



**SIMONA**

# Consolidated Financial Statements 2017

GLOBAL THERMOPLASTIC SOLUTIONS

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## COMBINED MANAGEMENT REPORT

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# Combined Management Report for the 2017 Financial Year

This management report combines the Group management report and the separate management report of SIMONA Aktiengesellschaft, Kirn (referred to also as SIMONA AG, SIMONA or company) (Section 315(3) in conjunction with Section 298(3) of the German Commercial Code – HGB). This combined management report has been published instead of a Group management report in the annual report of the SIMONA Group. It includes details relating to the course of business, including performance, as well as the position and expected development of the Group and SIMONA AG. Information pertaining to SIMONA AG has been included in the business review that can be found in a separate section with details presented in accordance with provisions set out in the German Commercial Code (Handelsgesetzbuch – HGB).

## 1. FUNDAMENTAL INFORMATION ABOUT THE GROUP

### 1.1 The business model

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

#### Key sales markets

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

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

- Europe
- Americas
- Asia and Pacific

The secondary classification is based on product areas:

- Semi-finished and finished parts
- Pipes and fittings

#### Production and sales locations

Sales activities at Group level are conducted by SIMONA AG and subsidiaries in the United Kingdom, Italy, France, Spain, Poland, the Czech Republic, Russia, Hong Kong, China, India and the United States, both directly and via trading partners. Beyond this, SIMONA AG operates a sales office in Möhlin, Switzerland. It contributes around 3 per cent to Group sales revenue. The parent company, SIMONA AG, has its registered office in 55606 Kirn (Germany). In the period under review, the SIMONA Group operated three facilities in Germany and four plants located abroad. Semi-finished products (sheets, rods, welding rods) are manufactured at two plants in Kirn (Rhineland-Palatinate), while pipes, fittings and finished parts are produced at a facility in Ringsheim (Baden-Württemberg). The plant in Litvinov (Czech Republic) produces pipes and sheets, while the site in Jiangmen (China) manufactures sheets. The facility operated by SIMONA AMERICA Inc. in Archbald (Pennsylvania, USA) mainly produces sheet products. Additionally, Boltaron Inc. produces thermoplastic sheets at its plant in Newcomerstown (Ohio, USA), which are primarily used for aircraft interiors and in the building sector.

#### Management and supervision at SIMONA AG

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



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

Dr. Rolf Goessler (Chairman), Roland Frobel (Deputy Chairman), Dr. Roland Reber and Joachim Trapp as well as Jörg Hoseus (Employee Representative until 28 February 2017), Gerhard Flohr (Employee Representative until 28 February 2017), Andy Hohlreiter (Employee Representative since 1 March 2017) and Markus Stein (Employee Representative since 1 March 2017).

## 1.2 Objectives and strategies

Focusing invariably on customer value, the SIMONA Group sees itself as a global solution provider for plastics applications. The SIMONA Group is committed to steady growth in revenues and earnings, while pursuing business expansion on its own terms and remaining independent. The goal for the medium term remains SIMONA500, i.e. annual Group sales of €500 million. Revenue growth is to be achieved organically and through acquisitions. The Group's long-term goal is to achieve an EBIT margin of 6 to 8 per cent.

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

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

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

## Optimisation of SIMONA AG's structure under corporate law

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

## 1.3 Internal control system

SIMONA uses the Balanced Scorecard (BSC) as a strategic management and monitoring instrument. Within this context, the Management Board is responsible for the BSC-related corporate goals, as well as being accountable for regularly reviewing the efficacy of the BSC process as part of an overall assessment of the management system and initiating adjustments to the BSC process and the BSC-related corporate goals. The BSC cascades down to the company's other management levels.

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

as well as amortisation/write-downs of intangible assets are added to the EBIT figure.

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

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

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

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

#### 1.4 Research and development

Research and development is subdivided into the areas of Formula Development, New Products & Applications and Process Development. Innovation Circles apply the Stage-Gate process to evaluate and prioritise new product ideas, before pursuing market roll-out. The indicator used in this area is the share of recent products (no older than three years) in total sales revenue, which was further increased over the course of 2017. This was achieved primarily with the help of new product variants and by extending the range of fittings.

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

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

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

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

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

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

## 2. BUSINESS REVIEW

### 2.1 Macroeconomic and sector-specific environment

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

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

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

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

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

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

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

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

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

### 2.2 Course of business – SIMONA Group

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

of the Group interim report for the first half of the financial year (€360 to 370 million) and the press release for the third quarter (€385 to 395 million) were met by the Group.

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

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

## Europe

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

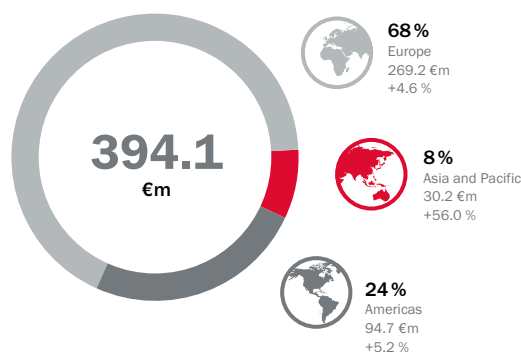
## Americas

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

## Asia and Pacific

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

### REVENUE BY REGION SIMONA GROUP (in €m)



## Sales revenue by product area

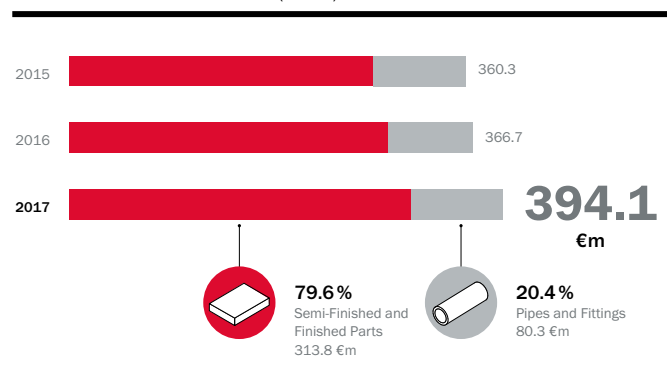
The product area comprising Semi-Finished and Finished Parts continued to develop well in 2017. Sales revenue rose by 8.3 per cent to €313.8 million (previous year: €289.8 million). Building on the Group's solid performance within the core market serving the chemical process industry, the division recorded growth in the area of extruded and pressed PP sheets, in particular. Business relating to compact PVC sheets also developed well in the period under review, buoyed by dynamic growth in the aviation and construction sectors. The product category encompassing foamed PVC sheets was faced with significant competitive pressures. Revenue generated from sales in the area of solid and hollow rods as well as welding rods was up in the financial year under review. Business expanded further as a result of an extension to the product range of fluoropolymers.

The product area comprising Pipes and Fittings also recorded growth in the financial year under review. This was driven primarily by a favourable performance in the market for industrial applications. At a regional level, civil engineering sales were relatively subdued in the period under review, while business relating to lignite processing was stymied by a lack of projects in this field. Overall, the area of Pipes and Fittings saw revenue expand by 4.4 per cent to €80.3 million (previous year: €76.9 million).

## Orders

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

### REVENUE BY PRODUCT AREA (in €m)



## 2.3 Financial performance

### Earnings

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

Supported by revenue growth, gross profit (revenue, other income, change in inventories of finished goods and work in progress less cost of materials) rose by €7.5 million to €187.5 million in 2017, which corresponds to 47.6 per cent of revenue (previous year: 48.7 per cent).

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

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

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

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

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

Other expenses increased significantly year on year, up by 15.4 per cent to €71.7 million (previous year: €62.2 million). The year-on-year increase was due primarily to higher expenses for maintenance.



nance, outward freight and packaging material as well as negative foreign currency effects. By contrast, expenses for advertising and trade fairs were down on the previous year's figure. Having accounted for foreign exchange gains recognised in other income, the net foreign exchange loss was €-5.8 million (previous year: gain of €1.3 million).

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

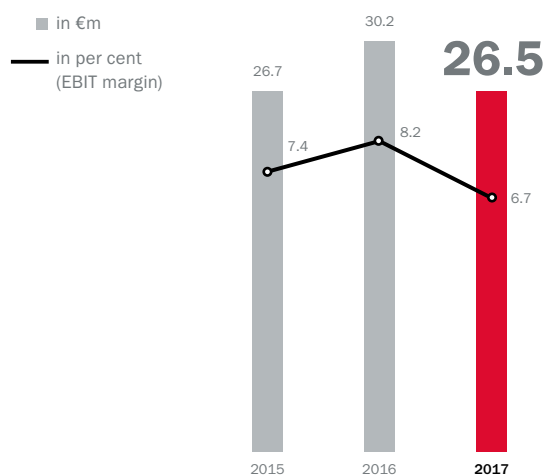
### Segment-specific disclosures

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

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

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

### EBIT SIMONA GROUP



## 2.4 Financial position

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

### Changes to assets

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

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

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

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

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

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

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

### **Changes to equity and liabilities**

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

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

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

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

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

Other liabilities totalled €14.6 million in the period under review, i.e. comparable to the prior-year figure; they were attributable primarily to management and staff bonus payments as well as deferrals/accruals relating to invoices and credit notes yet to be received.

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

### **Investments**

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

## **2.5 Financial management and cash flows**

### **Principles and aims of financial management**

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

### **Financing analysis**

Non-current financial liabilities relate to KfW loans and fell by €3.4 million to €18.7 million due to scheduled repayments. Current financial liabilities were unchanged at €3.4 million at the end of the reporting period and encompass the short-term proportion of KfW loans.

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

At the end of the reporting period the Group had undrawn lines of credit totalling €18.6 million (previous year: €18.9 million).

### **Cash flows**

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

activities was €-11.0 million (previous year: net cash from financing activities of €12.4 million) and mainly consisted of the scheduled repayment of KfW funds and an outflow in connection with dividend payments.

#### **Cash and cash equivalents**

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

#### **Financial obligations**

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

#### **Net finance cost**

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

### **2.6 Course of business – SIMONA AG**

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

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

#### **Germany**

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

#### **Rest of Europe & Africa**

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

#### **Americas**

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

#### **Asia & Pacific**

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

#### **Sales revenue by product area**

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

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

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

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

#### **Earnings performance**

Gross profit (sales revenue less cost of materials) amounted to €105.0 million, unchanged year on year. The gross profit margin

fell from 41.3 per cent a year ago to 39.1 per cent. The cost of materials rose by 9.4 per cent, driven in particular by higher raw material and energy costs.

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

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

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

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

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

Earnings before interest and taxes (EBIT), calculated on the basis of HGB, totalled €18.3 million in the period under review (previous year: €18.8 million), as a result of which the EBIT margin stood at 6.8 per cent (previous year: 7.4 per cent). At €25.1 million, EBITDA was slightly down on the prior-year figure (€25.5 million). The EBITDA margin was 9.4 per cent (previous year: 10.0 per cent). Profit after taxes stood at €17.8 million. Earnings performance in the financial year under review was dominated in particular by a decline in the gross profit margin due to the higher cost of materials as well as an increase in other operating expenses attributable to negative currency effects.

## Assets

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

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

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

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

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

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

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

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

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

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



### Equity and liabilities

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

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

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

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

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

Bank borrowings totalled €22.1 million (previous year: €25.6 million) and were attributable to long-term KfW loans. Under the terms of the contract, a total of €3.4 million was repaid during the financial year under review. At the end of the period under review, as in the previous year, no funds had been drawn from the short-term global credit facility.

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

At the end of the reporting period, SIMONA AG had undrawn borrowing facilities of €16.0 million.

### Investments

Capital expenditure relating to property, plant and equipment at SIMONA AG amounted to €7.1 million in the period under review (previous year: €9.3 million). This mainly relates to investments in technical equipment as well as operating and office equipment at the company sites in Germany. In total, net investments (additions less write-downs) amounted to €0.7 million (previous year: €3.0 million).

Obligations from investment projects already initiated amounted to €3.7 million, while those attributable to raw material orders were €8.0 million; they are financed from operating cash flow.

### Analysis of liquidity

Cash and cash equivalents held by SIMONA AG at the end of the reporting period totalled €50.8 million (previous year: €59.5 million), comprising bank deposits denominated in euro and foreign currencies. The reduction is attributable mainly to cash outflows in connection with operating activities (settlement of trade payables) and financing activities (repayment of loans and dividend payment).

## 2.8 Non-financial indicators

### Customer satisfaction

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

In May 2017, a new customer satisfaction study was conducted in Europe. The response rate was high and provided extensive information on SIMONA customer satisfaction. Based on the findings of this survey, overall customer satisfaction (86.1 per cent) and the rate of recommendation (87.4 per cent) remain high. Thus, the levels recorded as part of the last major customer survey were matched in 2017. Compared to the last survey, SIMONA achieved better grades for its service offering in all product categories, e.g. sales admin and field sales, order processing, delivery/dispatch and applications engineering advice. Customers saw room for further improvement with regard to some aspects of SIMONA's training programmes, its website and complaints handling.

## Employees

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

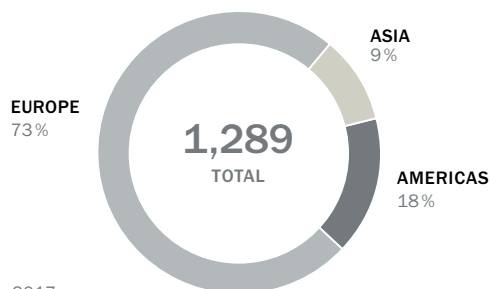
At 778, the number of staff employed at SIMONA AG was down compared to the previous year (31 Dec. 2016: 789).

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

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

fields over the course of 2018. Additionally, a new image concept was introduced. “A company like a friend” forms the key statement of this concept. It is to be applied gradually to all employer branding measures. At the same time, there will be greater emphasis on social media channels.

## EMPLOYEES BY REGION (SIMONA GROUP)



31 December 2017

## Quality

The goal of SIMONA's quality management system is to maintain and optimise product and process quality on a continual and sustainable basis. In this context, meeting the requirements of DIN EN ISO 9001, ISO/TS 16949 and the Pressure Equipment Directive 97/23/EC is an essential prerequisite, and full compliance with these standards was again confirmed by independent recertification audits conducted in 2017. This also involved adapting and certifying the quality management system in accordance with the new requirements of the revised ISO 9001:2015 standard. SIMONA conducted interdisciplinary quality circle meetings and product audits in the period under review, as well as taking part in various sampling and approval procedures for existing and newly launched projects relating to the automotive supply industry. As was the case in previous years, the pipes and fittings division saw a number of specific product accreditations in response to customer and market requirements. This resulted in several audits as part of which we were able to prove to external auditors the efficacy of the SIMONA management system as well as the exceptionally high quality of our products and processes.

## Information technology

As regards IT infrastructure, the focus in 2017 was on further improving IT security, particularly by enhancing Client security. Thanks to the exchange of network components at the subsidiaries, connections to the SIMONA network are more stable and secure. At the same time, the management of these components

is more efficient. As a pilot project, a new file system was introduced at the headquarters in Kirn for the purpose of providing data in a failsafe environment and allowing the central storage of data relating to the respective branch offices. An additional feature of this file system includes a Cloud service for the secure exchange of data with external parties. All data is stored at data centres operated by SIMONA AG; no third-party providers are involved. An update of the telecommunications system was implemented in preparation for the discontinuation of ISDN services in 2018.

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

### 3. REPORT ON OPPORTUNITIES AND RISKS

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

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

The prospects for further growth in the Americas with regard to

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

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

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

#### Risk management system

In view of their global business activities, both SIMONA AG and the SIMONA Group are exposed to a wide range of risks. In this context, risk is defined as an event, an action and/or the failure to act with the potential for adverse effects on the company. Risk strategy is an integral part of the corporate strategy of SIMONA and coexists alongside the business strategy. The risk culture of SIMONA is characterised by risk awareness in respect of decision-making processes and embraces the principles of diligent action based on prudence. In identifying opportunities at an early stage and applying diligence with regard to the exposure to

corporate or business risks, SIMONA endeavours to safeguard its existence as a going concern and protect its enterprise value. Risk controlling is aimed at avoiding, mitigating or transferring risks. All remaining risks are managed accordingly by SIMONA. Risks are communicated as part of half-yearly risk reports to the Management Board and the Supervisory Board.

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

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

- Measures that safeguard the appropriate IT-based preparation of items and data of relevance to financial reporting
- Monitoring of commodity price trends for accounting-related control of procurement and sales prices within the context of price management

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

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

### **Market environment and sector-specific risks**

The risks associated with the general business environment and the sector in which the company operates relate mainly to the economic performance of customer segments served by SIMONA. They also include exchange rate and commodity price volatility, political conflicts and the availability of raw materials. Among the primary sector-specific risks are the substitution of plastics with other materials, new developments within the competitive environment, the loss of key customers and changes to customer requirements. A diversified product portfolio, thorough monitoring of markets and structured procurement management provide the basis for risk mitigation. Expansion of production in the United States through corporate acquisitions and the plants located in China and the Czech Republic help to raise flexibility levels for the purpose of meeting customer requirements in close proximity to their sites of operation and in a market-driven manner.

Geopolitical risks remain high. In the segment encompassing Europe, uncertainty surrounding the outcome of Brexit negotiations, fiscal volatility and concerns over political stability within the region are dominant factors when it comes to business environment and industry-specific risks. In the Americas, meanwhile, risk exposure is being influenced by protectionist trade policies as well as by the fundamental political stance taken by the United States and developments relating to the US dollar exchange rate. Within the Asia and Pacific segment, the economic performance of China within the industrial sector as well as the direction taken by the property market will have a significant bearing on risk patterns. As regards the aspect of changes to sales markets the expected value for a decline in revenue, in the medium term, has been determined as being approx. €5.0 to 10.0 million with a probability of occurrence of under 50 per cent at present. Overall, the probability of adverse effects occurring from exposure to sector-specific risks is at present considered low.

### **Business strategy risks**

These encompass the risk of misjudgements with regard to the future direction taken by the market. Measures aimed at risk prevention mainly include close monitoring of the market and competitive environment as well as regular strategy meetings with key accounts and between the company's senior management and sales organisation. The probability of adverse effects occurring from exposure to business strategy risks is at present not considered to be material.



## Financial risks

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

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

Dependence on the euro within the Group was scaled back significantly through recent acquisitions and the expansion of manufacturing operations within the US market. At the same time, currency risk relating to US dollar transactions has become more pronounced for SIMONA. In the medium term, the probability of occurrence of a dilutive or accretive effect on earnings equivalent to €3.0 to 6.0 million is estimated at over 50 per cent. In 2017, the global economy expanded at a more pronounced rate than originally anticipated, while 2018 is expected to see stable growth. However, the potential of a waning economy and, in turn, a dip in investment spending within the industrial sector continues to be the most significant of all economic risks.

