with those that are already in place. On this basis, individual personnel development plans can be developed.

A further focus area of our HR activities at the Waldenburg site, where we employ people from many different nations, was the help we offer refugees to find employment. In line with how we interpret social responsibility, we continue to focus on the employment of refugees in our training program. The most significant challenge is to achieve language competence in order to ensure success at school. Of the refugees we support who accepted for vocational training in recent years, seven young men have already successfully completed their training and have been taken on as employees. We are currently still training two refugees in each of the first and second apprenticeship years.

The basic idea of fair compensation – which also refers to the principle of equal pay for equal work – has already been largely implemented at our German sites on the basis of statutory requirements and the Compensation Framework Agreement (Entgeltrahmenabkommen – ERA) which forms part of the collective bargaining agreement. We also consider it a success of our compliance measures that we did not receive any inquiries from the workforce under the Transparency in Wage Structures Act (Entgelttransparenzgesetz – EntgTranspG) during the reporting year.

Our site in Chennai offers internships in cooperation with educational institutions recognized by the Indian government. This enabled us to fill all vacant production jobs in 2019 and in 2020. During the Corona virus pandemic, we also made it possible for college students there to participate in free virtual training. In addition, a project is underway with the aim of appointing a suitable deputy or potential successor for all key positions. These efforts were successful for around 80% of the relevant positions. The necessary training measures for the defined key positions are subsequently implemented using the performance management system.

At the end of the reporting period, 174 employees in production at the Waldenburg site were certified Six Sigma green belts, significantly more than our target of at least 10% of the relevant workforce. With 19 Six Sigma black belts, we also have more qualified employees than is generally the case. Our focus in the current year is now primarily on implementing the lean projects without any further build up Six Sigma qualifications.

With the realignment of our global sales organization in favor of a functionally based structure, we are creating a clear separation between the "bid" and order entry processes and defining responsibilities more clearly than before. We already implemented these structures in Germany in 2019 under the heading of *Sales Excellence*, and our sites in Italy, Spain, France and the United Kingdom followed suit in the reporting year. Additional sites will be added in the current year.

As a leading technology company, the ability to attract highly skilled employees for the respective positions is of vital importance for our success. The main risks result from a possible shortage of suitable specialists and in the loss of knowledge due to key employees leaving the company. We counter these risks with the measures described under Employee wellbeing in this report. Further information on how these risks were handled in the reporting year is provided in the management report 2020 in the section on the Group's risk situation under the heading Personnel risks.

Sustainable innovation

Explosion protection guarantees the safety of people and the environment. New and innovative explosion protection solutions which further increase this safety are thus firmly in line with the fundamental objectives of sustainability. R. STAHL's technology-leading position in the field of explosion protection is based on the strategic anchoring of research and development in our business activities. On average, we invest between 5% and 7% of our annual sales in these activities. In 2020, our research and development expenses amounted to € 19.9 million or 8.1% percent of sales.

In addition, workplace-oriented continual improvement processes (CIP) and our company suggestion scheme (see also Incentivizing new ways to think) form the basis for the continuous optimization of our products. For many decades now, we have been driving the fundamental technological development of explosion protection. Examples include the first use of plastic for explosion-protected enclosures in the 1960s, the first explosion protected fieldbus system and the introduction of explosion protected remote I/O systems in process automation.

For the development of new products, we not only draw on our extensive technological and market expertise, but above all on our findings from customer discussions. We already focus on the excellent workmanship and durability of our products during the development phase in order to conserve resources over the long term and promote sustainability. For example, our market-leading range of explosion-protected LED luminaires offers customers numerous solutions to significantly reduce their environ mental impact, as LED technology features significantly lower power consumption and longer service life compared to conventional lighting. This reduced electricity consumption also allows the use of cables with smaller diameters, thus reducing the size and weight of the luminaires and enabling additional savings in material usage and freight costs. Together with the longer lifetimes of LED luminaires, these benefits reduce costs over the entire operating and life cycle. We continuously expand the share of LED technology in the luminaires we sell; since 2019, more than half of these have been based on LED technology. Our development processes follow defined customer requirements, which we have summarized under the acronym CARES and which will form the basis for all new developments in future. The aim is to reduce operating costs on the customer side (C, costs), ensure maximum system availability (A, availability), and to offer remote control (R, remote control), low environmental impact (E, environment) and product safety (S, safety). The production technology is also innovative, as it uses a friction welding process instead of multi-stage casting with resins and subsequent curing. In this process, two parts are moved against each other under pressure, whereby the resulting friction causes the material to heat up and plasticize at the contact surfaces. This enables top-quality joint qualities to be achieved within a short time. Further innovative approaches were made in LED technology in the field of animal welfare. By selecting the appropriate light spectrum, the perception of animals (such as insects or turtles) can be reduced in such a way that they are not attracted to the light emitted by industrial plants. We also work together with independent institutes, such as Pendoley Environmental Pty Ltd (Australia), and use their scientifically-tested and verified results, together with findings from practical field trials, for this purpose.

Our newly developed EXpressure® enclosure line based on a completely new and revolutionary technological approach for flameproof enclosures (Ex d) – of particular importance in explosion protection – also represents a significant step forward in the efficient use of resources compared to previous solutions. While maintaining the same uncompromising level of explosion protection, EXpressure® offers users the benefits of significant material and weight savings for metal enclosures. It also enables the use of significantly larger enclosure shapes. For applications in which the transport and installation of explosion-protected parts involves particularly high technical and material costs, for example on ships and oil rigs, the use of the lighter EXpressure® enclosures also offers considerable resource savings. We began marketing EXpressure® in 2018 and worked on refining the design with regard to production aspects in the reporting period. EXpressure® technology was used commercially for the first time in 2019 by a leading supplier of offshore cranes and they demonstrated their satisfaction with a follow-up order in the reporting year. In the future, EXpressure® will also demonstrate its advantages in loading arms used in ports for loading and unloading tankers with flammable materials.

In the reporting year, our Norwegian subsidiary developed an intelligent, energy-optimized distribution and control system for antiicing and deicing applications. This energy control system is used for land-based facilities as well as ships that use large thermal control systems in order to protect their applications from extreme cold and freezing.

To quantify our innovative strength, we not only record the new product ratio – the proportion of products sold that are less than five years old – but also the number of patent groups in which we actively hold patents. In 2020, our new product ratio was about one-fifth (19.3%), and a total of 368 patents were held in 71 patent families (2019: 335). In 2020, we filed 15 new patent applications (2019: 16) and received patent grants for 23 (2019: 9). Further information on our activities and our successes in research and development is provided in the management report 2020 in the section Basic principles of the Group under the heading Research and development.

The considerable innovative strength of our organization and our employees makes them attractive for our competitors, with the corresponding risk of losing development employees and their expertise to these competitors. We counter this risk by taking measures to maintain and enhance our attractiveness as an employer (see also Employee wellbeing and Benefits for the region).

Sustainable and fair finances

Financial decisions

In order to make responsible financial decisions, it is essential to have meaningful key performance indicators (KPIs) as well as established analytical and control processes.

The financial management of the R. STAHL Group is based on a three-year budget for order intake, sales, earnings and liquidity prepared once a year. There is also a regular rolling twelve-month forecast of the key earnings-related variables prepared as part of the monthly financial performance review. Further details on R. STAHL's management system are provided in the management report 2020 in the section Basic principles of the Group under the heading Management system.

Stable and sustainable financial management also requires a regular dialog with the company's investors. The company's liquidity is secured at all times by bilateral financing agreements with various banks. In addition, we concluded a new syndicated loan agreement in 2019 with a term of three years and an extension option for two further years and a total initial volume of € 70 million with an extension option of a further € 25 million. This not only created scope for investment in organic growth, but also for acquisition opportunities which might result from consolidation in our competitive environment or the technological expansion of our product portfolio. We provide liquidity for our subsidiaries through a Group-wide cash management and pooling system. A further method for steering liquidity is the active management of our working capital.

In addition to securing long-term external financing, we also attach great importance to trustful relationships with our shareholders. R. STAHL pursues a sustainable dividend policy intended to enable shareholders to participate in the company's business development while maintaining an appropriate capital structure. The key parameters used to determine dividend payments are earnings after taxes, equity ratio and expected future market developments. Furthermore, we regard our proactive dialog with shareholders as an important contribution to reducing the risk premium and cost of capital, as well as to retaining our long-term oriented shareholders. We thus also counter the inherent risks of a lack of operational continuity and sustainability which may result from frequent significant changes in the shareholder structure.

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

Finally, sustainable financial activities also require targeted measures for dealing with financial risks. In order to minimize financial risks, we have implemented a number of processes in our Group-wide risk management system. Details can be found in the management report in the section Risk and opportunity report.

Anti-Corruption

Our basic understanding of entrepreneurial activity is based on fair competition – competition that we seek to win through the quality and value of our innovative products and services. We are therefore committed to strict compliance without exception with all national and international regulations and laws, in particular with regard to the illegal offering or granting of unfair advantages (corruption) in connection with business activities, directly or indirectly, in the form of cash or any other services. To ensure this objective is achieved, we implemented a Group-wide Code of Conduct in 2009 which all employees are informed about via e-learning systems. A repeat of our online training on the Code of Conduct across all Group companies that is scheduled every three years will be conducted in the current financial year. Briefings on the topics of anti-corruption and competition law were held in the reporting year.

We also support compliance with our Code of Conduct by means of our authority matrix and dual control principle. Although we generally consider the risk of involvement in money laundering to be relatively low due to our business model, we create additional hurdles to prevent such attempts with the above mentioned measures. As part of the realignment of our central purchasing organization, we revised our signature regulations for transactions with suppliers and service providers in 2019, redefined responsibilities and updated authorization limits. At the same time, we introduced a central payment system in 2019 that will be used for Group-wide payment transactions. As well as offering a streamlined payment process, this system also offers significantly greater protection against unauthorized payments (fraud). We prioritize event-driven checks of possible non-compliant behavior with regard to regulations or laws. Experience has shown that our measures have raised awareness of the importance of acting in accordance with guidelines. This is also reflected, for example, in the number of staff queries to the Compliance Officer regarding doubts about the acceptance of invitations or gifts. Since establishing these measures and processes, there have been no reported cases of anti-trust violations. We ensure compliance with anti-trust regulations, also within our industry when drafting the extremely important technical standards for our business, by providing training as required.

The risks arising from non-compliant behavior may be significant and can result, for example, in damage claims, fines, penalties, reputational damage or exclusion from tendering processes for public-sector contracts. Despite limited auditing capacities, R. STAHL has begun regularly performing checks along the supply chain with various subcontractors.

Due to the training measures taken and our corporate culture, we regard the risk of violations by R. STAHL employees as relatively low.

Benefits for the region

R. STAHL can look back on over 140 years of history as a traditional mid-sized company. Our production and sales facilities are located around the world and more than 85% of our workforce is concentrated at our seven international production sites. We create regional added value at these sites in particular.

R. STAHL's business roots are in the German state of Baden-Württemberg. Our largest production facility has been in the Hohenlohe-Franconia region for decades and in Waldenburg since 2001. In 2019, we completed the long-term restructuring of the building lease agreement for this site until 2038, thus reaffirming our commitment to the region. Around half of our total workforce is based in Waldenburg, as well as our training department, thus making the region especially important for the R. STAHL Group. We are committed to expanding the local educational infrastructure, including initiatives for the preparation, support and implementation of industrial automation and Industry 4.0, helping to ensure the future viability and prosperity of the region. We are also a member of *Innovationsregion Hohenlohe e. V.*, an association of leading regional companies dedicated to supporting thorough training and further education for the employees of the participating companies. It has already resulted in the *MINTec* project (Mathematics, Informatics, Natural Sciences and Technology), which promotes the teaching of scientific and technical topics in kindergartens and schools and trains apprentices to become learning partners, as well as the *GABI* project (joint training initiative), which we support with a number of activities. R. STAHL apprentices are given regular didactic training to help inspire children at cooperating schools and kindergartens to later take up *MINTec* professions. During the project, our staff and apprentices teach and support children in the *MINTec* workshop. Our range of activities is rounded off by Inventor Days. The *Innovationsregion Hohenlohe e. V.* also succeeded in procuring generous grants from the foundation *Landesstiftung Baden-Württemberg* to support its *MINTec* activities. A further focus of the association is to strengthen networking among regional companies, local technical colleges and the Reinhold-Würth University. Support is provided for the expansion and further development of Campus Künzelsau, Campus Schwäbisch Hall and Heilbronn University of Applied Sciences. This ensures the long-term, seamless continuation of *MINTec* – from kindergarten to university. Common interests of the association's member companies are translated into specific training and further education measures. For example, a two-year electrotechnical apprenticeship was launched and new university courses have been set up in accordance with the requirements of member companies. Managers are also involved in these educational efforts, for example by playing a leading role on the Advisory Board of Heilbronn University of Applied Sciences or serving as board members for the support associations of technical or commercial colleges in the region.

As part of their comprehensive education program, apprentices at R. STAHL also have the opportunity to gain experience in social projects in addition to their technical training. A social project week is held annually during the last school week before the summer holidays, with around 40 apprentices supporting various social institutions with a total of around 1,600 working hours. We support local retirement homes, facilities for the disabled, and the SOS Children's Village in Waldenburg. We also play an active role in helping refugees integrate into local society and provide ongoing support for them. Also included in our commitment to the Hohenlohe region is the support we provide for local sporting events.

In the reporting year under review, we supported the Albert Schweizer Children's Village in Waldenburg in the Hohenlohe region at R. STAHL's headquarters as well as a school and a cultural event with donations in cash or in kind. The Technical University of Dresden also receives grants from us.

With a budget of 2% of its annual net profit, our subsidiary in India supported local projects in the Chennai region once again in the reporting year, including the Roshini Homes children's home, which provides shelter and education for orphans.

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

Incentivizing new ways to think

The continuous improvement of products and processes requires the systematic management of ideas and innovation. The objective is to integrate and apply the knowledge and creativity of all employees so that overall competitiveness can be strengthened.

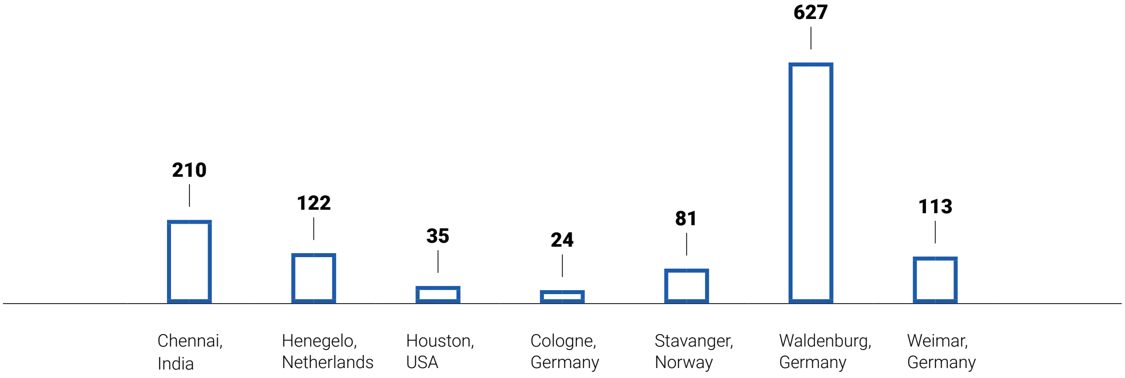
The efficiency program we launched in 2018 involves far-reaching changes in the Group's organization and processes. In addition to streamlining structures and procedures, the focus is on creating a permanent culture of change characterized by continuous learning. To this end, we also train production employees in lean management methods (Six Sigma). We have achieved a Six Sigma training rate of almost 100% in our global production companies. There was also progress with a number of lean projects in our manufacturing areas in the reporting year, including a GPS-based driverless system in Waldenburg for transporting raw materials from the warehouse to the production areas. In addition, we have started to implement lean management in administrative areas as well.

To press ahead with the continuous development of our organization and corporate culture, we apply the methodical concept of continual improvement also known as "kaizen" in the language of lean management. Kaizen measures generally include controlled idea generation as part of a standards-based quality management process. The aim is to continuously improve existing processes. Good suggestions for improvement are recognized with cash or non-cash rewards. In the reporting year, despite the operational restrictions imposed by the Corona virus pandemic, recognizable savings of around € 340,000 (2019: >€ 600,000) were achieved, for which non-cash and cash awards totaling around € 30,000 (2019: € 38,000) were distributed.

An key goal of our sustainability efforts is to successively expand the scope of our sustainability reporting to all subsidiaries of the R. STAHL Group. In the reporting year, we also made further progress in this area by recording im-

Non-financial Group statement

NUMBER OF KAIZEN MEASURES AT R. STAHL'S GLOBAL PRODUCTION SITES IN THE REPORTING YEAR



provement measures at our production sites worldwide. Data from the previous year, which was limited to sites in Germany and India, was available to us for all of our seven production sites for the first time in the reporting year.

Ten major lean projects were implemented in Germany in the reporting year, while three Six Sigma Black Belt and two Green Belt projects were implemented at the subsidiary in India. With a total of 627 (2019: 990), it was not quite possible to achieve the 840 kaizens and improvement proposals planned for the Waldenburg site for the year under review.

Overall, the improvement measures at our global production sites resulted in sustainable annual cost reductions in the low single-digit million range. The savings achieved via continuous shop-floor management and Gemba walks are not only financial, but can also be expressed in terms of reduced workload, shorter distances and more intelligent control of value flows. A further expansion of lean measures is planned for the current year.

Our ideas management measures are supplemented by further incentives to think in new ways, including *STAHL goes crazy*, a creative project series initiated by our apprentices to promote lateral thinking. We also regularly organize forums with speakers to discuss interdisciplinary topics from various areas with our executives, such as health, social policy or personal development. The goal is to raise awareness among employees for accountability and sustainability in the way they think and act – something which is manifested in our daily work and corporate culture. Due to the Corona virus pandemic, these events could not take place in the reporting year.

FORECAST

As an internationally-positioned specialist supplier in the electronics industry, we produce and market our products and solutions worldwide. Our business therefore depends on global economic trends as well as the development of certain major foreign currencies, particularly the US dollar. In addition to the oil and gas industry, the most important sectors for our business include the chemical and pharmaceutical industry.

OVERALL ECONOMIC OUTLOOK

Global economy expected to recover significantly in the coming years

According to January 2021 estimates by the International Monetary Fund (IMF), global gross domestic product should recover significantly in 2021 and 2022 from the downturn in the reporting year against the backdrop of internationally progressing vaccination successes against the Corona virus and ongoing government support measures. Growth of 5.5% is expected for the current year, followed by further growth of 4.2% in the following year. The IMF assumes that there will be considerable differences in regional development, with emerging countries growing significantly faster at 6.3% than the industrialized countries with an expected increase of 4.3%. In the USA and Japan, economic output is expected to return to pre-Corona virus pandemic levels as early as the second half of the current year, while in the euro zone and the United Kingdom it will not do so until 2022. In China, the economic recovery should continue in 2021 due to the successful containment of the Corona virus pandemic, leading to growth of more than 8%, and in India double-digit growth is expected in the current year due to the lifting of the lockdown measures, which began in the second half of 2020.

However, despite the encouraging progress made in addressing the Corona virus pandemic, there remain significant risks that could impact global economic development. In this context, the IMF considers the emergence of new virus variants and slow progress in the vaccination measures initiated worldwide to be a major risk. The IMF also warns against the premature termination of government support measures, which could lead to an increase in corporate insolvencies and unemployment and consequently have a negative impact on investment and consumption. Another critical factor is the increasing indebtedness of countries that were already struggling with tight budgets before the advent of COVID-19.

FORECAST FOR YEAR-ON-YEAR CHANGE IN GROSS DOMESTIC PRODUCT IN 2021[1)]

in %	
World	**+5.5**
Industrialized countries	+4.3
USA	+5.1
Euro zone	+4.2
Germany	+3.5
France	+5.5
Italy	+3.0
Spain	+5.9
Japan	+3.1
United Kingdom	+4.5
Canada	+3.6
Emerging markets	+6.3
Asia	+8.3
China	+8.1
India	+11.5
Russia	+3.0
Latin America	+4.1

1) International Monetary Fund, WORLD ECONOMIC OUTLOOK UPDATE, January 2021

INDUSTRY OUTLOOK

Expected increase in demand for oil , but total still below pre-Corona virus pandemic level

Buoyed by the expected global economic recovery, OPEC also expects a significant rebound in global oil demand volumes in its January 2021 monthly oil market development report. Demand should gradually increase from 93.2 million barrels/day in the first quarter to 97.9 million barrels/day in the final quarter of the year. Over the year, this corresponds to an average volume of 96.1 million barrels/ day, an increase of 5.9% year-on-year. The high level of demand of around 100 million barrels/day prior to the start of the Corona virus pandemic will therefore not be reached in the current year.

In the first half of the reporting year, the global oil market was impacted by a very rapid plunge in demand of up to one-third within just a few short weeks, a development that was only countered on the supply side with a significant delay. The subsequent rapidly developing excess supply of oil averaged 8.7 million barrels/day in the second quarter and led to an unprecedented drop in the price of Brent crude on the global oil markets to below US$20/barrel. Following significant cuts in oil production, global demand slightly exceeded supply from the third quarter onwards, causing the oil price to recover to over US$50/barrel by the end of the year. Against the backdrop of rising demand, the ongoing reduction in global inventories and tight management of supply in line with demand, market experts are forecasting an average oil price of between US$50/barrel and US$55/barrel for the current year, corresponding to increases of between 16% and 27% respectively compared with the average price in the previous year. The improved revenue performance of oil producers resulting from rising volumes and prices should also be reflected in higher investment in explosion-proof products in the reporting year.

Chemical industry association VCI expects significant growth for the chemical industry

In its March 2021 assessment, the German Chemical Industry Association (VCI) forecasts significant growth of 5.9% for the global chemical industry in the current year. China and India are expected to grow by 11% and 10% respectively, while chemical companies in the USA and Russia are expected to grow by 5% each. Developments in Europe were impacted by the significant increase in the number of infections in the final quarter of the previous year and the resulting renewed limitations on economic activity. The European chemical industry will recover somewhat more slowly in the current year, with an increase of 4.5%, and will take longer to return to the levels seen before the start of the Corona virus pandemic. Growth of 3.5% is expected for Germany.

Global demand for electr(on)ic products to increase by 6% in 2021

Following weak development in the previous year, the German Electrical and Electronic Manufacturers' Association (ZVEI) expects a significant recovery in demand for electr(on)ic products and global growth of 6% to € 4.6 trillion for the current year. The most substantial contribution is expected from Asia, which represents around 60% of the global market and should grow by 7%, led by China with an increase of 8%. The ZVEI also expects growth of 7% for the USA, while expectations for the European Union are slightly lower at 6%. Among the largest industrialized nations, sales growth is expected to be lowest in Germany (+5%) as well as South Korea and the United Kingdom (both +4%).