The risk of bad debt losses remains high in particular within the Eastern European market. Within this context, thorough assessments of credit ratings and continuous monitoring within this area help to mitigate risk as a whole as well as risk associated with individually identifiable items. As regards transactions in Russia, a separate directive for the conclusion of business agreements relating to this country is in place for the purpose of limiting associated risks. Default-related risk associated with specific customers is limited by credit insurance and the cut-off of deliveries in the case of outstanding payments. Additionally, risks exist with regard to voidability of insolvency. The carrying amounts of inventories are assessed on a regular basis, and adjustments in the form of allowances are made for specific unsaleable products.

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

The risks associated with occupational pension schemes are considered to be significant and the probability of their occurrence is deemed to be high. Risks that are difficult to gauge in the long term, such as future levels of pay and pensions as well as risks relating to longevity, have been categorised as material. They also include risks or encumbrances that are difficult to predict with regard to liquidity and equity, risks associated with investments and volatility of plan assets as well as fluctuating costs in respect of contributions to the German Pensions-sicherungsverein. The volatility of plan assets is estimated at around €3 to 10 million, which is attributable primarily to the share performance of SIMONA AG stock in recent years.

## Risks attributable to procurement and purchasing

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

## Risks attributable to information technology

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

and attacks on IT systems. SIMONA addresses risks relating to information technology through its in-house IT department as well as by commissioning specialised companies and making regular investments in the latest hardware and software. SIMONA responds to growing demands placed on system protection as part of its safety management programme. This mainly includes investments in firewall and antivirus systems as well as other software systems. The probability of occurrence of external attacks on IT systems, in particular, is considered high.

At the end of the 2017 financial year, we are of the opinion that the overall risk situation for the Group remains largely unchanged from that of the previous year. At the time of preparing this report, there were no identifiable risks that might jeopardise the existence of the SIMONA Group and SIMONA AG as a going concern.

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

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

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

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

reporting packages and a system certified in accordance with IDW PS 880. Consolidation is performed as a multi-stage process at the level of subsidiaries, segments and the Group.

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

## **4. REPORT ON EXPECTED DEVELOPMENTS**

### **Economic conditions**

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

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

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

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

### **Sector-specific conditions**

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

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

### **Future performance of the Group**

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

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

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

The company's ability to achieve these targets will again depend in particular on the capacity to impose viable prices in a highly competitive market environment as well as on the direction taken by commodity markets. At present, we anticipate that we will be

in a position to meet the revenue and earnings targets. Future developments in respect of global industrial production and investment spending as well as trends within the commodity markets are considered to be key determinants when it comes to achieving these goals.

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

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

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

### **Future performance of SIMONA AG**

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

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

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

## 5. OTHER INFORMATION

### 5.1 Corporate governance statement

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

### 5.2 Compensation report

#### Management Board compensation

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

Management Board compensation is performance-based. It is comprised of a fixed level of remuneration as well as a variable component. The fixed component of compensation is paid as a salary on a monthly basis. The variable component of compensation is reviewed annually, while the fixed component is assessed once every two years. In addition, both components are subject to thorough analyses in intervals of two to three years, based on a comparison with compensation figures applicable to executive staff of similar enterprises. The variable component of Management Board compensation is based on earnings performance within the Group and a long-term incentive programme. As regards the performance periods 2014 to 2016, the long-term incentive programme was based on the attainment of a defined target figure (capital employed and a weighted average cost of capital (WACC) of 8 per cent). As regards the performance periods 2015 to 2017, average Group NOPAT (net operating profit after taxes) is used as the key performance indicator, calculated on the basis of a three-year performance period. The first performance period encompasses the financial years 2015 to 2017, the second performance

period comprises the financial years 2016 to 2018 and the third performance period comprises the financial years 2017 to 2019. Payment occurs subsequent to the adoption of the consolidated financial statements for the final year of the respective performance period. In the financial year under review Management Board compensation included the following components:

#### COMPOSITION OF MANAGEMENT BOARD COMPENSATION

in €'000	2017	2016
<b>Fixed compensation</b>		
Fixed salary and fringe benefits	924	906
<b>Variable compensation</b>		
Annual bonus	1,030	1,067
<b>Long-term incentive programme</b>		
Period 2014 – 2016, payment 2017	–	517
Period 2015 – 2017, payment 2018	620	–
<b>Total Management Board compensation</b>	<b>2,574</b>	<b>2,490</b>

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

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

Remuneration for the former members of the Management Board amounts to €420 thousand (previous year: €470 thousand). Pension provisions for active and former members of the Management Board, as governed by the German Commercial Code, were recognised to the full extent and amounted to €11,863 thousand as at 31 December 2017 (previous year: €12,890 thousand). IFRS-based pension provisions for active and former members of the Management Board were recognised to the full extent and



amounted to €16,595 thousand as at 31 December 2017 (previous year: €18,861 thousand).

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

#### **Supervisory Board compensation**

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

Members of the Supervisory Board of SIMONA AG receive a standard fixed level of compensation amounting to €13,000. The Chairman of the Supervisory Board receives an amount equivalent to double the standard level of compensation; the Deputy Chairman receives an amount equivalent to one and a half times the standard level of compensation. Supervisory Board members who are engaged in Committee work receive supplementary compensation of €7,000. All expenses associated directly with a position on the Supervisory Board, as well as sales tax payable on such compensation, are reimbursed.

Compensation payable to members of the Supervisory Board was increased in accordance with the resolution passed by the Annual General Meeting convened on 10 June 2016. In addition to fixed compensation, the General Meeting of Shareholders shall be authorised to pass a resolution on a variable component of compensation, payment of which shall be dependent on whether specific corporate performance indicators have been met or exceeded. At the Annual General Meeting of Shareholders on 9 June 2017 no such resolution for variable compensation components was passed for the 2017 financial year.

Supervisory Board compensation for the financial year under review amounted to €164 thousand (previous year: €163 thousand), of which €140 thousand (previous year: €139 thousand) was attributable to SIMONA AG. Members of the Supervisory Board received neither loans or share options nor other share-based compensation from the company.

#### **5.3 Disclosures pursuant to Section 289a and Section 315a HGB and explanatory report**

As at 31 December 2017, the share capital of SIMONA AG remained unchanged at €15,500,000, divided into 600,000 no-par-value bearer shares ("Stückaktien" governed by German law). The shares are traded in the General Standard of the German stock exchange in Frankfurt as well as on the Berlin securities exchange. There are no different categories of share or shares furnished with special rights. Each share is equipped with one vote at the General Meeting of Shareholders. In view of the fact that a shareholder's right to a certificate of ownership interests has been precluded under the company's Articles of Association, the share capital of our company is represented only in the form of a global certificate, which has been deposited with Clearstream Banking AG, Frankfurt am Main. Therefore, our shareholders will in future only have an interest as co-owners in the collective holdings of the no-par-value shares in our company, as held by Clearstream Banking AG, according to their interest in the company's share capital.

A 31.19 per cent interest was held by Dr. Wolfgang und Anita Bürkle Stiftung, Kirn, a 15.04 per cent interest by Kreissparkasse Biberach (Biberach), an 11.64 per cent interest by Dirk Möller (Kirn), an 11.25 per cent interest by Regine Tegtmeyer (Nebel), a 10.0 per cent interest by SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH (Kirn) and a 10.1 per cent interest by Rossmann Beteiligungs GmbH (Burgwedel). The remaining 10.8 per cent of shares in the company were in free float.

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

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

bers of the Management Board is permitted. The Management Board shall generally have a Chairperson appointed by the Supervisory Board.

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

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

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

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

## **6. NON-FINANCIAL STATEMENT IN ACCORDANCE WITH SECTION 289 B)–E) HGB**

### **Brief description of business model**

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

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

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

### **Environmental issues**

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

SIMONA has adopted an environmental management system at its sites in Kirn and Ringsheim in Germany and Litvinov in the Czech Republic and ensures compliance with its requirements through surveillance and recertification audits. In 2017, SIMONA became one of the first companies to be successfully recertified

to the new standard 14001:2015.

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

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

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

SIMONA manages risks associated with the environmental footprint of the raw materials it uses by selecting resource suppliers carefully based on the certifications they have obtained (origin, observing blacklists), substituting hazardous substances right from the research and development stage and complying with applicable legislation governing the use of hazardous substances. SIMONA provides its customers with regular updates on the correct ways to use, recycle and dispose of its products and the waste that

is generated when these products are processed further. Product characteristics, key data and safe storage and processing instructions are listed in material and safety data sheets for each product, which are available online. The risk of non-conformance with product properties is managed with a dedicated quality assurance system, which sets out testing and inspection plans for all products. Additionally, durable SIMONA products help to deliver effective solutions in response to market challenges, e.g. with regard to environmental engineering and utilities. SIMONA is an active member of VinylPlus, an organisation that focuses on improving sustainability within the PVC supply chain. In addition, the company is a co-initiator and holder of the PVC quality mark issued by Industrieverband Halbzeuge und Konsumprodukte aus Kunststoff e.V. (pro-K). Those entitled to use the mark have committed themselves to specific quality standards, in addition to delivering the best possible manufacturing expertise and a premium-quality service.

### **Energy issues**

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

SIMONA has adopted an energy management system at its sites in Kirn and Ringsheim in Germany and Litvinov in the Czech Republic and ensures compliance with its requirements through surveillance and recertification audits. In 2017, the energy management system was successfully recertified to the relevant standards (ISO 50001:2011 (ISO 50003)).

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

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

### **Personnel matters**

The company's employees are a key pillar of its success. This is enshrined on several levels in our Code of Conduct, which applies equally to employees, line managers and senior executives at all SIMONA companies.

For instance, SIMONA has made health and safety at work a priority and is currently implementing a "Vision Zero" strategy (referring to the number of occupational accidents) at all SIMONA AG sites. This vision has also been set as a target in the balanced scorecard used at the European sites. All occupational accidents are logged in reports by the health and safety officers appointed by the company before their causes are analysed and preventive action is determined based on this analysis. SIMONA AG has also set up a healthcare team geared towards keeping staff healthy through various campaigns.

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

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

SIMONA AG regularly seeks its employees' opinions in anonymous staff surveys and uses the results to devise tangible measures to improve staff satisfaction. At its Kirn site, SIMONA AG is currently introducing comprehensive performance development reviews (PDRs), some of which in the commercial category are already organised based on a skills matrix. This set-up allows every

employee to be shown the requirements of their position and the extent to which they themselves are meeting these. It is to be rolled out to all commercial staff within the next two years. Training needs are determined based on these annual PDRs. Feedback from training courses attended are evaluated systematically.

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

SIMONA recognises the right of all its employees to be represented on, in and by trade unions and to form staff committees. Such committees have been established for many years at SIMONA AG's site, while the workforce in Kirn is also represented by the IG BCE union.

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

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

### **Human rights**

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

### **Combating bribery and corruption**

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

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

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

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

SIMONA has appointed a Compliance Officer to ensure the effective implementation of its compliance system.

SIMONA allows both staff and external third parties to report breaches of the ban on bribery and corruption to the Compliance Officer anonymously.

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

### **Social matters**

As a company, SIMONA bears responsibility for the development and appeal of the cities and communities where it is based and takes social matters into account. It is committed to supporting social, cultural and aid projects at its various sites across the world. The due diligence processes implemented as part of this

philosophy lay down responsibilities and workflows for selecting the institutions, projects and initiatives to be supported and how much support each is to receive. At the Kirn site, support is also provided by the Dr. Wolfgang und Anita Bürkle Stiftung, SIMONA AG's major shareholder. The foundation focuses on promoting education and healthcare, endangered species and animals in general, art and culture, development aid funding and charitable causes relating to social welfare facilities.

### **Forward-looking statements and forecasts**

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

### **Responsibility Statement**

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

Kirn, 29 March 2018

SIMONA Aktiengesellschaft  
The Management Board

Wolfgang Moyses      Dirk Möller      Fredy Hiltmann



## Group Income Statement of SIMONA AG for the Financial Year 2017

in €'000	Notes	01/01/- 31/12/2017	01/01/- 31/12/2016
Revenue	[7]	394,145	366,675
Other income	[8]	5,433	8,600
Changes in inventories of finished goods and work in progress		7,199	-132
Cost of materials	[9]	219,337	196,722
Staff costs	[10]	74,830	72,398
Depreciation/write-downs of property, plant and equipment, and amortisation/write-downs of intangible assets	[17, 18]	14,410	13,700
Other expenses	[12]	71,730	62,168
Income from investments accounted for using the equity method	[19]	190	159
Finance income	[13]	152	212
Finance cost	[13]	2,194	2,374
<b>Profit before tax</b>		<b>24,618</b>	<b>28,152</b>
Income tax expense	[14]	7,113	8,617
<b>Profit for the period</b>		<b>17,505</b>	<b>19,535</b>
of which attributable to:			
Owners of the parent company		17,446	19,486
Non-controlling interests		59	49

### EARNINGS PER SHARE

in €			
- basic, calculated on the basis of profit for the period attributable to ordinary shareholders of the parent company	[15]	29.08	32.48
- diluted, calculated on the basis of profit for the period attributable to ordinary shareholders of the parent company	[15]	29.08	32.48

## Group Statement of Comprehensive Income of SIMONA AG for the Financial Year 2017

in €'000	01/01/- 31/12/2017	01/01/- 31/12/2016
<b>Profit for the period</b>	<b>17,505</b>	<b>19,535</b>
<b>Items that will not be reclassified to profit or loss:</b>		
Remeasurement of defined benefit obligations	9,108	-7,177
Deferred taxes on remeasurement of defined benefit obligations	-2,685	2,116
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translating financial statements of subsidiaries	-7,482	898
Deferred taxes from currency translation	804	128
<b>Other comprehensive income recognised directly in equity</b>	<b>-255</b>	<b>-4,035</b>
<b>Total comprehensive income</b>	<b>17,250</b>	<b>15,500</b>
Total comprehensive income attributable to:		
Owners of the parent company	17,174	15,481
Non-controlling interests	76	19

# Group Statement of Financial Position of SIMONA AG for the Financial Year 2017

## ASSETS

in €'000	Notes	31/12/2017	31/12/2016
Intangible assets	[17]	29,384	33,877
Property, plant and equipment	[18]	114,439	116,690
Financial assets	[34]	340	340
Investments accounted for using the equity method	[19]	483	293
Deferred tax assets	[14]	10,203	7,641
<b>Non-current assets</b>		<b>154,849</b>	<b>158,841</b>
Inventories	[20]	77,956	69,203
Trade receivables	[21]	56,461	52,186
Other assets	[22]	4,204	2,630
Income tax assets	[22]	1,259	768
Other financial assets	[34]	692	836
Cash and cash equivalents	[24, 31]	68,022	74,759
Current assets held for sale	[23]	0	3,785
<b>Current assets</b>		<b>208,594</b>	<b>204,167</b>
<b>Total assets</b>		<b>363,443</b>	<b>363,008</b>

## EQUITY AND LIABILITIES

in €'000	Notes	31/12/2017	31/12/2016
<b>Equity attributable to owners of the parent company</b>			
Issued capital		15,500	15,500
Capital reserve		15,274	15,274
Revenue reserves		165,498	148,661
Other reserves		5,677	12,354
		<b>201,949</b>	<b>191,789</b>
Non-controlling interests		317	254
<b>Total equity</b>	[25]	<b>202,266</b>	<b>192,043</b>
Financial liabilities	[26]	18,705	22,111
Provisions for pensions	[27, 28]	97,573	101,623
Other provisions	[29]	3,774	2,705
Other financial liabilities	[26]	231	58
Deferred tax liabilities	[14]	6,323	3,150
<b>Non-current liabilities</b>		<b>126,606</b>	<b>129,647</b>
Financial liabilities	[26]	3,425	3,444
Provisions for pensions	[27]	1,595	1,710
Other provisions	[29]	1,616	1,563
Trade payables		11,116	15,152
Income tax liabilities		451	1,620
Other financial liabilities	[26]	1,764	3,358
Other liabilities	[30]	14,604	14,471
<b>Current liabilities</b>		<b>34,571</b>	<b>41,318</b>
<b>Total equity and liabilities</b>		<b>363,443</b>	<b>363,008</b>

# Group Statement of Cash Flows of SIMONA AG for the Financial Year 2017

in €'000	Notes	01/01/- 31/12/2017	01/01/- 31/12/2016
Profit before tax		24,618	28,152
Income taxes paid		-9,646	-6,445
Finance income and finance cost (excl. interest expense relating to pensions)	[13]	202	84
Depreciation/write-downs of property, plant and equipment, and amortisation/write-downs of intangible assets	[17, 18]	14,410	13,700
Other non-cash expenses and income		3,552	151
Result from disposal of non-current assets		314	-816
Change in inventories	[20]	-10,791	-855
Change in trade receivables	[21]	-6,095	-1,188
Change in other assets	[22]	-1,733	792
Change in pension provisions	[27, 28]	4,943	4,763
Change in liabilities and other provisions	[29, 30]	-560	3,846
<b>Net cash from operating activities</b>		<b>19,214</b>	<b>42,184</b>
Investments in intangible assets and property, plant and equipment	[17, 18]	-16,091	-15,754
Payments relating to acquisition of subsidiaries and other business units (from prior years)		-2,029	-2,017
Proceeds from the disposal of assets		3,985	1,951
Proceeds relating to the short-term financial management of cash investments	[34]	191	4,000
Payments relating to the short-term financial management of cash investments	[34]	0	-101
Interest received		152	212
<b>Net cash used in investing activities</b>		<b>-13,792</b>	<b>-11,709</b>
Proceeds from financial liabilities taken on by the Group	[26]	0	21,980
Repayment of financial liabilities	[26]	-3,425	-3,212
Dividend payment	[16]	-7,200	-6,000
Payment dividend to non-controlling interests		-41	-28
Interest paid and similar expenses		-354	-295
<b>Net cash used in/from financing activities</b>		<b>-11,020</b>	<b>12,445</b>
Effect of foreign exchange rate changes on liquidity	[31]	-1,139	-53
<b>Change in cash and cash equivalents</b>		<b>-6,737</b>	<b>42,867</b>
Cash and cash equivalents at 1 January	[24, 31]	74,759	31,892
Cash and cash equivalents at 31 December	[24, 31]	68,022	74,759
<b>Change in cash and cash equivalents</b>		<b>-6,737</b>	<b>42,867</b>

# Group Statement of Changes in Equity of SIMONA AG for the Financial Year 2017

		EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY					NON-CONTROLLING INTERESTS	TOTAL EQUITY
		Issued capital	Capital reserve	Revenue reserves	Other reserves	Total		
in €'000					Currency translation differences			
	NOTES	[25]	[25]		[25]		[25]	
<b>Balance at 01/01/2016</b>		<b>15,500</b>	<b>15,274</b>	<b>140,390</b>	<b>11,167</b>	<b>182,331</b>	<b>270</b>	<b>182,601</b>
Amount recognised directly in equity as part of the Statement of Comprehensive Income		0	0	-5,061	1,036	-4,025	-10	-4,035
Profit for the period		0	0	19,486	0	19,486	49	19,535
<b>Total comprehensive income for the period</b>		<b>0</b>	<b>0</b>	<b>14,425</b>	<b>1,036</b>	<b>15,461</b>	<b>39</b>	<b>15,500</b>
Dividend payment	[16]	0	0	-6,000	0	-6,000	-29	-6,029
Other changes		0	0	-154	151	-3	-26	-29
<b>Balance at 31/12/2016</b>		<b>15,500</b>	<b>15,274</b>	<b>148,661</b>	<b>12,354</b>	<b>191,789</b>	<b>254</b>	<b>192,043</b>
<b>Balance at 01/01/2017</b>		<b>15,500</b>	<b>15,274</b>	<b>148,661</b>	<b>12,354</b>	<b>191,789</b>	<b>254</b>	<b>192,043</b>
Amount recognised directly in equity as part of the Statement of Comprehensive Income		0	0	6,423	-6,695	-272	17	-255
Profit for the period		0	0	17,446	0	17,446	59	17,505
<b>Total comprehensive income for the period</b>		<b>0</b>	<b>0</b>	<b>23,869</b>	<b>-6,695</b>	<b>17,174</b>	<b>76</b>	<b>17,250</b>
Dividend payment	[16]	0	0	-7,200	0	-7,200	-41	-7,241
Other changes		0	0	168	18	186	28	214
<b>Balance at 31/12/2017</b>		<b>15,500</b>	<b>15,274</b>	<b>165,498</b>	<b>5,677</b>	<b>201,949</b>	<b>317</b>	<b>202,266</b>



# Notes to Consolidated Financial Statements of SIMONA AG for the Financial Year 2017

## [1] COMPANY INFORMATION

SIMONA AG is a stock corporation (Aktiengesellschaft) founded in Germany – registered office at Teichweg 16, 55606 Kirn, Germany. Its shares are traded within the General Standard of the Frankfurt and Berlin Stock Exchanges. The company has been entered in the Commercial Register at the District Court of Bad Kreuznach (HRB 1390). The consolidated financial statements of SIMONA AG for the financial year ended 31 December 2017 were released by the Management Board on the basis of a resolution of 29 March 2018 for the purpose of forwarding them to the Supervisory Board.

The activities of the SIMONA Group mainly include the production and sale of semi-finished products in the form of sheets, rods, welding rods and profiles as well as pipes, fittings and finished parts made of thermoplastics.

The semi-finished parts are manufactured at the plant in Kirn (Germany) as well as in Archbald and Newcomerstown (USA) and in Jiangmen (China). Pipes and fittings are produced at the plant in Ringsheim (Germany). The plant in Litvinov (Czech Republic) manufactures semi-finished parts, pipes and fittings. The products are marketed under the joint SIMONA brand as well as a range of separate brands.

SIMONA AG operates a sales office in Möhlin, Switzerland, and is the ultimate controlling parent of the Group.

Additionally, the following subsidiaries, among others, are responsible for handling sales and distribution activities:

Company	Registered office, country
SIMONA UK Ltd.	Stafford, United Kingdom
SIMONA S.A.S.	Domont, France
SIMONA S.r.l. Società UNIPERSONALE	Cologno Monzese (MI), Italy
SIMONA IBERICA SEMIELABORADOS S.L.	Barcelona, Spain
SIMONA POLSKA Sp. z o.o.	Wrocław, Poland
DEHOPLAST POLSKA Sp. z o.o.	Kwidzyn, Poland
SIMONA Plast-Technik s.r.o.	Litvinov, Czech Republic
SIMONA FAR EAST LIMITED	Hong Kong, China
SIMONA ENGINEERING PLASTICS TRADING (SHANGHAI) CO. LTD.	Shanghai, China
SIMONA ENGINEERING PLASTICS (Guangdong) Co. Ltd.	Jiangmen, China
SIMONA AMERICA Inc.	Archbald, USA
Boltaron Inc.	Newcomerstown, USA
OOO SIMONA RUS	Moscow, Russian Federation
SIMONA INDIA PRIVATE LIMITED	Mumbai, India

## [2] ACCOUNTING POLICIES

### Basis of preparation

The consolidated financial statements are prepared using the historical cost principle, unless otherwise specified under [5] Summary of significant accounting policies. The consolidated financial statements are prepared in euro. Unless otherwise stated, all amounts are rounded to € '000.

### Statement of compliance with IFRS

The consolidated financial statements of SIMONA AG and the entities included in the consolidated group for the period ended 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) applicable at the end of the reporting period, as adopted by the European Union, and the provisions of commercial law to be applied additionally pursuant to Section 315a(1) of the German Commercial Code (Handelsgesetzbuch – HGB).

The term “IFRS” comprises all International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) to

be applied on a mandatory basis as at the reporting date. Additionally, all interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) – formerly Standing Interpretations Committee (SIC) – were applied insofar as their application was mandatory for the 2017 financial year.

The consolidated financial statements consist of the financial statements of SIMONA AG and its subsidiaries as at 31 December of each financial year (hereinafter also referred to as “Group” or “SIMONA Group”).

The Group statement of financial position conforms with the presentation requirements of IAS 1. Various items reported in the income statement and the statement of financial position have been aggregated for the purpose of improving the overall clarity of presentation. These items are disclosed and discussed separately in the notes to the consolidated financial statements.

#### Principles of consolidation

The consolidated financial statements comprise the accounts of SIMONA AG and its subsidiaries for each financial year ended 31 December. The financial statements of SIMONA AG and the subsidiaries are prepared using uniform accounting policies for the same reporting period.

All intragroup balances (receivables, liabilities, provisions), transactions, income and expenses as well as profits and losses from transactions between consolidated entities (“intercompany profits/losses”) are eliminated as part of consolidation.

Subsidiaries are fully consolidated effective from the acquisition date, which is the date on which the Group effectively obtains control. Inclusion in the consolidated financial statements ends as soon as the parent ceases to control the subsidiary. Changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interests are disclosed separately in the Group income statement and within equity of the Group statement of financial position.

### [3] NEW FINANCIAL REPORTING STANDARDS

#### 3.1 Accounting standards to be applied for the first time in the financial year

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) issued the following Standards and Interpretations that have been endorsed by the EU and incorporated into European law and must be applied with regard to the reporting period from 1 January 2017 to 31 December 2017. The accounting standards to be applied for the first time in the financial year 2017 had no material impact on the presentation of the consolidated financial statements.

IFRS pronouncement	Approval IASB	EU endorsement	EU first-time adoption
Amendments to IAS 7, Statement of Cash Flows: Disclosure Initiative	29/01/2016	06/11/2017	01/01/2017
Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses	19/01/2016	06/11/2017	01/01/2017

#### Amendments to IAS 7, Statement of Cash Flows: Disclosure Initiative

An entity is required to make disclosures about changes to those financial liabilities for which inflows and outflows are presented in cash flows from financing activities in the statement of cash flows. The disclosure requirement also applies to changes in financial assets (e.g. assets that hedge liabilities arising from financing activities). An entity shall disclose, among other things, changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. This will have no impact on the consolidated financial statements of SIMONA.

#### Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value and recognised in other comprehensive income. This will have no impact on the consolidated financial statements of SIMONA.

### 3.2 Standards and Interpretations not yet applicable in the financial year

The International Accounting Standards Board (IASB) and the International Financial Reporting Standards Interpretations Committee (IFRS IC) have issued additional Standards and Interpretations. These standards and interpretations are not being applied in the financial year under review, as adoption by the EU (“endorsement”) remains outstanding at this time for some of them, or because their application is not yet mandatory.

IFRS pronouncement	Approval IASB	EU endorsement	EU first-time adoption
Amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	12/09/2016	03/11/2017	01/01/2018
Clarifications regarding IFRS 15, Revenue from Contracts with Customers	12/04/2016	31/10/2017	01/01/2018
IFRS 16, Leases	13/01/2016	31/10/2017	01/01/2019
IFRS 9, Financial Instruments	24/07/2014	22/11/2016	01/01/2018
IFRS 15, Revenue from Contracts with Customers	28/05/2014	22/09/2016	01/01/2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment	20/06/2016	26/02/2018	01/01/2018
Annual Improvements to IFRSs 2014–2016 Cycle	08/12/2016	07/02/2018	01/01/2018
Amendments to IAS 40 with regard to Transfers of Investment Property	08/12/2016	14/03/2018	01/01/2018
IFRIC 22, Foreign Currency Transactions and Advance Consideration	08/12/2016	Open	01/01/2018
IFRS 17, Insurance Contracts	18/05/2017	Open	Expected: 01/01/2021
IFRIC 23, Uncertainty over Income Tax Treatments	07/06/2017	Open	Expected: 01/01/2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	12/10/2017	22/03/2018	01/01/2019
Amendments to IAS 28: Investments in Associates and Joint Ventures	12/10/2017	Open	Expected: 01/01/2019
Annual Improvements to IFRSs 2015–2017 Cycle	12/12/2017	Open	Expected: 01/01/2019

#### Clarifications regarding IFRS 15,

##### Revenue from Contracts with Customers

The clarifications in IFRS 15 are related to the identification of performance obligations, guidance on principal versus agent considerations and licences. No effects on the consolidated financial statements of SIMONA have been identified.

#### IFRS 16, Leases

Under the new regulations, lessees will in future have to account for all leases by recognising a right-of-use asset and a lease liability. Presentation in the income statement is always on the basis of a financing transaction, i.e. the right-of-use asset is generally subject to straight-line depreciation while the effective interest method is to be applied to the lease liability. Essentially, it is likely that the first-time application of IFRS 16 will result in an increase in non-current assets and liabilities, which will in turn have an impact on the balance sheet total, debt and the equity ratio. As regards possible implications, readers are kindly requested to refer to the notes relating to other financial obligations [35].

#### IFRS 9, Financial Instruments

Under IFRS 9, all financial instruments currently within the scope of IAS 39 will henceforth generally be subdivided into only two classifications: financial instruments measured at amortised cost and financial instruments measured at fair value. As part of the amended requirements issued on 24 July 2014, an additional measurement category will be introduced for debt instruments. In future, these may be classified as fair value in other comprehensive income (FVOCI) if the conditions in respect of the business model and the contractual cash flows have been met. In this context, the IASB has also published a discussion paper relating to additional requirements for macro hedge accounting that are unconnected to IFRS 9. In 2017, the Group performed an analysis of the potential effects of IFRS 9. This assessment was based on information currently available and is, essentially, subject to future change. Overall, the Group does not anticipate that IFRS 9 will have a material effect on items in the statement of financial position and equity.

#### IFRS 15, Revenue from Contracts with Customers

IFRS 15 will replace IAS 11 “Construction Contracts”, IAS 18 “Revenue”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC-31 “Revenue – Barter Transactions Involving Advertising Services”. The standard defines when revenues should be recognized and in what amount. According to IFRS 15, revenues should be recognized in the

amount that reflects the consideration expected for the performance obligations being undertaken. In 2017, the Group performed a thorough analysis of the potential effects of IFRS 15. This assessment was based on information currently available and is, essentially, subject to future change. Overall, these amendments are not expected to have an impact on the consolidated financial statements.

#### **Amendments to IFRS 2:**

##### **Classification and Measurement of Share-based Payment**

As SIMONA does not have a programme of share-based payment, this will not have an impact on its consolidated financial statements.

#### **Annual Improvements to IFRSs 2014–2016 Cycle**

This Annual Improvements Cycle relates to the following standards: IFRS 1, IFRS 12 and IAS 28. These changes have no material impact on the consolidated financial statements.

#### **Amendments to IAS 40 with regard to Transfers of Investment Property**

The amendments clarify that an entity may only reclassify an investment property if there is evidence of a change in use. The change in use may result in the property meeting the definition of investment property for the first time (or ceasing to meet the definition). The amendments clarify that an intended change of use by management was not sufficient evidence of a change in use. This will have no impact on the consolidated financial statements of SIMONA.

#### **IFRIC 22 Foreign Currency Transactions and Advanced Consideration**

IFRIC 22 addresses the issue of how to apply IAS 21 The Effects of Changes in Foreign Exchange Rates. It clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. This will have no impact on the consolidated financial statements of SIMONA.

#### **IFRS 17, Insurance Contracts**

IFRS 17 establishes accounting principles for insurance contracts. The standard does not cover the aspect of recognition by policyholders. Therefore, this standard does not have an impact on the consolidated financial statements of SIMONA.

#### **IFRIC 23, Uncertainty over Income Tax Treatments**

The tax treatment of specific circumstances and transactions can be dependent on future approval by the taxation authority or a court. IAS 12 Income Taxes prescribes the accounting treatment for income taxes. IFRIC 23 clarifies the requirements in IAS 12 with regard to the consideration of uncertainty over income tax treatment of circumstances and transactions.

#### **Amendments to IFRS 9: Prepayment Features with Negative Compensation**

The amendments made by the IASB are aimed at clarifying or adjusting existing requirements in B4.1.10 / B4.1.11(b). This was due to uncertainty in the case of financial instruments containing symmetrical termination and indemnity clauses, on the basis of which, theoretically, payments could be made by the debtor to the creditor and vice versa. This is not expected to have an impact on the consolidated financial statements of SIMONA.

#### **Amendments to IAS 28: Investments in Associates and Joint Ventures**

The amendments are aimed at clarifying that an entity shall apply IFRS 9 “Financial Instrument” to long-term interests in associates and joint ventures that form part of the net investment in the associate or joint venture but are not accounted for using the equity method. This is not expected to have an impact on the consolidated financial statements of SIMONA.

#### **Annual Improvements to IFRSs 2015–2017 Cycle**

This Annual Improvements Cycle affects the following standards: IFRS 3, IFRS 11, IAS 12 and IAS 23. These changes have no material impact on the consolidated financial statements.

## **[4] MATERIAL JUDGEMENTS AND ESTIMATES**

### **Judgements**

When applying the accounting policies, the management made the following judgements with the most significant effect on the amounts recognised in the financial statements. Within this context, decisions containing estimates have not been taken into account. Among other aspects, significant estimates relate to the useful lives of assets.

Material judgements relate to the classification of leases, the recognition of provisions, the estimation or assessment of the recoverability or possible impairment of trade receivables, inventories and deferred tax assets, as well as the assessment of factors that may indicate an impairment of assets.

### **Uncertainties relating to estimates**

The following section outlines the most important forwardlooking assumptions as well as other material uncertainty regarding the use of estimates, applicable at the reporting date, as a result of which there is a significant risk that the carrying amounts of assets and liabilities may require material adjustments within the coming financial year.

### **Impairment of goodwill**

The Group performs impairment tests for goodwill at least once per year. This requires estimates to be made with regard to the value in use of cash-generating units ("CGU") to which goodwill is allocated. For the purpose of estimating the value in use, the Group has to determine, on the basis of estimates, the projected cash flows associated with the cash-generating unit, as well as selecting an appropriate discount rate in order to determine the present value of the aforementioned cash flows.

### **Impairment of non-financial assets**

The Group determines at the end of each reporting period whether there are observable indications that a non-financial asset or group of non-financial assets is impaired. For the purpose of determining the value in use, the future expected cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An appropriate valuation model is applied for the purpose of determining the fair value. The Group bases its impairment tests on detailed budget calculations that are prepared separately for each cash-generating unit. Budget planning spans a period of four years. As regards periods

beyond this time frame, long-term growth rates are determined and applied to the projection of future cash flows beyond four years.

### **Deferred tax assets**

Deferred tax assets are recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. The process of determining the level of deferred tax assets requires significant judgement by the management with regard to the timing and amount of future taxable profit as well as the future tax planning strategies. For further details, please refer to Note [14].

### **Provisions**

Provisions are recognised in accordance with the accounting policies discussed in Note [29]. In determining the level of provisions, the management is required to make significant judgements as to the timing and the amounts of future outflow of resources.

### **Pensions**

Expenses relating to defined benefit plans are determined on the basis of actuarial methods. Actuarial valuation is conducted on the basis of assumptions that include discount rates, expected salary and pension increases as well as mortality rates. The assumptions used as a basis of valuations may differ from actual developments due to changing market, economic and social conditions. Any change in these assumptions will have an impact on the carrying amounts of pension obligations. For further details, please refer to Note [27] and [28].



## [5] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Business combinations

Business combinations subsequent to 1 January 2010 are accounted for by applying the acquisition method. The cost of a business combination is calculated as the sum of the consideration transferred, measured at the acquisition-date fair value, and any non-controlling interest in the acquiree. In the case of each business combination, the acquirer measures components of non-controlling interests either at fair value or at the proportionate share in the recognised amounts of the acquiree's identifiable net assets. Acquisition-related costs are accounted for as expenses and presented as other expenses.

On first-time recognition, goodwill is measured at cost, being the excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the consideration transferred is lower than the fair value of the net assets of the acquired subsidiary, the difference is accounted for in profit and loss.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, as from the date of acquisition goodwill acquired as part of a business combination is allocated to those cash-generating units of the Group that are expected to benefit from the business combination. This method is applied regardless of whether other assets or liabilities of the acquiree are allocated to these cash-generating units.

### Currency translation

Annual financial statements prepared by the consolidated Group entities in a foreign currency are translated on the basis of the functional currency method. The functional currency is the currency of the primary economic environment in which the entities operate, which in the case of the Group companies of SIMONA AG is the respective local currency. The consolidated financial statements are prepared in euro.