FORECAST FOR YEAR-ON-YEAR CHANGE IN INDUSTRY-SPECIFIC KEY FIGURES IN 2021

in %	
Oil demand, world[1]	+5.9
Oil price, world (Brent, change vs. annual average)[2]	+16 bis +27
Chemical industry, world[3]	+5.9
Chemical industry, Western Europe[3]	+3.5
Electrical industry, world[4]	+6
Electrical industry, Germany[4]	+5

[1] OPEC Monthly Oil Market Report – January 2021; VCI, World Chemistry Report, January 2021
[2] OMV Group Report January-December and Q4 2020, February 4, 2021
[3] VCI, Business Worldwide – The Economic Situation of Global Chemistry in Q4 2020, March 2021
[4] ZVEI, The Global Electrical Industry – Facts, Figures and Data, August 2020

OUTLOOK R. STAHL

Expected recovery of the global economy and important sales markets will also lead to increasing demand for explosion protection solutions

Against the background of the expected significant recovery of all relevant key markets, demand for products and solutions for electrical explosion protection is also expected to increase in the current year. It should be noted, however, that the capital goods industry lags behind the general economic trend. It remains difficult to predict the exact timing of the Corona virus pandemic because of the uncertainties surrounding its future development.

R. STAHL expects sales to increase by a low single-digit percentage in 2021

Even though the mood in many of our sales markets has already brightened considerably in the first few months of the current year, this has not yet been sustainably reflected in our order intake over the course of the same period. For 2021 as a whole, following a subdued start to the year, we expect our business to increase at a growing pace over the remainder of the year. Because sales development sometimes follows order intake with a significant time lag, we expect overall sales growth in the low single-digit percentage range in 2021 compared to the previous year.

In addition to growing sales, another focus of our work in the reporting year was on the systematic implementation of the Group strategy, which addresses our key value levers of efficiency, technology and growth. We are building on our competitiveness through the further development and data-driven management of our global production, sales and administration processes to a level of excellence and through the increasing standardization of our IT systems. We are adding technological upgrades to our product portfolio in the areas of automation, luminaires and low-voltage technology. On the market side, we are focusing on expanding our position in previously underrepresented regions, on the growth areas of low-carbon and carbon-neutral energy sources, and in the future also on digital services. Due to the investments required to implement these strategic measures, EBITDA pre exceptionals in 2021 will still be slightly below the prior-year level despite the increase in sales, resulting in a negative net profit. However, we are thus creating the necessary conditions for future margin growth.

While we manage R. STAHL Group mainly on the basis of EBITDA pre exceptionals, in particular to measure the success of ongoing efficiency measures, R. STAHL AG's ability to distribute dividends is largely determined by the annual result. For 2021, we assume a net loss in the single-digit million range for R. STAHL AG. Assuming this, no dividend distribution is expected for 2021.

Continued high liquidity expected with slightly lower equity ratio

Given the negative net profit and assuming that the valuation of our pension obligations will not be subject to any significant changes in the current year, we expect a slight decrease in the R. STAHL Group's equity ratio in 2021 compared to the end of the previous year. We will counteract the expected decline in cash flow by taking appropriate measures to reduce net working capital, which means that we expect the Group's liquidity to remain very comfortable over the year as a whole.

EXECUTIVE BOARD'S OVERALL ASSESSMENT OF EXPECTED DEVELOPMENT OF R. STAHL

Sales growth expected in 2021 due to recovery in all key markets – additional investments in efficiency and technology still slowing earnings development – liquidity position remains sound

Supported by a significant recovery in all relevant key markets, we expect year-on-year sales growth in the low single-digit percentage range in 2021 – a development that should gain momentum in the course of the year. The continued systematic implementation of our strategic agenda will result in a slight year-on-year decline in EBITDA pre exceptionals and is expected to lead to a slightly lower equity ratio for the year as a whole. We do not, however, expect any significant changes in the current strong liquidity position. This forecast is based on what we believe to be the most likely developments of our markets from the current perspective. Changes in general conditions due to economic or geopolitical developments, for example delays in combating the Corona virus pandemic, a very low oil price over a prolonged period, an intensification of trade conflicts or the emergence of regional trouble spots, may have a negative impact on our markets and thus on our business performance. A comprehensive description of the potential risks that may influence this forecast is provided in the risk report.

CORPORATE GOVERNANCE

COMPENSATION REPORT

For R. STAHL, transparent and comprehensible reporting on the compensation of the Executive Board and Supervisory Board is a central element of good corporate governance.

Compensation system for the Executive Board

The objective of the compensation system is to support successful and sustainable company management at R. STAHL. The compensation structure has been designed to provide incentives for successful work on the sustainable development of the company. The greater weighting of the long-term variable component in line with the company's development over the course of several years – combined with the Executive Board members' own investment in R. STAHL shares – establishes long-term behavioral incentives for the company's development.

Procedure

In accordance with Section 87 AktG, the full Supervisory Board is responsible for all decisions relating to the compensation of Executive Board members. The rules of procedure of R. STAHL AG's Supervisory Board stipulate that the Administrative Committee formed by the Supervisory Board prepares these decisions and submits resolution recommendations on them to the full Committee. This also includes the annual determination of the target total compensation for each Executive Board member for the following financial year. A target achievement of 100% is assumed for all components. As part of this decision-making process, the Supervisory Board also fulfills its obligation to regularly review the appropriateness of Executive Board compensation.

The regulations applicable to the handling of conflicts of interest (such as the obligation for early disclosure) are also observed in the process for establishing, implementing and reviewing the compensation system. No such conflict of interest has occurred to date.

The compensation system adopted by the Supervisory Board will be submitted to the Annual General Meeting for approval for the first time in 2021.

Compensation components

Executive Board compensation has a total of six components. The largest components are the annual base salary, short-term variable compensation and the already mentioned long-term variable compensation. A special bonus may also be paid as an option and without legal entitlement; the amount of this bonus is limited to the amount of an annual base salary. No change of control clauses have been agreed.

An allowance for pension, health and long-term care insurance is granted in the amount that would be incurred on the part of the employer if the Executive Board member had the status of an employee, which is of course dependent on the current contribution assessment limits and the current contribution rates. In addition, benefits in kind are granted in the form of contractually defined lease payments for a vehicle (Dr. Hallmann up to € 1,850 net per month, Mr. Linhard up to € 1,750 net per month).

Against the background of the implementation of the Shareholders' Directive (later in ARUG II), which was already under discussion in 2019, and the proposals for a comprehensive reform of the German Corporate Governance Code, compensation of the Executive Board was updated in spring 2019 and implemented in the Executive Board contracts. The basis for this was an analysis of the regulations agreed up to that point and the resulting proposed changes by an independent compensation consultant. SDax companies were used as the horizontal comparison group.

The vertical appropriateness of the compensation of the members of the Executive Board was examined in detail as part of the last full compensation report commissioned by the Supervisory Board in 2015 and assessed as being in line with the market. The compensation ratios within the Executive Board, the compensation ratios of the remaining hierarchy levels (1st level below the Executive Board, heads of business units, non-pay-scale employees and pay-scale employees) were compared with the Executive Board member on the basis of internal consistency, and the compensation ratios between the Executive Board member and mid-level pay-scale employees were compared with market data. In the view of the Supervisory Board, there has been no significant change in the absolute figures since the report was prepared. Plans call for the hiring of an independent compensation consultant to provide a new full compensation opinion when new Executive Board contracts are concluded.

As a result of the described changes in 2019, the amount of the long-term variable compensation component outweighs the short-term variable compensation component accordance with the recommendation. A prerequisite for the payment of the long-term variable compensation components is a mandatory personal investment of the Executive Board members in R. STAHL shares amounting to at least 50% of an annual basic salary at the time of payment Until the amount of the personal investment is fully reached, 30% of the annual long-term variable compensation must be used for the acquisition of the shares.

Short-term variable compensation

The short-term variable compensation was changed in 2019 from a previously fully profit-oriented component to a target bonus system. It comprises two financial subcomponents and the individual performance of the Executive Board member. EBIT and free cash flow were generally agreed for the financial subcomponents. The two financial subcomponents have equal weighting for the bonus calculation. 100% target achievement corresponds to the values for the reporting year from the planning process. The calculated amount is multiplied by a factor of 0.8 to 1.2 depending on the individual performance of the Executive Board member in the respective financial year. The Supervisory Board assesses individual performance on the basis of individual (primarily non-financial) targets at its reasonable discretion. As a general rule, three to four targets are set for each member of the Executive Board; individual targets are also set for both members of the Executive Board. Examples include the further development and implementation of the Group's strategy, conducting an employee survey and deriving measures from it as well as evaluating the status of managers and management development. These targets are developed by the Administrative Committee, agreed in advance with each member of the Executive Board and, following a resolution by the full Committee, agreed with the members of the Executive Board before the end of the financial year for the following year. The Administrative Committee reviews the implementation of these targets, discusses the assessment with the members of the Executive Board and proposes a factor per Executive Board member to the Supervisory Board. If the target is achieved in full, the factor is 1.0. For Dr. Hallmann, the amount of the short-term component in this case is € 170 thousand and for Mr. Linhard it is € 120 thousand.

The short-term component is capped at 160% of target achievement for Dr. Hallmann and 150% of target achievement for Mr. Linhard. The maximum amount also includes the factor for the individual performance of the Executive Board member. As a result, Dr. Hallmann's short-term compensation for both financial sub-targets combined is limited to a maximum of € 272 thousand per year. In the case of Mr. Linhard, this amount is limited to € 180 thousand. If the degree of target achievement is 70% or less per individual target, there is no entitlement to short-term variable compensation. The short-term variable compensation for the respective financial year is due for payment after the end of the Annual General Meeting of the company that has resolved on the appropriation of profits for the corresponding financial year.

Long-term variable compensation

Long-term variable compensation is based on the achievement of Group targets for the key performance indicators ROCE and EBT (for the definitions of these indicators, see the glossary at the end of the Annual Report). The target achievement rate is measured over a period of three financial years. The Supervisory Board sets the targets, based on the approved budget, at the beginning of the financial year following the end of the respective three-year period. At the end of each financial year, the Supervisory Board sets a three-year target for the respective Executive Board member, based on the three following financial years. The relevant target figures are – equally weighted in each case – the average ROCE and EBT to be achieved over the respective three-year period. If 100% of the targets are met, this results in an amount of € 200 thousand for Dr. Hallmann and € 142.5 thousand for Mr. Linhard under the long-term component. The long-term component is capped at 160% of target achievement for Dr. Hallmann and 150% of target achievement for Mr. Linhard. In the case of Dr. Hallmann, this corresponds to a maximum amount of € 320 thousand, taking both targets into account. For Mr. Linhard, the maximum amount is € 213.75 thousand. If the degree of target achievement is 70% or less for each individual target, there is no entitlement to long-term variable compensation.

The long-term variable compensation is payable after the end of the Annual General Meeting of the company that has resolved on the appropriation of profits for the last financial year of the three-year period.

For the variable compensation components, so-called "claw-back" clauses have been agreed in the Executive Board contracts, granting the company corresponding claims for repayment if the conditions are met.

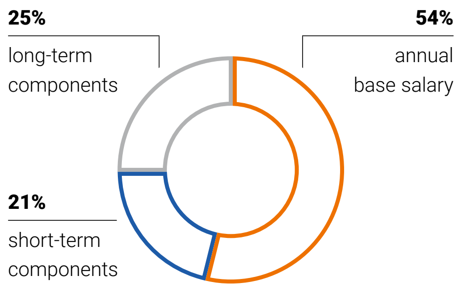
Special bonus

In addition to the above compensation components, the Supervisory Board may, after the end of a financial year, at its own reasonable discretion and in compliance with the requirements of section 87 (1) AktG, award a special bonus for outstanding achievements of the Executive Board up to the amount of an annual basic salary. There is no legal entitlement to the granting of this special bonus. The possibility of granting such a discretionary bonus is intended for exceptional situations in which, for example, despite distortions in the key financial indicators, the activities of individual Executive Board members in the past financial year were characterized by extraordinary performance outside the agreed targets in the interests of the Company and its shareholders.

Compensation mix

If one considers the annual base salary, the short-term variable compensation component and the long-term variable compensation component, assuming 100% target achievement in each case, the rounded percentage breakdown is as follows:

COMPENSATION MIX



Minimum and maximum compensation

Based on the contractual compensation rules described above (in the version agreed for a further three years from 1 October 2020 on the occasion of the appointment to the Executive Board), Dr. Hallmann's possible minimum and maximum compensation is as follows:

MINIMUM AND MAXIMUM COMPENSATION DR. MATHIAS HALLMANN

€ 000	min.	max.
Annual basic salary	420.0	420.0
Short-term variable compensation	0.0	272.0
Long-term variable compensation	0.0	320.0
Special bonus (optional without legal entitlement)	0.0	420.0
Leasing rate for car	22.2	22.2
Minimum/maximum compensation[1]	**442.2**	**1,454.2**

[1] Minimum compensation in the amount of € 442.2 thousand and maximum compensation in the amount of € 1,454.2 thousand plus the monthly health, long-term care and pension insurance allowance of around € 1,000

In the case of Mr. Linhard, the possible minimum and maximum compensation based on the contractual provisions is as follows:

MINIMUM AND MAXIMUM COMPENSATION JÜRGEN LINHARD

€ 000	min.	max.
Annual basic salary	300.0	300.0
Short-term variable compensation	0.0	180.0
Long-term variable compensation	0.0	213.75
Special bonus (optional without legal entitlement)	0.0	300.0
Leasing rate for car	21.0	21.0
Minimum/maximum compensation[1]	**321.0**	**1,014.75**

[1] Minimum compensation in the amount of € 321 thousand and maximum compensation in the amount of € 1,014.75 thousand plus the monthly health, long-term care and pension insurance allowance of around € 1,000

Compensation system for the Supervisory Board

Members of the Supervisory Board are entitled to appropriate compensation which considers both the structure and the amount of the compensation required for the office of Supervisory Board member and the situation of the company.

Procedure

The compensation of the Supervisory Board is regulated in Article 14 of the Company's Articles of Association. Accordingly, each member of the Supervisory Board receives fixed annual compensation determined by the Annual General Meeting. This amount remains valid until the Annual General Meeting resolves a change. The Annual General Meeting sets additional compensation in the same way for service on a committee and for financial years for which a dividend is paid. The chairmen of the committees receive double the amount of compensation for serving on a committee. The Chairman of the Supervisory Board receives double the compensation resulting from this. Cash expenses and value added tax are to be paid separately. If the Executive Board and Supervisory Board see reason to change the compensation, they shall submit a proposal to the Annual General Meeting for a modified compensation system or a modified compensation amount. This notwithstanding, the compensation of the Supervisory Board, including the compensation system for the Supervisory Board, is submitted to the Annual General Meeting every four years for (if necessary, confirmatory) resolution in accordance with Section 113 (3) AktG. This will be undertaken the next time at the Annual General Meeting in 2021.

The regulations applicable to the handling of conflicts of interest (such as the obligation for early disclosure) are also observed in the process for establishing, implementing and reviewing the compensation system for the Supervisory Board. No such conflict of interest has occurred to date.

Compensation components

Fixed annual compensation

The Annual General Meeting resolved at its meeting on 22 June 2007 to raise the fixed annual compensation for each Supervisory Board member to € 18 thousand and the compensation for Supervisory Board members' committee membership to € 3.65 thousand with effect from 1 July 2007.

Variable compensation

The variable part of the Supervisory Board members' compensation depends on the dividend distributed in the respective fiscal period. For each full percent dividend distributed in excess of 20% of share capital, Supervisory Board members receive € 0.8 thousand. With a resolution of the Annual General Meeting of 27 June 2008, it was decided that effective 1 July 2008 this additional compensation should be limited to a maximum of twice the fixed annual compensation for a member of the Supervisory Board, or the fixed annual compensation for the Supervisory Board chair, and twice the fixed annual compensation for committee members or the committee chair.

DISCLOSURES REQUIRED BY TAKEOVER LAW PURSUANT TO SECTION 289A (1) HGB AND SECTION 315A (1) HGB

Composition of the share capital, classes of shares, rights and obligations

R. STAHL AG's share capital amounts to € 16,500,000, divided into 6,440,000 no-par value registered shares. Each no-par value share represents € 2.56 of the capital stock.

Every shareholder has economic and administrative rights. In accordance with Section 58 (4) AktG, economic rights are the right to participate in the profits and, according to Section 271 AktG, in the liquidation proceeds, as well as, according to Section 186 AktG, a subscription right to new shares in the case of a capital increase. Administrative rights include the right to attend the Annual General Meeting and the right to speak, ask questions, propose motions and exercise voting rights at the Annual General Meeting. Each no-par share grants one vote at the Annual General Meeting. The Annual General Meeting elects the members of the Supervisory Board representing the investors and the auditor, it decides on the approval of the actions of the Executive Board and Supervisory Board, on amendments to the Articles of Association and corporate actions, on authorization to acquire treasury shares and, if required, on special audits, on the premature removal of Supervisory Board members and on the dissolution of the company.

Restrictions on voting rights and transfer

As far as R. STAHL is aware, the consortium of family shareholders of R. STAHL AG has a pre-emptive right regarding the shares in R. STAHL AG held by RSBG SE on the basis of existing agreements until 31 December 2024.

As far as R. STAHL is aware, there is a syndicate agreement in the consortium of family shareholders of R. STAHL AG. With regard to shares of the family shareholders falling within the scope of this syndicate agreement, a voting agreement and restrictions on disposal apply.

Direct or indirect shareholdings in the capital of more than 10% of the voting rights

As of 31 December 2020, the company had received the following notifications regarding direct or indirect shareholdings exceeding 10% of voting rights:

- In a notification dated 2 January 2020, the consortium of family shareholders of R. STAHL AG informed the company that this consortium holds a stake in the share capital of R. STAHL AG amounting to 36.02%.
- In a notification dated 28 August 2019, RSBG SE informed the company that it holds a 14.25% stake in R. STAHL AG’s share capital.
- In a notification dated 5 October 2020, the investment stock corporation for long-term investors TGV informed the company that it holds a 10.03% stake in the share capital of R. STAHL AG.

Holders of shares with special rights conferring powers of control

The Company does not have any shares with special rights conferring powers of control.

Voting rights control of employee shares in the event of the indirect exercise of control rights

Employee shares are not and have not been issued by the company.

Statutory provisions and provisions of the Articles of Association on the appointment and dismissal of members of the Executive Board and on amendments to the Articles of Association

The appointment and dismissal of members of the Executive Board are governed by Sections 84 and 85 AktG. This specifies that members of the Executive Board are to be appointed by the Supervisory Board for a maximum of five years. A repeated appointment for a maximum of five years in each case is permissible. In addition, Article 6 of the Articles of Association stipulates that the Executive Board shall consist of one or more persons. The Supervisory Board decides on the number of Executive Board members, appointment and revocation of an appointment and the service contracts. The Supervisory Board is entitled to appoint a member of the Executive Board as chairman and it will also appoint Executive Board deputy members.

Authority of the Executive Board to issue or repurchase shares

Authority to issue new shares

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

- for fractional amounts,
- in the case of a capital increase against contributions in kind, in particular for the purpose of acquiring companies, parts of companies or interests in companies,
- if capital is increased against cash contributions, the issue price is not significantly lower than the market price of the already listed shares of the same class and features and the pro rata amount of the share capital at-

tributable to the shares issued under exclusion of subscription rights does not exceed 10% of the share capital existing at the time this authorization becomes effective and at the time this authorization is exercised. The aforementioned 10% limit shall take into account:

a) treasury shares if they are sold during the term of this authorization under exclusion of subscription rights in accordance with Section 186 (3) Sentence 4 AktG,
b) shares issued or to be issued on the basis of a possible future authorization to service bonds with conversion and option rights or a conversion obligation, insofar as the bonds are issued during the term of this authorization under exclusion of subscription rights in corresponding application of Section 186 (3) Sentence 4 AktG.

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

Authority to acquire own shares

By resolution of the Annual General Meeting on 30 July 2020, the Executive Board was authorized, with the approval of the Supervisory Board, to acquire up to 10% of the current capital stock on the stock exchange or by means of a public purchase offer to all shareholders or a public invitation to submit offers for sale or by granting tender rights to all shareholders until 29 July 2025. The shares acquired on the basis of this authorization, together with other shares in the Company which the Company has already acquired and still holds or which are attributable to the Company pursuant to Sections 71d and 71e of the German Stock Corporation Act (AktG), may at no time account for more than 10% of the capital stock. The authorization may not be used for trading in treasury shares. The authorization may be exercised in whole or in part, once or several times, in pursuit of one or more purposes.

Furthermore, by resolution of the Annual General Meeting on 30 July 2020, the Executive Board was authorized to sell the acquired shares in whole or in part, on one or more occasions, individually or collectively, to third parties

- to use treasury shares for all legally permissible purposes, in particular to sell treasury shares acquired on the basis of an authorization granted in this or in an earlier Annual General Meeting in accordance with Section 71 (1) No. 8 AktG, also in a way other than via the stock exchange or by offer to all shareholders, if the own shares acquired are sold for cash at a price which is not significantly lower than the stock market price of shares of the Company of the same class at the time of the sale. This authorization shall only apply subject to the condition that the shares sold subject to the exclusion of subscription rights in accordance with Section 186 (3) Sentence 4 AktG may not exceed a total of 10% of the capital stock, either at the time it becomes effective or – if this value is lower – at the time this authorization is exercised. Shares issued during the term of this authorization from authorized capital excluding subscription rights pursuant to Section 186 (3) Sentence 4 AktG shall be counted towards this limit of 10% of the capital stock.
- with the approval of the Supervisory Board, to sell the acquired treasury shares in return for non-cash contributions, in particular also in connection with business combinations or for the (also indirect) acquisition of companies, parts of companies, equity interests or other assets, including receivables from the Company or its Group companies. Shareholders' subscription rights are excluded in the aforementioned cases.
- to cancel the treasury shares with the approval of the Supervisory Board without any further resolution by the Annual General Meeting. The cancelation leads to a reduction in capital. In deviation thereof, the Executive Board may determine that the capital stock shall remain unchanged upon redemption and shall instead increase as a result of the redemption of the shares of the remaining shares in the capital stock of the Company. In this case, the Executive Board is authorized to adjust the number of shares in the Articles of Association.

Significant agreements of the Company that are contingent upon a change of control following a takeover bid

R. STAHL AG has not entered into any material agreements that are contingent upon a change of control resulting from a takeover bid. No compensation payments have been granted to the Executive Board members and employees in the event of a takeover bid.

Significant agreements of the Company that are contingent upon a change of control following a takeover bid

In 2019, the Company entered into a syndicated loan agreement that includes a change of control clause under which the lenders participating in the syndicated loan have the right to terminate their loan commitments within 15 days of notification of the change of control with 15 days' notice to repay the amounts due and interest.

Compensation agreements with members of the Executive Board or with employees in the event of a takeover bid

Compensation agreements with members of the Executive Board or with employees in the event of a takeover bid have not been entered into.

DECLARATION OF CORPORATE GOVERNANCE PURSUANT TO SECTION 289F HGB AND SECTION 315D HGB

The corporate governance statement required for listed stock corporations pursuant to Section 289f of the German Commercial Code (HGB) and Section 315d of the German Commercial Code (HGB) has been issued and published on the Company's website at **www.r-stahl.com** under the heading ↗ **Corporate/Investor Relations/Corporate Governance/Corporate Governance Declaration**.