Those foreign entities whose functional currencies differ from the euro have been presented below, together with details of their functional currency:

Company	Registered office, country	Currency
SIMONA UK Ltd.	Stafford, United Kingdom	Pound sterling
SIMONA POLSKA Sp. z o.o.	Wrocław, Poland	Polish zloty
DEHOPLAST POLSKA Sp. z o.o.	Kwidzyn, Poland	Polish zloty
SIMONA-PLASTICS CZ, s.r.o.	Prague, Czech Republic	Czech koruna
SIMONA Plast-Technik s.r.o.	Litvinov, Czech Republic	Czech koruna
SIMONA FAR EAST LIMITED	Hong Kong, China	Hong Kong dollar
SIMONA ASIA LIMITED	Hong Kong, China	Hong Kong dollar
SIMONA AMERICA Inc.	Archbald, USA	US dollar
64 NORTH CONAHAN DRIVE HOLDING, LLC	Hazleton, USA	US dollar
Laminations Inc.	Archbald, USA	US dollar
Boltaron Inc.	Newcomerstown, USA	US dollar
DANO, LLC	Akron, USA	US dollar
SIMONA ENGINEERING PLASTICS TRADING (SHANGHAI) CO. LTD.	Shanghai, China	Chinese renminbi yuan
SIMONA ENGINEERING PLASTICS (Guangdong) Co. Ltd.	Jiangmen, China	Chinese renminbi yuan
OOO SIMONA RUS	Moscow, Russian Federation	Russian rouble
SIMONA INDIA PRIVATE LIMITED	Mumbai, India	Indian rupee
SIMONA ASIA PACIFIC PTE. LTD.	Singapore, Singapore	Singapore dollar

The items accounted for in the respective financial statements are measured on the basis of the functional currency. Foreign currency transactions are translated initially between the functional currency and the foreign currency at the arithmetic mean rate applicable on the day of the transaction. All exchange differences are recorded as other income and other expenses in profit or loss for the period. This does not include monetary items that have been designated as part of a hedge of a net investment by the Group in a foreign operation. They are recognised in other comprehensive income until disposal of the net investment; the cumulative amount is reclassified in profit and loss only upon disposal. Taxes arising from exchange differences relating to these monetary items are also recognised directly in other comprehensive income.

Non-monetary items that are measured at historical cost of purchase or conversion in a foreign currency are translated at the foreign exchange rate applicable on the day of the transaction.

Non-monetary items that are measured at fair value in the foreign currency are translated at the rate that was prevailing at the time the fair value was determined.

In the consolidated financial statements expenses and income associated with financial statements of subsidiaries prepared in a foreign currency are translated on the basis of the year-average exchange rate, whereas assets and liabilities are translated on the basis of the closing rate. Exchange differences arising from the translation of equity as well as exchange differences arising from the use of exchange rates in the income statement that differ from those used for the translation of items presented in the statement of financial position are recognised in other reserves.

#### **Property, plant and equipment**

Property, plant and equipment are used for operational purposes and are measured at cost less depreciation on a systematic basis. Depreciation of property, plant and equipment is performed on a straight-line basis in accordance with the pattern of use of such items. To the extent that depreciable assets of property, plant and equipment have different useful lives, the respective components of these assets are depreciated separately.

The carrying amounts of property, plant and equipment attributable to a cash-generating unit are tested for impairment as soon as there are indications that the carrying amount of the assets of this cash-generating unit exceeds its recoverable amount. Items of property, plant and equipment are derecognised upon disposal. Gains and losses arising from the derecognition of an item of property, plant and equipment are determined as the difference between the net disposable proceeds and the carrying amount of the item; these gains and losses are included in profit or loss when the item is derecognised.

The residual values of assets as well as the useful lives and depreciation methods are assessed at the end of each financial year and are adjusted where necessary.

#### **Non-current assets held for sale**

SIMONA classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction or a distribution to share-holders rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale/distribution in its present condition subject only to terms that are usual and customary for sale/distribution of such assets (or disposal

groups) and its sale/distribution must be highly probable. Insofar as they refer to the Group statement of financial position, the disclosures made in the notes to the consolidated financial statements relate to assets not held for sale. SIMONA reports non-current assets held for sale (or disposal groups) separately in Note [23]. Non-current assets held for sale and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell, unless the items presented in the disposal group do not fall under the provisions set out in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

#### **Leasing**

Whether an agreement constitutes a lease is determined on the basis of the substance of the transaction detailed in the agreement at the time the agreement is concluded. This requires an assessment as to whether the fulfilment of the contractual agreement is dependent on the use of a specific asset or specific assets and whether the agreement grants the right to use the asset/assets even if this right is not specifically defined in the agreement.

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of an asset, are recognised as assets in the statement of financial position at the commencement of the lease term. As at 31 December 2017, no finance leases existed within the Group.

Lease payments under an operating lease are recognised in the income statement as an expense on a straight-line basis and are presented as other expense.

#### **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, which is defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, form part of the cost of that asset and are capitalised accordingly. All other borrowing costs are recognised as an expense in the period in which they are incurred. Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. No borrowing costs have been capitalised by the Group, as it does not possess qualifying assets.

#### **Intangible assets**

Acquired and internally generated intangible assets are capitalised in accordance with IAS 38 if it is probable that the intangible

asset will generate future economic benefits and the costs of the intangible asset can be reliably measured. They are measured at cost of purchase or conversion. Intangible assets with a finite useful life are amortised on the basis of the length of that useful life. Amortisation of intangible assets, with the exception of capitalised development costs, is performed over a useful life of between three and ten years.

### **Research and development costs**

The research and development activities conducted by SIMONA AG are directed principally at the optimisation of production and manufacturing processes (advancement within the area of process engineering), at changes and improvements to formulas, some of which have been in existence for an extensive period of time, or at fundamental improvements for the purpose of meeting specified quality and inspection requirements, including new testing procedures and new areas of application. Generally, these activities do not involve the development of an entirely new product that would sever the link with existing formulas and manufacturing processes.

To the extent that research and development activities provide the basis for a product that is technically feasible and from which the Group can generate future economic benefits, the period attributable to general research activities constitutes the major part thereof. The scale of development expenses arising after the product has been made marketable is negligible. In consideration of the principle of materiality the intangible asset is not capitalised in such cases. This approach does not adversely affect the true and fair view of the Group's state of affairs as regards financial performance, financial position and cash flows.

In addition, SIMONA AG does not capitalise development costs to the extent that costs (expenditure) cannot be reliably allocated to development projects. The costs are recognised as expense in the period in which they are incurred.

There were no development projects resulting in the capitalisation of intangible assets in the financial year under review or the previous financial year.

### **Impairment of assets**

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If such indications are present or an annual impairment test of an asset is required, the Group makes an estimate of the recoverable amount. The recoverable

amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. If the recoverable amount of an asset, or of all assets of a cash-generating unit, is less than its carrying amount, the carrying amount of the asset or the cash-generating unit shall be reduced to its recoverable amount. That reduction is an impairment loss.

### **Impairment of non-financial assets**

The Group determines at the end of each reporting period whether there are observable indications that a non-financial asset or group of non-financial assets is impaired. If such indications are present or if an annual impairment test of an asset or a group of assets is required, the Group makes an estimate of the recoverable amount of each asset or of the group of assets. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. Impairment losses are recognised in profit or loss within the expense category that corresponds to the function of the impaired asset.

For the purpose of determining the value in use, the future expected cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group bases its impairment tests on detailed budget and forecasting calculations that are prepared separately for each of the Group's cash-generating units to which individual assets are assigned. Such budget and forecasting calculations generally cover a period of four years. As regards periods beyond this time frame, long-term growth rates are determined and applied to the projection of future cash flows subsequent to the fourth year.

### **Investments and other financial assets**

Financial assets within the meaning of IAS 39 are classified either as financial assets at fair value through profit or loss, as loans and receivables, as held-to-maturity investments or as available-for-sale financial assets. On initial recognition the financial assets are measured at fair value. Additionally, in the case of financial assets other than those classified as at fair value through profit or loss, transaction costs directly attributable to the acquisition of the asset are accounted for accordingly. The designation of financial assets to the respective measurement categories occurs upon initial recognition. To the extent that they are permitted and necessary, reclassifications are performed at the end of the financial year. No reclassifications have been performed to date.

All regular way purchases or sales of financial assets are accounted for at the date of settlement. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

The group of financial assets at fair value through profit or loss comprises financial assets held for trading. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling it in the near term. Derivatives, including embedded derivatives accounted for separately, are also classified as held for trading, with the exception of those derivatives that are designated and effective hedging instruments. Gains and losses on financial assets held for trading are recognised in profit or loss. The Group has not made use of the option to designate financial assets or liabilities as “measured at fair value through profit or loss”.

Derivatives embedded within a host contract are recognised separately at their fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contracts are not held for trading purposes or are not designated as “at fair value through profit or loss”. These embedded derivatives are measured at their fair value; changes to the fair value are recognised in profit or loss. A reassessment is performed only upon amendments to the contractual terms and conditions if this leads to a significant change to the cash flows that would otherwise have resulted from the contract.

Non-derivative financial assets, quoted in an active market, with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity are classified as held-to-maturity investments. After initial recognition held-to-maturity investments are measured at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the financial asset is derecognised or impaired, and through the amortisation process.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition loans and receivables are measured at amortised cost using the effective interest method, less impairments where applicable. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified within one of the three above-mentioned categories. After initial recognition available-for-sale financial assets are measured at fair value. Unrealised gains and losses on available-for-sale financial assets are recognised directly in equity. If an available-for-sale financial asset is derecognised or impaired, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. The fair value of financial instruments traded within organised and active markets is determined on the basis of the market price quoted at the end of the reporting period. The fair value of financial instruments for which no active market exists is determined on the basis of valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and other valuation models.

Held-to-maturity investments as well as loans and receivables are measured at amortised cost. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts, minus any reduction for impairments.

A financial asset (or a part of a financial asset or a part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the financial asset expire.

#### **Impairment of financial assets**

The Group determines at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, i.e. the effective interest rate computed at initial recognition. The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. However, the new

carrying amount must not exceed the amortised cost at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

If in the case of trade receivables there is objective evidence that not all due amounts will be received in accordance with the agreed invoicing terms and conditions (e.g. likelihood of an insolvency or significant financial difficulties of the obligor), the carrying amount is reduced through use of an allowance account. Receivables are derecognised when they are considered to be uncollectible.

As regards available-for-sale financial assets, the Group determines at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. When determining the impairment of debt instruments classified as available for sale, the same criteria are used as those applied to financial assets measured at amortised cost. The amount recognised for impairments, however, is the cumulative loss determined as the difference between the amortised cost and the current fair value less any impairment losses of this instrument recognised in profit or loss on an earlier occasion.

#### **Investments accounted for using the equity method**

Associates are accounted for using the equity method, an associate being an entity over which the investor has significant influence. On initial recognition the investment in an associate is recognised at cost. On initial recognition any differences between the cost of the investment and the entity's share of equity has to be determined. This then has to be analysed as to whether it is attributable to hidden reserves or liabilities. Any excess, i.e. positive difference, remaining after the allocation of hidden reserves and assets is to be treated as goodwill and presented in the carrying amount of the investment. Any negative difference is accounted for in profit and loss by increasing the assigned value of the investment.

Based on the cost of purchase, the carrying amount of the investment is increased or decreased in the subsequent periods by the share of annual profit. Further adjustments to the carrying amount of the investment are required if the equity of the investee has changed due to circumstances accounted for in the other components of profit/loss.

As part of subsequent measurement, write-downs relating to hidden reserves realised in the context of initial measurement have

to be accounted for accordingly and deducted from the share of annual profit. To avoid double recognition, dividends received are to be deducted from the carrying amount.

If there are circumstances indicating that the investment may be impaired, an impairment test is to be conducted in respect of this investment. No separate review of prorata goodwill is conducted as part of this process. The assessment applies to the total carrying amount of the investment.

#### **Inventories**

Inventories are stated at the lower of purchase or conversion cost and net realisable value.

The inventories associated with consumables have been capitalised at average historical cost. As part of Group accounting, the cost of raw materials is assigned mainly by using the weighted average cost formula. Finished goods are measured at manufacturing cost (cost of conversion) according to item-by-item calculations based on current operational accounting; in addition to the directly related cost of direct material and units of production, this item also includes special production costs as well as production and material overheads, including depreciation. Financing costs are not accounted for in the cost of conversion. All identifiable risks associated with inventories, particularly relating to holding periods in excess of average duration, diminished usability and net realisable value, are recognised by an appropriate write-down.

The net realisable value is the estimated selling price achievable in the ordinary course of business, less the estimated costs incurred until completion and the estimated costs necessary to make the sale.

#### **Cash and cash equivalents**

Cash and cash equivalents recognised in the statement of financial position comprise cash on hand, bank balances and short-term deposits with original maturities of less than three months.

As regards the Group statement of cash flows, cash and cash equivalents comprise the aforementioned cash items in addition to overdrafts used by the Group and securities that are readily convertible to cash.

#### **Financial liabilities**

Financial liabilities within the meaning of IAS 39 are classified either as financial liabilities measured at fair value or as loans.



The Group determines the classification of its financial liabilities upon initial recognition. All financial liabilities are measured at fair value upon initial recognition. The Group's financial liabilities comprise trade payables, other financial liabilities, bank overdrafts, loans and derivative financial instruments.

#### **Interest-bearing borrowings**

On initial recognition, loans are measured at the fair value of the consideration received, having deducted the transaction costs relating to the origination of the loan. After initial recognition interest-bearing borrowings are measured at amortised cost using the effective interest method. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or when it expires.

#### **Other provisions**

Other provisions are recognised when an obligation exists towards a third party, settlement of this obligation is probable and a reliable estimate can be made of the amount of the required provision. Other provisions are measured at aggregate costs. Long-term provisions with more than one year to maturity are recognised at their discounted settlement value as at the end of the reporting period.

#### **Pensions**

The Group has direct pension plans as well as one indirect pension plan. The indirect pension plan is serviced by SIMONA Sozialwerk GmbH, which manages the plan assets. The plan assets are accounted for in the Group statement of financial position such that the fair value of those assets of SIMONA Sozialwerk GmbH and SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH that fulfil the requirements for plan assets are deducted from the benefit obligation of the Group (funding company) when measuring the pension provision to be recognised. The fair value of the plan assets is based on information regarding the market price; in the case of securities traded on public exchanges, it corresponds to the published purchase price. As the requirements for plan assets specified in IAS 19.8 have been fulfilled, the deduction of the plan assets from the obligation of the Group does not give rise to an obligation to consolidate on the part of SIMONA Sozialwerk GmbH and SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH because their sole purpose is to service the pension obligations.

Provisions for pensions are accounted for on the basis of the Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of

service method) (IAS 19, Projected Unit Credit Method). As part of this process, besides pensions and benefits known as at the end of the reporting period, expected future increases in salaries and pensions are accounted for with sufficient reliability. The calculation is based on actuarial reports that take into account specific biometric data.

In accordance with IAS 19, interest expenses and the expected return on plan assets are replaced with a net interest amount. It is calculated by applying the discount rate used to measure defined benefit obligations to the net defined benefit liability (asset). The net interest from a net defined benefit liability (asset) includes the interest expenses attributable to defined benefit obligations and interest income from plan assets. The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of defined benefit obligations in other comprehensive income for the Group. In accordance with IAS 19, the return on plan assets is calculated on the basis of the discount rate.

The amount recognised as a defined benefit liability is the net total of the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled directly.

#### **Government grants**

A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Grants related to income are presented as part of profit or loss under the heading of "other income" and are recognised on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

#### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue can be measured reliably. Additionally, the following conditions must be satisfied for the recognition of revenue.

##### **a) Sale of goods**

Revenue is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

##### **b) Interest**

Interest income is recognised using the effective interest method when the interest arises.

## Taxes

### a) Current tax assets and current tax liabilities

Current tax liabilities and current tax assets for current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Management regularly assesses individual tax issues as to whether there is any room for interpretation on the basis of applicable tax regulations. Where required, tax liabilities are recognised.

### b) Deferred taxes

Applying the liability method, deferred taxes are recognised for all temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax base as well as in connection with consolidation procedures. Additionally, a deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are recognised for all taxable and deductible temporary differences, with the exception of:

- Deferred tax liabilities from the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither profit nor taxable profit/tax loss.
- Deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries if the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and if they relate to the income taxes of the same taxable entity, imposed by the same taxation authority.

### c) Value added tax

Sales revenues, expenses and assets are recognised after deduction of value added tax.

## Derivative financial instruments and hedging instruments

Derivative financial instruments are used solely for hedging purposes in order to mitigate currency and interest rate risks arising from operating business. Under IAS 39, all derivative financial instruments, such as interest rate, currency and foreign exchange forward contracts as well as currency options, are to be carried at fair value, irrespective of the purpose such transactions have been entered into by the entity.

The derivative financial instruments do not fulfil the restrictive requirements of IAS 39 applying to the recognition of hedging relationships. Therefore, gains and losses arising from a change in the fair value of derivative financial instruments are recognised immediately in profit or loss.

The fair value of derivative financial instruments is calculated on the basis of market data and generally accepted valuation methodologies. The market changes associated with derivative financial instruments are reported in net finance cost/income.

## [6] SEGMENT REPORTING

For company management purposes, the Group is organised according to geographic regions and has the three following reportable operating segments:

- Europe
- Americas
- Asia and Pacific

As in the previous year, the segments have been allocated on the basis of the region in which the revenue-generating business unit has its registered office.

All three segments generate their revenues mainly through the sale of semi-finished plastics and pipes, as well as fittings and finished parts. The segment categorised as “Europe” encompasses the production and sale of semi-finished and finished thermoplastics, profiles, pipes and fittings. The segment categorised as “Americas” mainly covers the production and sale of extruded thermoplastic sheets, the emphasis being on aircraft interiors. The segment categorised as “Asia and Pacific” includes the production and sale of semi-finished thermoplastics.

Management assesses earnings before interest and taxes (EBIT) of these segments for the purpose of making decisions as to the dis-

tribution of resources and determining the profitability of the business units. Segment profitability is determined on the basis of operating results from operating activities before the effects of financing activities and excluding income tax effects.

As a matter of course, segment information is based on the same principles of presentation and the same accounting policies as those applied to the consolidated financial statements. Receivables, liabilities, revenues and expenses as well as profit/loss between the individual segments are eliminated as part of reconciliation. Internal transfer pricing between the business segments is determined on the basis of competitive market prices charged to

unaffiliated third parties (regular way transaction). External sales revenue relates to the registered office of the revenue-generating business unit. Capital expenditure relates to additions to intangible assets as well as property, plant and equipment. Segment assets comprise assets that contribute to the achievement of operating profit. Depreciation and amortisation of non-current assets relate to both intangible assets and property, plant and equipment.

The following table includes information relating to segment revenues, income and expenses as well as segment results. The differences in respect of the consolidated financial statements are presented in the reconciliation.

#### SEGMENT INFORMATION FOR THE 2017 FINANCIAL YEAR

	Europe		Americas		Asia and Pacific		Total	Reconciliation		Group		
in €'000	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenues from external customers	269,212	257,269	94,719	90,077	30,214	19,329	394,145	366,675	0	0	394,145	366,675
Revenues from other segments	9,706	6,834	23	21	0	0	9,729	6,855	-9,729	-6,855	0	0
Segment revenues	278,918	264,103	94,742	90,098	30,214	19,329	403,874	373,530	-9,729	-6,855	394,145	366,675
Other income	3,634	7,307	442	1,188	2,346	1,025	6,422	9,520	-989	-920	5,433	8,600
Cost of materials	162,757	148,232	42,989	41,627	23,320	13,718	229,066	203,577	-9,729	-6,855	219,337	196,722
Staff costs	54,640	54,899	17,121	15,095	3,069	2,404	74,830	72,398			74,830	72,398
Depreciation, amortisation and write-downs	9,708	8,991	3,299	3,283	1,403	1,426	14,410	13,700			14,410	13,700
Other expenses <sup>1</sup>	49,123	42,467	17,219	16,281	6,368	4,365	72,710	63,113	-980	-945	71,730	62,168
Earnings before interest and taxes (EBIT)	11,396	17,185	15,673	14,384	-467	-1,193	26,602	30,376	-132	-221	26,470	30,155
Segment capital expenditure	9,098	9,981	5,921	4,077	1,072	1,696	16,091	15,754			16,091	15,754
Non-current assets	78,404	79,740	55,177	59,667	10,242	11,160	143,823	150,567			143,823	150,567

<sup>1</sup> Other expenses within the segment covering the Americas include a loss of €313 thousand (previous year: impairment of €461 thousand) relating to assets held for sale; please refer to Note [23].

**GERMANY**

in € '000	2017	2016
Domestic revenue	101,185	101,653
Non-current assets	66,118	66,882

**SEGMENT INFORMATION BY PRODUCT AREA**

in € '000	2017	2016
Semi-finished and finished parts	313,843	289,786
Pipes and fittings	80,302	76,889
<b>Revenues from external customers</b>	<b>394,145</b>	<b>366,675</b>

**NOTES TO GROUP INCOME STATEMENT****[7] SALES REVENUE**

Sales revenue is attributable solely to the sale of semi-finished plastics, pipes and fittings as well as finished parts. The classification of sales revenue by region and product area is outlined in segment reporting – Note [6].

**[8] OTHER INCOME**

Other income includes the following items:

in € '000	2017	2016
Income from currency translation	2,231	3,750
Reversal of provisions/deferrals/accruals	802	1,278
Income from disposal of assets	114	1,135
Income from services and commissions	361	211
Income from rental and lease	30	61
Miscellaneous other income	1,895	2,165
	<b>5,433</b>	<b>8,600</b>

**[9] COST OF MATERIALS**

The cost of materials includes the following items:

in € '000	2017	2016
Cost of raw materials, consumables and supplies	217,525	195,084
Cost of purchased services	1,812	1,638
	<b>219,337</b>	<b>196,722</b>

## [10] STAFF COSTS

Staff costs include the following items:

in € '000	2017	2016
Wages and salaries	58,314	56,954
of which from long-term employee benefits	641	777
Expenses relating to social security	11,648	11,105
Expenses relating to old-age provision and pensions	4,868	4,339
	<b>74,830</b>	<b>72,398</b>

Staff costs include employment termination indemnities totalling €95 thousand (previous year: €219 thousand). Expenses relating to social security include defined contribution plans governed by German legislation (statutory pension insurance) totalling €4,117 thousand (previous year: €3,976 thousand). As regards the internal multifinanced defined contribution plan, the total expense for SIMONA AG was €27 thousand (previous year: €29 thousand) in the period under review.

## [11] RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses amounted to €4,451 thousand in the period under review (previous year: €3,950 thousand). Expenses are mainly comprised of staff costs, material costs and depreciation of property, plant and equipment. No development costs were capitalised in the financial year under review.

## [12] OTHER EXPENSES

in € '000	2017	2016
Outward freight	16,306	14,893
Other selling expenses	11,245	10,398
Maintenance expenses	11,719	11,039
Other administrative expenses	9,096	8,199
Expenses for packaging material	8,413	7,640
Other operating costs	2,275	2,186
Rental and lease expenses	1,630	1,789
Losses from disposal of assets	428	319
Expenses from foreign currency translation	8,014	2,452
Remaining other expenses	2,604	3,253
	<b>71,730</b>	<b>62,168</b>

The rental and lease expenses are mainly attributable to rental agreements for dispatch warehouses and the property for the production facility Archbald in the United States. The rental agreements have various contractual maturities (3 to 30 years); some of the rental agreements include options for the extension of rental periods. All rental and lease agreements are structured as operating leases within the meaning of IAS 17. As at 31 December 2017, no finance leases existed within the Group.

## [13] NET FINANCE INCOME/COST

in € '000	2017	2016
<b>Finance income</b>	<b>152</b>	<b>212</b>
of which from loans and receivables	133	163
of which others	19	49

in € '000	2017	2016
<b>Finance costs</b>	<b>2,194</b>	<b>2,374</b>
of which interest expenses from termination benefits	1,840	2,078
of which loans and other financial liabilities	354	296

These items relate solely to interest income and interest expenses.

## [14] INCOME TAXES

The principal elements of income tax expense for the 2017 and 2016 financial years are as follows:

GROUP INCOME STATEMENT		
in € '000	2017	2016
<b>Current tax</b>		
Current tax expense	8,189	6,845
Adjustments of current tax attributable to previous periods	-111	-32
<b>Deferred tax</b>		
Origination and reversal of temporary differences	-1,287	-995
Change in loss carry forwards and tax credits recognised	322	2,799
<b>Income tax expense reported in the Group income statement</b>	<b>7,113</b>	<b>8,617</b>

Reconciliation between income tax expense and the product of profit for the year carried in the statement of financial position and the tax rate applicable to the Group for the 2017 and 2016 financial years is as follows:

in € '000	2017	2016
<b>Profit before taxes</b>	<b>24,618</b>	<b>28,152</b>
Income tax expense at German tax rate of 29.48% (previous year: 29.48%)	7,257	8,299
Adjustments of current tax attributable to previous periods	-111	-32
Unrecognised deferred tax assets relating to tax losses	449	394
Loss carryforwards used in connection with deferred tax assets not recognised in previous year	-171	-795
Tax effect of non-deductible expenses	270	104
Tax rate differences	696	601
Changes to tax rate	-1,421	0
Tax-free dividend income	110	23
Other tax-free income	-825	-595
Tax effects of permanent differences	404	0
Adjustments to carrying amount for loss carryforwards and tax credits	111	366
Other tax effects not attributable to the period	658	0
Other	-314	252
<b>Income tax expense at effective tax rate of 28.9% (previous year 30.6 %)</b>	<b>7,113</b>	<b>8,617</b>
<b>Income tax expense reported in the Group income statement</b>	<b>7,113</b>	<b>8,617</b>

Changes to the tax rates of the consolidated subsidiaries are as follows: The gradual reduction in the corporation tax rate in France to a range from 15 to 33 per cent with effect from 2018 was approved on 27 November 2017. Effective from 2019 to 2022, the corporation tax rate is to be lowered in each case to between 15 and 25 per cent. In Italy, on 28 December 2015 the decision was made in the context of Law No. 208, to reduce the corporation tax rate from 27.5 to 24 per cent effective from 1 January 2017. In the United Kingdom, under the Finance Act 2016 the UK's corporation tax rate will be reduced gradually to 19 per cent (as from 1 April 2017) and 17 per cent (as from 1 April 2020). Under the US tax reform enacted in the United States effective from 1 January 2018, the corporate tax rate will be reduced to 21 per cent.

At 31 December 2017, the credit for the reduction of corporation tax, which results from the provisions set out in Section 37 and 38 KStG, was €0 thousand (previous year: €739 thousand). The payout of the final instalment of the corporation tax credit occurred in 2017. To the extent that these payments do not fall due within one year, the items are accounted for in the statement of financial position as non-current assets. Payments due within one year are carried as current assets.

#### Deferred tax

At the end of the reporting period, deferred tax assets and deferred tax liabilities were as follows:

#### GROUP STATEMENT OF FINANCIAL POSITION

in € '000	31/12/ 2017	31/12/ 2016
<b>Deferred tax liabilities</b>		
Goodwill	1,118	1,512
Other intangible assets	0	-492
Property, plant and equipment	8,075	7,987
Inventories	3,480	2,926
Receivables and other assets	1,085	2,598
Other provisions and liabilities	121	96
Other items	92	2
	<b>13,971</b>	<b>14,629</b>
<b>Deferred tax assets</b>		
Provisions for pensions	15,927	17,767
Other provisions and liabilities	511	265
Inventories	60	41
Receivables and other assets	164	9
Loss carryforwards and tax credits	207	528
Property, plant and equipment	536	154
Other items	446	356
	<b>17,851</b>	<b>19,120</b>
Set-off	-7,648	-11,479
<b>Deferred tax assets</b>	<b>10,203</b>	<b>7,641</b>
<b>Deferred tax liabilities</b>	<b>-6,323</b>	<b>-3,150</b>
<b>Net balance sheet position</b>	<b>3,880</b>	<b>4,491</b>



The net balance sheet position of deferred taxes changed as follows:

in € '000	2017	2016
<b>Beginning of the period 1 January</b>	<b>4,491</b>	<b>4,192</b>
Income tax expense (previous year: income)	966	-1,804
Amount recognised directly in equity (total comprehensive income)	-1,900	2,244
Currency translation	323	-141
<b>End of period 31 December</b>	<b>3,880</b>	<b>4,491</b>

At the end of the reporting period, loss carryforwards amounted to €5,843 thousand (previous year: €6,098 thousand). Deferred tax assets of €1,970 thousand (previous year: €1,446 thousand) were recognised for €414 thousand (previous year: €492 thousand) of the loss carryforwards mentioned above. Beyond this, no other deferred tax assets were recognised, as the losses may not be used for the purpose of set-off with the taxable profit of other Group companies. Furthermore, the loss carryforwards are attributable to subsidiaries that have incurred losses over a period of several years, and at present there is no reasonably reliable indication that the earnings situation of these entities will improve so significantly in the short term that future taxable profit will be available against which the unused tax losses can be utilised.

Expiry date of tax loss carryforwards:

in € '000	2017	2016
Between 3 and 20 years	1,271	3,343
Indefinite carryforward	0	0
	<b>1,271</b>	<b>3,343</b>

Deferred tax assets of around €30 thousand (previous year: €28 thousand) are expected to be realised in the subsequent financial year.

## [15] EARNINGS PER SHARE

For the calculation of basic earnings per share, the profit or loss attributable to ordinary equity holders of the parent entity shares is divided by the weighted average number of ordinary shares outstanding during the year. There were no dilutive effects in the reporting period or in the prior-year period.

The following table presents the amounts relevant to the calculation of basic and diluted earnings per share:

in € '000 or units of 1,000	2017	2016
Profit or loss attributable to ordinary equity holders of the parent company	17,446	19,486
Weighted average number of ordinary shares (without treasury shares) for the purpose of calculating basic earnings per share	600	600
Dilutive effects	0	0
Weighted average number of ordinary shares (without treasury shares) for the purpose of calculating diluted earnings per share	600	600
Basic earnings per share (in euro)	29.08	32.48
Diluted earnings per share (in euro)	29.08	32.48

No transactions with ordinary shares occurred between the end of the reporting period and the preparation of the consolidated financial statements.

## [16] PAID AND PROPOSED DIVIDENDS

During the financial year a dividend, attributable to the ordinary shares of the parent company, in the amount of €12.00 (previous year: €10.00) per share was declared and distributed. The total payment made in the financial year under review amounted to €7,200 thousand (previous year: €6,000 thousand).

As in the previous year, a dividend proposal of €12.00 per share will be submitted to the Annual General Meeting of Shareholders. The proposed total dividend was not recognised as a liability at the end of the reporting period. The corresponding payment would total €7,200 thousand (previous year: €7,200 thousand).

## NOTES TO THE GROUP STATEMENT OF FINANCIAL POSITION

### [17] INTANGIBLE ASSETS

#### 31 DECEMBER 2017

in € '000	Patents and licences	Customer base	Goodwill	Total
Balance at 1 January 2017 (Cost of purchase/conversion, taking into account accumula- ted amortisation and impair- ments)	1,386	4,550	27,941	33,877
Additions	810	0	0	810
Transfer	104	0	0	104
Disposals	-138	0	0	-138
Amortisation during the finan- cial year	-627	-905	0	-1,532
Effects of changes in foreign currency exchange rates	98	-498	-3,337	-3,737
<b>Balance at 31 December 2017</b> (Taking into account accumulated amortisation and impairments)	<b>1,633</b>	<b>3,147</b>	<b>24,604</b>	<b>29,384</b>
Balance at 1 January 2017				
Cost of purchase or conversion	8,131	7,545	28,657	44,333
Accumulated amortisation	-6,745	-2,995	-716	-10,456
<b>Carrying amount</b>	<b>1,386</b>	<b>4,550</b>	<b>27,941</b>	<b>33,877</b>
Balance at 31 December 2017				
Cost of purchase or conversion	8,837	6,631	25,320	40,788
Accumulated amortisation	-7,204	-3,484	-716	-11,404
<b>Carrying amount</b>	<b>1,633</b>	<b>3,147</b>	<b>24,604</b>	<b>29,384</b>

Goodwill was as follows::

in € '000	31/12/ 2016	Addi- tions/ dispo- sals	Amort./ write- down	Change in foreign- exchange rate	31/12/ 2017
Boltaron Inc., USA	25,352	0	0	-3,069	22,283

SIMONA AMERICA Inc./Laminations Inc., USA	2,446	0	0	-268	2,178
Other	143	0	0	0	143
<b>Total</b>	<b>27,941</b>	<b>0</b>	<b>0</b>	<b>-3,337</b>	<b>24,604</b>

In accordance with the method applied in the previous year, pat-  
ents and licences are amortised systematically over their eco-  
nomic life of three to five years by using the straight-line method;  
customer relationships are amortised over an economic life of five  
to ten years by using the straight-line method. The residual book  
value of customer relationships resulting from acquisitions is as  
follows:

31/12/2017	Residual book value in € '000	Remaining period of amortisation
Boltaron Inc., USA	2,755	3 years
SIMONA AMERICA Inc./ Laminations Inc., USA	392	6 years
<b>Total</b>	<b>3,147</b>	

31/12/2016	Residual book value in € '000	Remaining period of amortisation
Boltaron Inc., USA	4,104	4 years
SIMONA AMERICA Inc./ Laminations Inc., USA	446	7 years
<b>Total</b>	<b>4,550</b>	

#### Impairment of goodwill

The Group conducts the mandatory annual impairment test for  
significant goodwill in the fourth quarter of the financial year,  
applying the method outlined in Note [5] "Impairment of Assets".  
As part of the impairment test conducted in the financial year  
under review in respect of the cash-generating units (CGU), the  
recoverable amounts on the basis of the value in use were esti-  
mated to be higher than the carrying amounts. No impairment  
losses were required as part of the goodwill impairment test con-  
ducted for the financial year under review.

The fundamental assumptions made in connection with the  
impairment test are based primarily on projected market growth  
rates as well as Group estimates/assessments provided by the  
respective sales and purchasing departments. The assumptions  
in the financial year under review are based on the parameters

presented in the following table. Projections relating to cash flows are based on a period of 4 years, subsequently transitioning into perpetuity.

#### Boltaron Inc.

In the context of impairment testing of Boltaron Inc., the following parameters were applicable: four-year forecasting period, revenue growth, EBITDA margin and discount rate at the end of the forecasting period.

An increase or decrease in the discount rate by plus 0.5 per cent or minus 0.5 per cent does not result in an impairment of goodwill. No reduction in the carrying amount would be required even in the event of a significant and unexpected deterioration in the assumptions made.

		31/12/ 2017	31/12/ 2016
<b>SIMONA AMERICA Inc./ Laminations Inc.</b>			
Revenue growth forecasting period	%	2.9 – 10.3	1.5 – 2.0
EBITDA margin forecasting period	%	8.1 – 8.2	9.0 – 9.5
Duration forecasting period	years	4	4
Revenue growth at end of forecasting period	%	1.8	1.5
EBITDA margin at end of forecasting period	%	7.5	9.4
Discount rate at end of forecasting period	%	8.8	7.6
Carrying amount goodwill	€'000	2,178	2,446
Recoverable amount (value in use of the CGU)	€'000	41,719	43,233
Required reduction in carrying amount	€'000	—	—

The value in use of the CGU SIMONA AMERICA Inc./Laminations Inc. would correspond to the carrying amounts if the following key assumptions were to be changed separately:

		from	to
Revenue growth forecasting period	%	2.9 – 10.3	1.3 – 1.8
EBITDA margin forecasting period	%	8.1 – 8.2	1.6 – 2.5

#### 31 DECEMBER 2016

in € '000	Patents and licences	Customer base	Goodwill	Total
Balance at 1 January 2016 (Cost of purchase/conversion, taking into account accumu- lated amortisation and impair- ments)	1,316	5,549	27,065	33,930
Additions	302	0	0	302
Transfer	43	0	0	43
Amortisation during the financial year	-441	-934	0	-1,375
Transfer amortisation	200	-200	0	0
Effects of changes in foreign currency exchange rates	-34	135	876	977
<b>Balance at 31 December 2016</b> (Cost of purchase/con- version, taking into account accumulated amortisation and impairments)	<b>1,386</b>	<b>4,550</b>	<b>27,941</b>	<b>33,877</b>
Balance at 1 January 2016				
Cost of purchase or conversion	8,354	7,305	27,781	43,440
Accumulated amortisation	-7,038	-1,756	-716	-9,510
<b>Carrying amount</b>	<b>1,316</b>	<b>5,549</b>	<b>27,065</b>	<b>33,930</b>
Balance at 31 December 2016				
Cost of purchase or conversion	8,131	7,545	28,657	44,333
Accumulated amortisation	-6,745	-2,995	-716	-10,456
<b>Carrying amount</b>	<b>1,386</b>	<b>4,550</b>	<b>27,941</b>	<b>33,877</b>

## [18] PROPERTY, PLANT AND EQUIPMENT

### 31 DECEMBER 2017

in € '000	Land and buildings	Plant and equipment	Prepay-ments and assets under construc-tion	Total
Balance at 1 January 2017 (Cost of purchase/ conversion, taking into account accumulated amortisation and impairments)	41,022	64,048	11,620	116,690
Additions	146	4,662	10,473	15,281
Transfer	3,812	9,458	-13,374	-104
Disposals	-14	-318		-332
Depreciation/ amortisation during the financial year	-2,049	-10,829	0	-12,878
Transfer depreciation/ amortisation	-3	0	0	-3
Effects of changes in foreign currency exchange rates	-1,466	-1,781	-968	-4,215
<b>Balance at 31 December 2017</b> (Cost of purchase/ conversion, taking into account accumulated amortisation and impairments)	<b>41,448</b>	<b>65,240</b>	<b>7,751</b>	<b>114,439</b>
Balance at 1 January 2017				
Cost of purchase or conversion	79,055	240,669	11,620	331,344
Accumulated depreciation/amortisation and impairments	-38,033	-176,621	0	-214,654
<b>Carrying amount</b>	<b>41,022</b>	<b>64,048</b>	<b>11,620</b>	<b>116,690</b>
Balance at 31 December 2017				
Cost of purchase or conversion	81,252	247,491	7,751	336,494
Accumulated depreciation/amortisation and impairments	-39,804	-182,251	0	-222,055
<b>Carrying amount</b>	<b>41,448</b>	<b>65,240</b>	<b>7,751</b>	<b>114,439</b>

Prepayments (€3,461 thousand) and assets under construction (€4,290 thousand) relate primarily to investments to expand operations at the site in Ringsheim, Germany, as well as investment projects at the plants in the United States and Jiangmen, China.