CONSOLIDATED FINANCIAL STATEMENTS

OF R. STAHL AG

CONSOLIDATED INCOME STATEMENT

1 January to 31 December

€ 000	Note	2020	2019
Sales	[6]	**246,489**	**274,784**
Change in finished and unfinished products		2,820	-610
Other own work capitalized	[7]	4,577	4,065
Total operating performance		**253,886**	**278,239**
Other operating income	[8]	11,104	13,705
Cost of materials	[9]	-85,675	-93,981
Personnel costs	[10]	-115,627	-122,013
Depreciation and amortization	[12]	-16,681	-18,928
Other operating expenses	[13]	-46,513	-50,680
Earnings before financial result and income taxes (EBIT)		**494**	**6,342**
Result from companies consolidated using the equity method	[4] [14]	1,554	1,654
Investment result	[15]	3	3
Interest and similar income	[16]	134	125
Interest and similar expense	[16]	-3,480	-4,703
Financial result		**-1,789**	**-2,921**
Earnings before taxes		**-1,295**	**3,421**
Income taxes	[17]	-2,232	-2,073
Net profit/loss		**-3,527**	**1,348**
thereof attributable to other shareholders		-26	9
thereof attributable to shareholders of R. STAHL AG		-3,501	1,339
Earnings per share in €	[18]	**-0.54**	**0.21**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
1 January to 31 December

€ 000	2020	2019
Earnings after income taxes	**-3,527**	**1,348**
Gains/losses from currency translations of foreign subsidiaries, recognized in equity	-2,572	219
Expenses and income recognized directly in equity with subsequent reclassification to the income statement (recycling)	-239	0
Deferred taxes on gains/losses from currency translations	0	0
Currency translation differences after taxes	**-2,811**	**219**
Other comprehensive income with reclassification to profit for the period	**-3,734**	**219**
Gains/losses from the subsequent measurement of pension obligations, recognized in equity	-5,253	-7,865
Deferred taxes from pension obligations	1,519	2,192
Other comprehensive income without reclassification to profit for the period	**-2,811**	**-5,673**
Other comprehensive income (valuation differences recognized directly in equity)	**-6,545**	**-5,454**
thereof attributable to other shareholders	28	19
thereof attributable to shareholders of R. STAHL AG	-6,573	-5,473
Total comprehensive income after taxes	**-10,072**	**-4,106**
thereof attributable to other shareholders	2	28
thereof attributable to shareholders of R. STAHL AG	-10,074	-4,134

CONSOLIDATED BALANCE SHEET

€ 000	Note	31 Dec. 2020	31 Dec. 2019
ASSETS			
Intangible assets	[20]	43,260	41,424
Property, plant & equipment	[21]	80,348	85,959
Investments in associates	[4] [22]	9,803	8,834
Other financial assets	[22]	32	32
Other assets	[22]	1,497	3,945
Investment property	[22]	4,707	4,914
Deferred taxes	[17]	13,358	12,417
Non-current assets		**153,005**	**157,525**
Inventories and prepayments	[23]	36,938	34,180
Trade receivables	[24]	36,718	42,489
Contract receivables	[24]	637	622
Income tax claims	[24]	471	959
Other receivables and other financial assets	[24]	8,614	8,631
Cash and cash equivalents	[25]	19,854	14,966
Current assets		**103,232**	**101,847**
Total assets		**256,237**	**259,372**
EQUITY AND LIABILITIES			
Share capital	[26]	16,500	16,500
Capital reserves	[26]	13,457	13,457
Sales reserves	[26]	60,046	63,555
Accumulated other comprehensive income	[26]	-42,094	-35,521
Equity attributable to shareholders of R. STAHL AG		**47,909**	**57,991**
Non-controlling interests	[26]	234	449
Equity		**48,143**	**58,440**
Pension provisions	[27]	103,149	98,717
Other provisions	[28]	2,048	2,031
Interest-bearing liabilities	[29]	8,781	10,193
Lease liabilities	[1] [30]	21,050	25,056
Other liabilities	[32]	64	87
Deferred taxes	[17]	2,729	2,677
Non-current liabilities		**137,821**	**138,761**
Provisions	[27] [28]	8,632	8,118
Trade payables		13,805	15,092
Interest-bearing liabilities	[29]	16,913	8,957
Lease liabilities	[1] [30]	6,189	6,727
Deferred liabilities	[32]	12,394	14,186
Income tax liabilities		772	791
Other liabilities	[33]	11,568	8,300
Current liabilities		**70,273**	**62,171**
Total equity and liabilities		**256,237**	**259,372**

CONSOLIDATED CASH FLOW STATEMENT
1 January to 31 December

€ 000	2020	2019
Earnings after income taxes	**-3,527**	**1,348**
Result from the disposal of consolidated companies	-239	0
Depreciation, amortization and impairment of non-current assets	16,681	18,928
Changes in non-current provisions	-806	-103
Changes in deferred taxes	611	969
Equity valuation	-969	-1,243
Other income and expenses without cash flow impact	3,669	1,324
Result from the disposal of non-current assets	-141	-457
Cash flow	**15,279**	**20,766**
Changes in current provisions	578	-3,139
Changes in inventories, trade receivables and other non-capex or non-financial assets	550	1,721
Changes in trade payables and other non-capex or non-financial liabilities not attributable to investing or financing activities	1,456	273
Changes in working capital	**2,584**	**-1,145**
Cash flow from operating activities	**17,863**	**19,621**
Cash outflow for capex on intangible assets	-7,519	-5,793
Cash inflow from disposals of non-current intangible assets	32	560
Cash outflow for capex on property, plant & equipment	-5,214	-5,492
Cash inflow from disposals of property, plant & equipment and real estate held as a financial investment	492	69
Cash outflow for company acquisitions less cash acquired	0	-466
Cash flow from investing activities	**-12,209**	**-11,122**
Free cash flow	**5,654**	**8,499**
Distribution to/contribution from minority shareholders	-225	0
Cash outflow for the payment of lease liabilities	-6,724	-7,060
Cash inflow from interest-bearing liabilities	15,588	5,867
Cash outflow for repayment of interest-bearing liabilities	-8,987	-7,138
Cash flow from financing activities	**-348**	**-8,331**
Changes in cash and cash equivalents	5,306	168
Foreign exchange and valuation-related changes in cash and cash equivalents	-418	169
Cash and cash equivalents at the beginning of the period	14,966	14,629
Cash and cash equivalents at the end of the period	**19,854**	**14,966**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
1 January to 31 December

	Equity attributable to shareholders			
				Accumulated other comprehensive income
€ 000	Share capital	Capital reserves	Retained earnings	Currency translation
1 January 2019	**16,500**	**13,457**	**62,216**	**-3,558**
Net profit/loss for the year			1,339	
Accumulated other comprehensive income			0	200
Total comprehensive income			**1,339**	**200**
Dividend distribution			0	
Changes in the consolidated group			0	
31 December 2019	**16,500**	**13,457**	**63,555**	**-3,358**
1 January 2020	**16,500**	**13,457**	**63,555**	**-3,358**
Net profit/loss for the year			-3,501	
Accumulated other comprehensive income				-2,839
Total comprehensive income			**-3,501**	**-2,839**
Dividend distribution			0	
Changes in ownership structure of other shareholders			-8	
31 December 2020	**16,500**	**13,457**	**60,046**	**-6,197**

Unrealized gains/ losses from pensions	Total accumulated other comprehen-sive income	Total	Non-controlling interests	Equity
-26,490	**-30,048**	**62,125**	**133**	**62,258**
		1,339	9	1,348
-5,673	-5,473	-5,473	19	-5,454
-5,673	**-5,473**	**-4,134**	**28**	**-4,106**
		0	0	0
		0	288	288
-32,163	**-35,521**	**57,991**	**449**	**58,440**
-32,163	**-35,521**	**57,991**	**449**	**58,440**
		-3,501	-26	-3,527
-3,734	-6,573	-6,573	28	-6,545
-3,734	**-6,573**	**-10,074**	**2**	**-10,072**
		0		0
		-8	-217	-225
-35,897	**-42,094**	**47,909**	**234**	**48,143**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OF R. STAHL AG

PRINCIPLES AND METHODS OF CONSOLIDATED ACCOUNTING

1. BASIS OF PREPARATION

The consolidated financial statements of R. STAHL Aktiengesellschaft (Stuttgart District Court, HRB 581087) (hereinafter referred to as R. STAHL AG) as of 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS), as applicable in the European Union (EU) and the commercial law provisions pursuant to Section 315a (1) of the German Commercial Code (HGB). Those interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC) that are binding for the current year were observed.

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

The Group’s functional currency is the euro. Unless indicated otherwise, all amounts are stated in thousands of euros (€ 000).

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

Going concern

In the preparation of the financial statements, the Executive Board of R. STAHL AG assumes that the company is a going concern in view of the background information described below.

The syndicated loan agreement concluded in December 2019 with a volume of € 70 million and an option to increase that amount by a further € 25 million contains standard market covenants on financial strength, which may lead to an adjustment of the terms of the agreement or even to termination of the agreement by the participating banks if these covenants are breached.

On the basis of the approved medium-term plan and assuming an unchanged interest rate for the measurement of pension provisions compared with 31 December 2020, there will be an arithmetical covenant violation as of 31 December 2022. Due in particular to existing uncertainties with regard to development of the interest rate used to measure pension provisions and taking into account various interest rate sensitivity analyses carried out in the planning period, there is a possible covenant breach relating to equity. A further potential covenant breach in relation to net debt cannot be ruled out in the event of a significant worsening of the impact of the COVID-19 pandemic in 2021.

The Executive Board has already formulated appropriate countermeasures in the risk report as of 31 December 2020, which forms part of the combined management report. The Executive Board assesses the probability of an actual breach of the contract as low and has therefore prepared the consolidated financial statements as of 31 December 2020 under the assumption of a going concern.

Impact of new or revised standards

The accounting and valuation methods that have been applied basically correspond to the methods that were applied last year with the following exceptions resulting from new or revised standards.

In financial year 2020, the following new standards were mandatory for the first time:

Standard/Interpretation		Mandatory as of	Status
IFRS 16	COVID-19-related rent concessions	1 June 2020	amended
IFRS 3	Business combinations; definition of a business	1 January 2020	amended
IFRS 9, IAS 39 and IFRS 7	Interest rate benchmark reform	1 January 2020	amended
IAS 1, IAS 8	Amendments to IAS 1 and IAS 8: Definition of material	1 January 2020	amended
Various	Amendments to references to the conceptual framework in IFRS standards	1 January 2020	amended

Effects of other new or amended standards

Standards with mandatory application in the EU for the first time as of 1 January 2020 had no material impact on the consolidated financial statements.

New or revised standards that have not been applied

The IASB and the IFRS Interpretations Committee have adopted the standards, interpretations and amendments listed below, the application of which was not yet mandatory as of 31 December 2020, and some of which had not yet been endorsed by the EU. There are no plans for early application of these new rules. Subsequent future amendments are not expected to have a material impact on R. STAHL AG's consolidated financial statements, with the exception of the amendments to IAS 1 on the classification of liabilities. Due to the existing covenant regulations, a future impact of the amendments to IAS 1 cannot be ruled out.

Standard/Interpretation		Mandatory as of[1]	Endorsed by the EU Commission[2]	Expected impact
IFRS 17	Insurance contracts plus amendments	1 January 2023	no	none
IFRS 4, IFRS 9, IAS 39	Insurance contracts	1 January 2021	yes	none
Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 7 and IFRS 16	Interest rate benchmark reform (phase 2)	1 January 2021	no	none
IAS 1	Classification of debt as non-current or current plus postponement of initial application date	1 January 2023	no	none
Various	Annual Improvements, 2018–2020 cycle	1 January 2023	no	none
IFRS 3	Cross-references to the framework concept	1 January 2022	no	none
IAS 16	Proceeds before intended use	1 January 2022	no	none
IAS 37	Onerous contracts – costs of fulfilling contracts	1 January 2022	no	none

[1] Mandatory initial application date for R. STAHL AG
[2] until 31 December 2020

2. COMPANY DATA

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

Registered office:
Waldenburg (Germany)

Address:
Am Bahnhof 30, 74638 Waldenburg, Germany

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

3. RELEASE DATE FOR PUBLICATION OF FINANCIAL STATEMENTS

The Executive Board of R. STAHL AG approved the 2020 consolidated financial statements and 2020 Group management report for submission to the Supervisory Board on 13 April 2021. It will be presented to the Supervisory Board at its meeting on 15 April 2021.

4. PRINCIPLES AND METHODS OF CONSOLIDATED ACCOUNTING

Scope of consolidation

In addition to R. STAHL AG, the consolidated financial statements include 31 (2019: 32) domestic and international subsidiaries over which R. STAHL AG can exercise a direct or indirect controlling influence. According to IFRS 10, control exists if R. STAHL AG has decision-making power over the subsidiary based on voting or other rights, it participates in positive or negative variable returns from the subsidiary and can influence these returns through its decisions.

Associates are accounted for in the consolidated financial statements using the equity method. Associates are companies in which significant influence can be exercised over operating and financial policies and which are not subsidiaries. The capital share is generally between 20% and 50%. The at-equity result is reported as part of the financial result.

ZAVOD Goreltex Company Limited, Saint Petersburg, Russian Federation, is consolidated as an associate using the equity method. ZAVOD Goreltex Company Limited is a supplier of Ex products in Russia. In addition to its own products, the company markets R. STAHL's products on the Russian market.

Financial information on ZAVOD Goreltex, Saint Petersburg, Russia:

€ 000	2020	2019
Non-current assets	11,018	11,980
Current assets	23,072	25,582
Balance sheet total	**34,090**	**37,562**
Equity	27,182	30,889
Non-current liabilities	1,095	789
Current liabilities	5,813	5,884
Sales	40,475	46,084
Result for the year	6,216	6,616

Domestic and international companies included in the consolidated financial statements (incl. R. STAHL AG) are as follows:

	Domestic 31 Dec. 2020	International 31 Dec. 2020	Total 31 Dec. 2020	Total 31 Dec. 2019
Number of fully-consolidated companies	8	24	32	33
Number of companies consolidated using the equity method	0	1	1	1
Number of non-consolidated companies	1	1	2	2

The composition of fully-consolidated companies changed as follows in the previous year:

In November 2020, R. STAHL Kabushiki Kaisha, Kawasaki (Japan), was closed and deconsolidated.

In April 2020, R. STAHL AG acquired an additional 40% of shares in OOO R. STAHL, Moscow. This did not result in any change in the scope of consolidation because the company was already fully consolidated in the previous year.

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

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

Company acquisitions

No companies were acquired in the 2020 financial year. In the previous financial year, R. STAHL AG acquired 35% of the voting shares in R. STAHL SOUTH AFRICA (PTY) LTD, Edenvale (South Africa) and since then has held 70% of voting shares in the company. In addition, R. STAHL TRANBERG AS, Stavanger had acquired a product line in financial year 2019 within the scope of an asset deal.

Unconsolidated structured entities

The unconsolidated structured entity in accordance with IFRS 12 of the R. STAHL Group is Abraxas Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz, (hereinafter: Abraxas). R. STAHL AG is a limited partner with a capital share of 49.58% (nominal € 25,564.59) in Abraxas. The other limited partner, DAL Beteiligungsgesellschaft mbH, Mainz, holds an equity interest of 50.42% (nominal € 26,000.00). Management and representation of Abraxas is the responsibility of the general partner Abraxas Grundstücksverwaltungsgesellschaft mbH, Mainz, which does not hold any shares. R. STAHL AG participates in the profit and loss of Abraxas in proportion to its capital share. Its liability is limited to its capital contribution.

Abraxas' net profit for the year amounts to € 195 thousand (2019: € 181 thousand) while equity amounts to € -1,767 thousand (2019: € -1,959 thousand).

In 2000, R. STAHL AG and Abraxas concluded a property leasing transaction consisting of a building lease, real estate lease and purchase option agreement for the ground lease to the property entered in the land register of Waldenburg, District Court of Heilbronn – Sheet 2025 – district of Waldenburg plot 2006/14. There followed various contractual arrangements of a notarized and privately documented nature, which are noted in the last notarized collective certificate dated 27 March 2015.

The owner of the leasehold property is R. STAHL AG. On the leasehold property, the lessor has taken over the planning and construction of the administration building and the logistics building. In financial year 2013, the logistics building was extended by R. STAHL AG as the general contractor and in financial year 2014 the administration building was extended with the addition of a company restaurant and a newly built development center.

Abraxas grants R. STAHL AG, as lessee, the right to use the administration and logistics buildings. The lease is included in accordance with IFRS 16.

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

Abraxas has forfeited its future lease receivables and only the amount of the remaining residual values, secured by mortgages, is financed by debt.

As of 31 December, the following balances refer to the R. STAHL Group's arrangements with Abraxas.

Carrying amounts in € 000	**2020**	**2019**
Other financial assets		
Shares held by R. STAHL AG in Abraxas	26	26
Maximum risk of loss	**26**	**26**

Overall, R. STAHL AG does not have control over the relevant activities of the leasing object company. There is no consolidation obligation in accordance with IFRS 10.

Translation of foreign currency items

The cost of assets acquired in foreign currencies and income from sales in foreign currencies are determined using the exchange rates valid on the date of the transactions. Monetary items (cash and cash equivalents, receivables and liabilities) in foreign currencies are valued at the exchange rates on the balance sheet date. Translation-related changes in asset items and liabilities are recognized in profit or loss and reported in other operating income or other operating expenses, in other financial result as well as in available-for-sale financial assets in other equity items.

Translation of financial statements in foreign currency

Currency translation is based on the functional currency of the consolidated companies. The modified closing rate method is used for translation into the reporting currency for companies whose functional currency is not the euro but the local currency: Balance sheet items are translated into euros at closing rates on the reporting date, equity is translated at historical rates while expenses and income are translated at the average rate for the year. The difference between equity of the companies translated at historical rates at the time of acquisition or retention and equity translated at closing rates on the balance sheet date is disclosed separately as currency translation in other comprehensive income and only recognized in the income statement on disposal of a company.

The following changes in the exchange rates used for currency translation with a significant impact on the consolidated financial statements occurred in relation to one euro:

	Year-end rate		Average exchange rate	
in €	31 Dec. 2020	31 Dec. 2019	2020	2019
US dollar	1.2271	1.12340	1.1422	1.11948
British pound	0.8990	0.85080	0.8897	0.87777
Norwegian krone	10.4703	9.86380	10.7228	9.85109
Indian rupee	89.6605	80.18700	84.6392	78.83614
Russian ruble	91.4671	69.95630	82.7248	72.45534

Principles of consolidation

Capital consolidation is conducted at the acquisition date in accordance with the purchase method (IFRS 3). First, all assets, liabilities and additional intangible assets to be capitalized are measured at fair value. The acquisition costs of the investments are then offset against the proportionate share of revalued equity acquired. The resulting positive differences are capitalized as goodwill. Negative differences are reviewed once more and then recognized directly in the income statement.

In the event of staggered acquisition and subsequent assumption of control, the difference between the carrying amount and the fair value of the shares already held at the time of initial full consolidation is recognized in other income and expenses in the income statement.

Changes in the parent company's shareholding in a subsidiary that do not lead to a loss of control are accounted for as equity transactions. Differences from such transactions have to be set off against equity. A subsidiary is deconsolidated at the time the parent company loses control of the subsidiary.

Shares in a subsidiary's equity that are not attributable to the parent company are stated as non-controlling interests.

Intra-group transactions and intra-group profits and losses among the companies included in the consolidation are fully eliminated as part of the consolidation process.

The principles of consolidation are unchanged from the previous year.

5. ACCOUNTING AND MEASUREMENT METHODS

Uniform Group methods

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

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

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

Estimates and assumptions

Preparation of consolidated financial statements in accordance with IFRS requires assumptions and estimates to be made that affect the reported amounts of assets and liabilities, income and expenses as well as contingent liabilities. The respective assumptions and estimates are based on premises which represent the most recent knowledge. The estimates and the underlying assumptions are examined on an ongoing basis. Actual developments may result in amounts differing from these estimates. Such differences, if impacting on the accounting, are recognized in the period of change where the change affects this period only. If changes in estimates affect both the current period and future periods, these are recognized accordingly in the periods in question.

The uncertainty brought about by COVID-19 and its influence on the assumptions and estimates made, including on impairment calculations within the scope of IAS 36 and IFRS 9, provisions, fair value measurement, etc., were taken into consideration when preparing the consolidated financial statements. In financial year 2020, COVID-19 did not have a material impact on R. STAHL's consolidated financial statements.

Such estimates and assumptions mainly pertain to the following assets and liabilities:

Goodwill impairment

The R. STAHL Group tests goodwill for impairment at least once a year. This requires an estimate of the values in use of the cash-generating units to which the goodwill is allocated. Management has to estimate the expected future cash flows of the cash-generating units and furthermore select a suitable discount factor to determine the cash value of these cash flows.

Capitalized development costs

Development costs are capitalized in accordance with the accounting and measurement methods presented in this section. In order to determine the amounts to be capitalized, management has to make assumptions about the amount of the expected future cash flows from assets, the interest rates to be applied and the period of time for the influx of expected future cash flows that the assets generate.

Pension provisions

Expenses for defined benefit plans are determined using actuarial calculations based on assumptions with regard to discount factors, expected income from plan assets, future wage and salary increases, mortality and future pension increases. The applied discount factors are based on the yield of first-class, fixed-interest bearing company bonds. The expected long-term interest of the fund assets is determined on the basis of historical long-term yields and the structure of the portfolio. Pursuant to the long-term orientation of these plans, those assumptions are subject to significant uncertainties. The impact of changes in parameters applied as of the balance sheet date on the present value of the defined benefit obligation is presented in section 27. Any discrepancy between the parameters assumed and the actual conditions on the balance sheet date has no impact on consolidated net profit, as gains and losses resulting from the discrepancies based on the remeasurement of the net defined benefit liability are recognized directly in equity. For further information, please refer to section 27.

Deferred taxes

Determination of future tax advantages reflected in the balance sheet is based on assumptions and estimates of the development of tax income and tax legislation in those countries where Group companies are located.

Further assumptions

Estimates and assumptions are also used for purchase price allocations, the determination of economic lifetimes of intangible and tangible assets, accounting and valuation of inventories, receivables, provisions and the assessment of legal risks. Individual actual values may deviate from the estimates and assumptions. In accordance with IAS 8, changes are recognized in profit or loss when better knowledge becomes available.

Sales recognition

IFRS 15 specifies whether, in what amount and at what time sales are recognized. IFRS 15 is generally applicable to all contracts with customers.

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

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

The business purpose of R. STAHL is essentially the manufacture of products in the business field of explosion protection. The majority of customer contracts involve the transfer of products.

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

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

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

The regulations governing the determination of the transaction price and the allocation of the transaction price do not lead to any significant change in accounting practice for R. STAHL compared with the previous legal situation under IAS 18, as standalone sales prices are already recognized for the performance obligations to be identified.

When determining the transaction price, only contractual penalties or contractual incentives (for earlier product delivery) are to be determined in practice. Other variable components of transaction prices are of minor significance. At the end of the reporting period, there were no special sales with a right of return, repurchase agreement, option to purchase additional goods or services, significant financing component or similar features. R. STAHL works mainly as a principal, as it controls the service or product before it is handed over to the customer.