### 31. DECEMBER 2016

in € '000	Land and buildings	Plant and equipment	Prepay-ments and assets under construc-tion	Total
Balance at 1 January 2016 (Cost of purchase/ conversion, taking into account accumulated amortisation and impairments)	38,700	62,788	12,345	113,833
Additions	1,846	5,693	7,912	15,451
Transfer	2,403	6,222	-8,668	-43
Reclassification to disposal group classified as held for sale	-83	83	0	0
Disposals	-9	-561	0	-570
Depreciation/ amortisation during the financial year	-2,042	-10,283	0	-12,325
Effects of changes in foreign currency exchange rates	207	106	31	344
<b>Balance at 31 December 2016</b> (Cost of purchase/ conversion, taking into account accumulated amortisation and impairments)	<b>41,022</b>	<b>64,048</b>	<b>11,620</b>	<b>116,690</b>
Balance at 1 January 2016				
Cost of purchase or conversion	75,652	239,860	12,345	327,857
Accumulated depreciation/amortisation and impairments	-36,952	-177,072	0	-214,024
<b>Carrying amount</b>	<b>38,700</b>	<b>62,788</b>	<b>12,345</b>	<b>113,833</b>
Balance at 31 December 2016				
Cost of purchase or conversion	79,055	240,669	11,620	331,344

Accumulated depreciation/amortisation and impairments	-38,033	-176,621	0	-214,654
<b>Carrying amount</b>	<b>41,022</b>	<b>64,048</b>	<b>11,620</b>	<b>116,690</b>

The useful life of property, plant and equipment was estimated as follows:

Buildings	20 – 40 years
Plant and equipment	5 – 20 years

#### [19] INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

This item includes the entity accounted for as an associate that sells products of the US subsidiaries in the United States on a commission/agency basis in its capacity as a sales representative. The investment amount recognised is €483 thousand (previous year: €293 thousand). The profit from investments accounted for using the equity method was €190 thousand (previous year: €159 thousand).

#### ASSOCIATES

	Ownership interest in %
CARTIERWILSON, LLC, Marietta, USA	25.0

#### [20] INVENTORIES

in € '000	31/12/2017	31/12/2016
Raw material and consumables used	28,641	26,161
Work in progress	657	847
Finished goods and merchandise	48,077	41,390
Prepayment for inventories	581	805
	<b>77,956</b>	<b>69,203</b>

The amount relating to inventory impairments recognised in cost of material rose by €2,767 thousand year on year to €6,950 thousand in the period under review; of this amount, write-downs relating to the net realisable value of finished goods totalled €203 thousand (previous year: €273 thousand).

#### [21] TRADE RECEIVABLES

Trade receivables are not interest-bearing and are generally due within 30 to 90 days.

in € '000	31/12/2017	31/12/2016
<b>Carrying amount</b>	<b>56,461</b>	<b>52,186</b>
Neither impaired nor past due at the end of the reporting period	45,177	40,623
Past due and not impaired within the following time ranges		
up to 30 days	7,618	6,130
between 31 and 60 days	1,677	1,680
between 61 and 90 days	654	616
between 91 and 120 days	294	535
More than 120 days	1,041	2,149

As regards the trade receivables that were neither impaired nor past due, there were no indications at the end of the reporting period that customers will fail to meet their payment obligations.

The changes to valuation allowances for trade receivables are outlined below:

in € '000	31/12/2017	31/12/2016
Balance of specific allowances at 1 January	2,229	1,961
Exchange differences	-36	+111
Allocated	+342	+288
Utilised	-77	-47
Reversed	-32	-84
<b>Balance of specific allowances at 31 December</b>	<b>2,426</b>	<b>2,229</b>

The following table includes expenses attributable to the derecognition of trade receivables as well as income from amounts received in connection with derecognised trade receivables. Expenses attributable to the derecognition of trade receivables are reported as other expenses, while income attributable to amounts received in connection with derecognised trade receivables is accounted for as other income.

in € '000	2017	2016
Expenses attributable to the derecognition of trade receivables	105	235
Income attributable to amounts received in connection with derecognised trade receivables	28	57

## [22] OTHER ASSETS AND TAX ASSETS

in € '000	31/12/2017	31/12/2016
Receivables from value-added tax	1,722	546
Prepayments	238	51
Advance payments for future periods	755	1,001
Receivables from energy tax	697	691
Other receivables	792	341
	<b>4,204</b>	<b>2,630</b>

At the end of the reporting period, other assets were neither impaired nor past due.

Tax assets amount to €1,259 thousand (previous year: €768 thousand) and are attributable primarily to the Americas segment. The final instalment of the corporation tax credit pursuant to SEStEG was paid out in the financial year under review.

## [23] ASSETS HELD FOR SALE

At the end of the reporting period no assets held for sale were recognised by the Group (previous year: €3,785 thousand). In October 2017 the production site in Hazleton (segment encompassing the Americas) was sold. The loss on disposal was €313 thousand and has been recognised in profit and loss as other expenses.

## [24] CASH AND CASH EQUIVALENTS

in € '000	31/12/2017	31/12/2016
Bank balances and cash on hand	68,022	74,759
	<b>68,022</b>	<b>74,759</b>

Bank balances bear interest on the basis of floating interest rates applicable to deposits payable on demand. No restraints on use

are known apart from the local statutory restrictions applicable to the subsidiaries in China. At the end of the reporting period cash attributable to the Chinese entities amounted to €1,304 thousand (previous year: €1,895 thousand).

As at 31 December 2017, the Group had undrawn borrowing facilities of €18,643 thousand (previous year: €18,873 thousand).

## [25] EQUITY

Changes in equity are presented in a separate Group statement of changes in equity.

### Issued capital

As at 31 December 2017, the share capital of SIMONA AG was divided into 600,000 no-par-value shares. These shares are classified as ordinary bearer shares. Each no-par-value share has a notional interest of €25.83 in the company's share capital. The ordinary shares have been issued and fully paid in.

in € '000	31/12/2017	31/12/2016
Share capital	15,500	15,500
<b>Issued capital</b>	<b>15,500</b>	<b>15,500</b>

As was the case in the previous financial year, SIMONA AG has no treasury shares.

### Capital reserve

in € '000	31/12/2017	31/12/2016
Share premium from the issuance of stock	15,274	15,274
<b>Capital reserve</b>	<b>15,274</b>	<b>15,274</b>

Capital reserve include the share premium from the issuance of SIMONA AG stock. There was no increase in capital reserves in the period under review.

### Other reserves

in € '000	31/12/2017	31/12/2016
Currency translation effects	5,677	12,354
<b>Other reserves</b>	<b>5,677</b>	<b>12,354</b>

Other reserves include currency translation effects attributable to



exchange differences occurring upon translation of the financial statements of foreign subsidiaries as well as the foreign exchange effects (accounted for in equity) of translating net investments in foreign subsidiaries.

in € '000	31/12/2017	31/12/2016
Exchange differences on translating financial statements of subsidiaries	-6,124	1,333
Exchange differences on translating net investments	-1,358	-435
<b>Exchange differences on translating foreign operations</b>	<b>-7,482</b>	<b>898</b>
Deferred taxes from currency translation	804	128
<b>Exchange differences</b>	<b>-6,678</b>	<b>1,026</b>

#### Non-controlling interests

This item relates solely to non-controlling interests in DEHOPLAST POLSKA Sp. z o.o., Kwidzyn, Poland. The non-controlling interests correspond to the applicable voting rights and amount to 49 per cent. There are no restraints in place as regards the right of SIMONA AG to access or use assets of this subsidiary and to meet contractual obligations. Revenue generated by this entity amounted to €2,382 thousand in the period under review (previous year: €2,137 thousand). The total payment made in the financial year under review amounted to €41 thousand (previous year: €29 thousand). The company's balance sheet total stands at €1,042 thousand and is mainly composed of current assets (€1,037 thousand) and current liabilities (€396 thousand).

## [26] FINANCIAL LIABILITIES

Financial liabilities are comprised of the following items:

in € '000	Due date	31/12/2017	31/12/2016
<b>Non-current financial liabilities</b>			
Pro-rata bank loan of €26,229 thousand (nominal amount), (principal repayments due after 31/12/2018)	2019 – 2024	18,705	22,111
		<b>18,705</b>	<b>22,111</b>

<b>Current financial liabilities</b>			
Pro-rata bank loan of €26,229 thousand (nominal amount), (principal repayments due up to 31/12/2018)	01/2018 – 12/2018	3,425	3,444
		<b>3,425</b>	<b>3,444</b>

As regards loans from banks, fixed interest rates of between 1.8 per cent and 2.1 per cent have been agreed in respect of KfW funds. Interest is computed either on the basis of the nominal amount of the loan or the remaining amount of the loan. As in the previous financial year, the overdraft facility of SIMONA AG, with its floating interest rate calculated on the basis of EONIA (euro overnight index average), was not utilized.

Other financial liabilities comprise the following items:

in € '000	Due date	31/12/2017	31/12/2016
<b>Non-current other financial liabilities</b>			
Other		231	58
		<b>231</b>	<b>58</b>
<b>Current other financial liabilities</b>			
Liabilities due to purchase price obligations	04/2017	0	2,174
Accounts receivable with credit balances	Immediately	1,764	1,184
		<b>1,764</b>	<b>3,358</b>

## [27] PENSIONS

The majority of employees within SIMONA AG are entitled to post-employment benefits attributable to pension plan agreements. The aforementioned plans are structured as final salary pension plans in the case of both personnel employed on the basis of collective wage agreements and managerial staff, including members and former members of the Management Board. These relate to benefits in respect of retirement, disability and surviving dependants.

In order to mitigate the risks associated with defined benefit plans, particularly as regards longevity, inflation and salary increases, SIMONA introduced multifinanced defined contribution plans for employees joining the company on or after 1 January 2009.

The underlying actuarial assessment was prepared on 12 January 2018.

With the exception of payments to SIMONA Sozialwerk GmbH, no contributions are made to funds, cf. Note [28].

The following table includes a breakdown of the expense items recognised in the Group income statement in connection with retirement benefits as well as the amounts carried in the statement of financial position for the respective plans.

The changes in the liabilities of defined benefit obligations (DBO) are as follows:

in € '000	31/12/2017	31/12/2016
DBO at beginning of reporting period	67,867	60,808
Service cost	1,792	1,664
Interest cost	1,204	1,377
Remeasurement	-3,816	5,642
Actuarial gains/losses due to changes in financial assumptions	0	6,004
Actuarial gains/losses from changes in the entitlement base	-3,816	-362
Benefits paid	-1,623	-1,624
DBO at end of reporting period	65,424	67,867
<b>of which non-current liability</b>	<b>63,829</b>	<b>66,157</b>
<b>of which current liability</b>	<b>1,595</b>	<b>1,710</b>

The Group anticipates benefit payments of €1,595 thousand (previous year: €1,710 thousand) in connection with defined benefit pension plans for the 2018 financial year.

The assumptions made (unchanged from the previous year) for the purpose of determining the pension obligations are as follows:

Parameters	31/12/2017	31/12/2016
Discount rate	1.80 %	1.80 %
Salary increase	2.50 %	2.50 %
Pension increase	1.87 %	1.87 %
Mortality (mortality tables published by Prof. Dr. K. Heubeck)	2005 G	2005 G

A change of half a percentage point each in the abovementioned basic assumptions used for the purpose of determining the DBO as at 31 December 2017 would increase or decrease the DBO as outlined below. This was determined on the basis of the pro-

jected unit credit method as well as the parameters mentioned:

Parameters	Change in DBO if parameters are changed by half a percentage point as at 31/12/2017 in € '000 (previous year)	
	Increase	Decrease
Discount rate	-5,760 (-6,004)	6,638 (6,929)
Salary increase	1,319 (1,401)	-1,249 (-1,325)
Pension increase	4,692 (4,869)	-4,229 (-4,386)

The decline in mortality rates by 10% results in an increase in life expectancy dependent on the individual ages of each participant. The DBO as at 31 December 2017 would increase by €2,249 thousand (previous year: €2,374 thousand) following a reduction in the mortality rate by 10% and would decrease by €-1,999 thousand (previous year: €-2,110 thousand) following a 10% increase in the mortality rate.

The weighted average duration of the DBO attributable to defined benefit pension plans of SIMONA AG is 18.8 years (previous year: 18.9 years).

## [28] COMPANY WELFARE INSTITUTIONS

SIMONA Sozialwerk GmbH is structured as a long-term employee benefit fund within the meaning of IAS 19.8. Under the Articles of Association, the entity operates solely for the purpose of ensuring that former employees of SIMONA AG as well as their dependants receive retirement benefits. The beneficiaries of pensions are entitled to all the assets belonging to the entity as well as all income derived from these assets while the entity is in existence as well as in the case of liquidation or insolvency of the entity. SIMONA AG has no access rights to assets held by SIMONA Sozialwerk GmbH. In the event of liquidation of the entity, the entity's assets are to be allocated to the recipients of benefits or are to be secured for the purpose of providing future benefits for said recipients. Thus, even in the event that SIMONA AG becomes insolvent, the creditors identified in connection with insolvency have no rights in respect of the assets of SIMONA Sozialwerk GmbH.

The assets of SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH may be utilised solely for benefit-related purposes relating to SIMONA Sozialwerk GmbH.

The agreed plans relating to SIMONA Sozialwerk GmbH are structured as final salary pension plans in the case of both personnel employed on the basis of collective wage agreements and managerial staff. The defined benefit plans are associated in particular with risks in respect of longevity, inflation and salary increases.

Funding of SIMONA Sozialwerk GmbH is performed in observance of tax regulations.

in € '000	31/12/2017	31/12/2016
DBO at beginning of reporting period	76,512	66,854
Service cost	2,934	2,646
Interest cost	1,364	1,523
Remeasurement	807	6,676
Actuarial gains/losses due to changes in financial assumptions	0	7,883
Actuarial gains/losses from changes in the entitlement base	807	-1,207
Benefits paid	-1,305	-1,187
<b>DBO at end of reporting period</b>	<b>80,312</b>	<b>76,512</b>
Fair value of plan assets at the beginning of the year	41,046	36,270
Returns on plan assets	727	821
Remeasurement	6,098	5,142
Benefits paid	-1,305	-1,187
<b>Fair value of plan assets at the end of the year</b>	<b>46,566</b>	<b>41,046</b>
<b>Deficit</b>	<b>-33,746</b>	<b>-35,466</b>

The Group anticipates benefit payments of €1,468 thousand (previous year: €1,364 thousand) in connection with indirect defined benefit pension plans for the 2018 financial year.

As regards the basic assumptions for determining the pension obligations, please refer to the details in Note [27].

A surplus relating to plan assets is not accounted for in the consolidated financial statements of SIMONA AG, as SIMONA AG has no control over these assets. In accordance with the provisions set out in IAS 19.8, the plan assets are available to be used only to pay or fund employee benefits.

The change in the deficit as at 31 December 2017 is attributable primarily to the remeasurement implemented due to the increase in value of plan assets.

A change of half a percentage point each in the above-mentioned basic assumptions used for the purpose of determining the DBO as at 31 December 2017 would increase or decrease the DBO as follows (cf. also Note [27]):

Parameters	Change in DBO if parameters are changed by half a percentage point as at 31/12/2017 in € '000 (prev. year)	
	Increase	Decrease
Discount rate	-8,143 (-7,883)	9,530 (9,245)
Salary increase	2,944 (2,916)	-2,714 (-2,683)
Pension increase	5,750 (5,486)	-5,215 (-4,974)

The decline in mortality rates by 10% results in an increase in life expectancy dependent on the individual ages of each participant. The DBO as at 31 December 2017 would increase by €2,922 thousand (previous year: €2,793 thousand) following a reduction in the mortality rate by 10% and would decrease by €-2,606 thousand (previous year: €-2,492 thousand) following a 10% increase in the mortality rate.

The composition of plan assets is presented below:

FAIR VALUE AT	31/12/2017	31/12/2016
in € '000		
<b>Category of assets</b>		
Shares in SIMONA AG	32,940	26,460
Bonded loans (Schuldscheindarlehen)	2,962	2,999
Time deposits	2,673	2,598
Investment funds	6,795	7,583
Cash and cash equivalents	1,196	1,406
<b>Total plan assets</b>	<b>46,566</b>	<b>41,046</b>

The shares in SIMONA AG and the interests in investment funds are quoted in an active market. A concentration of risk exists in respect of SIMONA AG shares.

The weighted average duration of the DBO relating to defined benefit pension plans of SIMONA Sozialwerk GmbH is 21.8 years (previous year: 22.2 years).