In 2020, there were no significant items with terms of payment of over 12 months.

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

Leases

R. STAHL has been accounting for lease agreements in accordance with IFRS 16 “Leases” since 1 January 2019. A lease is an agreement that conveys the right to use an identified asset for a specified period in exchange for consideration.

Transactions in which R. STAHL acts as lessee are accounted for using the right-of-use model in accordance with IFRS 16.22 Leases, irrespective of the economic (ownership) relationship to the leased asset at the beginning of the lease term. Rights-of-use over intangible assets are not accounted for by R. STAHL as a lessee in accordance with the right-of-use model due to the option provided under IFRS 16.4.

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

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

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

For low-value leases and short-term agreements with a term of less than twelve months, the application relief provided by IFRS 16.5 is utilized and the expense is recognized on a systematic basis over the term.

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

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

Depreciation is calculated using the straight-line method over the shorter of the lease term and the useful life of the identified asset. An impairment test is carried out in accordance with IAS 36 if events or changed circumstances indicate any impairment.

When concluding lease agreements, R. STAHL secures its operational flexibility by means of extension and termination options. Accounting for leases is significantly influenced by the assessment of the lease term. In determining the lease term, all facts and circumstances that offer an economic incentive to exercise existing options are considered. The assumed term thus also includes periods covered by extension options if it is assumed with a reasonable degree of certainty that they will be exercised. A change in the term is taken into account if a change occurs with regard to the reasonably certain exercise or non-exercise of an existing option.

R. STAHL acts as a lessee in particular in the field of real estate, vehicle fleet and operating and office equipment. In order to ensure its entrepreneurial flexibility, extension and termination options are agreed for real estate leases in particular, whose exercise is included in the term if it can be assumed with sufficient certainty that it will be exercised. With regard to lease agreements for vehicle fleets and operating and office equipment, the predetermined term ends are considered. All significant cash outflows are therefore taken into account when measuring the lease liability and corresponding right-of-use assets. There are no variable lease payments and R. STAHL does not give residual-value guarantees. Nor have any significant lease arrangements been contractually agreed the use of which has not yet commenced.

Earnings per share

Earnings per share are calculated according to IAS 33 (Earnings per share).

Basic earnings per share are calculated by dividing consolidated earnings after taxes, attributable to the shareholders of R. STAHL AG, by the average number of common shares outstanding during the financial year.

Because there are no potential common shares and no option or subscription rights outstanding, it was not necessary to calculate diluted earnings per share for the current financial year.

Goodwill

Goodwill is not amortized but is tested for impairment once a year by means of an impairment test. A review is also performed when events or circumstances arise that indicate the carrying amount may not be recoverable. An impairment loss is recognized for goodwill allocated to a group of cash-generating units only if the recoverable amount is less than the total of the relevant carrying amounts for that group. Impairment losses recognized in prior periods are not reversed if the reasons for the impairment no longer apply. Goodwill is carried at cost less accumulated impairment losses.

Research and development expenses

Research costs may not be capitalized under IAS 38.42 et seq. and are immediately recognized as an expense. Development costs are capitalized at manufacturing cost according to the criteria set forth in IAS 38 to the extent that the expense can be clearly allocated and both technical feasibility and marketing are assured. Furthermore, it must be reasonably probable that development activities will generate future economic benefit. Capitalized development costs comprise all directly allocable costs and appropriate shares of development-related overhead. Capitalized development costs are amortized using the straight line method from production start over the expected product life cycle of usually five to seven years. Capitalized development projects are subjected to annual impairment tests.

Other intangible assets

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

Property, plant & equipment

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

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

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

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

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

Impairment of tangible and other intangible assets

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

Financial instruments

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

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

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

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

Accordingly, the following categories are considered for subsequent measurement:
- measurement at amortized cost,
- measurement at fair value through profit or loss.

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

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

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

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

Financial liabilities are measured at amortized cost using the effective interest method. If financial liabilities are derivative financial instruments or contingent purchase price obligations, they are measured at fair value.

There are three levels of risk provision provided for under the IFRS 9 general impairment model. There is, however, an option to use a simplified model for certain assets instead of the general model. R. STAHL exercises this option.

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

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

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

Investment property

Investment property is presented as an asset if it is probable that future economic benefit from such investment property will flow to the company, and the acquisition or manufacturing costs can be measured reliably. Investment property is measured using the cost model.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are established in accordance with IAS 12 (income taxes) using the liability method for all temporary differences between tax and commercial balance sheet values as well as for earnings-impacting consolidation measures. Moreover, deferred tax assets are established for future tax benefits from tax loss carryforwards. Deferred tax assets for all deductible temporary differences and tax loss carryforwards may, however, only be established to the extent that it is probable that future taxable profit will be available against which the temporary differences or unused tax losses can be utilized. Deferred taxes were determined in accordance with IAS 12 based on the respective countries' effective or already enacted effective income tax rates at the time of income realization.

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

IFRIC 23 supplements the provisions of IAS 12 with regard to the recognition and measurement of current income taxes, deferred tax liabilities and deferred tax assets in cases of uncertainty regarding the income tax treatment.

Tax uncertainties are identified based on an ongoing analysis of the tax environment. If case of uncertainties regarding the income tax treatment of, for example, the determination of taxable income or unused tax loss carryforwards, these are accounted for using the best estimate in accordance with IFRIC 23. As in the previous year, there are no significant effects on the consolidated financial statements for the current financial year.

Inventories

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

Unfinished and finished goods are recognized at the lower of manufacturing cost and net realizable value. They comprise all costs directly attributable to the manufacturing process and appropriate shares of production-related overhead. These include production-related depreciation and amortization, pro-rated administrative expense, and pro-rated social insurance costs (total production-related cost approach). Manufacturing costs are determined on a normal capacity utilization basis.

Financing costs are not included in acquisition or manufacturing cost.

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

Receivables and other assets

Receivables and other assets, with the exception of derivative financial instruments and marketable securities, relate to loans and receivables originated by the Group and not held for trading. These are recognized at amortized cost.

All identifiable risks are accounted for by impairment losses and application of the expected credit loss model. For further information, please refer to the chapter on Financial instruments.

All receivables denominated in foreign currencies are translated at the closing rate at the end of each reporting period. Changes in value are reported in the income statement under other operating income or other operating expenses.

Derivative financial instruments and hedging transactions

When accounting for derivative financial instruments according to IFRS 9, R. STAHL continues to exercise the option provided by IFRS 9.7.2.21 and applied the regulations for hedge accounting relationships pursuant to IAS 39. No hedging transactions were recognized in hedge accounting in the 2020 financial year.

R. STAHL only uses derivative financial instruments to hedge currency, interest rate and fair value risks from operating activities, and to reduce the resulting financing risks.

R. STAHL accounts for all derivative financial instruments at fair value. In this regard, changes in the fair value of derivative financial instruments are recognized directly in the income statement in accordance with IFRS 9.

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

Provisions for pensions and similar obligations

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

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

In Germany, the age at the agreed end of the partial retirement employment relationship was taken as the financing end age for partial retirement employees. The earliest possible retirement age of 64 years was used for the remaining group of persons without individual contractual agreements on the retirement age. This corresponds to the average retirement age in the past and coming years within the company.

Actuarial gains and losses arising from changes in actuarial assumptions, or differences between previous actuarial assumptions and actual developments, are recognized directly in equity (Accumulated other comprehensive income) at the time of creation and under consideration of deferred taxes.

Actuarial gains and losses recognized in the equity item Accumulated other comprehensive income and the respective deferred taxes are not reversed through profit or loss in subsequent periods. The actuarial gains and losses recognized in the reporting period and the respective deferred taxes are disclosed separately in the statement of comprehensive income.

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

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

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

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

Other provisions

Other provisions pursuant to IAS 37 (Provisions, contingent liabilities and contingent assets) have been included to the extent that they represent a present obligation based on past events and the amount required is both probable and can be reliably estimated. The probability of occurrence must be above 50%. Provisions are only recognized for legal or de facto obligations to third parties. The provision recognized is the best estimate of the amount required to settle the present obligation at the balance sheet date. In addition, the measurement of other provisions – in particular for warranties and expected losses from pending transactions of already contracted transactions – includes all cost components that are also capitalized in inventories “production-related full costs”.

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

Liabilities

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

As a consequence, with the exception of derivative financial instruments, liabilities are measured at amortized cost.

R. STAHL Group does not have any liabilities that serve trading purposes. This does not apply to derivatives not included in hedge accounting.

All receivables denominated in foreign currencies are translated at the closing rate at the end of each reporting period. Changes in value are reported in the income statement under Other operating income or Other operating expenses.

Contingent assets and liabilities

Contingent assets and liabilities are possible assets or liabilities that arise from past events and the existence of which will be confirmed only by the occurrence of one or more uncertain future events but which are outside R. STAHL’s control. Furthermore, present obligations may constitute contingent liabilities if the probability of an outflow of resources is not sufficiently probable for a provision to be recognized and/or the amount of the obligation cannot be estimated with a sufficient degree of reliability. The values presented for contingent assets and liabilities correspond to the entitlement or scope of liability existing at the balance sheet date.

Cash flow statement

The cash flow statement shows the cash inflows and outflows of R. STAHL in the reporting period.

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

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

The effects of acquisitions, divestments and other changes in the scope of consolidation are presented separately in accordance with IAS 7.39 and classified as investing activities.

Cash and cash equivalents shown in the cash flow statement comprise cash on hand, cheques, and credit balances with banks. The item also includes securities with original maturities of up to three months. Liquid funds are unrestricted cash. Cash and cash equivalents as recognized in the balance sheet correspond to liquid funds. For details on the composition of cash and cash equivalents, please refer to the explanations on cash and cash equivalents.

Segment reporting

The R. STAHL Group bundles its operating business in a single reporting segment Explosion Protection. External reporting in this context is based on the principle of the management approach on the basis of the Group's internal organizational and management structures and internal financial reporting to the Chief Operating Decision Maker (CODM). At R. STAHL, the full Executive Board is responsible for assessing and controlling business success and is regarded as the top management body pursuant to IFRS 8. As the CODM, the Executive Board as a whole allocates its resources on the basis of consolidated figures; the key performance indicator is EBITDA before special items. Separate financial information per product line is not reported to the Executive Board for the purpose of performance measurement and resource allocation.

The aggregation of business activities in a single segment was based on the aspect of comparability of economic characteristics as well as on the aspects of type of products, production process, customer group and methods of distribution.

The Group develops, manufactures, assembles, and distributes devices and systems for measuring, controlling, distribution of energy, securing and lighting in potentially explosive environments. All product types can be grouped under the general heading of explosion protection solutions, which at the same time represents R. STAHL's core competence.

R. STAHL has defined the product engineering process (PEP) as its core process. This core process is basically the same for all product types. Further, the development process is implemented as a standard process (milestone process) and cross-departmental development conferences are held to exchange ideas and development results across all product types.

R. STAHL supplies products and solutions worldwide for all industries and production sites where there is a risk of explosion. There is no focus on specific industries. Quotation and order processing are therefore standardized to the greatest possible extent and basically comparable for all product types.

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

NOTES TO THE CONSOLIDATED INCOME STATEMENT

6. SALES

A breakdown of sales by source is shown below:

€ 000	2020	2019
Sales from contracts with customers	245,440	273,736
Rental income from investment property	1,049	1,048
Total	**246,489**	**274,784**

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

€ 000	2020	2019
At a specific time	236,210	263,601
Over a specific period	10,279	11,183
Total	**246,489**	**274,784**

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

7. OTHER CAPITALIZED OWN WORK

Other own work capitalized results in particular from the capitalization of development costs in accordance with IAS 38. In the financial year, these amounted to € 4,279 thousand (2019: € 3,675 thousand).

In the reporting period, total expenses of € 19,857 thousand (2019: € 18,769 thousand) were recognized for research and development.

8. OTHER OPERATING INCOME

Other operating income includes the following items:

€ 000	2020	2019
Income from the reversal of provisions	305	4,147
Income from the reversal of accruals	1,219	564
Income from the reversal of valuation allowances	901	1,580
Income from the market valuation of derivatives	65	355
Gains from currency translation	4,821	4,500
Other income	3,793	2,559
Total	**11,104**	**13,705**

9. COST OF MATERIALS

The cost of materials comprises the following items:

€ 000	2020	2019
Expenses for raw materials and supplies	-81,237	-88,885
Services received	-4,438	-5,096
Total	**-85,675**	**-93,981**

10. PERSONNEL COSTS

Personnel costs consist of the following:

€ 000	2020	2019
Wages and salaries	-95,556	-101,719
Social insurance contributions, as well as pension and support expense	-20,071	-20,294
thereof for pensions	-3,091	-2,943
Total	**-115,627**	**-122,013**

11. ANNUAL AVERAGE NUMBER OF EMPLOYEES

The average number of employees and trainees of consolidated companies in the year under review as compared to the previous year was as follows:

Number	2020	2019
Employees	1,687	1,682
Trainees	91	82
Total	**1,778**	**1,764**

Employees of associates accounted for in the consolidated financial statements using the equity method are not included in the average number of employees.

12. DEPRECIATION AND AMORTIZATION

Depreciation and amortization of intangible assets and property, plant & equipment amounts to € 16,681 thousand (2019: € 18,928 thousand).

13. OTHER OPERATING EXPENSES

Other operating expenses primarily comprise the following items:

€ 000	2020	2019
Services	-10,279	-9,233
Rental expense for premises	-834	-950
Rent for office and operating equipment	-2,261	-1,282
Legal, consulting, licensing and inventor fees	-4,577	-6,878
Office, postal and communication costs	-1,795	-1,827
Voluntary social security contributions and ancillary personnel expenses	-2,721	-3,229
Maintenance costs	-5,453	-5,495
Travel and entertainment expenses	-1,155	-3,278
General transport costs	-2,468	-3,016
Losses from currency translation	-5,659	-5,022
Other taxes	-559	-579
Expenses from market valuation of derivatives	-57	-11
Expenses from individual valuation allowances of receivables	-870	-1,074
Other	-7,825	-8,806
Total	**-46,513**	**-50,680**

14. RESULT FROM COMPANIES CONSOLIDATED USING THE EQUITY METHOD

The result from companies consolidated using the equity method includes € 1,554 thousand (2019: € 1,654 thousand) from ZAVOD Goreltex, Saint Petersburg, Russia.

15. INVESTMENT RESULT

The investment result amounted to € 3 thousand (2019: € 3 thousand). This results from the non-consolidated structured company Abraxas.

16. INTEREST RESULT

The interest result comprises the following items:

€ 000	2020	2019
Interest and similar income	134	125
Interest and similar expense	-3,480	-4,703
Total	**-3,346**	**-4,578**

The interest result includes € -1,380 thousand (2019: € -1,917 thousand) for the net interest portion of the addition to pension provisions and € 667 thousand (2019: € 1,008 thousand) for the interest portion of lease liabilities.

17. INCOME TAXES

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

€ 000	2020	2019
Current taxes	-1,621	-1,104
Deferred taxes	-611	-969
Total	**-2,232**	**-2,073**

Current taxes comprise corporate income tax including solidarity surcharge and trade tax for domestic Group companies and comparable income-related taxes for international companies. Taxes are calculated according to the respective tax regulations of the various companies.

In the reporting period, we claimed previously unused tax loss carryforwards resulting in tax credits of € 563 thousand (2019: € 770 thousand).

Deferred taxes are calculated on the basis of applicable tax rates in effect or known to become effective in the respective countries at the time these taxes are due. In Germany, the corporate tax rate is 15.0% with a solidarity surcharge of 5.5%. In addition to corporate tax, a trade tax is payable on profits made in Germany. This varies depending on the municipalities in which the company is represented. Taking into account an average municipal trade tax multiplier of 381.9% (2019: 381.9%), an overall tax rate of 29.2% (2019: 29.2%) is calculated for the domestic Group companies. The profits earned by the Group's foreign companies are taxed at the rates applicable in the respective country of their registered office. These are also used to determine deferred taxes, provided that future tax rate adjustments have not yet been resolved. The tax rates for our foreign activities range from 0% to 33.6% (2019: 0.0% to 34.0%).

Deferred tax assets on tax loss carryforwards of € 20,244 thousand (2019: € 17,495 thousand) were written down by € 18,720 thousand (2019: € 16,365 thousand) because uncertainties exist as to the amount of their recoverability based on the information available. Of the valuation allowances, € 10,870 thousand relates to corporate income tax (2019: € 10,039 thousand) and € 7,850 thousand to trade tax (2019: € 6,326 thousand). In addition, deferred tax assets on temporary differences whose recoverability is uncertain were written down by € 0 thousand (2019: € 478 thousand).

Corporate tax loss carryforwards as yet unused amount to € 75,170 thousand (2019: € 63,065 thousand), while unused trade tax loss carryforwards amount to € 53,802 thousand (2019: € 43,559 thousand). These loss carryforwards are mostly unlimited in time. Tax losses cannot be offset with taxable income of other Group companies.

Both in the reporting period and the previous year, there were no deferred tax assets or deferred tax liabilities due to acquisitions carried without effect on profit or loss.

From the current perspective, the retained earnings of subsidiaries are mainly to be invested for an indefinite period.

In accordance with IAS 12, no deferred tax liabilities are recognized for retained earnings of subsidiaries.

Accumulated deferred tax assets and liabilities as of 31 December 2020 were as follows:

€ 000	31 Dec. 2020	31 Dec. 2019
Deferred tax assets, gross		
Tax loss carryforwards	20,244	17,495
Intangible assets	2	3
Property, plant & equipment	45	56
Inventories	1,713	2,024
Receivables and other assets	288	238
Prepaid expenses	101	41
Cash and cash equivalents	0	1
Equity	160	165
Non-current interest-bearing liabilities	4,337	5,226
Non-current provisions	16,638	15,554
Current interest-bearing liabilities	1,321	1,277
Other current liabilities and debts	403	460
Current provisions	1,532	2,173
Less value adjustments	-19,081	-16,843
Total deferred tax assets, gross	**27,703**	**27,870**
Less netting	-14,345	-15,453
Total deferred tax assets according to balance sheet	**13,358**	**12,417**

€ 000	31 Dec. 2020	31 Dec. 2019
Deferred tax liabilities, gross		
Intangible assets	7,916	7,444
Property, plant & equipment	8,389	9,557
Financial assets	0	25
Other non-current assets	216	196
Investment property	80	81
Inventories	6	57
Receivables and other assets	274	507
Non-current provisions	178	170
Other current liabilities and debts	15	87
Current provisions	0	6
Total deferred tax liabilities, gross	**17,074**	**18,130**
Less netting	-14,345	-15,453
Total deferred tax liabilities according to balance sheet	**2,729**	**2,677**
Net balance of deferred taxes	**10,629**	**9,740**

Of the deferred tax assets totaling € 13,358 thousand (2019: € 12,417 thousand), € 3,394 thousand (2019: € 3,112 thousand) relate to companies that had a negative result for the period in the financial year or the previous year. Recognition of the respective deferred tax assets is based on the positive future results of planning and the reverse effect of temporary differences.

The following table shows the reconciliation of the expected tax expense for the respective financial year and the corresponding reported tax expense. The expected tax expense has been calculated by multiplying pre-tax earnings by the applicable total tax rate of 29.0% (2019: 29.0%). The result before income taxes amounts to € -1,295 thousand (2019: € 3,421 thousand).

€ 000	2020	2019
Expected tax expense	**376**	**-992**
Taxation differences between domestic and foreign operations	-359	-381
Non-tax-deductible expenses	-437	-658
Tax-free income	153	26
Changes in write-downs on deferred tax assets	-2,997	-1,246
Effect from companies consolidated using the equity method	445	477
Utilization of tax loss carryforwards	563	770
Taxes for prior years	-101	83
Other	125	-152
Reported tax expense	**-2,232**	**-2,073**

A total of € 1,519 thousand was recognized in the balance sheet with an increasing effect on equity (2019: € 2,192 thousand increasing equity) without affecting the income statement.

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

	2020			2019		
€ 000	Earnings before income taxes	Income taxes	Earnings after income taxes	Earnings before income taxes	Income taxes	Earnings after income taxes
Currency translation differences	-2,811	0	-2,811	219	0	219
Pension obligations	-5,253	1,519	-3,734	-7,865	2,192	-5,673
Income and expense recognized directly in equity	**-8,064**	**1,519**	**-6,545**	**-7,646**	**2,192**	**-5,454**

18. EARNINGS PER SHARE

€ 000	2020	2019
Net profit for the year without non-controlling interests	-3,501	1,339
Number of shares (weighted average)	6,440,000	6,440,000
Earnings per share in €	**-0.54**	**0.21**

Basic earnings per share shown above is calculated according to IAS 33 by dividing consolidated net profit attributable to ordinary shareholders of R. STAHL AG by the average number of shares outstanding in the financial year.

So-called potential shares can dilute earnings per share. As we have no potential common shares and no options or subscription rights outstanding, there was no need to calculate diluted earnings per share in 2019 or 2020.

19. APPROPRIATION OF PROFIT/EQUITY

The annual financial statements of R. STAHL AG as of 31 December 2020 show a net loss. In accordance with statutory regulations, no resolution on the appropriation of profit is therefore to be adopted.

As in the previous year, no dividend was distributed to shareholders in financial year 2020.

NOTES TO THE CONSOLIDATED BALANCE SHEET

NON-CURRENT ASSETS

20. INTANGIBLE ASSETS

Development as of 31 December 2020 was as follows:

€ 000	Industrial property rights and similar rights	Goodwill	Development costs	Rights of use	Other	Total
Acquisition costs						
1 January 2020	27,480	11,908	53,080	0	11,220	103,688
Currency differences	-156	-445	-63	0	-512	-1,176
Additions	710	0	6,096	0	713	7,519
Disposals	-41	0	-51	0	0	-92
Reclassifications	2,178	0	0	0	-2,178	0
31 December 2020	**30,171**	**11,463**	**59,062**	**0**	**9,243**	**109,939**
Cumulative amortization and impairment						
1 January 2020	25,771	1,174	26,500	0	8,819	62,264
Currency differences	-153	-76	-42	0	-502	-773
Additions	883	0	4,274	0	91	5,248
Disposals	-9	0	-51	0	0	-60
31 December 2020	**26,492**	**1,098**	**30,681**	**0**	**8,408**	**66,679**
Carrying amounts						
31 December 2020	**3,679**	**10,365**	**28,381**	**0**	**835**	**43,260**

Development as of 31 December 2019 was as follows:

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

Other intangible assets include advance payments of € 642 thousand (2019: € 2,107 thousand).

Intangible assets mainly comprise software, capitalized development costs for various development projects, and goodwill. Impairment losses of € 0 thousand (2019: € 944 thousand) were recognized on intangible assets in 2020, which are included in amortization and depreciation in the income statement.

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

Goodwill amounting to € 10,365 thousand (2019: € 10,734 thousand) is allocated to the following significant cash-generating units:

	31 December 2020			31 December 2019	
€ million	Carrying amounts	Average sales growth	Pre-tax discount rates	Carrying amounts	Pre-tax discount rates
R. STAHL HMI Systems GmbH (Germany)	4.6	3.3%	8.1%	4.6	9.4%
R. STAHL Schaltgeräte GmbH (Germany)	1.0	7.0%	8.6%	1.0	8.9%
Sub-group (Norway)	3.8	4.0%	8.1%	4.0	8.6%
R. STAHL SOUTH AFRICA (PTY) LTD (South Africa)	0.9	47.3%	17.4%	1.1	16.5%
Total	**10.3**			**10.7**	

The recoverable amounts are greater than the carrying amounts. The change in goodwill in the financial year results from changes in exchange rates.

The impairment test performed on the cash-generating units using the discounted cash flow method shows that the recoverable amount is higher than the carrying amounts. Accordingly, no write-down was required.

Expected cash flows are based on the planning process, which takes into account both internal company empirical values and externally published data. The detailed planning period is three years. Thereafter, cash flows are extrapolated for a further two years. Cash flows are then extrapolated unchanged at a growth rate of 1%. The impact of the COVID-19 pandemic has been taken into account for cash flows in the detailed planning period. This reflects increased uncertainty regarding future developments by adjusting sales and earnings planning.

The compound annual growth rate (CAGR) in the detailed planning period for the cash-generating units is between 3.3% and 47.3%, depending on the market position and region. Gross profit margins are calculated as part of the bottom-up planning of Group companies using average gross profit margins achieved in the directly preceding financial year and, if necessary, are raised taking into account the expected increase in efficiency.

The forecast price indices are used to determine the price increase in material and personnel costs. Country-specific salary increases are considered for the respective planning period.

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

In addition to the impairment test, R. STAHL performed various sensitivity analyses to consider uncertainties that existed regarding the assumptions made in the impairment test. In this regard, a reduction in planned earnings before interest and taxes (EBIT) and an increase in the cost of capital are considered possible. Sensitivity analyses based on the changes in assumptions showed that, from today's perspective, there is no need for impairment of goodwill.

21. PROPERTY, PLANT & EQUIPMENT

Development as of 31 December 2020 was as follows:

€ 000	Properties, property-like rights and buildings	Technical equipment and machinery	Other plant as well as operating and office equipment	Rights of use	Prepayments and plant under construction	Total
Acquisition costs						
1 January 2020	48,130	35,411	55,988	37,671	931	178,131
Currency differences	-575	-657	-324	-623	-6	-2,185
Additions	271	1,130	2,355	4,741	1,458	9,955
Additions to consolidated group	0	0	0	0	0	0
Disposals	0	-486	-1,223	-4,391	0	-6,100
Reclassifications	11	426	340	0	-777	0
31 December 2020	**47,837**	**35,824**	**57,136**	**37,398**	**1,606**	**179,801**
Cumulative amortization and impairment						
1 January 2020	14,214	28,525	44,541	4,893	0	92,173
Currency differences	-108	-439	-250	-95	0	-892
Additions	1,082	1,716	3,660	4,768	0	11,226
Disposals	0	-414	-923	-1,717	0	-3,054
31 December 2020	**15,188**	**29,388**	**47,028**	**7,849**	**0**	**99,453**
Carrying amounts						
31 December 2020	**32,649**	**6,436**	**10,108**	**29,549**	**1,606**	**80,348**

Development as of 31 December 2019 was as follows:

€ 000	Properties, property-like rights and buildings	Technical equipment and machinery	Other plant as well as operating and office equipment	Rights of use	Prepayments and plant under construction	Total
Acquisition costs						
1 January 2019 (without IFRS 16)	47,950	33,927	54,164	0	777	136,818
Initial application IFRS 16	0	0	0	41,777	0	41,777
1 January 2019 (adjusted)	47,950	33,927	54,164	41,777	777	178,595
Currency differences	10	53	63	197	-2	321
Additions	86	1,419	3,353	1,600	633	7,091
Additions to consolidated group	0	32	10	89	0	131
Disposals	0	-153	-1,862	-5,992	0	-8,007
Reclassifications	84	133	260	0	-477	0
31 December 2019	**48,130**	**35,411**	**55,988**	**37,671**	**931**	**178,131**
Cumulative amortization and impairment						
1 January 2019	13,096	26,729	42,473	0	0	82,298
Currency differences	11	51	58	11	0	131
Additions	1,107	1,898	3,704	5,091	0	11,800
Disposals	0	-153	-1,694	-209	0	-2,056
31 December 2019	**14,214**	**28,525**	**44,541**	**4,893**	**0**	**92,173**
Carrying amounts						
31 December 2019	**33,916**	**6,886**	**11,447**	**32,778**	**931**	**85,959**

No revaluations were made in the financial year or the previous year.

With regard to property, plant & equipment, collateral of € 74 thousand (2019: € 11,215 thousand) has been provided for liabilities. With regard to order commitments for property, plant & equipment, please refer to the notes on Other financial obligations.

22. OTHER NON-CURRENT ASSETS

Investments in associates

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

The carrying amount of investments in associates developed as follows:

€ 000	Total
1 January 2020	8,834
At-equity result – ZAVOD Goreltex Co. Ltd	+1,554
Dividend received – ZAVOD Goreltex Co. Ltd	-585
31 December 2020	**9,803**

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

Other financial assets

Other financial assets totaling € 32 thousand (2019: € 32 thousand) comprise other equity interests and securities.

Other non-current assets

Other non-current assets include receivables and other assets as well as prepaid expenses amounting to € 1,497 thousand (2019: € 3,945 thousand). Of the other non-current assets, € 1,025 thousand (2019: € 821 thousand) is subject to a restraint on disposal as collateral for obligations under partial retirement agreements. To collateralize drawings of guarantees, R. STAHL AG has deposited a cash contribution and pledged a total of € 187 thousand. Of this total, € 162 thousand (€ 159 thousand incl. interest effect € 3 thousand) is disclosed under non-current assets and € 29 thousand (€ 28 thousand incl. interest effect € 1 thousand) under current assets. The deposited € amount is reduced accordingly when guarantees are repaid or derecognized.

Other non-current assets comprise derivative financial instruments amounting to € 0 thousand (2019: € 32 thousand).

Investment property

Investment property developed as follows:

2020/€ 000	Total
Acquisition costs	
1 January 2020	8,684
Additions	0
Disposals	0
Reclassifications	0
31 December 2020	**8,684**
Cumulative amortization and impairment	
1 January 2020	3,770
Additions	207
Disposals	0
Write-ups	0
31 December 2020	**3,977**
Carrying amounts	
31 December 2020	**4,707**

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

At R. STAHL, investment property is measured using the cost model and relates to land with buildings.

The buildings are depreciated in scheduled amounts over the economic useful lives for buildings of 33 and 50 years using the straight-line method.

As of 31 December 2020, the fair value of real estate amounted to € 6.5 million (2019: € 6.5 million according to a valuation of October 2019) and is allocated to the fair value hierarchy level 3. The premises used as a basis for the valuation in October 2019 had not changed significantly as of the reporting date.

An expert assessment was used to determine the values. Values were determined in October 2019 on the basis of discounted cash flow calculations. Fair value amounts were determined using the capitalized earnings of real estate based on standard market rents. This was based on standard market rents. Furthermore, appropriate operating costs (loss of rent risk, maintenance and administrative costs) and other value-influencing factors were considered. Property yields of 7.0% and 7.5% as well as an appropriate remaining useful life were used for the calculation.

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

€ 000	2020	2019
Rental income	1,049	1,048
Operating expenses directly attributable to rental income	-344	-312
Total	**705**	**736**

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

€ 000	2021	2022	2023	2024
Lease payments	1,014	1,014	1,014	1,014

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

CURRENT ASSETS

23. INVENTORIES AND PREPAYMENTS

Inventories comprise the following:

€ 000	31 Dec. 2020	31 Dec. 2019
Raw materials and supplies	16,845	17,004
Unfinished goods and unfinished services	6,083	6,726
Finished goods and merchandise	13,508	10,074
Prepayments	502	376
Total	**36,938**	**34,180**

The amount previously recognized as an expense from inventories mainly relates to impairment losses of € 9,623 thousand (2019: € 10,549 thousand). In financial year 2020, an amount of € 2,897 thousand was recognized as an expense in the income statement.

With regard to property, plant & equipment, collateral of € 3,182 thousand (2019: € 3,652 thousand) has been provided for liabilities.

24. OTHER RECEIVABLES AND OTHER FINANCIAL ASSETS

Receivables and other assets consist of the following items:

€ 000	31 December 2020 Total	31 December 2020 Thereof due within one year	31 December 2019 Total	31 December 2019 Thereof due within one year
Trade receivables	36,718	36,718	42,489	42,489
Contract receivables	637	637	622	622
Income tax claims	471	471	958	958
Other receivables	9,849	8,352	12,328	8,414
Other financial assets	262	262	249	217
Total	**47,937**	**46,440**	**56,646**	**52,700**

Of the capitalized total, € 46,440 thousand (2019: € 52,700 thousand) is due within one year and the amount of € 1,497 thousand (2019: € 3,945 thousand) is disclosed under other non-current assets.

Other receivables mainly include prepaid expenses of € 2,959 thousand (2019: € 2,964 thousand) of which € 2,704 thousand (2019: € 2,344 thousand) is due within one year, and sales tax receivables of € 1,256 thousand (2019: € 1,451 thousand).

Other current assets comprise derivative financial instruments amounting to € 130 thousand (2019: € 89 thousand).

Trade receivables were impaired by € 1,229 thousand (2019: € 2,498 thousand).

With effect from 30 November 2020, the factoring agreement with the factoring company for two Group companies was terminated. At the same time, with effect from 1 December 2020, a new factoring agreement was concluded with another factoring company for the same two Group companies and for a foreign Group company. Under this agreement, the factoring company has committed to the purchase of trade receivables up to a maximum amount of € 35 million for variable, reciprocal utilization, with a maximum amount of € 50 thousand per customer for self-allocated customer limits. The agreement can be terminated for the first time on 30 November 2025. After which it will be extended for a further year if it is not terminated. A termination agreement was also reached with the previous factoring company stipulating that the receivables that existed until 30 November 2020 would be purchased by the new factoring company. The relevant risk for risk assessment with regard to receivables sold is mainly the credit risk. The maximum loss is limited to the variable purchase price discount or security retention, which is retained by the factoring company when the receivables are sold and is reimbursed in the amount of the non-consumed proportion. The remaining credit risk-related payment defaults represent the majority of all risks and opportunities associated with the receivables and are borne by the factoring company. The maximum risk of loss for R. STAHL resulting from the credit risk from the receivables sold as of 31 December 2020 (nominal volume € 12,825 thousand) amounts to € 1,340 thousand. The fair value of the expected reimbursement of the variable purchase price discount was capitalized in other receivables and other assets during the derecognition period. As of 31 December 2020, there is a utilization from factoring in the amount of € 9,945 thousand. The residual maturity of the corresponding other receivables and other assets is less than one year. As of the balance sheet date, receivables not tendered amounted to € 1,938 thousand.

25. CASH AND CASH EQUIVALENTS

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

€ 000	31 Dec. 2020	31 Dec. 2019
Cash on hand	22	27
Cheques	258	145
Credit balances with banks, payable on demand	17,700	12,361
Credit balances with banks, payable at 3 months' notice	1,874	2,433
Total	**19,854**	**14,966**

26. EQUITY

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

Share capital

The share capital of R. STAHL Aktiengesellschaft amounting to € 16,500,000.00 is divided into 6,440,000 no-par registered shares, each with a prorated notional share of capital of € 2.56. The shares are fully paid.

Authorised capital

The Annual General Meeting of 30 August 2018 authorized the Executive Board, to increase share capital, with the approval of the Supervisory Board, by up to € 3,300 thousand against cash and/or non-cash contributions on one or more occasions until 29 August 2021 through the issue of new registered no-par value shares. The Executive Board was also authorized, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in specified cases under certain conditions.

Capital reserves

This item mostly comprises shareholders' paid-up premiums net of transaction costs incurred. R. STAHL AG's consolidated financial statements under the German Commercial Code (HGB) rules still openly netted goodwill from capital consolidations against capital reserves until 31 December 2003. When a subsequent write-back of capital reserves rendered the offsetting impossible, the respective amount was netted against profit carryforwards. For all differences that arose from business combinations prior to the opening IFRS balance sheet date on 1 January 2004, HGB accounting was maintained. In connection with the sale of all treasury shares, an amount of € 12,963 thousand was credited to capital reserves in the financial year 2015. Transaction costs of € 440 thousand recognized directly in equity and deferred taxes of € 128 thousand were already deducted from the amount of € 12,963 thousand.

Retained earnings

Retained earnings comprise the retained earnings of consolidated companies from before 1 January 2004. Moreover, value differences from all business combinations made prior to 1 January 2004 were offset against retained earnings. From preparation of the opening IFRS balance sheet, the item also includes negative differences from business combinations formerly shown as a separate item under equity in the HGB financial statements up to 31 December 2003 and currency translation differences reclassified as of 1 January 2004. This item also includes all remaining adjustments without impact on profit or loss recognized in the opening IFRS balance sheet on initial adoption of IFRS as of 1 January 2004 as well as equity generated since 1 January 2004 less dividends to shareholders.

The shareholders have a claim to the balance sheet profit of R. STAHL AG unless such distribution to shareholders is excluded by law or the company's articles, by a resolution adopted by the Annual General Meeting or due to transfer to retained earnings.

Accumulated other comprehensive income

This item comprises differences from currency translation of the financial statements of foreign subsidiaries from

1 January 2004 forward as well as actuarial gains/losses from pension obligations. In financial year 2020, foreign currency differences previously recognized directly in equity in the amount of € 239 thousand were recognized in profit or loss due to the deconsolidation of R. STAHL Kabushiki Kaisha, Kawasaki (Japan) (recycling).

For detailed information, please refer to the consolidated statement of changes in equity.

Non-controlling interests

Non-controlling interests relate to external shareholders of R. STAHL SOUTH AFRICA (PTY) LTD, Edenvale (South Africa).

Additional disclosures on capital management

The objectives of R. STAHL's capital management is to ensure the company's continued existence, achieve an adequate return on equity, secure the servicing of financial liabilities and maintain an acceptable capital structure.

The capital structure may change as a result of dividend distributions, the purchase of treasury shares, the issue of new shares and the borrowing or repayment of debt, depending on requirements.

Capital is monitored using the ratio of net financial debt to equity. Net financial debt comprises interest-bearing liabilities and lease liabilities less cash and cash equivalents. In this regard, R. STAHL targets a ratio of less than 1.00.

The ratio of net financial debt to equity developed as follows compared with the previous year:

€ 000	31 Dec. 2020	31 Dec. 2019
Interest-bearing liabilities	25,694	19,150
Lease liabilities	27,239	31,783
Cash and cash equivalents	-19,854	-14,966
Net financial debt	**33,079**	**35,967**
Equity	**48,143**	**58,440**
Net gearing ratio	**0.69**	**0.62**

Return on capital employed (ROCE) is used as a key performance indicator. For further information, please refer to the section on corporate management in the management report.

PROVISIONS

27. PENSION PROVISIONS

Provisions for pensions and similar obligations include the following items:

€ 000	31 Dec. 2020	31 Dec. 2019
Non-current pension provisions	103,149	98,717
Current pension provisions	3,485	3,366
Total	**106,634**	**102,083**

Pension provisions are accrued for obligations arising from pension commitments and from current benefits to eligible active and former employees of R. STAHL companies and their surviving dependents. Depending on legal, economic and tax regulations of the respective countries, pension plans take different forms that are typically based on service duration and compensation of the respective individuals.

Company pension schemes distinguish between defined benefit and defined contribution plans.

In the case of defined contribution plans, the respective company does not commit to any further obligations beyond making contributions to a special-purpose fund. In the reporting period, employer pension contributions for employees in Germany amounted to around € 5.2 million (2019: € 5.2 million).

In the case of defined contribution plans, the company's obligation is to fulfill the promised benefits to active and former employees, whereby a distinction is made between provision-financed and fund-financed pension schemes.

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

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

R. STAHL Schweiz AG has joined the Swiss Life collective foundation for the implementation of occupational benefits.

In 2020, pension obligations were calculated on the basis of the 2018 G mortality tables published by Prof. Dr. Klaus Heubeck. The pension obligation amount (defined benefit obligation = DBO) was determined using actuarial methods including estimates for relevant impact factors. In addition to the assumptions regarding life expectancy, the following assumptions were made concerning the parameters to be applied for the actuarial calculations in the expert opinions:

	Germany		Other countries	
in %	**2020**	2019	**2020**	2019
Interest rate	**0.89 – 1.14**	1.19 – 1.47	**0.20**	0.20
Salary trend	**2.75**	2.75	**1.50**	1.50
Pension trend	**1.67**	1.67	**0.00**	0.00

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

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

Sensitivity analyses

Changes of 0.25 percentage points to the above mentioned assumptions used to calculate the DBO as of 31 December 2020 would increase or decrease the DBO as follows:

€ 000	Increase	Decrease
Interest rate	-4,348	4,637
Salary trend	+791	-771
Pension trend	+3,545	-3,382

To determine the sensitivity of longevity, it was assumed that the life expectancy for all beneficiaries increased by one year. The DBO as of 31 December 2020 would increase by € 5,274 thousand with a life expectancy of one more year.

The effects for the previous year are as follows. Changes of 0.25 percentage points to the above mentioned assumptions used to calculate the DBO as of 31 December 2019 would increase or decrease the DBO as follows:

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

To determine the sensitivity of longevity, it was assumed that the life expectancy for all beneficiaries increased by one year. The DBO as of 31 December 2019 would increase by € 4,862 thousand with a life expectancy of one more year.

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

Defined benefit pension obligations

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

€ 000	31 Dec. 2020	31 Dec. 2019
Present values of fund-financed pension claims	1,124	1,106
Fund assets at market values	-902	-894
Financing status (net)	**222**	**212**
Present values of provision-based pension claims	106,412	101,871
Balance sheet value as of 31 December	**106,634**	**102,083**

Of the pension provisions totaling € 106,634 thousand (2019: € 102,083 thousand), € 106,412 thousand (2019: € 101,871 thousand) are attributable to German Group companies. Fund assets amounting to € 902 thousand (2019: € 894 thousand) are attributable to foreign companies.

The projected benefit obligations developed as follows:

€ 000	2020	2019
Projected benefit obligations as of 1 January	**102,977**	**97,975**
+ Current service cost	+1,298	+1,284
+ Interest expense	+1,382	+1,932
+/- Actuarial gains (-) and losses (+) from changes in demographic assumptions	+5	-23
+/- Actuarial gains (-) and losses (+) from changes in financial assumptions	+5,418	+9,065
+/- Actuarial gains (-) and losses (+) from changes based on experience adjustments	-170	-1,129
- Pension payments made	-3,368	-3,199
+/- Past service cost	0	-4
+/- Currency changes	+5	+78
+/- Other	-11	-3,002
= Projected benefit obligation as of 31 December	**107,536**	**102,977**

In the previous year, the number of insured persons decreased due to a restructuring in Switzerland. The effects are contained in the item Other.

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

€ 000	2020	2019
Beneficiaries in active employment	44,168	43,632
Beneficiaries no longer with the company	7,126	6,582
Pensioners	56,242	52,763
= Projected benefit obligation as of 31 December	**107,536**	**102,977**

The defined benefit obligation shows the following maturity profile for the next 10 years:

€ 000	
Due in financial year 2021	3,485
Due in financial years 2022 – 2025	14,650
Due in financial years 2026 – 2030	20,136

From the current perspective, the average weighted term over which the defined benefit pension obligation will exist amounts to 16.4 years for R. STAHL.

In the previous year, the defined benefit obligation showed the following maturity profile for the next 10 years:

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

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

€ 000	2020	2019
Fund assets as of 1 January	**894**	**3,509**
+ Expected income from fund assets	2	15
+ Employer's pension contributions	15	44
+ Employee's pension contributions	12	37
- Administrative expenses	0	0
+/- Pension payments made and refunds	-24	-596
- Income from fund assets without interest	0	0
+/- Other	-1	-2,182
+/- Currency changes	4	+67
= Fund assets as of 31 December	**902**	**894**

In the previous year, the number of insured persons decreased due to a restructuring in Switzerland. The effects are contained in the item Other.

Expected income from fund assets is considered when calculating the fair value of fund assets as of the balance sheet date. This expected income is based on historic and future average earnings expectations of the respective investment categories. In the following financial year, employer contributions to fund assets of € 16 thousand (2019: € 13 thousand) are expected.

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

€ 000	31 Dec. 2020	31 Dec. 2019
Quoted market price in an active market		
Shares	0	0
Fixed interest-bearing securities	0	0
Real estate	0	0
Investment fund	0	0
Other	0	0
Total quoted market price in an active market	**0**	**0**
No quoted market price in an active market		
Shares	0	0
Fixed interest-bearing securities	0	0
Real estate	0	0
Investment fund	0	0
Other	902	894
Total no quoted market price in an active market	**902**	**894**
Total	**902**	**894**

The investment of R. STAHL Schweiz AG in a collective foundation is disclosed under the item Other - no market price quotation in an active market.

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

€ 000	2020	2019
Current service cost	1,298	1,284
+/- Past service cost	0	-4
+ Net interest expense	1,380	1,917
+/- Other	1	-213
= **Balance of amounts recognized in profit or loss for pension obligations**	**2,679**	**2,984**

Net interest expense consists of the interest expense from the defined benefit obligation and the expected income from plan assets.

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

€ 000	2020	2019
+/- Actuarial gains (-) and losses (+) from changes in demographic assumptions	5	-23
+/- Actuarial gains (-) and losses (+) from changes in financial assumptions	5,418	+9,065
+/- Actuarial gains (-) and losses (+) from changes based on experience adjustments	-170	-1,129
+/- Other	0	-48
= **Balance of amounts recognized in equity for pension obligations**	**5,253**	**7,865**

Pension provisions changed as follows:

€ 000	2020	2019
Pension provisions as of 1 January	**102,083**	**94,466**
+/- Amounts recognized in profit or loss for pension obligations	+2,679	+2,984
+/- Amounts recognized in equity for pension obligations	+5,253	+7,865
- Pension payments made	-3,368	-3,199
- Employer contributions	-15	-44
+/- Currency changes	+2	+11
= Pension provisions as of 31 December	**106,634**	**102,083**

The risks associated with defined benefit pension obligations refer firstly to the actuarial risks, such as longevity, and secondly to the financial risks, such as market price risks which influence the interest rate used. There are also inflation risks which may impact the salary or pension trend. We do not intend to hedge these risks.

Due to existing uncertainties with regard to development of the interest rate used to measure pension provisions and taking into account various interest rate sensitivity analyses carried out in the planning period, there is a possible covenant breach relating to equity. Reference is made to the corresponding statements in the Risk report of the management report and in the Going concern section of this report.

28. OTHER PROVISIONS

Other provisions comprise the following items:

	31 December 2020		31 December 2019	
€ 000	Total	Thereof due within one year	Total	Thereof due within one year
Personnel provisions	2,923	875	2,768	737
Warranty obligations	2,325	2,325	2,189	2,189
Other provisions	1,947	1,947	1,826	1,826
Total	**7,195**	**5,147**	**6,783**	**4,752**

Of the total amount expensed, € 5,147 thousand (2019: € 4,752 thousand) is due within one year. The remainder of € 2,048 thousand (2019: € 2,031 thousand) relates to personnel provisions (partial retirement and anniversary obligations) and is recognized in non-current debt as Other non-current provisions.