The liability recognised in the statement of financial position with regard to this pension plan changed as follows:

in € '000	31/12/2017	31/12/2016
Liability at beginning of reporting period	35,466	30,584
Service cost	2,934	2,646
Net interest expense	637	702
Remeasurement	-5,291	1,534
Actuarial gains/losses due to changes in financial assumptions	0	7,883
Actuarial gains/losses from changes in the entitlement base	807	-1,207
Remeasurement from plan assets	-6,098	-5,142
<b>Liability at end of reporting period</b>	<b>33,746</b>	<b>35,466</b>

## [29] OTHER PROVISIONS

in € '000	Personnel-related obligations	Guarantees/warranties	Other	Total
<b>Balance at 1 January 2017</b>	<b>1,093</b>	<b>3,117</b>	<b>58</b>	<b>4,268</b>
Allocated	107	1,245	313	1,665
Used	159	308	20	487
Reversed	0	1	2	3
Exchange differences	0	-62	-5	-67
Effect of time value of money	14	0	0	14
<b>Balance at 31 December 2017</b>	<b>1,055</b>	<b>3,991</b>	<b>344</b>	<b>5,390</b>

Current provisions	242	1,343	31	1,616
Non-current provisions	813	2,648	313	3,774
<b>Balance at 31 December 2017</b>	<b>1,055</b>	<b>3,991</b>	<b>344</b>	<b>5,390</b>

in € '000	Personnel-related obligations	Guarantees/warranties	Other	Total
<b>Balance at 1 January 2016</b>	<b>1,252</b>	<b>3,423</b>	<b>9</b>	<b>4,684</b>
Allocated	37	311	61	409
Used	211	530	0	741
Reversed	0	129	12	141

Exchange differences	0	26	0	26
Effect of time value of money	15	16	0	31
<b>Balance at 31 December 2016</b>	<b>1,093</b>	<b>3,117</b>	<b>58</b>	<b>4,268</b>
Current provisions	294	1,211	58	1,563
Non-current provisions	799	1,906	0	2,705
<b>Balance at 31 December 2016</b>	<b>1,093</b>	<b>3,117</b>	<b>58</b>	<b>4,268</b>

Personnel-related provisions encompass obligations in connection with agreements regarding part-time employment of staff approaching retirement and provisions relating to anniversaries. Personnel-related provisions are measured on the basis of actuarial figures.

At the reporting date, obligations in connection with agreements regarding part-time employment of staff approaching retirement amounted to €0 thousand (previous year: €68 thousand). This item is composed of obligations for performance-related arrears, additional compensation and severance payments.

Provisions for guarantees are recognised in connection with warranties for products sold in preceding years. The calculation is based on historical claims from guarantees and warranties. Guarantee-related provisions at SIMONA AG are recognised for ongoing, regularly occurring warranty cases as well as for individual cases that occur on an irregular basis and are associated with the risk of above-average claims.

As regards regularly occurring warranty cases, a provision is calculated on the basis of experience over what is adjudged to be a probable average claim period of 5 years. For the purpose of measuring the provision, the expenses actually incurred in connection with customer credits/refunds from warranty obligations as well as the thus resulting direct costs of processing a complaint are analysed in detail. Within this context, the weighted average warranty expense of the past 5 years is used for calculation purposes.

The portion of warranty provisions calculated in respect of individual cases occurring on an irregular basis is recognised only when the utilisation of the provision is considered likely, a payment relating thereto is deemed probable and a reliable estimate can be made.

The portion of the warranty provision whose utilisation is not due within one year after the reporting date is discounted.

### [30] OTHER LIABILITIES

Other liabilities comprise the following items:

in € '000	31/12/2017	31/12/2016
Payables to workforce	7,337	9,158
Payables relating to social security	1,351	1,312
Liabilities relating to credit notes and commissions	1,595	1,034
Tax payables	1,175	864
Other	3,146	2,103
	<b>14,604</b>	<b>14,471</b>

### [31] STATEMENT OF CASH FLOWS

The statement of cash flows presents changes to cash and cash equivalents during the financial year by outlining cash inflows and outflows. In accordance with IAS 7, the statement of cash flows includes information relating to cash flows from operating activities, investing activities and financing activities.

As at 31 December, total cash and cash equivalents were as follows:

in € '000	31/12/2017	31/12/2016
Cash and cash equivalents	68,022	74,759
	<b>68,022</b>	<b>74,759</b>

The effects of changes to cash and cash equivalents attributable to exchange rates were €-1,139 thousand (previous year: €-53 thousand) at Group level.

Cash flows from investing and financing activities are accounted for directly, i.e. on a payments basis. Cash flows from operating activities are determined indirectly on the basis of earnings before taxes, i.e. via changes to operating items in the Group statement of financial position, having eliminated changes relating to acquisitions and currency translation.

### [32] RELATED PARTY DISCLOSURES

Entities and persons with control over the SIMONA Group or who are exposed to the significant influence of SIMONA AG, as well as associated entities and persons, including close members of the family and intermediate entities, with significant influence over the financial and operating policies of the SIMONA Group are to be disclosed in accordance with IAS 24. The Management Board and the Supervisory Board are considered to be management in key positions.

#### Management Board

- Wolfgang Moyses, Chairman, Kirn
- Dirk Möller, Deputy Chairman, Kirn
- Fredy Hiltmann, Kirn

#### Supervisory Board

- Dr. Rolf Goessler, Bad Dürkheim, Diplom-Kaufmann  
Chairman of the Supervisory Board
  - Member of the Supervisory Board of J. Engelsmann AG, Ludwigshafen
- Roland Frobel, Isernhagen,  
Managing Director of ROSSMANN CENTRAL EUROPE B.V., Renswoude, Netherlands  
Deputy Chairman
  - Member of the Supervisory Board of GBK Beteiligungen AG, Hannover
  - Member of the Supervisory Board of Hannover 96 GmbH & Co. KGaA, Hannover
  - Partner and Managing Director of Frobel Beteiligungs-GmbH, Isernhagen
  - Managing Director of Reitstall Steinberg GmbH, Neuenkirchen
  - Managing Director of DR Konzept GmbH, Burgwedel
  - Managing Director of DR Projekt GmbH, Burgwedel
  - Managing Director of DR Immobilien GmbH, Burgwedel
  - Managing Director of DR Objekt GmbH, Burgwedel
  - Managing Director of FRISS Beteiligungsgesellschaft mbH, Isernhagen
- Dr. Roland Reber, Stuttgart  
Managing Director of Ensinger GmbH, Nufringen
- Joachim Trapp, Biberach  
Qualified Lawyer
  - Deputy Chairman of the Management Board of Kreissparkasse Biberach, Biberach

- Managing Director of Sparkasse Immobilien BC GmbH, Biberach
- Managing Director of Sparkasse Immobilien BC Grundstücksverwaltungsgesellschaft mbH, Biberach
- Andy Hohlreiter, Becherbach  
Employee Representative (as from 01/03/2017)
- Markus Stein, Mittelreidenbach  
Employee Representative (as from 01/03/2017)

Wolfgang Moyses performs supervisory duties in the following entities:

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

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

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

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

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

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

- SIMONA S.r.l. Società UNIPERSONALE, Cologno Monzese (MI)
- SIMONA IBERICA SEMIELABORADOS S.L., Barcelona
- SIMONA UK Ltd., Stafford
- SIMONA AMERICA Inc., Archbald
- SIMONA FAR EAST LIMITED, Hong Kong
- SIMONA ENGINEERING PLASTICS TRADING (SHANGHAI) CO. LTD., Shanghai
- SIMONA ASIA LIMITED., Hong Kong
- SIMONA ENGINEERING PLASTICS (Guangdong) Co. Ltd., Jiangmen

Dr. Roland Reber, member of the Supervisory Board of SIMONA AG, is also the Managing Director of Ensinger GmbH, Nufringen. In the financial year under review, product sales amounting to €3,710 thousand (previous year: €3,483 thousand) were transacted between SIMONA AG and the entities of the Ensinger Group.

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

Receivables from related parties relate to trade receivables from the Ensinger Group totalling €819 thousand (previous year: €547 thousand).

Payables to related parties consist of compensation to Supervisory Board members of SIMONA AG for the 2017 financial year and amount to €140 thousand (previous year: €133 thousand). There are no other outstanding balances or obligations towards related parties.

As part of its ordinary operating activities, SIMONA AG provides various services for the subsidiaries included in the consolidated financial statements. Conversely, the respective Group companies render services within the SIMONA Group in the context of their business purpose.

Business relationships exist with associates on a commission/agency basis in respect of the sale of products in the United States; this business totals €2,780 thousand (previous year: €2,712 thousand).



The supply and business relations between the respective persons and companies are conducted on arm's length terms.

### Compensation of members of the Management Board and Supervisory Board

#### MANAGEMENT BOARD COMPENSATION ACCORDING TO IAS 24.17:

in € '000	2017	2016
<b>Short-term benefits</b>		
Fixed salary and fringe benefits	924	906
Annual bonus	1,030	1,067
	<b>1,954</b>	<b>1,973</b>
<b>Other long-term benefits</b>	529	702
<b>Total compensation</b>	<b>2,483</b>	<b>2,675</b>

#### COMPENSATION DISCLOSURE PURSUANT TO SECTION 314(1) NO. 6 HGB:

in € '000	2017	2016
<b>Fixed compensation</b>		
Fixed salary and fringe benefits	924	906
<b>Variable compensation</b>		
Annual bonus	1,030	1,067
Long-term incentive programme	620	517
<b>Total compensation</b>	<b>2,574</b>	<b>2,490</b>

The variable component of Management Board compensation is based on earnings performance within the Group and a long-term incentive programme. It uses average Group NOPAT (net operating profit after taxes) as the key performance indicator, calculated on the basis of a three-year performance period. The first performance period of the current long-term incentive programme encompasses the financial years 2015–2017, the second performance period comprises the financial years 2016–2018 and the third performance period comprises the financial years 2017–2019. Payment occurs subsequent to the adoption of the consolidated financial statements for the final year of the respective performance period. Members of the Management Board do not receive grants in respect of state-managed defined contribution plans, nor do they receive share-based payments or loans.

Post-employment benefits of €16,595 thousand (previous year: €18,861 thousand) have been provisioned for active members of the Management Board, former members of the Management Board and their surviving dependants. The allocation to provisions for active members of the Management Board was €371

thousand (previous year: €1,957 thousand). Full allocations have been made to pension provisions for former members of the Management Board. At the end of the reporting period, these amounted to €5,640 thousand (previous year: €8,276 thousand).

Compensation of former Management Board members and their surviving dependants amounted to €420 thousand (previous year: €470 thousand).

At Group level, Supervisory Board compensation for 2017 amounted to €167 thousand (previous year: €160 thousand). Supervisory Board compensation encompasses no variable components. Alongside their Supervisory Board compensation, staff representatives appointed to the Supervisory Board received remuneration in the form of wages and salaries during the 2017 financial year, which included retirement benefit obligations in the generally applicable amount in respect of work performed for the company. The company does not grant share-based payments or loans to members of the Supervisory Board.

## [33] FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### Principles of risk management

Owing to the international activities of the SIMONA Group, some of its assets, liabilities and planned transactions are exposed to risks associated with changes to foreign exchange rates and interest rates.

The principal aim of financial risk management is to mitigate risks attributable to ongoing operating and finance-related transactions.

Depending on the risk, the aim is to restrict the level of associated risk by means of derivative financial instruments and non-derivative hedging instruments. All hedging instruments are used solely for the purpose of hedging cash flows.

### Interest-rate risk

In accordance with IFRS 7, interest-rate risks are addressed in the form of sensitivity analyses. These present the effects of changes in market interest rates on interest income, interest expense and items in the statement of financial position. The company's short-term bank overdraft is the financial instrument generally exposed to interest-rate risk. It remained undrawn at the end of the 2017

financial year. Therefore, a sensitivity analysis of interest rates was of no relevance.

### Currency risks

The SIMONA Group is exposed to risks associated with exchange rate fluctuations within the area of investing and financing activities. Risks attributable to foreign currencies are hedged to the extent that they affect the cash flows of the Group. The risk of exchange rate fluctuations associated solely with the translation of assets and liabilities into the reporting currency of the consolidated financial statements (euros) remains unhedged.

At an operating level, the respective entities within the Group conduct the majority of their business transactions in their functional currency. The parent company is responsible almost solely for managing transactions in foreign currencies and hedges these activities within specified parameters as part of treasury management. As at the reporting date, no foreign exchange forward contracts and currency options were used for the purpose of hedging currency risks associated with operating activities.

IFRS 7 requires entities to present risk on the basis of sensitivity analyses. These analyses show how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the end of the reporting date. Exchange rate movements may occur in the case of primary financial instruments that are beyond the hedged parameters or that are hedged by means of financial derivatives in the form of forward foreign exchange transactions or currency options.

If, as at 31 December 2017, the euro had appreciated (depreciated) by 10 per cent against all other currencies, earnings before taxes would have been €3,932 thousand lower (€4,806 thousand higher).

The hypothetical effect on profit of minus €3,932 thousand (plus €4,806 thousand) is attributable to the following sensitivity to exchange rates:

in € '000	Effect on profit before taxes	
EUR/USD	-1,350	(1,650)
EUR/GBP	-144	(176)
EUR/CHF	-395	(483)
EUR/CZK	414	(-507)
EUR/PLN	-97	(119)

EUR/HKD	-769	(939)
EUR/CNY	-1,249	(1,527)
EUR/RUB	-156	(191)
EUR/INR	-182	(223)
EUR/SGD	-4	(5)
	<b>-3,932</b>	<b>(4,806)</b>

If, as at 31 December 2016, the euro had appreciated (depreciated) by 10 per cent against all other currencies, earnings before taxes would have been €4,530 thousand lower (€5,537 thousand higher).

The hypothetical effect on profit of minus €4,530 thousand (plus €5,537 thousand) is attributable to the following sensitivity to exchange rates:

in € '000	Effect on profit before taxes	
EUR/USD	-2,913	(3,560)
EUR/GBP	-72	(88)
EUR/CHF	-391	(478)
EUR/CZK	776	(-949)
EUR/PLN	-83	(102)
EUR/HKD	-810	(991)
EUR/CNY	-865	(1,057)
EUR/RUB	-95	(116)
EUR/INR	-77	(94)
	<b>-4,530</b>	<b>(5,537)</b>

### Credit risk

SIMONA AG is exposed to credit risk as part of its operating activities. Financial assets outstanding – principally trade receivables – are monitored on a decentralised basis, i.e. by each legally separate company within the Group, and reports are issued as part of monthly statements. Depending on the credit rating of the customer, receivables are subject to the risk of default, which is mitigated with the help of trade credit insurance. On average, around 60–70 per cent of sales revenue generated by SIMONA AG, having factored in a deductible, is safeguarded by a trade credit insurance policy.

Receivables exposed to probable credit risk are identified and monitored on a regular basis; credit risk relating to such items is accounted for by means of specific allowances on an item-by-item basis. Impairments are mainly determined on the basis of past-

due receivables (>90 days) as well as information available with regard to financial difficulties of specific business partners. The maximum potential credit risk is limited to the net carrying amount (less value-added tax) of the financial assets. Credit risks relate primarily to receivables (in the segment encompassing Europe) for which a loss allowance was made, totalling €2,335 thousand (previous year: €2,113 thousand). Given the scope of sales markets and the diversified structure of the Group's customer base, there were no significant concentrations of risk in the reporting period.

### Liquidity risk

In order to ensure solvency and maintain financial flexibility, the Group continuously monitors liquidity levels associated with operating activities as well as anticipated payments attributable to commitments arising from capital investment orders of the respective companies. The state of liquidity is monitored and reported daily within SIMONA AG and once a week within the Group.

Alongside cash and cash equivalents amounting to €68.0 million (previous year: €74.8 million), the SIMONA Group has undrawn borrowing facilities of €18.6 million (previous year: €18.9 million). The Group's objective is to maintain a well-judged balance between ongoing coverage of cash requirements and sustained flexibility through the utilisation of bank overdrafts and loans.

Credit risk relating to cash exists solely as a result of business relationships with banks, which have the following long-term issuer rating:

ISSUER RATING CASH		
in € '000	31/12/2017	31/12/2016
A1	3,753	4,387
A2	516	4,388
Aa2	3,856	9,844
Aa3	21,987	16,736
Baa1	10,293	9,300
Baa2	13,080	6,030
Baa3	—	11,951
No rating	14,537	12,123
	<b>68,022</b>	<b>74,759</b>

As at 31 December 2017, the maturity structures of payment obligations relating to the financial liabilities of the Group were as follows.

in € '000	Up to 1 year	2–5 years	More than 5 years	Total
Financial liabilities	3,425	13,700	5,005	22,130
Other financial liabilities	1,764	231	0	1,995
Trade payables	11,116	0	0	11,116
	<b>16,305</b>	<b>13,931</b>	<b>5,005</b>	<b>35,241</b>

As at 31 December 2016, the maturity structures of payment obligations relating to the financial liabilities of the Group were as follows.

in € '000	Up to 1 year	2–5 years	More than 5 years	Total
Financial liabilities	3,444	13,776	8,335	25,555
Other financial liabilities	3,358	58	0	3,416
Trade payables	15,152	0	0	15,152
	<b>21,954</b>	<b>13,834</b>	<b>8,335</b>	<b>44,123</b>

As in the previous financial year, at 31 December 2017, there were no foreign exchange forward contracts or currency options that would result in amounts due to the entity or payment obligations.

### Capital management

As at 31 December 2017, the equity ratio was 56 per cent (previous year: 53 per cent). The level of debt stood at 75 per cent (previous year: 89 per cent). Among the key financial goals of the SIMONA Group are objectives to raise enterprise value in a sustainable manner, ensure solvency at all times and achieve an equity ratio of at least 50 per cent. At the same time, safeguarding sufficient cash reserves is considered particularly important. The Group manages its capital structure primarily on the basis of the equity ratio and makes adjustments in response to changing economic conditions where such action is deemed appropriate. External financing is mainly conducted via short- and long-term bank borrowings and bank loans. Additionally, the return on operating assets is reviewed annually as part of the forecasting process and is an important criterion when it comes to managing the Group's investment budget. Return on capital employed (ROCE) is used as a performance indicator with regard to profitability.

## [34] FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of all financial instruments recognised by the Group.

FINANCIAL INSTRUMENTS		CARRYING AMOUNT		FAIR VALUE	
in € '000		31/12/2017	31/12/2016	31/12/2017	31/12/2016
<b>Non-current financial assets</b>					
Financial assets	AfS	340	340	340	340
Investments accounted for using the equity method	AfS	483	293	n/a	n/a
<b>Current financial assets</b>					
Trade receivables	LaR	56,461	52,186	56,461	52,186
Other financial assets	LaR	692	836	692	836
Cash and cash equivalents	LaR	68,022	74,759	68,022	74,759
<b>Non-current financial liabilities and other financial liabilities</b>					
Loans	FLAC	-18,705	-22,111	-18,705	-22,111
Other financial liabilities	FLAC	-231	-58	-231	-58
<b>Current financial liabilities and other financial liabilities</b>					
Loans	FLAC	-3,425	-3,444	-3,425	-3,444
Trade payables	FLAC	-11,116	-15,152	-11,116	-15,152
Other financial liabilities	FLAC	-1,764	-3,358	-1,764	-3,358
<b>Total by measurement category</b>					
AfS		823	633	340	340
LaR		125,175	127,781	125,175	127,781
FLAC		-35,241	-44,123	-35,241	-44,123

AfS = Available for Sale, LaR = Loans and Receivables, FLAC = Financial Liabilities Measured at Amortised Cost

The non-current financial assets classified as available for sale are interests in affiliated companies. No active market exists for these instruments and the fair value cannot be otherwise reliably determined. The interests are measured at cost of purchase. There are no plans to dispose of interests in the near future.