Warranty obligations mainly relate to sold products.

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

€ 000	31 Dec. 2020	31 Dec. 2019
Current pension provisions	3,485	3,366
Other current provisions	5,147	4,752
Total	**8,632**	**8,118**

Other current and non-current provisions developed as follows:

€ 000	1 Jan. 2020	Currency change	Addition	Interest expense	Utiliza-tion	Reversal	31 Dec. 2020
Personnel provisions	2,768	0	1,222	18	-934	-151	2,923
Warranty obligations	2,189	-2	1,078	0	-839	-101	2,325
Impending losses	0	0	0	0	0	0	0
Other provisions	1,826	-62	686	0	-450	-53	1,947
Total	**6,783**	**-64**	**2,986**	**18**	**-2,223**	**-305**	**7,195**

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

In June 2019, R. STAHL announced the recall of a total of 34,500 LED luminaires of the 6036 and 6149 series that it had delivered. Tests of the lamp housings, which mainly consist of a polycarbonate tube, had indicated that the long-term stability of the tubes was not sufficiently assured under unfavorable operating conditions. This affects luminaires from the production period between December 2017 and March 2019. As of the balance sheet date, there were provisions for warranty obligations of € 889 thousand (2019: € 1,214 thousand) for the costs of producing new LED luminaires in connection with the recall.

LIABILITIES

29. INTEREST-BEARING LIABILITIES

Interest-bearing liabilities include amounts due to banks of € 25,670 thousand (2019: € 18,951 thousand) as well as other loans from hire-purchase agreements amounting to € 24 thousand (2019: € 199 thousand).

Of the capitalized total, € 16,913 thousand (2019: € 8,957 thousand) is due within one year and the amount of € 8,781 thousand (2019: € 10,193 thousand) is disclosed under Other non-current assets.

As of 31 December 2020, interest-bearing liabilities had the following maturities:

€ 000	31 Dec. 2020	31 Dec. 2019
Interest-bearing liabilities		
Due within one year	16,913	8,957
Due between one and five years	8,781	10,193
Due after more than five years	0	0
= Current and non-current interest-bearing liabilities	**25,694**	**19,150**

Liabilities to banks with residual maturities of more than one year amounting to € 8,781 thousand (2019: € 10,108 thousand) comprise the following material loans:

	31 Dec. 2020 € 000	31 Dec. 2019 € 000	Maturity	Interest rate in %
Loan 1	5,000	5,000	30 October 2022	1.90
Loan 2	267	444	30 June 2023	2.00
Loan 3	1,749	2,332	30 December 2024	1.25
Loan 4	1,749	2,332	30 December 2024	1.25
Total	**8,765**	**10,108**		

At the end of the reporting period, there are also loans with residual maturities of more than one year from hire purchase agreements amounting to € 0 thousand (2019: € 85 thousand).

30. LEASE LIABILITIES

As of 31 December 2020, total lease liabilities had the following maturities:

€ 000	31 Dec. 2020	31 Dec. 2019
Lease liabilities		
Due within one year	6,189	6,727
Due between one and five years	20,242	15,147
Due after more than five years	808	9,909
= Current and non-current lease liabilities	**27,239**	**31,783**

Payments are shown in the maturity period due within one year. The discounting effects are allocated to the maturity periods of one year or more.

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

€ 000	Carrying Amount 31 Dec. 2020	Cash flows 2021	Cash flows 2022–2025	Cash flows from 2026
Lease liabilities	27,239	6,213	14,904	9,207

LEASES

The following amounts were incurred for the lease activities of R. STAHL in financial year 2020:

€ 000	2020	2019
Amortization amount for right-of-use assets by class of underlying assets – Intangible assets	0	-465
Amortization amount for right-of-use assets by class of underlying assets – Property, plant & equipment	-4,768	-5,091
Interest expense for lease liabilities	-667	-1,008
Expense for current lease liabilities	-211	-347
Expense for lease liabilities from leases of low-value assets	-435	-707
Total cash outflow for leases	-6,724	-7,060
Addition of right-of-use assets	4,741	1,689
Carrying amount after amortization, impairment, any impairment reversals, as well as after revaluations and modifications – Intangible assets	0	0
Carrying amount after amortization, impairment, any impairment reversals, as well as after revaluations and modifications – Property, plant & equipment	**29,549**	**32,778**

RECONCILIATION OF MOVEMENTS OF DEBT TO CASH FLOWS FROM FINANCING ACTIVITIES

Development of interest-bearing liabilities in the 2020 financial year and the reconciliation to cash flow from financing activities are shown below:

	Liabilities		Equity	
€ 000	**Interest-bearing liabilities**	**Lease liabilities**	**Non-controlling interests**	**Total**
1 January 2020	**19,150**	**31,783**	**449**	**51,382**
Payments for the acquisition of non-controlling interests	0	0	-225	-225
Cash outflow for the payment of lease liabilities	0	-6,724	0	-6,724
Cash inflow from interest-bearing financial debt	15,588	0	0	15,588
Cash outflow for the payment of interest-bearing financial liabilities	-8,987	0	0	-8,987
Cash flow from financing activities	**6,601**	**-6,724**	**-225**	**-348**
Changes in exchange rates	-57	-533	0	-590
Additions to lease liabilities	0	4,741	0	4,741
Disposal of lease liabilities	0	-2,695	0	-2,695
Interest expense	404	667	0	1,071
Interest paid	-404	0	0	-404
Other changes related to equity	0	0	10	10
Total reconciliation balance sheet	**-57**	**2,180**	**10**	**2,133**
31 December 2020	**25,694**	**27,239**	**234**	**53,167**

€ 000				**Total**
1 January 2019	**20,421**	**41,745**	**133**	**62,299**
Payments for the acquisition of non-controlling interests	0	0	0	0
Cash outflow for the payment of lease liabilities	0	-7,060	0	-7,060
Cash inflow from interest-bearing financial debt	5,867	0	0	5,867
Cash outflow for the payment of interest-bearing financial liabilities	-7,138	0	0	-7,138
Cash flow from financing activities	**-1,271**	**-7,060**	**0**	**-8,331**
Changes in exchange rates	-1	186	0	185
Additions to lease liabilities	0	1,687	0	1,687
Disposal of lease liabilities	0	-5,783	0	-5,783
Interest expense	384	1,008	0	1,392
Interest paid	-384	0	0	-384
Other changes related to equity	0	0	316	316
Total reconciliation balance sheet	**-1**	**-2,901**	**316**	**-2,586**
31 December 2019	**19,150**	**31,783**	**449**	**51,382**

31. DEFERRED LIABILITIES

Deferred liabilities break down as follows:

	31 December 2020		31 December 2019	
€ 000	Total	Thereof due within one year	Total	Thereof due within one year
Employer's liability insurance premiums	541	541	520	520
Bonuses	4,300	4,300	6,470	6,470
Holiday entitlement	1,667	1,667	1,435	1,435
Time unit credits	1,838	1,838	2,209	2,209
Missing supplier invoices	1,136	1,136	823	823
Other deferred liabilities	2,912	2,912	2,729	2,729
Total	**12,394**	**12,394**	**14,186**	**14,186**

32. OTHER LIABILITIES

Other liabilities are comprised of the following items:

	31 December 2020		31 December 2019	
€ 000	Total	Thereof due within one year	Total	Thereof due within one year
Prepayments received	5,639	5,639	2,955	2,955
Other liabilities	5,977	5,913	5,404	5,321
Other financial liabilities	16	16	28	24
Total	**11,632**	**11,568**	**8,387**	**8,300**

Of the total amount expensed, € 11,568 thousand (2019: € 8,300 thousand) is due within one year and € 64 thousand (2019: € 87 thousand) is disclosed under Other non-current assets.

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

As of 31 December 2019, current other financial liabilities include market values of derivative financial instruments amounting to € 16 thousand (2019: € 12 thousand).

33. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Contingent liabilities

No provisions were formed for the following contingent liabilities stated at nominal value as the probability of their occurrence is regarded as low:

€ 000	31 Dec. 2020	31 Dec. 2019
Sureties	1,532	470
Guarantees	9,220	9,443
Other obligations	126	809
Total	**10,878**	**10,722**

As of 31 December 2020, there were contingent claims against an insurance company for damages amounting to € 195 thousand (2019: € 164 thousand).

Other financial obligations

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

€ 000	31 Dec. 2020	31 Dec. 2019
Order commitments – property, plant & equipment	74	323
Obligations from rental agreements for software and licenses	1,830	2,754
Obligations from rental agreements for office and operating equipment	748	787
Obligations from rental agreements for real estate	7,674	7,821

There were no contingent lease payments or subleases as of 31 December 2020.

34. DERIVATIVE FINANCIAL INSTRUMENTS

As a Group that is active throughout the world, R. STAHL conducts business in various currencies. The company strives to limit the foreign exchange risk inherent in the underlying transactions. We use derivative financial instruments to hedge foreign exchange risks from bank balances, receivables, liabilities, debt, pending transactions and anticipated transactions. We only use derivative financial instruments to hedge underlying existing, pending and planned transactions.

To hedge currency risks, derivative financial instruments for the currencies Australian dollar, Canadian dollar and US dollar were held in the form of forward foreign exchange contracts on 31 December 2020.

The maturities of these currency derivatives usually relate to cash flows in the respective current and subsequent financial years. If necessary, they can be prolonged correspondingly to ensure the best possible coverage of forecast cash flows until their actual occurrence.

Conditions, the persons responsible, financial reporting, and control mechanisms for financial instruments are defined uniformly throughout the Group. Part of this is a clear separation of functions between trade and settlement.

R. STAHL AG and R. STAHL Schaltgeräte GmbH in particular enter into the respective contracts with banks that have an outstanding credit rating.

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

Hedges are recognized as assets or liabilities under Other financial assets or Other financial liabilities at their corresponding market values.

The following hedging transactions existed on the balance sheet date:

€ 000	Nominal volume 31 Dec. 2020	Nominal volume 31 Dec. 2019	Market value 31 Dec. 2020	Market value 31 Dec. 2019
Positive market values				
Currency derivatives without hedging relationship	2,202	9,404	130	121
Total	**2,202**	**9,404**	**130**	**121**
Negative market values				
Currency derivatives without hedging relationship	455	1,547	-16	-16
Total	**455**	**1,547**	**-16**	**-16**

The fair values correspond to the gains and losses on a notional closing of the derivative financial instruments on the balance sheet date. Fair values are determined using standardized valuation methods.

R. STAHL AG enters into derivative transactions in accordance with the German master agreement for financial futures. However, these agreements do not meet the criteria for offsetting in the consolidated balance sheet in accordance with IAS 32.42, as it only grants the right to offset in the case of future events, such as the default or insolvency of R. STAHL AG or the counter-parties.

The following table sets out the carrying amounts of the recognized derivative financial instruments which are subject to the described agreement and shows the potential financial impact of offsetting in accordance with the existing global netting agreements.

€ 000	Gross and net amounts of financial instruments in the consolidated balance sheet	Amounts from global netting agreements	Net amounts
31 December 2020			
Other financial assets (derivatives)	130	0	130
Other financial liabilities (derivatives)	16	0	16
31 December 2019			
Other financial assets (derivatives)	121	-12	109
Other financial liabilities (derivatives)	16	-12	4

35. MANAGEMENT OF FINANCIAL RISKS

Principles of risk management

R. STAHL's assets, liabilities and planned transactions are subject to exchange rate and interest rate risks as well as default and liquidity risks.

The aim of risk management is to limit these risks by means of ongoing operating and finance-oriented activities.

Depending on the assessment of the respective risk, derivative financial instruments are used to hedge existing underlying transactions, pending transactions or planned transactions.

Risk categories under IFRS 7

Default risk (credit risk)

R. STAHL is exposed to the risk of counterparty default from its operating business.

In the operating business, accounts receivable are monitored decentrally and on an ongoing basis. Specific valuation allowances are recognized to take account of the default risk.

The maximum default risk is mostly defined by the carrying amounts of financial assets as recognized in the balance sheet, including derivative financial instruments with positive market values.

As of the reporting date, there are no significant agreements that reduce the maximum default risk (such as netting agreements) other than the factoring agreements described under receivables and other assets.

The credit quality of financial assets is shown in the following table:

€ 000	Gross carrying amount 31 Dec. 2020	Not due	Up to 30 days overdue	31 to 90 days overdue	91 to 180 days overdue	More than 180 days overdue
Trade receivables	37,948	28,784	4,669	1,757	643	2,095
Contract receivables	637	637	0	0	0	0
Total	**38,585**	**29,421**	**4,669**	**1,757**	**643**	**2,095**

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

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

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

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

€ 000	**Gross carrying amount 31 Dec. 2020**	**Not due**	**Up to 30 days overdue**	**31 to 90 days overdue**	**91 to 180 days overdue**	**More than 180 days overdue**
Trade receivables (gross)	37,948	28,784	4,669	1,757	643	2,095
Contract receivables (gross)	637	637	0	0	0	0
- Sales tax or other taxes and duties	-2,767	-2,122	-372	-96	-28	-149
+ Netted prepayments received	0	0	0	0	0	0
Calculation basis (I)	35,818	27,299	4,297	1,661	615	1,946
Valuation allowance	1,157	13	5	115	201	823
Calculation basis (II)	34,661	27,286	4,292	1,546	414	1,123
Average default rate in %	0,2	0,2	0,1	0,0	0,0	0,0
Risk provision	72	67	5	0	0	0

€ 000	**Gross carrying amount 31 Dec. 2019**	**Not due**	**Up to 30 days overdue**	**31 to 90 days overdue**	**91 to 180 days overdue**	**More than 180 days overdue**
Trade receivables (gross)	44,986	28,840	6,937	4,172	1,731	3,306
Contract receivables (gross)	622	622	0	0	0	0
- Sales tax or other taxes and duties	-4,802	-3,502	-699	-355	-119	-127
+ Netted prepayments received	926	326	289	309	2	0
Calculation basis (I)	41,732	26,286	6,527	4,126	1,614	3,179
Valuation allowance	2,353	18	0	293	312	1,730
Calculation basis (II)	39,379	26,268	6,527	3,833	1,302	1,449
Average default rate in %	0,4	0,3	0,8	0,0	0,0	0,0
Risk provision	145	91	54	0	0	0

Allowances for trade receivables developed as follows:

€ 000	Total	Valuation allowance	Risk provision
1 January 2020	**2,498**	**2,353**	**145**
Currency differences	-196	-195	-1
Amounts written off	-970	-970	0
Reversed amounts	-1,037	-901	-136
Increase in credit losses recognized through profit or loss	934	870	64
31 December 2020	**1,229**	**1,157**	**72**

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

Liquidity risk

To ensure that R. STAHL is always able to pay its debts and has the necessary financial flexibility for business operations, the liquidity trend is regularly monitored.

The following table provides a breakdown of financial liabilities (non-discounted cash flows) with residual contract maturities:

€ 000	Carrying Amount 31 Dec. 2020	Cash flows 2021	Cash flows 2022-2025	Cash flows from 2026
Trade payables	13,805	13,805	0	0
Interest-bearing liabilities	25,694	16,913	8,781	0
Currency derivatives without a hedging relationship	16	16	0	0

€ 000	Carrying Amount 31 Dec. 2019	Cash flows 2020	Cash flows 2021-2024	Cash flows from 2025
Trade payables	15,092	15,092	0	0
Interest-bearing liabilities	19,150	9,278	10,524	0
Currency derivatives without a hedging relationship	16	12	4	0

In December 2019, R. STAHL prematurely concluded a new syndicated loan to finance the Group. The new agreement has a volume of € 70 million with the possibility to increase it by a further € 25 million and has an initial term of three years with an extension option for up to two further years. The agreement contains standard provisions regarding the maintenance of the Group's financial strength (financial covenants). Non-compliance with these covenants results in an adjustment of the contract terms or premature termination by the banks involved. The relevant key figures are monitored on an ongoing basis and reported to the Executive Board. Due to the possibility of such a breach, R. STAHL is exposed to a financial risk which, in the worst case, could lead to a termination of the credit lines. The agreed financial covenants relate to a quarterly verification with regard to the net debt ratio, equity and the equity ratio and will also be adjusted. Due to the possibility of a potential covenant breach, there is an increased liquidity risk. In summary, the R. STAHL Group estimates the probability of an actual contract breach, however, to be low on the basis of the countermeasures mentioned in the risk report.

With regard to the increased liquidity risk from the potential breach of covenants as of 31 December 2022 and the handling of this risk, please refer to the explanations in the Risk report as of 31 December 2020, which is part of the combined management report.

Market price risks

In terms of market price risks, R. STAHL is exposed to currency risks, interest rate risks and other price-related risks.

Currency risks

R. STAHL's exposure to currency risks results primarily from its operating activities. Risks from foreign currencies are hedged insofar as they have a significant impact on the Group's cash flows.

Foreign exchange rate risks in operating activities mainly arise from forecast transactions denominated in currencies other than the Group's functional currency.

To hedge against foreign currency risks, R. STAHL generally uses forward foreign exchange contracts.

Interest rate risks

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

Price risks

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

As of 31 December 2020 and 31 December 2019, R. STAHL had no material financial instruments in its portfolio that were subject to other price risks.

Sensitivity analyses

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

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

- Material primary financial instruments (securities, receivables, liquidity and debt) are either denominated directly in our functional currency or have been transferred into the functional currency using derivatives. Changes in foreign exchange rates thus have no effect on our earnings or equity.
- Interest income and expense from financial instruments are likewise either directly recognized in the functional currency or have been transferred to the functional currency using derivatives. For this reason, there are also no effects on our earnings and equity.
- Foreign exchange rate-related changes in the fair values of currency derivatives that are neither in a hedging relation pursuant to IAS 39 nor in a hedging relation with balance-sheet-impacting underlying transactions (natural hedges) may impact our currency translation income/expense and thus are included in our earnings-related sensitivity analysis.

If the euro had appreciated by 10% against all currencies relevant to the company as of 31 December 2020, earnings before income tax would have been € 232 thousand higher (31 December 2019: € 988 thousand).

If the euro had devalued by 10% against all currencies relevant to the company as of 31 December 2020, earnings before income tax would have been € 283 thousand lower (31 December 2019: € 1,208 thousand).

The interest rate sensitivity analyses are based on the following assumptions:

- Changes in market interest rates of primary financial instruments with a fixed interest rate only have an effect on earnings when they are calculated at their fair value. Accordingly, all fixed-interest financial instruments measured at amortized cost are not subject to interest rate risks as defined by IFRS 7.
- Changes in market interest rates affect the interest income of the primary financial instruments whose interest payments are not designated as hedged items in cash flow hedges against changes in interest rates and are therefore taken into account in the earnings-related sensitivity calculations.

If the market interest rate level had been higher by 100 basis points on 31 December 2020, earnings before income tax would have been € 90 thousand lower (31 December 2019: € 67 thousand).

If the market interest rate level had been lower by 100 basis points on 31 December 2020, earnings before income tax would have been € 90 thousand higher (31 December 2019: € 131 thousand).

ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS STATED IN THE BALANCE SHEET

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table shows a reconciliation of the carrying amounts and fair values of balance sheet items to their individual categories:

		Carrying amounts of financial instruments				
€ 000	Balance Sheet amount as of 31 Dec. 2020	Measured at fair value	Measured at amortized cost	Not subject to IFRS 7	Carrying amounts of others	Fair value
Non-current assets						
Shares in associates	9,803	0	0	9,803	0	9,803
Other financial assets	32	0	5	27	0	32
Other non-current assets	1,497	0	206	0	1,291	1,497
Current assets						
Trade receivables	36,718	0	36,718	0	0	36,718
Contract receivables, other receivables and other assets	9,251	130	3,486	0	5,635	9,251
Cash and cash equivalents	19,854	0	19,854	0	0	19,854
Non-current liabilities						
Interest-bearing liabilities	8,781	0	8,781	0	0	8,781
Lease liabilities	21,050	0	0	21,050	0	21,050
Other liabilities	64	60	0	0	4	64
Current liabilities						
Trade payables	13,805	0	13,805	0	0	13,805
Interest-bearing liabilities	16,913	0	16,913	0	0	16,913
Lease liabilities	6,189	0	0	6,189	0	6,189
Other liabilities	11,568	16	1,113	0	10,439	11,568
Thereof aggregated by measurement category in accordance with IFRS 9						
Financial assets (hold to collect) – at amortized cost	64,236	0	60,269	0	3,967	64,236
Other financial assets (hold to collect) – at fair value	130	130	0	0	0	130
Financial assets (hold to collect and sell) – at amortized cost	1,938	0	1,938	0	0	1,938
Financial liabilities – at amortized cost	25,694	0	25,694	0	0	25,694
Other liabilities – at amortized cost	19,708	0	14,938	0	4,770	19,708
Other financial liabilities – at fair value	16	16	0	0	0	16
Other liabilities – at fair value	64	60	0	0	4	6

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

€ 000	Balance Sheet amount as of 31 Dec. 2019	Carrying amounts of financial instruments: Measured at fair value	Measured at amortized cost	Not subject to IFRS 7	Carrying amounts of others	Fair value
Non-current assets						
Shares in associates	8,834	0	0	8,834	0	8,834
Other financial assets	32	0	5	27	0	33
Other non-current assets	3,945	32	2,430	32	1,451	3,945
Current assets						
Trade receivables	42,489	0	42,324	0	165	42,489
Contract receivables, other receivables and other assets	9,253	89	3,457	0	5,708	9,254
Cash and cash equivalents	14,966	0	14,966	0	0	14,966
Non-current liabilities						
Interest-bearing liabilities	10,193	0	10,193	0	0	10,193
Lease liabilities	25,056	0	0	25,056	0	25,056
Other liabilities	87	71	0	0	16	87
Current liabilities						
Trade payables	15,092	0	15,092	0	0	15,092
Interest-bearing liabilities	8,957	0	8,957	0	0	8,957
Lease liabilities	6,727	0	0	6,727	0	6,727
Other liabilities	8,300	12	1,228	0	7,059	8,299
Thereof aggregated by measurement category in accordance with IFRS 9						
Financial assets (hold to collect) – at amortized cost	66,720	0	62,372	0	4,348	66,720
Other financial assets (hold to collect) – at fair value	121	121	0	0	0	121
Financial assets (hold to collect and sell) – at amortized cost	854	0	854	0	0	854
Financial liabilities – at amortized cost	19,150	0	19,150	0	0	19,150
Other liabilities – at amortized cost	20,413	0	16,866	0	3,547	20,413
Other financial liabilities – at fair value	16	16	0	0	0	16
Other liabilities – at fair value	83	67	0	0	16	83

The consolidated financial statements have been prepared using the cost principle. Accounting for derivative financial instruments is the exception to this rule, as these must be accounted for at fair value. The positive fair values of the derivative financial instruments at the end of the reporting period amounted to € 130 thousand (2019: € 121 thousand). Negative fair values of € -16 thousand (2019: € -16 thousand) were recognized. In addition, contingent purchase price obligations of € 60 thousand (2019: € 67 thousand) were accounted for as other liabilities at fair value.

The carrying amounts of cash and cash equivalents, as well as current account loans closely approximate their fair values given the short maturity of these financial instruments. The carrying values of receivables and liabilities are based on historical costs, subject to usual trade credit terms, and also closely approximate their fair values.

The fair value of non-current liabilities is based on currently available interest rates for borrowing with the same maturity and credit rating profiles. The fair values of external liabilities is currently deviate only slightly from the carrying amounts.

To present the reliability of the valuation of financial instruments at fair value in a comparable manner, IFRS introduced a fair-value-hierarchy with the following three levels:

- Valuation on the basis of exchange price or market price for identical assets or liabilities (Level 1)
- Valuation on the basis of exchange price or market price for similar instruments or on the basis of assessment models that are based on market observable input parameters (Level 2)
- Valuation on the basis of assessment models with significant input parameters that are not observable on the market (Level 3)

The derivative financial instruments measured at fair value of R. STAHL are valued exclusively in accordance with the fair value hierarchy Level 2.

In financial year 2020, there were no reclassifications among the various fair value hierarchies.

The following total proceeds and total expenses arose from valuation at fair value of the derivative financial instruments of Level 2 held on 31 December 2020:

€ 000	2020	2019
Recognized in the income statement		
Derivatives	+8	+344
Recognized in equity		
Derivatives in a hedging relationship	0	0

OTHER DISCLOSURES

36. EXECUTIVE BOARD AND SUPERVISORY BOARD

Executive Bodies

Members of the Supervisory Board

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

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

Rudolf Meier, engineering graduate, Nuremberg (until 15 April 2021)
Former Head of Production Machinery, Factory Automation at Siemens AG, Munich

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

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

Harald Rönn, Berlin (since 30 July 2020)
Managing Partner, ACapital Beteiligungsberatung GmbH, Frankfurt a.M.
Managing Partner, Alpha Beteiligungsberatung GmbH & Co. KG, Frankfurt a.M.
Executive Committee Labor Foundation

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

Heinz Grund, Braunsbach[1)] (until 29 July 2020)
Formerly scheduler/production control at R. STAHL Schaltgeräte GmbH, Waldenburg

Nadine Ernstberger, Öhringen[1)] (since July 30, 2020)
Production control at R. STAHL Schaltgeräte GmbH, Waldenburg

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

Members of the Executive Board

Dr. Mathias Hallmann, Karlsruhe
CEO
responsible for Procurement, Marketing, Production, Quality Assurance, Investor Relations and Corporate Communications, Strategy and Sales

Jürgen Linhard, Rötelsee (1 May 2020 until 31 March 2021)
CFO
responsible for Controlling, Accounting, Treasury, Tax, M&A, Internal Audit, HR, Legal and Compliance, and IT

Executive Board compensation in financial year 2020

Compensation for management in key positions of the R. STAHL Group that must be disclosed in accordance with IAS 24, includes the compensation for the active Executive Board and Supervisory Board.

[1)] Employee representative

The basic features of the compensation system are presented and explained in detail in the compensation report. The compensation report is part of the combined management report.

Active members of the Executive Board were compensated as follows:

Executive Board compensation Dr. Mathias Hallmann

With a resolution of the Supervisory Board adopted on 25 August 2017, Dr. Hallmann was appointed initially as a member of the Executive Board with effect from 1 October 2017 and as Chief Executive Officer with effect from 1 January 2018. By Supervisory Board resolution of 20 April 2020, the appointment was extended for a further three years with effect from 1 October 2020.

Dr. Hallmann received the following compensation in financial year 2020:

€ 000	**2020**	**2019**
Annual basic salary	405.0	400.0
Short-term variable compensation[1)]	162.0	240.0
Long-term variable compensation[1)]	0.0	76.0
Special bonus	0.0	0.0
Subsidy[2)]	12.5	12.0
Compensation in kind	18.0	18.0
Total	**597.5**	**746.0**

[1)] Payment of short-term variable compensation only in the following financial year; payment of long-term variable compensation only after three years.
[2)] Subsidy for health, long-term care and pension insurance in the amount which the employer would incur if Dr. Hallmann had the status of an employee.

The annual basic salary for Dr. Hallmann amounted to € 405 thousand in the reporting year. Short-term variable compensation amounts to € 162 thousand and the long-term variable compensation amounts to € 0 thousand. The company grants Dr. Hallmann a subsidy for his health, long-term care and pension insurance in the amount which the employer would incur if Dr. Hallmann had the status of an employee. In the reporting period, this subsidy amounted to € 12.5 thousand. Dr. Hallmann received benefits in kind amounting to € 18.0 thousand. These relate to the costs of the leased car provided for him

Executive Board compensation Jürgen Linhard

Mr. Linhard was appointed to the Executive Board for a period of three years effective 1 May 2020 by resolution of the Supervisory Board on 20 April 2020. His Executive Board compensation will therefore be granted pro rata for the period from 1 May 2020 to 31 December 2020 as follows:

€ 000	**2020**
Annual basic salary	200.0
Short-term variable compensation[1)]	80.0
Long-term variable compensation[1)]	0.0
Special bonus	0.0
Subsidy[2)]	5.1
Compensation in kind	9.0
Total	**294.1**

[1)] Payment of short-term variable compensation only in the following financial year; payment of long-term variable compensation only after three years.
[2)] Subsidy for health, long-term care and pension insurance in the amount which the employer would incur if Mr. Linhard had the status of an employee.

The annual basic salary for Mr. Linhard amounted to € 200 thousand in the reporting year. Short-term variable compensation amounts to € 80 thousand and the long-term variable compensation amounts to € 0 thousand. The company grants Mr. Linhard a subsidy for his health, long-term care and pension insurance in the amount which the employer would incur if Mr. Linhard had the status of an employee. In the reporting period, this subsidy amounted to € 5.1 thousand. Mr. Linhard received benefits in kind amounting to € 9.0 thousand. These relate to the costs of the leased car provided for him.

There are no pension provisions for active members of the Executive Board.

Total compensation of former Executive Board members and former Managing Directors

Former members of the Executive Board, as well as former Managing Directors, and their survivors received a total of € 429 thousand in financial year 2020 (2019: € 421 thousand).

As of 31 December 2020, the present value of pension obligations for former members of the Executive Board as well as former Managing Directors and their survivors amounted to € 8,647 thousand (2019: € 8,354 thousand).

Total compensation of the Supervisory Board

Compensation for members of the Supervisory Board was as follows:

€ 000	Fixed compensation	Compensation for committee work	Variable compensation	Total
Peter Leischner	36.00	21.90	0.00	57.90
Heike Dannenbauer	18.00	3.65	0.00	21.65
Klaus Erker	18.00	3.65	0.00	21.65
Nadine Ernstberger	9.00	0.00	0.00	9.00
Heinz Grund	9.00	1.83	0.00	10.83
Rudolf Meier	18.00	3.65	0.00	21.65
Andreas Müller	18.00	3.65	0.00	21.65
Dr. Renate Neumann-Schäfer	18.00	7.30	0.00	25.30
Nikolaus Simeonidis	18.00	1.52	0.00	19.52
Harald Rönn	7.50	0.00	0.00	7.50
Total	**169.50**	**47.15**	**0.00**	**216.65**

Shares in R. STAHL AG held by members of the Executive Board and Supervisory Board

At the end of the reporting period, Executive Board members held 8,300 company shares and Supervisory Board members held 152,608 shares.

R. STAHL AG does not have any stock option plans or similar securities-based incentive systems for members of the Executive Board or Supervisory Board.

37. RELATED PARTY DISCLOSURES

Pursuant to IAS 24 (Related party disclosures), persons or entities that control or are controlled by the R. STAHL Group must be disclosed unless they are already included in R. STAHL's consolidated financial statements as a consolidated entity. A controlling influence is deemed to exist if a shareholder holds more than half of the voting rights in R. STAHL AG or has the option pursuant to the Articles of Association or contractual provisions to control the financial or business policy of R. STAHL's management.

Moreover, the disclosure requirement according to IAS 24 also pertains to transactions with associates and transactions with related natural persons that have a substantial influence on the financial and business policy of R. STAHL including close relatives or intermediary companies. Significant influence on R. STAHL's financial and operating policies may be based on a shareholding in R. STAHL AG of 20% or more, a seat on the Executive Board or Supervisory Board of R. STAHL AG or any other key management position.

In financial year 2020, R. STAHL was affected by disclosure requirements of IAS 24 exclusively with regard to business relationships with members of the Executive Board and Supervisory Board. Total compensation of the Supervisory Board amounted to € 170 thousand in the reporting period (2019: € 228 thousand). These amounts do not include the statutory compensation for worker representatives. For this information, please refer to the compensation report in the combined management report.

No significant reportable transactions were carried out with the company ZAVOD Goreltex, Saint Petersburg (Russian Federation) in 2020, for the period as an associate in 2019.

Declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) concerning compliance with the German Corporate Governance Code

We complied with the code of conduct recommended by the German Government Commission on the German Corporate Governance Code in the past financial year with a few individual exceptions. We will continue to comply with the majority of its recommendations in future. We have made a corresponding declaration of compliance which is accessible to the public on our website **www.r-stahl.com** in the section ↗ **Corporate/Investor-Relations/Corporate Governance/Corporate Governance Declaration/Declaration of Compliance**.

Notes to the cash flow statement

The cash flow statement shows R. STAHL's flow of funds as it developed over the year under review.

The cash flows are classified according to their nature as cash flows from operating, investing, and financing activities.

Using the indirect method, the relevant changes in balance sheet items are adjusted for consolidation effects. This approach causes differences in the changes of the respective balance sheet items as shown in the published consolidated balance sheet.

Cash flow from operating activities includes the following items:

€ 000	2020	2019
Interest received	128	31
Interest paid	-1,234	-2,021
Dividends received	588	409
Income tax refunds/credits	112	91
Income tax payments	-1,517	-1,117

Notes to segment reporting

According to IFRS 8, companies must disclose individual financial data on business segments. IFRS 8 adopts the so-called "management approach", according to which segment reporting only discloses financial information used by the company's decision-makers for internal control of the company. The internal reporting and organizational structure is decisive here as well as such financial values as are used for decision-making in regard to the allocation of resources and evaluation of profitability.

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

The key performance indicator for R. STAHL is earnings before interest, taxes, depreciation and amortization (EBITDA) before special items. Internal reporting corresponds to external IFRS reporting. A reconciliation statement is therefore not necessary. Furthermore, the Executive Board regularly monitors the following financial and economic parameters: sales, order intake and order backlog, as well as earnings before taxes (EBT).

The following table provides a breakdown by region:

2020/€ 000	Germany	Central region without Germany	Americas	Asia/ Pacific	Total
Revenue from sales to external customers	62,569	111,532	23,803	48,585	246,489
Carrying amounts of non-current assets	90,871	19,162	2,494	6,583	119,110

2019/€ 000	Germany	Central region without Germany	Americas	Asia/ Pacific	Total
Revenue from sales to external customers	62,524	120,916	34,511	56,833	274,784
Carrying amounts of non-current assets	92,251	19,791	3,708	8,288	124,038

In the regional analysis, sales are allocated based on the location of the customer. Assets of R. STAHL are assigned based on the location of the respective subsidiary that carries this asset in its balance sheet. In accordance with IFRS 8.33, assets comprise all non-current Group assets with the exception of financial instruments, deferred tax assets, post-service benefits and rights from insurance agreements.

The following table provides a breakdown by product area:

2020/€ 000	Components	Systems	Services and rents	Total
Revenue from sales to external customers	102,885	138,977	4,626	**246,489**
	(41.7%)	(56.4%)	(1.9%)	**(100.0%)**

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

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

In the reporting period, no individual country (with the exception of Germany) and in the previous year (with the exception of Germany and the USA), accounted for more than 10% of total sales.

Additional notes and disclosure requirements

The following table shows fees paid to the auditor of the consolidated financial statements for services to the parent company and its subsidiaries.

€ 000	2020	2019
Financial statement audits	296	321
thereof relating to other periods	12	44
Other certification and valuation services	0	0
Tax consultancy services	0	0
Other services	42	16
thereof relating to other periods	40	
Total	**338**	**337**

R. STAHL Schaltgeräte GmbH, Waldenburg, R. STAHL HMI Systems GmbH, Cologne, GGF – Gesellschaft für Grundstücksvermietung und Finanzierungsvermittlung mbH, Waldenburg, and R. STAHL Services GmbH, Waldenburg fulfilled the requirements of Section 264 (3) HGB and have thus made use of the exemption clause with regard to the preparation of notes to the annual financial statements and a management report as well as the disclosure of their annual financial statements for financial year 2020.

With reference to Section 264 (3) HGB, use is made of the exemption clause with regard to the preparation of notes and the disclosure of annual financial statements for financial year 2020 of R. STAHL LECTIO GmbH, Waldenburg, R. STAHL SUPERA GmbH, Waldenburg and R. STAHL Beteiligungsgesellschaft mbH, Waldenburg. The necessary prerequisites pursuant to Section 264 (3) HGB are met.

Other notes and disclosures

R. STAHL AG concluded a profit and loss transfer agreement with R. STAHL HMI Systems GmbH, Cologne, effective 1 January 2021.

Events after the balance sheet date

There were no significant events after the balance sheet date.

Due to the ongoing COVID-19 pandemic, there is still a high degree of uncertainty regarding the pandemic’s depth and the duration of the impact on the global economy, which could likewise affect the business activities of the R. STAHL Group.

LIST OF SHAREHOLDINGS

Name and registered offices of the company	Consolidation status	Capital Stake in in %
Domestic companies		
R. Stahl Beteiligungsgesellschaft mbH, Waldenburg	F; c	100.00
GGF – Gesellschaft für Grundstücksvermietung und Finanzierungsvermittlung mbH, Waldenburg	F; c	100.00
R. STAHL HMI Systems GmbH, Cologne	F; c	100.00
R. STAHL Schaltgeräte GmbH, Waldenburg	F; c	100.00
R. Stahl Services GmbH, Waldenburg	F; c	100.00
Abraxas Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	I; n. c.	49.58
R. STAHL LECTIO GmbH, Waldenburg	F; c	100.00
R. STAHL SUPERA GmbH, Waldenburg	F; c	100.00
Foreign companies		
R. STAHL MIDDLE EAST FZE, Dubai (United Arab Emirates)	F; c	100.00
R. STAHL Gulf FZCO, Dubai (United Arab Emirates)	F; c	100.00
R. STAHL AUSTRALIA PTY LTD, Sutherland (Australia)	F; c	100.00
Stahl N.V., Dendermonde (Belgium)	F; c	100.00
R. STAHL do Brasil Ltda, Sao Caetano (Brazil)	F; c	100.00
R. STAHL, LTD., Edmonton (Canada)	F; c	100.00
R. STAHL Switzerland AG, Magden (Switzerland)	F; c	100.00
R. STAHL (HONGKONG) CO., LIMITED, Hong Kong (China)	F; c	100.00
R. STAHL EX-PROOF (SHANGHAI) CO., LTD., Shanghai (China)	F; c	100.00
R. STAHL France S.A.S., Avignon (France)	F; c	100.00
R. STAHL Limited, Birmingham (UK)	F; c	100.00
R. STAHL PRIVATE LIMITED, Chennai (India)	F; c	100.00
R. STAHL S.r.l., Peschiera Borromea (Italy)	F; c	100.00
R. Stahl LLP., Atyrau (Kazakhstan)	I; n. c.	100.00
R. STAHL CO., LTD, Seoul (Korea)	F; c	100.00
R. STAHL ENGINEERING & MANUFACTURING SDN. BHD., Selangor (Malaysia)	F; c	100.00
Electromach B.V. Hengelo (Netherlands)	F; c	100.00
R. STAHL NORGE AS, Stavanger (Norway)	F; c	100.00
R. STAHL TRANBERG AS, Stavanger (Norway)	F; c	100.00
OOO R. Stahl, Moscow (Russia)	F; c	100.00
ZAVOD Goreltex Co. Ltd., Saint Petersburg (Russia)	A; c	25.00
R. Stahl Svenska Aktiebolag, Järfälla (Sweden)	F; c	100.00
R. STAHL PTE LTD, Singapore (Singapore)	F; c	100.00
INDUSTRIAS STAHL, S.A., Madrid (Spain)	F; c	100.00
R. STAHL SOUTH AFRICA (PTY) LTD, Edenvale (South Africa)	F; c	70.00
R. STAHL, INC., Houston/Texas (USA)	F; c	100.00

The companies are identified by their respective Group-relevant status as either fully consolidated enterprise (F), associate (A) or other investment (I) stating whether it is consolidated (c) or not consolidated (n.c.).

Waldenburg, 13 April 2021

R. STAHL Aktiengesellschaft

Dr. Mathias Hallmann
Chief Executive Officer

RESPONSIBILITY STATEMENT

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

Waldenburg, 13 April 2021

R. STAHL Aktiengesellschaft

Dr. Mathias Hallmann
Chief Executive Officer

AUDIT OPINION OF THE INDEPENDENT AUDITOR

TO R. STAHL AKTIENGESELLSCHAFT, WALDENBURG

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

AUDIT OPINIONS

We have audited the consolidated financial statements of R. Stahl Aktiengesellschaft, Waldenburg, Germany and its subsidiaries (the Group) – consisting of the consolidated balance sheet as at 31 December 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January 2020 to 31 December 2020, as well as the notes to the consolidated financial statements, including a summary of significant accounting methods.

We have also audited the combined management report of R. Stahl Aktiengesellschaft for the financial year from 1 January 2020 to 31 December 2020. In accordance with German legal requirements, we have not audited the contents of the components of the combined management report referred to under "Other information".
In our opinion, on the basis of the knowledge obtained in the audit,

- he attached consolidated financial statements comply in all material respects with those IFRSs adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) of the German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2020 and of its financial performance for the financial year from 1 January 2020 to 31 December 2020, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not extend to the contents of the components of the combined management report referred to under "Other information".

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

BASIS FOR THE AUDIT OPINIONS

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

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

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

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters which, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our auditor's opinion thereon; we do not provide a separate audit opinion on these matters.

We identified the following as key audit matters:

1. Impairment of goodwill

2. Recognition and recoverability of deferred tax assets

IMPAIRMENT OF GOODWILL

Description of issue

Goodwill of € 10.4 million, corresponding to 4.1% of the consolidated balance sheet total, is disclosed in the consolidated financial statements of R. Stahl Aktiengesellschaft under the balance sheet item "Intangible assets". Goodwill was allocated to cash-generating units.

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

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

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

Auditor's response

In the course of our audit, we assessed the appropriateness of the key assumptions and discretionary parameters, as well as the calculation methods used in the impairment tests. We have gained an understanding of the planning system and planning process, as well as the significant assumptions made by the legal representatives during planning. We checked the forecast of future cash flows in the detailed planning period with the planning approved by the Supervisory Board and reviewed the planning accuracy of the companies on the basis of an analysis of actual and planned deviations in the past and in the current financial year. We checked the underlying assumptions for the planning and the growth rates assumed in forecasting the cash flows beyond the detailed planning period by comparing them with past developments and current industry-specific market expectations. In the case of significant goodwill whose CGUs showed a low degree of planning accuracy, the assumed revenue growth and expected cost structures in particular were critically examined with regard to accuracy. As even small changes in the discount rate used can have a significant effect on the calculated size of the recoverable amount of the respective CGU, we checked the discount rate with our measurement specialists, who assessed the appropriateness of the parameters used, including market risk premiums and beta factors, with the aid of market data. Our audit also included the sensitivity analyses performed by R. Stahl Aktiengesellschaft, in particular with regard to the effects of possible changes in the cost of capital, the assumed sales growth rates and the expected cost structure.

RECOGNITION AND RECOVERABILITY OF DEFERRED TAX ASSETS

Description of issue

Deferred tax assets of € 13.4 million are recognized in the consolidated financial statements of R. Stahl Aktiengesellschaft, of which € 1.6 million relate to loss carryforwards. In accordance with IAS 12.34, a deferred tax asset may only be recognized to the extent to which it is probable that future taxable profit will be available. This assessment requires taxable income planning for future taxation periods, which in turn is based on reliable corporate planning. The assessment of whether future taxable earnings can be generated despite the existence of past losses is heavily discretionary. The auditing of deferred tax assets on loss carryforwards was therefore of particular importance and thus identified as a key audit matter.

The disclosures of R. Stahl Aktiengesellschaft regarding deferred taxes are included in sections (5) Accounting and valuation methods and (17) Income taxes of the notes on the consolidated financial statements.

Auditor's response

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

OTHER INFORMATION

The legal representatives or the Supervisory Board are responsible for the other information. The other information includes:

- the non-financial Group statement contained in the section "NON-FINANCIAL GROUPSTATEMENT" of the combined management report
- the separately published "Corporate governance declaration" referred to in the section "Corporate governance declaration" of the combined management report
- the other parts of the combined management report, with the exception of the audited consolidated financial statements and combined management report, as well as our audit opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

- identify and assess the risks of – intentional or unintentional – material misstatement of the consolidated financial statements and the combined management report, plan and perform audit procedures as a response to these risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal controls;
- obtain an understanding of the internal control system of relevance to the audit of the consolidated financial statements and of the relevant provisions and measures for the auditing of the combined management report in order to plan audit procedures which are appropriate for the circumstances, but not with the aim of expressing an audit opinion on the effectiveness of these systems;
- evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and the related disclosures;
- make conclusions about the appropriateness of the going concern basis of accounting used by the legal representatives and, based on the audit evidence obtained, about whether a material uncertainty exists related to

events or conditions which may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's opinion to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are not appropriate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's opinion. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in such a way that the consolidated financial statements give a true and fair picture of the Group's financial position and performance in compliance with those IFRSs adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the accounting information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the Group audit. We bear sole responsibility for our audit opinions.
- assess the consistency of the combined management report with the consolidated financial statements, its compliance with the legal provisions and the view it gives of the Group's position.
- perform procedures on the prospective information presented by the legal representatives in the combined management report. In particular, we obtain sufficient appropriate audit evidence to evaluate the underlying significant assumptions used by the legal representatives for forward-looking statements and evaluate the proper derivation of the forward-looking statements from these assumptions. We do not express a separate opinion on the forward-looking statements nor on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the forward-looking statements.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

REPORT ON THE AUDIT OF THE ELECTRONIC REPRODUCTIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT PREPARED FOR DISCLOSURE PURPOSES IN ACCORDANCE WITH SECTION 317 (3B) OF THE GERMAN COMMERCIAL CODE (HGB)

Audit opinion

In accordance with Section 317 (3b) of the German Commercial Code (HGB), we have performed a reasonable assurance review to determine whether the reproductions of the consolidated financial statements and the combined management report (hereinafter also referred to as the "ESEF documents") contained in the attached file [RStahl_KA2020_ESEF.zip:8f090a054e93b9427a08eedf-28b041cc4f5db6fa2e22cb0743d66f81fdfa3cbc] and prepared for disclosure purposes comply in all material respects with the requirements of Section 328 (1) of the German Commercial Code regarding the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this audit extends only to the transfer of the information in the consolidated financial statements and the combined management report into the ESEF format and therefore not to the information contained in these reproductions nor to any other information contained in the above-mentioned file.