Trade receivables, other current financial assets and cash and cash equivalents as well as current loans, trade payables and other current financial assets mainly have short-term maturities. Therefore, their carrying amounts at the reporting date approximate their fair values.

Short-term deposits held as Loans and Receivables (LaR) include time deposits with a maturity of three months at most.

The fair value of loans was determined by discounting the expected future cash flows on the basis of the prevailing market rate of interest as well as by applying option pricing models. Within this context, the calculation takes into account that the loans are subject to floating or fixed interest rates on the basis of standard market terms and conditions.

The following table presents the net gains and losses from subsequent measurement of financial instruments recognised in the statement of financial position, listed according to the respective measurement categories.

#### 2017: NET GAINS AND LOSSES BY MEASUREMENT CATEGORY

in € '000	Interest	Fair Value	Currency translation	Impairment loss/ Disposal	Total
AfS	0	0	0	0	0
LaR	132	0	-1,386	-465	-1,719
FLAC	-316	0	92	1	-223
	<b>-184</b>	<b>0</b>	<b>-1,294</b>	<b>-464</b>	<b>-1,942</b>

#### 2016: NET GAINS AND LOSSES BY MEASUREMENT CATEGORY

in € '000	Interest	Fair Value	Currency translation	Impairment loss/ Disposal	Total
AfS	0	0	0	0	0
LaR	163	0	1,543	-642	1,064
FLAC	-152	0	-177	5	-324
	<b>11</b>	<b>0</b>	<b>1,366</b>	<b>-637</b>	<b>740</b>

The Group uses the following hierarchy for the purpose of determining and disclosing the fair values of financial instruments per measurement method:

- Level 1:  
unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2:  
methods for which all inputs with a significant effect on the recognised fair value are observable either directly or indirectly; and
- Level 3:  
methods that use inputs which have a significant effect on the recognised fair value and are not based on observable market data

With the exception of derivative financial instruments, no fair value hierarchy is disclosed for financial assets and liabilities, as the carrying amount is a reasonable approximation of fair value.

#### Hedging transactions

##### Cash flow hedging instruments

As at 31 December 2017, as was the case in the previous financial year, the Group held no forward currency contracts or currency options.

#### [35] OTHER INFORMATION

##### Subsidiaries

Alongside SIMONA AG as the parent, the consolidated financial statements include the following entities. Unless otherwise specified, the ownership interest in the previous year was identical to that of the financial year under review.

##### OWNERSHIP INTEREST

	in %
SIMONA Beteiligungs-GmbH, Kirn, Germany	100.0
SIMONA Produktion Kirn GmbH & Co. KG, Kirn, Germany	100.0
SIMONA Kirn Management GmbH, Kirn, Germany	100.0
SIMONA Produktion Ringsheim GmbH & Co. KG, Ringsheim, Germany	100.0
SIMONA Ringsheim Management GmbH, Ringsheim, Germany	100.0
SIMONA Immobilien GmbH & Co. KG, Kirn, Germany	100.0
SIMONA Immobilien Management GmbH, Kirn, Germany	100.0
SIMONA UK Ltd., Stafford, United Kingdom	100.0
SIMONA S.A.S., Domont, France	100.0
SIMONA S.r.l. Società UNIPERSONALE, Cologno Monzese (MI), Italy	100.0
SIMONA IBERICA SEMIELABORADOS S.L., Barcelona, Spain	100.0
SIMONA POLSKA Sp. z o.o., Wrocław, Poland	100.0
SIMONA-PLASTICS CZ s.r.o., Prague, Czech Republic	100.0
SIMONA FAR EAST LIMITED, Hong Kong, China	100.0
SIMONA AMERICA Inc., Archbald, USA	100.0
Laminations Inc., Archbald, USA	100.0
Boltaron Inc., Newcomerstown, USA	100.0
DANO, LLC, Akron, USA	100.0
SIMONA ENGINEERING PLASTICS TRADING (SHANGHAI) CO. LTD. Shanghai, China	100.0
SIMONA ASIA LIMITED, Hong Kong, China	100.0
SIMONA ENGINEERING PLASTICS (Guangdong) Co. Ltd., Jiangmen, China	100.0
64 NORTH CONAHAN DRIVE HOLDING, LLC, Hazleton, USA	100.0
DEHOPLAST POLSKA Sp. z o.o., Kwidzyn, Poland	51.0
SIMONA Plast-Technik s.r.o., Litvinov, Czech Republic	100.0
OOO SIMONA RUS, Moscow, Russian Federation	100.0
SIMONA INDIA PRIVATE LIMITED, Mumbai, India	100.0
SIMONA ASIA PACIFIC PTE. LTD., Singapore, Singapore	100.0

The following entities were newly founded during the 2017 financial year and have been fully consolidated for the first time: SIMONA Produktion Kirn GmbH & Co. KG, Kirn; SIMONA Kirn Management GmbH, Kirn (general partner of SIMONA Produktion Kirn GmbH & Co. KG); SIMONA Produktion Ringsheim GmbH & Co. KG, Ringsheim; SIMONA Ringsheim Management GmbH,

Ringsheim (general partner of SIMONA Produktion Ringsheim GmbH & Co. KG); SIMONA Immobilien GmbH & Co. KG, Kirn; SIMONA Immobilien Management GmbH, Kirn (general partner of SIMONA Immobilien GmbH Co. KG); and SIMONA ASIA PACIFIC PTE. LTD., Singapore. There were no changes to the ownership interests held in subsidiaries in the financial year under review.

### Financial assets

SIMONA AG holds at least a one-fifth interest in the following entities, without being able to control or significantly influence the financial and operating policies of the entities in question. Unless otherwise specified, the ownership interest in the previous year was identical to that of the financial year under review.

#### COMPANY

	Ownership Interest	Equity 31/12/2016	Profit/loss 2016
	in %	in € '000	in € '000
SIMONA Sozialwerk GmbH, Kirn, Germany	50.0	12,344	-69
SIMONA Vermögensverwaltungs- gesellschaft der Belegschaft mbH, Kirn, Germany	50.0	2,843	495

Owing to its classification as a pension fund, SIMONA Sozialwerk GmbH is not included in the consolidated financial statements, as specified in IAS 19.8.

SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH is not included in the consolidated financial statements because the assets of this entity may be utilised solely for funding purposes in respect of SIMONA Sozialwerk GmbH and thus remain outside SIMONA AG's scope of economic control.

The interests in SIMONA Sozialwerk GmbH and SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH are accounted for at book value, as the fair value is not reliably determinable. The book values of SIMONA Sozialwerk GmbH and SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH are €10 thousand and €13 thousand respectively.

### Average number of staff employed in the financial year:

#### GROUP

	2017	2016
Industrial staff	736	694
Clerical staff	495	543
<b>Employees</b>	<b>1,231</b>	<b>1,237</b>
School-leavers (apprentices)	54	46
<b>Total number of employees</b>	<b>1,285</b>	<b>1,283</b>

### Contingent liabilities and other financial commitments

Contingent liabilities relate in particular to extended warranty periods regarding the sale of plastic products. No information on the financial implications and uncertainties relating to the amount or timing of any outflow has been disclosed as it is not practicable to do so. At present, SIMONA does not expect any outflow from contingent liabilities.

#### OTHER FINANCIAL COMMITMENTS

in € '000	31/12/2017	31/12/2016
Commitments from operating rental and lease agreements		
Due within:		
1 year	777	633
2 - 5 years	1,661	1,309
after 5 years	381	520
	<b>2,819</b>	<b>2,462</b>

#### ORDER COMMITMENTS

in € '000	31/12/2017	31/12/2016
Investment projects	6,690	15,107
Raw material orders	14,171	12,870
	<b>20,861</b>	<b>27,977</b>

The share of intangible assets in total commitments is negligible.



### **Declaration of Conformity regarding the German Corporate Governance Code**

In accordance with Section 161 AktG, the company filed a Declaration of Conformity for 2017 on 23 February 2018. It has been made permanently available to shareholders on its corporate website at [www.simona.de](http://www.simona.de).

### **Directors' holdings – Shares held by members of the Management Board and Supervisory Board of SIMONA AG**

As at 9 June 2017 (date of the Annual General Meeting of Shareholders) the members of the Management Board reported a total holding of 70,860 shares; this corresponds to approx. 11.81 per cent of the share capital of SIMONA AG.

As at 9 June 2017 (date of the Annual General Meeting of Shareholders) the members of the Supervisory Board reported a total holding of 1,300 shares; this corresponds to approx. 0.22 per cent of the share capital of SIMONA AG.

In accordance with Section 15a of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the members of the Supervisory Board and the Management Board, as well as related parties, are legally obliged to disclose all significant acquisitions or disposals of shares in SIMONA AG.

### **Audit fees**

The total fees invoiced by the independent auditor of SIMONA AG and subsidiaries were €233 thousand. These fees were attributable to the following items: year-end audit services €197 thousand, tax consulting services €36 thousand and other services €0 thousand. Tax consultancy services provided by our independent auditor encompass the preparation of tax returns and the tax treatment of specific circumstances.

### **Events after the Reporting Period**

No significant events occurred after the reporting date that would necessitate a change to measurements or recognised amounts.

### **Responsibility Statement**

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

Kirn, 29 March 2018

SIMONA Aktiengesellschaft  
The Management Board

Wolfgang Moyses     Dirk Möller     Fredy Hiltmann

# Reproduction of the auditor's report

## INDEPENDENT AUDITOR'S REPORT

To SIMONA Aktiengesellschaft, Kirn

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

#### Audit Opinions

We have audited the consolidated financial statements of SIMONA Aktiengesellschaft, Kirn, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of SIMONA Aktiengesellschaft, which is combined with the Company's management report for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group 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 group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal com-

pliance of the consolidated financial statements and of the group management report.

#### Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (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 Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (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 group management report.

#### Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

- 1.Recoverability of goodwill
- 2.Pension provisions

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

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

Hereinafter we present the key audit matters:

### **1. Recoverability of goodwill**

1. Goodwill amounting in total to EUR 24.6 million (representing 6.8 % of total assets and 12.2 % of equity) is reported under the “Intangible assets” item in the Company’s consolidated statement of financial position. Goodwill is tested for impairment by the Company once a year, and when there are indications of impairment, to determine any possible need for write-downs. Impairment testing is carried out at the level of the groups of cash-generating units to which the relevant goodwill has been allocated. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The calculation of the recoverable amount generally employs the value in use. The present value of the future cash flows from the respective group of cash-generating units normally serves as the basis of valuation. The present values are calculated using discounted cash flow models. For this purpose, the Group’s one-year financial plan prepared by the executive directors and adopted by the Supervisory Board forms the starting point for future projections. It is supplemented by detailed forecasts for a further three planning years based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the relevant group of cash-generating units. The impairment test determined that no write-downs were necessary. The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

2. As part of our audit, we reviewed the methodology employed for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the Group’s approved one-year plan and the forecasts for the second to fourth planning year, we assessed the appropriateness of the calculation, in particular by comparing it with general and sector-specific market expectations. We discussed supplementary adjustments to the planning projections for the purposes of the impairment test with the members of the

Company’s staff responsible, and reviewed these. We also assessed whether the basis for including the costs of Group functions was accurate. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated using this method, we focused our testing on the parameters used to determine the discount rate applied, and verified the calculation procedure. We reproduced the sensitivity analyses performed by the Company, in order to reflect the uncertainty inherent in the projections. Taking into account the information available, we determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future net cash inflows. We verified that the necessary disclosures were made in the notes relating to the “SIMONA America Inc.” cash-generating unit for which a reasonably possible change in an assumption would result in the recoverable amount falling below the carrying amount of the cash-generating unit including the allocated goodwill. Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3. The Company’s disclosures on goodwill are contained in note 17 of the notes to the consolidated financial statements.

### **2. Pension provisions**

1. Pension provisions totaling EUR 99.2 million (27.3 % of total assets) are reported under the “Provisions for pensions” item in the Company’s consolidated statement of financial position. The pension provisions comprise obligations from defined benefit pension plans amounting to EUR 145.8 million less plan assets of EUR 46.6 million. The obligations from defined benefit pension plans were measured using the projected unit credit method. This requires assumptions to be made in particular about long-term rates of growth in salaries and pensions, average life expectancy, and staff turnover. The discount rate must be determined by reference to market yields on high-quality corporate bonds with matching currencies and consistent maturities. This usually requires the data to be extrapolated, since there is an insufficient number of long-term corporate bonds. The plan assets are measured at fair value. In our view, these matters were of particular significance in the context of our audit because the recognition and measurement of this item – which is significant in terms of its amount – are based to a large extent on estimates and assumptions made by the Company’s executive directors.

2. Our audit included evaluating the actuarial expert reports obtained and the professional qualifications of the external experts. We also examined the specific features of the actuarial calculations and reviewed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with standards and appropriateness, in addition to other procedures. In addition, we analyzed the changes in the obligation and the cost components in accordance with actuarial expert reports in the light of changes occurring in the valuation parameters and the numerical data, and verified their plausibility. For the purposes of our audit of the fair value of plan assets, we obtained bank confirmations and securities account statements as of the balance sheet date. Based on our audit procedures, we satisfied ourselves that the estimates and assumptions made by the executive directors were justified and adequately documented.

3. The Company's disclosures relating to pension provisions are contained in notes 27 and 28 to the consolidated financial statements.

#### Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report, we obtained prior to the date of our auditor's report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section 5.1 of the group management report
- the non-financial statement pursuant to § 289b Abs. 1 HGB and § 315b Abs. 1 HGB included in section 6 of the group management report

The annual report is expected to be made available to us after the date of the auditor's report.

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

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowl-

edge obtained in the audit, or

- otherwise appears to be materially misstated.

#### Responsibilities of the Executive Directors for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to 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 to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view 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 executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able 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 a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

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

## **Other legal and regulatory requirements**

### **Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as group auditor by the annual general meeting on June 9, 2017. We were engaged by the supervisory board on September 21, 2017. We have been the group auditor of the SIMONA Aktiengesellschaft, Kirn, without interruption since the financial year 2013.

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

### **German Public Auditor responsible for the engagement**

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

Frankfurt am Main, April 5, 2018

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

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

## Other Information

### **RESPONSIBILITY STATEMENT PURSUANT TO SECTIONS 297(2), 315(1) HGB**

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

Kirn, 29 March 2018  
SIMONA Aktiengesellschaft  
The Management Board

Wolfgang Moyses    Dirk Möller    Fredy Hiltmann



# SIMONA

## Key Financials

### SIMONA GROUP

		2017	2016	2015
Revenue	€m	394.1	366.7	360.3
Year-on-year change	%	7.5	1.8	7.1
Staff costs	€m	74.8	72.4	70.8
Earnings before taxes (EBT)	€m	24.6	28.2	24.8
Profit for the year	€m	17.5	19.5	17.3
Net cash from operating activities	€m	19.2	42.2	37.3
EBIT	€m	26.5	30.2	26.7
EBIT	%	6.7	8.2	7.4
EBITDA	€m	40.9	43.9	40.1
EBITDA	%	10.4	12.0	11.1
Total assets	€m	363.4	363.0	318.4
Equity	€m	202.3	192.0	182.6
Property, plant and equipment	€m	114.4	116.7	113.8
Investments in property, plant and equipment	€m	15.3	15.5	16.0
Employees (annual average)		1,285	1,283	1,279

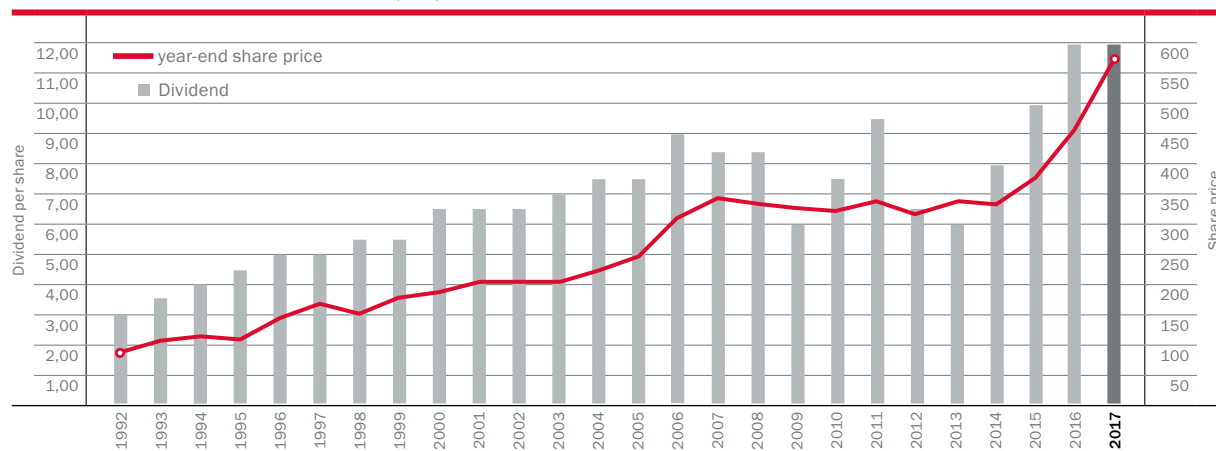
On IFRS basis

### STOCK PERFORMANCE

		2017	2016	2015
Earnings per share	EUR	29.08	32.48	28.78
Dividend	EUR	12.00	12.00	10.00
Dividend yield	%	2.1	2.7	2.7
P/E ratio*		19.8	13.5	12.7
based on year-end share price	EUR	574.75	441.00	365.00

\* Calculated on Group basis

### SHARE PRICE AND DIVIDEND SINCE IPO (in €)



This document is published in German and as an English translation.  
Only the German original shall be deemed authoritative.

**SIMONA AG**

Teichweg 16  
55606 Kirn  
Germany

Phone +49(0)67 52 14-383  
Fax +49(0)67 52 14-738

[ir@simona.de](mailto:ir@simona.de)  
[www.simona.de](http://www.simona.de)