In our opinion, the reproductions of the consolidated financial statements and the combined management report contained in the above-mentioned attached file and prepared for the purpose of disclosure comply in all material respects with the requirements of Section 328 (1) of the German Commercial Code (HGB) concerning the electronic reporting format. Other than this opinion and our opinions on the accompanying CONSOLIDATED FINANCIAL STATEMENTS AND ON THE ACCOMPANYING COMBINED MANAGEMENT REPORT for the financial year from 1 January 2020 to 31 December 2020 included in the preceding "REPORT ON our audit of the consolidated financial statements and the combined management report", we do not express any opinion on the information included in these reproductions or on the other information included in the above-mentioned file.

Basis for the audit opinion

We conducted our audit of the reproductions of the consolidated financial statements and the combined management report contained in the above-mentioned attached file in accordance with Section 317 (3b) HGB and the draft IDW Auditing Standard: Audit of electronic reproductions of financial statements and management reports prepared for disclosure purposes in accordance with Section 317 (3b) HGB (IDW EPS 410). Our responsibility is further described in the section "Auditor's responsibility for the audit of the ESEF documents". Our auditing practice has the quality assurance system requirements of the IDW Quality Assurance Standard: Requirements for Quality Assurance in Auditing Practice (IDW QS 1) have been applied.

Responsibility of the legal representatives and the Supervisory Board for the ESEF documents

The company's legal representatives are responsible for the preparation of the ESEF documents with the electronic reproductions of the consolidated financial statements and the combined management report in accordance with Section 328 (1) Sentence 4 No. 1 HGB and for the certification of the consolidated financial statements in accordance with Section 328 (1) Sentence 4 No. 2 HGB.

Furthermore, the company's legal representatives are responsible for the internal controls they deem necessary to enable the preparation of the ESEF documents that are free from material non-compliance, whether due to fraud or error, with the electronic reporting format requirements of Section 328 (1) HGB.

The legal representatives of the company are also responsible for submitting the ESEF documents, together with the auditor's report and the accompanying audited consolidated financial statements and audited combined management report, as well as other documents required to be disclosed, to the operator of the Federal Gazette.

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Responsibility of the auditor for the audit of the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance, whether due to fraud or error, with the requirements of Section 328 (1) HGB. We exercise due discretion and maintain a critical attitude throughout the audit.
We also

- identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, plan and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.
- obtain an understanding of internal controls relevant to the audit of ESEF documents 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 those controls.
- we assess the technical validity of the ESEF documentation, i.e. whether the file containing the ESEF documentation complies with the requirements of the Delegated Regulation (EU) 2019/815, as amended at the reporting date, regarding the technical specification for the file.
- we assess whether the ESEF documentation provides a consistent XHTML representation of the audited consolidated financial statements and the audited combined management report.
- we assess whether the markup of ESEF documents

with inline XBRL technology (iXBRL) provides an adequate and complete machine-readable XBRL copy of the XHTML rendering.

OTHER DISCLOSURES IN ACCORDANCE WITH ARTICLE 10 EU APRVO

We were elected as auditors by the Annual General Meeting on 30 July 2020. We were commissioned by the Supervisory Board on 7 December 2020. We have been the Group auditor of R. Stahl Aktiengesellschaft without interruption since financial year 2017.

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

AUDITOR RESPONSIBLE

The auditor responsible for the audit is Markus Will.

Stuttgart, 13 April 2021

BDO AG
Wirtschaftsprüfungsgesellschaft

Andreas Müller
Auditor

Markus Will
Auditor

SUPERVISORY BOARD REPORT

Peter Leischner
Chairman of the
Supervisory Board

Peter Leischner
Chairman of the Supervisory Board

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

Ladies and Gentlemen,

2020 was, in many respects, a year that presented us all with tremendous challenges. The rapid global spread of the corona virus forced people throughout the world to accept severe restrictions in almost all areas of life and work in order to protect their health, and resulted in an unprecedented slump in the global economy. In the delicate balance between the unconditional preservation of the health of employees and customers on the one hand and the safeguarding of operationally necessary processes and reliable business operations on the other, the Executive Board of R. STAHL led the company and its employees confidently and with foresight through the crisis. While demand declined significantly in the reporting year, the relatively moderate impact of the slump in sales on the earnings situation and the Group's persistently sound financing provide impressive evidence of the strategic successes achieved in recent years. R. STAHL's enhanced resilience is an excellent starting point for the further consistent implementation of this strategic path forward. It will allow the company to participate to a higher degree than average in the expected economic recovery and the future opportunities offered by key explosion protection markets. The Supervisory Board will continue to advise and support the Executive Board on this path and discuss and review its proposals and decisions in the interests of the company.

Changes in the Executive Board and Supervisory Board

On 1 May 2020, Jürgen Linhard took over as Chief Financial Officer, a position that had been held on an interim basis by Dr. Mathias Hallmann. Jürgen Linhard left the company for personal reasons as of 31 March 2021. Dr. Mathias Hallmann will again assume the role of Chief Financial Officer until further notice.

The 2020 Annual General Meeting elected Harald Rönn to succeed Jürgen Wild, who stepped down from the Supervisory Board on 31 December 2019. In a letter dated 13 March 2021, Rudolf Meier informed the Supervisory Board that he was stepping down from the Supervisory Board with effect from 15 April 2021. A successor will be proposed for election at the 2021 Annual General Meeting. On the employee side, Heinz Grund stepped down due to his age with effect from 30 June 2020. Nadine Ernstberger succeeded him as a substitute member.

Work of the Supervisory Board

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

Meetings of the Supervisory Board

The Supervisory Board held seven ordinary meetings in the reporting year, including the constituent meeting after the Annual General Meeting. There were also three extraordinary meetings. Attendance was 100% in all meetings.

Five of the ordinary Supervisory Board meetings were held as scheduled, as is the case each year. A further ordinary meeting was held because the Supervisory Board, in light of the special economic situation in the reporting year, decided to hold the meeting before the originally planned date of the Annual General Meeting at the end of May 2020. The meetings focused on the economic position and development prospects of R. STAHL Group, as well as on important business events. The Executive Board reported regularly to the Supervisory Board on the sales, earnings and financial performance of the company. The Supervisory Board meetings also dealt with questions of strategy for the Group. In particular, the following topics were discussed:

At the meeting on 5 March 2020, the Supervisory Board dealt, among other things, with the preliminary annual financial statements, the status of the measures that were based on an employee survey as well as the audit findings on the CSR report for 2019, which was adopted by circular resolution following the meeting. The committee also dealt with the status of the search for a successor to the Supervisory Board.

In an extraordinary meeting held by telephone on 25 March 2020, the Executive Board updated the Supervisory Board regarding the current impact of the pandemic on R. STAHL.

Following a detailed report by the auditing firm BDO AG Wirtschaftsprüfungsgesellschaft and discussion of the audit results, the Supervisory Board approved the annual financial statements 2019 for the company and the consolidated financial statements 2019 at the balance sheet meeting on 20 April 2020. At this meeting, the Supervisory Board appointed Jürgen Linhard as new Chief Financial Officer effective 1 May 2020, and extended the service contract of Dr. Mathias Hallmann by an additional three years from 1 October 2020. The results of the annual efficiency review were also discussed intensively. Finally, the Board received information on the possibilities of holding the Annual General Meeting as a virtual event, following the Board's decision and announcement on 18 March 2020 that the Annual General Meeting would be postponed due to the current pandemic.

At the subsequent meeting on 27 May 2020, the agenda included the business situation, the date and method for the Annual General Meeting, the individual agenda items together with the invitation (resolutions on the agenda items were passed by circulation shortly after the meeting). It was resolved to update the rules of procedure for the Executive Board with regard to the allocation of responsibilities. In addition, possible adjustments to the Supervisory Board's rules of procedure were discussed with regard to the Declaration of Conformity with the GCGC.

The meeting on 29 July 2020 dealt with preparations for the Annual General Meeting. The committee also discussed the business situation and the financial strategy, among other things.

The constituent meeting following the Annual General Meeting on 30 July 2020 filled the vacancy of retired member Heinz Grund for the Audit Committee. Nikolaus Simeonidis was elected (as was Heinz Grund, employee representative).

The ordinary meeting in September focused on the analysis of the operational business development during the pandemic. The committee was informed in detail about sales and growth initiatives. The declaration of compliance was updated in view of the introduction of a whistleblower system scheduled for 1 October 2020.

In two extraordinary meetings held by telephone on 22 October and 26 October 2020 (continued on 29 October 2020), the Supervisory Board dealt with the current situation together with personnel issues.

At its last meeting on 10 December 2020, the Supervisory Board held its regular discussion of, among other things, corporate planning for the coming years and the budget for 2021. These were then adopted at the beginning of the year 2021 by circular resolution. The declaration of corporate governance including the declaration of compliance based on ARUG II and the new version of the German Corporate Governance Code was adopted. In addition, the form and procedure of the review process for the CSR report for 2020 was discussed. Digitalization as a component of the corporate strategy was presented and discussed in detail. Prior to the meeting, a training session on risk management was held for the members of the Supervisory Board.

Meetings of the committees

The Audit Committee held three regular meetings in the reporting year, with 100% of the members present. Dr. Neumann-Schäfer was excused from attending one meeting, otherwise attendance was 100%. The committee dealt with questions of accounting, risk management and compliance, the necessary independence of the auditors, the issuing of the audit mandate to the auditors, the determination of audit focal points, the quality of the audit and the fee agreement.

The Administration Committee held eight meetings in 2020, each of which was attended by all members. In addition, the committee met several times outside of meetings, or coordinated by telephone, in the course of regulating Executive Board matters. In the reporting year, the Administrative Committee was primarily concerned with the search for a successor to Volker Walprecht, the appointment of Jürgen Linhard as new Chief Financial Officer and the extension of the service contract of Dr. Mathias Hallmann. The committee also prepared the compensation decisions of the full Supervisory Board, discussed in advance the requirements for the compensation system for the Executive Board and Supervisory Board to be presented to the Annual General Meeting in 2021, and dealt with long-term succession planning.

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

Auditing of the annual and consolidated financial statements

The annual financial statements of R. STAHL AG as of 31 December 2020, as well as the consolidated financial statements of R. STAHL AG, were audited by the auditing firm selected by the Annual General Meeting and appointed by the Audit Committee of the Supervisory Board, BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, and were both certified without qualification. The auditor's declaration of independence was provided.

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

The Audit Committee discussed the financial statements and audit reports in great detail with the auditors and dealt in particular with the key audit matters. At its balance sheet meeting on 15 April 2021, the Supervisory Board subsequently dealt with all issues relating to the audit of the financial statements. The Audit Committee reported to all members of the Supervisory Board on its findings. The chief auditor was present during the meeting and was on hand for discussions. The Supervisory Board concurred with the audit verdict and raised no objections to the annual and consolidated financial statements and the management reports. In accordance with Sections 170, 171 AktG, the Supervisory Board therefore approved the annual financial statements of R. STAHL AG and the consolidated financial statements, together with the management reports as prepared by the Executive Board. The former is thus adopted. A dividend for the 2020 financial year cannot be distributed.

At its meeting on 9 March 2021, the Supervisory Board also inspected that the separate non-financial report outside the management report (CSR report) was reported lawfully, properly and appropriately, and critically reviewed the approach taken by the Executive Board with regard to the methods, processes and procedures used to collect the necessary information and data. No objections were raised. The Supervisory Board therefore approved the CSR report. As of 6 April 2021, the CSR report is available on the website **www.r-stahl.com** in the section ↗ **Corporate/Corporate Responsibility**.

The Supervisory Board would like to thank Heinz Grund and Rudolf Meier, as a long-standing members of the Supervisory Board, the Audit Committee (Heinz Grund) and the Administrative Committee (Rudolf Meier) for the constructive and trusting committee work and wishes them all the best for the future. The Supervisory Board would also like to thank the Executive Board, the employees, and the staff representatives of R. STAHL, in Germany and abroad, for their hard work and dedication in these extraordinary times. Let us continue to move forward together along the promising path we have chosen towards a successful future.

Peter Leischner
Chairman of the Supervisory Board at R. STAHL AG

ANNUAL FINANCIAL STATEMENTS

OF R. STAHL AG

These complete financial statements of R. Stahl Aktiengesellschaft prepared pursuant to the rules and regulations of the German Commercial Code and Stock Corporation Act have been given approval without reservations by the appointed auditor BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, Germany, and will be published in the German electronic Federal Gazette. Interested shareholders may request copies of the parts of our annual financial statements not published here from the company.

INCOME STATEMENT OF R. STAHL AKTIENGESELLSCHAFT, WALDENBURG
1 January to 31 December 2020

€ 000	2020	2019
1. Sales	8,622	9,156
2. Other operating income	4,729	2,002
	13,351	**11,158**
3. Cost of materials		
Cost of raw materials, consumables and supplies as well as purchased goods	-3	19
4. Personnel costs		
a) Wages and salaries	5,865	6,099
b) Social insurance contributions and pensions	2,078	1,711
	7,943	**7,810**
5. Depreciation and amortization of intagible assets as well as property, plant & equipment	278	307
6. Other operating expenses	10,273	13,672
	-5,140	**-10,650**
7. Investment income	2,657	2,543
8. Income from profit transfer agreements	1,072	8,160
9. Other interest and similar income	738	200
10. Depreciation on financial assets	3,804	1,433
11. Expenses from transfer losses	5,427	0
12. Interest and similar income	2,220	2,830
13. Income taxes	109	75
	-7,093	**6,565**
14. Result after taxes	**-12,233**	**-4,085**
15. Other taxes	34	33
16. Net loss for the year	**-12,267**	**-4,118**
17. Loss carryforward	-18,833	-14,715
18. Balance sheet loss	**-31,100**	**-18,833**

BALANCE SHEET OF R. STAHL AKTIENGESELLSCHAFT, WALDENBURG
as of 31 December 2020

€ 000	31 Dec. 2020	31 Dec. 2019
ASSETS		
A. Non-current assets		
I. Intangible assets		
1. Industrial property and similar rights acquired for a consideration	293	527
2. Prepayments	114	1,553
	407	**2,080**
II. Property, plant and equipment		
1. Land and buildings including buildings on third-party land	1,689	1,719
2. Technical equipment and machinery	3	6
3. Other plant as well as operating and office equipment	30	37
	1,722	**1,762**
III. Financial assets		
1. Equity interests in associates	68,898	67,391
2. Loans to associates	1,075	5,024
3. Equity investmens	6,403	6,403
	76,376	**78,818**
B. Current assets		
I. Receivables and other assets		
1. Trade receivables	2	35
2. Receivables form associates	19,756	9,501
3. Other assets	208	3,634
4. Prepayments	9	0
	19,975	**13,170**
II. Cash in hand and bank deposits	5,092	872
C. Prepaid expenses and deferred income	**266**	**332**
	103,838	**97,034**

BALANCE SHEET OF R. STAHL AKTIENGESELLSCHAFT, WALDENBURG
as of 31 December 2020

€ 000	31 Dec. 2020	31 Dec. 2019
EQUITY AND LIABILITIES		
A. Equity		
I. Share capital	16,500	16,500
II. Capital reserves	18,666	18,666
III. Retained earnings		
Other retained earnings	18,447	18,447
IV. Balance sheet loss	-31,100	-18,833
	22,513	**34,780**
B. Provisions		
1. Pension provisions	16,578	16,162
2. Provisions for tax	3	6
3. Other provisions	1,515	1,677
	18,096	**17,845**
C. Liablities		
1. Liabilities to banks	20,500	9,984
2. Trade payables	654	865
3. Liabilities to associates	41,119	33,349
4. Other liabilities	956	211
	63,229	**44,409**
	103,838	**97,034**

GLOSSARY

IMPORTANT FINANCIAL AND ECONOMIC TERMS

Cash flow
Cash surplus generated from ordinary business activities. This indicator makes it possible to assess the financial strength of a company.

Compliance
General term used to describe measures that ensure adherence with laws and intra-company guidelines.

Corporate governance
Responsible company management and control focused on long-term value creation.

CSR Report (Corporate Social Responsibility)
Also known as the non-financial Group statement or sustainability report, has been required by law for listed companies since 2017 and includes information on environmental, social and employee issues as well as on the measures implemented to ensure respect for human rights and to counter corruption and bribery.

Derivatives, derivative financial instruments
Financial instrument the valuation of which depends on the price development of an underlying financial security (base value).

Directors' dealings
Security transactions by members of the Executive or Supervisory Board of a listed stock corporation and associated persons or companies with securities of their own company.

Dividend yield
This indicator shows the annual yield the shareholder receives for his investment through profit distribution, assessed at the year-end price.

EBIT (Earnings Before Interest and Taxes)
Generally used for the assessment of the earnings situation of companies, especially within the scope of an international comparison. The EBIT margin is the ratio of EBIT to sales.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)
Another very common indicator used to assess the earnings situation of companies in an international comparison.

Equity ratio
Ratio between equity and total capital, provides information on the stability of a company.

ESG
The three central dimensions (environmental, social and governance) for describing sustainability.

Forward exchange transaction
Obligation to buy or sell foreign currencies at a predetermined date and price.

Free float
Number of a company's shares owned by public Investors and can be freely traded in the capital market.

GCGC (German Corporate Governance Code)
Lays out essential requirements for the management and supervision of listed companies in Germany, provides recommendations on standards for good and responsible corporate governance.

Goodwill
Represents the amount a potential buyer would be willing to pay for the company as a whole, exceeding the value of the individual assets, taking all debts into account.

IAS (International Accounting Standards)/IFRS (International Financial Reporting Standards)
Internationally applicable accounting standards that ensure international comparability of consolidated financial statements, and meet the information requirements of investors and other users of financial statements through greater transparency.

Market capitalization
Corresponds to the market price of a listed company. It is calculated based on the market value of a single share multiplied by the number of shares outstanding.

P/B ratio (price-to-book ratio)
Share price divided by book value per share.

P/E ratio (price-earnings ratio)
Share price divided by earnings per share.

ROCE (Return on Capital Employed)
ROCE is a profitability indicator and is calculated by dividing EBIT by capital employed, i. e. the sum of equity and interest bearing debt minus cash and cash equivalents.

Exceptionals
One-off, non-recurring costs and income, especially restructuring charges, non-scheduled write-downs, expenses for the design and implementation of IT projects, M&A expenses, as well as income and losses from the disposal of non-operating assets.

IMPORTANT COMPANY-RELEVANT TERMS

Automation
A field involving the automatic control, monitoring and optimization of technical processes.

Certification
Measure, whereby a neutral body, accredited for this purpose, examines, evaluates and confirms in writing (certificate) that products, services, systems, processes, companies or persons correspond to certain acknowledged fixed criteria, stipulated in regulations or standards.

Degree of protection
On the one hand, degree of protection describes the suitability of electrical equipment for different environmental conditions and, on the other hand, protection against potential danger to people when using it.

Downstream
In the oil and gas industry, downstream refers to those stages of production in which the oil or gas is processed and delivered to the end customer, e.g. the refining process.

EPC (Engineering, Procurement and Construction)
Refers to the common form of project execution in plant construction and the corresponding forms of contract where the contractor is the general contractor. He commits himself to supplying a turnkey plant to the client.

Explosion protection
Special field that deals with the protection against the emergence of explosions and their effects. It is part of safety technology and serves as a prevention against damages caused by explosions.

HMI (Human Machine Interface)
Equipment technology for operating and monitoring of processes.

IECEx
System of the International Electrotechnical Commission for certifying equipment used in an explosive atmosphere.

LED
Light-emitting diode.

LNG
Liquefied natural gas.

Midstream
In the oil and gas industry, midstream refers to the storage and transport of crude oil and gas, for example via pipelines or tankers. Midstream is thus the link between the upstream and downstream segments.

NEC
National Electrical Code of the USA for certifying electrical installations.

OEM (Original Equipment Manufacturer)
Company that produces parts and equipment that may be marketed by another manufacturer.

Petrochemistry
Production of chemical products from natural gas and suitable fractions of crude oil.

Production costs
Cost of producing oil; mostly stated in US dollars per barrel.

Upstream
In the oil and gas industry, upstream refers to those stages of production that involve the exploration and extraction of the oil or gas.

PRODUCTION SITES AND SALES LOCATIONS

EUROPE

Production
Sales

GERMANY

R. STAHL AG/
R. STAHL Schaltgeräte GmbH
Waldenburg (Württ.)
Weimar
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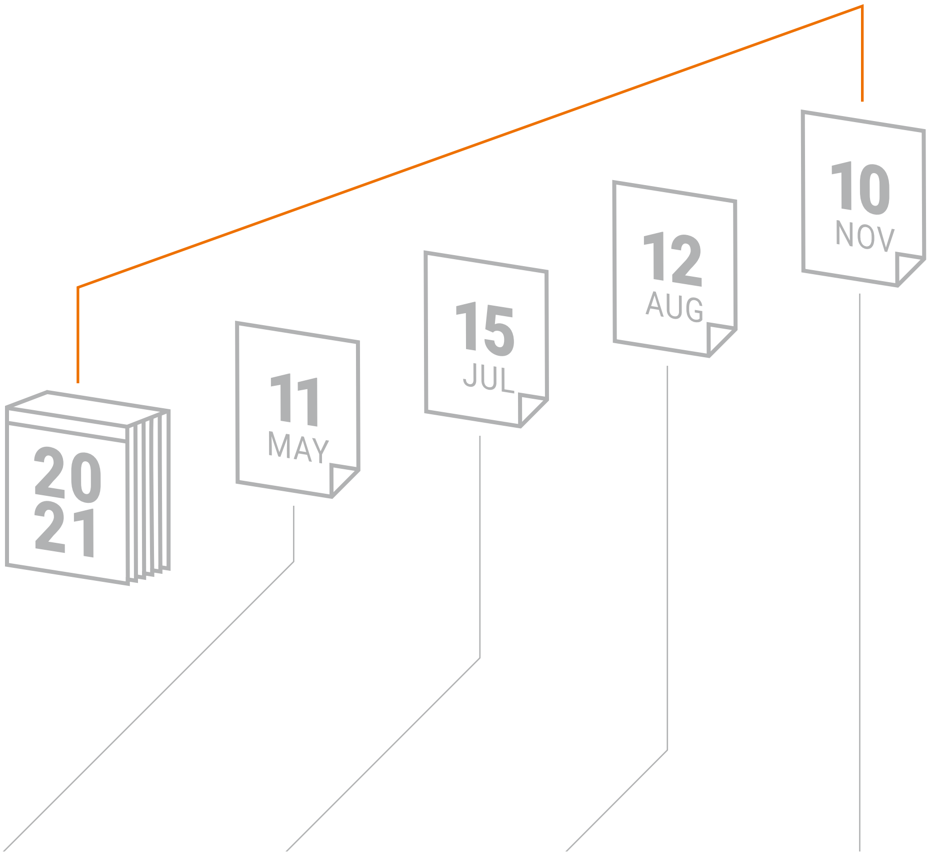

Interim report
as of 31 March 2021

28. Annual General
Meeting

Interim report
as of 30 June 2021

Interim report
as of 30 September 2021

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